



# Validation Report

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Reference Number: PVR-275  
Project Number: 31352  
Loan Number: 1994  
December 2013

## Lao People's Democratic Republic Small Towns Development Sector Project

Independent Evaluation Department  
**Asian Development Bank**

## ABBREVIATIONS

ADB	–	Asian Development Bank
IED	–	Independent Evaluation Department
Lao PDR	–	Lao People's Democratic Republic
MCTPC	–	Ministry of Communication, Transport, Posts, and Construction
PCR	–	project completion report
PCU	–	project coordination unit
PIU	–	project implementation unit
PPMS	–	project performance monitoring system
PSC	–	Project Steering Committee
SDR	–	special drawing rights
TA	–	technical assistance
UDAA	–	urban development administrative authorities

## NOTE

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

### Key Words

adb, asian development bank, lao pdr, small towns, development, efficiency, monitoring and evaluation, capacity building, community participation, project management, project performance, relevance, impact, urban development

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## PROJECT BASIC DATA

<b>Project Number:</b>	31352	<b>PCR Circulation Date:</b>	Dec 2010	
<b>Loan Number:</b>	1994	<b>PCR Validation Date:</b>	Dec 2013	
<b>Project Name:</b>	<b>Small Towns Development Sector Project</b>			
<b>Country:</b>	Lao People's Democratic Republic		<b>Approved</b> (\$ million)	<b>Actual</b> (\$ million)
<b>Sector:</b>	Water and other municipal infrastructure and services	<b>Total Project Costs:</b>	20.00	21.10
<b>ADB Financing</b> (\$ million)	<b>ADF:</b> 16.00	<b>Loan:</b> (SDR equivalent, million)	16.00	18.41
	<b>OCR:</b> 0.00		12.12	12.03
		<b>Borrower:</b>	3.80	2.51
		<b>Beneficiaries:</b>	0.20	0.18
<b>Approval Date:</b>	28 Jan 2003	<b>Effectiveness Date:</b>	14 Oct 2003	6 Oct 2003
<b>Signing Date:</b>	16 July 2003	<b>Closing Date:</b>	31 Jul 2009	7 Jul 2010
<b>Project Officers:</b>	G. Cezayirli J. Hakim Y. Ikeda J. Hakim E. Honda	<b>Location:</b> ADB headquarters ADB headquarters ADB headquarters ADB headquarters ADB headquarters	<b>From:</b> Jan 2003 Dec 2003 Apr 2006 May 2007 Mar 2010	<b>To:</b> Nov 2003 Mar 2006 Apr 2007 Feb 2010 Dec 2010
<b>Validator:</b>	M. Napud, Consultant	<b>Peer Reviewer:</b>	S. Hutaserani, Lead Evaluation Specialist, IED1	
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ADB = Asian Development Bank, ADF = Asian Development Fund, IED1/2 = Independent Evaluation Department (Division 1/2), OCR = ordinary capital resources, PCR = project completion report, SDR = special drawing rights.

## I. PROJECT DESCRIPTION

### A. Rationale

1. Urban centers in the Lao People's Democratic Republic (Lao PDR) accounted for 18%–22% of the total population. The increasing rate of urbanization has strained urban infrastructure facilities and services, especially in small towns, largely as a result of limited capital investments. The urban development efforts of the Asian Development Bank (ADB) were initially focused on Vientiane and four secondary towns. Subsequently, it was recognized that there was a need to broaden the focus to include the small towns. Urban development in small towns could be achieved by improving the basic infrastructure and services and increasing physical investments to attain a reasonable quality of life for the population. These physical investments should be able to increase the poor's access to urban centers and, thus, enhance livelihood opportunities for them.

## **B. Expected Impact**

2. The Small Towns Development Sector Project was designed to improve the urban environment and living conditions, and to promote reforms for sustainable and responsive urban management in about 10 small towns.<sup>1</sup> As a sector project, these small towns were expected to demonstrate their commitment for reforms, thus, promoting a demand-led approach. The project blended environmental and livelihood improvements with reforms for establishing and developing decentralized urban governance in small towns. Physical investments were expected to improve roads, drainage, sanitation and solid waste management, and upgrade villages. Civic awareness and inclusive processes were to emphasize sustainable benefits from investments and to ensure effective targeting of the poor.

## **C. Objectives or Expected Outcomes**

3. The specific objectives of the project were to (i) improve the living conditions of the small towns' communities, especially the poor, by improving the urban environment, increasing access to essential urban infrastructure and services, and enhancing livelihoods; and (ii) support the establishment and development of decentralized and dedicated institutional and management frameworks for effective, responsive, and sustainable provision of urban infrastructure and services in small towns.

## **D. Components and Outputs**

4. The project had two major components: Part A—urban infrastructure and services improvements, and Part B—implementation support and capacity building. Part A included (i) town-wide infrastructure and amenities comprising investments in major roads, drainage, public markets, and bus station environments; (ii) town cleanliness and/or environmental services, such as improving solid waste and sanitation management services; and (iii) village upgrading and livelihood promotion, combining village infrastructure and services improvements with livelihood enhancement, and following a demand-responsive and partnership approach with villages playing a major role in the process.

5. Part B provided for consulting services and other necessary inputs to support (i) implementation of infrastructure and services under the project, (ii) civic awareness and community dialogue processes to maximize the benefits from physical investments and to ensure sustainability of the project impacts, and (iii) establishment of and capacity building for decentralized urban-focused entities in the project areas.

## **E. Provision of Inputs**

6. Total project cost at appraisal was estimated at \$20 million, of which 48.5% was estimated to be the foreign exchange cost while 51.5% was the local currency cost. Cost for part A was estimated at \$13.3 million while cost for part B was around \$3.6 million. The financing plan included a loan in the amount of \$16.0 million from ADB's Special Funds, representing 80% of the total cost of the project. The borrower was to finance \$3.8 million and the community beneficiaries were to contribute \$0.2 million in cash or in kind.

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<sup>1</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Lao People's Democratic Republic for the Small Towns Development Sector Project*. Manila.

## F. Implementation Arrangements

7. The Ministry of Communication, Transport, Posts, and Construction (MCTPC) was designated as the executing agency for the project. A Project Steering Committee (PSC) chaired by the vice minister of MCTPC was to oversee project implementation, facilitate cooperation and coordination among concerned agencies, and ensure the timely implementation of the urban policy and the institutional reform agenda. The membership of the PSC included representatives from the Ministry of Finance, Department of Public Administration and Civil Service of the Prime Minister's Office, Committee for Planning and Cooperation, Bank of Lao, urban development administrative authorities (UDAA), and provincial governments (vice governor) concerned.

8. A project coordination unit (PCU) was to be set up in the Department of Housing and Urban Planning of MCTPC and was to be headed by a national project director. UDAAAs that were to be established in each project town were to function as the implementing agencies. The project implementation units (PIUs) to be located in UDAAAs were to be responsible for all aspects of project implementation.

9. The project was designed to be implemented over a period of 6 years beginning in early 2003, and was to be completed by 31 January 2009. It was to be undertaken in three overlapping phases. The first phase was to involve four towns, for which subprojects were already prepared as a part of project preparation. Phases 2 and 3 each was to include a group of three towns with subprojects coming on stream at the beginning of years 2 and 3. Each group of towns was to follow a 4-year cycle of institutional and community preparation, survey and design, bidding of contracts and construction, and post-construction activities. Phasing was expected to lead to more efficient use of project resources, particularly PCU staff, consultants, and equipment.

10. The loan was designated in special drawing rights (SDR). As the United States dollar depreciated against the SDR during implementation period, it increased the available loan funds in dollars and local currency. This allowed two additional towns to be included under the scope of the project and resulted in the addition of the fourth phase of implementation (project completion report [PCR], para. 9).<sup>2</sup>

## II. EVALUATION OF PERFORMANCE AND RATINGS

### A. Relevance of Design and Formulation

11. The PCR rated the project *relevant* since it was in line with the government's priority for planning and developing basic infrastructure and services in urban areas and with ADB's country strategy for the Lao PDR. The project envisaged the establishment and institutionalization of UDAAAs, with dedicated urban functions and their own sources of revenues and budgets. The government began creating UDAAAs in Vientiane and in four major secondary towns, to eventually transform these UDAAAs into autonomous municipalities. The Prime Minister's Instruction 01/PM of March 2001, Prime Ministerial Decree 141/PM/2000 of May 2000, and Local Administration Law of 2003 supported the decentralization of government functions and clarification of UDAAAs' responsibilities. ADB assisted the government's decentralization process through its loan and technical assistance (TA) projects.<sup>3</sup>

<sup>2</sup> ADB. 2010. *Completion Report: Small Towns Development Sector Project in Lao People's Democratic Republic*. Manila.

<sup>3</sup> ADB. 1999. *Technical Assistance to the Lao People's Democratic Republic for Capacity Building for Urban Development Administrative Authorities*. Manila.

12. However, the PCR reported that institutional and policy reforms, specifically the need to develop the financial independence of UDAs and eventually transform these into autonomous municipalities, proved to be ambitious. The project initially failed to capitalize on the results of the TA projects to come up with a more realistic approach in harnessing the potentials of UDAs. The government then conducted a review of the various institutions involved in urban management to lay down the basis for clearer “hierarchy of planning authorities.”

13. Thus, the institution building aspect of the project design and its relationship with the other planning authorities in the country were not addressed fully and satisfactorily. Institutional capability is an important prerequisite for designing a sector project. Further, the PCR noted that it was a challenge for the government to introduce property tax in small towns (PCR, para. 25 [III]). This should have been foreseen by the government and the appraisal team during project designing. At appraisal, no proper agency had been identified to implement the livelihood component. Lack of clarity at project appraisal in some towns led to a situation where roads and drainage had to be built with their local funds (PCR, para. 11). Notwithstanding these limitations in the project design, as the project had clear relevance in supporting the government’s priority, this validation rates the project *relevant*.

## **B. Effectiveness in Achieving Project Outcomes**

14. The PCR rated the project *effective*. This validation considers the project *highly effective* in all the physical components (i.e., improving the urban environment and living conditions in small towns through upgrading the town and village infrastructure and services including roads, drainage, streetlights, footpaths, public toilets, electric power lines, water supply pipelines, and sanitary landfill sites, among others). The project ended up building urban facilities in 12 and not 10 towns, thus, exceeding its target. Outputs included the following: (i) 46.9 kilometers (km) of asphalt roads, (ii) 22.7 km of drainage, (iii) 82.3 km of roadside drains, (iv) 4.6 km of improved road shoulders, (v) 86,460 square meters of footpaths, (vi) 387 streetlight poles, and (vii) 7 light arms on existing poles. Despite the late start, the livelihood promotion component included (i) 72.5 km of village access roads, (ii) 57 village offices, (iii) 2 village meeting halls, (iv) 3 public toilets, (v) 26.0 km of electric power lines, and (vi) 4.3 km of water supply pipes.

15. In the nonphysical component, the validation assesses the project *less than effective*. It was considered less than effective in supporting the establishment and development of decentralized and dedicated institutional management frameworks for effective, responsive, and sustainable provision of urban infrastructure and services in small towns. However, the PCR indicated that UDAs’ core capacities were substantially strengthened, especially in the areas of financial management, engineering designs, and construction supervision. Also, various revenue sources were identified and drafts were formulated to provide the legal basis for fee collection and redistribution. However, UDAs will need further capacity building. At the time of project completion, these were ready to become fully autonomous municipal governments. On the whole, this validation rates the project *effective*.

## **C. Efficiency of Resource Use in Achieving Outputs and Outcomes**

16. The PCR rated the project *highly efficient* in the economic aspect since the economic internal rates of return for the pilot subprojects for the town-side infrastructure and amenities component under part A of the project were estimated during appraisal and reestimated by the PCR to be much higher than the social discount rate of 12%. However, the PCR noted that economic and financial reevaluation was based on only three, instead of the four pilot towns for which original economic and financial analysis was undertaken because insufficient details were available on the assumptions and methodology used earlier. For nine of the twelve towns, no economic analysis was conducted. For assessing benefits, the adequacy in the coverage of

towns is considered important, as achievements in some towns were less than the targets (PCR, para. 11).

17. A review of the economic methodology used in the PCR showed that economic viability could not be readily ascertained. First, shadow prices were not used in the reestimation and thus, proper economic valuation of key items was not established. Second, economic benefits were quantified for the towns' road improvement and drainage subprojects using the increase in the pilot towns' urban land values. This is questionable since market valuation could be influenced by speculative factors from land developers and the buying public. A more acceptable approach could be the productive or economic use of the land.

18. The pace of project implementation was uneven. The project had a late inception and started slowly. It is only after the midterm that it picked up its expected pace. The main reason identified for the slow implementation was the implementing agencies' lack of familiarity with ADB procedures and business practices. Given this, this validation downgrades the rating of the project to *efficient*.<sup>4</sup>

#### **D. Preliminary Assessment of Sustainability**

19. The PCR rated the project *less likely* to be sustainable. Although the UDAAAs were generally recovering their operating and maintenance costs at the time of project completion, these were having difficulties in increasing their revenue collections from solid waste management fee, urban obligation charge, and wastewater and street lighting surcharges. The financial internal rates of return—for the solid waste management subcomponent of the town cleanliness and environmental services component under part B—were lower than the weighted average cost of capital. These were observed in two of the three pilot towns, based on the more realistic assumption of 50% domestic revenue coverage. The PCR further noted the persistent low level of financial cost recovery not only for this project but also for the preceding two urban projects of ADB in the country (PCR, para. 37). This points out the need for greater policy dialogue with the borrower to ensure that project investments are undertaken in a prudent manner and are sustainable.

20. The project was able to accommodate two more towns for subproject implementation. As these two towns were the farthest from Vientiane, this decision increased the PCU's burden and increased the incremental administrative cost. The project's geographical coverage was a major challenge in terms of monitoring subproject implementation in 12 project towns located all over the country from the northern tip to the south. It was also time-consuming for the PCU staff and consultants to travel to the project towns and for personnel from UDAAAs and PIUs to attend meetings and workshops. The estimated incremental administrative cost during appraisal was \$0.06 million, while the actual cost after project completion increased to \$0.57 million, which endangers the project's sustainability. Considering the above, this validation rates the project *less than likely to be sustainable*.

#### **E. Impact**

21. The PCR did not rate the impact but indicated that the project's urban infrastructure and services component led to increased accessibility and reduced travel time, improved the aesthetic and visual look of the small towns in terms of street lights, road shoulder improvements and roadside drains, and mitigated perennial flooding. However, there were no data to substantiate these statements, which could have shown how indicators had improved, such as percentages of increases compared with their baseline values.

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<sup>4</sup> The operations department disagrees with this downgrade and maintains that it can be assured that the EIRR of the fourth pilot project would also be high, as would be the EIRRs of the other subprojects. It also argued that the PCR used land value because the RRP did and the methodology should be the same.

22. The PCR also indicated that the project had substantial, positive environmental impact and an insignificant negative impact on the physical and natural environment. Adverse environmental impacts were mainly associated with activities at the construction stage, such as noise, vibration, air pollution, runoff, safety hazards, disposal of construction debris, and localized traffic congestion, which were mitigated during implementation. Sanitary landfill sites were constructed on lands owned by the government. A total of \$0.38 million of microcredit loans was provided to 1,544 poor households (KN1 million–KN3 million per household) in the project towns. However, these are not impact data. Envisaged impacts (PCR, para. 39) will not be known until a post-project assessment is done. This validation rates the project impact *significant*.

### III. OTHER PERFORMANCE ASSESSMENTS

#### A. Performance of the Borrower and Executing Agency

23. The PCR rated the performance of the borrower and executing agency *highly satisfactory*. The MCTPC and Ministry of Public Works and Transport provided the critical leadership and support required for a successful project completion. The executing agency and its PCU introduced a consultative style of management that enabled UDAs and PIUs to learn from one another's experiences and thus increased their ownership. The PCR also indicated that the PSC and provincial project facilitating committees displayed strong leadership in facilitating cooperation and coordination among concerned agencies at the central and provincial levels, respectively. A government PCR was prepared and submitted to ADB. However, the MPWT should have recognized the difficulty of the PCU in coordinating the activities in the different towns,<sup>5</sup> which was evident in the first 2 years of project implementation and could have decided to use the loan savings to further strengthen the UDAs instead of adding two more towns in the project.<sup>6</sup> The project's sustainability is assessed *less than likely* due to various weaknesses on the side of the borrower and executing agency. This validation, therefore, downgrades the borrower's and executing agency's performance to *satisfactory*.

#### B. Performance of the Asian Development Bank

24. ADB's performance was rated by the PCR *highly satisfactory*. ADB fielded a total of 12 project review missions or about 186 staff-days to monitor project implementation progress and resolve implementation issues. ADB worked closely with various stakeholders to resolve issues and problems in a timely manner and displayed flexibility in accommodating a number of minor changes in project scope and implementation arrangements. ADB provided training for PCU and PIU staff as part of its requirements and procedures for project administration and implementation. As reported, ADB also undertook, in a timely manner, a review of tender documents, adjustments in project activities, and loan disbursement arrangements.

25. During the implementation, the borrower proposed to include two more towns in the project to make use of the loan savings. This decision increased the burden on the PCU and increased the incremental administrative cost. ADB could have advised the borrower to use the loan savings to conduct more trainings for the staff of UDAs to improve the sustainability of the

<sup>5</sup> This is due to the distance of the participating towns from Vientiane.

<sup>6</sup> The project's geographical coverage posed a major challenge to monitor subproject implementation in 12 project towns located all over the country from the northern tip (Phongsali) to the south (Samakkeho). Particularly during rainy season, it was time-consuming for PCU staff and consultants to travel to the project towns, and for personnel from UDAs and PIUs to attend meetings and workshops (PCR, para. 43). The total incremental administration cost during appraisal was \$0.06 million while actual cost after project implementation was \$0.57 million.



completed projects. However, the sustainability of the project is assessed *less than likely*. This validation, therefore, downgrades the performance of ADB to *satisfactory*.

### C. Others

26. The PCR did not mention any safeguard, gender, and governance issues affecting the project. There was no resettlement involved in project implementation. While at appraisal some resettlement was expected for bridge construction, further processing of this component showed a resettlement was not required. Improvement of existing roads and drainage did not require land acquisition.

## IV. OVERALL ASSESSMENT, LESSONS, AND RECOMMENDATIONS

### A. Overall Assessment and Ratings

27. Overall, the PCR rated the project *successful*. The PCR, using the different aspects of the IED criteria, assessed the project *relevant, effective, highly efficient, and less likely sustainable*. This validation noted some limitations in project design and appraisal. However, the project's coverage was increased from 10 to 12 towns. The project also experienced slow implementation in the beginning up to midterm review. The institution building and financial cost recovery aspects were not implemented satisfactorily. Hence, using the IED criteria, this validation assesses the project *relevant, effective, efficient, and less than likely sustainable*. Overall, this validation rates the project *successful*, as shown in the table below.

**Overall Ratings**

Criteria	PCR	IED Review	Reason for Disagreement and/or Comments
Relevance	Relevant	Relevant	
Effectiveness in achieving outcome:	Effective	Effective	
Efficiency in achieving outcome and outputs	Highly efficient	Efficient	Higher rating could not be supported due to a few issues on the methodology of economic and financial reevaluation, and slippages in implementation (paras. 17–18).
Preliminary assessment of sustainability	Less likely	Less than likely	
<b>Overall assessment</b>	<b>Successful</b>	<b>Successful</b>	
Borrower and executing agency	Highly satisfactory	Satisfactory	
Performance of ADB	Highly satisfactory	Satisfactory	
Impact	Not rated	Significant	Refer to para. 22.
Quality of PCR		Satisfactory	Refer to para. 31.

ADB = Asian Development Bank, IED = Independent Evaluation Department, PCR = project completion report.

Note: From May 2012, IED views the PCR's rating terminology of "partly" or "less" as equivalent to "less than" and uses this terminology for its own rating categories to improve clarity.

Source: ADB Independent Evaluation Department.

## **B. Lessons**

28. The PCR drew out valuable lessons to support ADB's operations. These included the importance of community participation to enhance project ownership, strengthening core capacities of institutions, and speeding up of project progress due to decentralized approach. This validation agrees with all the lessons identified by the PCR.

## **C. Recommendations for Follow-Up**

29. This validation concurs with all the recommendations of the PCR. In addition, this validation recommends that the government clarifies the role of the UDAs and to provide for the funding gap (at the minimum, to cover operation and maintenance cost of completed infrastructure facilities) while the UDAs are in the process of building their revenue bases.

# **V. OTHER CONSIDERATIONS AND FOLLOW-UP**

## **A. Monitoring and Evaluation Design, Implementation, and Utilization**

30. The PCR reported that to support the monitoring and evaluation of project activities, a project performance monitoring system (PPMS) was developed under the project. However, data entry and processing proved to be complicated and difficult. The PCU, supported by project management and implementation consultants, produced a simplified PPMS with reduced project monitoring indicators to enable UDAs to utilize the PPMS as a planning and management tool. However, the simplified PPMS has yet to be fully utilized by UDAs in project towns. As a result, monitoring and evaluation is not fully operational and the PCR did not indicate the number of people actually benefiting from the project.

## **B. Comments on Project Completion Report Quality**

31. Although the PCR has some drawbacks in some of these criteria, its overall quality is considered *satisfactory*. It provided a good analysis, with sufficient understanding of IED criteria. It was evidence-based, especially in providing a lot of data related to efficiency and sustainability. It was generally candid, especially in rating sustainability *less than likely*.

## **C. Data Sources for Validation**

32. This validation utilized the PCR, report and recommendation of the President, loan agreement, minutes of the Management Review Meeting and Board Meeting, back-to-office and TA monthly summary reports, and other evaluation reports.

## **D. Recommendation for Independent Evaluation Department Follow-up**

33. Since there is no significant deviation from the PCR, this validation is of the view that a project performance evaluation report may not be warranted.