



Grant Assistance Report

Project Number: 41118
October 2007

Proposed Grant Assistance
Socialist Republic of Viet Nam: Thanh Hoa Province
Small Scale Infrastructure Investments and Services
in Urban and Peri-Urban Areas
(Financed by the Japan Fund for Poverty Reduction)

CURRENCY EQUIVALENTS

(as of 31 August 2007)

Currency Unit	–	dong (D)
D1.00	=	\$0.00006157
\$1.00	=	D16,239.50

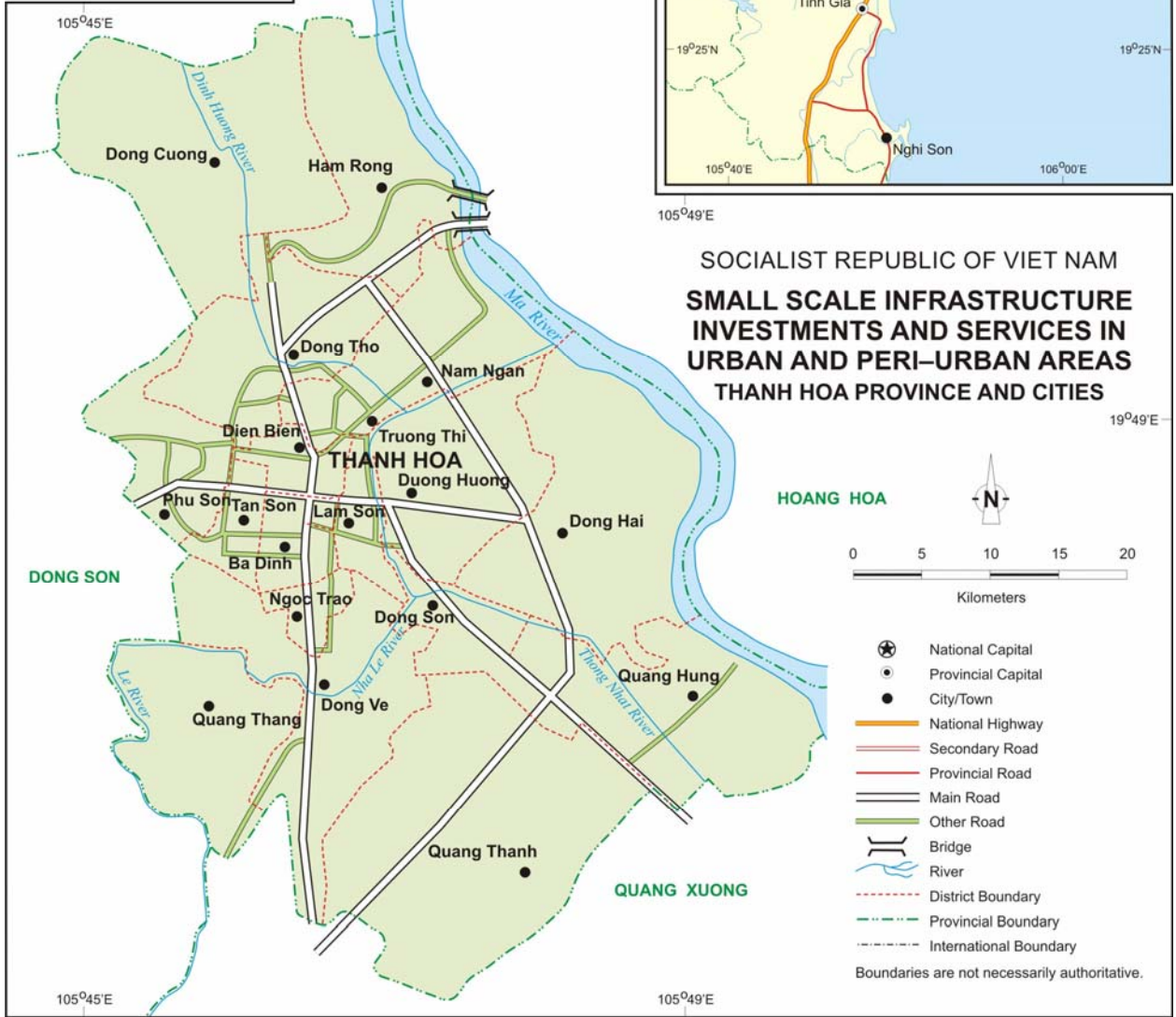
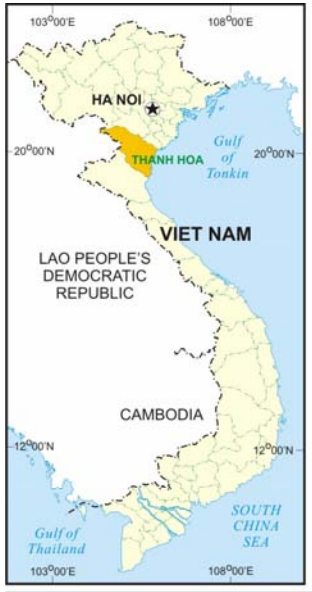
ABBREVIATIONS

ADB	–	Asian Development Bank
BCMB	–	block community management board
CCMB	–	commune community management board
CDS	–	country development strategy
CPC	–	city people's committee
CRUEIP	–	Central Region Urban Environmental Improvements Project
CSP	–	country strategy and program
EA	–	executing agency
GAC	–	grant appraisal committee
JFPR	–	Japan Fund for Poverty Reduction
JICA	–	Japan International Cooperation Agency
NGO	–	nongovernment organization
ODA	–	official development assistance
O&M	–	operation and maintenance
PPC	–	provincial people's committee
PPMU	–	provincial project management unit
PPTA	–	project preparatory technical assistance
SEDP	–	Socio-Economic Development Plan 2006–2010

NOTES

- (i) The fiscal year of the Government of Viet Nam ends on 31 December.
(ii) In this report, "\$" refers to US dollars.

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**JAPAN FUND FOR POVERTY REDUCTION (JFPR)
JFPR Grant Proposal**

I. Basic Data	
Name of Proposed Activity	Thanh Hoa Province Small Scale Infrastructure Investments and Services in Urban and Peri-Urban ¹ Areas
Country	Viet Nam
Grant Amount Requested	\$2,000,000
Project Duration	4 years
Regional Grant	<input type="radio"/> Yes / <input checked="" type="radio"/> No
Grant Type	<input checked="" type="radio"/> Project / <input type="radio"/> Capacity building

II. Grant Development Objectives and Expected Key Performance Indicators

<p>Grant Development Objectives: The project aims to improve the quality of life and livelihood of poor urban and peri-urban communities in targeted communes or wards of Thanh Hoa province by (i) improving access for the poor to key small-scale infrastructure assets and services; (ii) strengthening community capacity and participation in local development planning, implementation, operation, and maintenance through the creation or strengthening of local-level community management; and (iii) sustainably improving livelihoods through skills training of poor community members.</p>
<p>Expected Key Performance Indicators²</p> <ol style="list-style-type: none"> The number of ward-level and block-level infrastructure grants implemented by community management boards that reach their objective and are rated successful (i.e., identification, implementation, and operation is participatory; economic, social, and environmental impacts are positive, relevant, and sustainable). The number of poor households benefiting from community infrastructure improvements in water supply, sanitation, transportation, education infrastructure, and related services. A change in perception by stakeholders of the degree to which basic access to infrastructure presents an obstacle to economic growth (as measured through employment and businesses) in the project area. The number of jobs and businesses created or grown as a result of involvement in infrastructure project implementation and operation, or participation in relevant and quality vocational and business training from local providers. The degree to which community groups (i) control and actively participate in all stages of project development, (ii) receive full support from the local government to the community ownership process with no negative interference, and (iii) receive appropriate technical support and advice from ward and district government personnel.

III. Grant Categories of Expenditure, Amounts, and Percentage of Expenditures

Category	Amount of Grant Allocated in \$	Percentage of Expenditures
1. Civil Works ³ (small grants)	1,113,800	56%
2. Equipment and Supplies	24,750	1%
3. Training, Workshops, and Seminars	161,280	8%
4. Consulting Services	280,200	14%
5. Management and Coordination	160,560	8%
6. Other Project Inputs	74,500	4%
7. Contingency	184,910	9%
Total	2,000,000	100%

¹ Low-density housing and semi-urban development on the periphery of urban areas.

² Specific targets to be finalized during the first phase of project implementation.

³ Including about 5% management fee for ward and block level implementation units, named commune community management boards and block community management boards, to cover any transaction costs in grant implementation.

JAPAN FUND FOR POVERTY REDUCTION

JFPR Grant Proposal Background Information

A. Other Data	
Date of Submission of Application	1 June 2007
Project Officer	Jeanne Everett, Infrastructure Specialist, Southeast Asia Department Infrastructure Division (SEID)
Project Officer's Division, E-mail, Phone	Infrastructure Division, Southeast Asia Department jeverett@adb.org , +63 26325741
Other Staff Who Will Need Access to Edit/Review the Report	Januar Hakim, Social Sectors Division Hubert Jenny, SEID Emelda Cudilla, SEID
Sectors	Multisector (transport and communications; water supply, sanitation and waste management; health, nutrition, and social protection)
Subsectors	Roads and highways, integrated, early childhood development
Themes	Inclusive social development, sustainable economic growth, capacity development
Subthemes	Human development, developing urban areas, institutional development
Targeting Classification	Targeted intervention (geographic poverty)
Was JFPR Seed Money used to prepare this grant proposal?	Yes [x] No []
Have SRC comments been reflected in the proposal?	Yes [x] No []
Name of Associated ADB Financed Operation	Thanh Hoa City Comprehensive Socioeconomic Development Project (2007 PPTA and 2008 Loan)
Executing Agency	Thanh Hoa Provincial People's Committee
Grant Implementing Agency	Department of Planning and Investment within the Thanh Hoa Provincial People's Committee. Contact: Mr. Le The Bac, Vice Chairman Thanh Hoa Provincial People's Committee No 35 Le Loi Ave, Lam Son Quarter, Thanh Hoa City, Viet Nam Email: through Ms. Hang Thu, tranthuhang_1070@yahoo.com Tel: +84-37 857.797; Fax: +84-37 851 255

B. Details of the Proposed Grant

1. Description of the Components, Monitorable Deliverables/Outcomes, and Implementation Timetable

Component A	
Component Name	Community Mobilization, Capacity Development, and Training
Cost (\$)	\$453,680 (excluding contingency)
Component Description	Objective. The objective of this component is to promote improved governance and provide local governments and community groups with the capacity to implement decentralized planning. The component will promote better resource management, transparency, and community participation. This component will strengthen the capacity of

	<p>governmental and community structures in 8–10 communes or wards of Thanh Hoa City⁴ and neighboring districts through the provision of community mobilization, capacity-development, and training inputs.</p> <p>Activities</p> <ol style="list-style-type: none"> 1. Defining community mobilization methodology, establishment of tools and materials, and initial capacity development of local partners to provide training (training of trainers). 2. Project awareness campaign in selected wards. 3. Community mobilization and participation; participatory needs assessments. 4. Institutional strengthening and capacity development on project implementation for community groups and government. 5. Technical (operations and maintenance [O&M], and vocational), management, finance, and accounting skills training. <p>In the first 2 years of the Project, capacity-development activities will be geared (i) through training-of-trainers type interventions, to build the capacity of local partners to provide services at the community level, (ii) through capacity development to higher levels of government personnel, to provide ongoing assistance to lower levels of project implementation (for instance, district personnel will have the skills to assist ward-level commune community management boards [CCMBs], and CCMB members will be equipped with the skills and mandate to assist block community management boards [BCMBs]), and (iii) through capacity development and training of local community and government stakeholders, to directly support the implementation of infrastructure grant projects such as (i) community organization and mobilization; participatory planning processes; (ii) communication and facilitation; (iii) leadership; (iv) participatory community assessment and problem analysis; (v) bookkeeping and administration; (vi) program management and proposal development; (vii) contracting, bidding, and procurement; (viii) construction supervision and participatory monitoring and evaluation; (ix) O&M; and (x) basic environmental and social assessment and management (including indigenous people and resettlement when applicable).</p> <p>In the second half of the Project, training services (such as vocational training for construction and maintenance, management, and accounting) will continue to be provided by the Project to further strengthen the capacity of asset O&M providers. The midterm evaluation will evaluate the exact training needs of the community. It will also carefully assess the possibility and rationale for broadening the types of services provided by the Project in the second phase of implementation in selected wards to include more livelihood and income-generation oriented training such as vocational, entrepreneurial, financial, and business-management training. The rationale for introducing broader services would be to (i) maximize the economic impact of, and stimulate, the economic growth that is expected to take place in parallel with better access to the basic services which are necessary for conducting</p>
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⁴ Both communes and wards are the next administrative division below the district. The term commune applies to peri-urban and rural areas; the term ward is used in urban areas. Blocks are the next division below wards, and villages are the next division below communes.

	<p>economically productive activities; (ii) ensure the sustainability of the infrastructure investments by increasing the users' ability to pay for services and maintenance through training that will enable them to capture economic opportunities and increase their income; and (iii) meet a demand expressed by the community and fill a significant gap in services in order to support the Project's overall objective of improving the quality of life and livelihood of poor urban and peri-urban communities in targeted communes or wards of Thanh Hoa province.</p> <p>Recipients. Capacity development and training will be provided primarily to CCMBs, BCMBs, ward-level grant appraisal committees (GACs), targeted community members, and representatives from the ward or commune people's committee. CCMBs and BCMBs perform the role of local project implementation units. GACs are committees consisting of key technical members, most of whom are representatives of the community in charge of appraising ward- and block-level projects prior to final submission to ward governments for release of funds. GACs will also provide independent monitoring of infrastructure project implementation on behalf of the wider community.</p> <p>Provider. Technical inputs will be provided primarily by a consortium of international and national organizations including nongovernment organizations (NGOs), consultants and other technical support providers, mass organizations,⁵ training centers, and other appropriate local service providers, headed by a lead agency. The consortium will be selected on a competitive basis and will be responsible for reviewing materials from similar projects and designing quality training packages based on local training and capacity-development needs assessments and on project baseline study findings. The consortium will develop a project training strategy and plan that will be approved by the Asian Development Bank (ADB) and the provincial project management unit (PPMU) prior to the beginning of services. The plan will identify suitable local institutions with the mandate and capacity to sustainably assume training responsibilities. Likely local partners would include the provincial Women's Union, the Thanh Hoa Vocational Training Center, and province and district departments such as Construction or Transport. Representatives from local utility companies, universities, and other urban service providers may also be invited to support training activities and projects. Elements of terms of reference are included in Supplementary Appendix A.</p> <p>Additional Consulting Services. To meet the specific capacity-development needs of the provincial and district governments, additional consulting services will be contracted outside of the consortium to provide institutional strengthening to all levels of government. The consultant will closely cooperate with the lead agency for the consortium.</p>
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> 1. Community mobilization, capacity-development, and training consortium is appointed; lead agency and local (and possibly international) partners are identified. 2. A project awareness campaign is organized across wards selected

⁵ Viet Nam specific sociopolitical entities dating back to the country's independence such as the Farmer's Union, the Women's Union, the Youth Union, the Veteran's Association, and the Labour Union.

	under the Project to inform communities and identify block-level participation.
	<ol style="list-style-type: none"> 3. Representatives, local facilitators, and volunteers of project community groups, blocks, wards, or communes are trained in participatory processes, project mechanisms, proposal writing, and in planning, implementing, and monitoring small infrastructure grants. 4. GAC members and ward officials are trained in project implementation mechanisms, and in appraising and overseeing the implementation of small infrastructure grants. 5. A community handbook targeting community and local government and detailing the infrastructure development process, and project rules and regulations which will have been established through participatory processes, is prepared and distributed. 6. CCMBs and BCMBs are strengthened. 7. Community groups and block, ward, and commune leaders actively participate in regular group meetings. 8. Investment priority list at ward and block levels is formulated in a participatory manner and participation is documented through a clearly defined methodology (such as community voting). 9. Project proposals are prepared in accordance with project guidelines and submitted to ward approval authorities. 10. Participatory monitoring and evaluation methodology, procedures, instruments, and implementation schedule are established.
Implementation of Major Activities: Number of months for grant activities	<ol style="list-style-type: none"> 1. Activities 1–3: Year 1 2. Activity 4: Years 1–4 3. Activity 5: Years 1–2, training geared essentially to support infrastructure projects; years 2–3, broaden scope to include livelihood oriented trainings.

Component B	
Component Name	Community Infrastructure Grants
Cost (\$)	\$1,170,440 (excluding contingency)
Component Description	<p>Objective. This component provides funding resources for the management and implementation of small-scale, community-led infrastructure grants. Grants will be used to support infrastructure investments identified as a high priority during community assessments conducted during the design phase of this Project. These include, but are not limited to, (i) water supply, (ii) transportation infrastructure (including access roads and alleyways), (iii) sanitation (waste collection and treatment, waste water, drainage, sewage systems, and household sanitation), and (iv) neighborhood daycare and preschool facilities. Additional investments could be considered and added to this list based on the results of the project baseline assessment conducted during the first phase of the Project.</p> <p>Project Area. The project will be implemented in 5–6 selected wards or communes of Thanh Hoa City and another 3–4 wards or communes from three districts in key centers of economic growth outside of Thanh Hoa City (please refer to map of the project area). Further information on Thanh Hoa’s administrative structure and sample population sizes is provided in Supplementary Appendix B.</p>

	<p>Small Grant Structure. Small grants will be provided for both ward-level and block-level infrastructure projects. Once a ward is selected, a clear preallocation will be made between funding lines for each level. About 30% of the total grant budget will go to ward-level projects and 70% to block-level projects. A maximum of 10 wards are expected to be selected under the Project. Thus, each individual ward is expected to access about \$30,000 of grant funds over the life of the Project. Blocks would each have access to \$10,000 of the grant budget over the life of the Project, assuming an average of seven blocks per ward participate in the Project. The size and number of grants implemented in each block or ward would depend on the nature of projects identified by the community. If proper justification is provided, the maximum size of any single grant attributed to a ward or block could be equal to the total entitlement for that ward or block for the life of the Project, i.e., \$30,000 in the case of a ward or \$10,000 for a block. The specific grant structure will be reevaluated at midterm and adjusted, if necessary, based on impact and circumstances at the time.</p> <p>Activities</p> <ol style="list-style-type: none"> 1. The CCMBs and BCMBs manage community consultations and participatory project identification. CCMBs will formulate ward-level proposals and BCMBs will formulate block-level proposals, and these will include clear financing, implementation, and O&M plans. CCMBs and BCMBs will also (i) solicit external technical support as required to refine technical standards, (ii) mobilize the community, (iii) solicit government contributions, and (iv) submit proposals to the GACs for appraisal. 2. The GACs (composed of members of the ward or block and other key technical representatives) check the proposals submitted by CCMBs and BCMBs against preagreed approval criteria, invite review by seeking guidance from the PPMU financial management specialist and, if satisfactory, transmit proposals to ward people's committees⁶ for final approval and release of funds. 3. Once the ward people's committee (footnote 6) receives advice from the GAC, it releases funds to the CCMB or BCMB to finance the project in accordance with project guidelines. 4. The CCMBs contract, implement, and supervise the construction of ward-level infrastructure projects; BCMBs do the same for block-level projects. 5. The CCMBs and BCMBs conduct routine monitoring, management, and operation of the asset and collect user or maintenance fees to support O&M activities. Special O&M groups for ward and block levels may be established to perform regular maintenance for all assets in the community. 6. The GACs are consulted in all project monitoring and impact evaluation activities. 7. The CCMBs prepare and submit quarterly monitoring and progress reports to the PPMU. 8. The CCMBs provide management and technical support to BCMBs in overall project implementation. Technical support will also come
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⁶ "...or PPMU" in case flow of fund option 2 is selected during implementation, as described in Appendix 2.

	<p>from commune and district officials.</p> <p>9. The CCMBs and BCMBs facilitate and serve as direct contact points for the partners under the consortium for community mobilization, capacity development, and training to implement activities in the field.</p> <p>The institutional structure and grant approval mechanisms are further defined in Appendix 2 and Appendix 3.</p> <p>Grant Approval Criteria. Criteria will be finalized during the first phase of the implementation.⁷ However, some anticipated criteria for appraisal by the GAC and final approval by the ward or commune people's committees (see footnote 6) may include the following.</p> <ul style="list-style-type: none"> (i) Community consultation and participation was followed throughout project identification and proposal preparation process, and project identification reflects needs expressed by the community. (ii) Communities and local authorities provide appropriate levels of in-kind and cash contributions. Exact regulations for these requirements will be finalized in the first phase of project implementation, and will be tailored to the nature of the projects. Incentives will be put in place (such as a point allocation system for proposals, or a competitive grant selection process across blocks and possibly wards) to provide incentive for higher government and community contributions. Contribution requirements from communities may evolve over the project implementation period. As trust is built, communities experience the benefits of earlier projects and demonstrate a higher willingness and commitment to provide contributions. (iii) Budget, procurement, contracting procedures, implementation timelines, and roles and responsibilities are (a) clearly outlined in the proposal, (b) realistic given the local capacity, and (c) in accordance with government and ADB guidelines. (iv) The Project is technically sound and has no negative environmental and social impacts, or has only minor impacts which can be mitigated. (v) A satisfactory plan for funding and implementing ongoing O&M and responsibility allocations is clearly outlined, and commitment and endorsement by community members regarding local responsibility for O&M is formally documented. (vi) The number of direct and indirect project beneficiaries is indicated and meets minimum criteria. (vii) The proportion of direct project beneficiaries who are poor is indicated and meets minimum criteria. (viii) Explicit inclusive measures to ensure the participation and equal or greater benefit enjoyed by the poor, women, and other marginalized groups within the community are included. (ix) The nature of the proposed infrastructure investment falls within eligible categories established by the Project and has
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⁷ When finalizing the grant approval criteria, reference will be made to ADB PAI 5.12 on Community Participation in Procurement, which provides suggestions on grant approval criteria and other related procedures.

	<p>demonstrable social, economic, or environmental benefits.</p> <p>Guarantees. Noncompliance with community consultation procedures, community contribution requirements, or poverty targeting requirements will result in temporary suspension of project funding for that site. The community contribution system will be closely monitored to ensure that (i) it does not make the poor even poorer, (ii) voluntary land contributions from poor households are excluded, and (iii) exceptions for the very poorest are clearly defined. The contribution mechanism will be developed and refined during project implementation using a consultation process with the community.</p>
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> 1. Infrastructure investment proposals are prepared by CCMBs and BCMBs, appraised, and approved. <ul style="list-style-type: none"> - Number and budget size of proposals approved - Category and scale of assets covered under the proposals 2. BCMBs and CCMBs implement and report on implementation of investment projects including: <ol style="list-style-type: none"> (i) collection of community contribution, (ii) procurement, (iii) monitoring and implementation of construction, (iv) financial management, (v) ongoing O&M in accordance with plan, and (vi) monitoring and evaluation, impact evaluation, and mitigation. 3. Small-scale ward-level and block-level infrastructure projects are constructed in the four general categories: water supply, sanitation, transport infrastructure, and early childhood care facilities. 4. Economic, social, and environmental impact of individual projects are evaluated and are positive.
Implementation of Major Activities: Number of months for grant activities	Community infrastructure grant identification, preparation, and implementation activities will last 3 years, starting in the second half of year 1 and continuing until the first half of year 4.

Component C	
Component Name	Project Management, Monitoring, and Audit
Cost (\$)	\$190,970 (excluding contingency)
Component Description	<p>This component will ensure effective overall management of the Project, including reporting, monitoring and evaluation, coordination with key partners and stakeholders, and auditing of project funds use.</p> <p>Activities</p> <ol style="list-style-type: none"> 1. Project Management: <ol style="list-style-type: none"> 1.1 The Thanh Hoa provincial people's committee (PPC) establishes a project steering committee to guide the Project and ensure its integration and coordination with other ADB-funded projects, national and provincial programs, the provincial 5-year Socio-Economic Development Plan (SEDP), and other related official development assistance (ODA) activities. 1.2 The Thanh Hoa PPC establishes a PPMU to oversee project implementation within the Department of Planning and Investment under the direction of a vice-director.

	<p>1.3 The Thanh Hoa PPC appoints management, technical, and administrative personnel to the PPMU.</p> <p>1.4 The PPMU finalizes project design, implementation guidelines through consultative processes (including project area and subproject selection criteria) and arrangements, and prepares an operations manual.</p> <p>2. Coordination:</p> <p>2.1 The PPMU will coordinate and ensure close links with water, electricity, waste disposal, vocational training, micro-finance, and other key service providers operating at provincial and district level to support project implementation and negotiate service-provision agreements and memoranda of understanding as required. The PPMU will brief these partners and ensure their proper understanding of the pro-poor nature of requested interventions.</p> <p>2.2 The PPMU will coordinate with the project institutional consultant and capacity-development provider to ensure (i) relevance (the specific nature and timing needs of local government and communities for capacity development and training is clearly expressed to the capacity-development providers), (ii) sustainability (the provision for government representatives [PPMU, district, and ward levels] to be given the skills and mandate to play an active part in the provision of capacity development and technical support for lower levels of project implementation in the long term), and (iii) the overall effective provision of external technical inputs to project beneficiaries.</p> <p>2.3 The PPMU commissions intervention of district government representatives and technical personnel to provide technical support to ward- and block-level project preparation, implementation, and evaluation activities.</p> <p>3. Project Planning, Reporting, and Evaluation:</p> <p>3.1 The PPMU commissions initial baseline study in first half of year 1.</p> <p>3.2 The PPMU, in collaboration with relevant district people's committees, conducts selection of wards or communes to participate in the Project based on criteria set at beginning of implementation and shared with stakeholders.</p> <p>3.3 Once selected, wards are invited to formalize or strengthen CCMB-type structures that will serve as ward- or commune-level project implementation units. This activity will be done in conjunction with community mobilization and capacity-development activities under component A.</p> <p>3.4 Selected ward governments and communities jointly endorse the appointment of GAC members, to be derived from existing community supervisory board structures under Vietnamese regulations and including any other functional requirement under the Project. This activity will be done in conjunction with community mobilization and capacity-development activities under component A.</p> <p>3.5 The PPMU and ward or commune people's committees conduct project information campaign in collaboration with the community mobilization, capacity-development, and training consortium to</p>
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	<p>invite blocks within selected wards to formally demonstrate interest in, justification for, and commitment to, participation in the Project on a voluntary basis, and formalize BCMB structures through participatory processes. This activity will be done in conjunction with community mobilization and capacity-development activities under component A.</p> <p>3.6 The PPMU initiates a capacity self-assessment and action plan to be undertaken primarily by ward and block levels of project implementation. The results are communicated to the consortium to provide guidance in further refining of capacity-development and training activities to be provided under the Project.</p> <p>3.7 The PPMU prepares an initial detailed implementation plan using the results of baseline study.</p> <p>3.8 The PPMU establishes an O&M working group to develop a process for the planning of O&M including financial arrangements and develops rules, regulations, responsibilities, and procedures for districts, wards, and blocks to finance and conduct O&M in a practical and sustainable way and initiate supporting pilot O&M activities.</p> <p>3.9 The PPMU conducts monitoring and general oversight of commune or ward activities and the use of funds to ensure consistent application of project norms, procedures, and criteria.</p> <p>3.10 CCMBs submit quarterly monitoring, progress reports, and semiannual financial reports to the PPMU for consolidation and sharing with the project steering committee.</p> <p>3.11 The PPMU coordinates and consolidates project annual plans and reports as required by ADB. Monitoring reports include evaluation of performance of capacity-development services provider.</p> <p>3.12 During annual meetings and at any other occasion in between, key project stakeholders develop annual plans through a participatory process and share lessons learned and best practices between different project sites.</p> <p>3.13 The PPMU commissions annual external financial audit and midterm evaluation activities including impact evaluations and technical audit. To assist consistency of data gathering, the midterm evaluation may be conducted by the same service provider as for the baseline assessment.</p> <p>3.14 The PPMU commissions an end-of-project impact evaluation.</p> <p>4. Learning, Dissemination, and Completion:</p> <p>4.1 The PPMU organizes study visits to neighboring provinces during the initial project planning and establishment phase for key leaders and decision makers at all levels to expose them to successfully decentralized community-development programs.</p> <p>4.2 The PPMU documents project experience and results on innovative decentralization and community supervision and participation in support of the Government's grassroots democracy policies, and disseminates this information to leaders and decision makers at all levels across all districts of Thanh Hoa province.</p> <p>4.3 The PPMU organizes a province-wide project completion and dissemination workshop to synthesize results and promote the replication of successful approaches. Depending on circumstances, the PPMU will also organize dissemination</p>
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	<p>activities outside of Thanh Hoa province.</p> <p>4.4 The PPMU facilitates handover of assets from the Project to the Executing Agency upon project completion.</p> <p>Selection Criteria for Inclusion of Ward or Commune in Project Area</p> <p>Criteria will be finalized during the first phase of the implementation. However, some anticipated criteria may include the following.</p> <p>(i) Strong synergies with the larger project preparatory technical assistance (PPTA) project and location within an area with high potential for economic growth.</p> <p>(ii) High poverty rates.</p> <p>(iii) Significant gaps in basic infrastructure and poor living conditions.</p>
Monitorable Deliverables/Outputs	<ol style="list-style-type: none"> 1. The PPMU, GACs, CCMBs, and BCMBs are established or strengthened, are appointed staff as per project guidelines, and are functional. 2. Project implementation manual is prepared. 3. Eight to ten participating wards are selected based on agreed criteria and participating blocks are selected on a voluntary basis. 4. Timely submission of project reports, including baseline, midterm, final project assessment, quarterly progress reports, and semiannual financial reports by CCMBs and PPMU providing information on activities mentioned above. 5. Project completion workshop is held.
Implementation of Major Activities: Number of months for grant activities	<ol style="list-style-type: none"> 1. Establish PPMU and recruit staff (months 1–3). 2. Conduct baseline study and capacity self-assessments (month 3). 3. Select project districts and communes or wards (months 3–4). 4. Establish CCMBs and strengthen or formalize GACs based on existing community supervisory board structure in selected communes or wards (months 5–7). 5. Establish BCMBs (months 8–10). 6. Organize quarterly steering committee and annual stakeholder meetings (years 1–4). 7. Conduct bidding and selection for annual audits (months 10, 22, 34, and 46). 8. Conduct midterm evaluation (end year 2). 9. Conduct final impact assessment (end year 4).

2. Financing Plan for Proposed Grant to be Supported by JFPR

Funding Source	Amount (\$)
JFPR-	\$2,000,000
Government	\$250,000
Community	\$150,000
Total	\$2,400,000

3. Background

1. Thanh Hoa province, the northernmost province of Viet Nam's central coastal provinces, has a population of 3.7 million people of which 34% are poor (with some districts having poverty levels of up to 57%). While many development projects have directly targeted the rural poor in Thanh Hoa province, none have sought to address poverty through drawing on the economic

potential that may exist in key centers such as the provincial capital, a deep sea port, the Economic Zone of Nghi Son, and various tourist attractions. Thanh Hoa has a strong potential for regional socioeconomic development and the capital city (Thanh Hoa City), with a population of 300,000, is strategically positioned as the regional hub. Thanh Hoa City is located 200 kilometers (km) south of Hanoi, along National Highway 1, and is connected to the Lao People's Democratic Republic border by National Road 217. It has the potential to drive the economy of the province, however various constraints inhibit the full realization of Thanh Hoa City's local and regional economic development potential. Its aging environmental and economic infrastructure and aging city and intercity road connections are nonexistent or in dire need of rehabilitation and expansion. ADB has undertaken to provide support for the comprehensive socioeconomic development of small- and medium-sized cities such as Thanh Hoa in order to strengthen development links with their rural hinterlands and to reduce environmental pressures on large cities. ADB has approved a PPTA in October 2007 (Preparing the Thanh Hoa City Comprehensive Socioeconomic Improvement Project) that will focus on preparing provincial and city-level strategic infrastructure investments in multiple sectors. The investments will focus on primary medium-to-large scale strategic infrastructure investments, guided by a development strategy for the city or province to be developed along with the PPTA.

2. In addition, in recent years the Government of Viet Nam has embarked on serious decentralization of government planning, budgeting, and decision making, and has concurrently pursued stronger community participation in governance through its Grassroots Democracy policies. Decentralization is now one of the core features of Viet Nam's SEDP 2006–2010 and efforts are beginning to address decentralization from provincial to local level in addition to the more involved decentralization processes from central to province level initiated during the previous SEDP. However, localized decentralization is still in its infancy in much of Viet Nam and is constrained by cautious and conservative provincial leaders as well as by the limited management capacity of district and commune authorities in most of the country. At a national level, the Project's proposed implementation and financial arrangements are in accord with Decree 131/2006/ND-CP and Circular 03/2007/TT-BKH on the management and utilization of ODA. This legislation (i) promotes decentralization to provincial level, (ii) promotes improved coordination of programs and projects, and (iii) clarifies the roles and responsibilities of the project and investment owner. The objective of the decree is to promote the use of government systems for ODA disbursement, and simplify the organizational structures used for implementation.

3. The different contextual elements outlined above provide the opportunity to promote participatory development targeted on the urban poor population, which, although of smaller size than the rural poor, not only appears to have been forgotten by many recent government and donor interventions but also can provide a hub for the migrating rural poor to be ultimately absorbed into the growing economy. Extensive field consultations, the findings of which are summarized in Supplementary Appendix B, have shown unexpected gaps in access by marginalized urban and peri-urban poor to basic transportation, water supply, and sanitation infrastructure and services. The proposed grant Project will help seize the renewed growth opportunities provided by the PPTA and ensuing loan project. It will also assist in benefit being gained from the opportunity to implement decentralized planning policies to bridge the infrastructure gap and, indirectly, the economic gap, between centrally driven urban service networks and the marginalized urban poor through a community-driven development approach.

4. Innovation

4. The project will provide the opportunity to implement innovative participatory approaches to identifying, implementing, and operating small-scale urban infrastructure in Viet Nam. Although decentralization and bottom-up planning principles have gradually been more clearly articulated in government policies, little is being done in Thanh Hoa and in many other parts of Viet Nam to put those principles into practice. This is primarily due to (i) a lack of local government commitment to this new approach, (ii) a lack of clear guidelines on how to practically apply the policy, and (iii) limited community capacity. The Project will (i) provide a venue from which those principles and structures can develop into working partnerships between community and local government, and (ii) serve as a facilitator by providing the community and local governments with not just funds but also with needed technical support and guidance so that they can effectively carry out new roles under recent decentralization and grassroots democracy policy frameworks. The role of the PPC will be to create the enabling environment so that these principles and structures can be implemented.

5. While the JFPR project will address urban infrastructure gaps at the tertiary level, the PPTA and ensuing loan will focus on secondary and primary urban infrastructure, both covering similar core sectors such as transportation or water supply and sanitation. By maintaining close coordination, the two projects will (i) jointly help address systemic issues inherent in the provision of urban infrastructure services in Thanh Hoa, (ii) ensure that benefits include satisfying the unmet demands of the marginalized urban poor, and (iii) ensure that the trickle-down effect between midlevel strategic and economic investments undertaken under the loan Project and poor populations does take place. For instance, the JFPR project areas will be strategically selected where potential centers of economic growth and comparative economic advantages have been identified under the City and Province Development Strategy developed under the umbrella of the PPTA. In this way, the combined small-scale infrastructure investments and genuine economic opportunities can translate into an increase in the sustained economic and social wellbeing of the population. Similarly, the JFPR project may help address demand-side issues of water supply connections and management at the ward level by fostering solutions to increase affordability of connections and bill payment practices; the PPTA will help to develop incentive structures within water supply companies to better service peri-urban populations.

5. Sustainability

6. **Financial Sustainability.** The Project will have the multiple mandate of (i) facilitating the adoption of low-cost, community-based solutions for the construction and O&M of small-scale infrastructure investments; (ii) providing an environment more conducive to undertaking income generation activities through the availability of basic services that will reduce transaction costs associated with production and service activities (including water and transport); (iii) facilitating the establishment of responsibilities for financing O&M for each investment; and (iv) generally extending vocational, financial, accounting, and management training activities that will indirectly further support employment and income generation activities. The combined result of these interventions is expected to improve the overall affordability of, and the ongoing ability to generate revenues from, invested assets and thus improve the financial sustainability of infrastructure assets.

7. **Institutional Sustainability.** Choosing management and institutional systems that are as much as possible integrated into documented, if not materialized, government and community entities and policies will help to (i) turn those principles into reality, and (ii) further institutionalize tested partnership mechanisms between local governments, communities, and other partners. Overall, it will help consolidate the institutional sustainability of the Project and

make the concept replicable, which will allow upscaling outside the immediate scope of the Project. Lessons learned from the Project could contribute to the development of a model for community-led and participatory infrastructure planning in Viet Nam. In addition, during the first 6 months of the Project and as soon as project wards have been selected, the PPMU will undertake a capacity self-assessment and action plan to be conducted across all levels of project implementation. This assessment will refine the capacity-development needs required to eliminate long-term dependence of direct project stakeholders on external assistance for the implementation of community-driven infrastructure development projects (i.e., community mobilization, project design and preparation, project appraisal, implementation, and monitoring). The result of this assessment will be used to further refine specific interventions under the terms of reference of the community mobilization, capacity-development, and training agency (component A) and ensure that by the end of the Project government representatives (PPMU, district, and ward levels) will be given the skills and mandate to play an active part in the provision of capacity development and technical support to lower levels of government and community groups in supporting the future development of community-driven infrastructure projects.

8. **Technical Sustainability.** The concept of community-based ownership of assets and thus of O&M will be facilitated in various forms at all stages of the Project through clear project guidelines, proposal preparation and approval procedures, supporting technical training, and coordination and pilot O&M activities initiated by an O&M working group established within the PPMU. A more detailed description of the participatory O&M practices that will be promoted under the project is in Supplementary Appendix C. The O&M system that will be promoted will aim to clarify the division of responsibilities alignment with appropriate incentives, and reduce dependence and reliance on uncontrollable factors.

6. Participatory Approach

9. A participatory development approach is contained in the Government policy framework, thus increasing the likelihood that any participatory methodologies adopted under the JFPR project will be sustained beyond the life of the Project. Key Government policies include the Grassroots Democracy Decree 79/ND-CP, issued in 2003, which is aimed at increasing community participation in local decision making, especially planning and budgeting. The decree provides a legal instrument for community priorities to be presented to local decision makers for inclusion in the planning process, and increases the responsibility of commune and ward administrations to use democratic principles in decision making. On 20 April 2007, the National Assembly issued Ordinance 34/PL-UBTVQH11 on improving the implementation of grassroots democracy at commune, ward, village, or block levels. The ordinance clarifies the roles and responsibilities of leaders and civil servants at commune or ward level, and establishes a mechanism that clearly outlines the role of the community in information flows, decision making, and supervision. In 2005, to improve the role of the community in decisions about infrastructure selection, implementation, supervision, and monitoring, the prime minister issued Decision 80 on community supervision boards. However, the impact of the decision depends on the capacity and political will of officials and institutional strengthening at commune or ward level. The Vietnamese Fatherland Front⁸ has a key role in establishing and monitoring the community supervisory boards.

⁸ The Fatherland Front is Viet Nam's principal mass organization. It seeks to implement the political, economic, and social policies of the Communist Party.

10. A participatory approach was used for the design of the JFPR project. Key findings from extensive field consultations are included in Supplementary Appendix B. Using this approach helps to ensure that plans reflect community priorities and demands, thus consolidating the local ownership of investments. During the implementation of the Project, key principles will include community participation in (i) the selection of subprojects, (ii) implementation, and (iii) supervision during the construction of infrastructure. Specifically, the community will be provided with awareness-raising information on their role in project activities, and CCMBs and BCMBs will be provided with capacity development on technical and administrative aspects of construction. GACs, which are the key authority in appraising and monitoring the Project, will simply be an extended form of community supervisory board, forming an independent representation from the community. Before implementation, all service providers and contractors to the commune, ward, village, or block will be provided with information to help clarify the relationship between the community and the service provider. This is to ensure the role of the community is understood and respected. During the implementation of the Project, a priority will be ensuring that local households and community groups access employment opportunities. The community will monitor the contractors to ensure the quality of construction and that it is in accordance with the agreed design, and will have direct access to the GAC to voice any concerns or complaints. Training will be provided on an ongoing basis to ensure that a change in attitude of officials and empowerment of village leaders take place over time.

11. Presently, communes, wards, villages, and blocks use grassroots democracy to develop annual and 5-year SEDPs. Grassroots democracy provides a framework and process for identifying community priorities for state and community investment. The Project will utilize the same framework and process to identify key priorities to be considered for project support. This planning process will ensure that all households, especially disadvantaged groups, participate in meetings to discuss and decide priorities. Households will receive information about technical options, management models, and financial arrangements during the decision-making process. Villages and blocks will use transparent criteria to prepare a list of priorities for submission to communes and wards. CCMBs will develop an investment plan and households will have access to this plan and provide feedback. CCMBs will use this feedback to revise the investment plan before submission to the commune or ward people's committee. Once the commune or ward people's committee approves the plan it will be submitted to the district people's committee and the PPMU. Reactions from these stakeholders to the investment plans will be provided to communes and wards so that they can improve performance.

12. In order to further strengthen civil society participation in infrastructure planning and implementation activities, under component A community mobilization, capacity-development, and training activities will be contracted directly by ADB through a consortium of national and international organizations including NGOs, mass organizations, consultants and other technical support providers, and other local organizations. The Women's Union will be in the best position to conduct outreach activities at the community level to improve participation. Local partners will be given initial capacity development to improve their ability to implement activities under the Project.

Primary Beneficiaries and Other Affected Groups and Relevant Description	Other Key Stakeholders and Brief Description
1. Block and ward residents are the primary beneficiaries of the proposed projects. Over 10% of beneficiaries in participating wards of Thanh Hoa City, and between 20% and 40% in neighboring districts, are considered poor. Many lack access to basic infrastructure. For instance,	1. The Thanh Hoa PPC (i) is the Executing Agency for the Project, (ii) fully supports proposed project interventions to meet the needs of urban and peri-urban poor in Thanh Hoa province, and (iii) supports decentralization and participatory development practices in line with government

Primary Beneficiaries and Other Affected Groups and Relevant Description	Other Key Stakeholders and Brief Description
<p>between 40% and 100% of households in urban and peri-urban communities visited during consultation lacked household water supply connections to the central network.</p>	<p>policies.</p>
<p>2. Key community leaders and representatives, and members of GACs, BCMBs, and CCMBs, will acquire skills in leadership, implementation of community-driven approaches, and preparation, implementation, operation, and monitoring of small infrastructure investments.</p> <p>3. Ward or commune level people’s committees will be provided with the tools and capacity to implement government decentralization policies and community-driven infrastructure development approaches.</p> <p>4. Provincial partners under the capacity-development and training consortium (mass organizations and vocational training centers) will be provided with training-of-trainers and additional capacity development from external agencies in the first phase of the Project in order to improve the quality and accessibility of their services to urban and peri-urban populations.</p>	<p>2. District governments, including Thanh Hoa City people’s committee (CPC), will provide coordination support and technical support to CCMBs and ward or commune people’s committees in contracting and construction of projects.</p> <p>3. Urban service providers and utilities (including the Thanh Hoa Water Supply Company and Thanh Hoa Urban Environment and Construction Company) will be solicited to provide technical support in planning and implementation of relevant projects and to facilitate integration of tertiary connections into primary and secondary urban service networks.</p> <p>4. International and national capacity-development and training organizations, such as NGOs (including Japanese NGOs) and training providers based in Hanoi, will be eligible to participate in a consortium and submit a bid to the Project in response to the Project’s request for proposals for the implementation of component A (community mobilization, capacity development, and training). A list of sample potential partners is in Supplementary Appendix D.</p>

7. Coordination

13. The Fact-Finding Mission maintained close collaboration with the Japanese Embassy and held a meeting with Mr. Tetsuro Ikeda, First Secretary, on 5 February 2007, and successive meetings with Mr. Okada, First Secretary specifically in charge of the urban sector, on 9 March and 20 April 2007. The reaction of the representatives to the project concept was positive. Mr. Okada supported the concept of the JFPR project in the context of ADB’s 2007 PPTA and anticipated 2008 loan for the province and was given a copy of the Memorandum of Understanding of the PPTA fact-finding mission which was signed with the Thanh Hoa PPC on 31 January 2007 and which makes reference to the JFPR grant project. He specified that there would be no risk of conflict with Japan International Cooperation Agency (JICA) funded activities since JICA is not financing any project in Thanh Hoa province. This information was also confirmed from meetings held with JICA on 20 April 2007.⁹ Mr. Okada sought clarification concerning the reason for selecting Thanh Hoa and acknowledged that JBIC has financed industrial activities in Thanh Hoa (thermal power generation) which are consistent with the

⁹ JICA will be sponsoring a human-resources development program for the urban development sector through the National Institute for Urban and Rural Planning starting at the end of 2007. It will adopt a participatory and comprehensive urban development approach which might have some relevance to institutional strengthening activities ADB will be undertaking under the JFPR project and the PPTA project and loan for Thanh Hoa.

strategy of the proposed ADB project.¹⁰ On 21 May 2007, a copy of a letter of endorsement for the JFPR project submitted by the Thanh Hoa PPC was forwarded onto Mr. Okada, along with a copy of the aide memoire and a preliminary draft of the grant proposal. The mission also sought advice from the various Japanese representatives on identifying potential partners (including Japanese NGOs active in Viet Nam) for the community mobilization, capacity-development, and training components. In particular, it was noted that Save the Children Japan had worked in Thanh Hoa in the past, including on microfinance activities, and the International Life Sciences Institute Japan has relevant experience implementing an urban water supply and sanitation project in Hanoi.

14. ADB is currently implementing the Loan 2034-VIE(SF), which includes some limited investments in tertiary-level waste collection (the provision of dust bins and push carts) and sanitation (revolving fund for household based sanitation and public awareness for community sanitation) in Thanh Hoa City.¹¹ In designing its interventions and selecting project wards, the JFPR project will avoid any potential overlap and adjust the types of project investments and targeting to ensure the two projects are complementary.

15. The Thanh Hoa PPC confirmed that no other donor-funded projects are currently being implemented in urban areas of Thanh Hoa except for Loan 2034-VIE(SF), and some microfinance revolving-fund activities implemented through the Women's Union. Therefore, the needs of the urban poor in Thanh Hoa province are not being adequately addressed. For instance, multiple-donor funded (including the World Bank) Program 135 supports small-scale infrastructure in remote areas, while the World Bank Project 257 provides funding for infrastructure (road and schools in particular) in coastal areas. Canadian International Development Agency (CIDA) is also sponsoring a project to support small-scale infrastructure (roads and schools) in rural areas. Finally, the Swedish government, German government (Kreditanstalt für Wiederaufbau [KfW]) and Danish government are implementing projects which are all in rural areas of Thanh Hoa. In some cases the institutional arrangement and small investment approval processes are similar to those proposed under the JFPR project, and use extensive community participation. Some lessons learned from these projects, such as small grant approval processes, are being incorporated into the design of the JFPR project.

8. Detailed Cost Table

16. Please refer to Appendix 1 for the detailed cost estimates, and Appendix 2 for the Fund Flow Diagram and Narrative on Financial Management.

C. Linkage to ADB Strategy and ADB-Financed Operations

1. Linkage to ADB Strategy

17. The proposed grant fits with the country strategy and program (CSP) objectives outlined below, as it is aimed at ensuring that the urban poor are included in, and benefit from, economic growth and economic-growth-oriented infrastructure projects through promoting decentralized and participatory processes. As per paragraph 145 of the CSP: "ADB will focus on targeted

¹⁰ JBIC is also implementing the fourth phase of a small project focusing on infrastructure (water supply, transportation, irrigation, and electricity) in district centers other than Thanh Hoa City or districts targeted under the Project.

¹¹ Wards and communes covered under the Project are all in Thanh Hoa City District and include 8 out of the 18 wards and communes of Thanh Hoa City: Ba Dinh, Dien Bien, Dong Hai, Dong Huong, Dong Tho, Dong Ve, Lam Son, Nam Ngan, Ngoc Trao, Tan Son, Truong Thi wards and communes.

infrastructure investments in small and medium-sized towns in central regions and along Greater Mekong Subregion economic corridors. The CSP will also help promote decentralized urban governance and capacity building, reforms for improved management and cost recovery of urban services, and environmental improvements. ADB's support will include the comprehensive socioeconomic development of selected small and medium-sized cities such as TH [Thanh Hoa] to strengthen development links with their rural hinterlands and to reduce environmental pressures on large cities".

Document	Document Number	Date of Last Discussion	Objectives
Country Strategy and Program 2007–10		September 2006	The key development objectives of the CSP are (i) business-led pro-poor economic growth; (ii) social equity and balanced development; (iii) environmental management.
Socio-Economic Development Plan of Viet Nam (2006–2010)		June 2006	The SEDP has been accepted as the Poverty Reduction Strategy Paper by the World Bank, ADB, and the International Monetary Fund. The CSP is based on the SEDP, the key objectives of which are (i) to accelerate economic growth for sustained development; (ii) to create foundations for industrialization and modernization; and (iii) to improve the material, cultural, and spiritual life of the people.
ADB Medium Term Strategy II (2006–2008)		May 2006	The Medium Term Strategy II has prioritized the urban infrastructure sector (water supply, sanitation, waste management, and urban transport) as a priority sector of intervention for ADB. The prioritization was done based on several factors: (i) ADB's successes and comparative advantages, (ii) the Government's needs underlined by continued commitment to policy and institutional reforms, (iii) bottlenecks that hamper the creation of an enabling environment for business-led inclusive growth and job creation, (iv) new opportunities and challenges, and (v) evidence of a financing gap that cannot be met by other financing.

2. Linkage to Specific ADB-Financed Operation

Project Name	PPTA: VIE: Preparing the Thanh Hoa City Comprehensive Socioeconomic Development Project
Project Number	40355-01
Date of Board Approval	1 October 2007
Loan Amount (\$ million)	Ensuing loan for 2008: \$30 million to \$80 million.

3. Development Objective of the Associated ADB-Financed Operation

18. The PPTA project will assist Thanh Hoa City in the identification and preparation of bankable investment proposals, some of which are to be financed by ADB, and which will provide the Thanh Hoa PPC and CPC with the necessary competitive advantage for regional economic development, based on industrial clusters and tourism. Ultimately, the project will assist Thanh Hoa City in becoming a competitive, bankable, livable, and sustainable city which generates further socioeconomic development for Thanh Hoa province. Practically, the PPTA will advise the Thanh Hoa PPC and CPC on (i) the final drafting of the City Master Plan to

ensure provincial and regional economic development; (ii) the prioritizing of investment proposals for the city and the province based on their impacts on economic growth; and (iii) financing investment proposals through ODA with donors, private sector participation, and strengthening of small and medium enterprises.

19. The PPTA will also be supplemented by a Cities Alliance funded grant project, implemented by the United Nations Human Settlements Programme (UN-HABITAT) and supported by ADB to develop a city development strategy (CDS) for Thanh Hoa City in a regional development context. The CDS would focus on strategic aspects of the Socio-Economic Development Plan of the city and the province of Thanh Hoa. The CDS will include (i) an initial socioeconomic status report of the province and city, (ii) a strategic framework for urban development, and (iii) action plans (including for capacity building) for key sectors of the economy of Thanh Hoa City and province for stakeholders from the public and private sectors and civil society.

20. The proposed JFPR grant project will complement the investments examined under the PPTA by (i) helping to address the physical pressure of rural-to-urban migration on marginalized neighborhoods of the growing economic centers; and (ii) facilitating investments in smaller scale community or privately owned infrastructure assets and services in poor urban and peri-urban areas. By bridging the infrastructure gap and, through greater productivity, the economic gap between the growing economy and the urban poor, this grant will help maximize the overall poverty and socioeconomic impact of the larger investment project. The JFPR project will draw on the findings of the city development strategy and will be highly integrated with the investment plan—both developed under the PPTA and supporting studies.

4. Main Components of the Associated ADB-Financed Operation

No.	Component Name	Brief Description
1.	Planning	<p>1.1 Conduct an assessment of existing key infrastructure assets in Thanh Hoa City and province.</p> <p>1.2 Define the scope of the proposed project by highlighting the potential of various development sectors, including (but not limited to) tourism, small and medium enterprises, industry and manufacturing, and trade, and draw a list of strategic investments in infrastructure taking into consideration human-resource development requirements.</p> <p>1.3 Review the relevance of, and prioritize, the proposed investment proposals according to project selection criteria.</p> <p>1.4 Bring the selected investment proposals to a prefeasibility level.</p>
2.	Cultural Heritage and Tourism	A separate business plan for the tourism sector will identify tourism assets in the province, infrastructure gaps, potential demand, and opportunities, and propose possible enhancements and a financing plan maximizing private-sector participation (PSP) and public-private partnerships.
3.	Project Investment	This part will consist of preparing a series of project investment proposals (for feasibility stage) for opportunities identified during the planning phase of the PPTA project. The proposals will include environmental and social safeguards and financial, economic, and institutional analyses to meet ADB requirements for loan appraisal. A socioeconomic survey will be conducted under this phase.
4.	Private Sector Initiative Plan	This component will look at alternative forms and sources of financing from the private sector, including ADB's Private Sector Operations Department and domestic and foreign banks, for the

No.	Component Name	Brief Description
		remaining project components not financed by ADB. The plan will be designed to maximize PSP in project financing or cofinancing, and in the provision and delivery of urban services. Specifically, the plan will look at institutional aspects to create an enabling environment for PSP.

5. Rationale for Grant Funding versus ADB Lending

21. The PPTA and ensuing loan, which the JFPR project will be associated with, will address needs for better primary and secondary urban infrastructure and address supply-side gaps. The JFPR project, on the other hand, will address tertiary infrastructure more commonly sponsored by end-users in targeted poor urban and peri-urban areas. In other words, the JFPR will strengthen demand-side management of urban infrastructure in areas where communities do not currently have the power or capacity to implement and finance those assets. The grant funds will provide the best leverage to stimulate community-driven practices where assets are put into the ownership of, and are managed by, communities and are not controlled by medium-level government entities. The funds will also be used as an incentive for (i) communities and local governments to provide matching contributions, and (ii) pilot mechanisms where tertiary investments are financed and managed by local communities and governments.

22. Despite supporting regulations and decentralization policies, field observations have shown that political will and local government budgets are not substantial enough to meet the construction and O&M needs of tertiary, commonly user-driven, infrastructure. By involving communities in the financing and implementation of assets, a degree of private-sector participation is being introduced to more effectively address those gaps in the long term. Regular loan funding would (i) not allow the same level of empowerment of communities in project development, (ii) be subject to greater political pressure from the government executing and implementing agencies, and (iii) ultimately constrain the impact of the Project and the level of political will that may be generated as an outcome of participatory processes.

23. The grant will also allow the direct contracting by ADB of a consortium of NGOs and other partners to address the community mobilization, capacity development, and training critically needed to bring local community institutional and technical capacity up to the level required to successfully implement the project mechanisms. Only once stakeholders are trained and demonstrate the capacity to adopt innovative methodologies will (i) pilot projects be able to serve as examples for replication across other districts and provinces, and (ii) the political will be reinforced to allow long-term regular public budget allocations for supporting the government portion of the financing. Community-driven infrastructure development is still in practice a new approach in Viet Nam, especially in urban areas. It must still be pilot-tested to determine how it can work in the local context.

D. Implementation of the Proposed Grant

1. Provide the Name of the Implementing Agency	Thanh Hoa Provincial People's Committee Department of Planning and Investment
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24. A diagram of implementation arrangements for the project is included in Appendix 3.

25. **Executing Agency.** Management responsibility for the project resides with the Thanh Hoa PPC as Executing Agency. A project steering committee will be established by the PPC to oversee the project and ensure its integration and coordination with other ADB-funded projects,

the provincial SEDP, national and provincial programs, and other related ODA activities. The steering committee will be chaired by a vice chairman of the PPC and will comprise leaders from the Department of Planning and Investment, other provincial departments,¹² and from the CPC. The steering committee will meet quarterly and provide guidance and instruction to the PPMU on all implementation aspects of the Project.

26. **Implementing Agencies.** A PPMU will manage and organize project implementation within the Department of Planning and Investment under the direction of a vice-director. The PPMU will be staffed with a dedicated project coordinator, a project administrator, two accountants/administrative officers, capacity building and monitoring officer, a financial management specialist, and two or three part-time technical experts. The PPMU will manage all aspects of project implementation and will coordinate closely with the lead agency for community mobilization, capacity development, and training, and with the institutional consultant. The PPMU will contract and oversee project evaluation activities, including baseline, midterm, and final evaluations. Disbursement and procurement will be managed by the PPMU in compliance with both ADB and Government policies, rules, and regulations. As part of its monitoring functions, the PPMU will provide general oversight of commune and ward activities and the use of funds to ensure consistent application of project norms, procedures, and criteria at local level.

27. To the greatest extent possible, assistance will be provided to existing governance and community structures, though in a number of cases new structures will need to be created, especially at the block and village level. In these cases, structures will be created in accordance with approved Government policy decrees. Smaller project implementation units (CCMBs) will be established or strengthened at ward level to manage participatory project identification, formulate proposals, and conduct design, implementation, and supervision of operations of ward infrastructure projects. These boards will include selected members from the ward or commune people's committees including a management representative, accountant, safety officer, and technical personnel with the best understanding of the infrastructure sector, as well as a Women's Union officer, possible block and village representatives, and a community mobilization officer for the ward, to be directly engaged by the PPMU and to serve as a full time member of the CCMB. The community mobilization officer will (i) support block- and village-level activities, (ii) liaise with consortium members on community mobilization, capacity-development and training activities, (iii) conduct project monitoring, and (iv) assist with project report preparation. Similarly, BCMBs will be established or strengthened at block level to (i) manage participatory project identification; (ii) formulate proposals; and (iii) conduct the design, implementation, and supervision of operations of block-level infrastructure projects.

28. **Capacity Development and Consulting Services.** Activities under component A will be contracted directly by ADB through a competitive bidding process to a consortium of international and national organizations including NGOs, consultants, mass organizations, and other appropriate local service providers, headed by a lead agency with which the contract will be established. The lead agency will be expected to meet ADB requirements regarding its mission, track record, program of activities, source(s) of financing, evidence of financial probity, and arrangements to assure appropriate use of project funds. The consortium will be mandated to provide community mobilization, institutional strengthening and ongoing capacity-development and training services to primarily ward, commune, block, and village level CCMBs, BCMBs, GACs, relevant community members, and ward or commune people's committees.

¹² For instance: Department of Finance, Department of Construction, and Department of Transport; the provincial Center for Rural Water Supply and Environmental Sanitation.

Limited capacity-development inputs will also be provided to district-level staff to strengthen skills in monitoring and supervision. In addition, ADB will also contract 3 person-months of international consulting services to provide institutional strengthening support to provincial and district government. This consultant will cooperate closely with the lead agency for the consortium. Under components B and C, the PPMU will procure international consulting services (2 person-months) on small-scale infrastructure technologies, and recruit service providers to perform various baseline surveys, audits, and external evaluations. The consultant recruitment by the PPMU will be done on the basis of no-objection from ADB. The lead agency for the consortium and other consultants will be recruited in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The lead agency for the consortium will be selected using fixed budget selection and will require a simplified technical proposal. All other consulting services will be recruited using individual consultant selection.

29. **Procurement.** All procurement under the JFPR grant, including all infrastructure contractual services at ward, commune, block, and village levels, will be conducted in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). Procurement of materials and equipment, transport, and labor required to implement infrastructure projects under component B of the JFPR project will be conducted through ADB's provision for community participation in procurement. Goods and related services estimated to cost the equivalent of \$100,000 or less will be procured using ADB's shopping procedure. Goods estimated to cost \$10,000 or less will be procured using direct purchase. There will be no contracts greater than \$100,000. Details are provided in a procurement plan as Supplementary Appendix E.

2. Risks Affecting Grant Implementation

Type of Risk	Brief Description	Measure to Mitigate the Risk
Governance	Decisions about infrastructure funding are decentralized at city and province level. The project will probably be the first in Thanh Hoa to apply decentralization of ownership and decision making to commune or ward level. Consequently, there could be reluctance to release funds from the PPC to commune or ward level and from commune or ward to village and block levels. The role of the district is also uncertain.	Project funds flow and decision-making authority levels have been extensively discussed and agreed to by the Executing Agency, and are explicitly described in all Government-approved project documents. This issue will be closely monitored during project implementation through site visits and project reporting. The usual justification provided for not decentralizing to commune or ward level is lack of capacity. Therefore, the Project will develop a capacity-development plan to respond to the challenges. The PPC will issue regulations and guidelines to decentralize to commune or ward level which clearly outline roles and responsibilities and financial and management arrangements. Appropriate safeguards will be put in place to prevent poor financial management, and these are further described in Appendix 2.
Budget Substitution	There is a risk that project funds will be used to substitute rather than supplement the Government's own infrastructure funding, thus reducing the benefit of the Project within coverage areas.	The project agreement will expressly discourage funds substitution. Government infrastructure budget expenditures in project areas will be assessed for the period preceding project launch and monitored over the life of the Project to ensure that Government allocations continue on a par with previous levels and with neighboring communes and wards. The Project will request the PPC to issue a decision that stipulates

Type of Risk	Brief Description	Measure to Mitigate the Risk
		that project funds are only on top of standard Government funds. Thanh Hoa province has committed to contribute matching capital ¹³ in full without changing the budget amount allocated annually to the communes and wards under the Project.
Management	Recruitment of competent consultants to staff the PPMU will be difficult. Few English-speaking professionals with experience in project management and infrastructure are available through the local job market.	Recruitment for the key post of coordinator (at least) will be done both provincially and nationally to broaden the base of potential applicants. ADB will participate in the final selection process alongside the Executing Agency.
Poverty Focus	With a dispersed poor population and with low representation by the poor at decision-making level, it will be difficult to ensure effective targeting of project activities to those most in need.	Local authorities have accurate data on numbers and locations of poor households. Targets will be set during the project startup phase for the proportion of poor beneficiaries, and this data will be routinely reported on to the PPMU and appraised annually. Project sites that do not meet poverty targets will not be eligible for future funding. Strong community participation in meetings and decision making promoted by the Project should mitigate this risk.
Coordination	The project components are in different sectors. Cooperation with different provincial departments and city administrations is essential so that project activities accord with provincial plans and targets. However, there is reluctance for departments and agencies to cooperate.	The Project will ensure the engagement of the vice-chair of the PPC in project planning, implementation, and supervision, in line with the significant involvement that took place during the overall project design activities. If project activities are delayed, the vice-chair will be notified and asked to intervene. Additionally, the parallel ADB PPTA project and ensuing loan, which will support medium to larger-scale investments, will be highly coordinated with the JFPR project and implemented under the same authorities. Thus, the associated projects will have the combined leverage to require effective coordination and improve current practices.
Capacity	There is a lack of capacity at all levels to implement decentralization to commune or ward levels.	The institutional consultant and capacity-development consortium provided by the JFPR project will prepare a capacity-development plan with appropriate and tailored interventions for provincial, district, commune, ward, village, and block levels derived from the capacity self-assessment conducted by local stakeholders at the beginning of the Project. Awareness raising in the community will also be conducted to help improve accountability.
Sustainability	There are potential risks that could reduce the sustainability of subprojects. The main risks include	In addition to measures presented in chapter B-6, Supplementary Appendix C outlines a range of strengthening measures to mitigate the O&M risk.

¹³ The details of the matching contribution will be further detailed in the project implementation plan.

Type of Risk	Brief Description	Measure to Mitigate the Risk
	(i) O&M on small-scale infrastructure; and (ii) local participation in the selection, planning, implementation, and supervision during construction to ensure post-construction local ownership of investments. The range of common issues and barriers that limit effective O&M are further detailed in Supplementary Appendix C.	These include (i) participatory monitoring and evaluation, (ii) the promotion of community supervisory boards in the form of project GACs, and (iii) the establishment of a reporting system that ensures access of information to agencies with a mandate to take action against those who abuse the system at all levels. Detailed measures to ensure community participation in all stages of project implementation are outlined in chapter B-6.

3. Incremental ADB Costs. No incremental costs are requested by ADB.

4. Monitoring and Evaluation

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for M&E
<p>1. Number of ward-level and block-level infrastructure grants implemented by functional community management boards that reach their objective and are rated successful.</p> <p>(a) Total number of grants made.</p> <p>(b) CCMB and BCMB performance criteria checklist developed by Project and monitored by PPMU and capacity-development contractor.</p> <p>(c) Percentage of grants made that are implemented according to plan and evaluated as successful (i.e., identification, implementation, and operation is participatory, and economic, social, and environmental impacts are positive, relevant, and sustainable).</p>	<ul style="list-style-type: none"> • Quarterly progress and monitoring reports and semiannual financial reports by CCMB and PPMU • Quarterly progress and monitoring reports by lead capacity-development agency • Annual reports by PPMU and midterm evaluation report 	<ul style="list-style-type: none"> • Quarterly • Quarterly • Annual (assess each micro-grant upon completion and include in annual report annex; micro-grant performance criteria will be finalized in phase 1 of project implementation).
<p>2. Number of poor households benefiting from community infrastructure improvements in water supply, sanitation, transportation and education infrastructure, and related services.</p>	<ul style="list-style-type: none"> • Quarterly progress reports by CCMB and PPMU, baseline survey, and project final evaluation. • Micro-grant assessment forms attached to annual PPMU reports. 	<ul style="list-style-type: none"> • Quarterly plus initial and final (baseline and end studies will confirm Government data on number and profile of poor households and assess coverage, and micro-grant completion forms and quarterly report formats will be designed to allow for tracking of poverty coverage) (January–July 2008)
<p>3. Change in perception by</p>	<ul style="list-style-type: none"> • Baseline assessment 	<ul style="list-style-type: none"> • Beginning, midterm, and final

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for M&E
stakeholders on degree to which basic access to infrastructure presents an obstacle to economic growth in the project area.	<p>(including focus-group discussions and problem ranking exercise)</p> <ul style="list-style-type: none"> • Midterm evaluation (including focus-group discussions and ranking exercise) • Final evaluation (including focus-group discussions and ranking exercise) 	
4. Number of jobs and businesses created or grown as a result of better infrastructure facilities or participation in relevant and quality vocational and business training from local providers.	<ul style="list-style-type: none"> • Training course evaluation forms by participants, quarterly monitoring and progress reports by capacity-development lead agency and PPMU. • Project midterm evaluation to assess local economic development, review training materials, observe training sessions, and interview participating trainers and trainees. • Project final evaluation including completion survey. 	<ul style="list-style-type: none"> • Quarterly (introduction of systematic training course evaluation methodology and instruments under contract with capacity-development lead agency). • Midterm (December 2009) • Final (November 2011)
<p>5. Number of community projects and degree to which community groups control and actively participate in all stages of project development, receive full support from the local government to the community ownership process with no negative interference, and receive appropriate technical support and advice from ward and district-level government personnel.</p> <p>(a) Percentage of micro-projects where flow of funds is timely.</p> <p>(b) Sanctions are enforced in case of noncompliance with project criteria, norms, and policies.</p> <p>(c) Percentage of CCMBs and BCMBs able to perform their key project roles and responsibilities as designed.</p> <p>(d) Ward and district governments facilitate the decentralization and</p>	<ul style="list-style-type: none"> • Micro-project completion forms (attached to quarterly reports) • Annual reports and midterm evaluation • Midterm and final evaluations • Quarterly monitoring and progress reports by capacity-development lead agency. 	<ul style="list-style-type: none"> • Quarterly • Annual plus midterm • Midterm plus final • Quarterly

Key Performance Indicator	Reporting Mechanism	Plan and Timetable for M&E
community-driven development process and provide appropriate advice and technical support.		

5. Estimated Disbursement Schedule

Fiscal Year (FY)	Amount (\$)
FY2008–2009	\$300,000
FY2009–2010	\$550,000
FY2010–2011	\$700,000
FY2011–2012	\$450,000
Total Disbursements	\$2,000,000

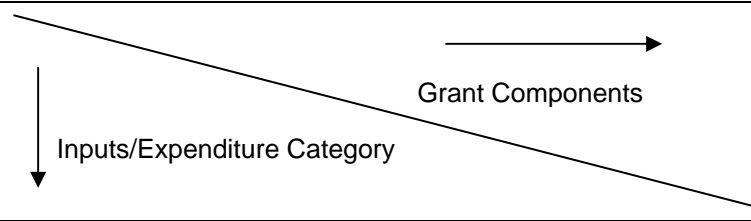
APPENDIXES

1. Cost Estimates
2. Fund Flow Arrangements and Narrative on Financial Management
3. Implementation Arrangements

SUPPLEMENTARY APPENDIXES (available on request)

- A. Elements of Terms of Reference for Community Mobilization, Capacity Development, and Training Services
- B. Key Findings from Field Assessments and Consultations
- C. Process for Developing an Effective Annual Commune Operations and Maintenance Plan
- D. Sample Potential Partners for Capacity Development and Training
- E. Procurement Plan

COST ESTIMATES
Table A1.1: Summary Costs
 (\$)

	Component A: Community Mobilization, Capacity Development, and Training	Component B: Community Infrastructure Grants	Component C: Project Management, Monitoring, and Audit	Total	Percent
1. Civil Works: small infrastructure grants		1,113,800		1,113,800	55.7
2. Equipment and Supplies: computers and other office equipment	8,400	0	16,350	24,750	1.2
3. Training, Workshops, Seminars, and Public Campaigns: community mobilization, capacity building and ongoing training costs, periodic project management meetings and workshops	152,280	0	9,000	161,280	8.1
4. Consulting Services: IC for institutional strengthening and small scale infrastructure technologies, NC for community mobilization, capacity development and training, external evaluations and audits	169,200	36,000	75,000	280,200	14.0
5. Grant Management: management of all three components, including wages for project staff, travel costs and per diem, office equipment, recurrent costs	64,800	20,640	75,120	160,560	8.0
6. Other Inputs: subcontract under lead agency for component A for training of trainers, provision for community mobilization innovative initiative, dissemination activities	59,000	0	15,500	74,500	3.7
7. Contingencies (0–10% of total estimated grant fund): Use of Contingencies requires prior approval from ADB				184,910	9.2
Subtotal JFPR Grant Financed	453,680	1,170,440	190,970	2,000,000	
Government Contributions: Salaries for government staff, provision of project office, land acquisition, participation in workshops/meetings, vehicles.	9,600	38,280	202,120	250,000	
Community's Contributions (mostly in kind): Participation in all training and community development; land development, and in kind labor contribution	8,000	142,000	0	150,000	
Total Estimated Costs				2,400,000	

ADB = Asian Development Bank, IC = international consultant, JFPR = Japan Fund for Poverty Reduction, NC = national consultant.
 Source: ADB estimates.

Table A1.2: Detailed Cost Estimates
(\$)

Code	Supplies and Services Rendered	Costs				Contributions			
		Unit	Quantity Units	Cost Per Unit	Total \$	JFPR		Government	Communities
						Amount	Method of Procurement		
Component A. Community Mobilization, Capacity Development, and Training				Subtotal	471,280	453,680		9,600	8,000
1.1	Civil Work								
1.2	Equipment and Supplies								
1.2.1	Computer and Printer	Set	2	1,200	2,400	2,400	All items under this component, except for 1.4.1, will be procured through an umbrella grant using FBS. Item 1.4.1 will be procured through ICS. Items 1.2.1 and 1.2.2 under the umbrella will be procured through DP.		
1.2.2	Office Supplies	Month	250	24	6,000	6,000			
1.3	Training, Workshops, and Seminars								
1.3.1	Community Organization and Mobilization at Local Level (100 persons x \$10 x 3 days)	Training	4	3,000	12,000	12,000			
1.3.2	Communication and Facilitation Skills at Local Level (100 persons x \$10 x 3 days)	Training	4	3,000	12,000	12,000			
1.3.3	Leadership Training for Local Leaders (100 persons x \$10 x 2 days)	Training	4	2,070	8,280	8,280			
1.3.4	Community Assessment/Problem Analysis (100 persons x \$10 x 5 days)	Training	4	5,000	20,000	20,000			
1.3.5	Project Cycles and Proposal Development (100 persons x \$10 x 5 days)	Training	4	5,000	20,000	20,000			
1.3.6	Basic Bookkeeping and Administration (100 persons x \$10 x 5 days)	Training	4	5,000	20,000	20,000			
1.3.7	Operations, Maintenance and Supervision at Local Level (100 persons x \$10 x 5 days)	Training	4	5,000	20,000	20,000			
1.3.8	Vocational Training for Community Members (5 days/member)	Course	400	60	24,000	20,000			4,000
1.3.9	Management and Financial Skills Training for Community Members	Course	300	80	24,000	20,000			4,000
1.4	Consulting Services								
1.4.1	Institutional Advisor–International Consultant	Month	3	18,000	54,000	54,000			
1.4.2	Community Participation Specialist–National Consultant	Month	12	2,200	26,400	26,400			
	Vocational Training Specialist–National Consultant	Month	12	2,200	26,400	26,400			
1.4.3	Institutional Specialist–National Consultant	Month	12	2,200	26,400	26,400			
1.4.4	Vocational Training Specialist–International Consultant	Month	2	18,000	36,000	36,000			
1.5	Management and Coordination of this Component								
1.5.1	Capacity Building Coordinator	Month	24	1,000	24,000	24,000			
1.5.2	Accountant/Administrator	Month	24	600	14,400	14,400			
1.5.2	Travel and Per Diem	Month	24	600	14,400	14,400			
1.5.3	Operational Costs	Month	24	500	12,000	12,000			
1.5.4	Working Space Including for Training	Month	48	200	9,600			9,600	
1.6	Other Project Inputs								
1.6.1	Special Fund for Community Mobilization Activities (Incentives Fund for Community Initiatives) through Consortium	Subcontract	1	15,000	15,000	15,000			

Code	Supplies and Services Rendered	Costs				Contributions			
		Unit	Quantity Units	Cost Per Unit	Total \$	JFPR		Government	Communities
						Amount	Method of Procurement		
1.6.2	Subcontract to Mass Organization for Coordination of Community Mobilization	Subcontract	1	20,000	20,000	20,000			
1.6.3	Subcontract for Community Mobilization TOT	Subcontract	1	8,000	8,000	8,000			
1.6.4	Subcontract for Financial Management, Accounting, Basic Management TOT	Subcontract	1	8,000	8,000	8,000			
1.6.5	Subcontract for Vocational Training/O&M TOT	Subcontract	1	8,000	8,000	8,000			
Component B. Community Infrastructure Grants				Subtotal	1,350,720	1,170,440		38,280	142,000
2.1	Civil Works and Supporting Equipment and Supplies								
2.1.1	Ward Level Infrastructure Projects (water, roads, alleys, etc.) (grants) ^a	Micro project	18	21,933	394,800	378,800	S/CP		16,000
2.1.2	Block Level Infrastructure Projects (grants) ^a	Micro project	140	6,150	861,000	735,000	S/CP		126,000
2.1.3	Support for Site Clearance (by District and Commune Governments)	Lumpsum	1	29,280	29,280			29,280	
2.2	Equipment and Supplies								
2.2.1	Vehicles (ward level)	Vehicle	6	1,500	9,000			9,000	
2.3	Training, Workshops, and Seminars								
2.4	Consulting Services								
2.4.1	Technical Assistance in Small Scale Community Based Technologies for Infrastructure	Month	2	18,000	36,000	36,000	ICS		
2.5	Management and Coordination of this Component								
2.5.3	Travel and Per Diem for Province Technical Advisors (6 monitoring and TA visits per month)	Month	36	120	4,320	4,320			
2.5.4	Travel and Per Diem for District Technical Advisors (6 monitoring and TA visits per month)	Month	36	120	4,320	4,320			
2.5.5	Training Honorariums for Province and District Trainers	Day	150	16	2,400	2,400			
2.5.6	Financial Management Specialist Assigned to Monitor Grant Subprojects (2/3 time)	Month	32	300	9,600	9,600			
2.6.	Other Project Inputs (Specify)								
Component C. Project Management, Monitoring, and Audit				Subtotal	393,090	190,970		202,120	0
3.1	Equipment and Supplies^b								
3.1.1	Camera	Asset	1	250	250	250	S		
3.1.2	LCD Projector	Asset	1	2,000	2,000	2,000	S		
3.1.3	Office Furniture	Lumpsum	1	5,000	5,000	5,000	S		
3.1.4	Computer and Printer	Set	2	2,400	4,800	4,800	S		
3.1.5	Fax Machine	Asset	1	300	300	300	S		
3.1.6	Photocopy Machine	Asset	1	4,000	4,000	4,000	S		
3.1.7	Vehicle (provincial level)	Unit	1	30,000	30,000			30,000	
3.1.8	Vehicle (district level: 1 city + 3 districts)	Unit	4	1,500	6,000			6,000	
3.2	Training, Workshops, and Seminars								
3.2.1	Project Orientation Meeting—Province/District/Commune	Meeting	1	1,000	1,000	1,000			
3.2.2	Project Annual Review and Planning Workshops	Workshop	3	2,000	6,000	6,000			

Code	Supplies and Services Rendered	Costs				Contributions			
		Unit	Quantity Units	Cost Per Unit	Total \$	JFPR		Government	Communities
						Amount	Method of Procurement		
3.2.3	Quarterly Project Review Meetings–Steering Committee and PPMU	Meeting	16	285	4,560			4,560	
3.2.4	End of Project Dissemination Meeting–Province-wide	Meeting	1	2,000	2,000	2,000			
3.3.	Consulting Services (e.g., for management and monitoring/assessments)								
3.3.1	External Audit (to cover all components under the grant A+B+C)	Audit	4	10,000	40,000	40,000	LCS		
3.3.2	Baseline Survey and Study	Lumpsum	1	15,000	15,000	15,000	CQS		
3.3.3	Final Project Evaluation	Lumpsum	1	20,000	20,000	20,000	CQS		
3.4.	Management and Coordination of this Component								
3.4.1	Project/PPMU Director (Part time)	Month	48	150	7,200			7,200	
3.4.2	Project Coordinator	Month	44	400	17,600	17,600			
3.4.3	Project Administrator	Month	44	200	8,800	8,800			
3.4.4	Two Accountants/Administrative Officers Assigned by EA	Month	96	200	19,200			19,200	
3.4.5	Capacity Building and Monitoring Officer	Month	44	300	13,200	13,200			
3.4.6	Financial Management Specialist Assigned to PMU (1/3 time)	Month	16	300	4,800	4,800			
3.4.7	Travel and Per Diem	Month	48	150	7,200	7,200			
3.4.8	Operational Costs of PMU and Stationery	Month	48	1,010	48,480	1,920		46,560	
3.4.9	Community Mobilization Officers (1 per ward/commune–\$50 per month)	Month	36	600	21,600	21,600			
3.4.10	PMU Office Space	Building	1	50,000	50,000			50,000	
3.4.11	Vehicle Operation (fuel, insurance, maintenance, etc.)	Month operation	48	804	38,600			38,600	
3.5	Other Project Inputs (specify)								
3.5.1	Printing and dissemination of key project documents	Document	3	500	1,500	1,500			
3.5.2	Study visits to neighboring provinces to share lessons learned (by land, 15 people/visit)	Study tour	3	3,000	9,000	9,000			
3.5.3	Midterm Evaluation (NGO and technical expert)	Lumpsum	1	5,000	5,000	5,000	CQS		
Components A to C = Subtotal				Subtotal	2,215,090	1,815,090		250,000	150,000
Contingency (Maximum 10% of Total JFPR Contribution)					184,910	184,910			
Total Grant Costs					2,400,000	2,000,000		250,000	150,000

ADB = Asian Development Bank, CQS = consultant qualifications selection, DP = direct purchase, EA = executing agency, FBS = fixed budget selection, ICS = individual consultant selection, JFPR = Japan Fund for Poverty Reduction, LCD = liquid crystal display, LCS = least cost selection, NGO = nongovernment organization, O&M = operation and maintenance, PMU = project management unit, PPMU = provincial project management unit, S/CP = shopping/community participation, TOT = training of trainers

^a Project grant portion includes 5% management fee to cover transaction costs of block community management board and commune/ward community management board (per diems, travel, and miscellaneous compensation).

^b At the end of the Project, the provincial project monitoring unit will hand over the equipment to the Executing Agency, the Thanh Hoa Provincial People's Committee.

Source: ADB estimates.

FUND FLOW ARRANGEMENTS AND NARRATIVE ON FINANCIAL MANAGEMENT

A. Fund Flow Arrangements

Figure A2.1: With Establishment of Second Generation Imprest Accounts at Ward Level (Option 1)

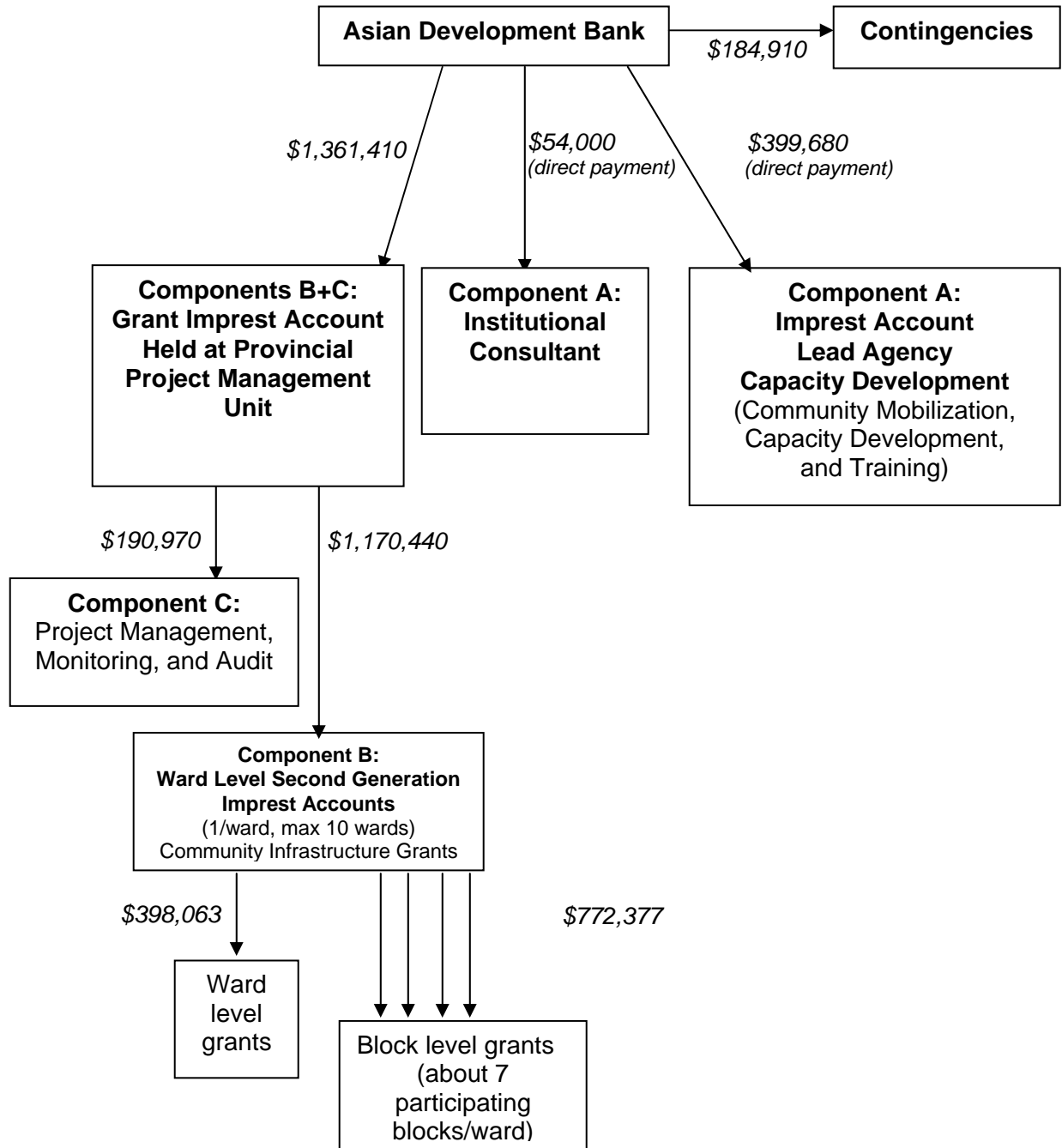
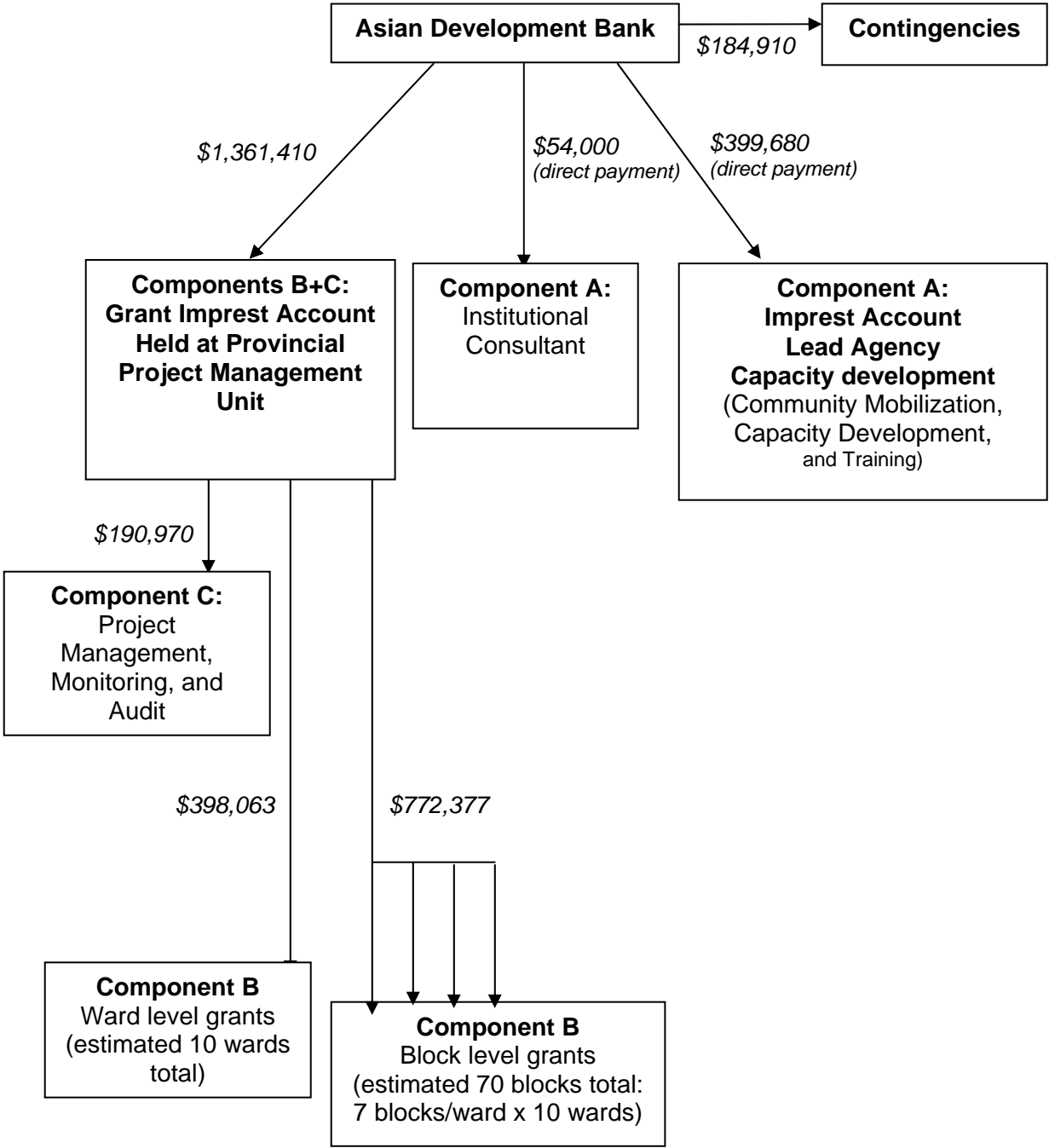


Figure A2.2: Small Grant Funds Directly Transferred from Provincial Project Management Unit to Commune Community Management Boards and Block Community Management Boards (no second generation imprest accounts) (Option 2)



B. Narrative on Financial Management

1. To facilitate disbursements and day-to-day local expenditures of the Japan Fund for Poverty Reduction (JFPR) project, an imprest account will be established in a bank endorsed by the Executing Agency (EA) and acceptable to the Asian Development Bank (ADB) for transferring project funds for the provincial project management unit (PPMU).¹⁴ The lead agency will be paid based on a direct contract agreement with ADB. ADB will channel the JFPR funds directly to the JFPR imprest account. The imprest account under the PPMU, and all other imprest accounts established under the Project, if any, will be established, managed, replenished, and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). The aggregate ceiling for all imprest accounts, should there be more than one, will be equivalent to 6 months estimated expenditure of the project or 10% of the grant amount (estimated at \$2 million), whichever is lower. From year 2 onwards, the 10% of grant amount limit may be increased subject to satisfactory performance of financial reporting systems under the Project. The statement of expenditure procedure will be used to reimburse eligible expenditures and to liquidate advances provided in the imprest accounts up to a maximum of \$10,000. Interest earned on any JFPR imprest account can be used for the Project subject to ADB's approval, within the approved total amount of the JFPR project. Upon completion of the JFPR project and before closing of any JFPR imprest account, any unutilized interest should be returned to the JFPR fund account maintained at ADB. If the remittance fee and other bank charges are higher than the amount of interest earned, there will be no need to return such interest to the JFPR account maintained at ADB.

2. The Executing Agency will be kept informed by the PPMU of all transactions and receive copies of all financial statements and audit reports. Additionally, administrative and accounting capacity will be confirmed and strengthened if necessary at the beginning of implementation to allow the establishment of the imprest fund procedure. The same will apply for any imprest accounts established at ward or commune level. The JFPR imprest account in the PPMU will be managed based on the first 6-month activity plan and related budget, and afterwards based on the approved annual work plan and budget.

3. With regard to fund flow from the PPMU imprest account to the final grant recipients—commune community management boards (CCMBs) and block community management boards (BCMBs) responsible for implementing the infrastructure grants—two options are currently being considered as described below. Option 1 will require second generation imprest accounts to be established at ward people's committee level while option 2 will facilitate the direct flow of funds from the PPMU imprest account to the CCMBs and BCMBs. The decision about whether to adopt option 1 or option 2 will be made during project implementation based on the financial management capacity of ward-level people's committees and the best recommended approach for supporting decentralization at the time of project implementation.

- (i) **Option 1.** Funds for ward- and block-level infrastructure grants will flow from the PPMU imprest account directly to separate bank imprest accounts established in each project ward or commune. These accounts may be established using any of the following options: (a) a simple bank account in a local commercial bank which the ward or commune can access easily to draw funds for disbursement based on approved proposals; (b) a simple bank account in a local commercial

¹⁴ The chosen bank(s) for the accounts should provide a comfort letter to ADB in the prescribed form specified in ADB's *Loan Disbursement Handbook*.

bank but with a joint signature requirement between the ward or commune people's committee and, for instance, the accountant from the PPMU or a secretary or representative from the grant appraisal committee (GAC); (c) an account within the district-level treasury to which more stringent financial justifications are required; or (d) an account within the district-level treasury but for which a special decision will have been issued by the provincial people's committee (PPC) to allow greater flexibility necessary to support community participation in development practices. These various options allow varying levels of control over financial management and corruption risks but also offer varying levels of flexibility to adjust to community participation methods in development. Furthermore, regulations on treasury accounts are in the process of being revised to alleviate some of the constraints they represent. Therefore, the decision as to what type of account will be created for ward- or commune-level project management will be postponed until the inception phase of the Project. These accounts will receive preallocations every 6 months based on the expected level of grant funding activity.

Funds will be held in these accounts until ward-, commune-, or block-level individual grant proposals are approved by the ward people's committee. The first preallocation of funds from the PPMU will not exceed \$20,000. Future funds allocations from ADB via the PPMU would only take place upon receipt of satisfactory quarterly monitoring and progress reports and semiannual financial reports from the CCMB and PPMU staff and evidence that government and community matching-funding contributions are being made. Exact regulations for matching-funding requirements will be finalized in the first phase of project implementation, and will be tailored to the nature of the projects. Incentives (a point allocation system for proposals and a competitive grant selection process across blocks and possibly wards) will be put in place to provide incentive for higher government and community contributions. Amounts committed to at proposal approval stage will be closely monitored by the project and noncompliance will generate penalties. The type of penalties and grounds for imposing them will be defined through participatory processes in the first few months of project implementation, simultaneous to the development of an operations manual by the PPMU (activity 1.4 under component C) and the preparation of a community handbook (output 5 under component A). CCMBs and BCMBs can establish bank accounts in a local commercial bank where the funds will be deposited once a grant has been approved. This account may also be used by community groups for collecting community contributions and can serve as a small asset operation fund. Any revenues generated from user fees or maintenance fees can be deposited to fund O&M expenses once the asset is under operation.

- (ii) **Option 2.** Option 2 involves the same general arrangements as in option 1 except that no second generation imprest account will be established at ward level. Instead, the project will transfer funds directly from the PPMU to the end grant recipients into ward- and block-level project accounts established by the CCMBs and BCMBs. CCMBs will be responsible for conducting reporting on behalf of all activities in the whole ward (including block-level activities) as in option 1.

4. Modest project funds (up to 5% of the size of individual grants) will be allocated from individual small infrastructure grants to support project preparation costs for CCMBs and BCMBs, as well any punctual technical support from district governments or urban service providers which CCMBs and BCMBs might solicit in preparation of their projects. These

allocations will cover meeting expenses, basic supplies, local travel, communications, and other transaction costs.

5. Conditions on establishment of project accounts and detailed implementation arrangements (such as the flow, replenishment, and administrative procedures) will be detailed in the Grant Implementation Manual, and be established between ADB and the Government in accordance with the JFPR Letter of Agreement. In particular, cash transfers to grant recipients (BCMBs or CCMBs) will be tailored to a grant utilization schedule submitted along with individual small infrastructure proposals. It is expected that transfer will occur in installments (30% up front, 50% midterm, and 20% upon completion) and be conditional on the receipt and acceptance of small grant expense reports by the GAC.

C. Project Grant Approval Procedures

6. As a decentralized and community-led project, authority for key planning and decision making will be delegated by the PPMU to the commune or ward and grassroots level. Consistent with recent Vietnamese decentralization law, project grants with a value up to D3 billion can be approved by ward or commune people's committees and directly managed by commune or ward authorities via CCMBs.

7. It is expected that the CCMBs will be working very closely with the ward or commune people's committees. In order to maximize checks and balances mechanisms for project approval at local level while preserving decentralization principles, a GAC will be formed to work in parallel with, and independently from, the ward people's committee and CCMBs. The mandate of the GACs will be to receive all project proposals coming from both CCMBs and BCMBs, appraise them against technical, social, economic, and financial criteria, and, if judged satisfactory, transmit them to the ward people's committee (if option 1 of the fund-flow mechanism is adopted) or the PPMU (if option 2 is adopted) to trigger the release of funds. Prior to transmitting the proposal, and especially in the early years of the project, the GAC will be asked to seek guidance from the PPMU financial management specialist to ensure conformity of the proposal with project financial regulations. This procedure aims to reinforce sound financial planning and management practices. In addition, the PPMU and district authorities will ensure consistent application of grant selection criteria and project procurement policy through its routine monitoring visits.

8. The GAC members will receive appropriate training in grant appraisal and project evaluation procedures to ensure all proposals submitted to ward people's committees meet JFPR grant project requirements and reflect the interests of the project beneficiaries. All proposals must be signed-off on by the GAC prior to final submission to the ward people's committee or the PPMU. The GAC will constitute several key personnel, such as members of Community Supervisory Boards established under Decree 80. GAC members will be drawn from the community, blocks (at least three members), and wards (technical personnel excluding leadership) to perform the following functions: (i) technical, economic and financial; (ii) social (including indigenous people and resettlement when applicable); (iii) youth and gender protection; and (iv) environmental appraisal. For more complex projects, the GAC may also seek contributions from technical experts from the district, PPMU, and other stakeholders (such as central urban service providers and utilities) to review the soundness of the proposed projects. The PPMU, district government, and ward or commune people's committee will be responsible for assisting ward stakeholders in accessing those resources.

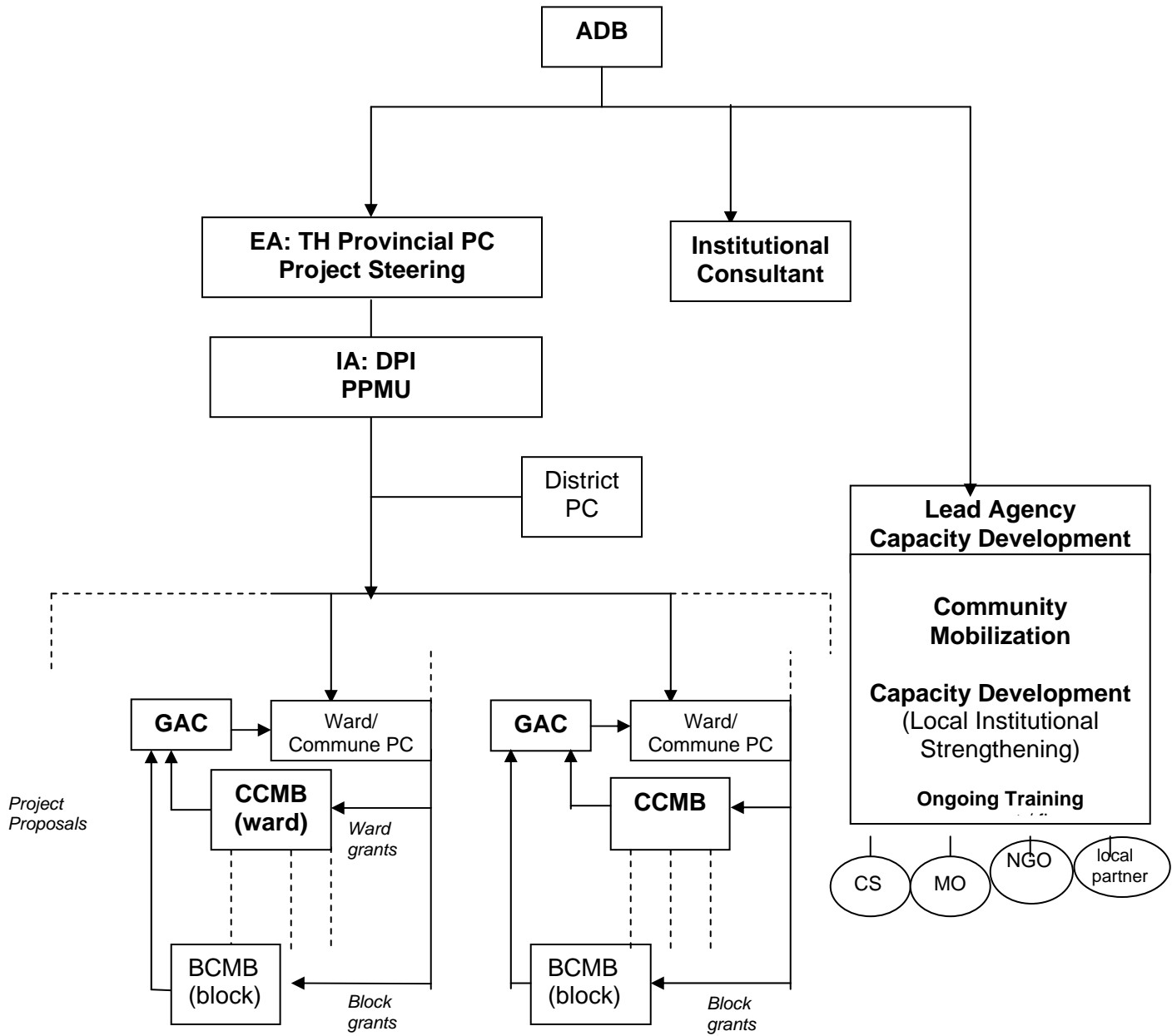
D. Reporting

9. The CCMBs will submit quarterly progress and monitoring reports and semiannual financial reports, including performance data for indicator tracking, to the PPMU. The PPMU will consolidate information from all CCMB reports into quarterly and annual reports according to a format agreed upon with ADB during the initial planning phase of the Project. Similarly, the lead agency for capacity development and training will provide a baseline survey, quarterly progress reports including performance data for indicator tracking, and semiannual financial reports, to ADB and supply a copy to the PPMU. These reports from the PPMU and the lead agency for capacity development will be submitted to ADB no more than 45 days after the completion of the reporting period.

10. Independent annual audit reports will be prepared by an auditor with adequate knowledge of international accounting and auditing practices. The internal financial reports will be audited by an external auditor, who will provide a report and opinion on the reported financial status and performance. The financial reports will include audited project financial statements and supplementary financial statements in accordance with the Financial Management and Analysis of Project.¹ The audited project accounts and the auditor's reports will be submitted to ADB no more than 6 months after the end of each fiscal year. The auditor's opinion on the use of any imprest account, including second generation imprest accounts (if any) and statement of expenditure procedures, should be included in the auditor's report. Disbursements can be suspended in the event of noncompliance with report submission requirements.

¹ ADB. 2005. *Financial Management and Analysis of Projects*. Manila.

IMPLEMENTATION ARRANGEMENTS



ADB = Asian Development Bank, BCMB = block community management board, CCMB = commune community management board, CS = consulting services, DPI = Department of Planning and Investment, EA = executing agency, GAC = grant appraisal committee, IA = implementing agency, MO = mass organizations, NGO = nongovernment organization, PC = people's committee, PMU = project management unit, PPMU = provincial project management unit, TH = Thanh Hoa.