1. Country and Sector Background

A. Country Context

1. Vietnam’s economic trajectory has been impressive over the past twenty years. Comprehensive economic reforms, sound macroeconomic management and significant investment in infrastructure have led to rapid economic growth. Real GDP grew at an annual rate of 7.2 percent between 1995 and 2009; and real GDP per capita increased more than sixfold, from US$170 to US$1,052, between 1993 and 2010. Exports continued their rapid growth, reaching two thirds of GDP in 2009 (US$57 billion); and foreign direct investment inflows remain among the highest in the world relative to the size of the economy. This remarkable economic performance over the past two decades has propelled Vietnam into the ranks of lower middle income countries.

2. A major catalyst for this economic progress has been Vietnam’s strategic investment in infrastructure. Vietnam has been among the world’s leaders in infrastructure investment with recent annual expenditures reaching 9-10 percent of GDP, about half of which is in transport. Investment in infrastructure will continue for many years to come not only to avoid current infrastructure bottlenecks but to support the country’s economic growth and poverty alleviation targets. This will require further expansion of the road, rail, and waterway transport networks and an improvement in quality to meet increasing needs.
3. The Central region lags behind the Northern and Southern regions in economic growth and poverty alleviation. Despite the economic growth in the Central region, it still lags well behind the Northern and Southern regions of the country. In 2008, the Central region’s per capita income and poverty level stood at VND10.1 million (about US$612 at the average market exchange rate) and 14.7 percent, respectively. Comparable levels for income and poverty in the Northern region are VND12.6 million (about US$760) and 8.7 percent; and for the Southern region VND19.8 million (about US$1,196) and 3.7 percent. Interventions that enhance the connectivity between the Central region and the more economically dynamic Northern and Southern regions can be particularly effective in reducing the interregional gap in standards of living.

B. Sectoral and Institutional Context

4. Sustained high economic growth has been accompanied by a rapid rise in transport demand. Road transport demand has grown, and continues to grow, rapidly. Between 1995 and 2007, transport volume for passenger travel (measured in passenger-km) and freight (measured in ton-km) increased at an annual average rate of 9.4 percent and 12.3 percent, respectively. These rates were considerably higher than the average rate of real GDP growth over the same period (7.4 percent). The rise in transport demand is also illustrated by a fast expansion in vehicle ownership: from 1995 to 2008, the number of registered vehicles increased from about 4 million to 27 million. Going forward, sustained growth in per capita income will continue to drive increases in auto ownership, with the latter expected to grow fourfold by 2020.

5. Vietnam faces high overall logistics costs. Logistics costs have been estimated at about 25 percent of GDP, a considerably higher ratio than that of other countries in the region, such as China (at 15 percent). Inadequate infrastructure is one of the main determinants of Vietnam’s costly logistics and a recurrent concern for foreign investors. The Logistics Performance Index (LPI), as estimated by the World Bank in 2010, shows that Vietnam attains its lowest score among the various index components in the infrastructure quality and reliability indicator, where it ranks 66th out of 155 countries (Vietnam ranks 53rd on the composite LPI). However as Vietnam has transitioned to Middle Income status, the country will require more reliable and higher quality logistics systems to meet the demand of new industries.

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1 General Statistics Office of Vietnam, *Result of the Survey on Household Living Standards 2008*. The government-defined income poverty line for 2008 was VND3.48 million per person per year for rural areas and VND4.44 million per person per year for urban areas.


3 Based on a structured survey of multinational freight forwarders and express carriers, the LPI measures a country’s logistics performance across six dimensions: (i) efficiency of the customs clearance process; (ii) quality of trade- and transport-related infrastructure; (iii) ease of arranging competitively priced shipments; (iv) competence and quality of logistics services; (v) ability to track and trace consignments; and (vi) frequency with which shipments reach the consignee within the scheduled or expected time. The index is produced by the World Bank biannually, and is presented as a composite metric (i.e., as a single, overarching measure of logistics performance), as well as for each of the six logistics dimensions individually.
6. In 2005 Vietnam formally adopted a medium- to long-term expressway strategy through 2020. Updated twice since (most recently in 2009, which included a vision to 2030), the strategy comprises two broad development pillars: (i) the building of a national expressway network, where priority will be given to sections along the trunk North-South system; and (ii) the development of the institutional infrastructure necessary to plan, fund, operate, and regulate the expressway sector. The priority North-South corridor, about 1,800 km in length, connects the country’s Northern, Central, and Southern Regions, which are anchored in the Hanoi, Da Nang, and Ho Chi Minh City (HCMC) metropolitan area markets, respectively, and are designated as the country’s Focal Economic Zones. The expressway strategy’s focus in the early stages has been on the Northern and Southern Regions (where Hanoi and HCMC alone account for close to a third of Vietnam’s GDP), and is gradually expanding to include key sections of the Central Region.

7. The transport sector is crucial for better economic integration of the Central region with the rest of the country. Future travel demand for passenger and freight between the Central region and Vietnam’s largest cities is expected to grow rapidly. Specifically, travel demand for both passengers and freight between Da Nang and either HCMC or Hanoi is expected to increase fivefold by 2030. In the Central region, National Highway 1 (NH1) is the sole continuous north-south highway link, but has only one traffic lane in each direction in its highest priority corridor between Da Nang and Quang Ngai. It serves primarily long-distance travel, with 40 percent of vehicles traveling the full length of the corridor. In addition to NH1, major transport infrastructure in the Central region includes Da Nang port (the country’s third largest), the oil port of Dung Quat (100 km south of Da Nang), a section of the 1,730 km long single-track railway line between Hanoi and HCMC, and the coastal waterways running along Vietnam’s shoreline. Adding an expressway facility in Central Vietnam would provide the necessary capacity, help reduce road accidents, and facilitate both domestic and international trade through regional integration.

8. Implementation of the expressway strategy has been carried out so far by the Vietnam Expressway Corporation (VEC). VEC was established in late 2004 as a separate legal entity owned by the Ministry of Transport (MoT) with a mandate which includes investment in expressway construction, management, maintenance and toll collection, construction and operation of related facilities, and the planning, appraisal, design, and supervision of construction. VEC is expected to be financially independent from the Government in that its revenues, expenditures, assets, and liabilities are recorded and accounted for on a separate basis. VEC is presently responsible for the development of six expressway projects (including the proposed project), of which three are now under construction. The investment costs associated with these six projects, which would complete 807 km of expressway, is estimated at $7.2 billion.

9. Institutional arrangements for the development, management, and administration of the expressway network need to be further clarified and operationalized. The Government has proposed reforming the administration of Vietnam’s expressway program by establishing a dedicated administrative department within MoT (provisionally called the “Vietnamese

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Expressway Administration” or “VEA”) to coordinate the overall planning, investment, and management of an integrated national expressway network. The establishment of VEA will allow VEC to shed the role of being the ‘owner’ of the network and focus on being a developer. The development of the expressway system is a significant physical and financial commitment for the country, funding requirements will be in excess of $20 billion for the program to 2020. This program cannot be funded from government budget alone. Thus, MoT proposes to use public private partnership (PPP) modalities to fund the construction of selected sections. To build MoT’s capacity to maximize the use of PPP modalities in expressway development, MoT is proposing to establish a specialized division within MoT’s Department of Planning and Investment (DPI) to advise on structuring, implementing, and managing PPP contracts (the “PPP Cell”). Planning for the new VEA and a PPP cell for MoT has been completed, and these plans now need to be put into effect. The intent of the above changes in institutional arrangements is to improve service provision but to do so will require a number of changes to laws, regulations, institutions, and the management of network operations.

2. Objectives

10. The project’s development objectives are to construct an expressway that will enhance efficiency and safety for road users travelling between Da Nang and Quang Ngai and build institutional capacity for expressway development in Vietnam’s Ministry of Transport.

3. Description

11. **Component 1: Da Nang – Quang Ngai Expressway**

(a) Construction of a four-lane expressway from National Highway 1A, to the south of Da Nang province, to Quang Ngai province, including construction of a main carriageway, bridges, viaducts, and culverts, a tunnel, connection and service roads, and intersections, and related maintenance and rehabilitation of the local road network, in two parts: (i) from Da Nang province to Tam Ky city in Quang Nam province; and (ii) from Tam Ky city to Quang Ngai province.

(b) Construction of a two-lane highway, including bridges, from the southern end of such expressway to National Highway 1A, in Quang Ngai province.

(c) Compensation, resettlement, and rehabilitation, including livelihood restoration, of Project Affected Persons.

(d) Establishment of an integrated traffic management and toll collection facilities system, and design, installation, and commissioning of an intelligent transport system for the operation, management, and maintenance of such expressway.

12. **Component 2: Project Implementation Support and Institutional Strengthening**
(a) Provision of technical assistance to the Vietnam Expressway Corporation (VEC) in relation to (i) Project implementation, including: (A) construction supervision; (B) integrated review and monitoring; (C) financial auditing; and (D) implementation of the Governance, Transparency, and Anti-Corruption Plan; and (ii) capacity building for financial management.

(b) Capacity building of: (i) and provision of policy support to the Ministry of Transport in relation to: (A) expressway planning and network management, including establishment and operationalization of an expressway planning and network management entity; and (B) operationalization of said Ministry’s public-private partnerships cell; and (ii) the Inspectorate Department in relation to its mandate of governance and anti-corruption.

4. Financing

Source: ($m.)

BORROWER/RECIPIENT 116.6
International Bank for Reconstruction and Development 523.6
International Development Association (IDA) (standard and hard term) 89.9
JAPAN: Japan International Cooperation Agency (JICA) 673.6

Total 1,403.7

5. Implementation

13. The Ministry of Transport will be the ‘Line Agency’ for the project and will have the overall responsibility for overseeing the implementation of the Project, reporting to GoV, and fulfilling the requirements of IDA and IBRD.

14. The Vietnam Expressway Corporation will be the ‘Project Owner’ for all components except for Component 2(b) (Institutional Support Services to the Ministry of Transport). VEC will also be responsible for the recruitment and supervision of the detail design consulting services for the Project. VEC will be responsible for key approvals and for processing project funding arrangement documents through GoV. VEA, the proposed Vietnamese Expressway Authority, would not have any role in the implementation of this project during the construction stage; however, during the project’s operations and maintenance stage VEA will likely be responsible for regulatory oversight.

15. Under VEC, PMU1 and PMU85 (the PMUs) will be the ‘Implementation Units’ for the Project, responsible, respectively, for the Bank funded section of the expressway (from Tam Ky to Quang Ngai) and for the JICA funded section (from Da Nang to Tam Ky). Specialized agencies of MoT, PMU1 and PMU85 have extensive experience working with and implementing Bank and JICA projects, respectively.

16. The MoT’s Department for Planning and Investment (DPI) will be the ‘Project Owner’ for Component 2(b) (Institutional Support Services to the Ministry of Transport). DPI

5 DQEP is one of six expressway projects under VEC’s management.
will be responsible for approving, coordinating, and monitoring works plans and quality for all work undertaken under Component 2(b). PMU1 will be the ‘Implementation Agency’ with responsibility for the recruitment and contract administration for consultants engaged under this Component.

17. The **Provincial People’s Committees (PPCs) of Da Nang, Quang Nam, and Quang Ngai** will be responsible for the implementation of all activities under the project RAPs in their respective provinces.

6. **Sustainability**

18. **Physical Sustainability.** The overall road design is considered physically sustainable as the proposed design standards are generally consistent with international standards. The expressway alignment is a reasonable compromise between the optimum technical alignment and one which minimizes social and environmental impacts. Interchange layouts are consistent with an optimized tolling arrangement with all traffic being brought to a single toll plaza. Maintenance of the completed facility will be undertaken by Vietnam Expressway Management Administration (VEMA), which has been established, but is not yet operating, under VEC as a specialist subsidiary to provide operation and maintenance services for expressways for which VEC is responsible. JICA funding for the project includes a package for maintenance facilities and equipment, which will be operated by VEMA under contract to VEC with funding from toll revenues. Under a separate project, JICA is also providing funding for technical assistance to MoT and VEC to establish national maintenance standards for the expressway network and to provide capacity building, including training, for VEMA.

19. **Financial Sustainability.** Sustainability of DQEP requires VEC to have the necessary financial resources for the expressway’s operation and maintenance and debt servicing. At this stage of its development VEC cannot generate sufficient revenues from this project or its other projects to cover the financial obligations of DQEP, let alone the obligations of its other expressway projects. Consequently, clear mechanisms have been developed to ensure that VEC has the capacity to meet the financial obligations of DQEP, and technical assistance will be provided through the project to help VEC better manage its financial situation with regard to all current and planned projects under its mandate. These are discussed in paragraphs 20 and 21, below.

20. **Financial sustainability of DQEP due to initial low level of revenues.** The financial appraisal of the DQEP (next section) shows that the project revenues are insufficient to cover O&M costs, capital costs, and debt servicing. While this is normal, as explained above, there is a need to safeguard the project’s financial sustainability. This is being addressed in the design of the Project through the provision of a financial sustainability guarantee by the government that ensures that VEC receives the necessary funds, on an annual basis, to cover any deficit between the project’s financial receipts, principally from toll revenues, and project expenditures. Allowable expenditures will include all project-specific expenditures to operate and maintain the facility and to cover debt servicing requirements. Debt servicing requirements will be based on the on-lending terms on which VEC receives the project funds from the Ministry of Finance (MoF). These terms will in turn depend on the terms of lending by IDA/IBRD/JICA to MoF.
21. **Financial viability of VEC.** VEC does not have the financial capacity for the construction, operation, and management of the six expressways under its mandate without financial support from the government for possibly up to 10 years. This is not unexpected given the early stage of Vietnam’s expressway development, where a number of expressways are being developed at a large capital cost (primarily funded with debt), while revenues have not materialized and will start at a relatively low base. VEC currently has a high debt to equity ratio (81 percent) which limits its capacity to further borrow. VEC’s debt to equity ratio would be expected to increase to over 95 percent with DQEP. To deal with VEC’s financial health question, the project design includes the provision for technical assistance to VEC to build capacity for financial planning and management, including debt planning, management, and strategies. This is a longer term process that requires an engagement over a number of years. While the proposed TA is expected to significantly strengthen VEC’s financial performance, further strengthening is envisioned through a continued engagement with MoT and VEC over a series of expressway projects. Financial projections of VEC as a whole carried out by the Bank utilizing data provided by VEC show that the corporation should be able to generate positive net cash surpluses beginning in 2018, meet all its debt obligations, and remain financially viable over the medium term (through 2020). The analysis provides clear assurance, as indeed experience indicates, that the financial support to VEC will not be open ended.

7. **Lessons Learned from Past Operations in the Country/Sector**

22. **Preparation and timing.** The inclusion of detailed design and civil works procurement in investment projects in Vietnam has usually resulted in low disbursements over the initial 2-3 years of implementation. For the DQEP, consulting services to assist the government in the detailed design and civil works procurement are being funded from the Road Network Improvement Project (RNIP). Contract award is planned for February 2011, which could result in the avoidance of up to 2 years of disbursement delays when compared to previous projects.

23. **Implementation of Resettlement Plans.** Project design reflects lessons learned from the implementation of resettlement plans in transport projects in Vietnam: (i) establishment of Independent Grievance Redress Committees (GRCs) that include members from civil society and representatives of the affected households; (ii) use of an independent land valuation study, to determine prevalent market rates for different types of affected land assets; and (iii) provision of assistance during detailed design for the preparation of detailed resettlement action plans, and during construction, to support the implementation and monitoring of resettlement plans.

24. **Packaging of Civil Works Contracts.** The road sector construction industry in Vietnam is dominated by StateOwnedEnterprises (SOEs), most of which are either owned or controlled by MoT. As such, they are ineligible for Bank-funded projects. Although private sector owned contractors are beginning to develop, they are limited by resources and experience to relatively small contracts. To ensure that an adequate number of qualified, eligible contractors engage in the bidding for civil works packages on the project, the packages need to be sufficiently large to draw interest from international contractors. Based on recent experience from other donor funded expressway projects, contracts have been packaged at a minimum of $75 million.
25. **Effective Implementation Supervision.** As the DQEP work will be confined to three provinces in Central Vietnam, and will be implemented under a small number of large civil works contracts with responsibility for all procurement and management being with VEC, the project will avoid the implementation difficulties faced by some of the Bank’s Vietnam Transport projects with a large number of small contracts stretched over a large geographic area with many implementation agencies.

8. **Safeguard Policies (including public consultation)**

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26. Two rounds of public consultations were carried out in the early and final stages of EIA preparation. The public consultation involved directly affected inhabitants and local authorities and took the form of public meetings, questionnaires, and interviews.

27. The results of the public consultation indicate that most of the affected people are supportive of the Expressway project and are in favor of the benefits arising from the Expressway. Most of them are concerned about the policies concerning land acquisition, relocation, and house demolition, and thus expect a reasonable compensation for the loss due to land acquisition. The affected people also voiced their concerns regarding community isolation and impacts on farmland irrigation and expect that appropriate mitigation measures will be adopted.

28. During the project preparation stage, the Bank carried out extensive consultation on the Resettlement Action Plans (RAPs) with representatives of People's Committees of Da Nang City, Quang Nam, and Quang Ngai provinces. The three provinces (represented by respective Vice-Chairmen of the provincial People's Committees) have provided full support to the RAPs and have agreed to implement these RAPs. Consultations with the DPs and other key stakeholders will be carried out throughout the resettlement planning and implementation stage. Information on the key provisions of the RAPs has also been provided to the DPs.

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*By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties’ claims on the disputed areas*
9. **Contact Point**

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