



Report and Recommendation of the President to the Board of Directors

Project Number: 43319-022
October 2012

Proposed Loan, Grant, and Administration of Grant Lao People's Democratic Republic: Greater Mekong Subregion East–West Economic Corridor Towns Development Project

This document is being disclosed to the public prior to Board consideration in accordance with ADB's Public Communications Policy (2011). Subject to any revisions required following Board consideration, this document is deemed final.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 26 September 2012)

Currency unit	–	kip (KN)
KN1.00	=	\$0.00012
\$1.00	=	KN7,989

ABBREVIATIONS

ADB	–	Asian Development Bank
DPWT	–	Department of Public Works and Transport
EMP	–	environmental management plan
EWEC	–	East–West Economic Corridor
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
MPWT	–	Ministry of Public Works and Transport
MRF	–	materials recovery facility
NSEDP	–	National Socio-Economic Development Plan
O&M	–	operation and maintenance
PAM	–	project administration manual
PMU	–	project management unit
SDR	–	special drawing right
UEIF	–	Urban Environmental Infrastructure Fund
WWTP	–	wastewater treatment plant

NOTE

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

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PROJECT AT A GLANCE

1. Project Name: LAO: Greater Mekong Subregion East West Corridor Towns Development Project				2. Project Number: 43319-022							
3. Country: Lao People's Democratic Republic				4. Department/Division: Southeast Asia Department/Urban Development and Water Division							
5. Sector Classification:											
		Sectors	Primary	Subsectors							
		Water supply and other municipal infrastructure and services	√	Water supply and sanitation							
				Urban sector development							
				Waste management							
6. Thematic Classification:											
		Themes	Primary	Subthemes							
		Economic growth	√	Widening access to markets and economic opportunities							
		Environmental sustainability		Urban environmental improvement							
		Regional cooperation and integration		Trade and investments							
		Capacity development		Institutional development							
6a. Climate Change Impact No Climate Change Indicator available.			6b. Gender Mainstreaming								
			Gender equity theme (GEN)								
			Effective gender mainstreaming (EGM)		√						
			Some gender elements (SGE)								
			No gender elements (NGE)								
7. Targeting Classification:			8. Location Impact:								
General Intervention	Targeted Intervention										
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level								
	√										
			<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td>National</td> <td style="text-align: center;">Medium</td> </tr> <tr> <td>Regional</td> <td style="text-align: center;">Medium</td> </tr> <tr> <td>Urban</td> <td style="text-align: center;">High</td> </tr> </table>			National	Medium	Regional	Medium	Urban	High
National	Medium										
Regional	Medium										
Urban	High										
9. Project Risk Categorization: Low											
10. Safeguards Categorization:											
		Environment	B								
		Involuntary resettlement	B								
		Indigenous peoples	C								
11. ADB Financing:											
		Sovereign/Nonsovereign	Modality	Source	Amount (\$ million)						
		Sovereign	Project grant	Asian Development Fund	14.2						
		Sovereign	Project loan	Asian Development Fund	26.6						
		Total			40.8						
12. Cofinancing:											
		Financier	Category	Amount (\$ million)	Administration Type						
		Urban Environmental Infrastructure Fund-UFPF Multi	Official-Grant	0.638	Full						
		Total		0.638							
13. Counterpart Financing:											
		Source	Amount (\$ million)								
		Government	6.26								
		Total	6.26								
14. Aid Effectiveness:											
		Parallel project implementation unit	No								
		Program-based approach	No								

I. THE PROPOSAL

1. I submit for your approval the report and recommendation on (i) a proposed loan, (ii) a proposed grant, and (iii) proposed administration of a grant to be provided by the Urban Environmental Infrastructure Fund (UEIF)¹ under the Urban Financing Partnership Facility to the Lao People's Democratic Republic (Lao PDR) for the Greater Mekong Subregion (GMS) East–West Economic Corridor Towns Development Project. This is one of three projects for GMS corridor towns; the others will be in Cambodia and Viet Nam.²

2. This project is a first generation intervention of a long-term engagement in towns of the GMS economic corridors, and is aligned with the strategic framework of the GMS Economic Cooperation Program, 2012–2022, approved by the Fourth GMS Summit on 19 to 20 December 2011.³ It is also in line with the Asian Development Bank (ADB) country partnership strategy 2012–2016 for the Lao PDR⁴ and supports ADB's urban operational plan (2012–2020) and water operational plan (2011–2020).⁵

3. The project will enhance the competitiveness of towns along the East–West Economic Corridor (EWEC), and will complement years of work on trade facilitation and cross-border trade agreements.⁶ The project will transform the corridor towns of Kaysone Phomvihane, Phine, and Dansavanh into economic hubs by improving urban environmental infrastructure and strengthening the institutional capacity of provincial and local authorities. The productivity and sustainability of economic enterprises in these towns will be significantly improved, as the flood control measures will increase climate resilience. The environment will be improved through clean wastewater, disposal of solid waste, and enhanced mobility on improved urban roads. The project will provide environmental infrastructure that will, among others, help reduce the carbon footprint of the towns, making them cleaner and greener, and thus more livable. The project will finance seven subprojects in the three towns.

II. THE PROJECT

A. Rationale

4. **Strategic economic development.** The government and ADB place considerable emphasis on developing priority transport corridors to increase physical connectivity between the GMS countries and to establish the foundation for more efficient movement of people, goods, and services. Towns along the EWEC, which links the Lao PDR and Viet Nam with Thailand and Myanmar, are well positioned to serve as dynamic centers of investment and economic growth. The strategic location of the corridor towns provides the stimulus for increased trade and investments along the transport routes. Access to infrastructure and markets will provide many stimuli for the local economy and the hinterland of the corridor towns. Given these development opportunities, and with the rapid growth of the urban population and expansion of urban areas, several corridor towns are now facing demands for urban infrastructure and essential support services.

¹ Contributor: the Government of Sweden.

² The design and monitoring framework is in Appendix 1.

³ ADB provided project preparatory technical assistance. ADB. 2010. *Technical Assistance to the Greater Mekong Subregion for Preparing the Corridor Towns Development Project*. Manila (TA 7644-REG).

⁴ ADB. 2011. *Country Partnership Strategy: Lao People's Democratic Republic 2012–2016*. Manila.

⁵ ADB. 2011. *Water Operational Plan, 2011–2020*. Manila.

⁶ A detailed account is in ADB. 2011. *Asia 2050. Realizing the Asian Century*. Manila.

5. **Core problem.** The participating corridor towns in the Lao PDR now face the pressing task of coping with the demands of rapidly growing and expanding urban areas. Local authorities want to plan and manage urban growth using an integrated approach, operate and maintain urban environmental and economic infrastructure, and efficiently deliver municipal services. Despite policy reforms to promote decentralization, local institutional capacity has not kept pace with urban sector development and economic growth. With increasing trade and traffic flows, the capacity of the corridor towns to manage local economic development in an environmentally sustainable manner urgently needs to be strengthened.⁷

6. **Project towns.** Three corridor towns along the EWEC were selected as project areas on the basis of their economic potential, infrastructure constraints, and expressed commitments.

7. Kaysone Phomvihane is a border town that serves as a (i) major commercial and service center; (ii) agricultural processing center; and (iii) emerging prime destination for manufacturing industries, business, and tourism. Its strategic location across the Mekong River Bridge into Thailand offers considerable opportunities for increased economic activities and investments. With increasing cross-border trading and commercial exchanges, the town is emerging as a dynamic economic center for public and private sector investments.

8. Phine is a market town located at an important road junction along the EWEC with a bypass road connecting to neighboring towns and provinces. Increasingly the town center is involved in trade and commercial activities for goods and services produced in Savannakhet province, and from Thailand and Viet Nam. The increasing local economic activities brought about by the improved National Road 9 are stimulating the establishment of businesses.

9. Dansavanh, a town bordering Viet Nam, is emerging as an important trading center in the Sepone district. Its primary business is mining. Its strategic location along the EWEC made it a prime location for the newly established special economic zone. Local economic activities are fostered by the presence of a dry port logistics facility, a public market, transport terminal, and duty free shopping at the border gate.

10. **Related policies and strategies.** The government has taken several initiatives to set up the policy framework for urban development where district authorities would eventually take the main role in planning and implementation. The 2010 National Socio-Economic Development Plan (NSED) provides broad economic and social targets, and specific proposals for urban sector development. Essential measures for economic development and poverty reduction will be pursued to reduce gaps between urban and rural areas and to make urban areas the focal points for increased trade and investment. The strategic focus of infrastructure development will be EWEC connectivity; provision of urban infrastructure; and construction of main roads in districts, and access roads that link rural production areas to urban markets. The government strategy is reflected in ADB's urban development sector assessment, strategy, and road map.⁸

11. **Lessons.** Major lessons from completed or ongoing ADB-financed projects in urban development include (i) civic participation positively affects urban governance; (ii) participatory and demand-driven development activities enhance the sense of local ownership; (iii) capacity building requires proper planning and up-front implementation as it is a long-term effort; (iv) institutional and policy reform should be based on realistic assessment of timing, resource requirements, and political will; and (v) weak performance in project financial cost recovery

⁷ Sector Assessment (Summary): Water Supply and Other Municipal Infrastructure and Services (accessible from the list of linked documents in Appendix 2).

⁸ ADB. 2011. *Urban Development Sector Assessment, Strategy, and Road Map*. Manila (work-in-progress draft).

threatens sustainability, although project social and economic benefits are exceptionally high.⁹ These lessons are closely linked to recommendations of ADB's country assistance program evaluation (2010), which stressed the need for environmental and social safeguards and capacity development.¹⁰ Project preparation involved high degree of social participation. The project has a strong capacity development component, and a business plan approach to revenue collection and operation and maintenance (O&M). Further, it is conscious of the time and resources needed for institutional reform.¹¹

12. **Special features.** The project has three special features: (i) as a first-generation intervention, it supports regional development in the GMS (and the Association of Southeast Asian Nations) by creating growth engines in corridor towns across the GMS, preparing for future fully integrated subregional projects; (ii) it provides recycling of solid waste through innovative materials recovery facilities (MRFs) for waste segregation, with cofinancing from the UEIF under the Urban Financing Partnership Facility; and (iii) it supports increased decentralization by strengthening provincial and district authorities.¹²

B. Impact and Outcome

13. The expected impact of the project is for the towns of Kaysone Phomvihane, Phine, and Dansavanh to become centers of trade and investment in the EWEC, thereby contributing to the transformation of transport corridors to economic corridors in the GMS. The expected outcome is adequate essential urban infrastructure and services in the project towns. The wastewater treatment, the drainage and sewerage systems, and the river embankment protection subprojects will contribute to increased climate resilience of the participating towns.

C. Outputs

14. The key outputs of the project are (i) adoption and implementation of strategic local economic development plans, developed during ADB's project preparatory technical assistance for the Greater Mekong Subregion for Preparing the Corridor Towns Development Project (footnote 6), in the project towns; (ii) implementation of priority urban infrastructure investments; and (iii) strengthened institutional capacity for urban development. Identification of the priority subprojects for infrastructure investments was based on (i) consistency with the project's overall goals and objectives; (ii) potential impact on contributing to economic growth and competitiveness; and (iii) expressed interest and commitment of the Ministry of Public Works and Transport (MPWT), as the executing agency, to provide the necessary resources.

15. **Priority infrastructure.** The project will finance physical investments for subprojects in the three corridor towns as outlined in Table 1.

Table 1: Subprojects

Subprojects ^a and Location	Subproject Justification
1. Kaysone Phomvihane wastewater treatment	The subproject will (i) rehabilitate existing stormwater drainage and sewage pipelines, and provide wastewater treatment capacity for more than 80% of the local population; (ii) contribute to making Kaysone Phomvihane less floodprone; and (iii) improve health conditions of the population and earn revenues for the local authority.

⁹ Experiences based on Secondary Towns Urban Development Project and the Water Supply and Sanitation Sector Project.

¹⁰ ADB. 2010. *Country Assistance Program Evaluation: Lao People's Democratic Republic*. Manila.

¹¹ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹² Preparation of prefeasibility studies for private sector investments in dry port facilities in Kaysone Phomvihane and Dansavanh under TA 7644-REG (footnote 6). These facilities will be tendered to private investors.

Subprojects and Location	Subproject Justification
2. Kaysone Phomvihane urban roads	The subproject will (i) contribute to the urban expansion and consolidation of Kaysone Phomvihane, making it a more competitive town; and (ii) trigger substantial private investments in residential buildings and commercial spaces, and ease through-traffic flow.
3. Kaysone Phomvihane solid waste management	The subproject will (i) promote sound environmental practices in solid waste collection, and improve the citywide collection system; (ii) include closure of the old dumpsite, and building of a new sanitary landfill; and (iii) improve outreach of the collection services, contribute to public health impacts, and earn revenues for the local authority.
4. Kaysone Phomvihane Mekong River embankment protection	The subproject will (i) mitigate the erosion of the river slopes and secure space for economic use, tourism promotion, and enhancement of the cultural heritage zone; and (ii) be part of the new face of Kaysone Phomvihane as an attractive and competitive town.
5. Kaysone Phomvihane materials recovery facility	The waste separation facility will (i) support waste recycling operations and (ii) help reduce waste accumulation in the existing dumpsite.
6. Phine urban roads	The subproject will contribute to the urban expansion and consolidation of Phine. Road improvement will be combined with drainage structures and help reduce the adverse effects of perennial flooding.
7. Dansavanh urban roads	The subproject will (i) help stimulate the growth of the town and market center near National Highway 9, (ii) trigger substantial private sector investments, and (iii) help to decongest the East–West Economic Corridor and guide new development.

^a Full description of the subprojects is provided in Table 1 of the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

Source: Asian Development Bank.

16. **Project management support and capacity development.** The project will provide project management support and capacity development to MPWT and the department of public works and transport (DPWT). This will help to ensure that project implementation will fully comply with ADB's policies and operational requirements in terms of procurement procedures, construction supervision, financial management and disbursement, social and environmental safeguards, and O&M. Consulting services will be engaged for capacity building in these areas, and assisting in developing business plans for the O&M of urban services supported under the project. Financial audit and monitoring of the social and environmental safeguards will be separate services. MPWT will establish close links with the executing agencies of the other GMS corridor towns development projects in Cambodia and Viet Nam (being processed for approval in December 2012) by sharing best practices in project implementation and monitoring of results.¹³

D. Investment and Financing Plans

17. The project is estimated to cost \$47.73 million, including taxes, duties, and physical and price contingencies (Table 2).

Table 2: Project Investment Plan
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Kaysone Phnomvihane town subprojects	25.61
2. Phine town subproject	6.20
3. Dansavanh town subproject	4.11
4. Project management support	1.82
5. Capacity development and training	1.61
Subtotal (A)	39.35
B. Contingencies^c	
1. Physical contingencies	3.94

¹³ Development Coordination (accessible from the list of linked documents in Appendix 2).

Item	Amount ^a
2. Price contingencies	3.78
Subtotal (B)	7.72
C. Financing Charges during Implementation^d	0.66
Total (A+B+C)	47.73

^a Includes taxes and duties of \$4.535 million and land acquisition and involuntary resettlement costs of \$1.724 million, to be financed from government sources.

^b In December 2011 prices.

^c Physical contingencies computed at 10% for civil works, equipment, training, and consultancy. Price contingencies computed on the basis of domestic and international price escalation factors, which include a provision for potential exchange rate fluctuation assuming purchasing power parity exchange rates. Annual rates are as follows:

Annual Rates	2012	2013	2014	2015	2016	2017	2018
Foreign currency (%)	(1.5)	0.5	0.5	0.5	0.5	0.5	0.5
Local currency (%)	6.0	5.5	5.0	5.0	5.0	5.0	5.0

() = negative.

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

Source: Asian Development Bank estimates.

18. **ADB financing.** The government has requested (i) a loan of \$26.60 million in various currencies equivalent to SDR17,562,000; and (ii) a grant not exceeding \$14.23 million from ADB's Special Funds 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 annum during the grace period and 1.5% per annum thereafter, and such other terms and conditions set forth in the draft financing agreement. The ADB funds will finance civil works, equipment, consulting services, interest during construction, and contingencies for seven subprojects.¹⁴

19. The UEIF under the Urban Financing Partnership Facility will provide grant cofinancing equivalent to \$638,000, to be administered by ADB (footnote 1). The UEIF grant will finance one subproject involving construction of MRFs for solid waste recycling. The financing plan is in Table 3.

20. **Government contribution.** The government will provide \$6.26 million equivalent to cover taxes and duties, and land acquisition and resettlement costs. Table 3 provides the financing plan.

Table 3: Financing Plan
(\$ million)

Source	Amount	Share of Total (%)
Asian Development Bank (loan)	26.60	55.70
Asian Development Bank (grant)	14.23	29.80
Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility (grant) ^a	0.64 ^b	1.30
Government	6.26	13.20
Total	47.73	100.00

^a Contributor: the Government of Sweden.

^b Number may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

21. **Key agencies.** MPWT is the executing agency for the project; DPWT in Savannakhet Province will be the implementing agency. A project steering committee will be created to

¹⁴ ADB may finance transportation and insurance costs.

provide overall policy guidance and oversee implementation in accordance with the objectives and scope of the project. The vice governor of Savannakhet will chair the project steering committee, with the deputy director general of MPWT's Department of Housing and Urban Planning serving as vice chair and the director general of DPWT in Savannakhet serving as vice chair. A project coordination unit will be established in MPWT. A multidisciplinary project management unit (PMU) will be established in Savannakhet's provincial DPWT. The PMU will coordinate implementation of project activities, including safeguards, of the project implementation teams in the participating corridor towns.

22. **Implementation details.** The implementation arrangements are summarized in Table 4 and described in detail in the project administration manual (PAM) (footnote 11). The project will be implemented during 2013–2018.

Table 4: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2013–December 2018		
Estimated completion date	31 December 2018		
Management (i) Executing agency (ii) Implementing agency (iii) Implementation teams	Ministry of Public Works and Transport Provincial Department of Public Works and Transport Kaysone Phomvihane project implementation team: DOPWT and UDAA Phine project implementation team: DOPWT and district authorities Dansavanh project implementation team: DOPWT, DBTZA, and district authorities		
Procurement	International and national competitive bidding	14 contracts	\$45.35 million
	All procurement under the ADB loan and grant, and the UEIF grant will be in accordance with ADB's Procurement Guidelines (2010, as amended from time to time).		
Consulting services	Quality- and cost-based selection/ Individual consultants	208 person-months	\$4.22 million
Advance contracting	MPWT will ask ADB for advance contracting of project management support consultants including arrangements for a turnkey contract for detailed engineering design and construction supervision. Advance action does not commit ADB to subsequent approval of the project.		
Disbursement	The ADB loan and grant, and UEIF grant 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 between the government and ADB.		

ADB = Asian Development Bank, DBTZA = Dansavanh Border Trade Zone Authority, DOPWT = district office of public works and transport, UDAA = Urban Development Administration Authority, UEIF = Urban Environment Infrastructure Fund.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Technical

23. The project involves the construction of new urban infrastructure, such as wastewater treatment plants; and the improvement of existing urban roads, drainage networks and sewerage pipelines, solid waste management, an MRF, and embankment protection structures. The technology for undertaking the civil works is within the capacity of the provincial offices and district authorities. The technical and engineering designs, including the O&M plan, are based on standard parameters to ensure long-term sustainability of infrastructure.

24. The national government, through the 7th NSEDP, envisions strengthening and expanding local governance to promote local economic development and reduce poverty in the countryside. The NSEDP contains essential provisions for improved public administration,

enhanced regional integration, sustainable use of natural resources, and infrastructure provision. The urban sector strategies are intended to reduce gaps between urban and rural areas and establish urban areas as the focal points for economic development. The NSEDP recognizes the weak institutional capacity of provincial and district authorities to plan and manage urban sector development, implement and operate urban infrastructure, and deliver essential urban services. The project will provide the enabling environment for strategic local economic development, infrastructure investments, and institutional capacity building.

B. Economic and Financial

25. The seven subprojects were subjected to economic analysis to determine their viability. In undertaking the analysis, the quantification and valuation of economic benefits varied depending on the nature of the subproject. Benefits that were quantified included vehicle operating costs and travel time for the urban road subprojects, increase in land value for the drainage and embankment protection subprojects, economic efficiency of recovering recyclable and compostable solid waste and reduction in solid waste disposal cost for the MRF, and health benefits and willingness to pay for wastewater treatment and solid waste management. The expected beneficiaries of the overall project constitute a diverse group, including road users, businesses, tourism service providers, property owners, and households. The base case results indicate all components are economically viable with an estimated economic internal rate of return exceeding the assumed economic opportunity cost of capital of 12%. Results range from 12.3% to 31.8%. All subprojects are generally also viable under adverse scenarios in which costs are higher or benefits lower by 10% than the base case.¹⁶

26. The financial analysis of the three towns with urban road subprojects, the provincial authority has to provide funds to the provincial DPWT through annual budgetary allocations, to cover the required O&M costs and ensure project sustainability. The financial analysis focused on historical annual budget allocations to the provincial DPWT, the incremental O&M of the three road subprojects was not significant compared with previous budgets. The wastewater treatment, solid waste management, MRF, and Mekong River embankment protection are considered revenue-generating, thus financial internal rates of return consider the amount of fees or income that can be generated from their operation. Resulting financial internal rates of return ranged from 4.3% to 21.2%, all higher than the computed weighted average cost of capital.¹⁷

C. Governance

27. An assessment of the financial management and fund disbursement system indicates that MPWT has adhered to the transparency and accountability elements of good governance. Through direct participation and involvement in undertaking procurement procedures for an ADB-financed project, MPWT has developed the institutional capacity to undertake international and national competitive bidding for civil works. Capacity development and training assistance will be provided to MPWT and DPWT on financial and procurement management and fund disbursement. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government, MPWT and DPWT. The specific policy requirements and supplementary measures are described in the PAM (footnote 12). The assessment of procurement capacity indicates that MPWT's capacity is adequate; however, DPWT requires technical assistance.

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

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

D. Poverty and Social

28. **Urban poverty.** Based on the household survey and the urban poverty line of KN240,000 (\$30) per person per month, the proportion of poor in the participating towns is 23% in Kaysone Phomvihane, 31% in Dansavanh, and 37% in Phine. The poor are mostly living in areas with inadequate running water supply, wastewater and solid waste collection and treatment services, and roads and drainage. They often suffer from serious water supply shortages, poor water quality, wastewater pollution, and poor urban environmental sanitation. They have less capacity to cope with pollution and degraded environments and, in turn, suffer from increased exposure and risks to surface and groundwater and air pollution, which add to their poverty situation. Through implementation of the subprojects, the project will improve the living environment and health status of urban residents, especially of the poor, and create employment opportunities.¹⁹

29. **Gender analysis.** Based on the survey, households headed by women account for 11%–33% of beneficiary households. The subprojects will provide benefits to women as individuals and as part of households. Improved drainage and wastewater treatment, and flood control will reduce flooding, as well as the associated physical damage, and exposure to waterborne illnesses from overflow of drains, which often carry runoff and wastewater. Women can benefit by eliminating the need for post-flood cleanup, which can be heavy work that takes them away from other productive activities, and reducing exposure to waterborne illnesses, which decreases the need to care for sick household members and minimizes women's own exposure. The project will mitigate any negative impacts. The gender action plan includes measures and activities that will enhance the benefits to women through participatory community development, employment during construction, improvements in sanitation and hygiene, and awareness-raising programs. The design and monitoring framework and the PAM include gender-specific targets.²⁰

E. Safeguards

30. **Environment.** The project is under environment category B, as the subprojects are not expected to cause irreversible adverse environment impacts. Initial environmental examinations (IEEs)²¹ conducted for all the project cities (i) identified potential impacts and mitigating measures to be implemented through environment management plans (EMPs), and (ii) included inputs from public consultations. Most impacts are site-specific and mitigating measures are readily available. Potential impacts can be mitigated with good construction practices outlined in the EMPs.²² The IEEs are in accordance with ADB's Safeguard Policy Statement (2009) and the applicable environment regulations of the government. At the detailed design stage, when the EMPs are updated, the final receiving environments for the wastewater treatment plants and landfill will be reviewed to ensure that local groundwater and human uses of the affected areas are not adversely affected. Estimated costs for implementing the EMP are integrated in the project costs. The EMP will be finalized during the detailed design. The updated EMP, cleared by ADB, will form part of the contract bidding documents. The adequate incorporation of environmental considerations during design, and allocation of sufficient budget for O&M will

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

²⁰ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

²¹ Initial Environmental Examination: Kaysone Phomvihane, Phine, and Dansavanh Subprojects (accessible from the list of linked documents in Appendix 2).

²² Initial Environmental Examination: Environmental Management Plan for Kaysone Phomvihane Subproject; Initial Environmental Examination: Environmental Management Plan for Phine Subproject; and Initial Environmental Examination: Environmental Management Plan for Dansavanh Subproject (accessible from the list of linked documents in Appendix 2).

mitigate potential adverse impacts during operation. Effective environment monitoring at all stages of the subproject implementation will be ensured. In compliance with ADB's information disclosure and consultation requirements, the safeguard documents will be posted on ADB's website.

31. **Land acquisition and involuntary resettlement.** The project is under safeguard category B for involuntary resettlement. Resettlement plans were prepared for the three subprojects, which will trigger the application of the involuntary resettlement requirements of ADB's Safeguard Policy Statement.²³ Three due diligence studies were conducted and reports prepared for subprojects without land acquisition and resettlement impacts: (i) solid waste management in Kaysone Phomvihane, (ii) the MRF in Dansavanh, and (iii) the MRF in Phine. A total of 7.8 hectares will be acquired and 508 households (2,559 people) will be affected by the subprojects. The Kaysone Phomvihane subprojects will affect 290 households (1,445 people), the Dansavanh subproject 109 households (506 people), and the Phine subproject 109 households (608 people). However, only 2 affected households in Dansavanh require relocation. All other impacts are partial and temporary. The cost is estimated to be \$1.72 million, including base costs, allowances, and contingencies. Following extensive stakeholder consultation and participation, a cutoff date for inclusion of affected households was established. Project information was disclosed to affected persons throughout project preparation and a project information booklet will be updated and distributed during the detailed measurement survey.

F. Risks and Mitigating Measures

32. **Indigenous peoples.** The Lao PDR population includes 49 ethnic groups; the Lao–Tai ethnic groups make up the majority of the population. Based on the household survey data, Lao account for 98% of the Kaysone Phomvihane population, Phoutai for 1.5%, and other ethnic groups (Vietnamese, Thai, and Chinese migrants) 0.5%. The beneficiary communities, which include non-Lao ethnic groups, are supportive of the subprojects and see clear and direct benefits for themselves. The social assessment confirms that none of the subprojects will create adverse indigenous peoples impacts as per ADB's Safeguard Policy Statement.

33. Resettlement and environment documents were prepared in consultation with local communities and are in accordance with ADB's Safeguard Policy Statement and national laws and regulations. In compliance with ADB's information disclosure and consultation requirements, the resettlement plans will be posted on the ADB website. A grievance redress mechanism will help facilitate resolution of complaints regarding project performance. The resettlement plans, IEEs, and EMPs will be updated and disclosed after detailed design, and cleared by ADB prior to contract awards. The project is under category C for indigenous peoples, which does not require preparation of an indigenous peoples development plan. A PMU will be established with a focal person on the environment and resettlement to coordinate and implement the implementation activities. MPWT will engage international and national consultants on resettlement and environment to provide management support during project implementation.

34. Major risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.²⁴

²³ Resettlement Plan: Kaysone Phomvihane Subproject; Resettlement Plan: Phine Subproject; and Resettlement Plan: Dansavanh Subproject (accessible from the list of linked documents in Appendix 2).

²⁴ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Table 5: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Towns are unable to collect revenues from infrastructure services.	The provincial authority will pursue the establishment of district authorities to collect fees and charges.
Urban management practice does not fully support decentralized operation and maintenance of infrastructure.	The project towns will introduce business plans and a cost-recovery concept to service provision.
Corridor towns are unable to implement sound solid waste management practices, such as segregation at source.	Provincial and district officials will pass and strictly implement the appropriate decrees requiring segregation at source; segregated waste collection; banning of open dumping, waste burning, and littering.
Local authorities do not have adequate budgetary resources for capacity development.	Capacity-building interventions and training programs will be provided. Local sources of finance will ensure sustainability of capacity-building activities.
Qualified female staff cannot be engaged.	The implementation of gender action plans encourages recruitment of equally qualified female staff.
Delayed or incomplete settlement of land acquisition and resettlement delay project implementation.	Resettlement plans provide clear entitlements. Independent oversight and monitoring will be provided.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

35. The government, MPWT, and DPWT have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. The government, MPWT, and DPWT have agreed with ADB on certain assurances and conditions for the project, which are set further in the financing and grant agreements.

V. RECOMMENDATION

36. 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 SDR17,562,000 to the Lao People's Democratic Republic for the Greater Mekong Subregion East–West Economic Corridor Towns Development Project, from ADB's Special Funds resources, with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; for a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft financing agreement presented to the Board;
- (ii) the grant not exceeding \$14,230,000 to the Lao People's Democratic Republic, from ADB's Special Funds resources, for the Greater Mekong Subregion East–West Economic Corridor Towns Development Project, on terms and conditions that are substantially in accordance with those set forth in the draft financing agreement presented to the Board; and
- (iii) the administration by ADB of a grant not exceeding the equivalent of \$638,000 to the Lao People's Democratic Republic for the Greater Mekong Subregion East–West Economic Corridor Towns Development Project, to be provided by the Urban Environmental Infrastructure Fund under the Urban Financing Partnership Facility.

Haruhiko Kuroda
President

15 October 2012

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact The towns of Kaysone Phomvihane, Phine, and Dansavanh will become centers of trade and investments in the East–West Economic Corridor.	By 2023 Percentage of economically active population in the services sector increased to 12% and in the industry sector to 15% (2002–2003 baseline: services sector: 3.8%; industry sector: 11.8%) Women participation in gainful economic activities ^a increased to 25% (2012 baseline: 10%)	Poverty and social analysis survey Postproject evaluations Household survey as baseline (sex disaggregated to identify incomes for households headed by men and women) National statistics Annual socioeconomic surveys National and/or local business surveys	Assumption The national government and the provincial government of Savannakhet remain fully committed to the project. Risk Corridor towns are unable to collect revenues from WWTPs, sanitary landfill, solid waste management, and commercial activities on the Kaysone Phomvihane riverbank.
Outcome Essential urban infrastructure and services are adequate in Kaysone Phomvihane, Phine, and Dansavanh.	From 2013 to 2018 Three WWTPs installed in Kaysone Phomvihane; 60%–80% solid waste collected in Kaysone Phomvihane; roads sealed and drained, thus reducing flood events in three towns by 50% (2011 baseline: 10% of wastewater treated; 10%–30% of solid waste collected; in 2007 only 33% of roads sealed and drained); Dansavanh road stimulates development of town market Incidence of waterborne illnesses and communicable diseases among women and children reduced by 40% in the 3 project towns (2007 baseline: infection with soil-transmitted intestinal worms among school-age children is more than 50%)	Provincial and district (town) health statistics Labor data school attendance records (reported incidence of sick days, i.e., missed work and missed school) Annual socioeconomic surveys sex disaggregated	Assumption The government remains committed to sustainable management of the urban infrastructure subsector as a national development strategy. Risk Urban management practice does not fully support decentralized O&M of urban infrastructure.
Outputs 1. SLEDPs adopted and implemented in Kaysone Phomvihane, Phine, and Dansavanh	Three SLEDPs, with gender-specific measures incorporated, adopted by 2014, disclosed, and updated as required by 2018 (2011 baseline: no such development plan available) Gender-awareness and sensitization training for 30 staff of the executing and implementing agencies (male and female) staff conducted (2011 baseline: no such training). 5% of construction workers to be hired under the	Local development plans of implementing agency and corridor towns	Assumptions Local authorities endorse the SLEDPs and associated budgets. Women's participation in SLEDP preparation increased, and women's needs identified through participatory processes and reflected in the SLEDPs Environmental and social risks can be mitigated.

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	project to be female		
<p>2. Priority urban infrastructure investments implemented</p> <p>Kaysone Phomvihane</p> <p>(i) Wastewater treatment</p> <p>(ii) Urban roads</p> <p>(iii) Solid waste management</p> <p>(iv) Mekong River embankment protection</p> <p>(v) Materials recovery facility</p> <p>Phine: Urban roads</p> <p>Dansavanh: Urban roads</p>	<p>By 2018: Priority infrastructure operating: 301,800 beneficiaries of 7 subprojects; women and children are equal beneficiaries of all services:</p> <p>61,000 residents (80% of population) serviced by three WWTPs (capacity of 15,000 cubic meters per day)</p> <p>76,000 residents serviced by 11 km of upgraded urban roads, with improved drainage</p> <p>61,000 residents serviced by improved solid waste collection (40%–50% collected), transport, and disposal</p> <p>Erosion of 980 m of Mekong River embankment reduced, benefits to 31,000 adjacent residents</p> <p>60,000 residents are beneficiaries of segregation of collected waste—30 cubic meters/day (100% segregation of 20–25 tons/day); 90% of informal waste pickers (2012 baseline: 34 people) employed</p> <p>7,200 inhabitants benefit from 9.42 km of upgraded urban roads, with drainage structures</p> <p>5,600 inhabitants benefit from 4.2 km of upgraded urban roads, with drainage structures, and 50 m two-lane bridge</p>	<p>Subproject completion reports of implementing agency</p> <p>Quarterly and annual progress reports of implementing agency</p> <p>Local authorities' statistical data</p>	<p>Assumptions</p> <p>Priority infrastructure will promote gender equality and/or women's empowerment by improving women's access to and use of opportunities, services, resources, and assets; and contribute to increased participation in decision making.</p> <p>Capacity development activities take gender balance into account. Specific training on gender aspects and issues is provided to all staff of the executing and implementing agencies, and PIUs.</p> <p>Risks</p> <p>Limited local capacity in financial management and procurement of official development assistance-funded projects (province and districts)</p> <p>Local authorities do not have adequate budgetary resources for capacity development activities.</p>
3. Institutional capacity for urban development strengthened	Capacity building and training provided to 1,620 designated project staff from the executing agency (10), the PMU (20), the project implementation teams (30), and local authorities on project management and implementation, financial management, procurement, and social and environment safeguards by 2018; rate of participation in women in public services increased by 30% (2011 baseline: 10%)		

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>Memorandum of agreement signed by the executing and implementing agencies and district authorities on subproject O&M</p> <p>Ensure that 30% of overall staff positions and 30% of the management positions in the PMU and PIU are held by women</p>	<p>Executing and implementing agency records of capacity building and training events (disaggregated by gender)</p> <p>Number of staff (by gender) before and after project implementation</p> <p>Community capacity building for increased gender awareness and participation of women in local decision-making</p>	<p>Assumption Province and districts are interested in strengthening capacity.</p> <p>Risks Qualified female staff cannot be engaged.</p> <p>Delayed or incomplete settlement of land acquisition and resettlement entitlements delay project implementation.</p>
Activities with Milestones			Inputs
1. SLEDPs adopted and implemented			Amount (\$ million)
1.1 Three SLEDPs, with gender-specific measures incorporated, adopted by 2014			ADB (Loan): \$26.6
1.2 Update the SLEDPs as required by 2018			Civil works 20.04
			Consulting services 3.55
			Contingencies 2.36
			Interest during construction 0.65
2. Priority urban infrastructure investments implemented			ADB (Grant): \$14.23
2.1 Complete detailed design, including updated environmental management plans in civil works contracts by the fourth quarter (Q4) of 2013			Civil works 10.70
2.2 Complete land acquisition and resettlement by Q2 2014			Consulting services 2.24
2.3 Conduct prequalification and bidding by Q3 2013			Contingencies 1.29
2.4 Sign contract by Q4 2013			UEIF-UFPF: \$0.638
2.5 Complete civil works by Q4 2018			Civil works 0.531
			Consulting services 0.047
			Contingencies 0.060
3. Institutional capacity for urban development strengthened			Government: \$6.26
3.1 Implement institutional capacity development plan, 2013–2016			Civil works 3.47
3.2 Conduct detailed training needs assessments, 2013–2014			Consulting services 0.65
3.3 Conduct training needs assessment related to female employment opportunities triggered by the project, by 2014			Land acquisition and resettlement 1.57
3.4 Conduct training activities (workshops, in-class training, and on-the-job training), 2014–2016			Contingencies 0.57
3.5 Memorandum of agreement signed with district authorities regarding subproject O&M, 2017–2018			

ADB = Asian Development Bank, km = kilometer, m = meter, O&M = operation and maintenance, PIU = project implementation unit, PMU = project management unit, SLEDP = strategic local economic development plan, UEIF = Urban Environmental Infrastructure Fund, UFPF = Urban Financing Partnership Facility, WWTP = wastewater treatment plant.

^a refers to outcomes from a strategy that corridor towns development project undertakes of local employment capture, particularly for vulnerable groups who might otherwise be excluded. This refers to female employment in economic growth opportunities generated by the project, including construction, market trading, solid waste management, and recycling.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/RRPs/?id=43319-022-2>

1. Financing Agreement
2. Grant Agreement
3. Sector Assessment (Summary): Water Supply and Other Municipal Infrastructure and Services
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic Analysis
8. Financial Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Gender Action Plan
12. Initial Environmental Examination: Kaysone Phomvihane, Phine, and Dansavanh Subprojects
13. Initial Environmental Examination: Environmental Management Plan for Kaysone Phomvihane Subproject
14. Initial Environmental Examination: Environmental Management Plan for Phine Subproject
15. Initial Environmental Examination: Environmental Management Plan for Dansavanh Subproject
16. Resettlement Plan: Kaysone Phomvihane Subproject
17. Resettlement Plan: Phine Subproject
18. Resettlement Plan: Dansavanh Subproject
19. Risk Assessment and Risk Management Plan

Supplementary Documents

20. Capacity Development Plan
21. Financial Management Assessment Questionnaire
22. Procurement Capacity Assessment
23. Consultation and Participation Plan
24. Poverty and Social Analysis: Kaysone Phomvihane
25. Poverty and Social Analysis: Phine
26. Poverty and Social Analysis: Dansavanh