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Investing in rural people

President's memorandum

Proposed additional loan to the Socialist Republic of Viet Nam for the Commodity-Oriented Poverty Reduction Programme in Ha Giang Province

Note to Executive Board representatives

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For: Approval

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 Commodity-Oriented Poverty Reduction Programme in Ha Giang Province, as contained in paragraph 17 and the modifications to the financing agreement as contained in paragraph 13.

Proposed additional loan to the Socialist Republic of Viet Nam for the Commodity-Oriented Poverty Reduction Programme in Ha Giang Province

I. Context and justification

1. The Commodity-Oriented Poverty Reduction Programme (CPRP) in Ha Giang Province was approved by the Executive Board in September 2014 (EB 2014/LOT/P.6/Rev.1). Financing for the programme comprised: (i) an IFAD loan of SDR 6.54 million (approximately US\$10 million and 29.7 per cent of total programme cost) and a financing gap of approximately US\$10 million (29.7 per cent) to be met by an additional allocation under the subsequent performance-based allocation system (PBAS) cycle, once available, and subject to the Board's approval; (ii) a government contribution of approximately US\$9.49 million (28.2 per cent); and (iii) a beneficiary contribution of approximately US\$4.22 million (12.5 per cent). The financing gap was due to the exhaustion of the PBAS allocation for Viet Nam at that point in time.
2. Following the satisfactory performance of the Viet Nam portfolio, an amount of approximately US\$10 million has been allocated to the CPRP under the present PBAS cycle in order to fill the financing gap. The programme concepts, components, subcomponents, cost items, cost-benefit analysis, results matrix, monitoring and evaluation, and institutional arrangements remain unchanged.
3. This memorandum seeks the Board's approval of the use of additional financing from the 2013-2015 PBAS cycle in the amount of approximately SDR 7.12 million (equivalent to approximately US\$10 million).

II. Status of programme implementation

4. The financing agreement for the CPRP was signed on 25 November 2014. The start-up workshop took place in January 2015 and the first annual workplan and budget was adopted on a no objection basis in February 2015. All institutional arrangements for programme implementation are in place at the province, district and commune levels. The programme is now in full implementation: commodity-based planning frameworks have been rolled out, community infrastructure to be financed has been identified and both common interest groups for farmers and women's saving and credit groups have been established.

III. Programme costs and financing

5. The additional financing of SDR 7.12 million in the form of a loan on blend terms will be allocated across all programme activities and categories.

6. Table 1 shows the distribution of costs by component.

Table 1
Programme costs by component
(Thousands of United States dollars)

<i>Component</i>	<i>IFAD loan 1 Amount</i>	<i>IFAD loan 2 Amount</i>	<i>Beneficiaries Amount</i>	<i>Borrower/ counterpart Amount</i>	<i>Total Amount</i>
1. Planning for sustainable market-led development					
(i) Institutionalization of commodity-based investment planning	212.1	43.2	-	10.0	265.3
(ii) Implementation of market-oriented results-based planning	2 452.5	1 284.0	-	1 335.7	5 072.2
(iii) Testing and development of climate-smart technology	596.8	768.2	-	60.6	1 425.5
Subtotal	3 261.4	2 095.4	-	1 406.3	6 763.0
2. Building pro-poor commodity investment					
(i) Cofinancing of community development	3 849.1	4 357.6	2 384.4	3 521.4	14 112.6
(ii) Rural financial services	1 424.3	1 315.9	-	2 854.2	5 594.4
(iii) Public-private collaboration	776.7	1 540.5	1 836.0	-	4 153.2
Subtotal:	6 050.1	7 214.1	4 220.4	6 375.6	23 860.2
3. Programme coordination	688.4	690.8	-	1 709.8	3 089.0
Total	9 999.9	10 000.3	4 220.4	9 491.8	33 712.3

7. The funds will be allocated in accordance with programme design to the categories of expenditure indicated in the table 2.

Table 2
Tentative programme costs by expenditure category and financier*
(Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD loan 1</i>		<i>IFAD loan 2</i>		<i>Beneficiaries</i>		<i>Borrower/ counterpart</i>		<i>Total</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>
A. Civil works	2 430.0	26.7	2 430.0	26.7	810.0	8.9	3 431.0	37.7	9 101.0
B. Equipment and goods	244.6	72.1	60.8	17.9	-	-	33.9	10.0	339.3
C. Vehicles	181.8	50.0	-	-	-	-	181.8	50.0	363.6
D. Technical assistance	1 371.9	55.8	1 087.2	44.2	-	-	-	-	2 459.1
E. Training	1 889.7	44.1	2 390.7	55.9	-	-	-	-	4 280.5
F. Research and studies	818.3	18.1	843.0	18.7	-	-	2 851.3	63.1	4 512.5
G. Women's savings and credit groups financing for onlending	464.0	66.7	232.0	33.3	-	-	-	-	696.0
H. Public-private collaboration grants	1 101.1	16.3	2 237.3	33.2	3 410.4	50.5	-	-	6 748.8
I. Public infrastructure investment grants	-	-	-	-	-	-	-	-	-
J. Recurrent costs	1 498.5	43.7	719.2	21.0	-	-	1 211.8	35.4	3 429.5
K. Salaries	-	-	-	-	-	-	1 781.9	-	1 781.9
Total	9 999.9	29.7	10 000.3	29.7	4 220.4	12.5	9 491.8	28.2	33 712.3

* The final disbursement categories will be determined based on IFAD's procedures. A maximum of five cost categories will be included for reasons of efficiency.

IV. Financial management, procurement and governance

8. Financial management. The programme coordination office will be responsible and accountable to the Government and IFAD for the proper use of the funds apportioned to it in line with the respective legal agreements, subsidiary agreements for financial institutions and contractual arrangements for service providers. The programme's financial management arrangements will ensure that funds are used for the intended purpose in an efficient and cost-effective manner through internal controls and capacity-building at all levels.
9. An existing computerized accounting system will be used for bookkeeping and for the generation of detailed financial statements of programme operations, resources and expenditures for each fiscal year. The statements will be prepared in accordance with internationally recognized accounting standards and procedures acceptable to IFAD. Such financial statements will be delivered to IFAD on a timely basis. The IFAD financial management assessment rated the fiduciary risk as medium. However, the province has quite extensive experience in managing

externally financed projects – including the previous one financed by IFAD – with generally good outcomes and accountability frameworks.

10. Flow of funds. IFAD will make funds available to the Government of Viet Nam under the terms and conditions of the financing agreement. Programme funds for the additional loan will flow from IFAD via a new designated account established in a commercial bank acceptable to IFAD. Both designated accounts for IFAD financing at the Ministry of Finance will be administered following imprest fund arrangements. Government funds will flow to a separate account. The programme's financial management arrangements will ensure a robust flow of reliable information on programme activities, which will facilitate accountability, transparency and disclosure.
11. Internal control and external audit. Internal control systems at the programme coordination office level will be established. External audit will be carried out in compliance with the International Standards on Auditing and the IFAD Guidelines on Project Audits. Independent external auditors will be appointed on a timely basis. Consolidated financial statements and audit reports will be submitted to IFAD within six months of the end of the relevant fiscal year.
12. Governance. All major financing allocations will be endorsed by the programme steering committee and approved by the provincial people's committee and, above certain thresholds, will be subject to no objection from IFAD. Financing at the commune level will be based on socio-economic development planning and undertaken through an open and equitable decision-making process that includes a dispute resolution mechanism. The IFAD country office capacity for project oversight was strengthened with the recruitment of a local staff member in mid-2013. The country office is also embarking on the development of an improved governance framework based on the experiences of other international financial institutions and development cooperation partners.

V. Proposed amendments to the financing agreement

13. Once approved by the Executive Board, the financing agreement will be amended to take into account the additional loan. This financing completes the financing plan initially approved at programme design and, as noted, will not involve changes to the programme description, intervention area or target groups. No new expenditure category will be created.

VI. Legal instruments and authority

14. An amendment to the current financing agreement between the Socialist Republic of Viet Nam and IFAD will constitute the legal instrument for extending the proposed financing to the borrower.
15. The Socialist Republic of Viet Nam is empowered under its laws to receive financing from IFAD.
16. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on blend terms to the Socialist Republic of Viet Nam in an amount equivalent to seven million one hundred twenty thousand special drawing rights (SDR 7.12 million) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze
President