



Report and Recommendation of the President to the Board of Directors

Project Number: 46293-003
August 2014

Proposed Loan Lao People's Democratic Republic: Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 July 2014)

Currency unit	–	kip (KN)
KN1.00	=	\$0.000124
\$1.00	=	KN8,064

ABBREVIATIONS

ADB	–	Asian Development Bank
DICT	–	department of information, culture and tourism
DPWT	–	department of public works and transport
EMP	–	environmental management plan
GMS	–	Greater Mekong Subregion
IEE	–	initial environmental examination
IPP	–	indigenous peoples plan
km	–	kilometer
Lao PDR	–	Lao People's Democratic Republic
LAR	–	land acquisition and resettlement
MICT	–	Ministry of Information, Culture and Tourism
O&M	–	operation and maintenance
PAM	–	project administration manual
PCU	–	project coordination unit
PIU	–	project implementation unit
SDR	–	special drawing rights

NOTES

- (i) The fiscal year (FY) of the Government of the Lao People's Democratic Republic and its agencies ends on 30 September. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 30 September 2014.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 46293-003	
Project Name	Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project	Department /Division	SERD/TRM
Country Borrower	Lao People's Democratic Republic Ministry of Finance	Executing Agency	National Tourism Authority of Lao PDR
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Industry and trade	Small and medium enterprise development		8.00
	Trade and services		16.00
Transport	Road transport (non-urban)		16.00
		Total	40.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Adaptation (\$ million)	28.00
Environmentally sustainable growth (ESG)	Global and regional transboundary environmental concerns Natural resources conservation Urban environmental improvement	Climate Change impact on the Project	Medium
Regional integration (RCI)	Pillar 2: Trade and investments		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional development	Effective gender mainstreaming (EGM)	✓
Knowledge solutions (KNS)	Organizational development Knowledge sharing activities		
Partnerships (PAR)	Civil society organizations Implementation Private Sector		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: B		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		40.00	
Sovereign Project loan: Asian Development Fund		40.00	
Cofinancing		0.00	
None		0.00	
Counterpart		3.57	
Government		3.57	
Total		43.57	
9. Effective Development Cooperation			
Use of country procurement systems	No		
Use of country public financial management systems	No		

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Lao People's Democratic Republic (Lao PDR) for the Greater Mekong Subregion (GMS) Tourism Infrastructure for Inclusive Growth Project.¹ This is one of three complementary projects for the participating GMS countries; others are proposed for Cambodia and Viet Nam.²

2. The project will remove physical and capacity constraints impeding tourism development in Champassak, Khammouane, Luangprabang, and Oudomxay—four provinces situated astride the GMS Central Corridor. It will contribute to the creation of 27,000 tourism-related jobs in the Lao PDR by: (i) paving 70 kilometers (km) of rural roads to open new areas for private tourism investment and improve access to markets and social services for 15,000 people; (ii) improving environmental services in areas important for cross-border tourism to reduce public health hazards for 35,000 residents and 2.4 million annual visitors, beginning in 2019; and (iii) facilitating business support services for at least 500 small and medium-sized enterprises.³ The project will strengthen regional cooperation and integration by implementing regional tourism standards, promoting multicountry tour circuits, and supporting structured policy dialogue to reduce nonphysical barriers to travel. The project investment plan is in line with the GMS Tourism Sector Strategy,⁴ and the government's National Tourism Strategy, 2012–2020.⁵

II. THE PROJECT

A. Rationale

3. **Regional context.** Among country groupings in Asia and the Pacific, the GMS has a strong comparative advantage in tourism as a result of its diverse cultural and natural assets, good international air and land transport connections between gateway destinations, and surging demand for intraregional leisure travel. International tourist arrivals are growing by 12.4% per year; in 2012 arrivals reached an all-time high of 44.8 million, and generated \$44.3 billion in receipts. Tourism supports 7 million jobs and creates positive economic impacts in other service and productive sectors. About one-third of international arrivals visit at least two countries while travelling in the GMS and millions of residents cross borders each year for day trips. GMS countries are eager to strengthen subregional tourism cooperation and recently reaffirmed their commitment to promote cross-border tourism under the GMS Economic Cooperation Program Strategic Framework, 2012–2022.⁶ Nevertheless, underinvestment in public infrastructure beyond the major gateways remains a critical constraint that restrains expansion of private tourism enterprises and dispersal of benefits to less-developed areas.⁷

4. **National priorities.** The Lao PDR received 3.33 million international tourists in 2012, a 22% increase over 2011, but accounting for less than 8% of GMS arrivals. Travel and tourism contribute 5.3% of gross domestic product and support 134,000 jobs, equal to 4.5% of total employment.⁸ The government's National Tourism Strategy is consistent with the GMS Tourism

¹ The design and monitoring framework is in Appendix 1.

² The Asian Development Bank (ADB) provided project preparatory technical assistance. ADB. 2012. *Preparing the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth Project*. Manila (TA 8233-REG).

³ Indicators are derived from ADB. 2013. *Framework of Inclusive Growth Indicators, 2013*. Manila.

⁴ ADB. 2005. *Greater Mekong Subregion Tourism Sector Strategy, 2005–2015*. Manila. The estimated cost to implement the strategy is \$430 million, of which 83% is earmarked for infrastructure.

⁵ Ministry of Information, Culture and Tourism, Lao PDR. 2012. *Lao PDR Tourism Strategy, 2012–2020*. Vientiane.

⁶ ADB. 2011. *Greater Mekong Subregion Economic Cooperation Program Strategic Framework, 2012–2022*. Manila.

⁷ Sector Assessment (Summary): Greater Mekong Subregion Tourism (accessible from the list of linked documents in Appendix 2).

⁸ World Travel and Tourism Council. 2013. *Travel and Tourism Economic Impact 2013: Laos*. London.

Sector Strategy, which prioritizes transport and urban infrastructure upgrades, education and training, and policy enhancements to improve the business enabling environment. The 2005 Tourism Law provides the legal basis for the strategy, setting out the parameters for creation of a sustainable tourism industry that contributes to national development and strengthens international cooperation. Strategic objectives are to: (i) generate employment and income for local people, (ii) strengthen tourism destination management, (iii) expand public–private cooperation in tourism, and (iv) diversify tourism products and services. The estimated cost of the government’s investment program for tourism between 2011 and 2015 is \$118 million.

5. **Key issues.** Although the Lao PDR has many cultural and natural tourist attractions with good development potential, tourism is highly concentrated in Vientiane Capital, which accounts for 43% of international arrivals and 47% of hospitality investment. Women comprise about half of tourism workers; however, many are employed in low-skill, low-wage jobs, and are underrepresented in tourism management. The key impediments to more inclusive and geographically dispersed growth are insufficient last-mile transport infrastructure in secondary destinations; weak market linkages between the tourism industry and other economic sectors; and limited institutional capacity to promote local tourism-related enterprise development. Consequently, at least 40% of tourism receipts leave the country in the form of tourism-related imports. Inadequate environmental infrastructure and low service standards suppress tourist length of stay, spending, and yield, resulting in average receipts per visitor of about \$154—the lowest in the GMS and much less than the benchmark of \$1,390 in Asia and the Pacific.⁹

6. To remove these constraints and engender a more equitable pattern of tourism development, the project will upgrade access roads that link rural tourist attractions with urban centers, improve environmental services in areas important for tourism, and support training and capacity building for destination management organizations and local entrepreneurs.¹⁰ Project investments are designed to catalyze additional private investment in tourism superstructure and services, boost tourist spending and related job creation in underdeveloped areas, and ensure that tourism growth is environmentally and socially sustainable.¹¹

7. **Related policies and strategies.** The project is consistent with the Lao PDR’s Seventh National Socioeconomic Development Plan, 2011–2015, which aims to promote sustainable economic growth and reduce poverty and inequality. Project outputs will contribute to economic diversification and human resource development, and strengthen the participation of women and ethnic groups in national development. The emphasis on improving connectivity between urban and rural areas, strengthening value chains linked to the rapidly growing tourism sector, and creating jobs for unskilled and semiskilled workers is closely aligned with the overarching objectives of the ADB’s Lao PDR country partnership strategy, 2012–2016: inclusive and sustainable economic growth and poverty reduction.¹² The project reinforces regional efforts to increase cross-border investment flows and develop the GMS corridors into economic corridors.

8. **Development coordination.** The GMS Tourism Working Group is the forum for coordinating regional tourism sector assistance. Senior GMS tourism officials and ADB co-chair semiannual working group meetings to guide implementation of the GMS Tourism Sector Strategy and identify policy issues for elevation to the annual GMS tourism ministers meeting and the triennial GMS summit. In the Lao PDR, sector coordination is led by the Ministry of

⁹ United Nations World Tourism Organization. 2013. *UNWTO Tourism Highlights*. Madrid.

¹⁰ A destination management organization is defined as a public, private, or public–private entity responsible for the management and/or marketing of tourism in a geographic region defined for that purpose.

¹¹ Tourism superstructure includes all facilities that are developed specifically to respond to the demands of visitors.

¹² ADB. 2011. *Country Partnership Strategy: Lao People’s Democratic Republic, 2012– 2016*. Manila.

Information, Culture and Tourism (MICT). Other development partners engaged in tourism are German development cooperation through Deutsche Gesellschaft für Internationale Zusammenarbeit, the International Trade Center, the Japan International Cooperation Agency, the Lux-Development, the New Zealand Aid Programme, Swisscontact, the World Wildlife Fund, and the Wildlife Conservation Society.¹³ The Pacific Asia Travel Association is the leading industry group with over 1,100 members and an active chapter in the Lao PDR. Parallel financing opportunities will be actively sought during implementation.

9. **Lessons.** ADB's GMS tourism sector assistance program and completed tourism projects in the Lao PDR are rated *successful*.¹⁴ Lessons from past projects include the need to (i) analyze tourism demand in project areas to guide selection of infrastructure investments, (ii) improve cross-sector coordination and build synergies with other ADB assistance, (iii) provide capacity building for project management and operation and maintenance (O&M), and (iv) promote tourism-related private enterprise development alongside infrastructure to expand income-generating opportunities for local residents. Applying these lessons, the project has selected relevant infrastructure subprojects based on robust market analysis,¹⁵ as well as complementarities with other ADB and development partner assistance for urban development, water supply and sanitation, vocational training, and tourism. Capacity building for entities responsible for infrastructure O&M, and parallel support for small enterprises led by women and ethnic groups, will enhance the sustainability of project outputs and ensure benefits reach vulnerable groups. The project has deliberately selected infrastructure and capacity-building interventions that will connect lower-income groups to basic services and markets and enable them to access tourism employment, education, health care, and other opportunities.

10. **Special features.** The project will (i) strengthen collaboration between government, the private sector, civil society, and local communities to improve tourism destination management; (ii) demonstrate how tourist entry fees and charges can help finance the maintenance of public goods such as heritage sites, roads, and environmental services; (iii) strengthen knowledge partnerships among GMS and Association of Southeast Asian Nations members; and (iv) leverage service sector opportunities to accelerate widening of the GMS corridors into economic corridors by linking secondary tourism destinations with increasingly affluent regional markets.

B. Impact and Outcome

11. The impact of the project will be increased tourism employment for people living in underdeveloped segments of the GMS Central Corridor. The outcome will be increased tourism receipts in Champassak, Khammouane, Luangprabang, and Oudomxay. By 2019, aggregate annual tourism receipts in the project provinces will increase to \$330 million, helping to stimulate the creation of 27,000 additional tourism-related jobs by 2025. Based on current workforce participation rates, it is expected that 50% of these jobs will be held by women.

C. Outputs

12. The project outputs are (i) improved last-mile tourism access infrastructure, (ii) improved environmental services in cross-border tourism centers, (iii) strengthened institutional capacity to promote inclusive tourism growth, and (iv) effective project implementation and knowledge management. Project areas include the venerated Buddhist shrines That Sikhottabong and

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

¹⁴ ADB. 2009. *Sector Assistance Program Evaluation. Tourism Sector in the Greater Mekong Subregion*. Manila; and ADB. 2013. *Completion Report: Greater Mekong Subregion: Mekong Tourism Development Project*. Manila.

¹⁵ Tourism Demand Analysis (accessible from the list of linked documents in Appendix 2).

Xang Cave; United Nations Educational, Scientific and Cultural Organization World Heritage Sites and national protected areas in Champassak, Khammouane, and Luangprabang; and Chom Ong Cave in Oudomxay, which has 16 km of underground passages. The following criteria guided subproject selection: (i) infrastructure constraints; (ii) location in a GMS corridor with good tourism and economic development potential; (iii) location in a multicountry tour circuit prioritized by the GMS Tourism Sector Strategy and National Tourism Strategy; (iv) expressions of interest by private enterprises and communities to manage public tourism amenities; and (v) endorsement by local stakeholders, including women and ethnic groups. Table 1 describes output 1 and 2 infrastructure subprojects and the estimated number of direct beneficiaries.¹⁶

Table 1: Infrastructure Subprojects

Subproject and Output	Description
1.1. Xang Cave Access Improvements, Khammouane ^a	The subproject will (i) improve the 4 km access road; (ii) upgrade green space and walking paths; (iii) construct a public tourist reception area with parking, kiosks, and sanitation; and (iv) upgrade the existing footpaths and lighting inside the cave. At least 1,900 residents will benefit from the improved access road and expansion of local tourism-related enterprise opportunities.
1.2. Chomphet Heritage District Access Improvements, Luangprabang	The subproject will (i) upgrade the Mekong ferry terminal and 2 km of feeder roads in Ban Xieng Maen, and (ii) rehabilitate four riverside landings to provide year-round access to temples in the heritage district. Improved public facilities and environmental management will benefit 2,100 residents and 97 ferry operators.
1.3. Ban Xang Hai–Tham Ting Cave Access Improvements, Luangprabang	The subproject will (i) improve the 10 km access road between Route 13, Xang Hai village and Pak Ou village; (ii) rehabilitate four concrete river landings, 1 km of linked footpaths with drainage, and public sanitation in Xang Hai and Pak Ou villages; and (iii) supply six steel pontoons. Year-round public access by land or river will benefit at least 3,000 residents and 64 boat operators.
1.4. Chom Ong Cave Access Improvements, Oudomxay	The subproject will (i) improve the 54 km access road; (ii) construct a public tourist reception area with parking, kiosks, and sanitation; and (iii) construct a network of illuminated footpaths inside the cave. At least 8,000 residents will benefit from improved access to markets, social services, and opportunities to gain income from increased tourism traffic and agricultural production.
2.1. That Sikhottabong Environmental Improvement, Khammouane	The subproject will (i) rehabilitate internal roads, 2 bridges, and the tourist reception center at Sikhottabong Stupa; and (ii) construct vendor kiosks, parking, public sanitation, and a solid waste transfer station and small materials recovery facility. Improved environmental services and expanded public green space will benefit 35,000 residents of Thakhek City.

ha = hectare, km = kilometer.

^a Luangprabang and Khammouane share borders with Dien Bien and Ha Tinh, project provinces in Viet Nam.

Source: Asian Development Bank.

13. Output 3 will complement infrastructure investments in Khammouane, Luangprabang, and Oudomxay, and augment ongoing ADB assistance in Champassak,¹⁷ by building capacity to (i) improve destination management, (ii) promote small and medium-sized enterprise development, and (iii) prevent the negative social and environmental impacts of tourism. The focus will be on assisting residents better understand the challenges and opportunities that tourism growth presents, and widening access to tourism-related economic opportunities such as retail services, food and craft production, recreation services, and wage employment in hotels and guesthouses.

¹⁶ Detailed descriptions are in the Project Administration Manual (accessible from the list of linked documents in Appendix 2).

¹⁷ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Grant to the Lao People's Democratic Republic: Pakse Urban Environmental Improvement 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: Greater Mekong Subregion Sustainable Tourism Development Project*. Manila.

14. Output 4 focuses on counterpart capacity building to ensure that financial management and procurement, civil works design and supervision, environmental and social safeguards monitoring, and the preparation of operation and maintenance (O&M) plans for project facilities is compliant with ADB and government requirements. Output 4 will support knowledge management and training programs that are aligned with the Association of Southeast Asian Nations tourism standards, help steer tourists to project provinces by intensifying the promotion of multicountry tour circuits in GMS corridors in cooperation with the private sector, and assist the participating countries develop common systems to collect and report tourism statistics to facilitate informed decision making and the formulation of sound policies.

D. Investment and Financing Plans

15. The project is estimated to cost \$43.57 million (Table 2).

Table 2: Project Investment Plan (\$ million)

Item	Amount ^a
A. Base Cost^b	
1. Output 1: Last-mile tourism access infrastructure improved	26.74
2. Output 2: Environmental services in cross-border tourism centers improved	1.08
3. Output 3: Institutional capacity to promote inclusive tourism growth strengthened	2.15
4. Output 4: Effective project implementation and knowledge management	6.20
Subtotal (A)	36.17
B. Contingencies^c	6.61
C. Financing Charges During Implementation^d	0.79
Total (A+B+C)	43.57

^a Includes taxes and duties of \$3.27 million to be financed from government and Asian Development Bank loan resources.

^b In mid-2013 prices.

^c Physical contingencies computed at 10% for civil works, equipment, consulting services, and capacity building. Price contingencies computed using cost escalation factors of –1.5%–0.5% progressively for foreign costs and 6%–5% for local costs, including provision for potential exchange rate fluctuation assuming purchasing power parity exchange rates.

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

16. The government has requested a loan in various currencies equivalent to SDR25,932,000 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 loan agreement. The loan will finance civil works, equipment, consulting services, capacity building and training, financing charges during implementation, contingencies, and recurrent costs.¹⁸ The government will finance an estimated \$3.57 million to cover taxes and duties on civil works (through exemption); all land acquisition and resettlement (LAR) (in cash); and counterpart salaries, office space, and utilities (in kind). The government will make the loan proceeds available to the executing agency and implementing agencies on a grant basis. The financing plan is in Table 3.

¹⁸ ADB will finance: (i) taxes and duties on equipment, training and capacity building, and consulting services as these are within reasonable country thresholds, do not represent an excessive share of project investment, and apply to only ADB-financed expenditures that are relevant to the project's success; and (ii) recurrent costs, bank charges, transportation, and insurance to facilitate project implementation.

Table 3: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank ^a	40.00	91.8
Government	3.57	8.2
Total	43.57	100.0

^a Asian Development Fund loan.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

17. The implementation arrangements are summarized in Table 4 and described in detail in the project administration manual (PAM).

Table 4: Implementation Arrangements

Aspects	Arrangements		
Implementation period	November 2014–June 2019		
Estimated completion date	30 June 2019		
Management			
(i) Subregional steering committee	Vice minister, MICT; senior officials representing the Ministry of Tourism, Cambodia and the Ministry of Culture, Sports and Tourism, Viet Nam (rotating chair)		
(ii) National steering committee	Vice minister, MICT (chair); vice governors of Champassak, Khammouane, Luangprabang, and Oudomxay; senior officials representing MPWT, MPI, MOF, MONRE, and LWU (members)		
(iii) Provincial steering committees	Vice governor (chair); DICT, DPWT, DONRE, LWU, and LNF of participating provinces (members)		
(iv) Executing agency	Ministry of Information, Culture and Tourism		
(v) Project coordination unit	Tourism Development Department, MICT (6 PCU staff)		
(vi) Implementing agencies	DICT of participating provinces		
(vii) Implementation units	Khammouane, Luangprabang, and Oudomxay PIUs with full-time DICT and DPWT counterparts (14 staff in each PIU); Champassak PIU with full-time DICT counterparts (11 staff in the PIU)		
Procurement	International competitive bidding	3 contracts	\$27,765,000
	National competitive bidding	1 contract	\$220,000
	Shopping	32 contracts	\$544,500
Consulting services	Firm (QCBS)	154 person-months	\$1,650,000
	Firm (CQS)	Lump sum for audit	\$52,000
	Individuals	119 person-months	\$884,000
Retroactive financing and/or advance contracting	Advanced action for consultant recruitment requested Retroactive financing not requested		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

ADB = Asian Development Bank; CQS = consultants qualifications' selection; DICT = department of information, culture and tourism; DONRE = department of natural resources and environment; DPWT = department of public works and transport; LNF = Lao National Front; LWU = Lao Women's Union; MICT = Ministry of Information, Culture, and Tourism; MOF = Ministry of Finance; MONRE = Ministry Natural Resources and Environment; MPI = Ministry of Planning and Investment; MPWT = Ministry of Public Works and Transport; PCU = project coordinating unit; PIU = project implementation unit; QCBS = quality- and cost-based selection.

Source: Asian Development Bank.

18. All goods and civil works will be procured following ADB's Procurement Guidelines (2013, as amended from time to time). Works valued at \$1 million or above and goods valued at \$500,000 or above will be procured through international competitive bidding. The government's public procurement legislation and regulations (as acceptable to ADB) will be applied for packages below international competitive bidding thresholds for goods and works, which will be procured using national competitive bidding. Goods and works will be procured through shopping for packages equivalent to \$100,000 and below. All consultants will be recruited following ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

19. The implementation arrangements are based on previous ADB projects.¹⁹ Policy guidance and oversight will be provided by subregional, national, and provincial steering committees that will meet at least twice per year. Development partners, the Pacific Asia Travel Association, and members of the GMS Tourism Working Group will join steering committee meetings to harmonize other tourism sector assistance. The MICT will be the executing agency and departments of information, culture and tourism (DICTs) will be the implementing agencies. Overall project coordination and regional cooperation activities will be led by a project coordination unit (PCU) embedded in MICT's Tourism Development Department. The PCU will report to the vice minister of MICT, who will be the permanent chairperson of the national steering committee and represent the Lao PDR on the subregional steering committee. DICTs in each participating province will establish a project implementation unit (PIU) staffed with multidisciplinary teams to oversee day to day project implementation. PIUs will report to provincial vice-governors and the PCU, which will consolidate quarterly project progress reports for onward submission to members of the national steering committee and ADB. The PCU and PIUs will share consultant resources and jointly attend all routine steering committee meetings to ensure project activities are well coordinated.

20. The project will work directly with community-based organizations, village development committees and business associations, which will appoint local focal points to ensure good coordination between the PIUs and project beneficiaries. If no community-based organizations or business associations exist in project areas, the PIUs will extend assistance to form them.

III. DUE DILIGENCE

A. Technical

21. The project will upgrade rural roads and ferry terminals to facilitate access to tourist attractions; improve waste management and public sanitation at tourist sites; and construct public tourism amenities such as information centers and markets to create favorable conditions for enterprise development by local residents, particularly women and ethnic groups. Engineering solutions are technically feasible and consider cost, durability, affordability, and climate resilience.²⁰ All civil works designs are compatible with standard parameters and the O&M capacity of local authorities. Contract packaging will attract contractors with suitable qualifications and ensure efficient procurement. Capacity-building programs will help small entrepreneurs to become more competitive and improve the business enabling environment.

B. Economic and Financial

22. An economic analysis was conducted for all infrastructure subprojects following ADB guidelines.²¹ Quantified benefits are (i) increased tourism receipts arising from an increase in tourists visiting project-supported destinations and staying 0.4–1.1 days longer; (ii) vehicle operating cost savings from reductions in road roughness; and (iii) for the Chom Ong Cave access road improvement subproject, a combination of tourism benefits, vehicle operating cost savings, and increased income for farmers that will arise from increased agricultural production. The base case results indicate all subprojects are economically viable with an estimated economic internal rate of return exceeding the assumed economic opportunity cost of capital of 12%. Returns range from 13.0% for Chom Ong Cave access improvements to 37.8% for access

¹⁹ ADB. 2002. *Report and Recommendation of the President to the Board of Directors: Proposed Loans to the Kingdom of Cambodia, Lao People's Democratic Republic, and Socialist Republic of Viet Nam for the Greater Mekong Subregion: Mekong Tourism Development Project*. Manila.

²⁰ Climate Resilience Measures (accessible from the list of linked documents in Appendix 2).

²¹ Economic Analysis (accessible from the list of linked documents in Appendix 2).

improvements to Ban Pak Ou–Tham Ting Cave. Findings of the analysis are consistent with the past performance of other ADB-financed public tourism infrastructure in the Lao PDR; when similar assumptions were applied, the infrastructure generated internal rates of return of 13.2%–50.3%.²² All subprojects remain viable under adverse scenarios tested.²³

23. The financial analysis followed ADB guidelines.²⁴ Road subprojects and their components were considered nonrevenue-generating, and a financial sustainability analysis of the departments of public works and transport (DPWTs) that will be responsible for O&M was therefore completed. Based on historical revenue and expenditure statements, the analysis found that Khammouane and Luangprabang DPWTs will have sufficient funds to cover incremental O&M, but Oudomxay DPWT will require additional funds for periodic maintenance of the Chom Ong Cave access road. The government has committed to provide sufficient funds for this purpose through an assurance in the loan agreement. A separate analysis for small infrastructure under the responsibility of DICTs found that revenue from tourist user fees will be sufficient to cover O&M costs of all facilities developed by the project.²⁵

C. Governance

24. An assessment of the executing and implementing agencies' capacity to undertake procurement and financial management envisaged under the project, including the use of the statement of expenditure and imprest fund procedures, suggests the implementation arrangements and internal control systems are suitable.²⁶ Measures to mitigate risks identified—such as the potential for corruption from weak procurement oversight and the shortage of financial management skills—will be addressed by applying standard ADB bidding documents and embedding consultants in the PCU and PIU to provide on-the-job training and help prepare a project-specific financial management manual. While incumbent MICT staff members have experience with ADB guidelines, all counterparts will receive additional training to ensure procurement, financial management, and disbursement are undertaken following procedures acceptable to ADB. Compliance with ADB's financial reporting and external audit requirements will be monitored by review missions and normal project supervision. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MICT. The specific policy requirements and supplementary measures are described in the PAM.

D. Poverty and Social

25. The project will benefit about 200,000 people in the four participating provinces.²⁷ Poverty rates in project areas are 14%–54%, mainly as a result of isolation, inadequate income, underdeveloped human capital, and a lack of enterprise support services. The project's complementary investments to improve access infrastructure and environmental services, build capacity to strengthen tourism management, and provide small enterprises with business support services are designed to overcome these constraints and expand economic opportunities to benefit poor and low-income households. The project is categorized effective gender mainstreaming. It will improve women's access to economic opportunities and social

²² ADB. 2011. *Completion Report. Greater Mekong Subregion: Mekong Tourism Development Project in Cambodia, Lao People's Democratic Republic, and Viet Nam*. Manila.

²³ Costs are 10% higher or benefits 10% lower than the base case, as well as a 1-year implementation delay.

²⁴ Financial Analysis (accessible from the list of linked documents in Appendix 2).

²⁵ Institutional Analysis and Arrangements for Operation and Maintenance of Project Facilities (accessible from the list of linked documents in Appendix 2).

²⁶ Internal controls will be applied according to ADB. 2006. *Handbook for Borrowers on the Financial Management and Analysis of Projects*. Manila.

²⁷ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2).

services. A gender action plan has been prepared specifying women will hold 50% of the tourism-related jobs created by the project and comprise 50% of participants in community consultations and training, hold 40% of leadership positions in destination management organizations, and comprise 30% of project management and technical staff.²⁸ The project will reduce the vulnerability of women and children to human trafficking and other forms of exploitation by implementing awareness-raising programs and promoting collaboration between private enterprises, nongovernment organizations, and law enforcement agencies.²⁹

E. Safeguards

26. All safeguards documents were prepared following ADB's Safeguard Policy Statement (2009) and are posted on the ADB website in compliance with disclosure requirements.³⁰ The safeguards categorization for environment, involuntary resettlement, and indigenous peoples is B. Initial consultations with residents, government officials, and civil society confirm broad support for the project. Consultation with these groups will continue throughout the project cycle following the consultation and participation plan and stakeholder communications strategy in the PAM. The project includes resources to assist counterparts effectively implement social and environmental safeguards. Monitoring requirements and appropriate grievance redress mechanisms are in the safeguards documents.

27. An initial environmental examination (IEE) was prepared for the project's area of influence, based on current information. The potential environmental impacts are not irreversible, diverse, or unprecedented. Expected impacts and risks are site specific, with appropriate mitigating measures in subproject-specific environmental management plans (EMPs). Works in sensitive environments such as caves and near physical cultural resources were designed in consultation with DICTs, following international good practice and national laws and regulations. Infrastructure subprojects falling within the boundaries of the United Nations Educational, Scientific and Cultural Organization World Heritage Site in Luangprabang will be consistent with the current safeguarding and enhancement plan. The IEE and EMPs will be updated and finalized at the detailed design stage with involvement of cave experts and cultural heritage specialists. Updated versions of the documents will be cleared by the government and ADB, posted to the ADB website, and form part of bidding documents. The final IEE and EMPs will guide construction supervision and the preparation of site management plans with environmentally sensitive O&M guidelines.

28. The project will have minor LAR impacts, involving no physical dislocation of affected persons. Resettlement plans were prepared for each subproject with LAR, commensurate with the extent and degree of the expected impacts. Improvement of the access road and ferry terminal in Chomphet District will cause temporary disruption of 21 businesses and require partial dismantling of nonresidential structures. The upgrading of the 54 km rural road to Chom Ong Cave will require minor land acquisition from six households. Road upgrades to Xang Cave will result in minor loss of garden areas and trees of three households. Initial costs of land acquisition and compensation are estimated at \$53,000. This amount is considered adequate based on the census and inventory of losses prepared in consultation with affected persons. Project information was disclosed to all affected persons and a cutoff date for their inclusion in the resettlement plans was established during resettlement consultations. The project information booklet will be updated and disseminated during the detailed measurement survey.

²⁸ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

²⁹ The project will collaborate with the Child Safe Tourism Campaign in cooperation with World Vision, the United Nations Office on Drugs and Crime, and Interpol.

³⁰ ADB. 2011. *Public Communications Policy 2011: Disclosure and Exchange of Information*. Manila.

29. An indigenous peoples plan (IPP) has been prepared in consultation with Khmu, Hmong, and Makong ethnic groups living in project areas. The project will benefit these groups by (i) formalizing community management of tourist attractions in ancestral territories, (ii) promoting cultural industries to create income-generating opportunities, and (iii) improving physical access markets and social services. The IPP specifies that indigenous peoples will be represented in tourism destination management organizations and includes measures to protect intangible cultural resources. The IPP and resettlement plans will be updated and finalized at the detailed design stage, cleared by the government and ADB, and posted to the ADB website.

F. Risks and Mitigating Measures

30. The overall risk for the project is assessed as low and the benefits and impacts are expected to outweigh the costs. Major risks and mitigating measures are summarized in Table 5 and described in detail in the risk assessment and risk management plan.³¹

Table 5: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Delays in civil works procurement and safeguards implementation	Advance actions for consultant recruitment and capacity building for procurement, financial management, and safeguards
Asynchronous implementation of subregional activities	MICT will appoint counterparts with regional planning and coordination experience. One of the functions of the subregional and national steering committees is resolution of implementation issues.
Lower-than-expected tourist arrivals undermine private sector and community interest in operating tourist attractions	Destination marketing programs target fast-growing priority markets. All subprojects are situated in multicountry tour circuits being promoted by all Greater Mekong Subregion countries.
Ineffective financial management undermines infrastructure O&M	Preparation of O&M plans for all infrastructure subprojects and financial management training for entities responsible for O&M

MICT = Ministry of Information, Culture and Tourism; O&M = operation and maintenance.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

31. The government has 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 has agreed with ADB on certain covenants for the project, which are set forth in the loan agreement.

V. RECOMMENDATION

32. 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 the loan in various currencies equivalent to SDR25,932,000 to the Lao People's Democratic Republic for the Greater Mekong Subregion Tourism Infrastructure for Inclusive Growth 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 loan agreement presented to the Board.

Takehiko Nakao
President

15 August 2014

³¹ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Increased tourism employment for people living in underdeveloped segments of the GMS Central Corridor</p>	<p>By 2025:</p> <p>Aggregate tourism employment in the four project provinces is 70,000; 50% of jobs held by women (2012 baseline: 43,000 jobs)^a</p>	<p>MICT tourism statistics report</p> <p>WTTC travel and tourism economic impact report</p>	<p>Assumption</p> <p>Residents of project areas continue to seek employment in the tourism sector</p> <p>Equal access to opportunities, resources, assets, and decision making</p>
<p>Outcome</p> <p>Increased tourism receipts in Champassak, Khammouane, Luangprabang, and Oudomxay</p>	<p>By 2019:</p> <p>Aggregate annual tourism receipts in the four project provinces equals \$330 million (2012 baseline: \$160 million)</p>	<p>MICT tourism statistics report</p> <p>Completion report</p>	<p>Assumptions</p> <p>Government continues to support policies that facilitate travel, tourism, and regional tourism cooperation</p> <p>Responsible agencies effectively implement destination management plans</p> <p>Risk</p> <p>Ineffective financial management undermines infrastructure O&M</p>
<p>Outputs</p> <p>1. Last-mile tourism access infrastructure improved</p>	<p>By 2018:</p> <p>Xang Cave 4.0 km paved access road and tourism amenities constructed and benefiting at least 1,900 residents</p> <p>Chomphet Heritage District 2.2 km paved access road, ferry terminal, and upgraded river piers constructed and benefiting at least 2,100 residents</p> <p>Ban Xang Hai–Tham Ting Cave 10.0 km paved access road and upgraded river piers constructed and benefiting at least 3,000 residents</p> <p>Chom Ong Cave 54.0 km paved access road and tourism amenities constructed and benefiting at least 8,000 residents</p>	<p>Project progress reports</p> <p>End of project impact evaluation</p> <p>Completion report</p>	<p>Assumption</p> <p>Infrastructure is suitably constructed for dual use by residents and tourists</p> <p>Risk</p> <p>Delays in civil works procurement and safeguards implementation</p>
<p>2. Environmental services in cross-border tourism centers improved</p>	<p>By 2018:</p> <p>That Sikhottabong 2 km internal road and drainage upgrade, solid waste transfer station, tourist information center, and 10 hectares of rehabilitated urban green space with flood protection benefiting 35,000 residents in Thakhek City</p>	<p>Project progress reports</p> <p>End of project impact evaluation</p> <p>Completion report</p>	<p>Assumption</p> <p>Residents and tourists are willing to pay for improved environmental services</p> <p>Risk</p> <p>Delays in civil works procurement/safeguards implementation</p>
<p>3. Institutional capacity to promote inclusive tourism growth strengthened</p>	<p>By 2019:</p> <p>Eight DMOs formed with systems and procedures in place to implement destination management plans (40% of DMO management positions are held by women)</p>	<p>Project progress reports</p> <p>End of project impact evaluation</p> <p>Completion report</p>	<p>Assumptions</p> <p>Public and private entities maintain their commitment to improve destination management.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
	<p>At least 80% of newly constructed vendor space allocated to women</p> <p>Awareness of heritage protection measures, health and safety, and tourism impacts increases among 6,000 people (50% women)</p> <p>Operators of 500 small and medium-sized enterprises (50% of whom are women) gain access to professional tourism-related business support services and microfinance</p> <p>At least five service enterprises are operating tourist attractions under public-private partnerships</p>		<p>Risk</p> <p>Lower-than-expected tourist arrivals undermine private sector and community interest in operating tourist attractions</p>
4. Effective project implementation and knowledge management	<p>By 2019:</p> <p>PCU and PIU staff possess the knowledge, skills, and equipment needed for effective project management (at least 30% of PCU and PIU staff are women)</p> <p>12 new knowledge products published to the Lao People's Democratic Republic's web-based tourism knowledge center</p> <p>20% of tourism enterprises in the four project provinces meet ASEAN tourism standards</p> <p>Collection and reporting of tourism statistics by all GMS national tourism organizations in a harmonized format</p> <p>At least three joint marketing activities undertaken annually in cooperation with another GMS country (2012 baseline: 1 event)</p> <p>Well-maintained infrastructure in accordance with O&M plans</p> <p>PCU and PIU staff effectively implement gender-sensitive PPMS, with sex-disaggregated data</p>	<p>Project progress reports</p> <p>Internet search</p> <p>GMS Tourism Working Group summary of proceedings</p> <p>End of project impact evaluation</p> <p>Completion report</p>	<p>Assumptions</p> <p>Suitably qualified counterparts are appointed full-time to the PCU and PIUs</p> <p>Timely recruitment of qualified consultants</p> <p>Risk</p> <p>Asynchronous implementation of regional activities</p>
Activities with Milestones			<p>Inputs</p> <p>Amount</p> <p>(\$ million)</p>
1. Last-mile tourism access infrastructure improved			ADB (loan): \$40.00
1.1 Prepare detailed civil works design and bidding documents by Q2 2015			Item
1.2 Approve updated safeguards documents (IEE, IPP, and resettlement plan) by Q2 2015			Civil works 24.60
1.3 Complete land acquisition and resettlement by Q2 2015			Equipment 1.47
1.4 Award civil works contracts by Q1 2016			Consulting services 2.46
1.5 Complete civil works and supply equipment by Q4 2017			Capacity building and training 2.63
2. Environmental services in cross-border tourism centers improved			Recurrent costs 1.44
2.1 Prepare detailed civil works design and bidding documents by Q2 2015			Finance charges 0.79
2.2 Approve updated safeguards documents (IEE and IPP) by Q2 2015			Contingencies 6.61
2.3 Award civil works contracts by Q1 2016			
2.4 Complete civil works and supply equipment by Q4 2017			
3. Institutional capacity to promote inclusive tourism growth strengthened			
3.1 Prepare destination management plans by Q4 2015			
3.2 Implement heritage protection and interpretation program from Q4 2014 to Q4 2018			
3.3 Implement enterprise support program from Q4 2014 to Q4 2018			

Activities with Milestones	Inputs	Amount (\$ million)
3.4 Implement health, safety, and tourism awareness programs from Q4 2014 to Q4 2018	Government:	\$3.57
3.5 Facilitate establishment of public–private partnerships from Q2 2015 to Q4 2018	Item	Amount
3.6 Implement national marketing and promotion program from Q2 2015 to Q4 2018	Land and resettlement	0.06
3.7 Implement program to combat child exploitation and human trafficking from Q2 2015 to Q4 2018	Taxes and duties	2.46
4. Effective project implementation and knowledge management	Recurrent costs	1.06
4.1 Establish project steering committees, PCU, and PIUs by Q2 2014		
4.2 Mobilize consultants and procure PCU and PIU equipment by Q4 2014		
4.3 Implement training on financial management by Q1 2015		
4.4 Finalize and train PCU and PIU staff to implement comprehensive sex-disaggregated PPMS, including safeguards monitoring from Q1 2015 to Q2 2019		
4.5 Establish and maintain web-based knowledge center from Q1 2015 to Q2 2019		
4.6 Implement gender action plan, IEE and EMPs, IPP, and resettlement plans from Q1 2015 to Q2 2019		
4.7 Implement GMS marketing and statistics harmonization programs from Q2 2015 to Q2 2019		
4.8 Implement ASEAN tourism standards program from Q2 2015 to Q2 2019		
4.9 Approve and implement O&M plans with sustainable finance mechanisms from Q4 2015 to Q2 2019		
4.10 Update baseline information and prepare end of project impact evaluation from Q1 2015 to Q2 2019		

ADB = Asian Development Bank; ASEAN = Association of Southeast Asian Nations; DMO = destination management organization; GMS = Greater Mekong Subregion; IEE = initial environmental examination; IPP = indigenous peoples plan; km = kilometer; MICT = Ministry of Information, Culture and Tourism; O&M = operation and maintenance; PCU = project coordination unit; PIU = project implementation unit; PPMS = project performance management system; Q = quarter, WTTC = World Travel and Tourism Council.

Notes:

1. Baseline year is 2012 and baseline figures zero unless otherwise indicated.
2. Progress reports comprise quarterly, annual, midterm, and the government's completion report.
3. Numbers may not sum precisely because of rounding.

^aBased on receipts to job ratio of \$3,776 = 1 job in 2012; and \$7,120 = 1 job in 2025.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=46293-003-3>

1. Loan Agreement
2. Sector Assessment (Summary): Greater Mekong Subregion Tourism
3. Project Administration Manual
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Financial Analysis
7. Economic Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination: For the Project
12. Initial Environmental Examination: Oudomxay Subprojects
13. Initial Environmental Examination: Luangprabang Subprojects
14. Initial Environmental Examination: Khammouane Subprojects
15. Resettlement Plan: Oudomxay
16. Resettlement Plan: Luangprabang
17. Resettlement Plan: Khammounae
18. Indigenous Peoples Plan
19. Risk Assessment and Risk Management Plan

Supplementary Documents

20. Lessons From Past Greater Mekong Subregion Tourism Projects
21. Tourism Demand Analysis
22. Consultation and Participation Plan
23. Institutional Analysis and Arrangements for Operation and Maintenance of Project Facilities
24. Climate Change Resilience Measures