President’s report

Proposed loan to the Socialist Republic of Viet Nam for the

Pro-Poor Partnerships for Agroforestry Development Project

For: Approval
Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed loan to the Socialist Republic of Viet Nam for the Pro-Poor Partnerships for Agroforestry Development Project, as contained in paragraph 36.
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

Pro-Poor Partnerships for Agroforestry Development Project

Loan summary

Initiating institution: IFAD
Borrower: Socialist Republic of Viet Nam
Executing agency: Provincial People’s Committee of Bac Kan Province
Total project cost: US$25.33 million
Amount of IFAD loan: SDR 14.11 million (equivalent to approximately US$21 million)
Terms of IFAD loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier: Global Environment Facility
Amount of cofinancing: US$0.65 million
Terms of cofinancing: Grant
Contribution of borrower: US$2.41 million
Contribution of beneficiaries: US$1.27 million
Appraising institution: IFAD
Cooperating institution: Directly supervised by IFAD
Proposed loan to the Socialist Republic of Viet Nam for the Pro-Poor Partnerships for Agroforestry Development Project

I. The project

A. Main development opportunity addressed by the project

1. Bac Kan is one of the provinces with the highest concentration of ethnic minority groups and the highest incidence of poverty in Viet Nam. The province has limited agricultural land and a rugged mountain terrain that raises investment costs for road and irrigation infrastructure. Forestry resources are relatively undeveloped and there is significant potential for developing the livestock industry, aquaculture and tourism, given the openness of the administration to market-led reform. There is an opportunity for strategic public- and private-sector investment in the agricultural sector. Administrative reform and the empowerment of farmers could bring about an enabling environment for change. The promotion of pluralistic extension delivery systems will facilitate access to knowledge and technology and the attainment of the skills necessary for achieving food security and market-led growth out of poverty. The protection of the ecological base and landscape offers potential for ecotourism development and, more significantly, payments for environmental services that could provide a productive safety net for poor upland farmers.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide a loan to the Socialist Republic of Viet Nam in the amount of SDR 14.11 million (equivalent to approximately US$21 million) on highly concessional terms to help finance the Pro-Poor Partnerships for Agroforestry Development Project. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)

3. The allocation defined for Socialist Republic of Viet Nam under the PBAS is US$56.2 million over the 2007-2009 allocation cycle. This project will use the remaining allocation for this cycle.

Relationship to national medium-term expenditure framework criteria

4. The project is aligned with the Government’s Socio-Economic Development Plan 2006-2010, which emphasizes the necessity of a coherent and integrated approach to sustainable development, identifies the need for enhanced social equity and environmental sustainability, while continuing to focus on economic growth.

Country debt burden and absorptive capacity of the State

5. External debt is 33.9 per cent of GNI and stands at roughly US$20 billion (2006 figures). Foreign exchange reserves were recorded at US$10.2 billion in 2007. GDP growth of 7.4 per cent was registered for the first quarter of 2008. The track record for implementation of IFAD-financed operations in Viet Nam is excellent.

Flow of funds

6. A special account will be established with the Ministry of Finance. Transfers will be made to the project account established with the Bac Kan provincial treasury.

Supervision arrangements

7. IFAD will directly supervise the project.
Exceptions to IFAD General Conditions for Agricultural Development
Financing and operational policies

8. No exceptions are foreseen.

Governance

9. The following planned measures are intended to enhance the governance aspects of the IFAD loan: (i) a project management board composed of the heads of the provincial technical departments engaged in implementation, chaired by the Vice-Chairperson of the Provincial People’s Committee to oversee implementation and provide policy guidance; (ii) a management information system database for analysing project implementation information; and (iii) performance-based contract management.

C. Target group and participation

Target group

10. The project will target poor upland farmers living in the three poorest districts of Bac Kan Province, most of whom belong to the Nung, Dao, Mong and Tay ethnic minority groups.

Targeting approach

11. In accordance with the IFAD Policy on Targeting, the project will adopt a self-targeting approach for poor communities in upland areas, whose livelihoods depend on cultivating hillside slopes and collecting non-timber forest products on the small areas of forest land allocated to them. Greater equity in the allocation of such land, development of more sustainable hillside farming systems, diversification of income-generating opportunities, and the piloting of payments for environment services are expected to generate benefits for the poor communities living in the uplands of Bac Kan.

Participation

12. Village forestry management boards will be established, and poor households and community groups will be invited to apply for forest land use rights certificates. The preparation of forestry management plans is expected to be a participatory process that involves individual households. The community development fund will empower poor upland farmers to choose investments and services that meet their needs, including direct support to expand their agroforestry investments. Women’s common interest groups, formed out of livelihood-based groups and clubs for the promotion of rights, will provide specific opportunities for women to access the community development fund.

D. Development objectives

Key project objectives

13. The proposed development objective of the project is to achieve sustainable and equitable poverty reduction and improved livelihoods for the rural poor in Bac Kan.

Policy and institutional objectives

14. The policy and institutional objective is to establish a framework for sustainable and profitable agroforestry development in Bac Kan Province that targets rural poor households.

IFAD policy and strategy alignment

15. The project is fully consistent with the country strategic opportunities programme for 2008-2012, which highlights the plight of the poor in upland areas and the need to support them through pro-poor partnerships between the private sector and poor households, the strengthening of sustainable natural resource management practices, and market-oriented government institutions and policies.
E. Harmonization and alignment

Alignment with national priorities

16. The project is aligned with the Ministry of Agriculture and Rural Development’s priorities for stronger community participation in rural development; poverty reduction for ethnic groups in remote areas; infrastructure development; and better access to public services, appropriate pro-poor agricultural technology and vocational training.

Harmonization with development partners

17. Project implementation will be harmonized with the activities of commune management boards established under Programme 135 Phase II. It builds on the experience of Irish Aid and the European Commission in Bac Kan Province. The project intends to solidify partnerships with the Cooperative for Assistance and Relief Everywhere (CARE), the Swiss Association for International Cooperation (Helvetas), the Centre for Agrarian Systems Research and Development, the World Agroforestry Centre and the Australian Agency for International Development. In the area of sustainable forest management, the project will collaborate through the Global Environment Facility (GEF) on the Country Programme Framework for Sustainable Forest Land Management.

F. Components and expenditure categories

Main components

18. The project has four components: (i) sustainable and equitable forest land management (12.7 per cent of total cost); (ii) generating income opportunities for the rural poor (69.3 per cent); (iii) sustainable environmental opportunities (5.5 per cent); and (iv) project management (12.5 per cent).

Expenditure categories

19. The expenditure categories foreseen are: (i) the community development fund; (ii) the agribusiness promotion investment fund; (iii) civil works; (iv) contract services; (v) technical assistance, training and studies; (vi) vehicles, equipment and goods; (vii) operation and maintenance; and (viii) salaries.

G. Management, implementation responsibilities and partnerships

Key implementing partners

20. Key partners in project implementation will be the Department of Planning and Investment, the Department of Agriculture and Rural Development, the Department of Science and Technology, the Department of Natural Resources and Environment, the Department of Education and Training, the Department of Labour, Invalids and Social Affairs and district sections. Implementation will be underpinned by strong farmers’ organizations and common interest groups and a competitive private sector.

Implementation responsibilities

21. The project will establish a supporting project management unit under the Department of Planning and Investment, responsible for financial and procurement management, information management, and monitoring and evaluation. The management of the project components and subcomponents will be devolved to the responsible line agencies or district, commune or community committees, using contracted national and international skills where necessary.

Role of technical assistance

22. The project will finance a two-to-three-person team of skilled professionals; one technical specialist will be employed for each of the project’s two technical components

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1 Socio-Economic Development Programme for Extremely Difficult Communes in Ethnic Minority and Mountainous Areas (2006-2010).
(relating to agroforestry livelihoods and payments for environmental services) to mentor implementing departments to the extent necessary.

**Status of key implementation agreements**

23. The IFAD loan agreement will govern project implementation. A project implementation manual will be developed once the project becomes effective. The GEF financing that has been allocated to the proposed project is currently being processed for official approval by the Government, GEF and IFAD.

**Key financing partners and amounts committed**

24. The total project cost is US$25.33 million over six years. The sources of financing are IFAD (82.9 per cent), the GEF (2.6 per cent), the Government (9.5 per cent) and beneficiaries (5.0 per cent).

**H. Benefits and economic and financial justification**

**Main categories of benefits generated**

25. The major benefits of the project are expected to come from productive activities, undertaken in an environmentally sustainable way, that make use of forest land resources in the project area that are currently largely underutilized.

**Economic and financial viability**

26. The potential economic benefits arising from the development of pro-poor agroforestry systems are estimated to have an overall internal rate of return of well above 12 per cent.

**I. Knowledge management, innovation and scaling up**

**Knowledge management arrangements**

27. The project promotes linkages between IFAD loans and grants and will contribute to and draw from a pool of regional experience. Sharing among IFAD-supported investments will be encouraged, for example, with the Developing Business with the Rural Poor Programme currently under implementation in the neighbouring province of Cao Bang.

**Development innovations that the project will promote**

28. Innovations in the project’s approach include the agribusiness promotion investment fund for companies prepared to engage the poor in an agribusiness enterprise investment. The project modality of payments for environmental services may become a viable safety net for the future.

**Scaling-up approach**

29. The project approach has several elements that make it suitable for scaling up: increasing economic activity in the province; reducing transactions costs and the business risks for private-sector investors; and ensuring that poor rural households have land use rights and the knowledge and skills to use this land more effectively and associate in common interest groups.

**J. Main risks**

**Main risks and mitigation measures**

30. The close involvement of government staff in the reform process, capacity-building for staff based on identified knowledge gaps, and periodic assessment of the governance culture to identify areas of change-resistance will mitigate the risk of resistance to governance changes in the line departments and in district and commune administrations.

**Environmental classification**

31. Pursuant to IFAD’s environmental assessment procedures, the project has been classified as a Category B operation in that is not likely to have any significant negative environmental impact.
K. Sustainability  
32. As project activities will be implemented through provincial departments, a high level of ownership and institutionalization of improved governance practices is expected. Project-supported investment at the grass-roots level is to be gradually replaced by community-generated investments.

II. Legal instruments and authority  
33. A project loan agreement between the Socialist Republic of Viet Nam and IFAD will constitute the legal instrument for extending the proposed loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.  
34. The Socialist Republic of Viet Nam is empowered under its laws to borrow from IFAD.  
35. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation  
36. 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 fourteen million one hundred and ten thousand special drawing rights (SDR 14,110,000) to mature on or prior to 15 December 2048 and to bear a service charge of three fourths of one per cent (0.75 per cent) 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 herein.

Lennart Båge  
President
Important assurances included in the negotiated project loan agreement

(Negotiations concluded on 11 December 2008)

**Gender**

1. Gender equality, gender mainstreaming and specific targeting of women’s participation in Project activities, will be pursued through the following measures:

   (a) Mainstreaming gender in all Project activities, including working towards increased women’s participation in the Project’s decision making processes;

   (b) Ensuring that no less than 40 per cent of participants in job/skills training are women;

   (c) Promotion of women’s savings and credit groups;

   (d) Terms of reference of Project staff will include addressing of gender mainstreaming and gender issues as a cross-cutting area of concern across all activities;

   (e) Gender disaggregation of the monitoring indicators, as necessary, to allow Project management to assess Project impact on women and men, allowing them to respond to issues, challenges and opportunities; and

   (f) Provision of a budget to enable Project management to address gender-linked issues and constraints that may arise during implementation.

**Indigenous peoples’ (IP) concerns**

2. The Government of the Socialist Republic of Viet Nam (the “Government”) will ensure that the concerns of the IP are given due consideration in implementing the Project and, to this end, will ensure that:

   (a) The Project is carried out in accordance with the applicable provisions of the relevant IP national legislation;

   (b) The IP are adequately and fairly represented in all local planning for Project activities;

   (c) IP rights are duly respected;

   (d) IP communities participate in policy dialogue and local governance;

   (e) The terms of Declarations, Covenants and/or Conventions ratified by the Government on the subject are respected; and

   (f) The Project will not involve encroachment on traditional territories used or occupied by indigenous communities.

**Pest management practices**

3. The Government will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the Project do not include any pesticides classified as Extremely Hazardous or Highly Hazardous by the World Health Organization (WHO).

**Monitoring**

4. The Project Implementation Unit will be responsible for establishing and maintaining a functioning and appropriate monitoring and evaluation (M&E) system. The M&E system will incorporate IFAD’s Framework for Results Impact Monitoring System (RIMS), with the main objective being to assess the impact of Project interventions on the lives of the Target Group.
Annex

Insurance of project personnel
5. The Lead Project Agencies will insure key Project personnel against health and accident risks to the extent consistent with its customary practice in respect of its national civil service.

Authorizations
6. The Government will provide any Project Party with such delegations of authority or other authorisations as may be required under its national procedures to implement the Project in accordance with this Agreement.

Staffing
7. The Government will ensure that Project staff at all levels are recruited and retained on the basis of satisfactory employment contracts.

Use of project vehicles and other equipment
8. The Lead Project Agencies will ensure that:
   (a) All vehicles and other equipment procured under the Project are allocated to the Project Parties for Project implementation;
   (b) The types of vehicles and other equipment procured under the Project are appropriate to the needs of the Project; and
   (c) All vehicles and other equipment transferred to or procured under the Project are dedicated solely to Project use.

Fraud and corruption
9. The Government will promptly bring to the attention of IFAD any allegations or concerns of fraud and/or corruption in relation to the implementation of the Project of which it has knowledge or becomes aware.

Suspension
10. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the Loan Account and/or Grant Account upon the occurrence of any of the events set forth therein or any of the events set forth below:
   (i) The Project Director has been removed from the Project without the prior concurrence of IFAD;
   (ii) IFAD, after consultation with the Government, has determined that the material benefits of the Project are not adequately reaching the Target group, or are benefiting persons outside the Target Group;
   (iii) The Government has defaulted in the performance of any covenant set forth in the Project Loan Agreement and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the Project;
   (iv) The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project;
   (v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the Project have come to the attention of IFAD and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD; and
(vi) Procurement has not been or is not being carried out in accordance with the Project Loan Agreement.

(b) Notwithstanding the above, IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the Loan Account if the Audit Report required by the Project Loan Agreement has not been satisfactory completed within twelve (12) months after the end of the Fiscal Year.

Conditions precedent to effectiveness

11. This Agreement will become subject to the fulfilment of the following conditions precedent:

(a) The Project Steering Committee will have been duly established in accordance with the Project Loan Agreement;

(b) The PMU (PMU) will have been duly established in accordance with the Project Loan Agreement;

(c) The Project Director will have been duly appointed in accordance with the Project Loan Agreement;

(d) The Procurement Plan for the first eighteen months of the Project will have been agreed by IFAD;

(e) The Government and the PMU will have duly opened the Special Account and Project Account, in accordance the Project Loan Agreement;

(f) This Agreement will have been duly signed, and the signature and performance thereof by the Government will have been duly authorised and ratified by all necessary administrative and governmental action; and

(g) A favourable legal opinion, issued by the legal counsel of the Government authorized to issue such opinions, in respect of the matters set forth in the Project Loan Agreement and in form and substance acceptable to IFAD, will have been delivered by the Government to IFAD.

Conditions precedent to withdrawal

12. No withdrawals from the Loan Account will be made until the AWPB for PY 1, including a Procurement Plan for the first 18 month period, will have been adopted by the Provincial People’s Committee (PPC) in accordance with the Project Loan Agreement.

Conditions precedent to disbursement

13. (a) No disbursements will be made in respect of expenditures under Category I (Civil Works), II (Technical Assistance. Training and Studies), III (Contracted Technical Services), IV (Agribusiness Promotion Investment Fund (APIF)) and V (Community Development Fund) until the Project Implementation Manual will have been approved by IFAD and adopted by the PPC, in accordance with the Project Loan Agreements.

(b) No disbursements will be made in respect of expenditures under Category IV (APIF) of the Project Loan Agreement until: (i) the APIF Operational Manual will have been developed by the PMU, submitted to IFAD for approval and adopted by the provincial government; and (ii) the Business and Investment Support Centre will have been established within the Department of Planning and Investment.

(c) No disbursements will be made in respect of expenditures under Category V (Community Development Fund) of the Allocation Table in the Project Loan Agreement until the Community Development Fund Operational Manual acceptable to IFAD, including the Community Development Boards (CDBs) Operational Charter, will, under advice to IFAD of PPC decision, have become operational.
(d) No disbursements shall be made in respect of expenditures under Category V (Community Development Fund) of the Allocation Table set forth in the Project Loan Agreement, for specific activities related to forest land allocation and management described in the Project Loan Agreement, until an Environmental and Social Impact Analysis manual, acceptable to the Fund, will, under advice to IFAD of PPC decision, has been developed and duly adopted.
Key reference documents

Country reference documents
Poverty reduction strategy paper

IFAD reference documents
Project design document (PDD) and key files
COSOP
Administrative Procedures on Environmental Assessment
## Logical framework

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<td><strong>Goal</strong></td>
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| Overall Goal (Impact)           | To achieve sustainable and equitable poverty reduction and improved livelihoods of the rural poor in Bac Kan. | - Number of household with improvements in household assets ownership index;  
- Reduction in the prevalence of child malnutrition, by gender (f/a, w/a, w/h);  
- Reduction in the prevalence of people below the poverty line in targeted areas;  
- Number and percentage of households in project communes experiencing improved food security. | - Baseline, mid-term, and completion assessment.  
- DOLISA statistics.  
- National Human Development Statistics.  
- National Human Development Index. | Price volatilities could reduce profitability of farms and enterprises;  
Appropriate technologies for sloping land agriculture and forestry may not be available;  
Forest land allocation might be slow and inequitable. |
| **Programme Purpose**           |            |                       |       |
| Programme Purpose (Immediate Objective) | To establish a framework for sustainable and profitable agro-forestry development in Bac Kan province targeting rural poor households. | - Share of income from agro-forestry products in project districts;  
- Quantity of agro-forestry product sold by commodity;  
- Area under sustainable land and forest management  
Stakeholder perceptions of adequacy of agro-forestry sector governance and services. | - Participatory Monitoring and Evaluation (PME);  
Annual sample survey of stakeholders (agro-forestry enterprises and male and female farmers);  
District and provincial level statistics. | Passive resistance to market oriented agro-forestry sector reform in line departments and district and commune administrations in the provinces. |
| **Specific Purposes, by Component** |            |                       |       |
| Component 1. Sustainable and Equitable Forest Land Management | Forest land resources are equitably allocated with sustainable management procedures defined and operational. | - DARD forest and biodiversity resource planning, regulation and monitoring framework operational;  
- DoNRE forest land allocation and environmental monitoring framework operational;  
- No of communities and poor households granted forestry investment and extraction approval rights;  
- 50% of the benefits will be received by the target group  
Area of forest land with clear management responsibility and enhanced management | - DoNRE forest land allocation records  
DARD forest management plans;  
Enterprise and private household survey at baseline, mid-term and completion. | Unwillingness to devolve or lack of capacity to implement a community owned and managed development fund. |
| Component 2. Generating Income Opportunities for the Poor | Sustainably improved livelihood of the rural poor through investments in infrastructure, human capacity development, better technology and agro-forestry business management practices and effective service delivery systems. | - % increase in the proportion and value of marketed production in targeted communes;  
- Beneficiary satisfaction with agro-forestry technical services and investment support.  
Level of application of sustainable forest and land management practices | - Commune Peoples Committee (CPCs);  
Commune level statistics;  
Annual surveys of sample of beneficiaries;  
Progress and completion reports of investment and production projects financed through the CDF.  
Baseline, mid-term and end of project review on use of sustainable forest and land management practices | - Legal constraints to the development of payments for ecological services;  
- Forage production technologies are unprofitable or unsustainable in the project area;  
- Farmers do not secure forest land use titles in a timely manner, limiting commitment to invest in sustainable management systems;  
- National beneficiaries of environment protection are unwilling to pay for ecological benefits derived from community action;  
- Inability to meet rules and regulations governing international carbon sequestration payments limit opportunities to secure carbon payments. |
| Component 3. Innovative Environmental Opportunities | Socially, environmentally and economically sustainable sloping land conservation and protection systems developed. | - More than 40% of farmers by ethnic group applying sustainable land and forest conservation technologies  
Increased income opportunities through PES;  
Increased options for sustainable livelihoods through non-timber forest products and ecotourism. | - CPC and District People’s Committee (DPC) databases;  
Baseline and end of project impact evaluation of representative sample of participating groups;  
Stakeholder satisfaction surveys of participating interest groups;  
Contracts for paid environmental services. | - - |