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Enabling poor rural people to overcome poverty

President's report

Proposed loan and grant to the Socialist Republic of Viet Nam for the

Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces (SRDP)

Note to Executive Board representatives

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For: **Approval**

Contents

Abbreviations and acronyms

MoSEDP	market-orientated socio-economic development planning
PCU	project coordination unit
PPC	Provincial People's Committee
PSC	project steering committee
SCG	savings and credit group
SRDP	Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces
VCFU	value chain facilitation unit

Map of the project area

Socialist Republic of Viet Nam

Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces (SRDP)

President's report

IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD | 02-07-2013

Socialist Republic of Viet Nam

Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces (SRDP)

Financing summary

Initiating institution:	IFAD
Borrower/recipient:	Socialist Republic of Viet Nam
Executing agencies:	Provincial People's Committees of Ha Tinh and Quang Binh
Total project cost:	US$46.2 million
Amount of IFAD loan:	SDR 14.9 million (equivalent to approximately US$22.5 million)
Amount of IFAD grant:	SDR 330,000 (equivalent to approximately US$0.5 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier:	Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund)
Amount of cofinancing:	Spanish Trust Fund: EUR 7.9 million (equivalent to US$10.0 million)
Terms of cofinancing:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Contribution of borrower/recipient:	US$6.2 million
Contribution of beneficiaries:	US$7.01 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Socialist Republic of Viet Nam for the Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces, as contained in paragraph 44.

Proposed loan and grant to the Socialist Republic of Viet Nam for the Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces (SRDP)

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Since the 1986 decision of the Government of Viet Nam to introduce a wide-ranging set of reforms known as Đổi Mới (renovation), the economy has sustained strong economic growth. From 2001 to 2012, the GDP growth rate averaged 6.3 per cent, which has resulted in rapid poverty reduction. The current poverty rate stands at about 21 per cent. Due to this growth, almost 30 million people have been lifted out of poverty since the 1990s. These achievements have been accompanied by structural shifts in the economy, with an increase in the GDP proportion of industry and construction and a reduction in that of agriculture from more than 40 per cent in 1990 to about 20 per cent in 2011. The proportion of the labour force engaged in agriculture also dropped from more than 80 per cent in the 1990s to less than 50 per cent in 2012.

2. In recent years, the agricultural and rural sectors of the economy have demonstrated growth of about 4.5 per cent due to liberalization and private-sector engagement. The development of the rural economy, however, is still comparatively slow and not sustainable in many areas. Furthermore, agricultural production is increasingly facing problems with linkages to markets.

3. Poverty in rural areas remains a severe and chronic problem. It is concentrated in the upland areas of the north-east and north-west mountains, parts of the central highlands and the central coastal region. Economic development has improved living standards in rural areas, but has brought income inequity and environmental degradation. Urbanization and industrialization often deprive poor rural people of land access and leave behind unskilled labourers and unemployed youth, thus creating social problems.

4. The average income per capita in rural areas is less than 50 per cent of that in urban areas, and the rural poverty rate is nearly three times the urban rate. Many rural households are not considered poor, but maintain an income level just above the poverty line (the "near poor"). With little or no savings or state support and an almost total dependence on natural resource gathering and subsistence-level agricultural production, they are vulnerable to unexpected life events and shocks. Around 90 per cent of total spending of each person living in rural areas is for basic living costs and most of their income stems from agriculture, forestry and aquaculture production, and from wages derived from unskilled manual labour.

B. Rationale and alignment with government priorities and RB-COSOP

5. The Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces (SRDP) is designed to address a country context in which impressive

gains have been made with respect to rural poverty reduction in recent years, but large numbers of rural people remain poor or near poor. These people, many of whom are from ethnic minorities residing in remote areas characterized by difficult geographical conditions, remain vulnerable to external shocks such as catastrophic climatic events and the effects of changes in economic performance. There has been marked success in achieving the goals of the Programme for Improving Market Participation of the Poor (IMPP) in Ha Tinh and Tra Vinh Provinces and in the recently completed Decentralized Programme for Rural Poverty Reduction (DPPR) in Ha Giang and Quang Binh Provinces. Both have delivered a strong positive impact through project investment at the commune and village levels, increasing the participation of beneficiaries and enhancing the ownership of local authorities. The projects also introduced the concept of market-oriented poverty reduction. However success has been mainly limited to lowland and coastal areas, with little impact made in upland areas.

6. The SRDP activities are specifically designed to consolidate and scale up successful innovations through a more rigorous, better-resourced approach that is oriented towards market and value chain development. All interventions will have a neutral or positive effect on the ability of communities to adapt to events induced by climate change. It is foreseen that these interventions will eventually be rolled out province-wide to all communes and districts and institutionalized by provincial line agencies. The two provinces neighbour each other and share similar challenges and conditions, making it easier and more cost-effective to replicate interventions from one province to the other.

7. The project will underpin current government policies for rural development such as the National Target Program on New Rural Development and it is expected that the implementation experience under SRDP will inform policy at the central level in areas such as rural finance and decentralized management of development initiatives.

8. The strategic objectives of the current country strategic opportunities programme (COSOP) 2012-2017 will provide a sound basis for investment in market-oriented activities. The objectives are to: (i) enable poor rural provinces to carry out market-led, pro-poor rural development; (ii) improve access of rural poor people – particularly women – to commodity and labour markets; and (iii) enhance the capacity of poor rural households to adapt to climate change. The scaling up approach in the north central region is specifically identified in the COSOP.

II. Project description

A. Project area and target group

9. The SRDP project will be implemented in the two provinces of Ha Tinh and Quang Binh. Quang Binh has a population of 853,004, while the population of Ha Tinh is 1,229,197. As noted, the project will focus on upland areas because of: (i) their relative poverty; (ii) their significant populations of ethnic minorities; (iii) the prevalence of degradation and extreme climatic events; and (iv) the lack of business orientation within upland communities, despite the potential that exists for market-oriented agricultural enterprise development. The project area in Quang Binh includes 20,600 poor households, of which 4,300 are from ethnic minorities, and 9,200 are near poor. In Ha Tinh, the project communes include 19,100 poor households and 21,500 near poor households.

10. The project target groups are: rural poor households with land and labour resources; unskilled unemployed rural people; the landless; ethnic minorities who lack income and skills, and small and medium-sized rural traders and value chain entrepreneurs.

B. Project development objective

11. The goal of the project is to sustainably improve the incomes and reduce the vulnerability of rural poor households in targeted upland areas of Ha Tinh and Quang Binh. The development objective of the project is to invest in climate-smart, socially equitable and profitable rural development models that promote pro-poor market linkages and value chains and more competitive rural businesses.

C. Components/outcomes

12. The project has four components:

    (a) **Market-led development planning.** This component will support the adoption of a holistic, participatory, climate-smart and market-oriented approach to socio-economic development planning. The component will build on the market-oriented socio-economic development planning (MoSEDP) process that has been introduced in many communes in the project area. It will finance the consolidation of the MoSEDP process with a view to mobilizing private-sector investments at the commune level and provide capacity-building for farmers and agribusiness actors and government officials to create rural development models that are environmentally sustainable, socially equitable and profitable.

    (b) **Rural financial services.** This component will support more inclusive financing for market-oriented, climate-smart agriculture and agribusiness investments, and leverage financing for productive investments in farm and off-farm activities from existing credit lines. It will finance the establishment of women's savings and credit groups (SCGs) in the new communes covered by the project. In both provinces, it will also assist in transforming existing networks of women's SCGs into independent microfinance institutions (MFIs) capable of financing private farmers, traders and commercial value chains.

    (c) **Market and value chain investment.** This component will support the operationalization of environmentally sustainable and profitable pro-poor value chains and market linkages. Under the component, a participatory process will be followed to allocate forest land for use by poor households in Quang Binh, which will provide them with more opportunity to participate in market and value chain development and in the issuance of land certificates. In addition, the component will finance the establishment of a community fund to provide cofinanced investment for climate-smart agriculture production, public infrastructure facilities and public-private partnerships (PPPs).

    (d) **Project management.** The project management arrangements are outlined in section II, schedule 1 of the negotiated financing agreement.

III. Project implementation

A. Approach

13. The results of both the DPPR and the IMPP have demonstrated the value of the participatory approach and decentralization to commune and village level. They also prove that a pro-poor market-oriented approach based on public-private-partnership is feasible for project implementation and should be expanded. In particular, the MoSEDP process should be adopted for commune and village development planning. This approach will be strengthened and further refined during project implementation.

B. Organizational framework

14. The Provincial People's Committees (PPCs) of Ha Tinh and Quang Binh will be the lead project agencies. The PPCs will establish project steering committees (PSCs) to manage overall project implementation and ensure effective integration and

cooperation among all government and donor-funded projects. For day-to-day management, a project coordination unit (PCU) will be established in each province to assist the PSCs in coordinating the provincial agencies and in the actual management of the Government's and IFAD's resources.

15. The project will facilitate the establishment of provincial agribusiness advocacy committees comprising representatives of farmers' organizations, the private agribusiness sector and financial institutions, and relevant PPC officers. The purpose of the committees is to provide mentoring support to actors engaged in value chains supported by the PCUs and line agencies. All activities related to public investment in value chain development will be managed by the PCU, based on the project's annual workplan and budget approved by the PSC and subject to no objection by the Fund.

16. The project will establish value chain facilitation units (VCFUs) within each PCU. The VCFUs will benefit from national and international assistance and, in cooperation with line agencies, will undertake studies, consult and engage with industry entities to identify and evaluate potentially viable market and value chain interventions that are suited to the prevailing physical conditions of the project area.

17. The new SCGs will be established in the two provinces based on the experiences of earlier IFAD projects. The SCGs may be established through both the commune-based women's unions and the provincial women's unions as agreed between IFAD and the respective PPCs.

18. The Ministry of Planning at the central level shall be entrusted with IFAD grant proceeds to finance selective technical assistance, studies and capacity-building activities for Government aid coordination agencies engaged in IFAD-supported projects and programmes.

C. Planning, monitoring and evaluation, and learning and knowledge management

19. **Planning.** Investment planning at the community level will be grass-roots-based and will be undertaken directly through the MoSEDP process, which will initiate the preparation of investment plans for the public sector. With the support of the VCFU and provincial/district line agencies, private investors' proposals for investment support under the project will be channelled through the communes, and they will prepare estimates for private-sector activity financed by the project. The PCUs will be responsible for the generation of plans not directly derived from the MoSEDP process. This will include the provision of specialist training and technical assistance to line agencies. The PCUs will compile the consolidated annual plans and budgets for submission to the PPCs.

20. **Monitoring and evaluation.** The project's monitoring and evaluation (M&E) system will be designed to track and verify the levels of achievement of project outputs and associated outcomes, and of progress towards the project goal and development objective. These levels are all causally connected as set out in the project's logical framework. The strategic management section under the PCU will be in charge of setting up and operating the management information system (MIS), establishing and ensuring the M&E function, reporting and knowledge management. Project evaluation will include impact and thematic evaluations and will likewise be managed by the strategic management section.

21. **Learning and knowledge management.** The data management system will ensure that all reporting is completed and that information, reports and data are available in suitably accessible formats. The strategic management service will document lessons learned, best practices and cases of success by collecting all relevant information from progress reports, meetings, interviews and M&E reports. For dissemination, the strategic management section will produce communication

material summarizing success stories which will then be distributed through networks such as the IFADAsia portal and at policy dialogue workshops.

D. Financial management, procurement and governance

22. **Financial management.** The provincial PCUs will be responsible and accountable to the Government of the Socialist Republic of Viet Nam for the proper use of funds apportioned to them, in line with the IFAD General Conditions, respective legal agreements and contractual arrangements for service providers. They will provide detailed financial statements of the operations, resources and expenditures related to the project for each fiscal year, prepared in accordance with standards and procedures acceptable to IFAD. The IFAD financial management assessment rated the fiduciary risk as medium; however, the project provinces have quite extensive experience in managing externally financed projects including those financed by IFAD, with generally good outcomes and accountability frameworks. The trained and competent staff dealing with financial management from previous projects supported by the Fund will also assume responsibility for SRDP thus minimizing the risk of inappropriate use of funds.

23. **Budgeting.** As noted, the PCUs will be responsible for compiling the consolidated annual workplan and budget, including the procurement plan for each province. Counterpart funds will be incorporated into the annual budget and will be released annually. Previous experience indicates that government contributions are provided as planned and in a timely manner.

24. **Fund flow.** The project will use five designated accounts (DAs) established in commercial banks acceptable to IFAD for funds originating from IFAD. In each province, two DAs will be opened: one for the IFAD loan funds (denominated in United States dollars and one for the Spanish Trust Fund loan (denominated in euros). A separate DA will be opened for the IFAD grant (denominated in United States dollars). Foreign currency amounts will be exchanged as needed into local currency to cover eligible expenditure payments in local currency to suppliers and contractors. The DAs shall be administered following imprest fund arrangements. Government funds will flow to a separate account.

25. **Procurement.** Procurement of goods, works and consulting services financed through IFAD under SRDP will be carried out in compliance with the IFAD Project Procurement Guidelines. National procurement regulations will be applied to the extent that they are compatible with the IFAD guidelines.

26. **Internal control and external audit.** Internal control systems will be established at the PCU level. Disbursement under the three grant windows supported by the community fund will be subject to the submission of manuals acceptable to the Fund. Auditors will be appointed based on a transparent and competitive selection process. The terms of reference for the project audit assignment will be agreed upon and will be subject to no objection by IFAD. The auditors will audit the project consolidated financial statements annually and audit reports will be submitted to IFAD within six months of the end of the relevant financial reporting period. The audit exercise will include the audit of a random selection of at least 15 per cent of community fund grants issued for climate-smart agriculture, public infrastructure or PPP investments. The selection of the auditors and the audit process itself will comply with IFAD's Guidelines on Project Audits and international auditing standards.

27. **Governance.** The PPC, District People's Committees and Commune People's Committees will have overall responsibility for project management and governance of all departments and agencies at their respective levels. This set up provides a built-in mechanism for checks and balances and oversight. The proven decentralized mode of project implementation means that most of the resources will be controlled by communes using participatory planning and implementation modalities which also add to accountability and minimize the risk of leakage. The

IFAD country office in Viet Nam has strong financial management capacity and provides periodic oversight as required.

E. Supervision

28. The project will be directly supervised by IFAD, in accordance with the ongoing arrangements in Viet Nam. The IFAD country office will manage the supervision process and carry out follow-up missions as required.

IV. Project costs, financing, benefits

A. Project costs

29. The total project costs, including physical and price contingencies as detailed in table 1, are estimated at US$46.2 million. Investment costs constitute approximately 87 per cent of total project costs, while physical and price contingencies make up about 2 per cent.

Table 1
Project cost summary
(United States dollars)

	Local	*Foreign*	*Total*	*% Foreign exchange*	*% Total base costs*
I. Investment costs					
A. Civil works					
Civil works	10 112.0	2 528.0	12 640.0	20	28
Design and supervision	2 462.0	-	2 462.0	-	5
Subtotal civil works	12 574.0	2 528.0	15 102.0	17	33
B. Equipment and goods	653.2	237.1	890.4	27	2
C. Vehicles	210.0	90.0	300.0	30	1
D. Technical assistance					
International technical assistance	-	416.0	416.0	100	1
National technical assistance	2 249.0	-	2 249.0	-	5
Subtotal technical assistance	2 249.0	416.0	2 665.0	16	6
E. Training	5 577.0	256.0	5 833.0	4	13
F. WSCG financing	3 092.0	-	3 092.0	-	7
G. Grants*	11 560.0	-	11 560.0	-	26
Total Investment costs	35 915.2	3 527.1	39 442.3	9	87
II. Recurrent costs					
A. Salaries	3 627.0	-	3 627.0	-	8
B. Operation and maintenance	552.0	138.0	690.0	20	2
C. Other operating costs	1 503.3	66.7	1 570.0	4	3
Total recurrent costs	5 682.3	204.7	5 887.0	3	13
	41 597.5	3 731.8	45 329.3	8	100
Physical contingencies	135.4	22.1	157.5	14	-
Price contingencies	642.5	49.5	692.0	7	2
	42 375.5	3 803.3	46 178.8	8	102

* Eligible expenditures under component 3, market and value chain investment. The community fund will support: (i) a programme of matching grants for climate-smart agriculture; (ii) public infrastructure investment grants for financing items considered as public goods that are judged essential to market and value chain development at commune/district level; and (iii) public-private partnership infrastructure investment grants for financing infrastructure for private operation and use that facilitate market or value chain development.

B. Project financing

30. The project will be financed by IFAD, the Spanish Trust Fund, the Government of Viet Nam and the beneficiary contribution, which will be both in cash and in kind (table 2). An IFAD loan in the amount of approximately US$22.5 million (about 49 per cent of total project costs) and an IFAD grant of about US$0.5 million (1 per cent) will be managed by the Ministry of Planning and Investment. A loan from the Spanish Trust Fund of about US$10 million equivalent (EUR 7.9 million)

will finance 22 per cent of the total project costs. The government contribution is estimated at US$6.2 million (13 per cent) and includes budget financing of salaries and all taxes. Approximately US$7 million or 15 per cent will be provided by the beneficiaries.

Table 2
Financing plan by component and financiers
(Thousands of United States dollars)

	IFAD loan		Cofinancier		GOV taxes		GOV		IFAD grant		Beneficiaries		Total
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount
A. Market-led development planning													
1. Market-oriented socio-economic development planning	1 211.2	62.8	709.2	36.8	7.9	0.4	-	-	-	-	-	-	1 928.3
2. Capacity-building for market development	4 082.8	94.7	103.0	2.4	-	-	-	-	-	-	125.0	2.9	4 310.8
Subtotal market-led development planning	5 293.9	84.9	812.2	13.0	7.9	0.1	-	-	-	-	125.0	2.0	6 239.1
B. Rural financial services	4 077.7	93.5	238.5	5.5	43.2	1.0	-	-	-	-	-	-	4 359.4
C. Leveraged market and value chain investments													
1. Participatory forest land allocation	-	-	475.4	60.0	0.0	-	316.9	40.0	-	-	-	-	792.4
2. Community fund	12 265.0	46.3	5 980.0	22.6	1 323.2	5.0	-	-	-	-	6 893.8	26.1	26 462.0
Subtotal leveraged market and value chain investments	12 265.0	45.0	6 455.4	23.7	1 323.2	4.9	316.9	1.2	-	-	6 893.8	25.3	27 254.4
D. Programme management	863.6	10.4	2 494.4	30.0	449.1	5.4	4 018.7	48.3	500.0	6.0	-	-	8 325.9
Total project costs	22 500.3	48.7	10 000.6	21.7	1 823.4	3.9	4 335.7	9.4	500.0	1.1	7 018.8	15.2	46 178.8

C. Summary benefit and economic analysis

31. The project is expected to generate net incremental benefits for farmers and rural entrepreneurs in the project provinces. Benefits will accrue from: (i) increased crop and forest yields and livestock productivity due to the application of improved inputs and input supply, increased irrigation and climate-smart agricultural technologies; (ii) an increased proportion of marketed farm produce; (iii) reduced losses during production, processing and transportation of produce through innovative technology and improved rural infrastructure; (iv) improved quality of products, thus attracting higher prices; (v) enhanced access to longer-term credit and to matching grants and guaranteed market outlets; (vi) increased employment either for hired or for family labour in on-farm and off-farm activities; and (vii) increased tax revenues.

32. The financial analysis of four production models, eight smallholder farm/enterprise models and two infrastructure models serving as building blocks for four value chain models shows robust and satisfactory returns.

33. **Economic analysis.** The economic analysis shows an economic internal rate of return (EIRR) of 17 per cent and a net present value of US$12.4 million calculated over 20 years with the benefit stream based on the quantifiable benefits that relate directly to the activities undertaken following implementation of the components. The sensitivity analysis reveals solid returns. The switching values show that the project would be economically viable even if benefits decreased by 23 per cent and investment costs increased by 38 per cent. A one-year delay in project benefits reduces the EIRR to 15 per cent. With a two-year delay in project benefits, the EIRR falls to approximately 13 per cent.

D. Sustainability

34. The emphasis of the project is on increasing private-sector activity and competitiveness in the specific subsectors targeted for investment. The most important determinant of the sustainability of such investments and, by extension, provision of expected benefits, is their continued profitability. The approach adopted provides strong grounds for the expectation that a large majority of investments will endure. The main tools used by the project to enhance prospects of private business sustainability will be: (i) enhanced capacity of government staff, farmers and private rural enterprise actors to analyse and prioritize investment choices; (ii) rigorous scrutiny of business proposals by SRDP and collaborating financial institutions; (iii) the commitment of a substantial proportion of investment from the client's own financial resources; (iv) the complementary public investment in infrastructure designed to improve business conditions and lower costs; and

(v) the focused approach to investment within the communes provided by the MoSEDP process with the participation of the private sector.

E. Risk identification and mitigation

35. The main risks at the development objective level include macro-economic stagnation and decline, and reversal of liberal market-based economic policies. In the short term, these appear to be unlikely and the prospects for modest economic growth remain sound. The main risk at the outcome level is associated with elite capture of the benefits targeted at poor inhabitants of the project area. Although this risk is significant, the project design has a number of in-built devices that mitigate this particular concern: the use of specially trained value chain units to assist at the commune level; careful screening of all public investments generated through the MoSEDP; and rigorous use of screening and approval of private investment proposals to ensure that there are strong backward linkages to the primary target group.

V. Corporate considerations

A. Compliance with IFAD policies

36. The project complies with the relevant IFAD policies on targeting, gender, rural finance, and private-sector engagement. With respect to targeting the project is rigorously aimed at assisting the most vulnerable groups in upland areas including ethnic minorities. Specific targets have been incorporated for the participation of women in project activities.

B. Alignment and harmonization

37. The concept for SRDP was approved by the Government as part of the 2012 COSOP and each step of the design cycle has had government approval. The SRDP is closely aligned with the key directions of the Government's National Target Program on New Rural Development in terms of overall orientation and implementation modalities.

38. The project is harmonized with and complements the ongoing initiatives of other donors such as Agence française de développement and the World Bank in the areas of technical assistance for microfinance at the national level and accessing existing credit lines for agro-industries.

C. Innovations and scaling up

39. The establishment of a sustainable institutional framework for microfinance is a significant innovation at both the provincial and the national level and has high potential for scaling up in other provinces. In addition, based on the successful experience in Ha Tinh, the MoSEDP process is in the initial stages of being rolled out at the national level.

D. Policy engagement

40. IFAD, along with other donors such as the World Bank, the Food and Agriculture Organization of the United Nations (FAO) and the Japan International Cooperation Agency, is already intensively engaged in policy dialogue with the Government regarding the development of PPP frameworks and scaling up of the MoSEDP instrument. IFAD is also engaged in dialogue with the State Bank concerning microfinance development. The documented experience of SRDP will provide an important input to these talks.

VI. Legal instruments and authority

41. A project financing agreement between the Socialist Republic of Viet Nam and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is herewith attached as an annex.

42. The Socialist Republic of Viet Nam is empowered under its laws to receive financing from IFAD.

43. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

VII. Recommendation

44. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Socialist Republic of Viet Nam in an amount equivalent to fourteen million nine hundred thousand special drawing rights (SDR 14,900,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Socialist Republic of Viet Nam in an amount equivalent to three hundred thirty thousand special drawing rights (SDR 330,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as Trustee, shall provide a loan on highly concessional terms to the Socialist Republic of Viet Nam in an amount equivalent to seven million nine hundred thousand Euro (EUR 7,900,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces"(SRDP)

(Negotiations concluded on 2 August 2013)

IFAD Loan Number: ___________________

IFAD Grant Number: __________________

Trust Loan Number: ___________________

Project Title: Sustainable Rural Development for the Poor Project in Ha Tinh and Quang Binh Provinces (the "Project")

The Socialist Republic of Viet Nam (the "Borrower/Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

and

The Spanish Food Security Cofinancing Facility Trust Fund (the "Trust")

(each a "Party" and all of the collectively the "Parties")

WHEREAS the Executive Board of IFAD at its 100th session approved the establishment of the Trust and further approved that the Trust, acting through IFAD in its capacity as the Trustee, enter into a Borrowing Agreement with the Kingdom of Spain; and

WHEREAS the Kingdom of Spain and IFAD, in its capacity as Trustee of the Trust, have signed the Borrowing Agreement on 28 December 2010;

WHEREAS IFAD has agreed to extend financing to the Borrower/Recipient for the purpose of financing the Project, on the terms and conditions set forth in this Agreement;

WHEREAS, on the basis of the above and other considerations, the Trust has agreed to extend a Trust Loan to the Borrower/Recipient for the purpose of increasing the financing in respect of the above referenced Project, on the terms and conditions set forth in this Agreement;

NOW THEREFORE, the Parties hereto hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as amended by the Executive Board at its 108th session (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein. The term "Loan" in the General Conditions shall apply equally to the IFAD Loan and the Trust Loan.

3. The Fund shall provide a Loan and a Grant and the Trust shall provide a Trust Loan to the Borrower/Recipient (all of which are collectively referred to as the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

(a) The amount of the IFAD Loan is fourteen million nine hundred thousand Special Drawing Rights (SDR 14.9 million).

(b) The amount of the IFAD Grant is three hundred thirty thousand Special Drawing Rights (SDR 330 000).

(c) The amount of the Trust Loan is seven million nine hundred thousand Euro (EUR 7.9 million).

2. The IFAD Loan and the Trust Loan are provided on highly concessional terms as defined in Section 5.01 (a) of the General Conditions.

3. (a) The Loan Service Payment Currency for the IFAD Loan shall be US dollar.

(b) The Loan Service Payment Currency for the Trust Loan shall be the Euro.

4. The Borrower/Recipient shall repay the outstanding principal amount of the IFAD Loan in 59 equal semi-annual installments of SDR 248 334 payable on each 15 June and 15 December, commencing on 15 December 2023 and ending on 15 December 2052, and one final instalment in the amount of SDR 248 294 payable on 15 June 2053. The service charge shall also be payable on each 15 June and 15 December.

5. The Borrower/Recipient shall repay the outstanding principal amount of the Trust Loan in 59 equal semi-annual installments of EUR 131 667 payable on each 15 June and 15 December, commencing on 15 December 2023 and ending on 15 December 2052, and one final instalment in the amount of EUR 131 647 payable on 15 June 2053. The service charge shall also be payable on each 15 June and 15 December.

6. The first day of the applicable Fiscal Year shall be 1 January.

7. Withdrawals from the IFAD Loan, the IFAD Grant and the Trust Loan Accounts shall be made in conformity with the procedures established by the Fund in accordance with Section 4.04 of the General Conditions.

8. (a) There shall be five (5) designated accounts (DAs) (collectively referred to as the "Designated Accounts"), opened and operated by the Ministry of Finance (MOF) of the Borrower/Recipient in accordance with Section 4.04(d) of the General Conditions in a bank acceptable to the Fund, for receiving and holding the IFAD Loan proceeds in USD, the IFAD Grant in USD and the Trust Loan proceeds in Euro, respectively. All accounts shall be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower/Recipient and accepted by the Fund.

(b) Project Accounts shall be opened and maintained by the PCUs in local currency at the Provincial Treasuries to receive and maintain financing transferred from the Designated Accounts for the IFAD Loan and the Trust Loan for Project eligible expenditures. A Project Account shall be opened and maintained by the Ministry of Planning and Investment of the Borrower/Recipient in local currency at a commercial bank, acceptable by the Borrower/Recipient and the Fund, to receive financing transferred from the DA for the IFAD Grant.

9. (a) The Borrower/Recipient shall cause the Lead Project Agencies to provide counterpart financing for the Project. The counterpart financing to be provided by the Lead Project Agencies shall amount to approximately USD 3 million for each Province including, inter alia, taxes, salaries and other costs. Government's funds shall be channeled into a separate account.

(b) The beneficiaries shall provide co-financing in approximately USD 7 million in kind or in cash.

10. Procurement of goods, works and consulting services financed by the Financing shall be carried out in accordance with the provisions of the Fund's "Procurement Guidelines" approved by the Fund's Executive Board in September 2010, ("The Procurement Guidelines").

Section C

1. The Lead Project Agencies shall be the Provincial People's Committee (PPC) of Ha Tinh for the execution of the Project in the Province of Ha Tinh and the Provincial People's Committee of Quang Binh for the execution of the Project in the Province of Quang Binh.

2. The following are designated as additional Project Parties:

(a) the Ministry of Planning and Investment (MPI) of the Borrower/Recipient;

(b) the Women's Union of the Ha Tinh and Quang Binh Provinces;

(c) any other entity responsible for the implementation of the Project, as identified in this Agreement or in the Project Implementation Manual, or as may be agreed upon by the Borrower/Recipient and the Fund.

3. The Project Completion Date shall be the fifth anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Project supervised by the Fund.

Section E

1. The following is designated as additional ground for suspension of this Agreement: The Project Implementation Manual referred to in paragraph 3.2 , Section II of Schedule 1 hereto, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.

2. The following are designated as additional general conditions precedent to withdrawal:

(a) The PCUs shall have been duly established.

(b) The Project Implementation Manual shall have been developed by each PCU and adopted by the PPC and is acceptable to the Fund.

(c) The Project Steering Committees (PSCs) shall have been duly established in Ha Tinh and Quang Binh Provinces.

(d) The Project Directors and Project Accountants shall have been duly appointed.

(e) The Borrower/Recipient shall have caused each PCU to confirm the availability of adequate counterpart funds for the first Project Year to the Fund.

(f) The DAs shall have been duly opened and the authorized signatories shall have been submitted to the Fund.

(g) A computerized Accounting System has been identified for the Project by the PCUs.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Minister for Finance
Ministry of Finance
of the Socialist Republic of Viet Nam
28, Tran Hung Dao Street
Hoan Kiem District, Hanoi
Socialist Republic of Viet Nam

Copy to:

Ministry of Planning and Investment
No. 6 Hoang Dieu Street
Hanoi
Socialist Republic of Viet Nam

Provincial People's Committee of Ha Tinh
No.1 Nguyen Tat Thanh Street,
Ha Tinh City, Ha Tinh Province
Socialist Republic of Viet Nam

Provincial People's Committee of Quang Binh
6 Hung Vuong Street,
Dong Hoi City, Quang Binh Province
Socialist Republic of Viet Nam

For the Fund:

The President
International Fund for Agricultural development
Via Paolo di Dono 44
00142 Rome, Italy

For the Spanish Food Security Co-Financing Facility Trust Fund:

The President
International Fund for Agricultural development
Via Paolo di Dono 44
00142 Rome, Italy

This Agreement, dated [click and type], has been prepared in the English language in nine (9) original copies, three (3) for the Fund and six (6) for the Borrower/Recipient.

THE SOCIALIST REPUBLIC OF VIET NAM

____
[insert NAME of the Authorised Representative]
[insert his title]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

____
Kanayo F. Nwanze
President

FOR THE SPANISH FOOD SECURITY
CO-FINANCING FACILITY TRUST FUND

____
Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit rural poor households with minor land holdings, the unskilled unemployed, groups who lack production land but have the desire and capacity for doing business and ethnic minorities who lack income, skills and other factors necessary for production. The Project will also benefit small and medium-sized rural traders and value chain entrepreneurs. The Project shall be carried out in the Provinces of Ha Tinh and Quang Binh of the Borrower's/Recipient's territory (the "Project area") with specific emphasis on poor upland areas.

2. *Goal.* The goal of the Project shall be to sustainably improve the income and reduce vulnerability of rural poor households in targeted upland land areas of Ha Tinh and Quang Binh provinces, with particular focus on women.

3. *Objectives.* The objective of the Project shall be to invest in climate smart, socially equitable and profitable rural development models that promote pro-poor market linkages, value chains and enhanced rural business competitiveness

4. *Components*. The Project shall consist of four components.

4.1 Component 1: Market-led Development Planning. This component shall enable provincial socio-economic development planning to become holistic, participatory, climate smart and market oriented. The component shall build on the Market-Orientated Socio-Economic Development Planning (MoSEDP) process that has been introduced in a substantial number of communes in the Project area. It shall have two outputs:

(a) The support for the consolidation of the MoSEDP processes to strengthen the mobilization of private sector investments at the commune level. This shall comprise analysis of current functioning of informal and formal market chains, and businesses and producer groups in the Project Provinces, particularly in upland areas.

(b) Capacity building for stakeholders such as farmers and agribusiness actors and government officials, to develop environmentally sustainable, socially equitable and profitable rural development models. This shall include training for government staff, farmers, household enterprises and business owners in management, planning, monitoring and evaluation, climate smart agriculture production and processing, and specific skills to enhance youth employment and market and value chain development.

4.2 Component 2: Rural Financial Services. This component shall support a more inclusive financing for market oriented, climate smart agriculture and agri-business investments. It shall increase financial inclusion and leverage financing for productive investments in farm and off-farm activities, including the viable market interventions and value chains supported by the Project.

(a) The component shall support women's savings and credit groups (SCGs) in the communes covered by the Project. Furthermore, the component shall in both Provinces support the transformation of networks of women's SCGs into independent micro-finance institutions (MFIs), capable of financing private farmers, traders and commercial value chains.

(b) To leverage financing from existing credit lines supported by the Fund and other donors, and to foster rural finance advocacy and knowledge sharing for value chain financing, the Project shall support biannual Provincial Agro-Finance Workshops in both Provinces. The Workshops shall include representatives of local and regional financiers, agro-enterprises, donors and producers groups.

4.3 Component 3: Market and value chain investment. This component shall support the operationalization of environmentally sustainable and profitable pro-poor value chains and market linkages. It shall have two main outputs:

(a) Participatory process for forest land use allocation to poor households. This output shall be for the Quang Binh Province only and shall include the allocation of productive forest land to poor households, to provide greater potential for participation in market and value chain development. The Project shall co-finance the identification, survey and demarcation of approximately 5 000 (hectares) ha of forest land for allocation to poor households and the issuance of forest land use certificates (Red Books).

(b) Support for co-financing of three types of investments:

(i) Matching grants for climate-smart farming, household enterprise and environmental protection investments to enable smallholders, or their groups, to withstand costs inherent to making agriculture more resilient to climate change and disaster.

(ii) Public infrastructure investments considered as public goods that are judged essential to market and value chain development at commune/district level. Investments would include construction of access roads to agricultural and forestry production zones, small-scale irrigation infrastructures, market structures and other public infrastructures such as electricity connection and fresh water supply.

(iii) Public–private partnership investments for infrastructures for private operation and use that facilitate market or value chain development. The Public–private partnership investments shall seek to overcome business risks and reduce barriers and transaction costs associated with the inclusion of low-income people in Project communes into enterprise markets or value chains.

The eligibility criteria and the terms and conditions for accessing the above investments financing shall be set out in the PIM.

4.4 Component 4: Project Management. The Project Management arrangements are outlined in Section II below.

II. Implementation Arrangements

1. ***Project Management Structure***. The Project Management Structure shall consist of:

(a) The *Provincial People's Committees* (PPCs) of Ha Tinh and Quang Binh which shall be the Lead Project Agencies.

(b) The *Project Steering Committees* (PSCs) which shall be established by the PPCs to represent the PPC in the overall execution of Project implementation and to ensure effective coordination, integration and cooperation among all government and donor-funded projects.

(c) The *Project Coordination Units* (PCUs) which shall be established in each Province to assist the PSCs in the coordination of the provincial agencies and in actual management of the Borrower/Recipient's and the Financing's resources.

(d) *Project Directors* with qualifications acceptable to the Fund who shall be appointed for each PCU prior to Project start-up. Replacement of Project Directors shall be subject to the Fund's no-objection.

2. ***Project Management***

2.1 Component 1: Market-led Development Planning. This component shall be implemented by the PCUs. To this end *Value Chains Facilitation Units* shall be established in each PCU*.* The VCFU, with national and international assistance shall undertake studies and consult/engage with industry entities to identify and quantify potentially viable market and value chains interventions that are suited to the main physical environments within the Project area. The VCFU shall work closely with provincial and district line agencies with a view to integrating their expertise and resources into the Project market and value chain work.

Under this component the Project shall also facilitate the establishment of *Provincial Agri-Business Advocacy Committees (ABACs).* Membership of the ABAC shall include representatives of farmer organizations, the private agri-business sector (namely input suppliers, product retailers, traders and processors), financial institutions and relevant PPC's officers. The role of ABAC shall be to oversee and mentor PCU's holistic development of informal and formal value chains. ABAC shall guide and mentor the market development process, but shall not have any authority to allocate Project resources. All actions on public investment in value chain development shall be managed by the PCU, based on the Project annual work plan and budget (AWPB) approved by the PSC and subject to no-objection by the Fund.

2.2 Component 2: Rural Financial Services. The SCGs shall be established based on the experiences of earlier IFAD projects. The PCUs shall be responsible for supporting Women's Union (WU) for SCGs development.

The organization of the bi-annual Provincial Agro-Financing Workshops in each Province shall be the responsibility of the PPC and the PCU.

2.3 Component 3: Market and value chain investment. Forest land use allocation activities shall be guided by PPC in Quang Binh Province according to arrangements acceptable to the Fund.

The investments for climate-smart farming, public and Public–private partnership infrastructures shall be identified and prioritized during the annual commune MoSEDP process and shall be verified by the district line agencies in collaboration with the PCU before approval.

2.4 Component 4: Project Management. The implementation of the Project activities shall rest with the PCUs guided by the PSCs and the PPCs. This shall include, inter alia, entering into arrangements with Women's Unions, line agencies and contracting partners as appropriate.

MPI shall be entrusted with the IFAD Grant proceeds to finance selective technical assistance, studies and capacity building activities for Government aid coordination agencies engaged in IFAD supported projects and programmes.

3. *Additional implementation arrangements*

3.1 *Project Reviews.* The Borrower/Recipient, the PPCs and the Fund shall conduct two full Project reviews of Project implementation and achievements, a comprehensive mid-term review during Project Year 3 and a Project completion review.

3.2 *Project Implementation Manual.* The Borrower/Recipient shall cause each PPC to prepare a draft Project Implementation Manual (PIM) acceptable to the Fund. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.

Schedule 2

Allocation Table

1. *Allocation of IFAD Loan, IFAD Grant and Trust Loan Proceeds.* *(a)* The Table below sets forth the Categories of Eligible Expenditures to be financed by the IFAD Loan, IFAD Grant and Trust Loan; the allocation of the amounts of the IFAD Loan, IFAD Grant and Trust Loan to each Category and the percentages of expenditures for items to be financed in each Category:

		IFAD Loan (SDR)			Trust Loan (EUR)			IFAD Grant (SDR)	
	Category	**HT**	**QB**	**Total**	**HT**	**QB**	**Total**		**Percentage**
I	Civil Works	3 910 000	3 520 000	**7 430 000**					100% net of taxes, Government and beneficiaries' contribution
II	Vehicles, Equipment and Goods	330 000	300 000	**630 000**					100% net of taxes
III-A	Technical Assistance -A				550 000	500 000	**1 050 000**	**300 000**	100% of net of taxes
III-B	Technical Assistance -B					350 000	**350 000**		60% of total costs
IV	Training	1 780 000	1 760 000	**3 540 000**					100% net of taxes and Beneficiaries' contribution
V	Credit	930 000	930 000	**1 860 000**					100% of net of taxes
VI	Sub Grants				2 050 000	2 050 000	**4 100 000**		50% of total cost or 100% net of taxes and Beneficiaries' contribution
VII	Recurrent Costs				850 000	780 000	**1 630 000**		100% net of taxes
	Unallocated	750 000	690 000	**1 440 000**	370 000	400 000	**770 000**	**30 000**	
	Total	**7 700 000**	**7 200 000**	**14 900 000**	**3 820 000**	**4 080 000**	**7 900 000**	**330 000**	

(b) The terms used in the Table above are defined as follows*:*

"Civil Works" under Category I, shall mean eligible expenditures incurred related to:

(a) infrastructure works in Component 3. Beneficiaries shall contribute about 10% of the total construction costs of public infrastructure works.

(b) PCU office rehabilitation under Component 4 of which 50% is to be financed by the PPC.

(c) design and supervision of infrastructure works. IFAD will finance 100% net of taxes.

"Vehicles" means eligible expenditures related to the purchase of three (3) four-wheel drive vehicles for each Province.

"Technical Assistance–A" under Category III-A, Trust Loan, shall mean all eligible expenditures incurred for Technical Assistance except for III -B and the technical support financed by the IFAD Grant below.

"Technical Assistant-A" under Category III-A, IFAD Grant, shall mean eligible expenditures incurred under Component 4 for technical support for IFAD Country Programme.

"Technical Assistance –B" under Category III-B, shall mean eligible expenditures incurred for participatory forest land allocation in Quang Binh Province under Component 3.

"Credit" under Category V, shall mean eligible expenditures incurred for supporting Savings and Credit Groups (SCG) and their transformation into viable Micro-Finance Institutions capable of financing private farmers, traders and commercial value chains.

"Sub Grants" under Category VI, shall mean Matching Grants for Climate -Smart Agricultural Investments and Public-private partnership investments under Component 3.

"Recurrent Costs" under Category VII, shall mean eligible expenditures incurred at all levels for recurrent operating and maintenance costs in relation to the project such as unities, vehicle maintenance, office supplies and audit fees.

Logical framework (excerpt)

Narrative Summary	Key Performance Indicators	Means of Verification	Assumptions (A) / Risks (R)
Project Goal Sustainably improved income and reduced vulnerability of rural poor households in targeted Ha Tinh and Quang Binh upland communes.	• 50% of poor households in targeted communes have at least 25% increases in income (disaggregated by gender and ethnicity). • 40% reduction in the prevalence of people below the poverty line in targeted communes. • Equal livelihood improvements for female- and male-headed and ethnic minority households.	• Baseline, periodic and impact evaluation surveys. • Provincial statistics.	• Political stability maintained. • Macro-economy continues to improve. • Social, political and economic environments remain conducive to market-based economic.
Project Development Objective Investment in climate smart, socially equitable and profitable rural development models that promote pro-poor market linkages, value chains and enhanced rural business competitiveness.	• 20,000 poor households engaged in profitable enterprises supported by the project. • 30% increased employment in project communes (disaggregated by gender and age-group). • US$6 million of new private equity invested into rural development models that promote pro-poor market linkages. • At least 100 new commune level enterprises operating at project completion.	• Baseline, periodic and impact evaluation surveys. • Financial institution records • Provincial statistics	• As above, plus: • Business regulatory system remains favourable.
Component 1: Market-led Development Planning			
Outcome 1: Market-led Development Planning Enabled Provincial socio-economic. development planning is holistic, participatory, climate smart and market oriented.	• 100% of communes in 7 pilot districts sustainably implementing holistic MoSEDPs. • at least 100 new commune level enterprises or strengthened small and medium-sized rural traders operating at project completion. • At least 6 financially viable provincial level Public-Private value chain initiatives operational in each province.	• Commune and district records. • Case study data.	• Provincial governments committed to participatory market-led socio-economic development planning. • Provincial governments integrate commune level NTP funding into the MoSEDP process. • Provincial governments support private sector participation.
Component 2: Rural Financial Services			
Outcome 2: Rural Financial Services strengthened. Increased and more inclusive financing for market oriented, climate smart agriculture and agri-business investments.	• Value of SCG/MFI portfolios. • Number of new SCG members and MFI borrowers.	• SCF/MFI records.	• Government completes the regulatory framework for the implementation of MFI legislation.
Component 3: Market and value chain investments			
Outcome 3: Leveraged market and value chain investments operational. Environmentally sustainable and profitable pro-poor value chains and market linkages operational.	• At least 12 provincial and 100 commune level climate smart pro-poor value chains or market linkage investments operational.	• SRDP VCFU reports. • Credit institution records. • Case/panel studies. • Business enterprise records.	• Business regulatory system remains favourable.
Component 4: project management			
Outcome 4: Efficient project management. Efficient project management ensuring smooth implementation of project activities.	• APWB submitted on time and completed to PSC satisfaction.	• SRDP Reports.	• Project design is relevant to government and private business development/investment objectives.