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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE

SOCIALIST REPUBLIC OF VIET NAM

FOR THE

RURAL INCOME DIVERSIFICATION PROJECT IN TUYEN QUANG PROVINCE



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CURRENCY EQUIVALENTS

Currency Unit	=	Vietnamese Dong (VND)
USD 1.00	=	15,000 VND
VND 1.00	=	USD 0.00007

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

AWP/B	Annual Work Plan and Budget
CDB	Community Development Board
COs	Community Organizers
DARD	Department of Agricultural and Rural Development
DETVTSs	District Economic, Technical and Vocational Training Schools
DLA	Department of Land Administration
DOTC	Department of Transportation and Communication
DPCU	District Project Coordination Unit
FLA/LUP	Forest Land Allocation and Land-Use Planning
LUCs	Land-Use Certificates
M&E	Monitoring and Evaluation
MMU	Micro-finance and Micro-enterprise Unit
NGOs	Non-Government Organizations
NTFPs	Non-Timber Forest Products
PETVTS	Provincial Economic, Technical and Vocational Training School
PIA	Participatory Impact Assessment
PPC	Provincial People's Committee
PPCU	Provincial Project Coordination Unit
PPSC	Provincial Project Steering Committee
PRMP	Participatory Resource Management Project – Tuyen Quang Province
SCGs	Savings and Credit Groups
SIDA	Swedish International Development Agency
UNOPS	United Nations Office for Project Services
VBA/VBP	Viet Nam Bank for Agriculture and Rural Development/Viet Nam Bank for the Poor
VDB	Village Development Board
VIDF	Village Infrastructure Development Fund
VIETCOMBANK	Viet Nam Commercial Bank
WLF	Women's Livelihood Fund
WLF-CSG	WLF-Commune Support Group
WLF-VG	WLF-Village Group
WU	Women's Union

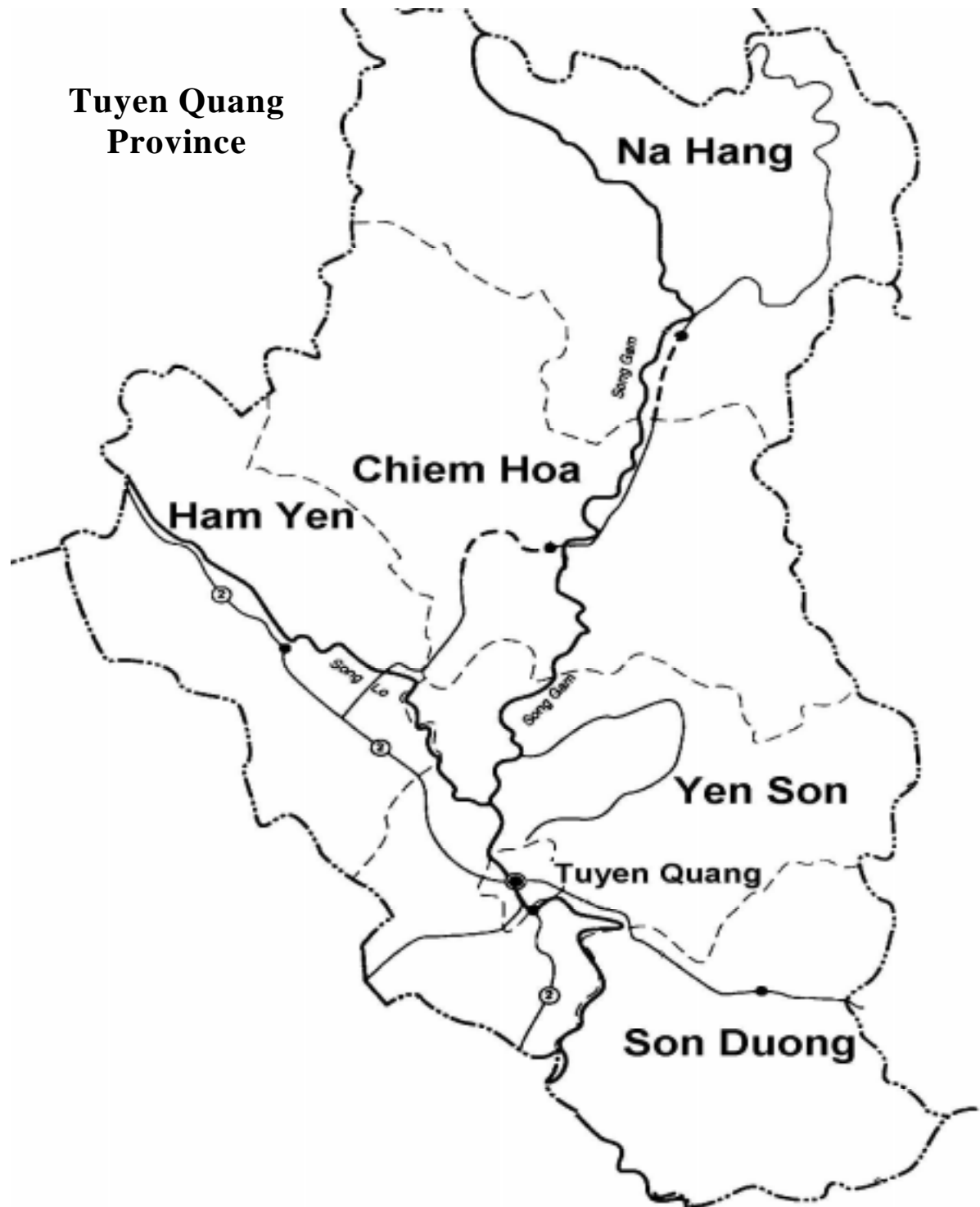
GOVERNMENT OF THE SOCIALIST REPUBLIC OF VIET NAM

Fiscal Year

1 January - 31 December



MAP OF THE PROJECT AREA



Source: IFAD

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



SOCIALIST REPUBLIC OF VIET NAM
RURAL INCOME DIVERSIFICATION PROJECT IN TUYEN QUANG PROVINCE
LOAN SUMMARY

INITIATING INSTITUTION:	IFAD
BORROWER:	Socialist Republic of Viet Nam
EXECUTING AGENCY:	Provincial People's Committee of Tuyen Quang
TOTAL PROJECT COST:	USD 30.4 million
AMOUNT OF IFAD LOAN:	SDR 16.4 (equivalent to approximately USD 20.9 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
COFINANCIER:	Swedish International Development Agency (SIDA)
AMOUNT OF COFINANCING:	USD 5.0 million
TERMS OF COFINANCING:	Grant
CONTRIBUTION OF BORROWER:	USD 2.7 million
CONTRIBUTION OF BENEFICIARIES:	USD 1.8 million
APPRAISING INSTITUTION:	IFAD
COOPERATING INSTITUTION:	United Nations Office for Project Services (UNOPS)



PROJECT BRIEF

Who are the beneficiaries? The primary target group of the project are poor households in upland areas of Tuyen Quang Province, with particular emphasis on ethnic minorities, women and destitute households. The project will target 49 000 households living in 936 villages located in the 66 poorest communes of the province. Of these, 42 communes have been classified as most disadvantaged by the Committee for Ethnic Minorities and Mountainous Areas because of their mountainous, remote locations, poorly developed infrastructure and low human development indicators. Within the 66 communes, ethnic minorities account for 74% of all households and 83% of the poor, respectively.

Why are they poor? The main causes of poverty in the project area relate to: insufficient productive resources due to small landholdings and lack of capital; inadequate infrastructure to facilitate access to markets; limited knowledge of market opportunities; excessive exposure to risk associated with events such as disease, crop failure, livestock deaths, unwanted births and natural disasters; lack of access to forest resources that have traditionally played an important role in household subsistence; and depletion of natural resources through soil erosion and deforestation. Poor households face considerable food insecurity for three-to-six months of the year. Their coping strategies include borrowing cash from moneylenders or food from neighbours; working outside the farm for wages (or food) whenever possible; selling livestock; collecting forest products for sale (often illegally); diversifying and reducing the quality of their diet (e.g. substituting rice with cassava and sweet potatoes); using up their savings; and, usually as a last resort, reducing their food intake. Rural women in poor upland communities are more disadvantaged than men in that their workloads are extremely heavy; they have less access to education and productive resources; and are poorly represented in legislative/executive government institutions at all levels.

What do they expect from the project? A participatory impact and needs assessment carried out before formulation identified a number of priority needs, namely: increased training in agriculture and animal husbandry, credit, marketing, food storage and processing, gender issues, and health care; access to credit and marketing opportunities; better health, education and child care facilities; development of village, inter-village and inter-commune roads; and the completion and rehabilitation of existing irrigation schemes. For the ethnic minorities in particular, it was recommended that agricultural training be combined with demonstration plots that would show the results of new techniques and new varieties grown under local conditions and constraints.

How will they participate? Moving forward from achievements under the IFAD-funded Participatory Resource Management Project – Tuyen Quang Province, the new project will further extend the decentralized and participative implementation approach followed with a view to empowering communities to participate in the development process. Beneficiary priorities will be initially identified by gender and subsequently consolidated into annual village, commune, district and provincial plans. The project will institutionalize participatory impact assessment. Each year, the Village Development Boards (VDBs), supported by community organizers, will assess both the impact of the project and of the strengthened village-level institutions, including savings and credit groups, user groups and VDBs. User groups will be involved in the planning and implementation of facilities and responsible for post-construction operation and maintenance.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO THE
SOCIALIST REPUBLIC OF VIET NAM
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RURAL INCOME DIVERSIFICATION PROJECT IN TUYEN QUANG PROVINCE**

I submit the following Report and Recommendation on a proposed loan to the Socialist Republic of Viet Nam for SDR 16.4 million (equivalent to approximately USD 20.9 million) on highly concessional terms to help finance the Rural Income Diversification Project in Tuyen Quang Province. 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 the Agricultural Sector

1. Viet Nam has made remarkable economic achievements over the last 15 years, largely in response to the market reforms initiated under the economic renewal (*Doi Moi*) programme. Between 1992 and 1997, growth in gross domestic product (GDP) remained consistently above 8% per annum; it has averaged 5.75% over the last two years and is projected to remain at the same level for at least the next two. Despite these achievements, Viet Nam is still a poor country with a gross national income (GNI) per capita of USD 404 (2000) and widespread poverty.

2. Seventy per cent of Viet Nam's labour force still works in agriculture, where output accounts for around 25% of GDP and contributes 30% to total exports. Cultivated land is scarce, with only 0.1 hectare (ha) per capita – one of the lowest rates in the world. Despite a progressively falling share of total GDP, growth in agricultural output has been robust, averaging 4.4% in 1995-99. The total area planted to food crops has increased by 2-3% per year thanks to increased irrigation and greater cropping intensities; and yields for most annual crops have consistently improved. However, growth in the food crop subsector is now slowing down. The output of most industrial crops remained stagnant until 1994, although there has been a substantial increase in planted areas and in the value of perennial crops such as coffee, rubber and cashew. Growth in the industrial crops subsector is also slowing down in the face of dramatically increased supply accompanied by falling export prices. Many new plantations of industrial crops are in upland areas, sometimes leading to conflicts among local communities and outside interests over land rights.

3. Until recently, the livestock subsector was relatively neglected. However, there has been a substantial growth in the numbers of cattle (15% between 1994 and 1998); pigs (17%), goats and sheep (20%) and poultry (21%), mainly in response to increasing demand for meat from an urban population growing in size and affluence. Viet Nam's natural forest is officially estimated at 9.1 million ha, although less than 2.2% of that area can be classified as primary forest. The country's forest cover has declined from around 44% of the total land area in 1943 to the present level of barely 20%, with an estimated continuing decline of 1.6% per year as a result of logging, demand for fuel wood, and forest clearing for agricultural purposes. In describing the continuing deforestation as "the most serious threat since reunification", the Government recently initiated a number of major reforestation programmes throughout the country.

¹ See Appendix I for additional information.



B. Lessons Learned from Previous IFAD Experience

4. The July 2000 country portfolio review and evaluation (CPRE) mission, a joint exercise undertaken by IFAD's Office of Evaluation and Studies and the Asia and the Pacific Division, reviewed the four ongoing IFAD-financed projects in Viet Nam that accounts for a total of 1 146 400 beneficiaries. The CPRE made a number of recommendations that, to the extent possible, have been incorporated in the design of the present project. These recommendations aim at: (i) greater empowerment of the target communities and increased use of participatory mechanisms; (ii) improved community mobilization through closer involvement of mass organizations and/or international non-governmental organizations (NGOs); (iii) wider use of flexible financing mechanisms to address needs identified by communities; (iv) strengthening of demand-driven development processes through greater investment in participatory research and extension; (v) development of market initiatives, including improved information on prices and market potential; (vi) increased access to microcredit; (vii) improved security of tenure for agricultural land; (viii) development of a comprehensive livestock development strategy, with due emphasis on small livestock and adequate vaccination coverage; (ix) gender-focused components, i.e. microcredit, the reduction of women's drudgery, and ensuring access to fuel; (x) issuance of land-use certificates in the names of both husband and wife; (xi) purchase of agricultural inputs; and (xii) provision of credit for setting up small and medium-sized processing plants and for the cooperative marketing for agricultural produce.

C. IFAD's Strategy for Collaboration with Viet Nam

5. **Viet Nam's policy for poverty eradication.** A number of poverty-alleviation programmes are being carried forward under the aegis of the Hunger Eradication and Poverty Reduction (HEPR) Programme, which was launched in 1992-93 and has recently been extended through 2005. The programme introduced a number of initiatives relating to sedentarization, resettlement and establishment of new economic zones; infrastructure development in poor communes; promotion of agriculture and off-farm production; improvement of extension services for agriculture, forestry and fisheries; income generation; reforestation; credit and savings for the poor; special assistance for ethnic minorities; and improved education and health facilities for the poor. The implementation of such initiatives has been backed up by the development of a wide range of sectoral policies and programmes, the most important of which are: Programme 135 (1999-2005), which provides support to the poorest, remotest and most mountainous communes; and Programme 661, otherwise known as the Five Million Hectare Reforestation Programme (5MHRP). Other HEPR initiatives have included the provision of subsidized credit and farm inputs, and, more recently, health-cost and school-fee exemptions.

6. **Poverty eradication activities of other major donors.** The Province of Tuyen Quang has been somewhat neglected in terms of official development assistance (ODA). Apart from the IFAD-funded Participatory Resource Management Project – Tuyen Quang Province (PRMP), the only other major activity so far implemented in the province was the Mountain Rural Development Project (MRDP) funded by the Swedish International Development Agency (SIDA). The direct participation of SIDA in the formulation and appraisal of the present project made possible both a careful review and appropriate use of the lessons learned under MRDP. At the present time, no NGOs are working in the province in areas of relevance to the project.

7. **IFAD's strategy in Viet Nam.** IFAD's Country Strategic Opportunities Paper (COSOP) for Viet Nam, which was approved in December 1996, identified three geographical regions as priority targets for IFAD support, namely, the Central Highlands, and the Northern and North-Central Coastal Regions. The COSOP also identified a set of sectoral/subsectoral priorities and a target group comprising ethnic minorities, woman-headed households and poor farmers living in remote areas and relying on a poor, fragile natural resource base for survival. The set of priorities had to do with: (i) diversification of agricultural products; (ii) support for off-farm income-generating activities, including food processing, petty trade and handicrafts, through the provision of financial services;



(iii) rehabilitation of natural resources, including soil and water management; and (iv) rehabilitation of rural infrastructure.

8. **Project rationale.** The present intervention constitutes the second IFAD-funded project in Tuyen Quang Province. While the project will benefit from the experience gained under PRMP, a number of important development options will be introduced. Although gains in food security under the earlier project were largely obtained through increased agricultural production, the new project will concentrate on improved storage, processing, transporting and marketing of output and on promoting rural microenterprises with a view to diversifying rural incomes. To that end, the project will strengthen the role of private households vis-à-vis a variety of economic activities, including the provision of agricultural inputs that have so far been largely controlled by state companies. While PRMP was only marginally successful in reaching upland areas and ethnic minorities, the new project will direct benefits to such groups through increased access to, and use of, forestland resources; improved upland farming systems; and extension materials, methods and adaptive research more suited to the needs of ethnic minority communities. Savings and credit groups (SCGs) will be developed as institutions of empowerment, rather than being used solely as channels for the delivery of credit. Finally, in recognition of women's strategic role as agents of change, gender issues will be mainstreamed in all project activities.

PART II - THE PROJECT

A. Project Area and Target Group

9. Tuyen Quang Province, roughly 160 km northwest of Hanoi, is located in the Northern Uplands Region. The province is predominantly mountainous, with altitudes of up to 1 400 m above sea level. It is divided into five administrative districts, 141 communes and 2 137 villages. The total population of the province is 610 200, or 137 900 households. Ethnic minority groups account for almost 52% of the total population and for more than 73% of all poor. The largest groups are the Tay (26%), Dao (11%) and San Chay (8%). The ethnic population is highest in the northern districts, particularly Na Hang, Chiem Hoa and Ham Yen.

10. The project will target the 66 poorest communes in the province, including 936 villages and 49 000 households. Fifty-four of the 66 communes are poor upland communes, the remaining 12 communes being more lowland in character but with high poverty levels. Specific activities will be targeted to the poorest households within these communes.

B. Objectives and Scope

11. The overall objective of the six-year project is to improve the socio-economic status of 49 000 poor households living in upland areas, especially ethnic minorities and women, by increasing their capacities for, and role in, the decision-making process; enhancing food security; promoting the diversification of rural income opportunities; and encouraging the sustainable use of natural resources.

C. Components

12. The project will have four components: (i) food security and income diversification; (ii) gender issues and women's livelihoods; (iii) village infrastructure development; and (iv) project management.

Food Security and Income Diversification

13. The component aims at improving the food security of poor households in upland areas and promoting the diversification of rural incomes through microfinance and microenterprise development; increasing the production of upland farming systems; enhancing the quality/supply of



livestock and animal health services; improving access to, and use of, forest resources; and improving access to technical and vocational training opportunities.

14. **Microfinance and microenterprise development.** The main activities under this sub-component will include: (i) the establishment of a microfinance and microenterprise unit (MMU) within the Provincial Viet Nam Bank for Agriculture and Rural Development/Viet Nam Bank for the Poor (VBA/VBP); (ii) promotion of SCGs as strong and sustainable financial institutions. The responsibility for establishing and training SCGs will fall mainly on the commune-based community organizers (COs). The SCGs will be largely composed of women, including those from poor households. The groups will be provided with comprehensive training support, start-up equipment and materials, and a small operating allowance for three years following their establishment; (iii) provision of matching grants to SCGs after 6-12 months of successful operations, and, on the same condition, incremental credit after approximately 18 months. VBP will provide loans to the SCGs, which will then on-lend such funds to group members, on terms decided by the groups, for financing self-identified development/consumption needs. Incremental credit for direct lending to households for specified input supply enterprises will be disbursed through VBP at commercial rates; (iv) training support for SCGs, VBA/VBP, and staff of the Women's Union (WU), Farmers' Association (FA) and Youth Union (YU); and (v) market surveys for the identification of viable microenterprise operations; formation of village/commune-level marketing groups; support for the establishment of brand names for upland products, such as shan tea, hill rice, certain non-timber forest products (NTFPs) and handicrafts; and the development of market outlets for such products.

15. **Upland farming systems extension and research.** This sub-component will involve: (i) adoption of farmer-field schools (FFSs) and adaptive research on topics identified through participatory needs assessments conducted annually for each project village; (ii) training of key farmers in a range of specialized subjects (e.g. mushroom production, improved livestock breeding, NTFP production/management); (iii) implementation of specialized on-farm demonstrations covering crop, livestock and forestry production activities; (iv) establishment of small-scale commercial nurseries operated by private households, in order to increase the supply of fruit, forestry and agro-forestry seedlings, and animal forage at the village level; (v) establishment of an indigenous forest species nursery (IFSN) to increase the use of indigenous species (trees, bamboo, climbing plants and perennial grasses) within the project area. The IFSN will operate on a cost-recovery basis for all seedling production activities; (vi) establishment of district demonstration stations (DDSs) in Na Hang and Chiem Hoa Districts; (vii) upgrading the capacity of the Provincial Extension Centre (PEC) to produce relevant extension materials suitable for use in upland ethnic minority areas; and (viii) training of crop, livestock, forestry and plant protection extension staff at the commune, district and provincial levels in improved production systems and extension methodology.

16. **Livestock improvement and animal health.** The main activities supported by the project under this sub-component include: (i) selection and distribution to farmers of improved buffalo and cattle sires to genetically upgrade the local herd. Farmers receiving improved sires will be required to charge a service fee, a part of which will be remitted to the Department of Agricultural and Rural Development (DARD) to provide for sire replacement; (ii) establishment of specialized pig-breeding households within the selected pig-breeding areas through the provision of credit and training to improve the supply and quality of piglets; (iii) upgrading of the fingerling hatchery in Yen Son District accompanied by the establishment of a distribution centre in Na Hang District to meet the demand for fry and fingerlings. Both the hatchery and distribution centre will operate on a commercial cost-recovery basis; (iv) distribution of improved poultry breeds to the poorest households, with repayment-in-kind to other poor households and establishment of small-scale commercial chicken hatcheries at the commune level; (v) upgrading of the provincial veterinary laboratory and establishment of new veterinary stations in Son Duong, Ham Yen and Na Hang Districts; (vi) establishment of veterinary animal health workers (VAHWs) in all project villages. The VAHWs will charge a fee sufficient to cover the cost of all vaccines/medicines used and to provide a



return on labour; (vii) establishment of a vaccine cold-chain system reaching down from the provincial to commune levels through provision of cool storage equipment in the provincial veterinary laboratory and in each of the five district veterinary stations; and (viii) training of DARD staff, at all levels, in livestock improvement and animal health.

17. **Forest land management.** Main activities under this sub-component include: (i) a forest land management assessment (FLMA); (ii) development of a participatory process for forest land allocation and land-use planning (FLA/LUP) to ensure the allocation of forestland in an equitable and transparent manner within the project communes. Participatory approaches to FLA/LUP will examine the quality of forestland to be allocated and determine the most appropriate levels and types of allocations to individual households, communes and villages; (iii) implementation of FLA/LUP activities in all project communes and villages. Preliminary estimates are that up to 100 000 ha of forest land may be suitable for allocation within the project area; (iv) provision of technical support to the Department of Land Administration (DLA) with regard to mapping, surveying and the issuance of land-use certificates (LUCs); (v) defining methods for improving the management of forestland allocated to communes and villages; and (vi) training of Forest Protection Branch (FPB) staff at all levels related to implementation of the FLA/LUP programme and village/commune-level pilot activities.

18. **Vocational training.** This sub-component will include: (i) support for the Provincial Economic, Technical and Vocational Training School (PETVTS) in upgrading training/workshop equipment; (ii) establishment of District Economic, Technical and Vocational Training Schools (DETVTSs) in Na Hang, Chiem Hoa, and Ham Yen Districts; (iii) provision of scholarships for eligible students from project communes to participate in technical and vocational training; and (iv) training of teachers in improved teaching methods and in technical areas related to newly introduced courses.

Gender Issues and Women's Livelihoods

19. The objective of this component is to empower women from poor, ethnic and upland communities by improving their access to and control over productive resources. Project management and implementing agency staff will receive training on the different needs of men and women so that gender issues are consistently and systematically addressed by the project. A project monitoring and evaluation (M&E) system will be designed to produce feedback on the extent to which the component's objectives are being achieved.

20. A Women's Livelihood Fund (WLF) will be established for all project communes. Funding per commune will average USD 30 000. The WLF will allow women to implement activities identified by them as improving their living conditions. Specific needs are expected to be extremely varied, depending on local conditions. The general categories of activities for which the WLF may be used are: (i) activities that will benefit groups of women within the villages (or hamlets or communes), e.g. repairs to a leaking water tank; obtaining extra medical support; and purchase of a labour-saving device such as a water pump. A maximum of 50% of every village WLF may be used for this category of activities; (ii) support to destitute households. Eligibility for such support will be limited to Category 4 households, as defined by the Ministry of Labour, Invalids and Social Affairs (MOLISA); (iii) provision of educational support focused mainly on school-level and short-term vocational training. Seventy per cent of all expenditures under this category must be related to female students. Beneficiaries will make a contribution by accepting a 10% reduction of their wages towards any infrastructure schemes funded from the WLF. They will also be required to make a 10% cash contribution towards the cost of any labour-saving device purchased.

21. The planning and management of WLF-funded activities will follow a highly decentralized and participatory approach. A WLF-Village Group (WLF-VG) will be established in each village, mainly to identify activities for WLF funding, manage the implementation of such activities, identify training



and technical support requirements related to other project activities, and select candidates for project-sponsored training opportunities. The WLF-VGs will undertake yearly participative needs assessments, involving all village women. A WLF-Commune Support Group (WLF-CSG) will be set up at the commune level to support, coordinate and supervise the activities of the WLF-VGs. WLF funds will be transferred to the CDB account under the control of the WLF-CSG. The project will support the establishment of the WLF-VGs and WLF-CSGs through training, provision of basic equipment and materials, and payment of a small annual allowance to cover operating costs.

22. While the Provincial Project Coordination Unit (PPCU) will have overall responsibility for gender mainstreaming, the WU will be the implementing agency for the WLF programme. The project will strengthen the capacity of the WU at the provincial, district and commune levels to apply participatory and gender-sensitive techniques in project planning and implementation; and to analyse and document gender issues. The Provincial WU will also be supported to develop an effective working relationship with the Committee for the Advancement of Women (CFAW) in DARD and to allow for the sharing of experiences on issues affecting rural women.

23. **Land-use certificates.** Individual LUCs will be amended to include the names of both husband and wife. For all new land registration, the Provincial Government will issue a formal Decision to the effect that LUCs must be issued in the name of both partners, and that existing LUCs² should be amended to include the names of both partners. All such amendments will be endorsed by the District People's Committee (DPC), and district and provincial records will be changed accordingly. The project will support the process of amending existing LUCs for all households in the Province. The responsibility for amending LUCs will be with the Provincial DLA under contract to the PPCU.

Village Infrastructure Development

24. This component aims at assisting village communities in the selection, execution and maintenance of small-scale, village-level infrastructure. A Village Infrastructure Development Fund (VIDF) will be established for all project communes as the core financing mechanism under the component. Funding per commune will average USD 135 000, depending on the number of households involved and their proximity to the district centre. In general, the amount provided will be sufficient to finance three-to-four schemes, including but not limited to the upgrading of village-to-commune roads; construction of culverts and small bridges; upgrading of small irrigation schemes; paddy land reclamation; construction of village water supplies (including dug-wells, small gravity systems, and rainwater collectors); construction of buildings (including classrooms, school hostels, village halls, rural dispensaries, rural markets and public bathrooms); and construction of commune-to-village low-voltage electricity lines.

25. The villagers will be ultimately responsible for deciding how their funds are to be used, and at least 80% of the poor households will be required to participate in reaching such decisions. The commune-level CO will play an important role in informing villages of available funding options, selection criteria, and processes to be followed. The COs will act as participatory needs assessment facilitators and assist in prioritizing identified needs. Needs identification will be undertaken (through the WLF-VG) on a gender basis.

26. The Village Development Boards (VDBs) will play a central role in all planning and preparatory activities, whereas the Community Development Boards (CDB) will be responsible for overall financial management, coordination, facilitation and monitoring of implementation. Funds will be held in a commune account under the control of the CDBs, but VDBs will be kept informed on the state of their accounts. The district irrigation/domestic water supply stations, Departments of Transport and Communication (DOTCs) and civil works groups will be responsible for preparing

² Approximately 100 000 LUCs are estimated to be in circulation.



appraisals, surveys and technical designs; for construction supervision; and for the training of user groups. Designs will adopt labour-intensive methods to the extent possible in order to create wage-labour opportunities for increasing the capital base of poor households, and all construction contracts will include a clause to that effect. Poor households will be given priority for wage-labour opportunities. Villagers will make their contribution by accepting a 10% reduction of their wages. User groups will be formed during the planning stages for all facilities financed, so that users are fully involved during planning and implementation. These groups will also assume responsibility for post-construction operation and maintenance.

27. Training will be provided to village-level institutions and user groups. COs will be trained in the promotion of groups, appraisal of proposals, planning, financial management, construction management, post-construction technical monitoring, and maintenance. Staff of district technical agencies will be trained to use project design software and in progress and impact monitoring, and will be provided with drawing equipment, simple survey equipment, computers and motorcycles.

Project Management

28. The objective of this component, which accounts for only USD 2.3 million, or 8% of base costs, is to establish effective decentralized project management services. Project operations will be mostly decentralized to the districts, with the PPCU bearing responsibility for planning, coordination and monitoring. The project will fund a new building for the PPCU office; salaries; vehicles; office and communications equipment; travel costs and allowances; administrative expenses; staff training; project coordination; establishment of a M&E system; participatory rural appraisal (PRA)/needs assessment exercises that will guide the scope of project activities in target villages; and routine participatory impact assessments (PIAs).

29. The component also includes an allocation of USD 2.7 million, comprising an IFAD-financed Development Reserve Fund (DRF) of USD 1.7 million plus unallocated SIDA funding of USD 1.0 million. Use of the DRF will be decided at the time of the mid-term review (MTR), based on beneficiary demand and performance of each implementing agency. The MTR will also consider the possibility of expanding the number of village and commune forest management pilots and of increasing the number of target communes. The unallocated SIDA funding will be used to finance additional training and technical assistance needs identified during the course of implementation.

D. Costs and Financing

30. **Costs.** Total project costs over six years, inclusive of contingencies, taxes and duties, are estimated at USD 30.4 million (VND 480 087 million), of which 11% represents foreign exchange costs. All costs have been estimated at June 2001 prices. Physical contingencies have been included at the level of 10% for civil works and 5% for training and operation and maintenance costs. Price contingencies for local costs are based on the projected domestic inflation rate. In converting local costs (specified in Vietnamese dong (VND)) into equivalent United States dollar costs, a constant purchasing parity approach has been used. Investment and recurrent costs amount to 88% and 12% of total costs, respectively. Post-project recurrent costs will account for less than 0.3% of the Provincial Government's annual budget.

31. **Financing.** The proposed financiers of the project are IFAD, SIDA, the Government and the beneficiaries. The Government will finance 100% of all land purchase costs and salaries/allowances, 40% of operating costs (excluding maintenance costs associated with small-scale village infrastructure) and the tax and duty element of all project expenditures. Beneficiaries will provide in-kind contributions to activities funded under the VIDF and WLF. SIDA will finance 100% of all technical assistance and training-related costs. IFAD will finance the remaining project cost elements.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD '000)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Food security and income diversification					
Microfinance and microenterprise development	1 960	306	2 266	14	8
Upland farming systems extension and research	1 558	223	1 782	13	7
Livestock improvement and animal health	803	126	929	14	3
Forest land management	825	305	1 129	27	4
Vocational training	1 974	409	2 383	17	9
Subtotal	7 120	1 369	8 489	16	31
B. Gender issues and women's livelihoods	2 329	309	2 639	12	10
C. Village infrastructure development	10 464	478	10 942	4	40
D. Project management					
Project management	1 609	682	2 292	30	8
Reserve funds (IFAD and SIDA)	2 475	275	2 750	10	10
Subtotal	4 084	957	5 042	19	19
Total base costs	23 997	3 114	27 111	11	100
Physical contingencies	287	22	310	7	1
Price contingencies	2 767	245	3 012	8	11
Total project costs	27 052	3 381	30 433	11	112

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

Components	Government		IFAD		SIDA		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Food security and income diversification													
Microfinance and microenterprise development	144	5.6	1 836	72.0	569	22.3	-	-	2 549	8.4	333	2 192	24
Upland farming systems extension and research	299	14.7	578	28.5	1 153	56.8	-	-	2 030	6.7	240	1 750	39
Livestock improvement and animal health	86	8.3	782	75.7	165	16.0	-	-	1 033	3.4	137	868	27
Forest land management	146	11.7	829	66.5	271	21.8	-	-	1 246	4.1	327	846	73
Vocational training	507	18.9	1 498	56.0	671	25.1	-	-	2 676	8.8	434	2 160	82
Subtotal	1 182	12.4	5 522	57.9	2 829	29.7	-	-	9 533	31.3	1 471	7 817	246
B. Gender issues and women's livelihoods	142	4.8	2 682	91.0	123	4.2	-	-	2 948	9.7	339	2 582	27
C. Village infrastructure development	304	2.5	10 039	81.5	143	1.2	1 827	14.8	12 313	40.5	533	11 764	16
D. Project management													
Project management	1 038	41.0	685	27.1	810	32.0	-	-	2 533	8.3	728	1 690	116
Reserve funds (IFAD and SIDA)	-	-	1 977	63.7	1 128	36.3	-	-	3 105	10.2	311	2 795	-
Subtotal	1 038	18.4	2 662	47.2	1 939	34.4	-	-	5 639	18.5	1 038	4 485	116
Total disbursement	2 665	8.8	20 906	68.7	5 034	16.5	1 827	6.0	30 433	100.0	3 381	26 647	404

^a Discrepancies in totals are due to rounding.





E. Procurement, Disbursement, Accounts and Audit

32. **Procurement.** All goods and services financed from the proceeds of the loan will be procured in accordance with IFAD's procurement guidelines. Three procurement methods will be applicable for the supply of vehicles, equipment and materials: international competitive bidding for contracts estimated to cost more than USD 100 000 equivalent; local competitive bidding (LCB) for contracts costing between USD 10 000 and USD 100 000; and local shopping (LS) for contracts costing less than USD 10 000. Furthermore, civil works contracts will be awarded on the basis of LCB if the costs exceed USD 20 000, or through LS for contracts of less than USD 20 000. Contract for specialized training or studies, local technical assistance and office-operating costs will be awarded on the basis of direct contracting. The award of any contract estimated to cost more than USD 50 000 will be subject to prior review by the cooperating institution.

33. **Disbursement.** The Ministry of Finance (MOF) will open a Special Account in United States dollars at the Viet Nam Commercial Bank (VIETCOMBANK) in Hanoi. A Project Account in VND will be opened and operated by the PPCU in the Provincial Treasury or local branch of a bank acceptable to IFAD to finance payments to local contractors/suppliers and implementing agencies. Funds from the Special Account will flow to the Project Account through the Resource Account, quarterly in advance in accordance with the approved annual Work Plan and Budget (AWP/B). The Government's contribution will also flow into this account in the form of quarterly advances through the Provincial Treasury. Funds will be released to each implementing agency (both investment funds and recurrent costs) as advances against agreed quarterly activity plans upon full accounting of the previous quarter's advance³.

34. **Accounts and audit.** A full set of accounts will be maintained by the PPCU in accordance with IFAD's requirements and internationally accepted accounting standards. Implementing agencies at the various levels will also maintain disaggregated accounts for project-funded activities. The PPCU will be responsible for periodic reviews of implementing agencies' accounts to ensure they meet required standards. An independent auditing institution, selected by PPCU through competitive bidding and approved by IFAD and the cooperating institution, will audit the project accounts each year. The certified audit report will be submitted to IFAD no later than six months after the end of each financial year.

F. Organization and Management⁴

35. The project will be implemented over a period of six years. The Provincial People's Committee (PPC) will be responsible for day-to-day execution of the project. A Provincial Project Steering Committee (PPSC) and the PPCU will assist the PPC in overall policy formulation, planning, coordination, supervision and monitoring of project activities. The PPCU will be directly answerable to the PPSC but, in its day-to-day operations, will be legally and administratively independent. Most of the staff will be officials seconded from provincial departments for the duration of the project. However, key PPCU positions, including that of the project director, deputy director, village infrastructure engineer, chief accountant, senior M&E officer and provincial community facilitator (PCF), will be recruited on a competitive basis for the duration of the project.

36. A district project coordination unit (DPCU) will be established in each of the five project districts and be responsible for coordinating and monitoring inputs, with technical backstopping and policy support from the PPCU and provincial agencies. Planning, coordination, monitoring and reporting of project activities at the commune/village level will be handled through the CDBs and VDBs. Each project component and sub-component will be executed at both the provincial and district levels under the responsibility of a designated activity manager from the relevant

³ The flow-of-funds mechanism is further illustrated in Appendix V.

⁴ See more details in Appendix V.



implementing agency. Implementation of the project will mainly involve five agencies: DARD, DOTC, WU, VBA/VBP, and the PETVTS. District-level staff of the main implementing agencies will be primarily responsible for the execution of project activities.

G. Economic Justification

37. **Economic and financial analysis.** Given the demand-driven nature of the project's productive investments, it is not possible to generate an estimated internal rate of return for the overall project. Financial analysis indicates that substantial increases in net income may be gained across a range of crop, livestock and forest-based production activities. Attractive financial returns are also potentially available from a range of microenterprise development opportunities. For all the production activities and microenterprises, the returns to labour increase or remain well above prevailing wage rates.

38. **Impact on household incomes.** The project will bring economic benefits to 49 000 households, for a total of 215 600 expected beneficiaries. Five representative household models demonstrating the potential impact of the project on individual households are detailed in Appendix VI. These models represent different production systems and poverty categorizations, and in all cases indicate substantial 'with-project' improvements in household incomes ranging from 70% to nearly 600%. These substantial increases reflect very low 'without-project' household incomes. 'With-project' returns to labour all show substantial improvements over 'without-project' returns, and are approximately two to three times the prevailing wage rate. Total 'with-project' household labour use increases by a small amount to between 35-55% of annual household labour availability, still leaving a substantial labour surplus for other activities such as paid employment or management of an off-farm microenterprise. The wage labour opportunities created in association with the VIDF will also provide a substantial temporary boost to the village economy. The poorest families will be given priority access to the wage labour opportunities created.

39. **Household food security and nutrition.** The representative household models indicate that the project will lead to substantial improvements in household food security, including additional income generated from cash crop, livestock, forest garden and microenterprise activities, thus moving many households from food-deficit to food-surplus status.

40. **Social benefits.** Important social benefits that will be created by the project include: (i) improving the socio-economic status of disadvantaged upland ethnic minorities; (ii) empowerment of women; (iii) reduced social and physical isolation of remote upland villages, and improved access to health and education facilities; (iv) increased employment prospects and better prospects for rural youth; (v) stronger village institutions that are better able to manage community resources in a productive, sustainable and equitable manner; (vi) greater security of tenure over allocated forest resources; and (vii) upgraded village infrastructure, with associated environmental and health benefits.

41. **Gender benefits.** Gender is mainstreamed into all project activities; and some activities, such as the SCGs and the WLF, are deliberately targeted to benefit women. Specific benefits will include: (i) increasing the role of women in the planning, implementation and monitoring of project activities, and therefore increased influence over the allocation of project resources; and (ii) improving women's capacity to assume management roles, initially in project-sponsored institutions such as the SCGs and WLF-VGs, and in the management of larger and more representative community institutions such as the VDBs and CDBs; (iii) improving security of tenure over land resources through joint registration of all LUCs in the name of both husband and wife; (iv) direct benefits associated with activities funded from the WLF; and (v) direct benefits associated with investments funded from the VIDF, many of which are expected to have a substantial impact on the wellbeing of women, such as village water supplies, and village-to-commune roads which will provide easier and safer access to markets, schools and health clinics.



H. Risks

42. Since the project includes a number of innovative features, project design focuses on the identification of associated risks. A number of risks are related to the introduction of microenterprise development, namely: (i) target households in the poorer and remoter communes will be reluctant or unable to establish new business ventures; (ii) the financial and management capacity of the SCGs may not develop sufficiently to function as a channel for financing microenterprise development; (iii) the development of SCGs as independent financial institutions will be affected by conservative attitudes to credit delivery within VBA/VBP; and (iv) the MMU may fail to develop the market orientation. These risks will be addressed by providing training and technical assistance, and by exposing key staff to successful experiences in other countries. The institutional development of SCGs will be closely monitored. Regarding the demand-driven nature of the project, there is a risk that the prioritization of needs will be skewed towards the choices of better-off households, or males, or to institutional priorities. This risk will be addressed by involving the COs and district community facilitators (DCFs) in the process, who will function as social mobilizers and neutral intermediaries working with the VDBs and WLF-VGs and liaise between these groups and implementing partners. A second check will be provided through routine PIAs. A third check (in the case of VIDF and WLF implementation) will be through gender-disaggregated needs assessments and the involvement of all households in needs identification and prioritization exercises. Finally, there is the risk that large-scale allocation of forestland for private/community use will result in environmentally unsustainable practices currently controlled by regulatory means, thus jeopardizing the progress achieved to date. This risk will be addressed through the adoption of highly participatory methods for FLA/LUP and the development of models for improving production from allocated forestland.

I. Environmental Impact

43. The project will support a range of activities that directly address a number of major environmental issues. These include: (i) allocation of forestland to individual households, villages and communes; and establishment of improved tenure on such areas, thus encouraging households to improve and sustainably manage allocated land. Allocated forestland will provide an alternative source of fuelwood, fodder and NTFPs and reduce pressure on remaining government-controlled forest areas; (ii) promotion of measures to reduce soil erosion (e.g. use of hedgerows and contour cultivation); (iii) continued promotion of integrated pest management techniques for rice cultivation, to reduce the use of pesticides. Village infrastructure will be extremely small-scale, with limited or no environmental impact. Based on the above considerations, the project has been classified, for the purposes of environmental scrutiny, as Category B.

J. Innovative Features

44. The project introduces a number of innovative features in relation to IFAD-supported projects in Viet Nam, as follows: (i) active promotion of microenterprise development as a key means of diversifying rural incomes; (ii) investment in vocational training as an important element of the income-diversification strategy; (iii) reorientation of the SCGs developed under PRMP into self-help groups, and the empowerment of such groups to function as strong, village-level institutions of empowerment; (iv) implementation of gender mainstreaming into all facets of project management; establishment of village WLFs; and LUCs issued in the name of both husband and wife; (v) establishment of VIDFs to support the development of small-scale village-level infrastructure, incorporating highly decentralized and participatory planning mechanisms; (vi) adoption of labour-intensive designs for small-scale village infrastructure in order to create wage labour opportunities for poorer households during construction; (vii) institutionalization of PIA as a mainstream project management tool; and (viii) implementation of highly flexible planning and financing mechanisms that will direct a substantial proportion of project resources to the needs and priorities identified by target communities.



PART III - LEGAL INSTRUMENTS AND AUTHORITY

45. 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.
46. The Socialist Republic of Viet Nam is empowered under its laws to borrow from IFAD.
47. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

48. 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 sixteen million four hundred thousand Special Drawing Rights (SDR 16 400 000) to mature on and prior to 1 December 2041 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.

Lennart Båge
President

SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES

INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Negotiations concluded on 1 December 2001)

1. **Resource Account and Project Account.** (a) As soon as practicable after the date of the loan agreement but in no event later than 30 days after the effective date thereof, the Provincial Treasury of Tuyen Quang Province shall open and thereafter maintain an account on its books in the name of the project (the resource account) denominated in Vietnamese Dong for receiving loan proceeds from the special account and making payments for project operations upon request by the PPCU. The Provincial Treasury shall be fully authorized to operate the resource account in accordance with the regulations of the Government of the Socialist Republic of Vietnam (the Government).

(b) As soon as practicable after the date of the loan agreement but in no event later than 30 days after the effective date thereof, the PPCU shall open and thereafter maintain in the Provincial Treasury, or a bank in the Tuyen Quang Province proposed by the Government and accepted by IFAD, a current account denominated in Dong for project operations (the project account). The PPCU shall be fully authorized to operate the project account in accordance with the Government's regulations.

2. **Availability of Loan Proceeds.** The Government shall make the proceeds of the IFAD loan available to the PPCU in accordance with the AWP/Bs and its customary national procedures to carry out the project. To this end, the Ministry of Finance shall transfer funds from the special account to the resources account, and the Provincial Treasury shall transfer funds from the resources account to the project account, in accordance with the Government's regulations.

3. **Availability of Counterpart Funds.** In addition to the proceeds of the IFAD loan, counterpart funds in an aggregate amount of approximately USD 2 665 000, and such other resources as may be required from time to time to carry out the project in accordance with this Agreement, shall be made available timely by the Government to the project parties through the state budget.

4. **Channelling of Project Resources.** Funds and other resources available for project purposes, as called for in the AWP/Bs, shall be transferred to the project parties as follows:

- (a) the Ministry of Finance shall transfer IFAD loan proceeds for incremental credit activities to the VBP in accordance with the subsidiary loan agreement referred to in paragraph 21 below;
- (b) the PPCU shall transfer matching grants for the development and support of SCGs under the Microfinance and Microenterprise Development Sub-Component directly to the relevant SCG;
- (c) the PPCU shall transfer VIDF and WLF funds directly to the account of the relevant CDB maintained in the relevant District Treasury; and
- (d) the PPCU shall transfer other funds for project activities to the relevant implementing agency in accordance with the Government's regulations.

5. **Budgetary Allocations.** The Government shall ensure that the budgetary allocations to the implementing agencies in force as of the 2001 fiscal year shall be maintained in real terms throughout the project implementation period, before giving effect to the incremental resources provided by the IFAD loan.



6. **Procurement and Use of Project Vehicles.** The Government shall ensure that:
- (a) all vehicles and other resources procured under PRMP financed by IFAD are allocated to the PPCU, DPCUs and implementing agencies for the implementation of the project;
 - (b) the types of vehicles procured under the project are appropriate to the needs of the project; and
 - (c) all vehicles and equipment transferred to the project from PRMP, and all vehicles and equipment procured under the project, are dedicated for project use.
7. **Adhesion to Criteria.** The Government shall ensure that the project parties adhere to the targeting and fund-allocation criteria specified in this Agreement and those agreed by the Provincial People's Committee of Tuyen Quang Province (the Lead Project Agency) and IFAD from time to time, without exception.
8. **Flow of Funds.** The Government shall ensure that, as soon as practicable but no later than the end of project year (PY) 1, the Lead Project Agency shall collaborate with the Ministry of Finance to introduce simplified funds disbursement and acquittal procedures in the Provincial and District Treasury Branches, acceptable to IFAD, suited to the decentralized transactions of the VIDF and WLF programmes.
9. **Village Infrastructure Development Funds.** The Government shall ensure that labour-intensive designs will be adopted for all VIDF microprojects; that poor households will be given priority access to the wage labour opportunities created in relation to the implementation of these microprojects; and that this labour will be paid at prevailing official rates for unskilled work.
10. **Additional District Irrigation Station Staff.** The Lead Project Agency shall ensure that additional staff are recruited for the District Irrigation Stations so that each such station has six staff.
11. **Savings and Credit Groups.** It is agreed and understood that the SCGs shall be permitted to set the terms and conditions of lending to their members from their own resources (including any matching grants received under the Microfinance and Microenterprise Development Sub-Component).
12. **Management of the Indigenous Forest Species Nursery.** The Government shall ensure that the indigenous forest species nursery (IFSN) is placed and remains under the management of DARD.
13. **Allocation of Forest Areas.** The Government shall ensure that Tuyen Quang Province allocates:
- (a) substantial areas of production and protection forest to individual households within a suitable regulatory framework to be developed during PY 1; and
 - (b) protection and production forests on a pilot basis for village and commune management; and that the Province develops pilots for co-management of special uses forest.
14. **Land Use Certificates.** The Government shall ensure that Tuyen Quang Province issues the necessary decisions and authorizations for the Department of Land Administration to amend existing LUCs and issue new LUCs in the names of both husband and wife.



15. **Training and Education.** The Government shall ensure that:
- (a) the range of courses offered by both PETVTS and the district vocational schools is expanded to provide improved training opportunities for female students;
 - (b) the training scholarships funded by the project will be awarded strictly in accordance with the specified eligibility criteria and assessment procedures;
 - (c) students awarded project training scholarships will be given priority access to available places in the provincial and district vocational schools; and
 - (d) training facilities of the district schools will be available free-of-charge on a priority basis for the conduct of project-specific training activities.
16. **Yen Son Hatchery.** That assistance provided for upgrading the Yen Son fingerling hatchery will be used solely for improving the production of fingerlings, not for increasing the commercial production of market fish for consumption.
17. **Monitoring and Evaluation.** The monitoring and evaluation system developed for the project shall include the following elements:
- (a) Routine monitoring of physical and financial progress involving the compilation of quarterly and annual physical and financial progress reports based on reports received from the DPCUs and activity managers. Monitoring indicators shall be defined for inputs and outputs in both physical and financial terms. A set of key monitoring indicators to assess the outcomes of the various project components and activities shall be agreed by the Lead Project Agency and IFAD. Performance shall be assessed against these indicators and reported on an annual basis.
 - (b) Annual village-level PIA to provide beneficiaries with a mainstream role in assessing the impact of the project, and hence ensure that progress is evaluated in terms that are meaningful to them. The key thrust of PIA shall be to assess the project's performance in terms of planning, implementation methodology, poverty targeting, beneficiary participation, gender mainstreaming, and suitability of interventions; and its overall impact on poverty, income diversification, women, the environment, and capacity-building of village-level institutions. PIA shall be completed by the end of July each year, so that consolidated results can be fed into annual planning workshops.
 - (c) Random field evaluation of specific project activities by project management at both provincial and district levels to verify that prescribed project processes are being followed, and that project inputs are being provided in a timely and efficient manner.
18. **Environmental Concerns.** As part of maintaining sound environmental practices as required by the General Conditions, the Government shall ensure that:
- (a) the project parties maintain appropriate pest management practices under the project and, to that end, the Government shall 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; and



- (b) village infrastructure microprojects implemented under the project, particularly irrigation and wet rice development, and village tracks and bridges, are screened by the DPCU and PPCU on a case-by-case basis using criteria including the need for land clearing activities, disturbance of natural wildlife habitats and, in the case of village tracks, selection of alignments that minimise environmental damage.

19. **Gender Concerns.** The Government shall ensure that:

- (a) in recruiting staff for the PPCU and DPCUs equally qualified female candidates shall be preferred over male candidates, so that by the mid-term review, women constitute at least 50% of such staff;
- (b) women constitute at least 50% of progressive farmers at the village level selected for training and technical assistance under the Upland Farming Systems Extension and Research Sub-Component;
- (c) women constitute at least 30% of Community Organizers initially and at least 50% thereof by the mid-term review;
- (d) in recruiting new extension agents for project activities, equally qualified female candidates shall be preferred over male candidates;
- (e) all needs assessments using participatory rural appraisal (PRA) methodology under the project are undertaken on a gender disaggregated basis;
- (f) women are full participants in the planning, implementation and monitoring of project activities;
- (g) women participate equally with men in all training activities under the project; and
- (h) as fully and promptly as practicable, women assume management roles in the SCGs, VDBs and CDBs and, to that end, adequate investment is made in the management capacities of women.

20. **Retroactive Financing.** Withdrawals not exceeding in the aggregate the equivalent of USD 75 000 may be made in respect of Project Pre-Implementation Expenditures incurred before the effective date of the loan agreement but after 30 November 2001. Such expenditures shall be deemed eligible for financing under the IFAD loan. As used in this paragraph, the term “Project Pre-Implementation Expenditures” means training of PPCU and DPCU staff and community organizers, purchase of basic office equipment for the PPCU and DPCUs, and conduct of needs assessment exercises in villages where project activities will commence in the first project year.

21. **Conditions Precedent to Incremental Credit.** No withdrawals shall be made in respect of Incremental Credit until a subsidiary loan agreement, approved by IFAD, shall have been signed by the Ministry of Finance and the VBP.

22. **Development Reserve Fund.** IFAD loan proceeds allocated to the Development Reserve Fund shall be reallocated by IFAD to other categories of expenditure based on recommendations made by the mid-term review and agreed by the Government and IFAD.



ANNEX

23. **Conditions Precedent.** The effectiveness of the Loan Agreement is subject to the following conditions precedent:

- (a) the PPCU shall have been duly established and all PPCU staff shall have been recruited;
- (b) the Lead Project Agency and IFAD shall have agreed in writing on the initial project area;
- (c) 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;
- (d) a grant agreement between the Government and IFAD, in respect of USD 1 500 000 of Swedish supplementary funds to be made available to finance technical assistance, training costs and advisory support costs, 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
- (e) a favourable legal opinion, in form and substance acceptable to IFAD, shall have been delivered by the Government to IFAD.

APPENDIX I

COUNTRY DATA

VIET NAM

Land area (km² thousand), 1997 1/	325	GNI per capita (USD), 1999 4/	370
Total population (million), 1999 4/	77.5	Average annual real rate of growth of GNP per capita, 1990-98 2/	6.5
Population density (people per km²), 1998 1/	235	Average annual rate of inflation, 1990-98 2/	18.5
Local currency	Vietnamese Dong (VND)	Exchange rate: USD 1 =	VND 15 000
Social Indicators		Economic Indicators	
Population (average annual population growth rate), 1980-98 1/	2.0	GDP (USD million), 1999 4/	28 682
Crude birth rate (per thousand people), 1998 1/	21	Average annual rate of growth of GDP 1/ 1980-90	4.6 a/
Crude death rate (per thousand people), 1998 1/	6	1990-98	8.4
Infant mortality rate (per thousand live births), 1998 1/	34	Sectoral distribution of GDP, 1998 1/	
Life expectancy at birth (years), 1998 1/	68	% agriculture	26
Number of rural poor (million) (approximate) 1/	35.2	% industry	33
Poor as % of total rural population 1/	57	% manufacturing	n.a.
Total labour force (million), 1998 1/	39.0	% services	42
Female labour force as % of total, 1998 1/	49	Consumption, 1998 1/	
Education		General government consumption (as % of GDP)	8
Primary school gross enrolment (% of relevant age group), 1997 1/	114	Private consumption (as % of GDP)	71
Adult literacy rate (% age 15 and above), 1998 3/	93	Gross domestic savings (as % of GDP)	21
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1997 3/	2 484	Merchandise exports, 1998 1/	n.a.
Prevalence of child malnutrition (height for age % of children under 5), 1992-98 1/	36	Merchandise imports, 1998 1/	n.a.
Prevalence of child malnutrition (weight for age % of children under 5), 1992-98 1/	40	Balance of merchandise trade	n.a.
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP), 1990-98 1/	4.3	before official transfers, 1998 1/	-2 222
Physicians (per thousand people), 1990-98 1/	0.44	after official transfers, 1998 1/	-1 271
Percentage population without access to safe water, 1990-98 3/	55	Foreign direct investment, 1998 1/	1 200
Percentage population without access to health services, 1981-93 3/	n.a.	Government Finance	
Percentage population without access to sanitation, 1990-98 3/	71	Overall budget surplus/deficit (including grants) (as % of GDP), 1997 1/	-0.8
Agriculture and Food		Total expenditure (% of GDP), 1997 1/	22.0
Food imports as percentage of total merchandise imports, 1998 1/	n.a.	Total external debt (USD million), 1998 1/	22 359
Fertilizer consumption (hundreds of grams per ha of arable land), 1995-97 1/	2 566	Present value of debt (as % of GNP), 1998 1/	76
Food production index (1989-91=100), 1996-98 1/	140.5	Total debt service (% of exports of goods and services), 1998 1/	8.9
Land Use		Nominal lending rate of banks, 1998 1/	15.2 a/
Arable land as % of land area, 1997 1/	17.4	Nominal deposit rate of banks, 1998 1/	9.9 a/
Forest area (km ² thousand), 1995 1/	91		
Forest area as % of total land area, 1995 1/	28.0		
Irrigated land as % of cropland, 1995-97 1/	31.0		

n.a. not available.

a/ Data are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 20002/ World Bank, *Atlas*, 20003/ United Nations Development Programme, *Human Development Report*, 20004/ World Bank, *World Development Indicators database*, 2001

PREVIOUS IFAD LOANS TO VIET NAM

Project Name	Initiating Institution	Cooperating Institution	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Denominated Currency	Approved Loan/Grant Amount	Disbursement (as % of approved amount)
Participatory Resource Management Project - Tuyen Quang Province	IFAD	UNOPS	06 Apr 93	06 Aug 93	31 Dec 01	L - I - 328 - VN	SDR	13350000	0.897960339
Agricultural Resources Conservation and Development Project in Quang Binh Province	IFAD	UNOPS	04 Dec 96	25 Mar 97	30 Jun 02	L - I - 434 - VN	SDR	10050000	0.706848091
Ha Giang Development Project for Ethnic Minorities	IFAD	UNOPS	04 Dec 97	27 Apr 98	30 Jun 04	L - I - 460 - VN	SDR	9200000	0.514733233
Ha Tinh Rural Development Project	IFAD	UNOPS	29 Apr 99	17 Sep 99	31 Mar 06	L - I - 507 - VN	SDR	11400000	0.115038151

LOGICAL FRAMEWORK

Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
<p>PROJECT GOAL</p> <p>To improve the socio-economic status of 49 000 poor households in the upland areas, with special focus on ethnic minorities and women, by increasing their capabilities and role in the decision-making process; enhancing food security; promoting diversification of rural income opportunities; and encouraging sustainable use of natural resources;</p>	<p>Improved status of ethnic minorities and women.</p> <p>Increased household incomes.</p> <p>Reduced number of poverty households.</p> <p>Reduced chronic malnutrition among children.</p> <p>More diversified rural incomes.</p> <p>Sustainable management of natural resources.</p> <p>Decentralized and participative development processes.</p>	<p>Routine Ministry of Labour, Invalids and Social Affairs (MOLISA) poverty assessments.</p> <p>Routine project poverty assessments.</p> <p>Commune/district statistics on employment and revenue from small enterprises.</p> <p>Commune/district crop, livestock and forestry production statistics.</p> <p>Health and education statistics.</p> <p>Participative impact assessments.</p> <p>Benchmark, mid-term and completion surveys.</p>	<p>Net incomes based on crop, livestock and forestry production activities can be increased.</p> <p>Sufficient number of financially viable opportunities exist for income-diversification activities.</p> <p>Effective linkages can be developed between producers in remote upland areas and (urban-based markets).</p> <p>Government support agencies can make the shift from a top-down approach to a bottom-up one.</p> <p>Sustained political commitment to address poverty issues.</p> <p>Gender is mainstreamed in project and provincial systems.</p>
<p>FOOD SECURITY AND INCOME DIVERSIFICATION</p>			
<p>Objective: To improve the food security of poor households and promote the diversification of rural incomes;</p>			
<p>Key Outputs:</p>			
<p>(a) Microfinance and Microenterprise Development <u>Microfinance/development of savings and credit groups (SCGs)</u> 1. SCGs established. 2. VBP lending to groups. 3. VBA lending for input-supply microenterprises (MEs) 4. VBA/VBP savings/deposit facilities. 5. COs and VBP district/inter-commune staff trained. 6. MMU established</p>	<p>1.No. of groups/members; average savings; no. and value of matching grants; no. of loans made by groups, value and loan performance;.</p> <p>2.No. and value of loans disbursed by VBP; loan performance.</p> <p>3.No. and value of loans disbursed by VBP; loan performance.</p> <p>4.No. of inter-commune branches; no. of mobile services; no. of commune with easy access.</p> <p>5. No. of COs/VBP staff trained in SCG mechanisms.</p> <p>6.No. of staff; MMU performance.</p>	<p>Project progress reports. M&E Reports. AWP/Bs. MMU records. SCG records. VBA/VBP records. PIAs.</p>	<p>Poor households are able to save.</p> <p>Financial/management capacity of groups can be adequately developed.</p> <p>VBP is prepared to support the institutional development of the groups.</p> <p>COs and VBP staff develop the skills for SCG formation and support.</p> <p>VBP is prepared to extend loans to the groups.</p> <p>SCGs can develop the necessary financial and management capacity to handle ME loans for members.</p> <p>Financially-viable opportunities exist for ME development.</p> <p>Locally owned MEs can be established before best opportunities are monopolized by outsiders.</p> <p>Rural households are willing to risk establishing MEs.</p>



Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
			<p>Government will continue to provide enabling conditions for establishment of small businesses in rural areas.</p> <p>Suitable staff seconded to the MMU.</p> <p>VBA/VBP will fully support the operations of the MMU.</p>
<p>Microenterprise development</p> <ol style="list-style-type: none"> 1. ME surveys. 2. Microenterprises 3. Microenterprise technology development. 4. Market development. 5. Farmer marketing groups. 6. MMU development 	<ol style="list-style-type: none"> 1. No. of market surveys/studies completed. 2. No. of MEs established by type; no. still operating; loans; loan performance; no. people employed. 3. No. of contracts issued; processes/equipment developed. 4. No. of market outlets established; volume and value of sales. 5. No. of farmer marketing groups established; volume and value of sales. 6. No. of full-time staff; current activities; MMU performance (reflected in performance of microfinance and microenterprise programmes) 		
<p>(b) Upland Farming Systems Extension and Research</p> <ol style="list-style-type: none"> 1. Participatory Rural Appraisal (PRA) and needs assessments for extension support activities. 2. Farmer field schools (FFSs). 3. Key farmers. 4. Models for production improvement on allocated forestland. 5. On-farm demonstrations. 6. Improved quantity/quality of seedlings. 7. Indigenous forest species nursery. 8. District demonstration centres. 9. Improved extension materials. 10. Adaptive research on upland farming systems. 	<ol style="list-style-type: none"> 1. No. of PRAs/needs assessments conducted; no. of activities identified. 2. No. of FFSs conducted by subject; no. of farmers trained. 3. No. of key farmers trained, by subject; no. of farmers attending farmer field-days. 4. No. of models identified for promotion; no. of extension staff trained. 5. No. of demonstrations arranged; no. of farmers trained. 6. No. of nurseries established; no. still operating; quantity of seedlings sold by type. 7. No. seedlings produced/sold by type; no. of training courses provided for commercial nurserymen; no. trained. 8. No. established; no. of full-time staff and budget; current activities. 9. Improved extension materials produced, by subject; no. of languages in which produced. 10. No. of contracts let by subject; no. successfully completed; evaluation of results. 	<p>Project progress reports. M&E reports. AWP/Bs. PIAs.</p>	<p>Opportunities exist for improved crop, livestock and forest-based production.</p> <p>Farmers are interested and able to pursue these opportunities.</p> <p>Financial capacity of the SCGs will be sufficient to meet the small-scale credit requirements of crop, livestock and forestry production.</p> <p>Coverage of extension staff is sufficient to effectively support the programme.</p>
<p>(c) Livestock Improvement and Animal Health</p> <ol style="list-style-type: none"> 1. Improved cattle/buffalo sires. 2. Improved supply and quality of piglets. 3. Improved supply and quality of fingerlings. 4. Improved poultry production. 5. Improved animal health delivery. 	<ol style="list-style-type: none"> 1. No. of improved sires distributed; no. of live births resulting; fees collected by DARD for sire replacement. 2. No. of loans to pig breeding households; no. of improved piglets sold/year. 3. No. of fingerlings produced at the Yen Son hatchery, by type; no. of fingerlings sold through the Na Hang distribution centre, by type. 4. No. of poultry distributed to poor households; no. of 	<p>Project progress reports. M&E reports. AWP/Bs. PIAs.</p> <p>Provincial Animal Health Laboratory records. District veterinary station records. Input supply company records.</p>	<p>Farmers are prepared to pay service fees for improved cattle/buffalo sires.</p> <p>DARD will establish a fund to provide for sire replacement.</p> <p>Veterinary Animal Health Workers (VAHWs) can generate sufficient business to be financially viable.</p>



Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
	households that have repaid-in-kind; no. of loans made for hatcheries; no. of chicks hatched/sold. 5. No. of VAHWs trained; vaccination coverage rates; income generated by VAHWs; no. of samples processed by the provincial lab.		
<p>(d) Forest Land Management</p> <ol style="list-style-type: none"> 1. Provincial forestland management assessment. 2. Participatory forestland allocation and land-use planning 3. Pilots for commune/village management of protection and production forest areas. 4. Pilots for commune/village co-management of Special Use Forest (SUF) areas. 	<ol style="list-style-type: none"> 1. Forest Land Management Assessment (FLMA) completed and approved; 5-10 provincial forest plans prepared; forest data sets completed. 2. Participatory allocation method developed; no. of communes where FLA/LUP completed; no. of LUCs issued to individual hhs; area allocated. 3. No. of contracts established for commune/village management of protection/production forest; no. of pilots established; area involved; no. of pilots assessed as being successful; provincial policy amended in light of pilot results. 4. No. of contracts established for commune/village co-management of special use forest; no. of pilots established; area involved; no. of pilots assessed as being successful; provincial policy amended in light of pilot results. 	<p>Project progress reports. M&E reports. AWP/Bs. PIAs. FLMA reports and assessments. Forest Protection Branch (FPB) records. DLA records.</p>	<p>Outcome of FLMA supports the allocation of forestland to individual households, communes and villages.</p> <p>Province is prepared to proceed with allocation programme to individual households. Province is prepared to proceed with establishment of commune/village management and co-management pilots.</p>
<p>(e) Vocational Training</p> <ol style="list-style-type: none"> 1. Improved access to and delivery of technical and vocational training opportunities for upland communities. 2. Increased course options for female students; increased participation by female students. 	<ol style="list-style-type: none"> 1. No. of district schools established; no. of students enrolled by course; no. of students graduating by course; no. of scholarships awarded by course; no. of scholarship holders graduating by course. 2. No. of courses offered that are tailored to female students; participation rates. 	<p>Project progress reports. M&E reports. AWP/Bs. PETVTS records. DETVTS records.</p>	<p>PETVTS has the capacity to manage three district satellite schools effectively.</p> <p>Scholarships funded by the project will be honestly targeted.</p>
<p>GENDER ISSUES AND WOMEN'S LIVELIHOODS</p>			
<p>Objective: To empower women from poor, ethnic and upland communities by improving their access to and control over productive resources;</p>			
<p>Key Outputs:</p>			
<ol style="list-style-type: none"> 1. Gender mainstreamed into project management processes. 2. Decentralized WLF planning processes. 3. Activities funded from the WLF. 4. LUCs registered in names of husband and wife. 5. Improved capacity of WU 	<ol style="list-style-type: none"> 1. Project processes and criteria established; gender mainstreaming process endorsed by PPC, WLF and VIDF. 2. No. of WLF-VGs; no. of WLF-CSGs; no. of PRAs/needs assessments completed; no. of village proposals prepared; quality of proposals; adequacy of targeting. 3. No. of proposals approved; funds disbursed; activities financed by type; no. women that have benefited. 4. No. of existing certificates amended to include both partners; no. of new certificates issued including both partners. 5. Training needs assessment completed; no. of training courses conducted; no. of special studies conducted analysing/reporting status of women. 	<p>Project progress reports. M&E reports. AWP/Bs. PIAs. WU reports/studies.</p>	<p>Women's needs and priorities are adequately reflected in proposals submitted and proposals approved for funding from the WLF.</p> <p>Appropriate capacity can be developed within WU for competent management of the WLF programme.</p> <p>Government is willing to proceed with reissuance of LUCs.</p> <p>Gender is successfully mainstreamed into all aspects of project management.</p>



Narrative Summary	Key Performance Indicators	Means of Verification	Critical Assumptions
VILLAGE INFRASTRUCTURE DEVELOPMENT			
<p>Objective: To empower village communities to improve their living conditions through development of small-scale infrastructure, while demonstrating an improved methodology based on highly decentralized approaches;</p>			
Key Outputs:			
<ol style="list-style-type: none"> 1. Decentralized VIDF planning processes. 2. Small-scale village infrastructure projects. 3. Wage-labour opportunities for poor households. 4. Improved infrastructure maintenance. 5. Improved capacity of district agencies to manage decentralized infrastructure development programmes. 	<ol style="list-style-type: none"> 1.No. of VDBs; no. of CDBs; no. of PRAs/needs assessments completed; no. of funding proposals prepared; quality of proposals. 2.No. of proposals approved; funds disbursed; activities financed by type; scale of projects implemented; no. of households benefiting. 3.No. of days of paid labour created; total wages paid. 4.No. of user groups established; training provided; adequacy of maintenance performed. 5.Streamlined appraisal/design systems in place; quality of designs prepared; quality of implementation supervision; speed of processing proposals. 	<p>Project progress reports. M&E reports. AWP/Bs. PIAs.</p>	<p>Villagers development needs and priorities are adequately reflected in proposals submitted and proposals approved.</p> <p>Appropriate capacity can be developed within district technical agencies for required design and implementation supervision activities.</p> <p>Villages accept 'ownership' of all schemes implemented and accept full responsibility for maintenance.</p>
PROJECT MANAGEMENT			
<p>Objective: To establish effective, decentralized and responsive project management services.</p>			
Key Outputs:			
<ol style="list-style-type: none"> 1. Establishment of management offices and institutions. 2. Capacity-building 3. Management systems established. 4. Establishment of participatory institutions 5. Decentralized implementation mechanisms established 6. Monitoring systems established 7. PIA 	<ol style="list-style-type: none"> 1.PPCU/DPCUs established; vehicles and equipment procured; no. of staff positions filled; no. of activity managers (AMs) appointed; operational guidelines prepared. 2.No. and type of training courses organized for provincial, district and commune staff; person-months of technical assistance recruited; no. of COs recruited; no of days spent in field by provincial, district and commune staff. 3.Physical/financial progress of the project on schedule; timely preparation of AWP/Bs based on proposals originating from the village PRAs and needs assessments; timely preparation of progress and performance reports; no. of planning and review workshops held; no. of withdrawal applications submitted. 4.No. of CDBs established; no. of VDBs established. 5.Provincial decree on decentralized financial mechanism issued; roles and responsibilities of DPCUs, CDBs, and VDBs notified. 6.M&E reports being prepared on time and to the required standard. 7. PIA system developed and being implemented; no. of PIAs carried out and reported 	<p>Project progress reports. UNOPS supervision reports. IFAD mid-term review.</p>	<p>Sufficient staff with appropriate experience and qualifications can be recruited.</p> <p>Government agrees to competitive recruitment and remuneration of key PPCU positions.</p> <p>Government agrees to payment of project allowances of 25-35% to project staff not recruited and remunerated on a competitive basis.</p> <p>Regulatory framework for decentralized management of the VIDF and WLF is implemented.</p>

DETAILED EXPENDITURE ACCOUNTS

Expenditure Accounts by Financiers (USD '000)													
	Government		IFAD		SIDA		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
I. Investment costs													
A. Civil Works	-	-	1 173	100.0	-	-	-	-	1 173	3.9	116	1 057	-
B. Vehicles, equipment and materials													
Vehicles	286	34.8	474	57.7	62	7.5	-	-	822	2.7	320	216	286
Equipment	90	10.0	794	88.6	13	1.4	-	-	896	2.9	624	182	90
Materials	-	-	1 808	99.2	14	0.8	-	-	1 822	6.0	91	1 731	-
Subtotal vehicles, equipment and materials	376	10.6	3 076	86.9	88	2.5	-	-	3 540	11.6	1 035	2 130	376
C. Training, technical assistance (TA) and studies													
Field studies	-	-	-	-	168	100.0	-	-	168	0.6	-	168	-
Farmer training	-	-	-	-	1 303	100.0	-	-	1 303	4.3	-	1 303	-
Professional training	-	-	-	-	1 081	100.0	-	-	1 081	3.6	31	1 050	-
National TA	-	-	-	-	209	100.0	-	-	209	0.7	-	209	-
International TA	-	-	-	-	1 057	100.0	-	-	1 057	3.5	951	106	-
Subtotal training, TA and studies	-	-	-	-	3 818	100.0	-	-	3 818	12.5	982	2 835	-
D. Reserve funds (IFAD & SIDA)	-	-	1 977	63.7	1 128	36.3	-	-	3 105	10.2	311	2 795	-
E. Village infrastructure development													
1. Village infrastructure development fund	-	-	9 989	100.0	-	-	-	-	9 989	32.8	499	9 489	-
2. Contributed labour and mtl	-	-	-	-	-	-	999	100.0	999	3.3	-	999	-
Subtotal village infrastructure development	-	-	9 989	90.9	-	-	999	9.1	10 988	36.1	499	10 488	-
F. Women's livelihood fund	-	-	2 232	100.0	-	-	-	-	2 232	7.3	112	2 120	-
G. Incremental credit	-	-	1 580	100.0	-	-	-	-	1 580	5.2	79	1 501	-
H. Land purchase	324	100.0	-	-	-	-	-	-	324	1.1	-	324	-
Total investment costs	700	2.6	20 027	74.8	5 034	18.8	999	3.7	26 760	87.9	3 133	23 251	376
II. Recurrent costs													
A. Staff salaries	888	100.0	-	-	-	-	-	-	888	2.9	-	888	-
B. Staff allowances	491	100.0	-	-	-	-	-	-	491	1.6	-	491	-
C. Infrastructure maintenance	55	5.7	82	8.5	-	-	828	85.8	965	3.2	-	965	-
D. Vehicle operation and maintenance (O&M)	188	40.0	282	60.0	-	-	-	-	470	1.5	141	305	23
E. Equipment O&M	42	40.0	62	60.0	-	-	-	-	104	0.3	31	68	5
F. Office running costs	302	40.0	453	60.0	-	-	-	-	755	2.5	75	679	-
Total recurrent costs	1 966	53.5	879	23.9	-	-	828	22.5	3 673	12.1	248	3 397	29
Grand Total	2 665	8.8	20 906	68.7	5 034	16.5	1 827	6.0	30 433	100.0	3 381	26 647	404





ORGANIZATION AND MANAGEMENT

1. **Coordination and management.** The PPSC and the PPCU will assist the PPC in overall policy formulation, planning, coordination, supervision and monitoring of project activities. The Chairman of the PPC or the Vice-Chairman (Agriculture) will head the PPSC. Membership will include the director of the Department of Planning and Investment (DPI) (Vice-Chairman); project director (secretary); director/chairperson of the Provincial Treasury, Department of Finance (DOF), DARD, DOTC, VBP/VBA and WU; principle officer of the PETVTS; chairmen of the five District People's Committees (DPCs); and the AMs from the major provincial implementing agencies. In addition, five CDB chairmen, one from each district, will be nominated by the DPCUs each year to represent the commune in the PPSC meetings. The PPSC will be responsible for: ensuring complementarity between the project and externally/internally assisted programmes/projects and efficient use of project-funded resources; providing a supportive policy framework and guidelines to PPCU for efficient project implementation; review and approval of AWP/Bs for the project; recruitment/appointment of specified project staff in line with specified criteria; interfacing between PPCU and PPC on matters of policy formulation, revision and implementation with a view to ensuring effective implementation of the project; ensuring effective cooperation and coordination among the PPCU, the implementing agencies/AMs, DPCUs and CDBs and establishing a system of accountability for performance and proper use of resources at all levels; and conducting a quarterly review of project progress and ensuring that timely corrective action is taken on management and implementation issues.

2. The PPCU will be composed of the following staff: project director; deputy director; assistant to the director/interpreter; village infrastructure engineer; chief accountant; assistant accountants (two); media and communications officer; LAN officer, senior M&E officer; junior M&E officers (two); provincial community facilitator (PCF); interpreter/translator; administration officer; and support staff (six). Seconded staff will be remunerated at standard government rates, plus a project allowance equal to 25-35% of gross annual salary, to compensate for the additional responsibilities associated with the project. This system of allowances will also apply to DPCU staff and designated provincial/district AMs. The PPCU's main functions will include: (i) preparing the consolidated AWP/Bs, with the participation of the AMs and District Coordination Units; (ii) ensuring timely submission of AWP/Bs to the provincial and central authorities for inclusion in the annual national and provincial plans; (iii) ensuring adequate coordination of project activities at all levels through the provision of appropriate guidance, training and support to the coordination forums at the district and commune levels; (iv) arranging procurement of all standardized items in bulk orders, covered under the loan funds, and assisting implementing agencies in procuring specialized equipment and services in line with the IFAD procurement guidelines; providing guidance and prior review for invitation of tenders and awarding of contracts under various components; (v) ensuring timely submission of withdrawal applications and timely release of funds at all implementation levels on the basis of approved annual and quarterly plans; (vi) ensuring that the project's financial management, administration and M&E activities are carried out in the spirit of the loan agreement and with due regard to the guidelines given in the project documents; (vii) maintaining project accounts in accordance with the requirements of the Government, IFAD, the Province and other cofinancing institutions; (viii) preparing and submitting progress reports; (ix) establishing a proper methodology for evaluation and impact assessment; (x) providing services across all implementing agencies and implementation levels in terms of training programmes, workshops, study tours, research, recruitment of technical assistance, etc.; (xi) assisting the provincial government in internalizing successful strategies in terms of participatory planning and implementation approaches, gender mainstreaming, poverty targeting, impact assessment and capacity building etc.

3. At the district level, each DPCU will be headed by the chairman of the DPC, which will be a part-time position. A full-time district manager will carry out the main day-to-day implementation



APPENDIX V

responsibilities. Other full-time DPCU staff will include a district community facilitator (DCF), M&E officer, village infrastructure engineer, secretary/accountant and support staff (4). It is expected that most staff will be seconded from district-level agencies. The main responsibilities of the DPCU will be as follows: (i) review and consolidation of plans received from the communes in association with the concerned district agencies and submission of consolidated plans to the AMs and PPCU by the notified deadline; (ii) preparation and implementation of quarterly/monthly plans of activity based on the annual approved workplan/budget; (iii) ensuring implementation of project activities in a timely and efficient manner and in line with agreements reached with the CDBs and VDBs; (iv) coordination of project activities at the district, commune and village levels so as to ensure complementarity and efficient use of resources; and (v) implementation of project monitoring and PIA activities in a coordinated manner and according to specified phasing.

4. At the commune level, each CDB will be headed by the chairman of CPC. Each CDB will also include the chairwomen of the commune WU (vice-chairperson); CO (secretary); commune extension worker; secretary of the commune Youth Union (YU); chairperson of the commune farmers' association (FA); commune infrastructure technician; a male and female representative from each VDB; and head of the commune secondary school. CDBs will hold monthly meetings, which will serve as the main forum for planning, coordinating, reviewing and trouble-shooting project activities. The project will organize specified training for key CDB members before the start of the needs assessment and project planning process at the VDB level. The main responsibilities of the CDB will include: (i) guidance and assistance to the VDBs in disseminating project information, social mobilization, needs assessment and development of village development plans; (ii) timely consolidation of VDB plans into simple commune annual plans and their submission to DPCU; (iii) mobilization of commune and village resources for the implementation of approved plans in line with approved phasing and methodology; (iv) monitoring and implementation progress, quality of activities and ensuring priority targeting of poor households; and (v) regular progress reporting and PIA reports according to specified formats/procedures and timing.

5. VDBs will serve as the main forum for planning and review of project activities, and will provide the interface between project/agency staff and the village. VDB membership will include the village head (chairperson); head of the WU (vice-chair); village extension worker(s); and the heads of SCGs. Main responsibilities of the VDB will include: dissemination of information on possible project activities and opportunities; assessment and prioritization of village needs; preparation of an implementation plan to address highest priority needs; mobilization of the village contribution for implementation of the plan; implementation of approved activities, targeting; assisting with PIAs; and routine reporting of progress to the CDB.

6. **Implementing agencies.** Implementation of the project will involve five main agencies: DARD, DOTC, WU, VBA/VBP and the PETVTS. A number of other agencies/organizations will play a facilitating role, including the FA and the YU. Each project component and sub-component at both the provincial and district levels will be executed under the responsibility of a designated AM from the relevant implementing agency. Suitably qualified AMs will be appointed by the directors of the concerned departments. Since DARD will be responsible for the execution of four sub-components under the project (extension and research, livestock improvement and animal health, forestland management and micro-irrigation/DWS), AMs will be appointed for each of these areas. AMs will have full authority and responsibility in terms of the use of project funds allocated under the approved AWP/B. An imprest account will be established for each of the AMs for financing project-funded activities. The AMs will be answerable to their respective directors in terms of discipline, technical and service matters but will be answerable to PPSC and PPCU in terms of the implementation of all project-financed activities.

7. **Annual work plan and budget (AWP/B).** The project will follow a carefully formulated community participation strategy that will be constantly revised and updated during the project



APPENDIX V

through the annual planning workshops. A number of staff, including the provincial community facilitator, the district community facilitators, and the commune-level COs, will be responsible to lead the process of beneficiary participation across all project activities. The AWP/B will provide the basis for the annual planning and implementation of project activities. The AWP/B will be determined by participatory needs identification conducted by the VDB at the village level. Development priorities identified by villages will be consolidated into annual commune plans, which will then be passed to the DPCU through the district implementing agencies for screening and feasibility assessment. Responsibility for consolidating the commune plans into district plans and the district plans into the overall project plan will rest with the DPCUs and PPCU respectively.

8. **Reporting.** VDB will submit brief monthly progress reports on ongoing project activities in each village to the CDB, and the CDB will furnish consolidated CDB monthly reports to the DPCU. District AMs will also submit monthly physical and financial progress reports to DPCU and to the provincial AMs. The DPCU will be responsible for preparing consolidated quarterly progress reports in a prescribed format and for submitting these to the PPCU. The PPCU will prepare analytical quarterly progress reports, highlighting actual progress against quarterly workplans and budgets, successes and constraints, and submit these to PPSC, Ministry of Finance, Ministry of Planning and Investment (MPI) and UNOPS. The PPCU will also prepare detailed annual progress reports providing comparative physical and financial analysis of the targets and achievements, constraints and proposed solutions.

9. **Monitoring, evaluation and participatory impact assessment.** Project M&E will be one of the major responsibilities of the PPCU through M&E officers at the provincial and district levels. Routine monitoring of physical and financial progress will involve the compilation of quarterly and annual physical and financial progress reports based on reports received from the DPCUs and AMs. Monitoring indicators will be defined for inputs and outputs in both physical and financial terms. A set of key monitoring indicators will be selected to assess the outcomes of the various project components and activities. These will be further refined at the start of the project. In defining these indicators, the overall objective has been to identify a limited set of easily assessable indicators that can act as a general proxy for overall performance of the project. Performance will be assessed against these indicators and reported on an annual basis.

10. PIA will be undertaken systematically in order to ensure that project beneficiaries have a leading role in assessing the impact of the project on the basis of their own criteria. The key thrust of PIA will be to assess the overall impact of the project on poverty, income diversification, women, the environment, and capacity-building of village-level institutions. PIA will be an annual exercise. It will be completed by the end of July each year, so that consolidated results can be fed into the annual planning workshops. Appropriate revisions/additions will be made to project activities and implementation methodology to address key issues identified. For the first year, the PIAs will be supervised by the DCFs with active participation by the COs. For PY 2, the COs will be responsible for conducting the PIAs, and the DCFs will consolidate the results for use by the PPCU. From PY 3 onwards, the VDBs and other interest groups are expected to have developed sufficient capacity to carry out the evaluations themselves, with the COs and DCFs acting as facilitators and undertaking random checks to validate context and accuracy. Provision is made for international technical assistance during the first two years of the project to support the institutionalization of the PIA process.

CHART 1: PROJECT STRUCTURE

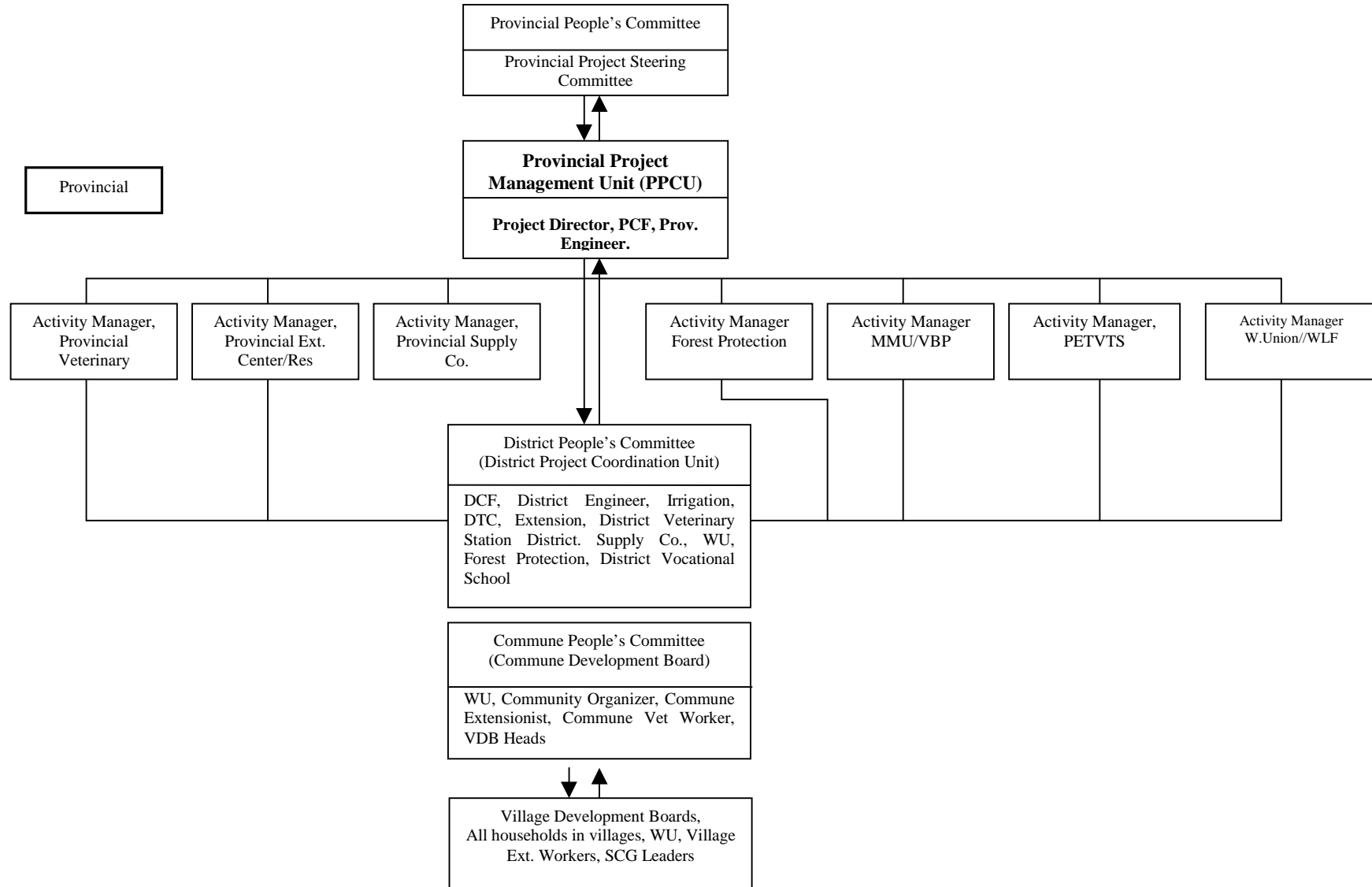
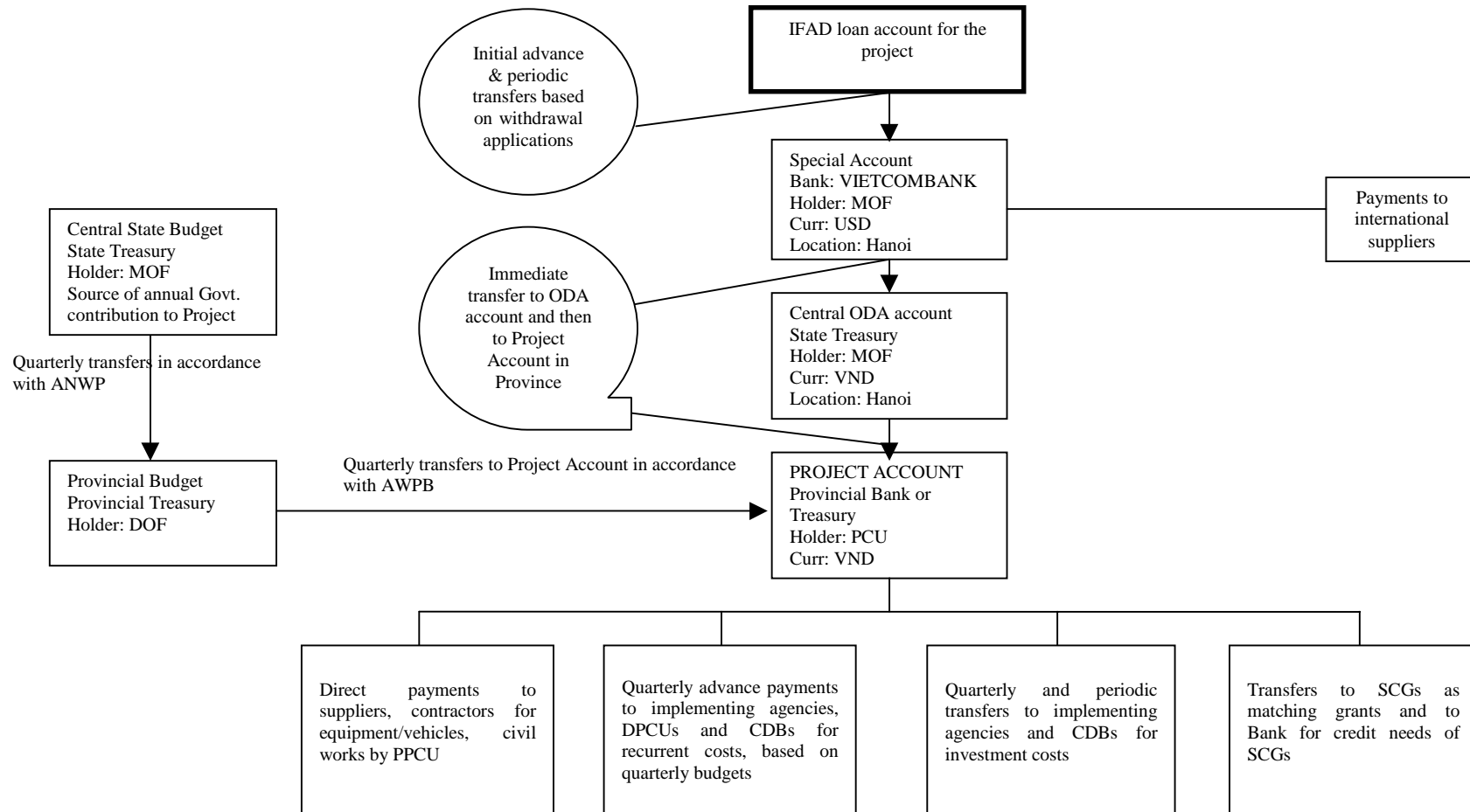


CHART 2: FLOW OF FUNDS



FINANCIAL ANALYSIS

1. Five representative household models have been constructed to demonstrate the potential impact of the project on individual farm based households. The models are based on an average household size of five persons, and are differentiated in terms of household resource base (including both land holding and ownership of livestock) and poverty status. Three of the models represent upland households with some access to paddy land (generally very small holdings located on the floors of narrow, highly constricted valleys) while the remaining two do not have paddy and rely solely on upland crops. Forest garden production has been incorporated into the analysis as the project will involve the allocation of additional forestland to households/communities, and the promotion of increased production from these allocated areas. Home gardens have not been included as they cover a very small area and production is mainly consumed (by the household or for animal/fish feed).

The main characteristics of the five models are presented in Table 1.

Table 1: Main Features of the Representative Household Models

Feature	Model 1	Model 2	Model 3	Model 4	Model 5
Basic farming system	Access to paddy	Access to paddy	Access to paddy	No paddy	No paddy
Poverty status	Average	Poor	Very poor	Poor	Very poor
Without project					
Land holding (ha)					
Irrigated paddy	0.3	0.1	0.05	0	0
Rainfed paddy	0	0.1	0.05	0	0
Upland crop area	0	0.02	0.05	0.3	0.1
Forest garden	0	1	0	1	0
Total area	0.3	1.22	0.15	1.3	0.1
Livestock					
Buffalo (yes or no)	yes	yes	no	no	no
Fattening pigs	3	2	1	1	0
Breeding sows	0	0	0	0	0
Fish ponds (m ²)	400	800	0	0	0
With project					
Land holding (ha)					
Irrigated paddy	0.3	0.1	0.1	0	0
Rainfed paddy	0	0.1	0.0	0	0.05
Upland crop area	0	0.02	0.05	0.3	0.1
Forest garden	0	1	0.5	1	0
Total area	0.3	1.22	0.65	1.3	0.15
Livestock					
Buffalo (yes or no)	yes	yes	yes	no	no
Fattening pigs	3	2	2	2	1
Breeding pigs	1	0	0	1	0
Fish ponds (m ²)	400	800	0	0	0

2. **Model 1.** This model represents the situation of an average household with access to a larger-than-average area of paddy. Modelled improvements include paddy intensification and establishment of a sow-breeding enterprise.

3. **Model 2.** This model represents the situation of a poor household with access to an average area of paddy land (half irrigated), as well as an average area of upland for crop production. Modelled improvements include crop improvement, increased production from allocated forestland, and development of a small fish pond.

4. **Model 3.** This model represents the situation of a very poor household with access to a below-average area of paddy land and upland. Modelled improvements include irrigation development, crop improvement and increased production from allocated forestland.

5. **Model 4.** This model represents the situation of a very poor household without any paddy land. Modelled improvements include crop improvement for upland crops, increased production from allocated forestland, establishment of a pig-breeding enterprise, and an increase in the number of fattening pigs from one to two.

6. **Model 5.** This model represents the situation of a very poor household. Modelled improvements include reclamation of 0.05 ha of land for rainfed paddy production, crop improvement and the establishment of a pig-fattening enterprise.

7. Table 2 below summarizes the expected impact of the project on household incomes for the five representative household models:

Table 2: Impact on Household Incomes

Model	Net Farm Income (Th. VND/hh)			Return to Labour (Th. VND/day)		
	WOP	WP	Incr.	WOP	WP	Incr.
Model 1	4 125	7 110	2 985	22.4	27.9	5.4
Model 2	2 653	6 251	3 598	16.3	35.4	19.2
Model 3	1 163	3 942	2 779	14.3	28.4	14.0
Model 4	1 336	6 976	5 640	9.8	32.0	22.2
Model 5	237	1 623	1 387	19.7	21.4	1.7

8. For the five models analysed, the potential benefit of the project in terms of incremental household income is substantial, especially in the case of households that benefit from increased allocations of forestland. In terms of percentage increase, net incomes increase by 70% (Model 1) up to nearly 600% (Model 5). These large increases reflect the extremely low household incomes in the without project situation.

9. The significant increase in net income indicates that the loan servicing capacity of these households will also rise. All models demonstrate sufficient capacity with the project to borrow for enlarging the scale of livestock diversification and/or for starting up microenterprise activities.

10. With the exception of Model 4, the projected with-project return to labour is approximately twice the official unskilled wage rate of VND 15 000 a day. For Model 4, the with project return to labour is approximately equal to the official rate. It should be noted, however, that in remote areas the prevailing wage rate is only VND 5-10 000 a day, and opportunities for paid labour are scarce and irregular.