



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Sixty-Sixth Session
Rome, 28-29 April 1999

REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

SOCIALIST REPUBLIC OF VIET NAM

FOR THE

HA TINH RURAL DEVELOPMENT PROJECT



TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	vi
PROJECT BRIEF	vii
PART I THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience	2
C. IFAD's Strategy for Collaboration with Viet Nam	2
PART II THE PROJECT	4
A. Project Area and Target Group	4
B. Objectives and Scope	4
C. Components	4
D. Costs and Financing	7
E. Procurement, Disbursement, Accounts and Audit	8
F. Organization and Management	10
G. Economic Justification	11
H. Risks	12
I. Environmental Impact	13
J. Innovative Features	13
PART III LEGAL INSTRUMENTS AND AUTHORITY	13
PART IV RECOMMENDATION	14
ANNEX	
SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT	15



APPENDIXES

I.	COUNTRY DATA	1
II.	PREVIOUS IFAD LOANS TO VIET NAM	2
III.	LOGICAL FRAMEWORK	3
IV.	COSTS AND FINANCING	8
V.	EXPENDITURE ACCOUNTS BY COMPONENTS	9
VI.	ORGANIZATION AND MANAGEMENT	10
VII.	ECONOMIC AND FINANCIAL ANALYSIS	15



CURRENCY EQUIVALENTS

Currency Unit	=	New Dong (VND)
USD 1.00	=	VND 13 000
VND 1.00	=	USD 0.000076923

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

AAV	ActionAid Viet Nam
ADP	Area Development Project
AWPB	Annual Work Plan and Budget
CDF	Community Development Fund
CF	Community Facilitator
CPC	Commune People's Committee
DARD	Department of Agriculture and Rural Development
DIF	Development Initiatives Fund
DOSTE	Department of Science and Technology
DPC	District People's Committee
DPCU	District Project Coordination Unit
HPRP	Hunger and Poverty Reduction Programme
MOF	Ministry of Finance
NGO	Non-Governmental Organization
PCU	Provincial Project Coordination Unit
PMCDB	Project Microcredit Development Board
PPC	Provincial People's Committee
PSC	Project Steering Committee
SOF	Special Operations Facility
TA	Technical Assistance
TSA	Transport Services Agency
VBP	Viet Nam Bank for the Poor
VSCG	Village Savings and Credit Group
VWU	Viet Nam Women's Union

GOVERNMENT OF THE SOCIALIST REPUBLIC OF VIET NAM

Fiscal Year

1 January - 31 December

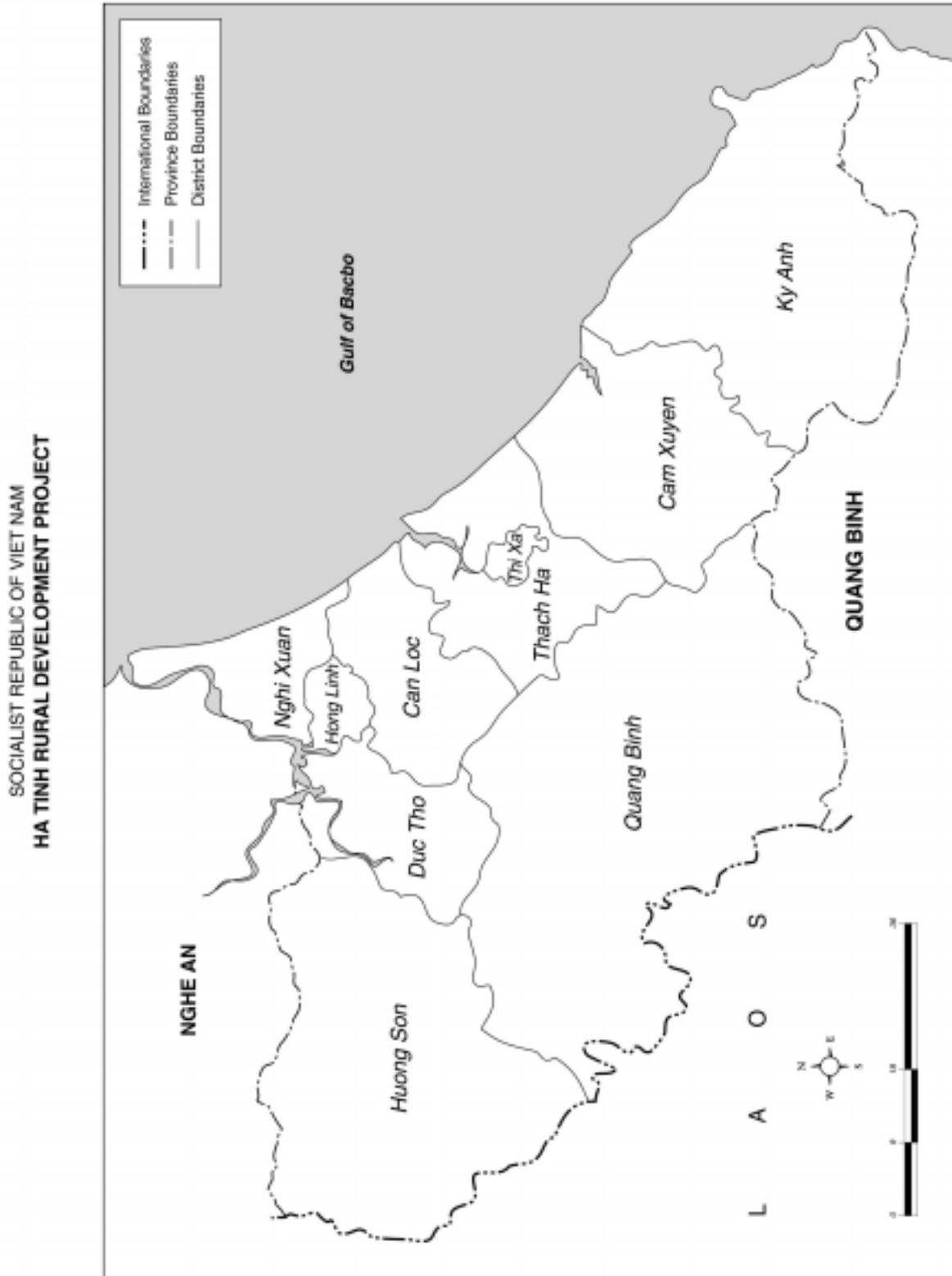


MAP OF THE PROJECT AREA

SOCIALIST REPUBLIC OF VIET NAM HA TINH RURAL DEVELOPMENT PROJECT



SOURCE: Formulation Report 1996



Source: Formulation Report, 1998

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.



SOCIALIST REPUBLIC OF VIET NAM
HA TINH RURAL DEVELOPMENT PROJECT
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Socialist Republic of Viet Nam
EXECUTING AGENCY:	Ministry of Planning and Investment
TOTAL PROJECT COST:	USD 19.1 million
AMOUNT OF IFAD LOAN:	SDR 11.4 million (equivalent to approximately USD 15.4 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	Private sector USD 50 000 (grant)
CONTRIBUTION OF BORROWER:	USD 2.3 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.4 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

The target group and reasons for poverty. The target group is an estimated 64 000 poor households living in the 137 poorest communes in Ha Tinh Province. The main constraints expressed by the communities are lack of access to credit, inadequate irrigation and insufficient knowledge and skills to increase the productivity of meagre landholdings or to invest in livestock and enterprises that would provide additional sources of income. Other causes of poverty are: inadequate infrastructure to facilitate access to markets; inadequate knowledge of market opportunities; and excessive exposure to risks, particularly natural disasters such as typhoons, floods and droughts.

Project activities. The objective of this six-year development is to improve the household incomes and livelihoods of the poorest rural households of Ha Tinh Province. This objective will be achieved through the following outputs: (a) establishment of a participatory development mechanism; (b) promotion and diversification of income-generating activities; (c) rehabilitation of rural roads and construction of marketing facilities; and (d) improvement of planning and management processes by each implementing agency.

The key developmental tool of annual commune-led participatory planning exercises will ensure that beneficiaries' needs are identified and addressed by the project through innovative elements of flexibility: a community development fund for supporting small infrastructural projects initiated and carried out by beneficiaries; and a development initiative fund for the expansion of proven and demand-driven project activities. Also, demand-driven income-generating activities would be promoted through market-oriented extension and technical services; and through the establishment of commune-level revolving credit funds for group lending. Specific infrastructural support will comprise: the rehabilitation of key rural access roads and bridges; improved access to local markets; and the rehabilitation of small-scale irrigation schemes. The necessary policy and donor coordination mechanism will be established within provincial government.

Benefits to the target group. Principal direct benefits will be: greater food self-sufficiency; increased household incomes; improved productivity of smallholdings; greater access by women to improved production technology and credit; and environmental protection of mountain forest.

Project risks. Major risks include failure to build the institutional capacity necessary for project implementation or to strengthen and train the staff of the Viet Nam Women's Union for its key role in the implementation of revolving credit funds, and a lack of commitment by provincial services to the participatory approach.

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
SOCIALIST REPUBLIC OF VIET NAM
FOR THE
HA TINH RURAL DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Socialist Republic of Viet Nam for SDR 11.4 million (equivalent to approximately USD 15.4 million) on highly concessional terms to help finance the Ha Tinh Rural Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the United Nations Office for Project Services (UNOPS) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. Viet Nam stretches for some 1 650 km on the eastern seaboard of the Indochina Peninsula, with a total surface area of about 325 000 km². Much of the country is mountainous and only 21% of the land area is cultivated. Administratively, it is divided into 61 provinces. Viet Nam's population, estimated at 76.5 million (mid-1997), is growing at an average rate of 2.1% per year. Over 80% of the population is rural, life expectancy is 63 years for men and 67 years for women, and infant mortality stands at 42 per thousand live births. Literacy is over 90% for both men and women. Notable exceptions to this positive picture are malnutrition rates that exceed 40% for both young children and women.

2. Viet Nam has achieved remarkable economic success over the last decade. Macroeconomic and structural reforms initiated in the late 1980s have stabilized the economy and boosted economic growth. The growth rate of real GDP averaged 8-9% per annum in 1996 and 1997. The impact of the Asian crisis has been more limited than elsewhere, resulting in a GDP growth of 6% in 1998. Despite this, Viet Nam is still one of the poorest countries in the world with GNP per capita of about USD 290 (1996), with widening income disparities between rural and urban populations. The average annual per capita income of rural households is about USD 86, less than 30% of the national average. Substantial inefficiencies persist in the growth process, which is increasingly capital-intensive and urban-biased, and labour-market trends indicate that the current pattern of growth is not generating enough jobs in high productivity activities to allow broad-based income and employment growth.

3. While the contribution of agriculture to GDP declined from 41% in 1990 to 28% in 1995, it remains a key economic activity, providing a livelihood for around 80% of the population and accounting for almost one third of exports. During the period 1990-96, the agricultural sector grew at an annual rate of 4.4% as a result of reform measures. Rural households derive about 50% of their income from agricultural activities, but cultivated land is scarce, with only around 0.1 ha of land per person, one of the lowest ratios in the world. Some 85% of the cultivated area is under annual crops, but paddy is the dominant crop, and the impressive growth in its production has turned Viet Nam

¹ See Appendix I for additional information.



from a net importer in 1988 to the world's second largest exporter of rice. However, current policies regulating rice exports have contributed to declining rice prices and rural incomes. Until recently, the livestock sector was neglected. However, in response to demand for meat from a growing and more affluent population, livestock production has increased, mainly of pigs and poultry. However, per capita consumption of meat remains low, indicating considerable potential for livestock products.

B. Lessons Learned from Previous IFAD Experience

4. In Viet Nam, a top-down approach and the lack of participation of the poor in government programmes has limited the effectiveness of poverty alleviation initiatives, leaving unsolved problems of lack of commitment to and ownership of development efforts, and a consequent lack of physical infrastructure maintenance. IFAD's experience over the past five years has emphasized the primary need to develop practical mechanisms for involving target groups in the decision-making process, from planning to evaluation, so that project activities are genuinely driven by the intended beneficiaries.

5. Project management should be able to respond to beneficiaries' priorities in a flexible manner. In the past, pre-allocation of all project costs at the project design stage led implementing agencies to adopt a traditional blueprint approach to project execution. This happened, for example, in the implementation of a credit programme through the Viet Nam Bank Agriculture and Rural Development, where credit was channelled into a very limited number of investment opportunities. There is also a need to phase project activities in a realistic manner to allow each implementing agency sufficient time to adopt genuine demand-driven approaches without being pressured to achieve ambitious targets. Finally, project experience in Tuyen Quang and Quang Binh provinces, has demonstrated that national project staff can learn managerial skills very quickly, with minimal input required from external technical assistance.

C. IFAD's Strategy for Collaboration with Viet Nam

Viet Nam's Policy for Poverty Eradication

6. Poverty alleviation has been a key objective of government policy since unification and one of the major objectives of economic reforms launched in December 1986. In 1992, the Government formulated a poverty-alleviation strategy based on rapid and sustainable economic growth, economic stability and national equity, and launched the Hunger and Poverty Reduction Programme (HPRP). The programme introduced a number of poverty-reduction initiatives including reclamation of wastelands, provision of subsidized credit through the Viet Nam Bank for the Poor (VBP) and child health care, with the objective of reducing the national poverty rate from 20% to 10% (using the government's poverty line) by the year 2000.

Poverty Eradication Activities of other Major Donors in Ha Tinh

7. Few donors activities focus exclusively on Ha Tinh Province, although there are national projects, that also cover Ha Tinh. Among these, the World Bank-funded Rural Roads Project, which will be extended with Department for International Development (UK) funding for another three-year period, 1999-2001. Danish International Development Assistance (DANIDA) is currently financing water supply and fisheries activities, and the German Agency for Technical Cooperation (GTZ) is preparing a capacity-building project, scheduled to be approved in the year 2000, to introduce participatory and market-oriented approaches in the planning and management of provincial technical departments. The IFAD project will not overlap with these activities but will play a complementary role.

8. Several international NGOs are active in Ha Tinh Province. Oxfam (UK) and ActionAid Viet Nam (AAV) have developed participatory approaches in irrigation development, engendering a sense



of ownership of the schemes through the formation of water users' associations responsible for water management. AAV, Oxfam (UK), Oxfam (Belgium) and the Save the Children Fund (UK), in cooperation with, and through the Viet Nam Women's Union (VWU), have developed microfinance schemes based on small savings and credit groups. Oxfam (UK) has introduced a cash-for-work scheme for the poorest households, and AAV has developed district social fund which can be accessed by communities for financing microprojects, part of the costs of which are borne by the communities themselves. Relevant elements of each of these initiatives have been incorporated into the design of this project.

IFAD's Strategy in Viet Nam

9. IFAD's strategy in Viet Nam is to support the Government's drive for poverty alleviation and its programmes for improving the living conditions and welfare of rural people. IFAD's assistance is particularly directed towards the Northern Uplands, North Central and Central Highlands Regions which have been identified as the poorest areas of the country, and towards ethnic minorities, upland farmers and woman-headed households who have been identified as the most vulnerable target groups. IFAD's strategy focuses on: (a) enhancing the food security of poorer households, particularly in rainfed areas; (b) contributing to rural employment creation, and (c) helping the country develop financially viable and sustainable financial services for the rural poor. In view of the multiplicity of donor agencies and the government's desire to have a unified rural development policy and programme, IFAD's strategy emphasizes collaboration with other donors to use complementary resources and develop a joint approach to rural poverty.

Project Rationale

10. At the last Consultative Group Meeting on Viet Nam held in Paris in December 1998, the Government publicly recognized the work promoted by IFAD in the country, with particular reference to the introduction of a decentralized project implementation and community-focused development process in Tuyen Quang Province that has enhanced the impact of development efforts. IFAD and the Government had already agreed to use the experience gained by IFAD through three ongoing Area Development Projects (ADPs), to develop an ADP model that could be replicated by Government and/or donors in other provinces.

11. Compared with previous IFAD-funded ADPs, this project has innovative elements of flexibility, similar to the Community Development Fund (CDF), the Development Initiatives Fund, and the revised demand-driven revolving credit funds. It also relies almost entirely on the use of national human resources, rather than international technical assistance. Substantial expertise is now available in Viet Nam to provide assistance in key areas including management functions such as planning, procurement, accounting, monitoring and evaluation, and participatory development methods. There are tested local academic and research institutions that can assist in the design and implementation of projects. Further, horizontal collaboration among the three ongoing projects through the direct involvement and exchange of project staff has proved to be cost-effective and has given tangible results in terms of ownership and accountability.

12. Learning from experience, local authorities have been invited to play a very active role in project design, with early designation of the project director and key project staff, while IFAD missions have played a facilitating role. Project activities identified reflect the priorities of the target group and are technically feasible, financially viable, and readily implementable by both beneficiaries and relevant provincial and district-level services.

PART II - THE PROJECT

A. Project Area and Target Group

13. Ha Tinh Province is subdivided into eight rural districts, two towns and 262 communes, covering 605 574 ha, representing some 1.8% of the total surface area of Viet Nam. The total population of the province is 1.3 million with an annual growth rate of 1.58%. The vast majority of the population (99.9%) is ethnically Kinh. The average household has 4.6 members.

14. The project target group comprises the poor and very poor households in the rural areas of the province. The main constraints expressed by the communities are lack of access to credit, inadequate irrigation and insufficient knowledge and skills to increase the productivity of meagre landholdings or to invest in livestock and enterprises that would provide additional sources of income. Other causes of poverty are: inadequate infrastructure to facilitate access to markets; inadequate knowledge of market opportunities; and excessive exposure to risks, particularly natural disasters such as typhoons, floods and droughts.

15. Project activities will be restricted to the province's eight districts, within which the infrastructural component (irrigation, rural road and marketing) and the CDF microprojects will be implemented in the 48 poorest communes. Poor communes are defined as those in which more than 40% of the households are classified as poor and basic infrastructure is lacking. Credit and related training and extension activities will be extended to 137 of the provinces 246 rural communes.

Gender Situation

16. Women play a significant role in the household and village economy. They provide more than 60% of all agricultural labour requirements and are largely responsible for all work in rice cultivation, apart from land preparation, fertilizer application and plant protection. Small and large farm animals such as chicken, goats, cattle and buffaloes are primarily tended by women or young children. Additionally, women work in small family shops or market garden products in nearby villages. Poor and very poor women perform casual labour (paid in money or in kind) outside their farms, and during periods of food shortages collect forest wood.

B. Objectives and Scope²

17. The overall goal of the project is to improve the incomes and living standards of poor rural households and increase their participation in the development process. The project aims to achieve the following outputs: (a) establishment of a participatory development mechanism; (b) promotion and diversification of income-generating activities; (c) rehabilitation of rural roads and construction of marketing facilities; and (d) improvement of planning and management processes by each implementing agency. A key feature of the project lies in beneficiary participation in the selection of activities to be carried out, in taking direct responsibility for their maintenance, and in providing regular feedback for project adjustment and improvement.

C. Components

18. The project would comprise four components: (a) participatory development; (b) income-generation and diversification; (c) rural roads and bridges; and (d) project management.

² See Logical Framework in Appendix III for details.



Participatory Development

19. The component will promote a participatory process in which: (a) the role of project clientele in influencing project design and implementation is maximized; and (b) project management and technical departments become more sensitive and responsive to the needs of this clientele. A community participatory planning exercise will be carried out to provide the framework for identifying the priorities of the target group households. The process comprises the following steps: (a) conduct of participatory rural appraisal exercises, focusing on overall assessment of commune needs; (b) selection of the most promising development opportunities at household and community level; and (c) preparation of the annual work plan and budget (AWPB).

20. Twelve community facilitators (CFs) will be recruited to assist communes in the participatory planning exercise, and in preparation and implementation of their CDF-funded microprojects. CFs will assist in the formation of water users' associations in communes benefiting from irrigation investment. CF will receive training and backstopping from an NGO established in Viet Nam, and with the assistance of the NGO, will promote participatory monitoring of project activities by communities.

21. **Community Development Fund (CDF).** To enhance the ability of the project to meet communities' expressed needs, and to reinforce community participation in decision-making and implementation, provision will be made for CDF. These will allow individual communes to realize one or more small-scale infrastructure development projects identified during the community planning exercise. The principal criterion for access to CDF funds is that the community will be responsible for maintenance of the facility or asset to be rehabilitated or constructed. Other selection criteria are: (a) the proposed project will benefit a large percentage of the poor households in the commune; (b) the community will contribute a minimum of 15% of the total cost of the project, mainly in the form of unskilled labour and local materials; (c) any additional paid labour (cash-for-work) will be reserved in the first instance for the poorest households; (d) any social infrastructure funding (such as upgrading of school classrooms or health clinics) of the operating costs outside the project will be guaranteed; (e) the community will prepare the preliminary feasibility plan; and (f) the average project funding per commune will be VND 500 million (USD 40 000), up to a maximum of VND 1 billion. Access to the fund will be restricted to the 48 communes identified as the poorest.

Income-Generation and Diversification

22. **Small-scale irrigation.** The project will support the upgrading of community-operated, small-scale irrigation schemes, occupying less than 150 ha (post-project irrigated service area). Construction of new schemes will only be financed subject to IFAD approval. Support for irrigation will mainly comprise measures to increase water storage volumes through improvements to storage dam/reservoir or diversion dam/weir headworks, and measures to increase water distribution to the service area through improvements to intake structures, water conveyance canals and outlet gates, and drainage channels. Incremental on-farm works will be included in the project design and carried out by farmers without project funding. An estimated 2 800 ha of irrigation improvement will be financed from the initial allocation of funds.

23. **Support to crop and livestock production.** The main development opportunities are: (a) intensification of staple crops (rice, groundnuts, sweet potato) through irrigation, increased inputs and improved cultural practices, under both irrigated and rainfed conditions; (b) intensification and diversification of fruit trees in home gardens; (c) diversification of vegetable production; (d) adoption of agro-forestry in home gardens, particularly by using multipurpose (fuelwood/fodder) trees as fencing; (e) increased and improved small stock and fish pond production; and (f) promotion of community forestry in buffer zones for environmentally-threatened mountain forests.



24. To support these activities, the project will, *inter alia*: (a) strengthen extension services and research centres; (b) introduce farmer field schools for extension and participatory on-farm research; (c) upgrade the provincial rice seed station into a renamed provincial agricultural research station, developing not only rice but a large variety of vegetable seeds; (d) strengthen the provincial fruit-tree production station; (e) establish a pig semen station; (f) establish social forestry activities; (g) provide institutional support to the Departments of Agriculture and Rural Development and to the Department of Science and Technology; and (h) support a comprehensive programme of staff and farmer training accompanied by national technical assistance. The project will promote the production of agricultural inputs, such as planting materials, improved seeds and breeding stock at farmer-level, by making credit available to certified breeders and smallholders, and will support a programme of on-farm research.

25. **Support for animal health.** The project will support the establishment of three new district veterinary stations in Thach Ha, Huong Son and Can Loc, and improvements to the provincial preventive disease diagnostic centre through the provision of transport, laboratory and communications equipment, and training in and national technical assistance for epidemiology and disease control and laboratory management. Private veterinary workers will be able to access credit to finance basic equipment, such as thermo-flasks, syringes and bicycles, and to increase medicine stocks. Since interest in poultry will remain limited until disease is brought under control, the project will train two women poultry workers per commune to vaccinate poultry, primarily against Newcastle Disease. The vaccinators will be selected from very poor households, and provided with a bicycle, initial basic equipment and a stock of vaccine in the form of a grant. Thereafter, they will operate commercially, charging fees for vaccination to cover costs.

26. **Financial services.** The project will promote local capital formation and establish a sustainable and replicable mechanism for commune-level credit activities, by drawing on the ongoing experience of NGO credit schemes in three districts of the province. Village savings and credit groups (VSCGs), each having a membership of 10-15 villagers and a revolving credit fund at the commune level, will be promoted and established by VWU. On completion of a four-month qualifying period of regular monthly savings, villagers will be eligible for project credit in proportion to the amount of their savings. Regular monthly savings will remain a condition for credit. Project credit to eligible VSCGs will be made available through the revolving credit funds, administered and disbursed at commune level by the management units of the revolving credit fund. Each revolving credit fund will be made up of VSCG savings and the principal and net revenue of credit on-lent by VBARD. VSCGs can apply for an aggregate loan and be free to make loans to a member for any purpose approved by the group. However, the aggregate loan will be guaranteed by the group.

27. **Rural markets.** With the introduction of market liberalization and privatization of trade, rural markets have progressively replaced state-owned shops as the focal point for the exchange of goods. The level of activity in some rural markets has reached a point where facilities are inadequate to cope with the increased volume of business, largely in those markets that serve a number of communes. The project will support the upgrading of a limited number of rural markets in particularly remote areas. Communes will be expected to fully finance the operation and maintenance of markets through users' fees. The cost of upgrading a typical market is on the order of VND 500 million (around USD 40 000).

28. **Solar energy demonstrations.** Through the support of a commercial company that manufactures solar panels and will contribute the panels free of cost, the project will establish a number of demonstration units of solar energy applications for domestic, commercial and social purposes, on a pilot scale, in one village in Ky Anh. The demonstrations will cover a household unit, community hall and health centre. The project will fund costs of orienting the community, training two local technicians to maintain the units, and training of the Department of Science and Technology



(DOSTE). DOSTE will be responsible for promoting the programme, testing alternative forms of renewable energy and running a credit programme in the post-demonstration phase.

Rural Roads and Bridges

29. The project will support the rehabilitation of around 90 km of existing inter-commune roads, including an estimated 25 associated bridges and other drainage structures and the repair or replacement of 7 additional bridges at critical points on other roads in order to restore effective communications and reinstate market linkages. The roads will be widened from existing, narrow earth tracks and provided with a gravel-surfaced carriageway of 3.5 m width. In areas prone to flooding, roads will be raised on an embankment (0.5-1.0 m in height). No new roads will be constructed. All roads will follow existing alignments in varying stages of disrepair and hence will have almost no adverse environmental effect. To the maximum extent possible, rehabilitation activities will adopt labour-intensive methods so as to contribute to employment generation for poor households.

Project Management

30. The project will fund essential provincial project coordination unit (PCU) capital and operating costs, including the salaries of incremental staff, performance and travel allowances for professional staff in PCU, district project coordination units (DPCU) and implementing agencies, the construction of office accommodation, vehicles and office equipment, administrative expenses, training of project staff in management and computer skills, and development of monitoring systems. PCU will be provided with national, short-term, management advisory technical assistance covering the areas of general project management, accounting systems and procedures, preparation of AWPB, procurement, monitoring and evaluation and training needs assessment. In addition, the services of an experienced project expeditor and a credit specialist will be provided under IFAD's Special Operations Facility (SOF) to assist the province in launching the project and in establishing the necessary planning, management and credit operations.

31. **Development Initiatives Fund.** Funds equivalent to 18% of the total project base costs will be placed in a Development Initiatives Fund (DIF). Within the scope of project, the DIF will enable the expansion of selected project activities. The allocation of DIF will be decided during the mid-term review mission³ considering: (a) the past performance of each project component; (b) its impact on poverty alleviation and the improvement of the well-being of beneficiaries; and (c) the findings of the participatory evaluation process.

D. Costs and Financing

32. The total project cost over six years, inclusive of contingencies, taxes and duties, is estimated at VND 285 billion (USD 19.1 million) 14% of which represents foreign exchange costs. In converting local costs in VND into USD a constant purchasing parity approach has been used⁴. Taxes and duties represent around 1% of project costs. Investment costs account for around 85% of total cost. In terms of components, participatory development accounts for 12% of base costs; support for income generation and diversification activities for 49%; rural roads and bridges for 15%; project management for 7% and DIF for 18%. Overall project costs are summarized in Table 1.

33. The proposed IFAD loan of USD 15.4 million will finance 80.7% of the total project cost including contingencies. The Government will contribute USD 2.3 million (VND 34.7 billion) or

³ A mid-term review will be carried out jointly by IFAD and the National and Provincial Governments towards the end of Year 3.

⁴ This approach assumes that the VND will devalue in line with the differential between projected international and local inflation rates. For this reason, USD and VND values do not equate using current exchange rates.

11.9%, and the project's clientele will contribute USD 1.4 million (VND 21.5 billion) or 7.4%, mainly in the form of labour. The grant financing provided by the private sector is estimated at USD 50 000. The proposed financing plan is given in Table 2. IFAD will provide a SOF grant of USD 100 000, not included in project costs, to support project start-up activities. Retroactive financing of USD 190 000 will be authorized to finance eligible project expenditures incurred after 28 February 1999 for staff training, construction of offices, purchase of basic office equipment, and design activities for roads to be rehabilitated in the first year.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Participatory development	1 823 494	191 625	2 015 119	10	12
B. Income-gener. and diversification	6 898 282	1 212 475	8 110 575	15	49
C. Rural roads and bridges	2 224 743	239 523	2 464 266	10	15
D. Project management	3 443 050	664 130	4 107 180	16	25
Total base costs	14 389 569	2 307 753	16 697 322	14	100
Physical contingencies	538 623	65 893	604 516	11	4
Price contingencies	1 629 687	199 282	1 828 969	11	11
Total project costs	16 557 879	2 572 928	19 130 807	13	115

^a Discrepancies in totals are due to rounding.

E. Procurement, Disbursement, Accounts and Audit

34. **Procurement.** The procurement procedures for the current IFAD-financed projects are satisfactory and will be applied in Ha Tinh. Goods and services financed through the proceeds of the loan will be procured in accordance with IFAD's procurement procedures, detailed in the IFAD Procurement Guidelines. The procurement method to be applied in each particular case will depend on the nature of the expenditure and the estimated value of the contract. Four basic procurement methods will be applicable: (a) each contract for supply of vehicles, equipment and material estimated to cost over USD 100 000 equivalent will be awarded on the basis of international competitive bidding; (b) each contract for supply of vehicles, equipment and material; specialized training or studies and local TA estimated to cost more than USD 10 000 and less than USD 100 000 equivalent, and each civil works contract estimated to cost more than USD 20 000 equivalent, will be awarded on the basis of local competitive bidding; (c) each contract for the supply of vehicles, equipment and material, and office operating costs expected to cost less than USD 10 000 equivalent, and each civil works contract estimated to cost less than USD 20 000 equivalent, will be awarded on the basis of local shopping. Each contract for specialized training or studies and local technical assistance shall be awarded in consultation with the national advisers: each contract estimated to cost more than USD 10 000 equivalent will be awarded on the basis of local shopping. The award of any contract estimated to cost more than USD 50 000 equivalent, will be subject to *prior review* by the cooperating institution (CI).



TABLE 2: FINANCING PLAN^{a/b}
(USD)

Components	IFAD		Government		Beneficiaries		Total		Foreign Exchange	Local (Excl. Taxes)	Duties and Taxes
	Amt.	%	Amt.	%	Amt.	%	Amt.	%			
A. Participatory development	1 874 259	83.2	57 196	2.5	321 442	14.3	2 252 897	11.8	210 420	2 036 628	5 849
B. Income-generation and diversification	7 440 762	80.1	1 110 698	12.0	739 823	8.0	9 291 283	48.6	1 342 085	7 821 633	127 565
C. Rural roads and bridges	2 016 250	69.4	532 509	18.3	354 535	12.2	2 903 294	15.2	278 168	2 590 637	34 489
D. Project management	4 101 550	87.6	581 783	12.4	-	-	4 683 333	24.5	742 255	3 905 244	35 834
Total disbursement	15 432 821	80.7	2 282 185	11.9	1 415 800	7.4	19 130 807	100.0	2 572 928	16 354 141	203 738

^a Discrepancies in totals are due to rounding.

^b IFAD amount includes private-sector contribution for equipment for solar energy demonstration valued at USD 50 000.



35. **Disbursement.** The proceeds of the IFAD loan will be disbursed over six years. A Special Account will be opened by the Government in the State Bank of Viet Nam for the financing of IFAD's share of eligible expenditure with an authorized allocation of USD 1 000 000. The account will be operated by the Ministry of Finance (MOF). Drawdown of special account funds for project activities will be made quarterly in advance against the requirements of approved AWPB. MOF will also transfer its share of the budgeted project expenditure, quarterly in advance, directly to the project account, in Ha Tinh.

36. Withdrawals from the loan account for payments under contract costing less than USD 20 000 equivalent will be made against certified statements of expenditures, and the relevant documentation will be retained for periodic inspection during supervision missions and the annual audit of accounts. Withdrawals from the loan account for all other expenditures will be fully documented. PCU will be responsible for the preparation of reimbursement applications for forwarding to MOF for onward transmission to the CI.

37. **Accounts and audit.** A full set of accounts will be maintained by PCU, in accordance with MOF and IFAD requirements. Financial records will be prepared by the project on a semi-annual basis and submitted to IFAD for review. MOF will cause project records, accounts and financial statements for each financial year to be audited in accordance with appropriate auditing standards, by independent auditors acceptable to IFAD and engaged through local competitive bidding. PSC/PCU will furnish IFAD with certified copies of the project's financial statements for that year, and the reports of the auditor, no later than six months after the end of each year.

F. Organization and Management

38. The Provincial People's Committee (PPC) will be responsible for project policy, direction and review. PPC will appoint a Project Steering Committee (PSC) to oversee the implementation of the project. PPC would also invite three advisors, selected among senior national development practitioners, to attend PSC meetings and to provide an independent feedback on project implementation, in particular in the execution of its training and capacity building programmes, and for the participatory and targeting elements of the project. Members of the panel would have the right to enquire into any aspect of project implementation; and to attend PSC meetings and report on such matters.

39. Responsibility for the day-to-day conduct of project affairs will be the duty of PCU, led by a project director. PCU will act as the Secretariat of PSC. PPC designated the vice-director of DPI as project director before project formulation, thus enabling him to participate full-time during the design of the project. The majority of positions will be filled by regular staff seconded from the provincial-level technical departments for the duration of the project, following which they will return to their former posts. With the exception of financial services, implemented by a newly established Project Microcredit Development Board (PMCDDB) in collaboration with the VBARD and the VWU, project components will be implemented by the provincial technical departments, namely: (a) Department of Agriculture and Rural Development (DARD); (b) Department of Fisheries; (c) Transport Services Agency (TSA); and (d) DOSTE. For administrative purposes, the staff of the administrative unit of the PMCDDB, which the project director, *ex-officio*, will chair, will be established within PCU.

40. District project coordination units (DPCU) will be established in each of the eight project districts. DPCU will be headed by the chairman/vice-chairman of the District People's Committee (DPC), with operational responsibilities delegated to a deputy manager. DPCU will be responsible for ensuring coordination of project activities at the district level and for interacting with the DPC. It will also have a planning role in assessing and prioritizing development requests emanating from the communes.



41. At the commune level, responsibility for coordinating and monitoring project activities will lie with the Commune People's Committee (CPC), which will be responsible for: (a) coordination of PRA and the community planning exercise; (b) mobilization of commune resources required for the implementation of approved project activities; (c) preparation of reports monitoring the progress and quality of activities being implemented in the commune, for submission to PCU; and (d) dissemination of information on project activities to all villages within the commune. Identification of development priorities within the commune will be undertaken with broader representation from the villages in the course of the commune participatory planning exercise.

42. **Participatory monitoring and evaluation.** An important feature of the participatory process will be the periodic feedback from the beneficiaries on the efficacy of the project activities that directly affect them. This approach requires that each community establish ad hoc indicators to better reflect the expectations of stakeholders from the moment they formulate a feasibility plan to its realization. The information gathered will be incorporated into the annual review process, leading in turn to adjustments and revisions of the implementation process and, if necessary, to applications for reallocation of funding within and between components. The process will be initiated by the CFs and it will continue through CPC. PCU will develop prescribed reporting formats for completion by CPC and submission to DPCU on a six-monthly basis. DPCU will analyse the data and prepare a summary report for submission to PCU.

43. Farmers, as well as members of VWU and the Farmers' Association, will be given the opportunity to review project effectiveness. At least once a year, farmers of both sexes from the villages with a substantial level of project activity will meet with representatives of VWU, PCU and technicians to review the progress of each component. The exchange of information will focus on: difficulties and constraints met in managing and making use of the resources; degree of responsiveness of project staff; usefulness of technical messages of the extension staff; solutions found to overcome the problems; progress made in achieving physical and financial objectives; and outstanding problems not being adequately addressed by project activities.

G. Economic Justification

44. **Beneficiaries and benefits.** The project will target a total of 137 communes out of the 246 communes in the eight rural districts of Ha Tinh. These 137 communes include 139 000 households (or 52% of the total households), of which about 64 000 are poor, accounting for around 68% of the total poor households in these eight districts. Credit and extension activities will operate in all 137 communes, while the infrastructural and CDF activities will be restricted to a subset of 48 of the poorest communes.

45. As the project's main activities will be demand-driven, it is not possible to accurately predict the number of households that will benefit from the project. An estimate has been made based on the initial budget allocation plus an assumed additional allocation from the DIF. Based on this, around 60 000 households would benefit from access to extension and training activities; 23 000 households from irrigation rehabilitation; 48 000 households from rural roads improvement (including indirect, non-project commune beneficiaries) and 48 000 households from CDF projects. At full development, it is estimated that 4 100 VSCGs, with a membership of 50 000, would be operating in 137 communes for a total loan portfolio of about VND 36.0 billion. It should also be noted that the total number of households benefiting is not additive across the various categories, as most households will benefit from several activities, e.g., a household taking a loan may also benefit from improved irrigation. The main economic benefits of the project would be the incremental value of crop, livestock and other products due to the combination of improved technologies promoted by the project with the provision of credit.



46. **Impact on women.** The presence of the VWU in all decision-making bodies will cause the project to focus on women's needs in a consistent manner. The project will have a significant positive effect on women. Women's present limited access to production technology and credit will be redressed through the inclusion of women in key farmer training; selection and training of women as managers for the field demonstrations; and through improved access to credit and investment funds. The channelling of all credit activities of the project through the VWU will ensure a high profile for women in the management of economic activities under the project. Overall, women's status in target households will be considerably enhanced as they will be seen as providers of significant income to the household. Their control over this income will ensure that these benefits are converted into improved nutrition, health care and educational opportunities for children. Women's access to information regarding health and family welfare issues will be broadened through ancillary programmes conducted by the savings and credit groups. Women and children will also receive significant benefits through infrastructural developments, financed from CDF, which will provide easier and safer access to markets, health clinics, schools and water supply

47. **Household food security and nutrition.** The household models indicate that the project interventions will result in significant improvement in household food security. Food self-sufficiency will increase to 80% to 100% through irrigation development and crop improvements on mixed irrigated and rain-fed paddy areas. Households lacking access to irrigation will still face food deficits due to very small land holdings, but the additional livestock enterprises will generate adequate cash to finance the remaining food deficit.

48. **Economic analysis.** The EIRR for the overall project over 20 years is estimated at 25% (excluding the cost of roads and rural markets) and 17% (including the cost of these facilities). This result is mainly due to crop improvement (45%), followed by livestock (33%). Results of the sensitivity analysis indicate that the project is most sensitive to a reduction in the volume of loans, i.e., use of the credit funds. Otherwise, based on an analysis of adverse movements in costs and benefits, the EIRR remains above 12%, demonstrating the inherent robustness of the project.

H. Risks

49. **Institutional capacity-building.** Strengthening of the capacity of project management and of the staff of the implementing agencies is fundamental to the success of all components. If training is not given adequate importance, there is a risk that the project will not perform as expected. The design of the project therefore emphasizes the need for thorough staff training, and the development of the management processes necessary for successful implementation.

50. **Community Development Fund.** The flexible nature of CDF could lead to a misuse of funds. Project design has introduced cross-check mechanisms that will strictly monitor the correct application of eligibility criteria and use of funds.

51. **Institutional capacity of the Viet Nam Women's Union.** Although staffed with many enthusiastic and committed people, the VWU will need additional organizational and management skills to significantly scale up its activities under the project. If adequate emphasis is not given to this capacity-building, there is a serious risk that the credit delivery systems will fail to meet the project's needs. Project design has addressed this, and considerable emphasis has been placed on staff training, technical assistance and the establishment of appropriate credit management and monitoring procedures. In addition, provision is made for collaboration with NGOs, both to gain from their experience with microfinance in the province and to minimize potential problems arising from different operational procedures.

52. **Role of community and participatory development.** Project design requires that activities originate in and are driven by the communities. It represents a reversal of the existing top-down approaches to development, and will require a substantial change in the attitude of the key people in



the provincial government and implementing agencies. This will necessarily take time to achieve. The design has defined procedures that ensure that the priorities of the target communities form the foundation of the planning process for project activities.

I. Environmental Impact

53. Due to the ecological sensitivity of the project area and the lack of information to enable quantification of potential direct and induced impacts on Protected Areas and mountain forests, an initial environmental examination (IEE) was undertaken during project formulation. As a result of the IEE, the project design includes the following features: community forestry activities will be supported in buffer zones of Protected Areas to reduce reliance on illegal extraction of forest products; training and capacity-building of DOSTE will facilitate implementation of an environmental assessment and monitoring process during implementation; and training of key farmers and extension staff will ensure best practices in the application, storage and disposal of agricultural inputs. To further minimize negative environmental impact: irrigation rehabilitation will not involve change of land use; selection criteria for irrigation schemes will ensure that they comply with water rights and have no negative consequences for downstream users; road rehabilitation will not be supported in Protected Areas; and support will be provided for integrated pest management through a farmer field schools approach.

J. Innovative Features

54. The project introduces a number of innovative features in the context of IFAD-supported projects in Viet Nam: (a) development of a *self-reliant model for an area development project* based on decentralization of decision-making and control of funds to the technical departments, accountability of project implementing agencies to the project's clientele, and reliance on national management and technical expertise; (b) adoption of a *process approach* providing the framework to ensure that project activities, e.g., infrastructural investment programmes, extension and research activities are not pre-identified before commencement of the project but reflect the priorities of the communities as identified through annual participatory planning exercises; (c) provision of *CDF*, allowing communities to finance small-scale infrastructures. This enables the project to respond to needs identified by communities that do not fall within the mainstream project components, making the participatory process more credible, and reinforces the community's involvement in decision-making and management; (d) provision of a *Development Initiative Fund*, which provides the flexibility to direct additional resources to the areas of highest priority, as expressed by the communities, and to the best-performing components; (e) introduction of a *farmer-led extension service* based on farmer field schools, rather than re-establishment of paid, government, commune-level extension workers, which is not sustainable given the provincial government's budgetary constraints; (f) a *collaboration with the ongoing IFAD-supported projects* in terms of provision of technical assistance for project management and participatory development; (g) introduction of a *commune-level revolving credit fund* as a sustainable mechanism to promote savings and credit activities; and (h) introduction of the concept of independent national advisors, and the *participation of NGOs* in the Project Steering Committee and PMCDB as quality control mechanisms.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

55. A loan agreement between the Socialist Republic of Viet Nam and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

56. The Socialist Republic of Viet Nam is empowered under its laws to borrow from IFAD.

57. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.



PART IV - RECOMMENDATION

58. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Socialist Republic of Viet Nam in various currencies in an amount equivalent to eleven million four hundred thousand Special Drawing Rights (SDR 11 400 000) to mature on and prior to 15 April 2039 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President



**SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES
INCLUDED IN THE NEGOTIATED LOAN AGREEMENT**

(Loan negotiations concluded on 28 April 1999)

1. The Government will make available to the PCU, promptly as needed, in accordance with its customary national procedures, counterpart funds in an aggregate amount of approximately USD 2 282 185 and such other resources as may be required from time to time to carry out the project.
2. The Ministry of Finance and the Viet Nam Bank for Agricultural and Rural Development (VBARD) will enter into a subsidiary loan agreement, which will set forth their respective duties in respect of the financial services sub-component and provide, among other things, (a) that VBARD will act as agent of the Government and undertake to carry out its responsibilities in respect of the financial services sub-component in accordance with the loan agreement and the Credit Regulations and Operating Procedures; and (b) for the modalities of transferring project funds to VBARD and Revolving Credit Funds (RCFs).
3. PMCDB will enter into a memorandum of understanding with the Women's Union (WU), which will set forth their respective duties in the administration of the financial services sub-component and provide, among other things, that WU will (a) declare its commitment to the goals and purposes of the project and, in furtherance of such goals and purposes, it will undertake to carry out the financial services sub-component in accordance with the loan agreement and the Credit Regulations and Operating Procedures; (b) delegate its representative to promote, establish and coordinate RCF in each commune; and (c) delegate its representative to PMCDB.
4. The RCF management units will deposit all net revenues from loans extended to the Village Savings and Credit Groups (VSCGs) into RCFs. The RCF management units will use RCFs to fund further loans VSCGs in accordance with the loan agreement. For purposes of this paragraph, the term "net revenues" means all repayments of principal and all payments of interest, *less* reasonable operating and other costs (including cost of funds).
5. PSC will invite a group of approximately three voluntary national senior development practitioners to support PCU in (i) the selection of suppliers of training services and capacity-building activities, and (ii) project implementation and monitoring. Such advisors will be invited to regular quarterly PSC meetings. As soon as practicable, but in no event later than 90 days after the effective date of the loan agreement, the Government will submit the list and terms of reference of such advisors to IFAD for review and approval.
6. The Government will ensure that budgetary allocations to the government agencies participating in the project are maintained in real terms at least at 1998 fiscal year levels throughout the project implementation period.
7. The Government will ensure that, beginning in the first project year, the participatory planning exercises are conducted and, beginning in the second project year, AWPBs are based on such exercises.
8. Those beneficiary contributions to be paid in labour to economic infrastructure investment will be paid at official wages for unskilled work.
9. The Government will ensure that the necessary and sufficient budget allocations are made for the maintenance of roads and bridges rehabilitated under the project throughout the project implementation period.



ANNEX

10. The Government will ensure that the sale of seeds, other planting material and breeding and fattening stock produced by government stations will be at prices that cover the variable costs of production. The Government will encourage the commercial production and sale of certified seed, planting material and breeding stock by farmers.
11. The Government will ensure that the rehabilitated facilities of state enterprises are operated on a commercial basis so as to avoid the need for government subsidies and to prevent deterioration upon project completion. Prior to release of project financial support, each such enterprise will be required to prepare and submit to PCU a business plan indicating the viability of its activities.
12. The Government will avoid the double financing by the project of activities supported by other donors, particularly in the roads and bridges and participatory development components.
13. Project beneficiaries will be given the opportunity to review project progress. At least once every project year, beneficiaries of both sexes from villages in which a substantial level of project activities have taken place will meet with representatives of WU, the Farmers' Association, VBARD, PCU and project staff to review the progress of each component. The outcome of such reviews will be incorporated into the participatory planning exercise for the following project year.
14. As part of maintaining sound environmental practices, the project will maintain appropriate pest management practices and, to that end, the Government will ensure that pesticides procured under the project do not include any pesticide either proscribed by the International Code of Conduct on the Distribution and Use of Pesticides of the Food and Agriculture Organization of the United Nations (FAO), as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the World Health Organization (WHO) Recommended Classification of Pesticides by Hazard and Classification 1996-1997, as amended from time to time.
15. The following are specified as conditions precedent to the effectiveness of the loan agreement:
 - (a) the loan agreement shall have been duly signed, and the signature and performance thereof by the Government shall have been duly authorized and ratified by all necessary administrative and governmental action, and
 - (b) a favourable legal opinion, issued by legal counsel approved by IFAD, in form and substance acceptable to IFAD, shall have been delivered by the Government to IFAD.
16. No withdrawals will be made in respect of incremental credit for the financial services sub-component until:
 - (a) the subsidiary loan agreement referred to paragraph 2 above, as signed by MOF and VBARD, shall have been approved by IFAD;
 - (b) PMCDB shall have been established;
 - (c) the Credit Regulations and Operating Procedures shall have been approved by IFAD; and
 - (d) the memorandum of understanding referred to in paragraph 3 above, as signed by PMCDB and WU, shall have been approved by IFAD.

APPENDIX I

COUNTRY DATA

VIET NAM

Land area (km² thousand) 1995 1/	325	GNP per capita (USD) 1996 2/	290
Total population (million) 1996 1/	75	Average annual real rate of growth of GNP per capita, 1990-96 2/	6.2
Population density (people per km²) 1996 1/	230	Average annual rate of inflation, 1990-96 2/	22.7
Local currency	New Dong (VND)	Exchange rate: USD 1 =	VND 13,000
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-96 1/	2.1	GDP (USD million) 1996 1/	23 340
Crude birth rate (per thousand people) 1996 1/	25	Average annual rate of growth of GDP 1/	
Crude death rate (per thousand people) 1996 1/	7	1980-90	4.6
Infant mortality rate (per thousand live births) 1996 1/	40	1990-96	8.5
Life expectancy at birth (years) 1996 1/	68	Sectoral distribution of GDP, 1996 1/	
Number of rural poor (million) 1/	35	% agriculture	27.2
Poor as % of total rural population 1/	57.2	% industry	30.7
Total labour force (million) 1996 1/	38	% manufacturing	n.a.
Female labour force as % of total, 1996 1/	49.3	% services	42.1
Education		Consumption, 1996 1/	
Primary school gross enrolment (% of relevant age group) 1995 1/	114.0	General government consumption (as % of GDP)	n.a.
Adult literacy rate (% of total population) 1995 3/	93.7	Private consumption (as % of GDP)	86.0
Nutrition		Gross domestic savings (as % of GDP)	
Daily calorie supply per capita, 1995 3/	2 438	Balance of Payments (USD million)	
Index of daily calorie supply per capita (industrial countries=100) 1995 3/	77	Merchandise exports, 1996 1/	7 016
Prevalence of child malnutrition (% of children under 5) 1990-96 1/	44.9	Merchandise imports, 1996 1/	13 910
Health		Balance of merchandise trade	
Health expenditure, total (as % of GDP) 1990-95 1/	5.2	-6 894	
Physicians (per thousand people) 1994 1/	0.4	Current account balances (USD million)	
Percentage population without access to safe water 1990-96 3/	57	before official transfers, 1996 1/	
Percentage population without access to health services 1990-95 3/	10	after official transfers, 1996 1/	
Percentage population without access to sanitation 1990-96 3/	79	Foreign direct investment, 1996 1/	
Agriculture and Food		1 500	
		Government Finance	
Food imports as percentage of total merchandise imports 1996 1/	n.a.	Overall budget surplus/deficit (including grants) (as % of GDP) 1995 1/	
Fertilizer consumption (hundreds of grams per ha of arable land) 1994-96 1/	2 488	Total expenditure (% of GDP) 1995 1/	
Food production index (1989-91=100) 1994-96 1/	127	Total external debt (USD million) 1996 1/	
Land Use		Present value of debt (as % of GNP) 1996 1/	
Agricultural land as % of total land area, 1994 4/	21.8	Total debt service (% of exports of goods and services) 1996 1/	
Forest area (km ² thousand) 1995 1/	91	123.0	
Forest area as % of total land area, 1995 1/	28.0	3.5	
Irrigated land as % of cropland, 1994-96 1/	29.6	26 764	
		Nominal lending rate of banks, 1996 1/	
		Nominal deposit rate of banks, 1996 1/	
		28.3	
		17.9	

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1998

2/ World Bank, *Atlas*, 1998

3/ UNDP, *Human Development Report*, 1998

4/ World Bank, *The World Development Indicators CD-ROM*, 1998

PREVIOUS IFAD LOANS TO VIET NAM

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Participatory Resource Management Project - Tuyen Quang Province	IFAD	UNOPS	HC	06 Apr 93	06 Aug 93	31 Dec 01	L - I - 328 - VN	SDR	13 350 000	58.2%
Agricultural Resources Conservation and Development Project in Quang Binh Province	IFAD	UNOPS	HC	04 Dec 96	25 Mar 97	30 Jun 02	G - I - 28 - VN	USD	100 000	46.5%
Agricultural Resources Conservation and Development Project in Quang Binh Province	IFAD	UNOPS	HC	04 Dec 96	25 Mar 97	30 Jun 02	L - I - 434 - VN	SDR	10 050 000	24.9%
Ha Giang Development Project for Ethnic Minorities	IFAD	UNOPS	HC	04 Dec 97	27 Apr 98	30 Jun 04	G - I - 52 - VN	USD	50 000	42.6%
Ha Giang Development Project for Ethnic Minorities	IFAD	UNOPS	HC	04 Dec 97	27 Apr 98	30 Jun 04	L - I - 460 - VN	SDR	9 200 000	08.1%

2



LOGICAL FRAMEWORK

Narrative Summary	Key Performance Indicators ¹	Means of Verification	Critical Assumptions
<p>Overall Goal:</p> <p>To raise the incomes and living standards, and to increase the participation of poor households in the growth process in Ha Tinh.</p>	<p>(Household Income Indicator) An increase of annual average farm income of the target households from x to y by mid-term of the project (% of the poor households) in terms of paddy equivalent</p> <p>(Poverty Reduction of Household Indicator) A decrease in the proportion of poor households below the poverty line from x to y by mid-term of the project</p> <p>(Poverty Reduction of Commune Indicator) A decrease in the absolute number of poor communes in Ha Tinh from x to y by mid-term of the project</p> <p>(Food Security of Individual Indicator) Average increase of the calorie intake (disaggregated figures of man, woman and child) from x calories to y calories by mid-term of the project (% of poor households)</p> <p>(Social Welfare Indicator) Increase in the proportion of children enrolled in primary school (% of poor households)</p> <p>(Social Welfare Indicator) Increase in the percentage of grade 1 students remaining enrolled to the final grade of primary school (% of poor households)</p> <p>(Social Welfare Indicator) Increase in the percentage of enrolment in the last grade of primary continuing to the first grade of general secondary school in the next year</p>	<p>1.1 Health statistics</p> <p>1.2 Project progress reports</p> <p>1.3 Project evaluation reports</p> <p>1.4 Supervision reports</p>	

¹ There has been particular emphasis on the indicators identified being poverty-related. Furthermore, poverty indicators need to be disaggregated at the household and individual level (gender specific).



Narrative Summary	Key Performance Indicators ¹	Means of Verification	Critical Assumptions
Project Development Objectives:	Monitoring Indicators: ²		
Intensification and diversification of income-generating activities of the poor households participating in the project:	(output) x number of small farmers (1.5 ha or less) increase yield of staple crops (rice, groundnuts, sweet potato) by x% from y to z amount by mid-term of the project (as compared to the baseline survey); (output) x number of small farmers (1.5 ha or less) increase yield of vegetable production by x% from y to z by mid-term of the project; (output) x number of small farmers increase the number of fruit trees by x% from y to z by mid-term of the project; (output) Increase in livestock production by x amount covering y number of small farmers by mid-term of the Project (% of poor households)	1.1 Baseline survey 1.2 Project evaluation (mid-term) 1.3 Annual crop production survey reports 1.4 Supervision reports (semi-annual)	1. Sustained political commitment to address poverty issues by the national government and the project implementing agencies. 2. The current trend of market-oriented reforms continues along with other changes in attitude and approach. 3. The target group acknowledges the objectives of the project and takes ownership. 4. Management and staff of the project implementing agencies internalize the change process. 5. There is no resistance among the project implementing agencies to the participatory processes in planning and implementation of community development.
4 Project Outputs (milestones achieved through the implementation of the activities): 1. Participatory development mechanisms established: 1.a. Poor households realize their potential in influencing project design and implementation;	1.a. (input) x number of participatory rural appraisals (PRAs) that have been implemented in y number of communes covering z number of poor households by the end of each project year	1. - Baseline survey - Project progress reports (semi- annual) - Supervision reports	1. Development plans are drawn up based on interaction with the commune and district levels in the pilot areas and reflect their priorities, needs and requirements. 2. Adoption of the newly introduced technology by the target-group farmers. 3. Necessary data, maps and other important information is available to project implementing agencies when necessary. 4. Good quality staff promote project approaches throughout the province. 5. Social mechanism for maintenance of rural roads; rural infrastructure functions properly.

² At the project development objective level, monitoring refers to assessment of project impact on the beneficiary or the system during different phases of implementation and after completion. If all inputs are delivered and outputs achieved, then desired impact is to be achieved. If not, there is possibility for a change in design.

Narrative Summary	Key Performance Indicators ¹	Means of Verification	Critical Assumptions
<p>Project Development Objectives:</p> <p>1.b. Sustainable community development framework is established where the needs and initiatives of poor communities/households are reflected in the project design and implementation;</p>	<p>Monitoring Indicators:²</p> <p>1.b. (output) x number of proposals for development opportunities for the communities, small-scale irrigation schemes and other small-scale infrastructure needs (% of poorest households) by the end of each project year</p>		
<p>1.c. Project management and technical departments are responsive to the beneficiaries' needs and working with them to meet these needs.</p>	<p>1.c. (output) x number of proposals accepted by the project management; technical agencies implemented in the following project year; and at least y% of the targets set for the year achieved</p> <p>(input) x number of training courses conducted for the people's committees and y number of study tours by the end of each project year</p> <p>(output) x number of people trained in the training program and the study tours by the end of each project year</p> <p>(process) x number of community facilitators in y number of poor communes by the end of each project year</p>		
<p>2. Income-generating activities promoted:</p> <p>2.a. Sustainable small-scale irrigation systems are established and upgraded; and management of the irrigation schemes is improved;</p> <p>2.b. An effective farmer extension program is developed and access to inputs are improved for intensified/diversified agricultural production;</p>	<p>2.a. (output) x ha irrigated by the project by y number of small-scale irrigated schemes constructed/rehabilitated by the end of each project year</p> <p>(output) x number of water users' associations established with y number of members by the end of each project year</p>	<p>2. - Baseline survey</p> <ul style="list-style-type: none"> - Project progress reports (semi-annual) - Supervision reports 	



Narrative Summary	Key Performance Indicators ¹	Means of Verification	Critical Assumptions
Project Development Objectives:	Monitoring Indicators: ²		
	<p>(output) Increase in the number of extension workers from x to y, trained by the end of each project year</p> <p>(output) x number of key farmers trained by the end of each project year</p> <p>(output) x number of participatory trials of new varieties of vegetables by y number of small farmers by the end of each project year</p>		
<p>2.c. The delivery of animal health care and disease control services is improved and effective extension is provided for livestock and fishpond production;</p> <p>2.d. Financial services are made accessible to poor households.</p>	<p>2.c. (output) x number of pilot villages developed in y number of villages; development of integrated, village-level backyard poultry production by the end of each project year</p> <p>(input) x number of on-farm trials on optimal utilization of local feed resources for pigs, poultry, cattle and goats by the end of each project year</p> <p>(process) x number of artificial insemination facilities and infrastructure constructed/rehabilitated by the end of each project year</p> <p>2.d. (output) x number of women's savings and credit groups formed with y number of members (% of poor households) by the end of each project year</p> <p>(process) x amount of money disbursed as y number of loans by the end of each project year</p> <p>(process) Repayment rate of group members; x number of arrears by y number of group members by the end of each project year</p> <p>(process) x amount of money accumulated as savings by y number of groups by the end of each project year</p> <p>(output) x number of groups received access to credit facilities (% of poor households) by the end of each project year</p> <p>(process) diversification to other income-generating activities of x number of women in the target group</p>		

Narrative Summary	Key Performance Indicators ¹	Means of Verification	Critical Assumptions
Project Development Objectives:	Monitoring Indicators:²		
<p>3. Rural roads and the marketing facilities of agricultural commodities are constructed or upgraded.</p>	<p>3. x km of y class road, servicing z number of rural communes, constructed/rehabilitated and maintained (number of poor communes) by mid-term of the project</p> <p>x number of bridges (y meters), servicing z number of poor communes, established by the end of each project year</p> <p>x number of rural markets, servicing y number of rural communes, constructed/rehabilitated and maintained by the end of each project year</p>	<p>3. - Project progress reports (semi-annual)</p> <ul style="list-style-type: none"> - NGO progress reports - Monitoring and evaluation reports - Supervision reports 	
<p>4. Project Coordination Unit established and operational: improved development planning and management processes by project management and technical line agencies implementing the project.</p>	<p>4. x number of meetings of Project Coordination Unit monthly</p> <p>x number of district coordination units established and functioning annually</p> <p>Physical progress of the project on schedule quarterly</p> <p>Financial progress of the project on schedule quarterly</p>	<p>4. - Project progress reports (semi-annual)</p> <ul style="list-style-type: none"> - Minutes of the meetings - Supervision reports 	



COSTS AND FINANCING

(USD)

	Income Generation and Diversification							Project Management			Physical Contingencies		
	Participatory Development	Small-scale Irrigation	Support for Crop & Livestock Production	Support for Animal Health Delivery	Financial Services	Rural Markets	Solar Energy Demonstrations	Rural Roads and Bridges	Project Management	Development Initiatives Fund	Total	%	Amount
I. Investment Costs													
A. Civil works													
Survey, design, & supervision	-	140 000	-	-	-	-	-	52 027	-	-	192 027	10.0	19 203
Construction works (contracts)	-	1 659 538	84 615	92 308	-	557 308	-	1 597 456	90 000	-	4 081 226	10.0	408 123
Contributed labour	264 706	199 877	-	-	-	-	-	112 846	-	-	577 429	10.0	57 743
Subtotal civil works	264 706	1 999 415	84 615	92 308	-	557 308	-	1 762 329	90 000	-	4 850 682	10.0	485 068
B. Vehicles, eqpt & materials													
Vehicles	27 692	43 077	146 154	50 000	95 385	-	-	16 154	134 615	-	513 077	-	-
Equipment	-	46 815	194 585	105 150	165 815	-	48 692	46 077	77 731	-	684 865	-	-
Materials	-	-	237 308	-	-	-	-	-	-	-	237 308	-	-
Subtotal vehicles, eqpt & materials	27 692	89 892	578 046	155 150	261 200	-	48 692	62 231	212 346	-	1 435 250	-	-
C. Training, TA & field studies													
Field studies	33 231	-	-	-	6 923	-	1 538	-	-	-	41 692	5.0	2 085
Farmer training	-	-	186 646	113 723	15 650	-	-	-	-	-	316 019	5.0	15 801
Staff training	78 044	11 545	99 493	136 500	132 657	-	5 751	-	88 888	-	552 878	5.0	27 644
National TA	53 846	55 385	100 000	18 462	90 769	-	-	-	96 923	-	415 385	-	-
Subtotal training, TA & field studies	165 121	66 929	386 139	268 685	245 999	-	7 289	-	185 812	-	1 325 973	3.4	45 529
D. Development Initiatives Fund	-	-	-	-	-	-	-	-	-	3 000 000	3 000 000	-	-
E. Community Development Fund	1 500 000	-	-	-	-	-	-	-	-	-	1 500 000	-	-
F. Incremental credit	-	-	-	-	1 684 923	-	-	-	-	-	1 684 923	-	-
G. Land purchase	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Investment Costs	1 957 519	2 156 237	1 048 801	516 142	2 192 122	557 308	55 982	1 824 560	488 158	3 000 000	13 796 828	3.8	530 598
II. Recurrent Costs													
A. Staff salaries	19 938	-	4 985	-	138 308	-	-	-	55 495	-	218 726	-	-
B. Staff allowances	9 969	53 169	117 785	40 985	200 654	-	-	40 431	117 692	-	580 685	-	-
C. Infrastructure maintenance	-	387 692	-	11 538	-	42 196	-	530 506	11 250	-	983 183	1.8	18 023
D. Vehicles O&M	27 692	51 692	131 077	60 000	69 538	-	-	19 385	161 538	-	520 923	5.0	26 046
E. Equipment O&M	-	27 692	52 615	29 077	-	-	1 315	26 308	46 892	-	183 900	5.0	9 195
F. Office running costs	-	23 077	36 923	34 615	69 231	-	-	23 077	226 154	-	413 077	5.0	20 654
Total Recurrent Costs	57 600	543 323	343 385	176 215	477 731	42 196	1 315	639 706	619 022	-	2 900 494	2.5	73 918
Total BASELINE COSTS	2 015 119	2 699 560	1 392 185	692 358	2 669 853	599 504	57 297	2 464 266	1 107 180	3 000 000	16 697 322	3.6	604 516
Physical contingencies	33 419	205 642	33 799	28 503	14 700	55 731	430	196 555	35 736	-	604 516	-	-
Price contingencies													
Inflation													
Local	483 950	782 572	211 432	128 600	649 109	142 476	2 231	584 497	169 010	1 004 829	4 158 706	-	-
Foreign	17 822	28 699	22 415	8 109	27 362	5 430	1 673	20 251	22 307	45 214	199 282	-	-
Subtotal inflation	501 771	811 271	233 847	136 709	676 471	147 906	3 904	604 748	191 317	1 050 043	4 357 988	-	-
Devaluation	-297 412	-474 383	-130 010	-78 760	-396 126	-87 677	-1 432	-362 276	-103 036	-597 908	-2 529 019	-	-
Subtotal price contingencies	204 359	336 888	103 837	57 949	280 345	60 229	2 473	242 473	88 282	452 135	1 828 969	3.2	57 653
Total PROJECT COSTS	2 252 897	3 242 090	1 529 822	778 810	2 964 897	715 464	60 200	2 903 294	1 231 198	3 452 135	19 130 807	3.5	662 168
Taxes	5 849	42 820	38 599	16 652	18 394	10 010	1 092	34 489	35 834	-	203 738	4.1	8 444
Foreign exchange	210 420	319 894	416 745	145 488	354 234	66 734	38 989	278 168	397 042	345 214	2 572 928	2.8	72 112



EXPENDITURE ACCOUNTS BY COMPONENTS

(USD '000)

	(VND '000)			(USD)			%	% Total
	Local	Foreign	Total	Local	Foreign	Total	Foreign Exchange	Base Costs
I. Investment Costs								
A. Civil works								
Survey, design, & supervision	2 371 533	124 818	2 496 350	182 426	9 601	192 027	5	1
Construction works (contracts)	47 750 340	5 305 593	53 055 933	3 673 103	408 123	4 081 226	10	24
Contributed labour	7 506 580	-	7 506 580	577 429	-	577 429	-	3
Subtotal civil works	57 628 452	5 430 411	63 058 863	4 432 958	417 724	4 850 682	9	29
B. Vehicles, eqpt & materials								
Vehicles	1 334 000	5 336 000	6 670 000	102 615	410 462	513 077	80	3
Equipment	4 579 595	4 323 655	8 903 250	352 277	332 589	684 865	49	4
Materials	2 486 000	599 000	3 085 000	191 231	46 077	237 308	19	1
Subtotal vehicles, eqpt & materials	8 399 595	10 258 655	18 658 250	646 123	789 127	1 435 250	55	9
C. Training, TA & field studies								
Field studies	542 000	-	542 000	41 692	-	41 692	-	-
Farmer training	3 993 045	115 200	4 108 245	307 157	8 862	316 019	3	2
Staff training	6 336 035	851 375	7 187 410	487 387	65 490	552 878	12	3
National TA	5 400 000	-	5 400 000	415 385	-	415 385	-	2
Subtotal training, TA & field studies	16 271 080	966 575	17 237 655	1 251 622	74 352	1 325 973	6	8
D. Development Initiatives Fund	35 100 000	3 900 000	39 000 000	2 700 000	300 000	3 000 000	10	18
E. Community Development Fund	17 550 000	1 950 000	19 500 000	1 350 000	150 000	1 500 000	10	9
F. Incremental credit	19 713 600	2 190 400	21 904 000	1 516 431	168 492	1 684 923	10	10
G. Land purchase	-	-	-	-	-	-	-	-
Total Investment Costs	154 662 727	24 696 041	179 358 768	11 897 133	1 899 695	13 796 828	14	83
II. Recurrent Costs								
A. Staff salaries	2 843 440	-	2 843 440	218 726	-	218 726	-	1
B. Staff allowances	7 548 900	-	7 548 900	580 685	-	580 685	-	3
C. Infrastructure maintenance	12 547 079	234 302	12 781 380	965 160	18 023	983 183	2	6
D. Vehicles O&M	3 702 400	3 069 600	6 772 000	284 800	236 123	520 923	45	3
E. Equipment O&M	1 195 350	1 195 350	2 390 700	91 950	91 950	183 900	50	1
F. Office running costs	4 564 500	805 500	5 370 000	351 115	61 962	413 077	15	2
Total Recurrent Costs	32 401 669	5 304 752	37 706 420	2 492 436	408 058	2 900 494	14	17
Total BASELINE COSTS	187 064 396	30 000 792	217 065 188	14 389 569	2 307 753	16 697 322	14	100
Physical contingencies	7 002 098	856 607	7 858 706	538 623	65 893	604 516	11	4
Price contingencies	54 173 792	6 749 895	60 923 687	1 629 687	199 282	1 828 969	11	11
Total PROJECT COSTS	248 240 285	37 607 295	285 847 580	16 557 879	2 572 928	19 130 807	13	115





ORGANIZATION AND MANAGEMENT

Project Organization and Executing Agencies

In accordance with Provincial Government Decision No. 23/9 of 23 September 1998, the operations of the National Project Steering Committee for IFAD projects will longer apply to the Province, and therefore the Provincial People's Committee (PPC) will be responsible for project policy, direction and review. PPC will appoint a Project Steering Committee (PSC) to oversee the implementation of the project.

Project Steering Committee

The PSC will be chaired by the vice-chairman (Agriculture) of the PPC with membership composed of the director of the department of Planning and Investment (vice-chairman); the project director (Member Secretary); the chairpersons of the District People's Committee; the director of the provincial branch of the State Treasury; a representative of the State Bank of Viet Nam; the activity managers; the chairperson of the Viet Nameese Women's Union (Ha Tinh Province); and a representative of the Farmers' Association (FA). A representative of the NGO operating in the province will attend as a non-voting observer.

PSC will meet quarterly and have the right to co-opt members and to establish executive subcommittees on a standing or ad hoc basis to deal with any exceptional project matters. Its responsibilities will be to ensure that project activities are in accordance with relevant government policies, and with the conditions of the loan agreement, and it will provide a forum for the resolution of any policy or financial impasse. In particular, it will (a) ensure complementarity between the project and externally assisted projects and efficient use of financial and manpower resources; (b) provide policy guidance to the Project Coordination Unit; (c) review and approve project annual work plans and budgets (AWPBs); (d) ensure the establishment and competency of project staff; (e) ensure effective cooperation and coordination among PCU, implementing agencies and districts; and (f) supervise the use of financial resources and the monitoring of project performance.

Project Coordination Unit

Responsibility for the day-to-day conduct of project affairs will be the duty of the PCU which will be established within the Department of Planning and Investment (DPI), Ha Tinh. In addition to its duties as Secretariat of PSC it would: (a) maintain the project account in accordance with government financial regulations and the conditions of the loan agreement; (b) ensure effective coordination of project activities, serve as the initial contact point for all official dealings among the provincial government, implementing organizations and international agencies and act as focal point for all visiting missions; (c) prepare and submit for PSC approval the consolidated AWPB and ensure its inclusion in the provincial budget in accordance with the MOF budget timetable; (d) procure standard or bulked items in accordance with project procurement procedures and authorize the procurement of other goods and services, including consulting and other contracts of the implementing departments; (e) ensure the timely release of funds to implementing agencies in accordance with approved AWPB schedules; (f) ensure that the physical, financial and impact monitoring of project activities is conducted in accordance with MPI requirements and those of the loan agreement; (g) prepare, collate and submit withdrawal applications in accordance with MOF instructions; (h) prepare, consolidate as necessary, and submit financial, progress, monitoring and other reports in accordance with the requirements of the Government, PCC and the loan agreement; (i) provide common services for all implementing agencies and participating districts, e.g., coordination of training programmes,



workshops and study tours; and (j) generally ensure the orderly implementation of the project on the basis of the approved AWPB.

Implementing Agencies

Activity managers. Responsibility for the implementation of each project component will be assigned to the concerned provincial technical department, which will appoint a suitably qualified activity manager (AM). AM, will remain under the administrative and technical authority of their departments and will not be seconded to the PCU. They will be accountable for achieving the AWPB targets and will be entrusted with an imprest account to finance the operating costs incurred in implementing planned activities. They will report directly to their departmental director on technical matters, and to the PD on other matters relating to the overall planning and implementation of their respective components and activities. They may be appointed by their directors to participate in meetings of the PSC.

Since DARD is responsible for implementing four discrete sub-components, i.e., irrigation, agricultural production, animal health/veterinary services, and crop and livestock extension, a senior AM will be appointed to oversee and coordinate all DARD activities. He will be assisted by sub-AMs appointed for each sub-component and will coordinate AWPB preparation and other project-related activities within in the department.

Annual work plans and budgets. The AWPB is the basic document for the planning and implementation of project activities. In accordance with the project approach and objectives, it will be drawn up on the basis of community participatory rural appraisal and planning exercises undertaken each year by communes as they join the project. Preparation of AWPBs will be the responsibility of the AMs of each participating department at district level under the guidance of PCU, and the timing of preparation and submission will comply with the government budget cycle.

In addition to the activities for the forthcoming period, planning will take account of any spill-over from the previous year. A participatory monitoring exercise and the annual review and planning workshops will provide further guidance for AWPB preparation. In this manner, AWPB will constitute the initial step in a continuous management process that will provide a regular flow of management information for effective implementation. A schematic outline of AWPB preparation is set out in Chart II: Annual Work Programme and Budget Preparation.

Monitoring and evaluation. Overall responsibility for the monitoring and ongoing evaluation of the physical and financial progress of the project will lie with PCU. M&E officers will be responsible for compiling quarterly and annual reports from the individual technical reports submitted by AMs in accordance with prescribed formats.

The exercise establishing indicative targets and indicators will take place annually. The outcome will be reviewed at the village and commune level (where project activities are sufficiently concentrated) and at the district and provincial level, and will be part of the ongoing evaluation process.

Financial

To administer the project's financial service, a non-banking financial institution, the Project Microcredit Development Board (PMCDDB) will be established. PMCDDB, chaired by the project director and composed of representatives of the State Bank of Viet Nam, VWU, FA and the NGO active in the province, will have regulatory and supervisory oversight of the project's credit funds and overall responsibility in maintaining the value of those funds in real terms. In particular, it will ensure compliance with (a) relevant Central Bank regulations governing the operations of rural credit; and

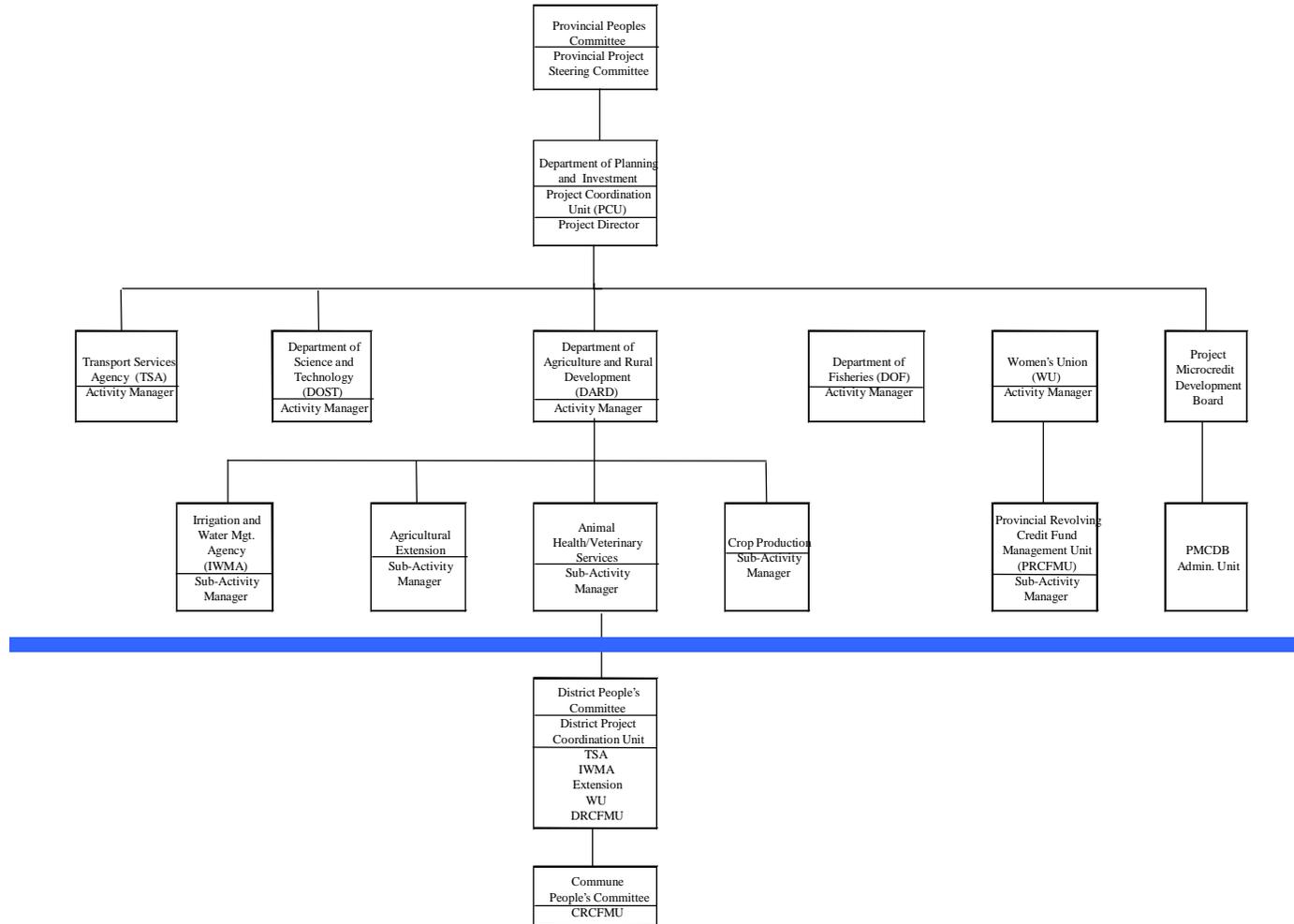


APPENDIX VI

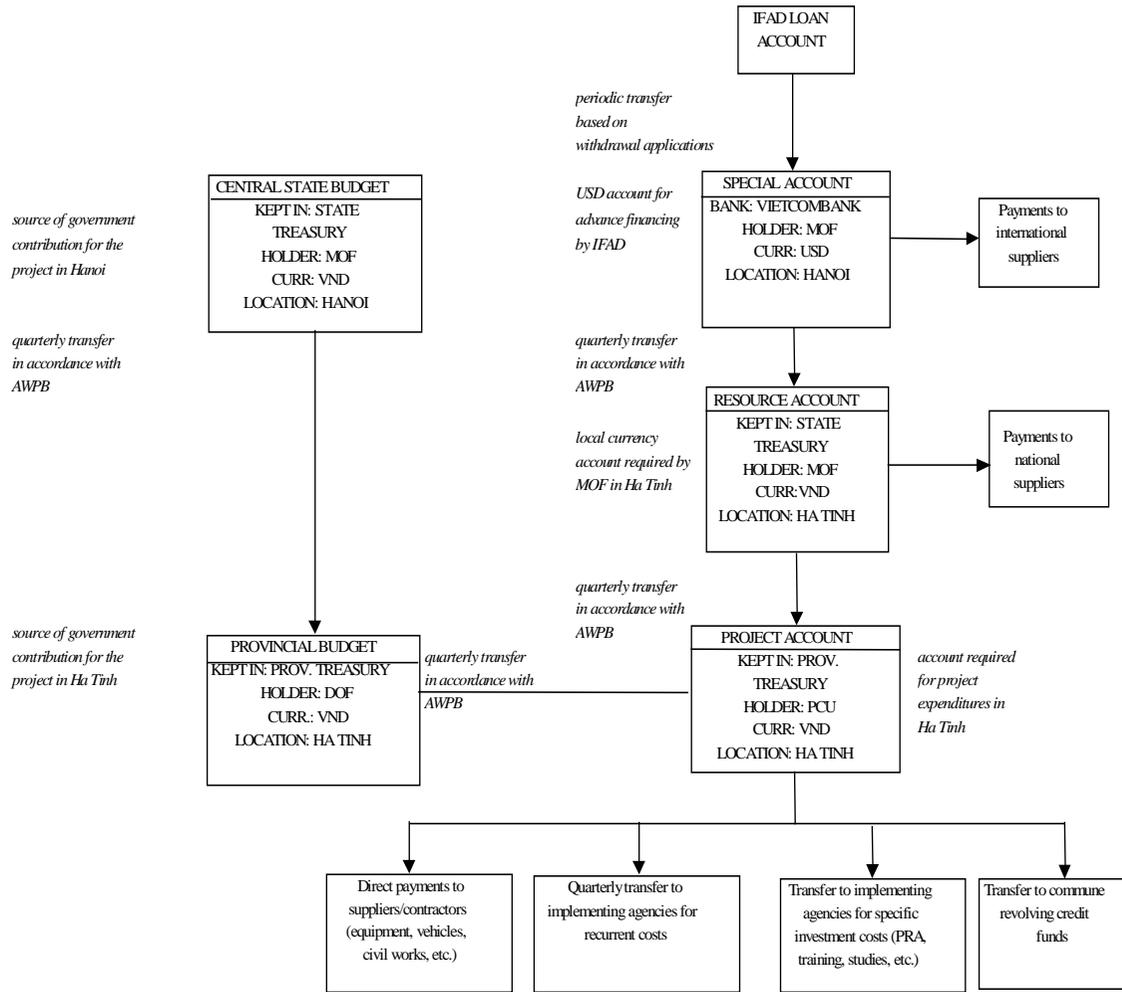
(b) IFAD project loan conditions. A specific duty will be to set RCF interest rates at a level that, at full development, will cover operational costs and maintain the value of the credit funds in real terms. Board policy and services will be carried out and provided by an Administrative Unit, with district-level branches.

PCMDB powers and duties will be contained in its Credit Regulations and Operating Procedures, which, *inter alia*, will cover RCF accounting and reporting; establishment of RCF interest rates; supervision and inspection of RCF affairs; audit of RCF accounts; and RCF financial reporting. Its relationship with VWU will be set out in a memorandum of understanding with VWU, which will set out the respective duties of each party in the administration of the component.

ORGANIZATIONAL STRUCTURE



FLOW OF FUNDS



ECONOMIC AND FINANCIAL ANALYSIS

Financial Analysis

Financial analysis of improvements to crop production systems indicates net increases in net income ranging from 155% for vegetables and upland crop improvement to around 300% in the case of new irrigation capacity. Returns to labour increase to exceed the prevailing wage rate. Livestock enterprises generate incremental income ranging from VND 500 000 per year for pig-fattening to over VND 3 million for duck-egg production. Returns to labour are generally above the prevailing wage rates.

Four representative household models demonstrating the potential impact of the project on individual farm households, related to different poverty categorizations and different agro-ecological zones, indicate substantial increases in income ranging from 113% to 220% . For all models, livestock accounts for over half of the projected increase. Returns to labour show substantial improvement (44-90%) resulting in levels that exceed or match prevailing wage rates. Current labour utilization per household amounts to only about 30-35% of the available labour. Representative household models indicate an increase in labour requirements of 20-45%. Thus, on an annual basis, labour availability is more than adequate to meet the requirements of the proposed interventions.

Economic Analysis

The main economic benefits of the project will be the incremental value of the crop, livestock and other products due to the combination of improved technologies promoted by the project with the provision of credit. However, given the demand-driven nature of the project, the uptake of various activities will depend on each farmer's assessment of the attractiveness and applicability to his circumstances. Hence the economic analysis can be at best only indicative based on a large number of assumptions. Financial prices have been converted into economic prices for valuing the assumed incremental benefits. The economic costs have been obtained through direct estimation (e.g., fertilizers) or through the application of standard conversion factors ranging from 0.9 to 1.0. Household labour has been shadow-priced at 65% of the financial price, reflecting the considerable degree of underemployment in the project area but also the fact that incremental labour requirements for crop production tend to come at peak times when casual-labour work is more readily available.

A separate economic analysis has been undertaken for irrigation based on an average scheme and the overall component (including a share of the extension and overhead project costs). This yields an EIRR for the average scheme of 22% and 15% for the overall component. Both of these results are robust in terms of sensitivity to cost increases, net benefit decreases and benefits delay. The most likely variable during implementation will be the rehabilitation/construction cost per hectare. The results of the sensitivity analysis to these parameters indicate that the EIRR falls below 12% at an investment cost of USD 1 500 per hectare for rehabilitation and of USD 2 000 per hectare for new schemes. Thus it is recommended that these should be the normal cut-off points for accepting schemes, that schemes above these costs should be subjected to a rigorous analysis of costs and benefits before any decision is taken and that this evaluation should take place before detailed design.

Social Benefits

Along with the improvement in the standard of living due to increased agricultural production, the project will bring social benefits. Rural roads will alleviate the remoteness of isolated villages, and for villages in which communications are periodically disrupted by floods, will give the inhabitants better access to social facilities, particularly for health and education. The construction of communal markets will improve the circulation of goods in rural areas, and users will also benefit from more-sanitary conditions and shelter from sun and rain.

