

Document: EB 2010/99/R.23/Rev.1
Agenda: 10(c)(iv)
Date: 22 April 2010
Distribution: Public
Original: English

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Enabling poor rural people
to overcome poverty

President's report

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

Project for the Sustainable Economic Empowerment of Ethnic Minorities in Dak Nong Province (3EM)

Executive Board — Ninety-ninth Session
Rome, 21-22 April 2010

For: **Approval**

Note to Executive Board members

This document is submitted for approval by the Executive Board.

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Abbreviations and acronyms

SEDP	Socio-economic Development Plan
AGRIBANK	Viet Nam Bank for Agriculture and Rural Development

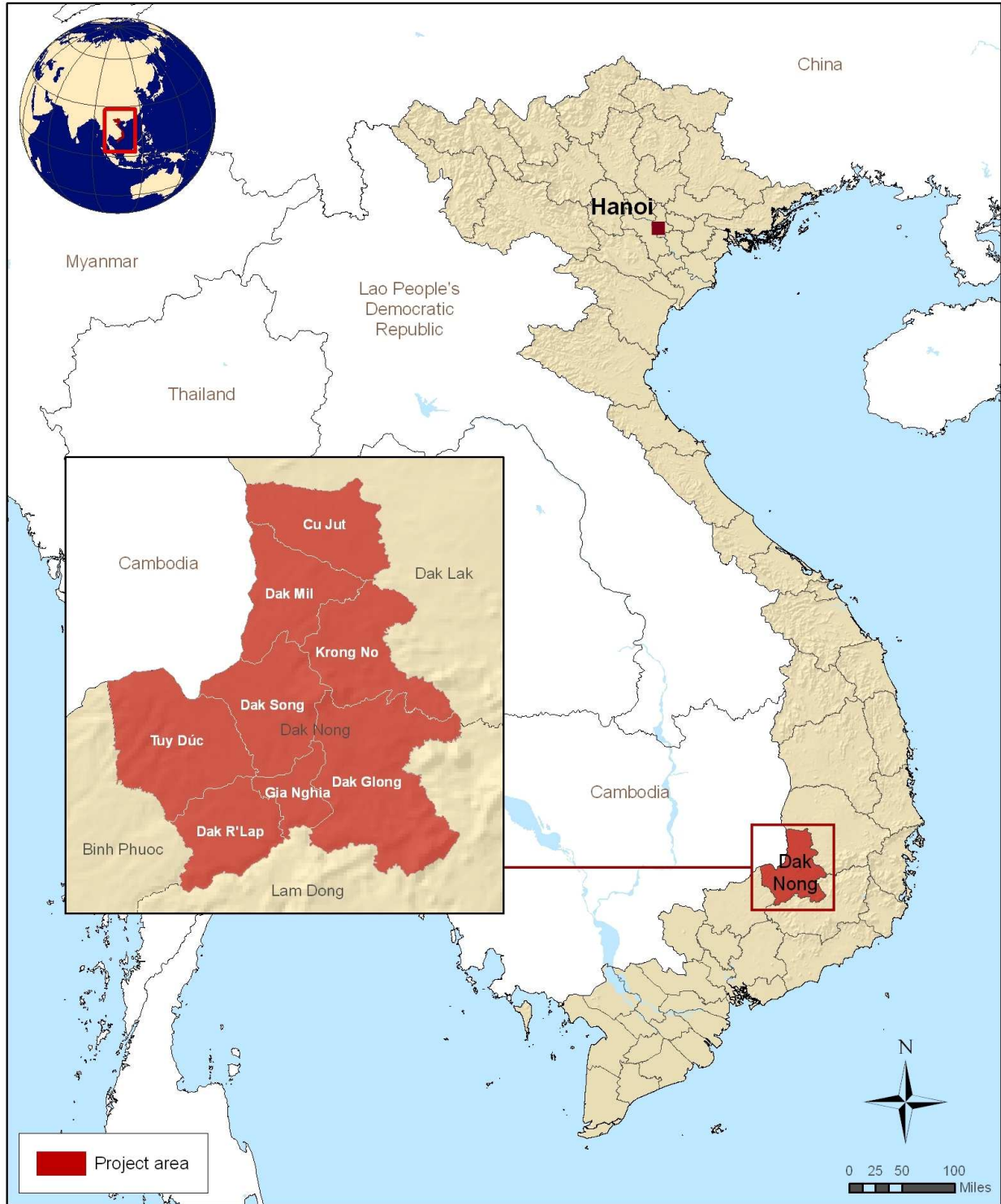
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the Socialist Republic of Viet Nam for the Project for the Sustainable Economic Empowerment of Ethnic Minorities in Dak Nong Province (3EM), as contained in paragraph 36.

Map of the project area

Socialist Republic of Viet Nam

Project for the Sustainable Economic Empowerment of Ethnic Minorities in Dak Nong Province (3EM)



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

Project for the Sustainable Economic Empowerment of Ethnic Minorities in Dak Nong Province (3EM)

Financing summary

Initiating institution:	IFAD
Borrower/Recipient:	Socialist Republic of Viet Nam
Executing agency:	Provincial People's Committee of Dak Nong Province
Total project cost:	US\$23.8 million
Amount of IFAD loan:	SDR 12.8 million (equivalent to approximately US\$19.4 million)
Amount of IFAD grant:	SDR 0.33 million (equivalent to approximately US\$0.5 million)
Terms of IFAD loan:	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
Cofinancier(s):	Viet Nam Bank for Agriculture and Rural Development (AGRIBANK)
Amount of cofinancing:	US\$0.9 million
Terms of cofinancing:	Loan
Contribution of borrower:	US\$2.3 million
Contribution of beneficiaries:	US\$0.7 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Proposed loan and grant to the Socialist Republic of Viet Nam for the Project for the Sustainable Economic Empowerment of Ethnic Minorities in Dak Nong Province (3EM)

I. The project

A. Main development opportunity addressed by the project

1. In Viet Nam today, there is a need to narrow the growing gap between ethnic minority groups and the Kinh majority. This project aims to develop the key development potential of ethnic minorities in Dak Nong Province. Rather than promoting subsistence farming, the project will improve the agronomic and market conditions for food and cash crops. There are opportunities in existing value chains to improve the net value in the hands of farmers through primary processing, storage, group marketing, etc. Furthermore, the project will support the development of alternative value chains for higher value products. Access to credit will enable women to choose activities that will increase the asset base of poor households and build resilience.

B. Proposed financing

Terms and conditions

2. It is proposed that IFAD provide to the Socialist Republic of Viet Nam a loan in the amount of SDR 12.8 million (equivalent to approximately US\$19.4 million), on highly concessional terms, and a grant in the amount of SDR 0.33 million (equivalent to approximately US\$0.5 million) to help finance the Project for the Sustainable Economic Empowerment of Ethnic Minorities in Dak Nong Province (3EM). 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 the Socialist Republic of Viet Nam under the PBAS is US\$68.75 million over the 2012 allocation cycle.

Relationship to national medium-term expenditure framework criteria

4. The project will be aligned with the provincial Socio-economic Development Plan (SEDP), which is the basis for the medium-term expenditure framework for the province.

Country debt burden and absorptive capacity of the State

5. Gross domestic product (GDP) in 2008 was equivalent to US\$89.8 billion. In 2009, growth dropped to 3.3 per cent but is expected to recover to 6.5 per cent by 2012. The country's public debt will represent an estimated 46 per cent of GDP in 2010, but as much of it is on concessional terms, its present value will remain below 20 per cent of GDP.

Flow of funds

6. Accounts designated to receive advance loan and grant resources may be established at the Ministry of Finance at the Ministry's request. Transfers will be made to the project account established at the Provincial Treasury of Dak Nong Province.

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 financing: (i) establishment of a project steering committee chaired by the chairpersons of the province and district people's committees, representing the implementing agencies; (ii) two years into implementation, a project review to include target group satisfaction surveys; and (iii) participatory monitoring and evaluation (M&E) at commune level to encourage active participation by all households.

C. Target group and participation

Target group

10. The primary target group is indigenous and migrant ethnic minorities, with a particular emphasis on women, in the poorest communes of Dak Nong Province. Poor and low-income Kinh families in the project area are also considered part of the target group.

Targeting approach

11. The three main modes of targeting are: (i) geographical targeting based on the national poverty line;¹ (ii) self-targeting based on project activities that primarily respond to the financial and labour capacity and livelihood strategies of target groups; and (iii) direct targeting based on inclusion and exclusion criteria to separate the poor from the non-poor.

Participation

12. A participatory planning process will be facilitated in each village, reflecting the respective priorities of women and men. Village development plans supported by the project will help ensure participation by the target group in identifying and planning investments in infrastructure and agricultural extension support. The district and provincial authorities will officially recognize the participatory method and undertake a firm commitment to spend project funds accordingly.

D. Development objectives

Key project objectives

13. The project goal is to contribute to a sustainable improvement in the livelihoods of poor and ethnic minority households in Dak Nong Province. The purpose of the project is to increase the incomes of poor and near poor ethnic minority households, with a particular focus on women.

Policy and institutional objectives

14. The project will contribute to strengthening provincial institutions to work with ethnic minority groups, particularly women, in a participatory manner and to integrate their priorities into the Government planning process. The project will also develop the Government's capacity to develop demand-led value chains in which farmers can improve their net returns by raising the quality of their products. The project will promote empowerment of people to escape poverty through collective action, i.e. by setting up joint liability groups and savings and credit associations.

IFAD policy and strategy alignment

15. The project is in line with the country strategic opportunities programme of December 2008 and the guidelines set forth in the IFAD Policy on Engagement with Indigenous Peoples.

¹ The criteria applied are defined by the national definition of the poverty line, which up to 2009 was defined as 200,000 dong/month, and has been increased to 350,000 dong/month as of 2010.

E. Harmonization and alignment

Alignment with national priorities

16. The proposed project is aligned with the new rural development strategy of the Government of Viet Nam, which sets targets for improving the quality and competitiveness of local commodities, enhancing linkages between rural producers and markets, and promoting decentralization and participation in decision-making.

Harmonization with development partners

17. The project will build on the village development planning processes and sector-building initiatives of the Agricultural and Rural Development Sector Programme Support provided by the Danish International Development Assistance (DANIDA), the OXFAM-supported Livelihoods Programme and the Environmental Protection and Management of Natural Resources in Dak Nong Province Project funded by the German Agency for Technical Cooperation (GTZ).

F. Components and expenditure categories

Main components

18. The project has three components: (i) ethnic minority livelihood development; (ii) rural financial services; and (iii) project management.

Expenditure categories

19. The expenditure categories are: (i) community infrastructure investments; (ii) tools, equipment and materials; (iii) vehicles; (iv) technical assistance, training, studies and workshops; (v) credit; (vi) Women's Union microgrants; and (vii) recurrent costs.

G. Management, implementation responsibilities and partnerships

Key implementing partners

20. Provincial, district and commune people's committees, the Department of Planning and Investment, the Department of Agriculture and Rural Development, the Viet Nam Bank for Agriculture and Rural Development (AGRIBANK), the provincial Farmer's Union and Women's Union are the key implementing partners.

Implementation responsibilities

21. The Department of Agriculture and Rural Development will be responsible for the implementation of the agriculture extension programme and value chain development. The Department of Planning and Investment will be responsible for implementation of participatory planning, and commune people's committees will be the investment owner for community infrastructure. AGRIBANK is to implement collateral-free short- and medium-term lending to joint liability groups; the Women's Union and the Farmers' Union will support the training of joint liability groups in collaboration with AGRIBANK. The Women's Union will assist the formation and operations of women's savings and loan associations and manage a revolving fund.

Role of technical assistance

22. For the delivery of sustainable agriculture extension activities, short term-technical assistance in sustainable and/or organic fertilizer production, organic farming systems and livestock development will be provided. To implement the innovative approach to value chain development, a national agribusiness specialist and an international agribusiness advisor for short-term assignments will be recruited. Specialized training consultants (hired by AGRIBANK) will carry out group member training in credit operations and group procedures in the villages. International and national technical assistance will support the Women's Union in operationalizing the Women's Economic Opportunities Fund (WEOF). A technical assistance management advisor will provide support in the initial three years and a gender specialist will advise the project management unit on a part-time basis.

Status of key implementation agreements

23. The IFAD financing agreement will govern project implementation. A project implementation manual will be developed following entry into force of the financing agreement.

Key financing partners and amounts committed

24. The total project cost is US\$23.8 million over six years. The sources of financing are the IFAD loan (81.3 per cent), IFAD grant (1.9 per cent), AGRIBANK (3.7 per cent), Government (9.6 per cent) and beneficiaries (2.7 per cent). A cofinancier is being sought for technical assistance (0.8 per cent).

H. Benefits and economic and financial justification**Main categories of benefits generated**

25. The main benefits will accrue to poor farmers applying sustainable agricultural practices in crop and livestock production and improving their net margins while reducing the negative impact of agriculture on the environment.

Economic and financial viability

26. The overall economic internal rate of return (EIRR) of the project is estimated at over 65 per cent; a sensitivity analysis shows that a 20 per cent drop in income would reduce the EIRR to 48 per cent.

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

27. The project will identify a knowledge management officer in the project management unit. At least one knowledge product will be developed each year by the project. The IFAD Hanoi office/field presence will organize events to capture knowledge, i.e. exchange visits between projects, country programme reviews and knowledge trade fairs.

Development innovations that the project will promote

28. Innovative features include the targeting of sustainable agricultural practices based on low external input and organic agricultural practices; development of produce value chains with high returns based on the identification of companies and buyers, development of a business plan; establishment of producer groups/common interest groups encompassing poor and better-off farmers and linking them to end buyers; and acceptance of joint liability for loans from AGRIBANK.

Scaling-up approach

29. Project implementation will focus on capacity-building in the first two years. By ensuring gradual institutional strengthening, it is expected that by the project's end the Department of Agriculture and Rural Development will have internalized sustainable agricultural practices, value chain development and working with the private sector. Participatory village-level planning processes for community infrastructure will be mainstreamed into the SEDP.

J. Main risks**Main risks and mitigation measures**

30. The project faces three main risks: (i) a change in priorities for development of ethnic minorities; (ii) insufficient competent human resources and weak capacity at provincial, district and commune levels; and (iii) possible negative impact of bauxite mining activities on the livelihoods of the target group in the project area. To address these risks, the project will recruit additional staff on a contract basis for assignment to the implementing agencies. Full implementation will take place only after an initial phase of capacity-building. No communes in which bauxite mining activities take place shall be eligible for participation in the project. IFAD will monitor the development of bauxite mining in the project areas to protect the interests of the project target group. Should the development of bauxite mining have a direct or

indirect negative impact on the project activities, the borrower/recipient will introduce appropriate mitigating measures to safeguard the livelihood of the affected target population. If these measures are not introduced, IFAD will adjust the project activities to provide the affected minorities with alternative livelihood options that are not affected by the bauxite mining. Failure to reach agreement with the borrower on the adjustment of project activities will lead to (full or partial) loan cancellation

Environmental classification

31. Pursuant to IFAD's environmental assessment procedures, the project has been classified as a Category A operation in view of the environmental sensitivity of bauxite mining activities in Dak Nong Province.

K. Sustainability

32. Sustainability will be ensured through available biomass for compost preparation by household enterprises. Community infrastructure operated and maintained by village or commune management boards will improve market access and productivity through access roads and small-scale irrigation. Based on assessments of credit performance, individual group members may become regular clients of AGRIBANK when their credit needs exceed the project loan ceiling. The Women's Union revolving fund will evolve into a sustainable microfinance institution serving women's groups.

II. Legal instruments and authority

33. A project financing agreement between the Socialist Republic of Viet Nam and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
34. The Socialist Republic of Viet Nam is empowered under its laws to receive financing from IFAD.
35. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

III. Recommendation

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

RESOLVED: that the Fund shall make a loan on highly concessional terms to the Socialist Republic of Viet Nam in an amount equivalent to twelve million eight hundred thousand special drawing rights (SDR 12,800,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

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

Kanayo F. Nwanze
President

Negotiated financing agreement:

"Project for the sustainable economic empowerment of ethnic minorities in Dak Nong province (3EM)"

(Negotiations concluded on 16 April 2010)

Loan Number: *****

Grant Number: *****

Project Title: Project for the Sustainable Economic Empowerment of Ethnic Minorities in Dak Nong Province (the "Project")

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

and

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

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

hereby agree as follows:

WHEREAS:

A. The Borrower/Recipient has requested a loan and a grant from the Fund for the purpose of financing the Project, described in Schedule 1 to this Agreement;

B. The Viet Nam Bank for Agriculture and Rural Development ("AGRIBANK") is expected to make available the approximate amount of nine hundred thousand United States dollars (USD 900 000) to assist in financing the Agricultural and Value Chain Lending sub-component of the Project on terms and conditions to be set forth in a Subsidiary Loan Agreement ("SLA") between the Borrower/Recipient and the AGRIBANK;

NOW THEREFORE the Parties hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

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

Section B

1. A. The amount of the Loan is SDR 12 800 000.
B. The amount of the Grant is SDR 330 000.
2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the currency of the United States of America (USD).
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and service charge shall be payable on each 15 June and 15 December.
6. The Borrower/Recipient shall provide counterpart financing for the Project in the amount of two million three hundred thousand United States dollars (USD 2 300 000).

Section C

1. The Lead Project Agency shall be the Dak Nong Provincial People's Committee (PPC).
2. The following are designated as additional Project Parties:
 - (a) the District People's Committees in the Project Area, or any successor(s) thereto;
 - (b) the Commune People's Committees in the Project Area, or any successor(s) thereto;
 - (c) the Department of Planning and Investment (DPI) of Dak Nong Province, or any successor thereto;
 - (d) the Department of Agriculture and Rural Development (DARD) of Dak Nong Province, or any successor thereto;
 - (e) the Provincial Extension Centre of Dak Nong Province, or any successor thereto;
 - (f) the Viet Nam Bank for Agriculture and Rural Development (AGRIBANK);
 - (g) the Viet Nam Bank for Agriculture and Rural Development of Dak Nong Province (AGRIBANK DN);
 - (h) the Farmer's Union of the Dak Nong Province; and
 - (i) the Women's Union of the Dak Nong Province (WU).
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

1. The Loan and Grant shall be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional grounds for suspension by the Fund, of the right of the Borrower/Recipient to request withdrawals from the Loan and/or Grant Account(s):
 - (a) The Project Implementation Manual referred to in paragraph 10.1, Section II of Schedule 1 hereto, or any provision thereof, has been waived, suspended, terminated, amended or otherwise modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Project.
2. The following are designated as additional grounds for cancellation by the Fund, in whole or in part, of the remaining amounts in the Loan and/or Grant Account(s):
 - (a) The Borrower/Recipient has failed to introduce appropriate measures to safeguard the livelihoods of the Target Population in the Project Area directly or indirectly affected by bauxite mining development, and has failed to reach agreement with the Fund, within a reasonable time thereafter, on how to adjust Project activities to provide alternative livelihood options thereto.
3. The following is designated as an additional general condition precedent to withdrawal:
 - (a) No withdrawals from the Loan and/or Grant Account(s) shall be made until the Project Implementation Manual (PIM) referred to in Para 10.1 Section II, Schedule 1 hereto shall have been approved by the PPC.
4. The following are designated as additional special conditions precedent to withdrawal:
 - (a) No withdrawal shall be made in respect of expenditures under Category I (Community Infrastructure Investments) of the Allocation Table set forth in paragraph 1 of Schedule 2 hereto, until a Community Development Fund Manual in form and substance acceptable to the Fund shall have been adopted by the PPC.
 - (b) No withdrawal shall be made in respect of expenditures under Category V (Credit) of the Allocation Table set forth in paragraph 1 of Schedule 2 hereto, until the Credit Operations Manual and the SLA referred to respectively in paragraphs 9.4 and 11.1, Section II of Schedule 1 hereto shall have been duly executed, and adopted by AGRIBANK in form and substance acceptable to the Fund and the Borrower/Recipient.
5. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

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

For the Borrower/Recipient:

Minister of Finance
Ministry of Finance of the
Socialist Republic of Viet Nam
28, Tran Hung Dao Street

Hoan Kiem District, Hanoi
Socialist Republic of Viet Nam

This Agreement, dated *****, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

For the Fund

For the Borrower/Recipient

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall target indigenous ethnic minorities, migrant ethnic minorities and poor Kinh households, with particular emphasis on women in the following districts of the Borrower/Recipient's Dak Nong Province: Krong No, Dak Song, Dak G'Long, Dak R'Lap and Tuy Duc (each a "District" and, collectively, "Districts" or "Project Area").
2. *Goal.* The goal of the Project is to contribute to the sustainable improvement of the livelihoods of poor and ethnic minority households in the Dak Nong Province.
3. *Objectives.* The objective of the Project is to increase incomes of poor and near poor ethnic minority households, with particular focus on women.
4. *Components.* The Project shall consist of the following Components:
 - 4.1. Component 1: Ethnic Minority Livelihood Development. This Component shall include the following three sub-components:
 - 4.1.1. *Extension of Sustainable Agriculture (Sub-component 1.1).* Under this sub-component, the Project shall define approaches for sustainable agricultural practices. The Project shall carry out participatory analysis of the potential for sustainable agriculture, pilot demonstrations of organic and chemical input technologies, participatory trials of best practices and validation workshops of the trials. An extension programme shall be drawn up for upscaling validated activities.
 - 4.1.2. *Value Chain Development (Sub-component 1.2).* Activities to be carried out under this sub-component shall be aimed at achieving:
 - (i) *Development of major value chains.* The Project shall support value chain analysis of farmer/buyer transactions and finalise a list of opportunities to improve sale terms for farmers; such activities shall be followed by the development of promotion and extension packages;
 - (ii) *Development of high produce value chains.* Expressions of Interest shall be invited from buyers of agricultural products to participate in given value chain(s). A short-list of eligible companies shall be prepared on the basis of pre-determined criteria acceptable to the Fund. Selected companies with approved business plan proposals shall enter into implementation agreement(s) with the Project.
 - 4.1.3. *Participatory Planning and Community Infrastructure (Sub-component 1.3).* The Project shall support the identification of infrastructure priorities through participatory processes reflecting the needs of Target Population and promote investments of village community infrastructure, commune and intra-village works.
 - 4.2. Component 2: Rural Financial Services. The objective of this component is to give access to poor and near poor households to appropriate means of credit through Joint Liability Groups (JLGs) and micro-grants through Women Savings and Credit Groups, under the following sub-components and activities:

4.2.1. *Agricultural and Value Chain Lending* (Sub-component 2.1). The Project shall promote the establishment of JLGs including ethnic minority villagers upon the principles of homogeneity, trust and affinity, as the conduit for AGRIBANK DN lending to individual members without collateral.

4.2.2. *Women Savings and Credit Groups* (Sub-component 2.2). The Project shall promote the establishment of Savings and Credit Groups (SCGs), formed primarily by ethnic minority women upon the principles of trust and affinity. The WU shall, among other things, carry out a Feasibility Study for the establishment of a micro-finance institution, provide training: on (i) social mobilization, (ii) formation of the SCGs, and (iii) savings modules, provide matching grants to the SCGs and establish and implement the Women's Economic Opportunities Fund (WEOF), if recommended by the Feasibility Study.

4.3. Component 3: Project Management. Under this Component, the Project shall support Project management by strengthening the capacity of the PPC and Project Parties and the Department of Finance of Dak Nong Province with the establishment of a management structure meeting the requirements of transparency and good governance. The Project shall be implemented under the responsibility of the PPC and hosted by the Department of Planning and Investment, Dak Nong Province.

II. Implementation Arrangements

5. Project Steering Committee (PSC)

5.1. *Establishment and Composition*. The PPC shall establish the PSC, which shall assume the primary responsibility of reviewing Project implementation activities and budgets. The PSC shall be chaired by the chairperson or the vice-chairperson of the PPC. Members shall be the chairpersons or vice-chairpersons of the Districts' People's Committees, representatives of the Project Parties, Department of Finance of Dak Nong Province, and the Provincial Committee for Ethnic Minorities (PCEM). The Project Director shall act as the PSC secretary.

5.2. *Responsibilities*. The PSC shall be responsible for the review of the Annual Work Plan and Budget (AWPB) and Annual Project Financial Statements, and for submission thereof to the PPC for approval. The PSC shall also be responsible for compliance of Project activities with the terms and conditions of this Agreement. The PPC shall approve the appointments of the key staff in the PMU and decide on any policy issues that may arise during implementation.

6. Project Management Unit (PMU)

6.1. *Establishment and Composition*. The PPC shall establish a PMU at the Provincial level which shall be headed by a full-time Project Director and include the following full-time staff: (i) Deputy Project Director (ii) an agri-business specialist, (iii) a rural finance coordinator, (iv) a procurement specialist, (v) a monitoring and evaluation specialist, (vi) a chief accountant, (vii) a translator, and (viii) support staff, as appropriate. A technical assistance Management Advisor shall support the Project Director during the first year of Project implementation together with a gender specialist on a part-time basis.

6.2. In each District, a focal point shall be appointed in the office of the District People's Committee to support activities at the District level. A District Engineer for the District offices shall be recruited or seconded from the District. Two District subject-matter specialists (DSMSs) shall be recruited for the sustainable agriculture and value chain related activities.

6.3. At Commune level, full-time community facilitators shall be selected from among local farmers through a merit-based process focusing on knowledge of local languages, and respect within the local community.

6.4. *Key Responsibilities.* The key tasks of the PMU shall include, amongst others:

- (a) *Targeting and Gender.* In the planning and implementation of Project activities, the PMU shall ensure that the Project Parties maintain the focus on poor and near poor households of ethnic minorities and ensure that women have ample opportunities to participate in Project activities. The PMU shall ensure that gender is mainstreamed in all Project activities by using a guidance manual to be developed by the Project in the first Project Year;
- (b) *Monitoring and Evaluation.* The Monitoring and Evaluation (M&E) specialist in the PMU shall establish an appropriate M&E and Management Information Systems (MIS) following IFAD Results and Impact Management Systems (RIMS) procedures. Staff in the Project Parties shall be trained in M&E requirements
- (c) *Recruitment of staff.* In collaboration with the relevant Project Parties, the PMU shall develop appropriate Terms of References for staff positions to be funded by the Project. The PMU shall organise fair and transparent selection processes and ensure that the Funds concurrence for the candidates for the key positions is obtained.
- (d) *Environmental concerns.* The PMU shall ensure that Project activities comply with the Borrower/Recipient's Law on Environmental Protection, and the Circular on Guideline for the Strategic Environmental Assessment (SEA), environmental impact assessment, and environmental protection commitments in accordance with Decision No. 05/2008/TT-BTNMT, of 8 December, 2008.

7. Key Project Staff

7.1. *Recruitment of Key PMU Staff.* The full-time Project Director and the Deputy Project Director shall be appointed by the PPC with the prior agreement of the Fund. In finalising the appointments, everything else being equal, preference shall be given to candidates with strong experience at the district level and with an agricultural background.

7.2. The Project Director shall serve throughout the entire Project Implementation Period and may only be removed by the PPC after prior consultation with the Fund.

8. Project Reviews

8.1. *Project Review.* The Borrower/Recipient, the PPC and the Fund shall conduct a Project Review at completion of the second year of Project implementation to *inter alia*: (a) assess implementation performance and the extent to which Project activities reach the ethnic minority Target Population; (b) examine the modalities for up-scaling Project activities, as and when appropriate; (c) ensure that benefits have been disaggregated and monitored by ethnic groups; (d) verify progress in land allocation in each District; (e) identify issues and constraints affecting the Project, including any direct or indirect negative impact from bauxite mining activities, (f) work out time-bound action plan(s) with corrective measures satisfactory to the Fund.

8.2. *Mid-Term Review.* The Borrower/Recipient, the PPC and the Fund shall conduct a comprehensive mid-term review to assess implementation progress, to assess the extent

to which the business environment is constraining the operation of value chains and to determine appropriate revisions to the Project implementation arrangements and resource allocations to be complied with by the relevant Project Parties in order to ensure successful Project completion.

9. Implementation Arrangements under Project Components

9.1. *Extension of Sustainable Agriculture* (Sub-component 1.1). The development and delivery of the sustainable agriculture extension programme shall be assigned to the DARD of Dak Nong Province and the Provincial and District Extension Centres .

9.2. *Value Chain Development* (Sub-component 1.2). Value chain development shall be implemented by DARD with support from a national Agribusiness Coordinator in the PMU, an Agribusiness specialist, and an international Agribusiness advisor, each recruited for short term assignments.

9.3. *Participatory Planning and Community Infrastructure* (Sub-component 1.3). Participatory planning and community infrastructure shall be implemented by the Commune People's Committee (CPC), in accordance with relevant DPI guidelines. A Village Management Board (VMB) shall be established to supervise the day to day construction of the works. The VMB shall be responsible for operation and maintenance (O&M), and shall develop an O&M plan prior to the construction of any works. A Commune Management Board shall be established to assist the CPC to implement community infrastructure. The Community Monitoring Board shall include representatives from the VMB.

9.3.1. Implementation support shall be provided by a District engineer to facilitate implementation of community infrastructure by the VMBs. Support may be provided by qualified service providers from the public and/or private sectors, and/or NGOs with experience in participatory planning and management in the area.

9.4. *Agricultural and Value Chain Lending* (Sub-component 2.1). The Agricultural and Value Chain Lending sub-component shall be implemented by AGRIBANK. To this effect: (i) AGRIBANK shall enter into a Subsidiary Loan Agreement with the Borrower/Recipient; and (ii) AGRIBANK shall adopt a Credit Operations Manual in form and substance acceptable to the Fund and to the Borrower/Recipient, specifying, *inter alia*, modalities for the management of the credit line, eligibility criteria for membership of the JLGs and terms and conditions for the lending thereto.

9.5. *Women Savings and Credit Groups* (Sub-component 2.2). The Provincial Women's Union shall implement the Women Savings and Credit Groups activities. They shall be responsible for the formation of the groups and management of funds in the Women's Economic Opportunities Fund (WEOF). The Rural Finance Coordinator with the support of national technical expertise from the Viet Nam Women's Union shall assist the Provincial WU in the implementation of the training programme.

10. Additional Implementation Arrangements

10.1. Project Implementation Manual (PIM)

10.1. *Preparation and Approval*. The Borrower shall cause the PPC to prepare a draft Project Implementation Manual (PIM) as soon as practicable, but in no event later than 90 days after the entry into force of this Agreement. The PIM shall detail, among other things, the Project implementation responsibilities for planning, budgeting, financing, Loan and Grant disbursement, reporting, procurement, preparation of accounts and auditing, and the implementation of the Women's Union micro-grants. In addition, the PIM shall incorporate a strong governance framework to empower the Target Population

to play a bigger role in Project implementation and introduce measures to ensure transparency, assess consumer satisfaction and provide for third party monitoring of Project activities/outcomes. The PPC shall approve the PIM only with prior agreement of the Fund, and provide a copy thereof to the Fund.

11. Subsidiary Loan Agreement (SLA)

11.1. Part of the proceeds of the Loan shall be made available to the Borrower/Recipient, as detailed in the relevant SLA to be entered into by the Borrower/Recipient and AGRIBANK and which shall provide, among other things, that:

- (i) the Borrower/Recipient shall on-lend from the proceeds of the Loan an amount in Vietnamese Dong equivalent to SDR 2 300 000 million to AGRIBANK for purposes of carrying out Programme activities financed from Category V (Credit) of the Allocation Table set forth in paragraph 1 Schedule 2 hereto, in accordance with the Borrower/Recipient's on-lending policy applicable to ODA-funded projects, and on terms and conditions acceptable to the Fund;
- (ii) AGRIBANK shall pay the Borrower/Recipient's interest on the principle amount of the loan fund portion of the credit withdrawn by AGRIBANK and the principal amount of the credit outstanding from time to time based on terms and conditions acceptable to the Fund;
- (iii) the SLA shall come into force and effect on the date upon which this Agreement enters into force;
- (iv) the Borrower/Recipient, through AGRIBANK, shall establish and maintain in AGRIBANK DN, a Revolving Fund for the Line of Credit into which all net revenues from credits extended directly or indirectly by the Loan shall be deposited. AGRIBANK DN shall use the Revolving Fund to further credits to Project eligible beneficiaries in accordance with this Agreement until the Project Completion Date. For purposes of this paragraph, the term "net revenues" means all repayments of principal and all payments of interest, less reasonable operating and other costs;
- (v) AGRIBANK shall contribute in the amount of USD 900 000 to assist in financing the Agricultural and Value Chain Lending Sub-component of the Project on terms and conditions acceptable to the Fund;
- (vi) AGRIBANK shall carry out its activities under the Project in accordance with the procedures, principles and practices set forth in the Project Credit Operations Manual.

11.2. The Borrower/Recipient shall submit a draft of the SLA to the Fund for comments and endorsement before its signature and may be amended only after consultation with the Fund.

12. *Selection Criteria for Communes.* The following criteria shall be adopted for the selection of communes which shall participate in the Project ("Communes"):

- a) the poverty incidence among ethnic minority households within the Target Population exceeds 10%; and
- b) the proportion of ethnic minority households in the total population is more than 25%.

Schedule 2*Allocation Table*

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

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage
I. Community Infrastructure Investments	5 165 000		90% net of beneficiaries' contributions
II. Tools, Materials and Equipment	320 000		90%
III. Vehicles	70 000		70%
IV. Technical Assistance, Training, Workshops and Studies			
a) International Technical Assistance	550 000	200 000	100%
b) National Technical Assistance	250 000	65 000	100%
c) Training, Workshops and Studies	1 980 000	65 000	100%
V. Credit	2 300 000		100% net of AGRIBANK financing
VI. Women's Union Micro Grants	1 120 000		100% net of beneficiaries' contributions
VII. Recurrent Costs			
a) Salaries and Allowances	380 000		100% net of counterpart contribution
b) Operations and Maintenance	250 000		100% net of counterpart contribution
VIII. Unallocated	415 000		
TOTAL	12 800 000	330 000	

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

- (i) "Community Infrastructure Investments" means Eligible Expenditures for community infrastructure;
- (ii) "Technical Assistance" means Eligible Expenditures for national and international expertise for Ethnic Minorities' Farming Systems, Sustainable Agriculture, Agribusiness, Agriculture and Value Chain Loans, Management and Gender.
- (iii) "Vehicles" means Eligible Expenditures for two cars and motorcycles;
- (iv) "Credit" means Eligible Expenditures for the Revolving Fund to be established by AGRIBANK to finance: a) agriculture including crops and livestock; b) processing and marketing in value chains; and c) JLGs' investments in value chains;
- (v) "Women's Union Micro Grants" means Eligible Expenditures for financing matching grants to Women's Savings and Credit Groups and the Revolving Fund for the WEOF;
- (vi) "Salaries and Allowances" means Eligible Expenditures for District Subject-Matter Specialists, Commune facilitators, District engineers and allowances for Commune extension workers and community infrastructure facilitators;
- (vii) "Operations and Maintenance" means Eligible Expenditures for operations and maintenance of vehicles and motorcycles.

Schedule 3

Special Covenants

For the purposes of this Agreement the Borrower/Recipient shall ensure that the following provisions are complied with:

1. *AGRIBANK Records.* AGRIBANK DN maintains adequate records allowing for monitoring of the status of loans supported under the credit line and the use of the Revolving Fund to finance additional loans to JLGs.
2. *Avoidance of Negative Impact from Mining Activities in Project Area.* No Communes in which bauxite mining activities take place are eligible for participation in the Project. Notwithstanding the generality of the foregoing, should the development of bauxite mining have a direct or indirect negative impact on Project activities, the Borrower/Recipient shall take appropriate mitigating measures to safeguard the livelihoods of the affected Target Population. Failing this, the Borrower/Recipient shall ensure that Project activities are adjusted to provide the distressed Target Population members with alternative livelihood options not affected by mining activities in a manner acceptable to the Fund.
3. *Land Allocation.* All Land Use Certificates shall be issued in the name of women only, in the event of women-headed households, and wife and husband for married couples.

Key reference documents

Country reference documents

Socio Economic Development Plan (2006-2010)

WB Country Social Analysis, 2009

IFAD reference documents

Project design document (PDD) and key files

COSOP

IFAD Learning Notes

Administrative Procedures on Environmental Assessment

World Bank, FAO and IFAD: *Gender in Agriculture. Sourcebook*. World Bank, Washington, DC. 2009

Logical framework

Narrative Summary	Verifiable Indicators	Means of Verification	Assumptions/Risks
Goal			
Sustainable improvement of the livelihoods of poor and ethnic minority households, with a particular emphasis on women, in Dak Nong Province.	<ul style="list-style-type: none"> Number of households with improvement in household assets ownership index (Disaggregated by poverty, ethnicity and gender) Reduction in the prevalence of child malnutrition. (Disaggregated by poverty, ethnicity and gender) Rate of reduction in the prevalence of poverty (Disaggregated by poverty, ethnicity and gender) 	National statistics. Government reports on SEDP implementation.	
Purpose/Objective			
Increased incomes of poor and near poor ethnic minorities, with a particular focus on women	<ul style="list-style-type: none"> Household net margins increased by at least 25% (Disaggregated by poverty, ethnicity and gender) 	RIMS Baseline survey Project surveys. Government disaggregated statistics monitoring income	<ul style="list-style-type: none"> Economic and social stability in Dak Nong. Decentralization policy sustained by availability of human and financial resources. GOVN EM policies pursued vigorously. EM are able to access adequate land resources No significant degradation of the natural resource base
<i>Component Outcomes</i>			
1. Ethnic Minorities (EM) Livelihood Development			
Improved agricultural skills of poor hh Improved marketing skills of poor hh Increased and diversified incomes of hh Improved productive infrastructure in place	<ul style="list-style-type: none"> 50% of EM hh apply new skills from training by PY 3 Min 10% increase in yields by PY 3 (Disaggregated by poverty, ethnicity and gender) Percentage increase in income from agricultural produce (Disaggregated by poverty, ethnicity and gender) At least 4000 households involved in primary processing, storage, etc., to improve net margins and incomes (Disaggregated by poverty, ethnicity and gender) At least 1200 households involved in value chain for premium products Demand driven extension service in place (Disaggregated by poverty, ethnicity and gender) No of hhs access water for productive and consumption purposes (Disaggregated by poverty, ethnicity and gender) Km of access roads in place and passable three years after construction Market and storage facilities established in villages and communes and maintained 	Impact surveys. Household income data. Project progress reports M&E reports	Growing market for clean and/or new products Commodity prices do not collapse Village Development Plans form the basis for infrastructure development
2. Rural finance for poor and near poor EM			
Project area poor and near poor households have access to sufficient semi-formal and formal credit institutions	<ul style="list-style-type: none"> At least 8000 of poor and near poor borrowers in SCG and JLG have had timely and adequate access to project credit, (Disaggregated by poverty, ethnicity and gender) Savings mobilisation through SCGs is regular and there is annual growth of at least 90% in per member savings. Portfolio at risk of more than 60 days of project credit line of AGRIBANK is less than 5 %. Portfolio at risk of more than 60 days of WEOF is less than 5 %. 	Financial institutions' reports Project progress reports Supervision reports M&E reports	<ul style="list-style-type: none"> No major change in monetary and re-financing policies
3. Project management			
Project managed in a timely, cost effective and transparent manner	<ul style="list-style-type: none"> Staff selection and recruitment is based on merit Disbursements are progressing satisfactorily Quality of project management (financial management, M&E, audits) 	Project progress reports Supervision reports M&E reports Audit reports	<ul style="list-style-type: none"> Absence of political interference

