



Report and Recommendation of the President to the Board of Directors

Project Number: 45200
January 2014

Proposed Loan and Administration of Loan
Socialist Republic of Viet Nam:
Sustainable Urban Transport for Ho Chi Minh City
Mass Rapid Transit Line 2 Project

CURRENCY EQUIVALENTS

(as of 24 January 2014)

Currency unit	–	dong (D)
D1.00	=	\$0.000047
\$1.00	=	D21,070.00

ABBREVIATIONS

ADB	–	Asian Development Bank
CTF	–	Clean Technology Fund
EIRR	–	economic internal rate of return
HCMC	–	Ho Chi Minh City
HCMC PC	–	Ho Chi Minh City people's committee
HUTMP	–	Ho Chi Minh City Urban Transport Master Plan
MRT	–	mass rapid transit
PAM	–	project administration manual
PMU	–	project management unit
UTMD1	–	Urban Transport Management Department 1

NOTE

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

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PROJECT AT A GLANCE

1. Project Name: Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2		2. Project Number: 45200-002	
3. Country: Viet Nam, Socialist Republic of			
4. Department/Division:		Southeast Asia Department/Transport and Communications Division	
5. Sector Classification:			
		Sectors	Primary
		Transport, and information and communication technology	√
		Subsectors	
		Urban transport	
6. Thematic Classification:			
		Themes	Primary
		Economic growth	√
		Environmental sustainability	
		Capacity development	
		Subthemes	
		Promoting economic efficiency and enabling business environment	
		Urban environmental improvement	
		Organizational development	
6a. Climate Change Impact		6b. Gender Mainstreaming	
Adaptation		Gender equity theme (GEN)	
Mitigation		Effective gender mainstreaming (EGM)	
Low	High	√	
		Some gender elements (SGE)	
		No gender elements (NGE)	
7. Targeting Classification:		8. Location Impact:	
		Urban	
		High	
General Intervention	Targeted Intervention		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
√			
9. Project Risk Categorization: Complex			
10. Safeguards Categorization:			
		Environment	B
		Involuntary resettlement	B
		Indigenous peoples	C
11. ADB Financing:			
Sovereign/Nonsovereign		Modality	Source
Sovereign		Project loan	Asian Development Fund
Total			
		Amount (\$ Million)	
		10.0	
		10.0	
12. Cofinancing:			
Financier		Category	Amount (\$ Million)
ADB Clean Technology Fund		Official-Loan	48.95
Total			
		48.95	
13. Counterpart Financing:			
Source		Amount (\$ Million)	
Government		6.05	
Total		6.05	
14. Aid Effectiveness:			
Parallel project implementation unit		No	
Program-based approach		No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan, and (ii) a proposed administration of a loan to be provided by the ADB Clean Technology Fund (CTF),¹ both to the Socialist Republic of Viet Nam for the Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project.²

2. The project³ will support the effective and sustainable use of the new Line 2 of the Ho Chi Minh City (HCMC) mass rapid transit (MRT) network⁴ now being developed with Asian Development Bank (ADB) assistance.⁵ It will enhance the connectivity between the MRT Line 2 stations and other modes of public and private transport, and strengthen urban transport policies and regulations. By contributing to an efficient, integrated, and sustainable MRT system, the project will support the objective of the HCMC's Urban Transport Master Plan (HUTMP) to increase the use of public transport and reduce dependency on private vehicles.

II. THE PROJECT

A. Rationale

3. The Government of Viet Nam has planned and is making major public transport infrastructure investments to induce a substantial switch by urban citizens from private to public modes of transport.⁶ A failure to invest in public transport infrastructure and to encourage this shift away from the use of private vehicles in Viet Nam's large cities will hurt economic growth and accelerate the degradation of the urban environment. The government is supporting climate change mitigation efforts by adopting a low-carbon transport growth path that will be more energy efficient and reduce greenhouse gas emissions. ADB's 2012–2015 country partnership strategy for Viet Nam supports the government's program to improve urban transport infrastructure and promote the use of public transport systems.⁷

4. HCMC is the largest city in Viet Nam, with a greater urban area population of more than 9.0 million that is expected to grow to 13.8 million by 2025. Urban transportation is dominated by private vehicles, mostly motorcycles, which account for 85% of all vehicles. The dominance of private vehicle use, combined with an inadequate road system, creates severe congestion and peak hour travel speeds on many routes that average less than 10 kilometers per hour. Road safety is poor and the traffic accident rate high. The city's urban transport problem is worsening as incomes rise and many Vietnamese become able to shift from motorcycles to cars. The overall number of vehicles in HCMC is growing by more than 10% a year.

5. The rapid growth of private vehicle traffic is partly due to HCMC's inadequate public transport system. It currently consists of a poorly integrated, inefficient bus network that cannot compete with transportation by motorcycles and cars. Poor institutional arrangements for

¹ Financed by the Clean Technology Fund.

² The design and monitoring framework is in Appendix 1.

³ ADB. 2011. *Technical Assistance to the Socialist Republic of Viet Nam for Sustainable Urban Transport for Ho Chi Minh City MRT Line 2 Project*. Manila.

⁴ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Socialist Republic of Viet Nam for the Ho Chi Minh City Urban Mass Rapid Transit Line 2 Investment Program*. Manila (MFF0052-VIE).

⁵ CTF financing is conditioned upon the sustainable transport benefits of the MRT Line 2 investment.

⁶ Socialist Republic of Viet Nam, 13th National Assembly. 2011. *Socio-Economic Development Plan for the 2011–2015 Period*. Ha Noi.

⁷ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

establishing, allocating, and operating bus routes and providing reliable service limits ridership, which is part of the reason the system does not recover its operating costs. In addition, bus fares are kept low through heavy government subsidies. Planning, management, and control of traffic in the city are weak, and few policies or regulations exist that seek to reduce reliance on private vehicles or encourage the use of public transit. Even the pedestrian walkways in HCMC are often congested, frequently because they are obstructed by unregulated motorcycle parking and other unauthorized private use.

6. HCMC is addressing these problems through the HUTMP, which also seeks to reduce greenhouse gas emissions and other pollution, improve the urban environment, and cut down the number of traffic accidents. The HUTMP proposes the development of a city wide mass transit system. Three MRT lines and a rapid transit bus line are currently under development.⁸ Phase 1 of MRT Line 2 is being financed by ADB and is expected to be operational in 2020.⁹ If the MRT network is to be fully beneficial to users, however, complementary development is needed to integrate it with other modes of public transit and private vehicle transport and ensure that it is attractive, accessible, and affordable for the city's residents. The project will help integrate the MRT Line 2 into the HCMC's overall public transport network by constructing infrastructure and facilities at all stations that will improve designed access to the MRT and strengthen the MRT's connectivity with other modes of transport used by the public to strengthen connectivity. The project will also support policy and regulatory reforms in the pricing for urban transport and in the management of traffic and parking that will define clear institutional responsibilities for effective enforcement.

7. The project will be implemented in close coordination with the activities of other development partners that are supporting urban transport improvements in HCMC (footnote 8). Joint development partner meetings with relevant HCMC public transport agencies will ensure that policy and regulatory measures are consistent with other key initiatives currently underway, such as the development of integrated fare and ticketing systems, operations and maintenance systems, and a public transport authority.

8. Previous urban transport infrastructure projects in Viet Nam have shown that strong government support is needed to avoid implementation delays, ensure that quality works are delivered, and make institutions sustainable.¹⁰ Advanced action to strengthen the capacity of district resettlement offices is essential for timely implementation of land acquisition and resettlement and to avoid start-up delays. These lessons have been incorporated in the design of this project.

B. Impact and Outcome

9. The impact of the project will be an enhanced public transport system serving six districts of HCMC.¹¹ The outcome will be the improved integration of MRT Line 2 stations with

⁸ These are the MRT Line 1 from Suoi Tien to Ben Thanh, cofinanced by the Government of Japan, under construction; the MRT Line 2 from Ben Thanh to Tam Luong, cofinanced by ADB, the European Investment Bank, and KfW, under procurement; and the MRT Line 5 from Bay Hien to Sai Gon Bridge, expected to be cofinanced by the ADB, the European Investment Bank and Government of Spain, under design.

⁹ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Ho Chi Minh City Urban Mass Rapid Transit Line 2 Investment Program Tranche 1*. Manila; ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Ho Chi Minh City Urban Mass Rapid Transit Line 2 Investment Program Tranche 2*. Manila.

¹⁰ ADB. 2009. *Sector Assistance Program Evaluation: Transport Sector in Viet Nam*. Manila.

¹¹ Districts 1, 2, 10, 12, as well as Tan Binh and Tan Phu districts.

other modes of public and private transport.

C. Outputs

10. The project will have three outputs: (i) improved accessibility at MRT Line 2 stations, (ii) the development of public transport information systems, and (iii) the formulation of public transport policy and systems developed.

11. **MRT Line 2 station accessibility improved.** These improvements, including public transport facilities, will be constructed along the first stage of MRT Line 2 from Ben Thanh to Tham Luong stations, primarily within 100 meters of nine underground and one elevated stations along the 10.3 kilometer line. Civil works will include pedestrian subways and footbridges, bus stops and feeder links, dedicated taxi stands, park-and-ride facilities for two-wheeled vehicles, and waiting areas for other public transport service providers. All infrastructure and other facilities will have gender-sensitive and universal accessibility features and safe passageways for pedestrians. The project will also establish a station access management system to facilitate the efficient flow of people and traffic around MRT Line 2 stations. Traffic police enforcement measures will be improved to ensure clear pedestrian access and smooth traffic flow and to manage parking of private vehicles around the MRT stations. The project will finance consulting services for detailed design and supervision of construction of the civil works and goods and services contracts, as well as for overall project management.

12. **Public transport information system established.** The project will develop an information system along MRT Line 2. It will be linked to the main bus control center in HCMC to provide real-time bus and train arrival information that will make the public transport system more convenient and reliable. The system will complement city-wide bus network improvements to be undertaken with the support of the World Bank.¹² The project will be responsible for installing the equipment for the information system at the MRT Line 2 stations. The equipment required on buses and bus stops for the system will be financed and installed by the Ho Chi Minh City people's committee (HCMC PC), which administers the city, and bus operators.

13. **Public transport policy and systems developed.** To support the HUTMP's objectives and make public transport more financially sustainable, the project will provide consulting services to develop (i) a station access management system and enforcement measures to ensure clear pedestrian access and proper use of public space by vendors around the stations; (ii) a station parking policy to provide for the efficient flow of vehicles to and from the MRT Line 2 stations; and (iii) a policy framework on the pricing of public and private transport in HCMC to promote a modal shift from private vehicles to the public transport system. The project will include capacity development and training to enable the HCMC transport agencies to implement and enforce the new policies and regulations. It will also provide equipment and consulting services to establish comprehensive multimodal transport and traffic management modeling systems that will be used to develop detailed pilot schemes to improve the integration of the public system under the project.

D. Investment and Financing Plans

14. The project is estimated to cost \$65 million, comprising \$52.6 million in base costs (including local taxes and duties), \$11.3 million for contingencies, and \$1.1 million for financing

¹² The World Bank's proposed Green Transport Project is expected to be approved in 2014.

charges during construction (Table 1). The investment cost will cover the civil works, the systems and equipment, and the consulting services for the project. Detailed cost estimates are provided in the project administration manual (PAM), section IV.¹³

Table 1: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. MRT Line 2 station accessibility improvements	41.76
2. Public transport information systems	3.08
3. Public transport policy development program	7.76
Subtotal (A)	52.60
B. Contingencies^c	11.30
C. Financial Charge during Implementation^d	1.10
Total (A+B+C)	65.00

ADB = Asian Development Bank, ADF = Asian Development Fund, CTF = Clean Technology Fund, MRT = mass rapid transit.

^a Includes local taxes and duties of \$3.38 million, to be financed from government resources.

^b March 2013 prices.

^c Physical contingencies computed at 10% of civil works, systems, equipment, and resettlement. Price contingencies are computed at 1.9% of foreign exchange costs in 2013, 2.2% in 2014, 1.9% in 2015, and 1.8% from 2016 onward; and 7.4% of local currency costs in 2013, 5.7% in 2014, 5.3% in 2015, and 5% from 2016 onward. Price contingencies are applied to all base cost items.

^d Includes interest and commitment charges accrued from both ADF and ADB CTF loans. The ADF loan will have a 25-year loan period, including a grace period of 5 years, and an interest charge of 2.0% per annum during the grace period and thereafter. The ADB CTF loan will have a 40-year loan period, including a grace period of 10 years, and an interest charge of 0.25% per annum and management fee of 0.18% on the undisbursed balance of the ADB CTF loan.

Source: Asian Development Bank estimates.

15. The government has requested a loan in various currencies equivalent to SDR6.53 million from ADB's Special Funds resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum during the grace period and thereafter, and such other terms and conditions set forth in the draft loan and project agreements. The CTF will cofinance the project with a loan of \$48.95 million with a 40-year term, including a grace period of 10 years, a management fee of 0.18% per annum on the undisbursed balance of the loan, and an interest charge of 0.25%. ADB will administer the CTF loan in accordance with the CTF loan agreement between ADB and the government.

16. The government will onlend \$17.685 million of the CTF resources to the HCMC PC under a subsidiary loan agreement on terms and conditions satisfactory to ADB and make the remaining \$31.265 million of the CTF resources available to HCMC PC on a grant basis in accordance with the CTF loan agreement and project agreement. The ADB Special Funds resources will be available to HCMC PC as a grant in accordance with the Special Operations loan agreement and project agreement.

17. The ADB loan will finance civil works and interest during construction.¹⁴ The CTF loan will finance civil works, systems, equipment, consulting services, and interest during construction. Counterpart funds will be used for land acquisition and resettlement, taxes and duties, and incremental administration cost. The financing plan is in Table 2.

¹³ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁴ ADB and ADB CTF financing may finance transportation and insurance costs and bank charges.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Asian Development Fund (loan)	10.00	15.4
ADB Clean Technology Fund (loan) ^a	48.95	75.4
Government	6.05	9.2
Total	65.00	100.0

ADB =Asian Development Bank.

^a Financed by the Clean Technology Fund. The ADB Clean Technology Fund is administered by ADB.

Source: ADB estimates.

E. Implementation Arrangements

18. The executing agency will be the HCMC PC. The implementing agency will be the Urban Transport Management Department 1 (UTMD1) of the city's Department of Transport.¹⁵ UTMD1 was established in 2002, has strong leadership, a sound organizational structure, and the capability to further develop its institutional capacity to implement and manage an expanding public transport system. UTMD1 has established a project management unit (PMU) for the project under the director. The PMU will be responsible for the day-to-day management and coordination of implementation. The PMU head will ensure compliance with ADB procurement, disbursement, and consulting guidelines and ADB safeguard policies. Capacity development will be provided to strengthen the implementation capacity of UTMD1. The HCMC PC has established the Official Development Assistance Project Division to be responsible for internationally financed projects, and to coordinate with other city agencies. The implementation arrangements are summarized in Table 3 and described in detail in the PAM (footnote 13).

Table 3: Implementation Arrangements

Aspects	Arrangements		
Implementation period	July 2014–December 2019		
Estimated completion date	31 December 2019		
Management			
(i) Oversight body	Director General, Foreign External Relations Department, Ministry of Planning and Investment		
(ii) Executing agency	Ho Chi Minh City People's Committee		
(iii) Key implementing agencies	UTMD1		
(iv) Implementation unit	PMU to be set up in UTMD1, 16 staff		
Procurement	International competitive bidding	6 contracts	\$32.2 million
	National competitive bidding	1 contract	\$3.18 million
Consulting services	QCBS	1262 person-months	\$9.2 million
	Individual	36 person-months	\$0.2 million
	All consulting services will be financed by the ADB Clean Technology Fund loan.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank, PMU = project management unit, QCBS = quality- and cost-based selection, UTMD1 = Urban Transport Management Department 1

Source: Asian Development Bank estimates.

¹⁵ UTMD1 is under the HCMC PC's Department of Transport but will report directly to the HCMC PC for implementation.

19. The project implementation schedule will be closely aligned with progress made by ADB's ongoing MRT Line 2 project (footnote 9). Most of the civil works as well as the procurement of systems and equipment will be carried out once the MRT Line 2 station construction work is near completion, particularly for facilities above the underground stations.¹⁶ This will require close coordination between the MRT Line 2 project implementation agency—the Management Authority for Urban Railways—and UTMD1, as well as between their respective contractors and consultants. The HCMC PC Official Development Assistance Project Division, chaired by a HCMC PC vice-president, will be responsible for both projects. This will ensure a high degree of coordination and cooperation.

III. DUE DILIGENCE

A. Technical

20. The project's public transport improvement measures and the MRT Line 2 station interchange and access facilities will be innovative and are designed to be replicated in other parts of the city to make public transit sustainable. Pedestrian access within 500 meters of MRT stations, particularly in local alleyways, will be enhanced by upgrading sidewalks. This will include protection measures for pedestrian safety and support for bicycle usage. Physical measures will include park-and-ride facilities at three stations, bus feeder lines, and dedicated parking areas for public transit vehicles. The non-physical measures, such as the station access management system, will include controls on parking and the use of public space in and around the stations. The public transport information system will enhance integration between the MRT and bus services.

21. Policies and regulations to support the public transit system will be developed under the project to manage pedestrians and vehicles around the MRT Line 2 stations. UTMD1 and city transport agencies will be introduced to modern multimodal transport and traffic modeling tools to enable development of advanced solutions to urban transport problems. The new policies and regulations, combined with institutional capacity-building measures, will bring the benefits of an integrated, multimodal public transport system to the city and its residents. The combination of physical infrastructure and policy, regulatory, and institutional reforms provided by the project is expected to increase ridership on MRT Line 2 by more than 10% over current forecast ridership and reduce greenhouse gas emissions by more than 15%, or the equivalent of 586,500 tons carbon dioxide over the project's 20-year lifetime over emissions without these improvements.

B. Economic and Financial

22. The main economic benefits will be the reduction of travel time for public transit users through improving proposed access and egress at MRT stations, less congestion around stations, enhancing comfort and convenience, and savings in vehicle operating costs due to an envisaged shift from the use of private transport to the public system.¹⁷ A reduction in the congestion on city roads, improvements to the environment, and fewer fatalities from accidents involving private vehicles will be important indirect benefits, even though they are minor in economic terms. The economic analysis estimates the project's economic internal rate of return

¹⁶ Works above the underground MRT Line 2 stations cannot commence until the MRT Line 2 stations reach the final stage of surface level works, including road pavement reinstatement.

¹⁷ Economic Analysis (accessible from the list of linked documents in Appendix 2).

(EIRR) to be 13.3% and the economic net present value discounted at 12% at \$4.7 million. Sensitivity testing showed that the EIRR would remain equal to or above 12% if the capital costs rose by not more than 14% over the base case projection, the projected benefits did not fall by more than 13%, or the capital costs rose by 5% and the project benefits fell by 5% at the same time. The project's economic viability is due largely to assumptions based on projections for high MRT Line 2 passenger traffic.

23. The projected financial internal rate of return is 2.2%, which is above the estimated weighted average cost of capital of 0.4%.¹⁸ This is due mainly to revenue capture from passengers using the MRT Line 2 stations and the very low cost of capital under the ADB CTF loan. Use of CTF financing decreases the weighted cost of capital by 1.1%. However, the financial sustainability of the public transport system faces challenges posed by its current low fares, poor revenue capture, inability to recover operational costs, and heavy subsidization. The project will support the development and implementation of the policy, regulatory, and institutional reforms that government public transport policy development program needs to implement to address these problems. HCMC's municipal budget is financed directly through national and city taxes, duties, and other revenue sources.¹⁹ HCMC will assign a share of the public transport funding that is within the city's budget resources for operation and maintenance of the project components.

C. Governance

24. Loan disbursement will be in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time) and detailed arrangements between the government, the HCMC PC, and UTMD1. UTMD1 will maintain separate financial records and accounts to identify financing resources received and project expenditures, including goods, works, and services financed out of the loan proceeds and local funds. The loan accounts and related financial statements will be audited annually, in accordance with sound auditing standards by an auditor acceptable to ADB, and made public. Further details on disbursement, auditing, and financial management are provided in the PAM, Section V (footnote 13).

25. A financial management assessment found that UTMD1 has acceptable financial management capacity and experience in managing and implementing similar projects but limited experience and knowledge of ADB's financial management requirements. To improve its financial management capacity for implementing the project, UTMD1 will engage external financial management consultants to provide support and assistance to the PMU. The financial management consultants will train the PMU's accounting staff in ADB's loan disbursement procedures and financial management practices. If needed, UTMD1 will ensure that sufficient accounting staff are available for effective financial management during implementation by recruiting and/or mobilizing extra accountants.

26. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, the HCMC PC, and UTMD1. The specific policy requirements and supplementary measures are described in the PAM (footnote 13).

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

¹⁹ The city retains 28% of all national revenue against future budgetary support transfers from Ministry of Finance.

D. Poverty and Social

27. A social action plan has been prepared for the project, based on a social impact assessment.²⁰ The smooth accessibility to the MRT Line 2 stations and the integration of the MRT with the bus system and other modes of transport will benefit women, students, children, and older people, who are identified as the primary users of public transport. By improving the areas around MRT Line 2 stations and developing a public transport pricing framework to make public transport fares affordable, the project will improve economies in the MRT Line 2 localities by creating business opportunities, reducing congestion, and improving quality of life. The six project districts will benefit from temporary construction jobs and local employment in operations and maintenance.

28. Higher safety risks for the larger numbers of pedestrians expected to travel along roads near the stations constitutes a potential adverse social impact. Pedestrian safety risks will be mitigated by providing footbridges and pedestrian subways and good traffic control around the stations. The detailed design will follow universal accessibility and pedestrian safety guidelines.

29. The project is categorized as effective gender mainstreaming. A gender action plan is detailed in the PAM (footnote 13). The plan ensures that the detailed design of the project's MRT Line 2 station accessibility elements will include measures to address gender concerns for using public transit services. Proposed measures include women-only waiting spaces at bus terminals; adequate lighting around stations, bus stops and walkways; separate toilets for women; and spaces allocated for women vendors to operate around the stations. The public transport information system and transit scheduling are to be based on an analysis that will examine traffic patterns and needs by gender. The plan provides that trip schedules be linked to other types of multimodal public transport to support accessibility for women. The plan will ensure multimodal public transport ticket pricing and an integrated ticketing system to support affordability and increase access for women.

E. Safeguards

30. Under the ADB and CTF framework agreement, the requirements of ADB's Safeguard Policy Statement (2009) will apply to all project components financed by the CTF. The project is assessed as category B for environment. The draft initial environmental examination, which has been prepared based on ADB's Safeguard Policy Statement, has been reviewed by ADB and is being revised.²¹ The approved initial environmental examination will be disclosed on the ADB website upon receipt from the HCMC PC. No natural ecosystems exist in the project area, which is heavily populated. Land use is predominantly commercial or residential. The project will not involve major civil works and is not likely to result to significant adverse environmental impacts during construction and operation. Public consultations with affected people were conducted during preparation of the initial environmental examination, in compliance with ADB's information disclosure and consultation requirements. UTMD1 will ensure that the environmental management plan is included in all bid documents.

31. A grievance redress mechanism will be established prior to commencement of site works. The construction supervision consultant will conduct environmental management training for UTMD1 in monitoring and reporting and help UTMD1 monitor the environmental performance of contractors.

²⁰ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

²¹ Initial Environmental Examination (accessible from the list of linked documents in Appendix 2).

32. The project is assessed as category B for involuntary resettlement. The 1.6 hectares of land acquisition required will affect only government-owned land. An estimated 63 roadside stalls and small shops with 77 employees near three MRT Line 2 stations will be affected, as well as two gas stations owned by the government and employing 23 people.

33. A resettlement plan has been prepared that is consistent with ADB's Safeguard Policy Statement and relevant legislation and policies in Viet Nam. The draft resettlement plan was posted on the ADB website on 1 August 2013 and will be updated following detailed design. Affected businesses will be provided with compensation at replacement cost and transitional and relocation assistance. One workshop and nine consultation meetings in which 283 affected business owners and employees participated were conducted in December 2012, January 2013, March 2013 and July 2013. The meetings provided an overview of the project and outlined key elements of the resettlement plan, such as anticipated impacts, mitigation measures, entitlements, consultation, and the grievance redress mechanism. In July 2013, key information from the draft resettlement plan was disclosed to all 65 affected business establishments. The agreed resettlement plan will be made available in the district offices and on ADB's website. All social monitoring reports will be disclosed. The project is assessed as category C for indigenous peoples' safeguards.

34. UTMD1 will be responsible for ensuring compliance with ADB safeguards policies during updating, implementation, and monitoring. UTMD1 will work closely with and provide capacity building to HCMC PC, districts' boards, and wards. The resources to conduct such capacity building will be included in the design and construction supervision contract.

F. Risks and Mitigating Measures

35. The project faces risks related to its innovative character, demands on executing and implementing agency capacity, dependence on timely execution by and coordination with other projects, and need for effective transport reforms to fully achieve the project impact. These risks will be mitigated through provision of international expert support to UTMD1 for development of designs, specifications, and project management. In response to UTMD1's limited experience with ADB guidelines and policies, mitigation measures to address associated public financial management and procurement risks, as detailed in the PAM, will require careful monitoring to ensure effective implementation of proposed support measures.

36. The project must be sequenced with implementation progress on the MRT Line 2 itself. The implementation delay risk this poses will be mitigated through the government's institutional arrangements, project management support, and close coordination with development partners supporting public transport. Because the viability of the project relies on achieving the passenger levels and patronage projected for the MRT Line 2, insufficient government commitment to implement the policy and regulatory reforms under the project to promote a modal shift from private to public transport is a key risk. This will be mitigated by providing advisory services and training to public transport agencies under the project to modernize and integrate the public transport system. The HCMC PC is responsible for ensuring that its plans to modernize the city's bus fleet and its operations to provide efficient links and an effective interchange system with the new MRT lines are developed on time. Risks and mitigating measures are described in detail in the risk assessment and risk management plan.²² Overall, the benefits and positive impacts of the project are expected to outweigh any mitigation costs.

²² Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

IV. ASSURANCES AND CONDITIONS

37. The government and the HCMC PC 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 project administration manual and loan documents. The government and the HCMC PC have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

38. The following conditions for effectiveness are expected for the project:

- (i) The CTF loan agreement shall have been duly executed and delivered on behalf of the government, and all conditions precedent to its effectiveness shall have been fulfilled.
- (ii) The special operations loan agreement shall have been duly executed and delivered on behalf of the government, and all conditions precedent to its effectiveness shall have been fulfilled.
- (iii) The subsidiary loan agreement shall have been duly executed and delivered on behalf of the government and the project executing agency upon terms and conditions satisfactory to ADB, and all conditions precedent to its effectiveness shall have been fulfilled.
- (iv) The project agreement shall have been duly executed and delivered on behalf of the HCMC PC, and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of the loan agreement) shall have been fulfilled.

V. RECOMMENDATION

39. 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 loan in various currencies equivalent to SDR6,530,000 to the Socialist Republic of Viet Nam for the Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project, from ADB's Special Funds resources, with an interest charge at the rate of 2% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan and project agreements presented to the Board; and
- (ii) the administration by ADB of the loan not exceeding the equivalent of \$48,950,000 to the Socialist Republic of Viet Nam for the Sustainable Urban Transport for Ho Chi Minh City Mass Rapid Transit Line 2 Project to be provided by the ADB Clean Technology Fund.

Takehiko Nakao
President

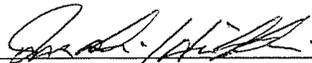
28 January 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Enhanced public transport system serving six districts of HCMC	Public transport's share of overall passenger traffic in the six districts increases from 7% in 2013 to 15% by 2023.	Government statistical publications by district Public transport operator statistics	Assumption Other planned MRT lines are implemented as scheduled. Risk The public resists planned constraints on private vehicle usage.
Outcome Improved integration of MRT Line 2 stations with other modes of public and private transport	MRT Line 2 and public transport services users decrease average travel time from 24 minutes in 2013 to 19 minutes by 2020, for males, females, and persons with disabilities	Public opinion survey by public transport authority Benefit monitoring and post evaluation reports	Assumptions Government resources are available to operate and maintain MRT Line 2. Higher acceptance levels by public of all public transit modes Risk Integrated public transit services are not planned, implemented and operated efficiently by city government
Outputs 1. MRT Line 2 station access improved	All MRT Line 2 accessibility measures for stations and local communities, including gender-sensitive features, completed by 2019. Station access management system implemented by 2019	Progress reports Project review mission reports Project completion reports	Assumption MRT Line 2 station works are completed on schedule. Risk Limited government experience in implementing urban transport improvements for an integrated transport system creates problems.
2. Public transport information system established	The public transport information system linked to MRT Line 2 stations is operational by 2020	Progress reports Project review mission reports	Assumption Bus operators and HCMC PC provide information system equipment on buses and at bus stops on time.
3. Public transport policy and systems developed	Station access management system developed by 2017	Progress reports Project review mission reports	Assumption Government demonstrates leadership to coordinate

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>Parking strategy developed by 2017 and pilot for MRT Line 2 stations implemented by 2019</p> <p>An urban transport pricing framework developed by 2017, guided by gender assessment, and required policies or regulations approved by 2019</p>	<p>Project completion reports</p> <p>Training assessment reports</p>	<p>stakeholders.</p> <p>Risks Parking restrictions and enforcement are ineffective in supporting modal shift.</p>
<p>Activities with Milestones</p> <p>1. MRT Line 2 station access improved</p> <p>1.1 Complete all detailed design by June 2016</p> <p>1.2 Award civil works and systems contracts by October 2017 and all works completed by October 2019</p> <p>1.3 Complete any land acquisition and resettlement by December 2016</p> <p>1.4 Design staged public transport services by August 2016, and make all services operational by December 2019</p> <p>2. Public transport information system established</p> <p>2.1 Develop public transport information system by July 2017, and make it operational by November 2018</p> <p>3. Public transport policy and systems developed</p> <p>3.1 Gain city government approval of station access management system by March 2017</p> <p>3.2 Develop parking policy by June 2017, and pilot-test schemes by December 2018</p> <p>3.3 Gain city government approval on proposed urban transport policy and regulatory measures by June 2017, with regulations enacted by December 2019</p>		<p>Inputs</p> <p>Loan ADB ADF: \$10 million</p> <p>ADB CTF: \$48.95 million</p> <p>Government: \$6.05 million</p>	

ADB = Asian Development Bank, ADB CTF = ADB Clean Technology Fund, ADF = Asian Development Funds, HCMC = Ho Chi Minh City, MRT = mass rapid transit, PC = people's committee.
 Source: Asian Development Bank estimates.



 Hideaki Iwasaki
 Director, SETC



 James Nugent
 Director General, SERD

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=45200-002-3>

1. Loan Agreement (ADB Clean Technology Fund)
2. Loan Agreement (Special Operations)
3. Project Agreement
4. Sector Assessment (Summary): Urban Transport
5. Project Administration Manual
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
14. Resettlement Plan
15. Risk Assessment and Risk Management Plan