



Report and Recommendation of the President to the Board of Directors

Project Number: 49387-003
November 2018

Proposed Loan Socialist Republic of Viet Nam: Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project

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

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 20 October 2018)

Currency unit	–	dong (D)
D1.00	=	\$0.00004
\$1.00	=	D23,341

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
EMP	–	environmental management plan
GMS	–	Greater Mekong Subregion
Lao PDR	–	Lao People's Democratic Republic
MCST	–	Ministry of Culture, Sports and Tourism
O&M	–	operation and maintenance
PAM	–	project administration manual
PMU	–	project management unit
PPC	–	provincial people's committee
SMEs	–	small and medium-sized enterprises

NOTE

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

Vice-President	Stephen Groff, Operations Group 2
Director General	Ramesh Subramaniam, Southeast Asia Department (SERD)
Director	Eric Sidgwick, Country Director, Viet Nam Resident Mission, SERD
Team leader	Steven Schipani, Unit Head, Project Administration, SERD
Team members	Maria Cleto, Safeguards Specialist (Resettlement), SERD Tran Thi Bich Dung, Project Analyst, SERD Shinsuke Kawazu, Senior Counsel, Office of the General Counsel (OGC) Cuong Minh Nguyen, Principal Country Economist, SERD Giang Thanh Nguyen, Senior Social Development Officer (Gender), SERD Lan Huong Thi Nguyen, Senior Operations Assistant, SERD Phuc Quang Pham, Senior Environment Officer, SERD Phoneviva Phanvongsa, Project Analyst, SERD David Salter, Principal Natural Resources and Agriculture Specialist, SERD Said Zaidansyah, Principal Counsel, OGC
Peer reviewer	Ron Slangen, Senior Urban Development Specialist, South Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	4
C. Outputs	4
D. Summary Cost Estimates and Financing Plan	5
E. Implementation Arrangements	6
III. DUE DILIGENCE	7
A. Technical	7
B. Economic and Financial	7
C. Governance	8
D. Poverty, Social, and Gender	8
E. Safeguards	9
F. Summary of Risk Assessment and Risk Management Plan	10
IV. ASSURANCES	10
V. RECOMMENDATION	10
APPENDIXES	
1. Design and Monitoring Framework	11
2. List of Linked Documents	13

PROJECT AT A GLANCE

1. Basic Data		Project Number: 49387-003	
Project Name	Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project	Department /Division	SERD/VRM
Country Borrower	Viet Nam, Socialist Republic of Socialist Republic of Viet Nam	Executing Agency	Hoa Binh Provincial People's Committee, Provincial People's Committee Thua Thien Hue, Provincial People's Committee of Nghe An Province, Provincial People's Committee of Quang Binh Province, Provincial People's Committee of Quang Tri Province
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Transport	Road transport (non-urban)		10.00
	Water transport (non-urban)		10.00
Water and other urban infrastructure and services	Other urban services		10.00
	Urban flood protection		15.00
	Total		45.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	CO ₂ reduction (tons per annum)	300
Environmentally sustainable growth (ESG)	Disaster risk management Eco-efficiency Global and regional transboundary environmental concerns Urban environmental improvement	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 2: Trade and investment	ADB Financing	
		Adaptation (\$ million)	4.80
		Mitigation (\$ million)	0.50
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Organizational development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Knowledge sharing activities Pilot-testing innovation and learning		
Partnerships (PAR)	Implementation Private Sector Regional organizations		
Private sector development (PSD)	Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	Yes	Rural	Medium
Household Targeting	No	Urban	Medium
SDG Targeting	Yes		
SDG Goals	SDG1, SDG5, SDG9, SDG10, SDG13		
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: B		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		45.00	
Sovereign Project (Concessional Loan): Ordinary capital resources		45.00	
Cofinancing		0.00	
None		0.00	
Counterpart		11.67	
Government		11.67	
Total		56.67	
Currency of ADB Financing: USD			

Source: Asian Development Bank

This document must only be generated in eOps.

08112018184532487110

Generated Date: 14-Nov-2018 9:50:17 AM

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Socialist Republic of Viet Nam for the Second Greater Mekong Subregion (GMS) Tourism Infrastructure for Inclusive Growth Project. This is one of three associated loans and grants; the others are for Cambodia and the Lao People's Democratic Republic (Lao PDR).¹

2. The project will help transform secondary towns in the GMS eastern corridor into economically inclusive, competitive tourism destinations by improving transport infrastructure, urban services, and capacity to sustainably manage tourism growth. It will expand trade in services by promoting cross-border tourism and deepen GMS and Association of Southeast Asian Nations (ASEAN) regional cooperation and integration. About 168,000 residents of Hoa Binh, Nghe An, Quang Binh, Quang Tri, and Thua Thien Hue provinces are expected to directly benefit from climate-resilient infrastructure development, improved urban green space, cleaner public beaches, and better access to economic opportunities. Project areas and investments are prioritized in the ASEAN Tourism Strategic Plan and GMS Tourism Sector Strategy.²

II. THE PROJECT

A. Rationale

3. **Sector overview and performance.** About 80% of global travel is intraregional. Forecasts suggest that Asia and the Pacific will be the world's fastest-growing region through 2030, when it will receive 535 million tourists, or 30% of the global market share. In 2016, ASEAN countries received 116 million international tourists, up 42% compared with 2011. ASEAN arrivals are expected to grow 5.1% per year and reach 187 million in 2030.³

4. Within ASEAN, Viet Nam, Cambodia, and the Lao PDR closely cooperate to promote regional tourism standards, tourism investment, and multicountry tours that connect their economies with larger, more affluent regional markets. Collaboration with neighboring countries helped boost Viet Nam's international tourist arrivals to 10.0 million in 2016, after increasing by just over 10% annually since 2009. Top source markets include the People's Republic of China (27%), the Republic of Korea (15%), and Japan (7%). Tourism contributes nearly 5% to Viet Nam's gross domestic product and generates 72% of service exports, directly supporting 1.9 million jobs—the majority held by women in small and medium-sized enterprises (SMEs). The government targets a 10% gross domestic product contribution by 2020, when tourism is expected to generate \$32.5 billion and sustain 1.05 million new jobs.

5. Government efforts to upgrade gateway airports, transnational railways and highways, and secondary roads to boost travel and trade are supported by the Asian Development Bank (ADB) and other development partners. Regional policies to liberalize transport services and ease cross-border tourism complement physical infrastructure investments.⁴ For example, Viet Nam permits prearranged tourist visas on arrival for 182 countries and grants 15-day tourist visa

¹ The Asian Development Bank (ADB) provided transaction technical assistance to help design the project and prepare the Greater Mekong Subregion Tourism Sector Strategy 2016–2025. ADB. 2016. *Technical Assistance for Preparing the Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila.

² ASEAN Secretariat. 2016. *ASEAN Tourism Strategic Plan 2016–2025*. Jakarta; Mekong Tourism Coordinating Office. 2017. *Greater Mekong Subregion Tourism Sector Strategy 2016–2025*. Bangkok.

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

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

exemptions to citizens of all ASEAN countries. As a result, 83% of visitors arrive by air, 15% enter through overland borders in the GMS economic corridors, and 2% arrive by sea.

6. **Key challenges.** Even with these strengths and opportunities, in 2016 Viet Nam ranked 6th in ASEAN and 67th among 136 economies evaluated in the World Travel and Tourism Competitiveness Index, mainly because secondary destinations lack quality transport infrastructure, urban services, and tourist service infrastructure. Other underlying problems include inadequate infrastructure maintenance, weak tourism planning, and ineffective destination marketing, which collectively undermine the business-enabling environment for tourism. Consequently, Viet Nam's share of ASEAN international tourist arrivals is only 8.6%. Another consequence of underinvestment in secondary destinations is imbalanced tourism growth within the country, with Ha Noi, Ho Chi Minh City, Da Nang, and Quang Ninh province's Ha Long Bay area receiving more than half of international tourist arrivals and corresponding benefits.⁵

7. **Climate vulnerability.** Secondary towns in Viet Nam's segment of the GMS eastern corridor are vulnerable to climate change and natural disasters. Risks include stronger and more frequent typhoons, coastal storm surges, and intensifying rainfall and flooding. These risks are exacerbated by limited capacity to integrate adaptation and mitigation solutions. Countering climate change and natural disasters requires finance and knowledge to retrofit and construct climate-resilient infrastructure and promote resource efficiency programs. Public awareness to promote environmentally friendly tourism services and emissions offsets are also needed.

8. **Project response.** To help remove these constraints, the project builds on ADB's ongoing GMS Tourism Infrastructure for Inclusive Growth Project in Viet Nam (2014–) and the successful GMS Sustainable Tourism Development Project (2008–2014) by selectively financing climate-resilient transport infrastructure, urban infrastructure and service improvements, and capacity building for better destination management, all of which is needed to boost tourist arrivals and spending in secondary destinations.⁶ Prioritized investments are (i) road improvements to link small towns with rural community-managed tourist attractions; (ii) ferry ports to increase passenger handling capacities and give private operators the facilities needed to expand water transport and recreation services; (iii) sanitation and drainage improvements, seawalls, and coastal revetments in flood-prone areas; and (iv) capacity building to support the implementation of ASEAN tourism standards and strengthen infrastructure operation and maintenance (O&M). The integrated design will assist project provinces attract more and higher-spending visitors, thus contributing to more balanced tourism growth and employment-intensive SME development.

9. **Strategic Fit.** The project is consistent with Viet Nam's Socioeconomic Development Strategy 2011–2020 objectives to foster climate-resilient urban infrastructure development, environmentally sustainable growth, gender equity, regional cooperation and integration, and private sector development. It aligns with the operational priorities of ADB's Strategy 2030 (Table 1), ADB country partnership strategy for Viet Nam 2016–2020, and the Strategy for Tourism

⁵ Sector Assessment (Summary): Tourism in Cambodia, the Lao People's Democratic Republic, and Viet Nam (accessible from the list of linked documents in Appendix 2).

⁶ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila; and ADB. 2008. *Report and Recommendation of the President to the Board of Directors: Proposed Grant to the Lao People's Democratic Republic and Loan to the Socialist Republic of Viet Nam for the Greater Mekong Subregion Sustainable Tourism Development Project*. Manila.

Development in Viet Nam to 2020, Vision to 2030.⁷ ADB's Operational Plan for Regional Cooperation and Integration 2016–2020 and the GMS Strategic Framework 2012–2022 prioritize tourism development in economic corridors to boost cross-border investment that supports inclusive growth and ensures that women and the poor benefit from regional connectivity.

Table 1: Alignment with Strategy 2030

Strategy 2030 Priority	Project Contributions
Addressing remaining poverty and reducing inequalities.	<ul style="list-style-type: none"> • Transport and urban infrastructure improvements will improve access to markets and social services, catalyze private investment, and generate employment-intensive tourism growth in poorer provinces.
Accelerating progress in gender equity.	<ul style="list-style-type: none"> • Targeted capacity development will promote women's economic empowerment and advancement to managerial and leadership roles.
Tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability.	<ul style="list-style-type: none"> • Transport and urban infrastructure improvements will feature climate and disaster resilience measures such as stronger road base and pavement structures, additional drainage, slope protection, and robust seawalls and revetments. Adopting green hotel standards will promote more efficient use of energy and water.
Fostering regional cooperation and integration.	<ul style="list-style-type: none"> • Destination marketing will promote intraregional tourism. Institutional strengthening will promote tourism knowledge sharing and policy dialogue among and between subregions.

Source: Asian Development Bank.

10. **Development coordination.** Project activities harmonize with tourism vocational training and tourism-related SME promotion support from the Government of Luxembourg and the Swiss State Secretariat for Economic Affairs. The Japan International Cooperation Agency and the World Bank Group also support transport and urban development in the GMS corridors. Regional assistance is coordinated by GMS tourism, transport, and urban development working groups comprising senior officials, ADB and other development partners, civil society organizations, and private advisors. Working groups meet at least once a year to direct strategic programming, share knowledge and good practices, and coordinate joint activities. The Ministry of Culture, Sports and Tourism and Viet Nam National Administration of Tourism coordinate national planning and policy dialogue with development partners and industry associations.

11. **Value added by ADB assistance.** ADB's value addition includes support to prepare the comprehensive government-endorsed GMS Tourism Sector Strategy 2016–2025. The \$58.7 billion strategy provides GMS governments and the private sector with a blueprint for competitive, balanced, and sustainable destination development that aligns with ASEAN regional integration objectives. ADB facilitated public–private dialogue and consensus building to select project investments that foster synergies with agriculture, transport, and urban development initiatives. Climate risk assessments were prepared for all infrastructure subprojects with support from ADB's Project Readiness Improvement Trust Fund.⁸ Capacity building for destination management integrates the Mekong Innovative Startup in Tourism accelerator to identify and scale innovative technologies that drive tourism growth in secondary destinations. The Mekong Business Initiative, supported by ADB and the Government of Australia, created the platform.

12. **Lessons.** To reinforce sustainability and inclusiveness, the project design assimilates key lessons from ADB's past GMS tourism projects. First, infrastructure subprojects were selected

⁷ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila; ADB. 2016. *Country Partnership Strategy: Viet Nam, 2016–2020—Fostering More Inclusive and Environmentally Sustainable Growth*. Manila; and Ministry of Culture, Sports and Tourism. 2012. *Strategy for Tourism Development in Viet Nam to 2020, Vision to 2030*. Ha Noi.

⁸ ADB. 2016. *Project Readiness Improvement Trust Fund*. Manila (financed by the Nordic Development Fund).

based on robust demand analysis, private sector consultations, and the participating provinces' commitment to enabling their timely inclusion in the government's medium-term investment plan. Second, engineering solutions were chosen in consideration of life cycle costs and were informed by climate change vulnerability assessments. Third, ASEAN tourism standards target small enterprises that are predominately led by and employ women. Fourth, institutional strengthening promotes women's attainment of managerial and leadership roles. Finally, early capacity building for infrastructure O&M will ensure that suitable asset management systems are in place before works are commissioned.⁹

B. Impact and Outcome

13. The project is aligned with the following impact: sustainable, inclusive, and more balanced tourism development achieved.¹⁰ The project will have the following outcome: tourism competitiveness of secondary towns in Viet Nam increased.¹¹

C. Outputs

14. **Output 1: Urban–rural access infrastructure and urban environmental services improved.** This output focuses on improving roads, water transport infrastructure, and flood protection in tourist sites. It will (i) upgrade 31 kilometers of district and rural roads, including rest areas and scenic points; (ii) construct or improve 13 passenger piers; (iii) rehabilitate and extend the 5.5-kilometer seawall, revetments, and beachfront promenade in Cua Lo town with public green space, walkways, crossroads, drainage, and public toilets; and (iv) improve the existing Cua Viet–Cua Tung beachfront promenade in Quang Tri by rehabilitating public green space and walkways, drainage, parking areas, public toilets, and small shops that are leased to local vendors. About 83,500 residents in districts with road improvements will benefit from better access to economic opportunities and social services. Passenger piers will improve water transport and recreation services in Dong Hoi, Dong Ha, and Hue city. The piers will benefit about 24,500 residents, including 130 small ferry and tour boat operators. The improved seawall and drainage in Cua Lo town will protect a 228-hectare urban area, directly benefiting about 60,000 residents, 400 restaurants, and 300 hotels and guesthouses.

15. **Output 2: Capacity to implement ASEAN tourism standards strengthened.** This output will (i) strengthen assessment frameworks, certification bodies, and compliance monitoring for the ASEAN green hotel, homestay, clean tourist city, and clean public toilet standards; and (ii) develop incentives and conduct training to enable standards adoption by tourism and urban service providers. Counterpart resources will support capacity building to help Cua Lo, Dong Ha, Dong Hoi, and Hue city attain the ASEAN Clean Tourist City Standard. All public toilets financed by the project will be constructed to the ASEAN Clean Public Toilet Standard. The project will pilot ASEAN green hotel and homestay standards to demonstrate how accommodation SMEs can boost their competitiveness by improving service quality and consumer confidence. Attaining the ASEAN Clean Tourist City Standard in the four targeted towns will improve the environment for about 1.1 million residents and more than 8.0 million annual visitors.

16. **Output 3: Institutional arrangements for tourism destination management and infrastructure O&M strengthened.** Output 3 will use counterpart resources to complement ADB and other development partner's efforts to strengthen destination management by preparing or

⁹ ADB. 2009. *Sector Assistance Program Evaluation: Tourism Sector in the Greater Mekong Subregion*. Manila; and ADB. 2017. *Validation Report: GMS Sustainable Tourism Development Project*. Manila.

¹⁰ ASEAN Secretariat. 2016. *ASEAN Tourism Strategic Plan 2016–2025*. Jakarta.

¹¹ The design and monitoring framework is in Appendix 1.

updating tourism masterplans, improving destination marketing, and conducting sanitation and hygiene awareness campaigns. In parallel, the project will assist infrastructure management entities such as provincial and district tourism, transport, and urban management departments prepare infrastructure O&M plans and organize asset management technical training. Provincial departments of planning and investment will provide transaction advisors to design public-private partnership arrangements (5 management contracts and/or concessions) and structure competitive procurement for ferry services, parking management, and other commercial operations at facilities constructed or improved by the project.

D. Summary Cost Estimates and Financing Plan

17. The project is estimated to cost \$56.57 million (Table 2). Detailed cost estimates by expenditure category and by financier are included in the project administration manual (PAM).¹² Major expenditure items are civil works, equipment, consulting services for detailed engineering design and construction supervision, safeguards, and project management costs.

Table 2: Summary Cost Estimates
(\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1	41.02
2. Output 2	0.27
3. Output 3	0.21
4. Project management	7.39
Subtotal (A)	48.89
B. Contingencies^c	5.58
C. Financial Charges During Implementation^d	2.20
Total (A+B+C)	56.67

^a In 2018 prices.

^b Taxes and duties of \$4.38 million are to be financed by the government.

^c Physical contingencies computed at 4.9% for civil works and for all other costs. Price contingencies computed at 1.5% on foreign exchange costs in 2018 and thereafter, and 3.7% on local currency costs in 2018, 4.0% in 2019, and 5.0% in 2020 and thereafter; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest for the Asian Development Bank loan computed at 2% per annum, to be financed by the government during implementation.

Source: Asian Development Bank estimates.

18. The Government of Viet Nam has requested a concessional loan of \$45.0 million from ADB's concessional ordinary capital 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 year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan and project agreements. The ADB loan will finance consulting services, civil works, and independent audit. The government will finance (i) civil works and consulting services, (ii) gender and social dimensions and other project management costs, (iii) incremental administration and recurrent costs, (iv) all land acquisition and resettlement, (v) interest charges during implementation, and (vi) taxes and duties on all project expenditures.

19. The government will (i) make portions of the loan proceeds available to the five participating provinces through budget allocation; and (ii) relend the balance of the loan proceeds to the participating provinces under subsidiary loan agreements, all upon terms and conditions satisfactory to ADB. The summary financing plan is in Table 3.

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

Table 3: Summary Financing Plan
(\$ million)

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (concessional loan)	45.00	79.4
Government of Viet Nam	11.67	20.6
Total	56.67	100.0

Source: Asian Development Bank estimates.

20. Climate mitigation is estimated to cost \$0.5 million. Structural measures for climate adaptation and disaster risk reduction are estimated to cost \$4.8 million. ADB will finance 100% of the mitigation and adaptation costs.¹³

E. Implementation Arrangements

21. Implementation arrangements are summarized in Table 4 and described in detail in the PAM (footnote 12).

Table 4: Implementation Arrangements

Aspects	Arrangements		
Implementation period	January 2019–December 2023		
Estimated completion date	31 December 2023		
Estimated loan closing date	30 June 2024		
Management			
(i) Subregional coordination	Greater Mekong Subregion Tourism Working Group		
(ii) National coordination	MCST project coordination unit and provincial steering committees		
(iii) Executing agencies	Hoa Binh, Nghe An, Quang Binh, Quang Tri, and Thua Thien Hue PPCs		
(iv) Key implementing agencies	Hoa Binh: Lac Thuy District People's Committee; Nghe An DOT; Quang Binh DOT; Quang Tri DCST; and Thua Thien Hue DPI		
(v) Implementation units	Lac Thuy project management unit, Nghe An DOT, Quang Binh DOT, Quang Tri DCST, and Thua Thien Hue DPI		
Procurement	National competitive bidding	8 contracts	\$40,318,870
	National procedures	12 contracts	\$140,000
Consulting services	QCBS	556 person-months	\$3,520,600
	Least-cost selection (audit)	5 lump-sum contracts	\$243,410
Advance contracting	Five QCBS consulting services packages		
Disbursement	The loan proceeds will be disbursed following ADB's <i>Loan Disbursement Handbook</i> (2017, as amended from time to time) and detailed arrangements agreed between the government and ADB.		

ADB = Asian Development Bank; DCST = Department of Culture, Sports, and Tourism; DOT = Department of Tourism; DPI = Department of Planning and Investment; MCST = Ministry of Culture, Sports and Tourism; PPC = provincial people's committee; QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

22. The provincial people's committee (PPC) of each participating province will be the executing agencies. Each executing agency will form and chair a provincial project steering committee, and form or assign an existing project management unit (PMU) to be responsible for project implementation, including; procurement of works, goods, and services; management of the detailed design and construction supervision consultants; compliance with social and environmental safeguards; financial management and audits; and other project administration tasks. The Ministry of Culture, Sports and Tourism (MCST) will establish a project coordination

¹³ Climate Change Assessment Report (accessible from the list of linked documents in Appendix 2).

unit to facilitate project inclusion in the government's medium-term investment plan and coordinate annual work plans, ASEAN tourism standards implementation, and regional activities with other GMS countries. MCST will monitor output 2 and 3 progress and coordinate reporting to the government and ADB. PMUs will enhance project readiness by preparing basic designs for all infrastructure subprojects with counterpart resources and advertising detailed engineering and safeguards consulting services before loan signing. The 5-year implementation period is considered sufficient because the provinces will carry out decentralized infrastructure design and procurement simultaneously for the project's eight small works packages.

III. DUE DILIGENCE

A. Technical

23. The project is technically feasible. Engineering solutions were selected considering cost, durability, climate, environmental and social impacts, and O&M capacities. Preliminary designs comply with Viet Nam's construction standards and local contracting industry capabilities. Climate-resilience measures include stronger road base and pavement structures, correctly sited robust seawalls and revetments with suitable foundation levels and crest heights, higher capacity drainage, energy efficient lighting, and bio-engineered river embankment and slope protection. Passenger piers incorporate sturdy elevated concrete and steel structures able to withstand projected storm surges and river flow velocities. Programs to build destination management capacity were designed based on stakeholder consultations and institutional analyses of tourism, transport, and urban management entities. ASEAN tourism standards will be implemented following approved manuals and criteria. Special design features to uphold long-term sustainable maintenance of project investments include maximum use of robustly engineered, steel reinforced concrete roads and structures with lower life cycle O&M costs, and resources to strengthen provincial and district infrastructure O&M planning and budgeting. The project will procure appropriate equipment and assist management entities to incorporate maintenance requirements into ferry pier and tourism services management contracts.

B. Economic and Financial

24. Economic analyses were prepared for the integrated project components following ADB guidelines.¹⁴ Costs comprise infrastructure and capacity-building investments and the market value of land to be acquired. Benefits quantified conservatively include (i) increased tourism receipts from incremental annual visitor arrivals (0.3%–5.8%) and additional length of stay (0.1–0.5 days) in project areas, and (ii) vehicle operating cost savings from reductions in road roughness.¹⁵ Base-case economic internal rates of return range from 11.9% to 14.8% for road improvement subprojects, from 11.5% to 25.5% for the ferry piers, and 29.8% for coastal protection and public space improvements. All subprojects remain viable under adverse scenarios whereby costs are 10% higher, benefits 10% lower, there are 10% fewer tourist arrivals, or implementation is delayed by 1 year. The expected economic benefits are consistent with ADB's completed GMS tourism projects in Viet Nam, which generated economic internal rates of return of 22.8%–82.2% for similar road and pier improvements in secondary tourist destinations.¹⁶

25. Financial analyses prepared in line with ADB guidelines confirm the financial viability of the following revenue-generating subprojects: (i) Nhat Le–Long Dai river and road access

¹⁴ Economic Analysis (accessible from the list of linked documents in Appendix 2).

¹⁵ International visitor arrival increases range from 2% in Quang Binh province to 32% in Thua Thien Hue province.

¹⁶ ADB. 2017. *Completion Report: Greater Mekong Subregion Sustainable Tourism Development Project*. Manila.

improvements, (ii) Con Co island access improvements, and (iii) Hue tourist piers improvements. Quantified revenue streams comprising passenger fees, berthing and parking fees, and rent were assessed in nominal terms. Base-case financial internal rates of return range from 7.4% to 23.0%, higher than the 3.0% weighted average cost of capital. Non-revenue-generating roads, coastal protection, and urban space improvements will require minor additional annual provincial budgetary allocations for routine and periodic maintenance. Loan assurances require each province to ensure that their annual budget includes sufficient O&M funding for project facilities, underscoring the Government's commitment to fund sustainable asset maintenance.¹⁷

C. Governance

26. The financial management and procurement risks for the executing and implementing agencies are assessed *substantial*. The main constraints are the lack of qualified accountants and procurement specialists in provinces. Risk mitigation measures in the financial management action plans emphasize hands-on disbursement and procurement training for PMUs by ADB staff and consultants, and requirements to use standard ADB-approved procurement documents for ADB-financed transactions. All executing agencies except Hoa Binh have significant experience in managing advance accounts and statement-of-expenditure procedures. The terms of reference for external auditors were agreed with the executing agencies during project preparation and form part of the PAM. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and agencies involved in the project. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty, Social, and Gender

27. The project will directly benefit about 168,000 people. Project support to implement ASEAN Clean Tourism City Standard will improve the livability of Cua Lo, Dong Ha, Dong Hoi, and Hue cities, benefitting an additional 1.1 million residents, of which 50% are women and girls. Poverty rates in project areas range from 7.3% to 17.8%, all higher than the 7.0% national average because of low incomes, insufficient productive assets, undereducation, and limited skills and training opportunities. The project's integrated investments are designed to minimize these constraints and diversify employment and income sources for rural and urban lower-income households. Stakeholder communication and participation plans include activities to help women and vulnerable groups recognize and avoid social risks associated with tourism.

28. **Gender.** The project is categorized effective gender mainstreaming. The participating provinces prepared the gender action plan in consultation with female and male project beneficiaries and government officials. Each PMU will implement and monitor the gender action plan. Specific actions to promote gender equality include (i) separate consultations with women and men to ensure gender-sensitive detailed engineering designs; (ii) requirements to involve women in infrastructure construction and management; (iii) equal participation in sanitation awareness and information and education campaigns to prevent HIV/AIDS, human trafficking, and child exploitation; and (iv) appointment of women as managers and leaders of tourism standards assessment boards and project management entities. The project performance management system will compile sex- and ethnic-disaggregated data to monitor and evaluate results.

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

E. Safeguards

29. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguards categorization is B for environment, involuntary resettlement, and indigenous peoples.¹⁸ All safeguards documents were prepared based on meaningful consultations with affected people and communities, endorsed by government authorities, and disclosed on the ADB website following ADB's Public Communications Policy 2011. Grievance redress, monitoring, and reporting procedures are properly established in all safeguards documents. During project implementation, all safeguards documents will be updated based on detailed engineering designs, reviewed by ADB, and publicly disclosed. The project includes adequate resources to update all safeguards documents and implement environmental and social monitoring. PPCs have adequate capacity to ensure compliance with the project's safeguards requirements.

30. **Environment (category B).** The participating provinces prepared one initial environmental examination and five environmental management plans (EMPs), each covering the project's area of influence and all road, ferry pier, coastal protection, and public space improvement subprojects. The EMPs provide adequate measures to mitigate the expected minor and temporary construction impacts and the potential adverse environmental impacts of increased tourism activity, particularly in coastal environments and near protected areas.¹⁹ Better roads, drainage and flood protection, safe ferry piers, improved public green space, and the adoption of ASEAN tourism standards are expected to generate overall net environmental benefits. Loan covenants require contractors and destination management agencies to comply with initial environmental examination and EMP mitigation measures.

31. **Involuntary resettlement (category B).** Land acquisition and business disruption will affect 176 households (759 affected people) in four provinces (Hoa Binh, Nghe An, Quang Tri, and Thua Thien Hue). There are 20 severely affected households (86 severely affected people). One house-cum-shop will be physically displaced, and 72 households are classified vulnerable including 56 Muong ethnic minority households. Due diligence confirms at preliminary design there are no involuntary resettlement impacts expected in Quang Binh. Three resettlement plans and one combined resettlement and ethnic minority development plan were prepared by the provincial executing agencies with the assistance of social development specialists. All plans reflect meaningful consultations with affected households and include suitable livelihood improvement programs and grievance redress mechanisms. The initial resettlement and compensation costs are estimated at \$813,256. This amount is considered adequate based on the inventories of losses prepared in consultation with the affected households. PPCs will appoint qualified PMU staff to properly implement the plans using project resources.

32. **Indigenous peoples (category B).** The project will positively affect Muong ethnic people by creating culturally appropriate jobs, diversifying income, and strengthening their involvement in tourism management and decision making. Ethnic groups will equally benefit from improved access to economic opportunities and social services, better destination management, and capacity building. The project will not displace ethnic households from traditional or customary lands or negatively impact ethnic minority identity, culture, or customary livelihood systems. The resettlement and ethnic minority development plan identifies the potential negative impacts, and contains adequate measures to mitigate them.

¹⁸ ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>

¹⁹ Infrastructure subprojects are not located within protected areas and are consistent with defined management plans.

F. Summary of Risk Assessment and Risk Management Plan

33. Significant risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.²⁰

Table 5: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
Project inclusion in the medium-term investment plan is delayed, leading to counterpart funding shortfalls and delayed project benefits.	ADB will closely coordinate with oversight agencies and PPCs to ensure timely inclusion of project investments in the medium-term investment plan and sufficient budget allocations.
Hoa Binh and Nghe An PMUs lack financial management, procurement, and safeguards implementation capacity.	ADB staff and consultants will provide financial management, disbursement, procurement, and safeguards training following ADB guidelines.
Insufficient public funds are allocated for infrastructure O&M and tourism site management.	Destination managers will prepare O&M plans and tourism master plans with sustainable finance mechanisms. Institutional strengthening activities will improve tourism management and O&M budgeting.
Increased tourist volumes overwhelm infrastructure and environmental services, causing negative environmental impacts.	Environmental management plans cover construction and operation phases. Site-specific O&M plans will incorporate environmental safeguards.

ADB = Asian Development Bank, O&M = operation and maintenance, PPCs = provincial people's committees.
Source: Asian Development Bank.

IV. ASSURANCES

34. The government and Hoa Binh, Nghe An, Quang Binh, Quang Tri, and Thua Thien Hue PPCs have assured ADB that implementation of the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents. The government and the executing agencies have agreed with ADB on certain covenants for the project, which are set forth in the loan and project agreements.

35. No withdrawal shall be made from the loan account until the onlending agreement between the government and the executing agencies has been duly completed.

V. RECOMMENDATION

36. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the loan of \$45,000,000 to the Socialist Republic of Viet Nam for the Second Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project, from ADB's ordinary capital resources, in concessional terms, with an interest charge at the rate of 2% per year 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.

Stephen Groff
Vice-President

16 November 2018

²⁰ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Impacts the Project is Aligned with Sustainable, inclusive, and more balanced tourism development achieved (ASEAN Tourism Strategic Plan 2016–2025) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Tourism competitiveness of secondary towns in Viet Nam increased	By 2025: a. Annual international visitor arrivals in project areas increased to 1.53 million (2016 baseline: 1.02 million) b. Aggregate annual visitor expenditure in project areas increased to \$0.76 billion (2016 baseline: \$0.47 billion)	a.–b. Government tourism statistics reports and project completion report	Governments and other development partners reduce support for tourism vocational training and capacity building. Insufficient public funds are allocated for infrastructure O&M and tourism site management. Project inclusion in the medium-term investment plan is delayed, leading to counterpart funding shortfalls and delayed project benefits.
Outputs 1. Urban–rural access infrastructure and urban environmental services improved	By 2024: 1a. 31.0 kilometers of access roads to tourist sites improved (2017 baseline: 0) 1b. 13 passenger piers constructed or improved (2017 baseline: 0) 1c. Flood protection and drainage improved for 228-hectare urban area (2017 baseline: 0) 1d. At least 50% of 800 people consulted to optimize inclusiveness and gender responsiveness in project infrastructure designs are women (2017 baseline: 0) 1e. At least 60% of 270 vendors in market space improved by the project are women (2017 baseline: 50%)	1a.–1e. Project progress reports and project completion report	Qualified counterparts are unavailable to support financial management, procurement, and safeguards implementation.
2. Capacity to implement ASEAN tourism standards strengthened	2a. ASEAN tourism standards certification boards established with at least 30% women members (2017 baseline: 0) 2b. 44 (5%) hotels in target provinces are ASEAN Green Hotel Standard certified (2017 baseline: 1 [0.1%])	2a.–2c. Project progress reports and project completion report	Private enterprises are not interested in achieving ASEAN tourism standards.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	2c. At least four towns in target provinces are ASEAN Clean Tourist City Standard certified (2017 baseline: 1)		
3. Institutional arrangements for tourism destination management and infrastructure O&M strengthened	3a. 100 public works and tourism site managers (at least 30% women) reporting increased knowledge on developing and implementing tourism management and infrastructure O&M plans (2017 baseline: 0) 3b. Nine operation and maintenance plans prepared and implemented for project-supported infrastructure (2017 baseline: 0) 3c. Five public–private partnerships established for the operation of project-supported tourism facilities (2017 baseline: 0)	3a.–3c. Project progress reports and project completion report	Increased tourist volumes overwhelm infrastructure and environmental services causing negative environmental impacts.
<p>Key Activities with Milestones</p> <p>1. Urban–rural access to infrastructure and urban environmental services improved</p> <p>1.1 Prepare civil works design and bidding documents, Q1 2019–Q1 2020. 1.2 Approve safeguards document, Q3 2019–Q1 2020. 1.3 Complete land acquisition and resettlement, Q1 2020. 1.4 Procure civil works, Q1 2020–Q4 2020. 1.5 Implement civil works construction and supervision, and supply equipment, Q4 2020–Q4 2022.</p> <p>2. Capacity to implement ASEAN tourism standards strengthened</p> <p>2.1 Establish provincial ASEAN tourism standards certification boards, Q1 2020–Q2 2020. 2.2 Promote ASEAN tourism standards adoption by service enterprises, Q2 2020–Q4 2023. 2.3 Carry out service enterprise training, inspection, and certification, Q1 2021–Q4 2023.</p> <p>3. Institutional arrangements for tourism destination management and infrastructure O&M strengthened</p> <p>3.1 Prepare and approve tourism and O&M plans with sustainable finance mechanisms, Q1 2021–Q4 2021. 3.2 Design and implement training programs for tourism destination management, Q1 2022–Q4 2023. 3.3 Design and implement training programs for infrastructure O&M, Q2 2021–Q4 2023.</p> <p>Project Management Activities</p> <p>Establish project steering committees, project coordination unit, and project management units, Q1 2019. Advance actions for consultant recruitment and procurement, Q4 2018–Q1 2019. Train project management unit staff in financial management, Q1 2019–Q4 2019. Implement sex-disaggregated project performance management system (including baseline and completion surveys), safeguards, and social development and gender action plans, Q1 2019–Q4 2023.</p>			
<p>Inputs</p> <p>Asian Development Bank: \$45.00 million concessional ordinary capital resources loan Government of Viet Nam: \$11.67 million</p>			
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>			

ASEAN = Association of Southeast Asian Nations, O&M = operation and maintenance, Q = quarter.

^a ASEAN Secretariat. *ASEAN Tourism Strategic Plan 2016–2025*. Jakarta.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49387-003-3>

1. Loan Agreement
2. Project Agreement
3. Sector Assessment (Summary): Tourism in Cambodia, the Lao People's Democratic Republic, and Viet Nam
4. Project Administration Manual
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Financial Analysis
8. Economic Analysis
9. Country Economic Indicators
10. Summary Poverty Reduction and Social Strategy
11. Risk Assessment and Risk Management Plan
12. Climate Change Assessment Report
13. Gender Action Plan
14. Initial Environmental Examination
15. Environmental Management Plan: Hoa Binh
16. Environmental Management Plan: Nghe An
17. Environmental Management Plan: Quang Binh
18. Environmental Management Plan: Quang Tri
19. Environmental Management Plan: Thua Thien Hue
20. Resettlement Plan: Nghe An
21. Resettlement Plan: Quang Tri
22. Resettlement Plan: Thua Thien Hue
23. Resettlement and Ethnic Minority Development Plan: Hoa Binh

Supplementary Document

24. Tourism Demand Analysis and Forecasts