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Proposed Loan and Grant Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project (Cambodia and Lao People's Democratic Republic)

1. The Report and Recommendation of the President (RRP: REG 49387-002) on the proposed loan and grant to Cambodia and the Lao People's Democratic Republic for the Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project is circulated herewith.
2. This Report and Recommendation should be read with (i) *Country Partnership Strategy: Cambodia, 2014–2018*, which was circulated to the Board on 7 November 2014 (DOC.Sec.M22-14); and (ii) *Country Partnership Strategy: Lao People's Democratic Republic, 2017–2020—More Inclusive and Sustainable Economic Growth*, which was circulated to the Board on 31 August 2017 (DOC.Sec.M17-17).
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 31 August 2018), the recommendation in paragraph 33 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 Number: 49387-002
July 2018

Proposed Loan and Grant Kingdom of Cambodia and Lao People's Democratic Republic: Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 11 June 2018)

Cambodia

Currency unit	–	riel/s (KR)
KR1.00	=	\$0.00024
\$1.00	=	KR4,059

Lao People's Democratic Republic

Currency unit	–	kip (KN)
KN1.00	=	\$0.00011
\$1.00	=	KN8,354

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
EIRR	–	economic internal rate of return
EMP	–	environmental management plan
GAP	–	gender action plan
GMS	–	Greater Mekong Subregion
Lao PDR	–	Lao People's Democratic Republic
MOT	–	Ministry of Tourism
MICT	–	Ministry of Information, Culture and Tourism
O&M	–	operation and maintenance
PAM	–	project administration manual
PCU	–	project coordination unit
PIU	–	project implementation unit
SMEs	–	small and medium-sized enterprises

NOTE

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

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 49387-002			
Project Name	Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project	Department /Division	SERD/LRM		
Country Borrower	REG (CAM, LAO) Cambodia, Lao PDR	Executing Agency	Ministry of Information, Culture and Tourism, Ministry of Tourism		
2. Sector	Subsector(s)	ADB Financing (\$ million)			
✓ Transport	Road transport (non-urban)	21.00			
	Urban roads and traffic management	13.00			
	Water transport (non-urban)	13.00			
	Industry and trade	7.00			
	Water and other urban infrastructure and services	3.00			
	Urban solid waste management	20.00			
		Total	77.00		
3. Strategic Agenda	Subcomponents	Climate Change Information			
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	9.50		
		Mitigation (\$ million)	1.30		
		CO ₂ reduction (tons per annum)	500		
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns	Climate Change impact on the Project	Medium		
Regional integration (RCI)	Pillar 2: Trade and investment				
4. Drivers of Change	Components	Gender Equity and Mainstreaming			
Governance and capacity development (GCD)	Civil society participation Institutional development Organizational development	Effective gender mainstreaming (EGM)	✓		
				Knowledge solutions (KNS)	Knowledge sharing activities
				Partnerships (PAR)	Civil society organizations Implementation Private Sector Regional organizations
Private sector development (PSD)	Public sector goods and services essential for private sector development				
5. Poverty and SDG Targeting		Location Impact			
Geographic Targeting	No	Rural	Medium		
Household Targeting	No	Urban	High		
SDG Targeting	Yes				
SDG Goals	SDG1, SDG5, SDG8, SDG9, SDG13				
6. Risk Categorization:	Low				
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: B				
8. Financing					
Modality and Sources		Amount (\$ million)			
ADB		77.00			
Sovereign Project grant: Asian Development Fund		47.00			
Sovereign Project (Concessional Loan): Ordinary capital resources		30.00			
Cofinancing		0.00			
None		0.00			
Counterpart		2.69			
Government		2.69			
Total		79.69			

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Kingdom of Cambodia and a grant to the Lao People's Democratic Republic (Lao PDR) for the Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project.¹

2. The project will help transform secondary towns in the central and southern corridors of the Greater Mekong Subregion (GMS) into economically inclusive, competitive tourism destinations by improving transport infrastructure, urban sanitation, and capacity to sustainably manage tourism growth.² It will boost trade in services by promoting cross-border tourism, and deepen GMS and Association of Southeast Asian Nations (ASEAN) regional cooperation and integration. About 97,000 residents are expected to directly benefit from climate-resilient infrastructure development and better access to economic opportunities.

II. THE PROJECT

A. Rationale

3. **Sector overview and performance.** Remarkably, about 80% of global travel is intraregional. Forecasts suggest that Asia and the Pacific will be the world's fastest-growing region through 2030, when it will receive 535 million tourists, or 30% of the global market share. In 2016, ASEAN countries received 116 million international tourists, up 42% compared with 2011. ASEAN arrivals are expected to grow 5.1% per year and reach 187 million in 2030.³ Cambodia and the Lao PDR receive about 8% of ASEAN arrivals and actively cooperate to promote multicountry tour programs that connect the two economies with larger, more affluent regional markets. Tourism directly contributes 12.2% to Cambodia's gross domestic product and 4.3% to the Lao PDR's gross domestic product, generating 70%–78% of service exports and \$3.7 billion in annual visitor expenditure. Tourism is employment intensive, providing jobs for about 1.1 million Cambodian and Lao workers—the majority are women in small and medium-sized enterprises (SMEs). In total, Cambodia and the Lao PDR aim to create 900,000 tourism-related jobs and increase international visitor expenditure to \$6 billion per year by 2020.

4. Government efforts to upgrade gateway airports, transnational railways and highways, and secondary roads to boost travel and trade are supported by the Asian Development Bank (ADB) and other development partners. Regional policies to liberalize transport services and ease cross-border tourism complement physical infrastructure investments.⁴ For example, Cambodia and the Lao PDR permit tourist visas on arrival for about 180 countries and grant 15-day tourist visa exemptions to citizens of all ASEAN countries. As a result, more than 5 million tourists enter the two countries each year using private buses or personal vehicles.

5. **Key challenges.** Even with these strengths and opportunities, Cambodia and the Lao PDR rank low in the World Travel & Tourism Competitiveness Index, mainly because secondary destinations lack modern transport infrastructure, quality urban environmental services, and the

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided transaction technical assistance to help design the project and prepare the Greater Mekong Subregion Tourism Sector Strategy 2016–2025. ADB. 2016. *Technical Assistance for Preparing the Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila.

³ United Nations World Tourism Organization. 2016. *World Tourism Barometer*. Madrid.

⁴ ADB. 2011. *Greater Mekong Subregion Cross Border Transport Facilitation Agreement: Instruments and Drafting History*. Manila; and ASEAN. 2016. *Master Plan for ASEAN Connectivity 2025*. Jakarta.

capacity to sustainably manage infrastructure assets.⁵ Other underlying constraints are low service standards, inadequate tourism planning, and insufficient marketing, which collectively weaken the business-enabling environment for tourism. Consequently, in 2016 Cambodia's international tourist arrival growth decelerated to 5%, about half the medium-term rate, and the Lao PDR's arrivals fell by 9.5% compared with 2015. Fewer visitors and lower spending because of poor sanitation and hygiene reduces economic benefits by at least \$90 million per year. Moreover, average expenditure per visitor in Cambodia (\$641) and the Lao PDR (\$171) is well below Asia and the Pacific's benchmark of \$1,500. Imbalanced tourism growth within the countries is another consequence of underinvestment in secondary destinations. About half of international tourist arrivals and corresponding visitor expenditure, destination investment, and tourism employment are concentrated in just three cities: Phnom Penh, Siem Reap, and Vientiane Capital.⁶

6. **Climate vulnerability.** Secondary towns in the GMS corridors are vulnerable to climate change and natural disasters. Risks include storm surges along Cambodia's coast, and intensifying rainfall and flooding in the Lao PDR's central and southern river valleys. These are exacerbated by limited country capacity to integrate adaptation and mitigation solutions. Countering climate change and natural disasters requires finance and knowledge to retrofit and construct climate-resilient infrastructure and promote resource-efficiency certification programs. Public awareness campaigns to promote lower-carbon travel, emission offsets, and environment-friendly tourism services are also needed.

7. To help remove these constraints, the project builds on ADB's well-performing GMS tourism operations by strategically financing climate-resilient roads, water transport infrastructure, urban infrastructure, and capacity building for better destination management, all of which is needed to boost tourist arrivals and spending in secondary destinations.⁷ Priority investments are (i) road improvements to decongest and link urban areas with rural community-managed tourist attractions, (ii) small ferry ports to increase passenger-handling capacities and give private operators the facilities needed to expand water transport and recreation services, (iii) drainage and riverbank protection in flood-prone areas, (iv) modern solid waste and septic management systems, and (v) capacity building to support the implementation of ASEAN tourism standards and improve the business-enabling environment for tourism. The integrated design will assist Cambodia and the Lao PDR in attracting more and higher-spending visitors to secondary GMS central and southern coastal corridor towns, thus contributing to more balanced tourism growth and employment-intensive SME development in lagging areas.

8. **Policy strategy framework.** The project is consistent with Cambodia's National Strategic Development Plan 2014–2018 and the Lao PDR's National Socioeconomic Development Plan 2016–2020, which emphasize infrastructure improvements and private sector development to support employment and income generation, environmentally sustainable growth, climate resilience, gender equity, and regional cooperation and integration. It is aligned with the overarching goals of poverty reduction through sustained and inclusive economic growth, as

⁵ In 2016, Cambodia ranked 101st and the Lao PDR ranked 94th among 136 economies evaluated.

⁶ Sector Assessment (Summary): Tourism in Cambodia, the Lao People's Democratic Republic, and Viet Nam (accessible from the list of linked documents in Appendix 2).

⁷ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Kingdom of Cambodia for the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila; and ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila.

articulated in ADB's country partnership strategies for Cambodia and the Lao PDR.⁸ The GMS Strategic Framework 2012–2022 and associated Hanoi Action Plan 2018–2022 prioritize tourism development in economic corridors to raise regional competitiveness and boost cross-border investment. The project directly supports the implementation of the GMS Tourism Sector Strategy 2016–2025 and ADB's Operational Plan for Regional Cooperation and Integration 2016–2020.⁹

9. **Development coordination.** Project activities harmonize with tourism vocational training support from the Government of Luxembourg and the Swiss Agency for Development and Cooperation. The Japan International Cooperation Agency and the World Bank Group also support transport and urban development in the GMS corridors. Regional assistance is coordinated by GMS tourism, transport, and urban development working groups comprising senior officials, ADB and other development partners, civil society organizations, and private advisors. Working groups meet at least once a year to direct strategic programming, share knowledge and good practices, and coordinate joint activities. Cambodia's Ministry of Tourism (MOT) and the Lao PDR's Ministry of Information, Culture and Tourism (MICT) coordinate national tourism planning and policy dialogue with development partners and tourism industry associations.

10. **Value added by ADB assistance.** Value added by ADB includes support to prepare the GMS Tourism Sector Strategy 2016–2025. The \$58.7 billion strategy provides government and the private sector with a blueprint for competitive, balanced, and sustainable destination development that aligns with ASEAN regional integration objectives. ADB facilitated public–private dialogue and consensus building to prioritize project investments that build synergies with regional agriculture, transport, and urban development initiatives. Climate risk assessments and detailed engineering designs for representative infrastructure subprojects were prepared with support from the ADB Project Readiness Improvement Trust Fund.¹⁰ The building of capacity for destination management integrates the Mekong Innovative Startup in Tourism accelerator to identify and scale technologies that drive secondary destination tourism growth. The Mekong Business Initiative, supported by ADB and the Government of Australia, created the platform.

11. **Lessons.** To reinforce sustainability and inclusiveness, the project design assimilates key lessons from ADB's GMS tourism sector assistance program. First, infrastructure and tourism capacity-building programs were selected based on robust demand analysis and private sector consultations. Second, engineering solutions were chosen in consideration of lifecycle costs and were informed by climate change vulnerability assessments. Third, business development services target SMEs with low startup costs that are predominately led by women. Fourth, institutional strengthening promotes women's attainment of managerial roles. Finally, early capacity building for infrastructure operation and maintenance (O&M) will ensure that suitable asset management systems are in place before works are commissioned.¹¹

⁸ ADB. 2014. *Country Partnership Strategy: Cambodia. 2014–2018*. Manila; and ADB. 2017. *Country Partnership Strategy: Lao People's Democratic Republic, 2017–2020—More Inclusive and Sustainable Economic Growth*. Manila.

⁹ ADB. 2011. *Greater Mekong Subregion Economic Cooperation Program Strategic Framework, 2012–2022*. Manila; ADB. 2016. *Operational Plan for Regional Cooperation and Integration, 2016–2020: Promoting connectivity, competitiveness, regional public goods, and collective action for Asia and the Pacific*. Manila; and Mekong Tourism Coordinating Office. 2017. *Greater Mekong Subregion Tourism Sector Strategy 2016–2025*. Bangkok.

¹⁰ ADB. 2016. *Project Readiness Improvement Trust Fund* (financed by the Nordic Development Fund). Manila.

¹¹ ADB. 2009. *Sector Assistance Program Evaluation: Tourism Sector in the Greater Mekong Subregion*. Manila; ADB. 2013. *Validation Report: GMS Mekong Tourism Development Project*. Manila; and ADB. 2017. *Validation Report: GMS Sustainable Tourism Development Project*. Manila. ADB.

B. Impact and Outcome

12. The project is aligned with the following impact: sustainable, inclusive, and more balanced tourism development achieved.¹² The project will have the following outcome: tourism competitiveness of secondary towns in Cambodia and the Lao PDR increased.

C. Outputs

13. **Output 1: Urban–rural access infrastructure and urban environmental services improved.** This output focuses on improving roads, water transport infrastructure, and waste management in tourist sites. It will (i) upgrade 10.4 kilometers of urban roads in Cambodia and 62.6 kilometers of urban and rural roads in the Lao PDR; (ii) build two ferry ports in Cambodia and two ferry ports in the Lao PDR; and (iii) construct controlled landfills in Kep, Cambodia and Vang Vieng, Lao PDR. About 32,500 residents living along the roads will benefit from better access to economic opportunities and social services. Road upgrades include drainage and embankment protection to mitigate flood risk. Ferry port construction will improve water transport services between Cambodia’s coast and Koh Rong archipelago. The Lao PDR’s new ferry ports will widen access to the Nam Ngum hydropower reservoir—the country’s largest—and Mekong River islands bordering Cambodia. The ports will benefit 4,300 residents and about 300 small ferry operators. Each landfill will safely impound up to 720,000 cubic meters of solid waste and include technology to recover recyclables, treat leachate and septage, and mitigate gas emissions.¹³ Expanded and more reliable waste collection will benefit 5,700 households.

14. **Output 2: Capacity to implement ASEAN tourism standards strengthened.** This output will (i) strengthen assessment frameworks, certification bodies, and compliance monitoring for the ASEAN green hotel, community-based tourism, homestay, clean tourist city, and clean public toilet standards; and (ii) develop incentives and conduct training to enable standards adoption by tourism and urban service providers. The project’s intensive capacity support will help Kampot, Kep, and Preah Sihanouk in Cambodia; and Luang Prabang, Pakse, and Vang Vieng in the Lao PDR attain the ASEAN clean tourist city standard. In total, the project will assist more than 250 tourism SMEs in becoming more competitive by improving service quality and consumer confidence. Attaining the ASEAN clean tourist city standard will improve the urban environment for about 325,000 residents and 6.5 million tourists who visit the targeted towns each year.

15. **Output 3: Institutional arrangements for tourism destination management and infrastructure O&M strengthened.** Output 3 will strengthen Cambodia’s provincial tourism development and management committees and the Lao PDR’s sustainable tourism destination management network. In both countries, the project will support (i) preparation of destination management plans, (ii) public–private policy dialogue to improve the business environment, (iii) SME business development services, (iv) tourism management training for public officials, (v) tourism marketing, and (vi) knowledge management. In parallel, the project will (i) assist infrastructure management entities (including private contractors) to prepare O&M plans, (ii) organize technical training to improve infrastructure asset management, (iii) conduct sanitation- and hygiene-awareness campaigns, and (iv) provide transaction advisors to structure competitive procurement for solid waste management and ferry services.

¹² ASEAN Secretariat. 2016. *ASEAN Tourism Strategic Plan 2016–2025*. Jakarta.

¹³ The project will also provide garbage collection trucks, vacuum trucks, bulldozers, and compactors.

D. Summary Cost Estimates and Financing Plan

16. The project is estimated to cost \$79.69 million (Table 1). Detailed cost estimates by expenditure category and by financier are in the project administration manuals (PAMs). Major expenditure items are civil works, equipment, capacity building, consulting services for detailed engineering design and construction supervision, safeguards, and recurrent costs.¹⁴

Table 1: Summary Cost Estimates
(\$ million)

Item	Amount ^a		
	Cambodia	Lao PDR	Total
A. Base Cost^b			
1. Output 1	19.83	30.68	50.51
2. Output 2	0.73	1.51	2.24
3. Output 3	1.00	3.01	4.01
4. Project management	4.41	9.06	13.47
Subtotal (A)	25.97	44.26	70.23
B. Contingencies^c	4.12	4.54	8.66
C. Financial Charges During Implementation^d	0.80	...	0.80
Total (A+B+C)	30.89	48.80	79.69

... = not applicable, ADB = Asian Development Bank, Lao PDR = Lao People's Democratic Republic.

^a Includes taxes and duties of \$2.36 million for Cambodia and \$4.09 million for the Lao PDR.

^b Prices as of January 2018.

^c Physical contingencies for civil works and all other costs computed at 11.7% for Cambodia and 4.4% for the Lao PDR. Price contingencies for Cambodia and the Lao PDR computed at average of 1.5% on foreign exchange costs and 2.5%–3.5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest charges during implementation for the ADB loan computed at 1% per annum.

Source: Asian Development Bank estimates.

17. The Government of Cambodia has requested a concessional loan of \$30 million from ADB's ordinary capital resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the draft loan agreement. The Government of the Lao PDR has requested a grant not exceeding \$47 million from ADB's Special Funds resources (Asian Development Fund) to help finance the project. The ADB loan and grant will finance civil works, equipment, consulting services, capacity building, financial charges during implementation and a portion of recurrent costs, including applicable taxes and duties on ADB-financed expenditures. The Government of Cambodia will finance \$0.89 million and the Government of the Lao PDR will finance \$1.80 million for land acquisition and resettlement costs, counterpart salaries, and office space and utilities. The summary financing plan is in Table 2.

Table 2: Summary Financing Plan
(\$ million)

Source	Cambodia		Lao PDR		Total	%
	Amount	%	Amount	%		
Asian Development Bank						
Ordinary capital resources (concessional loan)	30.00	97	30.00	38
Special Funds resources (ADF grant)	47.00	96	47.00	59
Government	0.89	3	1.80	4	2.69	3
Total	30.89	100	48.80	100	79.69	100

... = not available, ADF = Asian Development Fund, Lao PDR = Lao People's Democratic Republic.

Source: Asian Development Bank estimates.

¹⁴ Project Administration Manuals (accessible from the list of linked documents in Appendix 2).

18. Climate mitigation is estimated to cost \$1.30 million. Structural measures for climate adaptation and disaster risk reduction are estimated to cost \$9.50 million. ADB will finance 100% of the mitigation and adaptation costs.¹⁵

E. Implementation Arrangements

19. The implementation arrangements are summarized in Table 3 and described in detail in the PAMs (footnote 14).

Table 3: Implementation Arrangements

Table of Implementation Arrangements			
Aspects	Arrangements		
Implementation period	November 2018–December 2024		
Estimated completion date	Cambodia, 31 December 2023; Lao PDR, 31 December 2024		
Estimated closing date	Cambodia, 30 June 2024; Lao PDR, 30 June 2025		
Management			
(i) Subregional coordination	Greater Mekong Subregion Tourism Working Group		
(ii) National oversight body	National project steering committees		
(iii) Executing agency	MOT, Cambodia and MICT, Lao PDR		
(iv) Implementing agencies	MPWT Cambodia; DICTs, DOTs, DPWTs, and Vang Vieng UDAA		
(v) Implementation units	Multisector unit in each participating province with 10–14 staff		
Procurement	ICB	7 contracts	\$48,751,797
	NCB	5 contracts	\$1,765,000
	Shopping	78 contracts	\$1,750,000
Consulting services	QCBS	374 person-months	\$4,151,644
	ICS	308 person-months	\$2,292,814
	SSS	70 resource persons	\$350,000
Retroactive financing and/or advance contracting	Advance contracting: Two QCBS consulting services packages.		
Disbursement	The loan and grant proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the governments and ADB.		

ADB = Asian Development Bank; DOT = Department of Tourism; DICT = Department of Information, Culture and Tourism; DPWT = Department of Public Works and Transport; ICB = international competitive bidding; ICS = individual consultant selection; Lao PDR = Lao People's Democratic Republic; MOT = Ministry of Tourism; MICT = Ministry of Information, Culture and Tourism; MPWT = Ministry of Public Works and Transport; NCB = national competitive bidding; PCU = project coordination unit; QCBS = quality- and cost-based selection; SSS = single source selection; UDAA = Urban Development Administration Authority.

Notes: Procurement will follow ADB's *Procurement Guidelines* (2015, as amended from time to time) and government regulations acceptable to ADB. Detailed engineering designs for three works packages will be approved upon loan and grant effectiveness.

Source: Asian Development Bank.

20. Implementation arrangements follow long-established successful practices. The GMS Tourism Working Group will be the project's subregional steering committee and coordinate joint marketing and regional tourism standards adoption. National project steering committees comprising ministries and provincial departments will meet periodically to review progress and support interagency coordination. MICT and MOT will be the project executing agencies. Each will expand its incumbent central project coordination unit (PCU) to supervise planning, procurement, financial management, safeguard compliance, knowledge management, reporting, and other project administration tasks. Tourism, public works, and urban management authorities will be the implementing agencies and form multisector project implementation units (PIUs). Cambodia will establish an infrastructure project management unit within the Ministry of Public

¹⁵ Climate Change Assessment Reports (accessible from the list of linked documents in Appendix 2).

Works and Transport. Consultants will assist the executing and implementing agencies with project management, detailed engineering design, construction supervision, institutional strengthening and capacity building, safeguards, and the gender action plan (GAP). Local focal points will represent community-based organizations and industry associations to ensure good coordination between project managers and the intended beneficiaries.

III. DUE DILIGENCE

A. Technical

21. The project is technically feasible. Suitable engineering solutions were selected considering cost, durability, climate, environmental and social impacts, and O&M capacities. Preliminary designs comply with Cambodia and the Lao PDR's construction standards and local contracting industry capabilities. Climate resilience measures include stronger road-base and pavement structures, higher capacity drainage, energy-efficient streetlights, and bio-engineered river embankment and slope protection. Passenger piers incorporate sturdy elevated concrete and steel structures able to withstand projected storm surges and river flow velocities. Managed landfills will be constructed on existing open dumpsites and use impermeable liners and greenhouse gas abatement technologies to prevent air and groundwater pollution. Programs to build destination management capacity were designed based on training needs assessments and institutional analyses of tourism, transport, and urban management entities. Special design features to uphold sustainable infrastructure maintenance include maximum use of robustly engineered steel-reinforced concrete roads with lower lifecycle O&M costs, and resources to strengthen provincial infrastructure O&M planning and budgeting. The project will procure appropriate O&M equipment and assist management entities in incorporating maintenance requirements into ferry port and waste management services contracts.

B. Economic and Financial

22. Economic analyses were prepared for the integrated project components following ADB guidelines.¹⁶ Costs comprise infrastructure and capacity-building investments and the market value of minor land acquisition. Benefits quantified conservatively include (i) increased tourism receipts from incremental visitor arrivals and length of stay in project areas, (ii) vehicle operating cost savings from reductions in road roughness, and (iii) health benefits and tourism loss-avoidance from better solid waste management practices. Base-case economic internal rates of return (EIRR) range from 19.3% to 28.0% for road improvement subprojects, and from 12.7% to 23.2% for the ferry ports. EIRRs for solid waste management improvements in Kep (22.9%) and Vang Vieng (29.4%) also exceed the 9% social discount rate. All subprojects remain viable under adverse scenarios whereby costs are 10% higher, benefits 10% lower, implementation is delayed by 1 year, or there are 10% fewer tourist arrivals. The expected economic benefits are consistent with ADB's completed GMS tourism projects in Cambodia and the Lao PDR, which generated EIRRs ranging from 16.0% to 78.2% for similar road, small port, and urban waste management improvements in secondary tourist destinations, which benefited about 220,000 residents.¹⁷

23. Financial analyses prepared following ADB guidelines confirm the financial viability of both the revenue-generating solid waste management improvement subprojects and Preah Sihanouk City–Koh Rong ferry ports.¹⁸ Financial internal rates of return range from 11.9% to 12.6% for

¹⁶ Economic Analysis (accessible from the list of linked documents in Appendix 2).

¹⁷ ADB. 2017. *Completion Report: GMS Sustainable Tourism Development Project*. Manila; and ADB. 2010. *Completion Report: Greater Mekong Subregion Mekong Tourism Development Project*. Manila.

¹⁸ Financial Analysis (accessible from the list of linked documents in Appendix 2).

Cambodian subprojects, higher than the 10.6% weighted average cost of capital. The base-case financial internal rate of return for Vang Vieng solid waste management improvements is 3.5%, higher than the Lao PDR's 2.5% weighted average cost of capital. Quantified revenue streams comprising waste collection tariffs, environmental fees to be introduced by the respective provincial governments, and port fees are sufficient to fund O&M. Roads that do not generate revenue and the Lao PDR's port subprojects will require additional national budgetary allocations for routine and periodic maintenance. Loan and grant assurances confirm the governments' commitments to funding sustainable asset maintenance.

C. Governance

24. The financial management and procurement risks for Cambodia's executing and implementing agencies is rated *high*. The main constraint is the lack of qualified accountants and procurement specialists in provinces. The overall risk rating for the Lao PDR is also *high* because of similar constraints, exacerbated by weak audit, financial management, and procurement oversight. Risk mitigation measures in the financial management action plans emphasize intensive on-the-job counterpart staff training and requirements to use standard ADB-approved documents for all procurement transactions. Both executing agencies have significant experience in managing advance accounts and statement-of-expenditure procedures. The terms of reference for external auditors were agreed with the executing agencies during project preparation and form part of the PAMs. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the governments, MICT, MOT, and other agencies involved in the project. The specific policy requirements and supplementary measures are described in the PAMs.

D. Poverty, Social, and Gender

25. The project will directly benefit about 23,000 people in Cambodia and 74,000 people in the Lao PDR.¹⁹ Poverty rates in project areas range from 12.0% to 19.9% because of low incomes, insufficient productive assets and public infrastructure, shortages of quality enterprise support services, and underdeveloped human capital. While Cambodia and the Lao PDR significantly reduced poverty during 2003–2013, inequality is widening. For instance, the Lao PDR's Gini coefficient rose from 0.31 to 0.36 over this period. The project's integrated infrastructure and capacity investments are designed to minimize these constraints and diversify employment and income-generating opportunities for rural and urban households. Stakeholder communication and participation plans include activities to help women and vulnerable groups recognize and avoid social risks associated with tourism, such as human trafficking and child exploitation.

26. **Gender.** The project is categorized *effective gender mainstreaming*. MICT and MOT prepared the GAP in consultation with project beneficiaries, civil society organizations, and government officials. PCUs, Cambodia's infrastructure project management unit, and PIUs will implement and monitor the GAP. Specific actions to promote gender equality include (i) separate consultations with women and men to ensure gender-sensitive detailed engineering designs; (ii) requirements to involve women in infrastructure construction and management; (iii) equal participation in sanitation awareness, road safety, and HIV/AIDS prevention programs; and (iv) women's appointment as managers and leaders of tourism standards assessment boards, destination management organizations, and project management entities. The project performance management system will compile sex- and ethnic-disaggregated data to monitor and evaluate results.

¹⁹ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

E. Safeguards

27. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguards categorization is B for environment, involuntary resettlement, and indigenous peoples.²⁰ All safeguards documents were prepared based on meaningful consultations with affected people and communities, endorsed by government authorities, and disclosed on the ADB website following ADB's Public Communications Policy 2011. Grievance redress, monitoring, and reporting procedures are properly established in all safeguards documents. During project implementation, all safeguard documents will be updated based on detailed engineering designs, reviewed by ADB, and publicly disclosed. The project includes adequate resources to update all safeguard documents and build counterpart capacity to implement environmental and social monitoring.

28. **Environment (category B).** MICT and MOT each prepared one initial environmental examination and two environmental management plans (EMPs), covering the project's area of influence and all road, port, and landfill subprojects. The EMPs provide adequate measures to mitigate the expected minor and temporary construction impacts and the potential adverse environmental impacts of increased tourism activity, particularly near marine and terrestrial-protected areas. Improved solid waste and septage management, better roads and drainage, and the adoption of ASEAN tourism standards are expected to generate overall net environmental benefits. Loan and grant covenants require contractors and destination management agencies to comply with initial environmental examination and EMP mitigation measures.

29. **Involuntary resettlement (category B).** Involuntary resettlement impacts will be adequately managed by implementing resettlement plans agreed by the governments and ADB. Overall, 23 households with 76 persons will be affected by minor loss of structures and temporary business disruption within the right-of-way in Preah Sihanouk, Cambodia. In the Lao PDR, 59 households with 274 persons will be affected, 19 of them (with 79 persons) severely because they must move their shops about 300 meters. Initial resettlement and compensation costs are estimated at \$64,176 for Cambodia and \$300,513 for the Lao PDR. This amount is considered adequate based on the inventories of losses prepared in consultation with the affected households.

30. **Indigenous peoples (category B).** The project will positively affect Hmong, Lu Mien, Khmu, and Tai Dam ethnic groups in the Lao PDR project areas by creating culturally appropriate jobs, diversifying income, and strengthening tourism management by ethnic communities. Ethnic groups will equally benefit from improved access to markets and social services, better waste management, and capacity building. The Lao PDR's indigenous peoples plan identifies the potential negative impacts and adequate measures to mitigate them. The Lao PDR will appoint qualified PCU and PIU staff to properly implement the indigenous peoples plan using project resources. Due diligence confirms that no indigenous peoples will suffer any impacts in Cambodia.

F. Summary of Risk Assessment and Risk Management Plan

31. Significant risks and mitigating measures are summarized in Table 4 and described in detail in the risk assessment and risk management plan.²¹

²⁰ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

²¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Qualified counterparts are unavailable to support financial management, procurement, and implementation of safeguards.	Consultants will provide accounting, disbursement, financial management, procurement, and safeguards training following ADB guidelines.
Private enterprises are not interested in achieving ASEAN tourism standards.	MICT and MOT will strengthen policy measures and marketing to promote standards adoption.
Insufficient public funds allocated for infrastructure O&M and tourism site management.	Consultants will assist destination managers prepare O&M plans and management plans with sustainable finance mechanisms. Institutional strengthening activities support better O&M budgeting.
Increased tourist volumes overwhelm infrastructure and environmental services, causing negative environmental impacts.	EMPs cover construction and operation phases. Site-specific O&M plans will incorporate visitor management and environmental safeguards.

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations; EMP = environmental management plan; MOT = Ministry of Tourism; MICT = Ministry of Information, Culture and Tourism; O&M = operation and maintenance.

Source: Asian Development Bank.

IV. ASSURANCES

32. The governments of Cambodia and the Lao PDR 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 PAMs and loan and grant documents. The governments of Cambodia and the Lao PDR have agreed with ADB on certain covenants for the project, which are set forth in the draft loan and grant agreements. No withdrawals shall be made from the Lao PDR's grant account until the recipient has established a financial management team within the PCU comprising a financial controller, a head of internal audit, and a chief accountant.

V. RECOMMENDATION

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

- (i) the loan of \$30,000,000 to the Kingdom of Cambodia for the Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 1% per year during the grace period and 1.5% per year 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 grant not exceeding \$47,000,000 to the Lao People's Democratic Republic from ADB's Special Funds resources (Asian Development Fund) for the Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project, on terms and conditions that are substantially in accordance with those set forth in the draft grant agreement presented to the Board.

Takehiko Nakao
President

27 July 2018

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with Sustainable, inclusive, and more balanced tourism development achieved (ASEAN Tourism Strategic Plan 2015–2025) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Tourism competitiveness of secondary towns in Cambodia and the Lao PDR increased	By 2025: a. Cambodia and the Lao PDR's share of ASEAN international visitor arrivals increased to 8.3% (2016 baseline: 8.0%) b. Annual international visitor arrivals in project areas increased to 1.99 million (2016 baseline: 1.28 million) c. Aggregate annual visitor expenditure in project areas increased to \$0.91 billion (2016 baseline: \$0.55 billion) d. Women account for at least 55% of tourism workers in project areas (2016 baseline: Cambodia 54%, the Lao PDR 50%)	a.–d. Government tourism statistics reports and project completion report	Governments reverse supportive policies for travel and tourism Governments and other development partners reduce support for tourism vocational training and capacity building
Outputs 1. Urban–rural access infrastructure and urban environmental services improved	By 2024: 1a. 73 kilometers of access roads to tourist sites improved (2017 baseline: 0) 1b. Four ferry ports constructed (2017 baseline: 0) 1c. 30 cubic meters per day of wastewater treatment capacity constructed (2017 baseline: 0) 1d. Flood protection and drainage constructed for 25-hectare catchment (2017 baseline: 0) 1e. Solid waste management services improved for 5,700 households (2017 baseline: 2,596 households) 1f. At least 50% of people consulted to optimize inclusiveness and gender responsiveness in project infrastructure designs are women (2017 baseline: 0)	1a.–1f. Project progress reports and project completion report	Qualified counterparts are unavailable to support financial management, procurement, and implementation of safeguards
2. Capacity to implement ASEAN tourism standards strengthened	2a. Two national ASEAN tourism standard assessment frameworks and certification boards established with at least 30% women board members (2017 baseline: 0) 2b. 107 hotels in target provinces certified to ASEAN Green Hotel Standard (2017 baseline: 45) 2c. 148 homestays certified to ASEAN Homestay Standard (2017 baseline: 38) 2d. At least six towns certified to ASEAN Clean City Standard (2017 baseline: 2)	2a.–2d. Project progress reports and project completion report	Private enterprises are not interested in achieving ASEAN tourism standards

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
3. Institutional capacity for tourism destination management and infrastructure O&M strengthened	3a. 150 public works and tourism site managers (at least 30% women) reporting increased knowledge on developing and implementing tourism management and infrastructure O&M plans (2017 baseline: 0) 3b. Eight destination management plans and eight infrastructure O&M plans implemented (2017 baseline: 4) 3c. At least 5,000 residents and tourism workers (50% women) participated in destination management training and awareness-raising activities (2017 baseline: 0) 3d. At least 500 entrepreneurs (60% women) received SME support services (2017 baseline: 0) 3e. Two internet-based tourism knowledge repositories developed (2017 baseline: 0)	3a.–3e. Project progress reports and project completion report	Insufficient public funds allocated for infrastructure O&M and tourism site management Increased tourist volumes overwhelm infrastructure and environmental services, causing negative environmental impacts
Key Activities with Milestones 1. Urban–rural access infrastructure and urban environmental services improved 1.1 Preparation of civil works design and bidding documents: Q2 2018–Q4 2019 1.2 Approval of safeguards documents: Q4 2018–Q4 2019 1.3 Completion of land acquisition and resettlement: Q1 2020 1.4 Civil works procurement: Q4 2018–Q4 2020 1.5 Civil works construction, supervision, and supply equipment: Q2 2019–Q1 2023 2. Capacity to implement ASEAN tourism standards strengthened 2.1 Establish ASEAN tourism standards assessment frameworks and certification boards: Q1 2019–Q1 2020 2.2 Prepare national certification boards and assessor operation manuals: Q2 2019–Q4 2021 2.3 Train standards assessors (e.g., Green Hotel, Homestay, Clean City): Q3 2019–Q2 2022 2.4 Promote adoption of ASEAN tourism standards by service enterprises and cities: Q3 2019–Q4 2023 2.5 Complete inspection and certification of standards: Q4 2019–Q4 2023 3. Institutional capacity for tourism destination management and infrastructure O&M strengthened 3.1 Prepare and approve tourism destination management plans: Q1 2020–Q1 2021 3.2 Prepare and approve infrastructure O&M plans with sustainable finance mechanisms: Q3 2020–Q4 2021 3.3 Design and implement training for SMEs and public awareness programs: Q2 2019–Q4 2023 3.4 Design and implement training programs for infrastructure O&M: Q1 2021–Q4 2023 3.5 Establish and maintain internet-based tourism knowledge repositories: Q1 2019–Q4 2023 Project Management Activities Establishment of project steering committees, PCUs, and PIUs: Q2–Q4 2018 Advance actions for consultant recruitment and procurement: Q2 2018–Q1 2019 Financial management training for PCU and PIU staff: Q1 2019–Q3 2019 Implementation of sex-disaggregated project performance management system, safeguards, and gender action plans: Q1 2019–Q4 2023			
Inputs Cambodia: ADB \$30 million (loan), government \$0.89 million. Lao People's Democratic Republic: ADB \$47 million (grant), government \$1.80 million.			
Assumptions for Partner Financing Not Applicable			

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, O&M = operation and maintenance, PCU = project coordination unit, PIU = project implementation unit, Q = quarter, SMEs = small and medium-sized enterprises.

^a ASEAN Secretariat. *ASEAN Tourism Strategic Plan 2015–2025*. Jakarta.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49387-002-3>

1. Loan Agreement: Cambodia
2. Grant Agreement: Lao People's Democratic Republic
3. Sector Assessment (Summary): Tourism in Cambodia, the Lao People's Democratic Republic, and Viet Nam
4. Project Administration Manual: Cambodia
5. Project Administration Manual: Lao People's Democratic Republic
6. Contribution to the ADB Results Framework
7. Development Coordination
8. Financial Analysis
9. Economic Analysis
10. Country Economic Indicators
11. Summary Poverty Reduction and Social Strategy
12. Gender Action Plan
13. Initial Environmental Examination: Cambodia
14. Initial Environmental Examination: Lao People's Democratic Republic
15. Resettlement Plan: Cambodia
16. Resettlement Plan: Lao People's Democratic Republic
17. Indigenous People Plan: Lao People's Democratic Republic
18. Risk Assessment and Risk Management Plan

Supplementary Documents

19. Tourism Demand Analysis and Forecasts
20. Environmental Management Plan: Kep Subproject
21. Environmental Management Plan: Preah Sihanouk Subproject
22. Environmental Management Plan: Vientiane Province Subproject
23. Environmental Management Plan: Champasak Province Subproject
24. Climate Change Assessment Reports