



Report and Recommendation of the President to the Board of Directors

Project Number: 37097
September 2007

Proposed Loan and Technical Assistance Grant
Socialist Republic of Viet Nam: Integrated Rural
Development Sector Project in the Central Provinces

CURRENCY EQUIVALENTS

(as of 15 September 2007)

Currency Unit	–	dong (D)
D1.00	=	\$0.0000620
\$1.00	=	D16,241

ABBREVIATIONS

ADB	–	Asian Development Bank
ADTA	–	advisory technical assistance
AFD	–	Agence Française de Développement
CARB	–	Compensation, Assistance, and Resettlement Board
CPMU	–	Central Project Management Unit
CQS	–	consultants' qualification selection
CPRGS	–	comprehensive poverty reduction and growth strategy
DARD	–	Department of Agriculture and Rural Development
DPC	–	district people's committee
EA	–	executing agency
EIRR	–	economic internal rate of return
GDP	–	gross domestic product
IA	–	Implementing Agency
ICB	–	international competitive bidding
IPDF	–	Indigenous Peoples Development Framework
IEE	–	initial environmental examination
MARD	–	Ministry of Agriculture and Rural Development
NCB	–	national competitive bidding
O&M	–	operation and maintenance
PCR	–	project completion report
PPC	–	provincial people's committee
PPMS	–	project performance monitoring system
PPMU	–	provincial project management unit
PPTA	–	project preparatory technical assistance
PSA	–	poverty and social assessment
PSC	–	project steering committee
QCBS	–	quality and cost based selection
RISP	–	Rural Infrastructure Sector Project
SCT	–	subproject coordination team
SEDP	–	socio-economic development plan
SES	–	special evaluation study
SIP	–	subproject identification proposal
SIR	–	subproject investment report
SPRSS	–	summary poverty reduction and social strategy
TA	–	technical assistance
WB	–	World Bank

NOTES

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

Vice President	C. Lawrence Greenwood, Jr., Operations Group 2
Director General	A. Thapan, Director General, South East Asia Department (SERD)
Director	U. S. Malik, Agriculture, Environment, and Natural Resources Division, SERD
Team leader	A. Tayyab, Senior Natural Resources Economist, SERD
Team members	G. Atay, Principal Counsel, Office of the General Counsel
	J. Everett, Infrastructure Specialist, SERD
	N. Ikemoto, Environment Specialist, SERD
	A. Musa, Financial Analysis Specialist, SERD
	M. Oka, Social Development Specialist, SERD
	T. Woods, Senior Procurement Specialist, Central Operations Services Office

CONTENTS

	Page
LOAN AND PROJECT SUMMARY	i
MAP	
I. THE PROPOSAL	1
II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES	1
A. Performance Indicators and Analysis	1
B. Analysis of Key Problems and Opportunities	2
III. THE PROPOSED PROJECT	4
A. Impact and Outcome	4
B. Outputs	5
C. Special Features	6
D. Project Investment Plan	7
E. Financing Plan	8
F. Implementation Arrangements	8
IV. TECHNICAL ASSISTANCE	15
V. PROJECT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS	16
A. Economic Benefits	16
B. Social Benefit and Impacts	16
C. Environmental Impact	17
D. Financial Considerations	17
E. Assumptions and Risks	18
F. Overall Assessment	18
VI. ASSURANCES	19
A. Specific Assurances	19
B. Conditions for Loan Effectiveness	20
VII. RECOMMENDATION	20
APPENDIXES	
1. Project Design and Monitoring Framework	21
2. Rural Infrastructure Sector Analysis	23
3. External Assistance to the Sector	28
4. Subproject Screening Criteria	30
5. Detailed Cost Estimates	32
6. Project Organization and Management Structure	34
7. Implementation Schedule	35
8. Procurement Plan	36
9. Consulting Services Inputs	39
10. Loan Funds Disbursement Arrangements	40
11. Advisory Technical Assistance Budget and Terms of Reference	41
12. Economic Assessment	45
13. Summary Poverty Reduction and Social Strategy	51
14. Summary Resettlement Framework	54

SUPPLEMENTARY APPENDIXES (available on request)

- A. Infrastructure Status in Target Provinces
- B. Project Components
- C. Economic Analysis of Representative Subprojects
- D. Detailed Project Costs
- E. Financial Capacity of Provinces
- F. Indicative Provincial Allocation of Resources
- G. Agency Procurement Capacity Assessment
- H. Consultant Terms of Reference
- I. Ethnic Minority Development Framework
- J. Resettlement Plan (Hung Trung – Nghi Kieu Rural Infrastructure Development Project)
- K. Resettlement Framework
- L. Summary Initial Environmental Examination and Review Framework
- M. Financial Management Assessment

LOAN AND PROJECT SUMMARY

Borrower	Socialist Republic of Viet Nam
Classification	Targeting classification: Targeted intervention (geographic) Sector: Multisector Subsectors: Agriculture sector development, transport, water supply and sanitation Themes: Sustainable economic growth, inclusive social development, capacity development Subthemes: Developing rural areas, human development, organizational development
Environment Assessment	Category B An environmental examination was undertaken.
Project Description	<p>The Project has been designed to improve the livelihoods of the rural population of 13 provinces in the Central Region of Viet Nam by (i) increasing access to markets, agricultural inputs, and public services such as health and education; (ii) increasing employment opportunities; and (iii) reducing vulnerability to natural disasters. This will be achieved through the rehabilitation and upgrading of specific items of medium-scale rural infrastructure which have deteriorated over past decades due to war, natural disasters, and severe budgetary constraints that have limited their maintenance. Infrastructure to be improved will include (i) rural roads; (ii) irrigation drainage and flood control schemes; (iii) rural markets; (iv) domestic water supply schemes; and (v) special coastal works such as sand dune stabilization, salinity intrusion prevention, and mangrove rehabilitation.</p>
Rationale	<p>Surveys of the rural population and detailed consultations have shown that one of the main contributors to the persisting high levels of poverty in the project area is the limited and deteriorating rural and coastal infrastructure. This limits access to markets, inputs (including irrigation water), and public services (such as education and health services), and increases vulnerability to disasters. It also reduces the impact of public and private investment made in other sectors (such as agriculture, health, and education) that depend upon effective rural infrastructure. In the project area, only 30% of provincial roads have all-weather surfaces; this severely limits communications in rural areas and increases travel times and transport costs for agricultural enterprises. Irrigation systems have deteriorated over time and are not able to deliver the water needed to achieve full coverage of service areas. Fifty percent of rural households do not have access to clean water supplies, and defective or deficient coastal infrastructure can not prevent the intrusion of seawater into crop lands and domestic water supplies, resulting in reduced crop yields and an increase in the cost of drinking water.</p>

Past experience of the Asian Development Bank (ADB) and other donors in rural infrastructure improvement in the face of challenges similar to those in Viet Nam have generally been favorable. All completed ADB projects in the sector have been assessed as successful and all were able to achieve a wider impact than intended in the original scope. Independent studies have demonstrated significant impact from infrastructure investments of all types. The improvement in rural infrastructure in Viet Nam over the past decade is considered to be one of the reasons for the significant growth achieved in the agriculture sector and the concomitant decline in poverty.

Further investment in rural infrastructure, especially in the rural areas of the Central Region where poverty levels remain high, is therefore seen as a key to removing the constraints on the productivity in the project area and hence contributing both to reducing poverty and diminishing the likelihood that people who have recently escaped the poverty trap will fall back into it.

Impact and Outcome

The overall impact of the Project is expected to enhance rural livelihood opportunities and standard of living for the rural population residing in the Central Region of Viet Nam. This is to be achieved through improved quality, great coverage and better integration of rural infrastructure. Increased agricultural productivity, wider employment opportunities, improved health and education levels, and reduced exposure to natural disasters will collectively improve standards of living for the rural population.

Project Investment Plan

The investment cost of the Project is estimated at \$168.2 million, including taxes and duties of \$13.1 million.

Financing Plan

The Government has requested a loan of SDR 58,723,000 from the Asian Development Fund to help finance the Project. The loan will have a 32-year maturity including a grace period of 8 years, a 1% interest charge during the grace period and 1.5% during the amortization period. The Project will be jointly cofinanced with a loan by Agence Française de Développement (AFD) in the amount of €40 million (\$52.0 million equivalent). AFD will also provide cofinancing on a grant basis in the amount of €1.0 million (\$1.3 million equivalent). The proceeds of the loans and the grant will be passed as a grant to the 13 participating provincial governments by the national Government. The balance of the project cost (\$24.8 million equivalent) amounting to 15% will be funded by the Government and participating provincial governments from provincial budgets.

Period of Utilization

Until 30 June 2014

Estimated Project Completion Date Executing Agency

31 December 2013

Ministry of Agriculture and Rural Development (MARD)

Implementation Arrangements

In keeping with the principles of decentralization and the devolution of responsibilities, the implementing agencies (IAs) for infrastructure subprojects will be the respective provincial peoples' committees (PPCs) of the 13 participating provinces. A Central Project Management Unit (CPMU) established within the Agriculture Project Management Board of MARD, will be responsible for project implementation at the national level. At provincial level, day-to-day management will be the responsibility of provincial project management units (PPMUs) established by PPCs of participating provinces within the provincial Department of Agriculture and Rural Development (DARD). A two-stage process for the identification and preparation of subprojects will be adopted. Firstly, subproject proposals will be selected by PPCs from priority investments within provincial socio-economic development plans (SEDPs). Subprojects chosen should support sector objectives mainly comprising rural roads, irrigation (including drainage and flood control), domestic water supply, markets, and coastal infrastructure with an estimated cost ranging from \$0.5 million to \$4 million. These will be confirmed through a process of public consultation with potential beneficiaries and other stakeholders, after which a subproject identification proposal (SIP) will be prepared by the PPMU, submitted to the CPMU and, if over \$2 million, submitted to ADB for concurrence. The second stage involves the preparation of a subproject investment report (SIR). Upon completion of the SIR, first the PPC and then the CPMU will review the studies to ensure that they meet the eligibility criteria for implementation financing and any other internal requirements that may be imposed by the province or the national Government. The first SIP of less than \$2 million from the provinces covered earlier under the Rural Infrastructure Sector Project (RISP), and the first SIP under \$2 million from other provinces which do not have prior experience of implementing the RISP, will also be submitted to ADB for approval. The PPMUs will then be responsible for supervising detailed design and construction of the approved subprojects.

Procurement

Procurement will be undertaken by the CPMU and PPMUs. Goods and works financed by ADB will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). Contracts for works valued at over \$2 million equivalent shall be procured through international competitive bidding (ICB), in accordance with ADB *Procurement Guidelines*. The first five SIPs prepared shall be submitted to ADB for approval on a no-objection basis. Smaller packages for works valued at less than \$2 million or equivalent but more than \$100,000 or equivalent shall be procured through national competitive bidding (NCB) procedures acceptable to ADB using a one-stage, two-envelope system. For works below \$100,000 equivalent, shopping procedures acceptable to ADB may be

used. Contracts for goods valued at over \$500,000 equivalent shall be procured through ICB in accordance with ADB *Procurement Guidelines*. Goods costing less than \$500,000 equivalent but more than \$100,000 shall be procured through NCB procedures using a one-stage, two-envelope system acceptable to ADB. Smaller packages for goods valued at less than \$100,000 may be procured through shopping procedures acceptable to ADB.

Consulting Services

The Project will require three types of consulting services: (i) international and national consulting services to assist the CPMU with implementation and training; (ii) national consultants to assist PPMUs with the preparation of environmental, resettlement, and social safeguards for SIPs and SIRs (including associated environmental assessments and resettlement plans); and (iii) national engineering consultants to prepare detailed engineering designs and supervise construction of works. To support implementation and capacity-building initiatives, the Project will fund a total of 60 person-months of international specialists and 271 person-months of national specialists for a total of 331 person-months. Consultants will be selected and engaged in accordance with the ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time) and AFD's procurement regulations. The CPMU will be responsible for the recruitment of project implementation consultants through a firm using quality and cost based selection. National consultants facilitating community participation and providing advice on safeguards to the provincial governments will be recruited by the CPMU from national firms using the consultants' qualification selection (CQS). PPMUs will be responsible for recruiting national consultants to provide technical specialists for design and supervision of works using CQS procedures acceptable to ADB.

Project Benefits and Beneficiaries

The intended beneficiaries are productive members of the rural population in areas impacted by subprojects. They are mainly farmers and their families who are poor or live just above the poverty line, whose incomes and livelihoods are currently impaired by the lack of access to markets, employment opportunities, and services. Other groups of beneficiaries include (i) road users, (ii) general goods and service providers, (iii) suppliers of agricultural products and services, (iv) people engaged in marketing, (v) agricultural cooperatives, (vi) water user groups or associations, (vii) irrigation management companies, and (viii) stakeholder agencies. Measures are built into the project design to ensure that women and ethnic minorities also benefit from the Project.

The Project will produce a range of economic benefits which vary depending on the type of infrastructure identified for rehabilitation. Rural road investments have been shown to produce a broad range of positive impacts, ranging from immediate benefits such

as reduced travel costs and times, to less direct benefits such as (i) a diversification of income sources, (ii) higher levels of agriculture production, (iii) greater diversification of agriculture crops, (iv) greater access to health and education services, (v) reduced costs of inputs and household commodities, and (vi) overall reduced levels of poverty among communities served by the roads. The primary direct benefit from irrigation subprojects will be increased agricultural production and the diversification into higher value crops. The benefits from improved coastal infrastructure are broad and varied but include (i) increased crop yields, (ii) safer drinking water due to the prevention of saline intrusions, (iii) increased aquaculture and salt production, (iv) reduced loss of farm land from dune encroachment, and (v) enhanced fisheries due to mangrove rehabilitation. The benefits of improved domestic water supplies include (i) reduced incidence of water-borne diseases, and (ii) reduced time and labor spent fetching water (especially for women and children), releasing labor resources for more productive economic activities or education. Improved attention to planning and prioritization processes in design and management of rural infrastructure investments should lead to efficient and targeted resource allocation. The cumulative net overall economic benefits include (i) improved accessibility in rural areas of the Central Region, (ii) higher levels of agriculture and aquaculture production, (iii) lower costs of agricultural inputs and consumer commodities, (iv) enhanced access to markets, (v) responsive investment planning, and (vi) a broader range of economic opportunities both within and beyond the agricultural sector. As a consequence, the significant social impacts include (i) improved livelihoods, (ii) fewer poor communities in the area, (iii) higher levels of education, and (iv) improved public health.

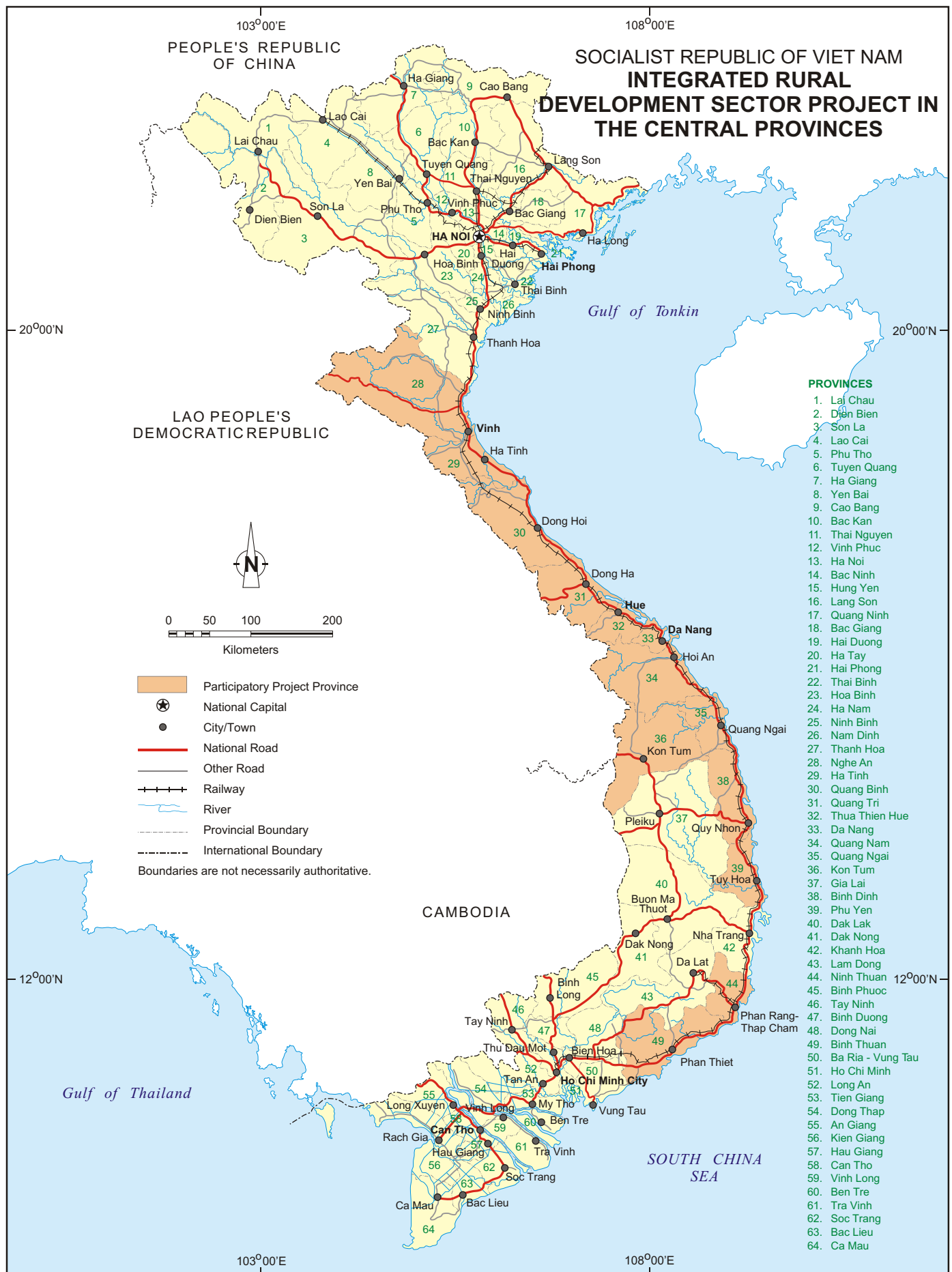
Risks and Assumptions

The project design assumes that the participating provincial governments have the capacity and technical skills to identify, plan, design, and implement medium-scale rural infrastructure rehabilitation and upgrading but that they lack the financial resources for these purposes. This assumption is proven valid by the successful implementation of the predecessor project, the RISP, which was implemented to sound technical standards within the designed implementation period and within budget. Implementing such a project at the provincial level in Viet Nam does, however, carry certain risks. Not all provincial governments are adequately skilled at (i) identifying high-priority and strategic subproject investments, (ii) dealing with environmental or social impact issues (except for land acquisition matters), or (iii) appreciating the need for full public consultation. Moreover, many provincial governments do not fully appreciate the importance of operation and maintenance (O&M) funding for completed civil works. The project design, through carefully selected eligibility criteria and capacity-building support, incorporates measures to ensure that these concerns are dealt with and mitigated to the

extent necessary and feasible, and assurances have been given by the Government that structures built under the Project will be fully maintained. The overwhelming direct and indirect benefits expected from the Project thus indicate that the impact will outweigh any possible social, environmental, or financial risks the Project might face.

Technical Assistance

The CPMU and PPMUs will be provided with an advisory technical assistance to (i) provide guidance and assistance at both national and provincial levels for further policy development with a focus on O&M, and (ii) ensure that both Viet Nam's and ADB's safeguard policies and procedures are understood and followed during project implementation. This technical assistance will be implemented prior to and during project start-up and during the first 2 years of implementation. The main thrust of new policy improvement will be a thorough analysis of O&M arrangements of infrastructure funding by provincial governments. The main thrust of the support for policy compliance will be to ensure that project management is established on a sound financial and procedural basis and that ADB and Government concerns regarding safeguards, the prevention of graft and corruption, procurement, and community involvement are fully taken into account during day-to-day project implementation activities. The cost of the technical assistance is estimated at \$1.1 million of which \$1.0 million will be funded on a grant basis; the balance will be funded by the Government.



I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan to the Socialist Republic of Viet Nam for the Integrated Rural Development Sector Project in the Central Provinces, and (ii) proposed administration by the Asian Development Bank (ADB) of a loan and a grant to be provided by Agence Française de Développement (AFD) for the Project. The report also describes proposed technical assistance (TA) for Infrastructure Policy Reform Support and if the Board approves the proposed loan, I, acting under the authority delegated to me by the Board, will approve the TA.

II. RATIONALE: SECTOR PERFORMANCE, PROBLEMS, AND OPPORTUNITIES

2. In November 2004 ADB approved a project preparatory technical assistance (PPTA) to help the Socialist Republic of Viet Nam formulate a project for rural infrastructure improvement in the country's Central Region.¹ The Project was to be modeled on the Rural Infrastructure Sector Project (RISP), approved in 1997² and completed in 2004.³ During preparation, a decision was taken to amalgamate the proposed Project with another similar project being prepared simultaneously under another PPTA.⁴ This report is based on findings of the two PPTAs, Government feasibility studies, findings of ADB missions, and discussions with government officials and stakeholders. The project design and monitoring framework is presented as Appendix 1.

A. Performance Indicators and Analysis

3. When ADB resumed operations in Viet Nam in the early 1990s the country was very much rural based and poverty was a rural phenomenon. In 1993, 80% of the population lived in rural areas, and while the national level of poverty was 58.1%, the percentage of rural people living in poverty was 66.4%. Since then Viet Nam has made remarkable progress in poverty reduction. The overall poverty level has fallen to 23.2% but the rural population still accounts for 70% of the country's population and levels of poverty remain higher in rural areas. In 2004, rural poverty levels were estimated at 26.4%⁵ in contrast to 13.7% in urban areas.

4. One of the main reasons for the dramatic advances in poverty reduction has been the strong growth of the agriculture sector, which is the mainstay of economic activity for 90% of rural households. Despite declining commodity prices and the impact of the Asian economic crisis, agricultural gross domestic product (GDP) grew at an annual average of 4% over the past decade compared with the economy's annual growth rate of 7%. This has been achieved through very high production growth rates in spite of depressed rural prices. For example, the production of rice, the country's staple crop, grew by 43% between 1995 and 2005.⁶ The increase in production of other crops has been even more impressive, with maize increasing more than threefold and coffee and rubber production more than fourfold over the same period. Not only did agricultural production increase, but there was also deepening of the domestic

¹ ADB. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Rural Infrastructure for Sustainable Livelihood in Central Region Project*. Manila.

² ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Rural Infrastructure Sector Project*. Manila.

³ ADB, 2006. *Project Completion Report: Rural Infrastructure Sector Project*, Manila.

⁴ ADB. 2003. *Technical Assistance to the Socialist Republic of Viet Nam for Preparing the Livelihood Improvement in Central Coastal Provinces Project*. Manila. This decision was made, in part, due to the Government's request to expand the project area from six to 12 provinces covering three of the four provinces of the other PPTA.

⁵ ADB 2006. *Country Strategy and Program - Viet Nam (2007–2010)*, Manila.

⁶ ADB. 2006. *Key Indicators*. Manila.

market and a shift to higher value crops including a significant increase in vegetable and livestock production and consumption. Between 1990 and 2002, vegetable, pork, poultry, and egg production per capita all doubled. Since the population of the country also increased significantly during this period, this indicates something like a quadrupling of overall production.⁷

5. Significant reductions in the level of poverty in the rural areas were also achieved through other means. According to World Bank (WB) studies (footnote 7), 2.5 million people in rural areas were provided with improved rural transport infrastructure during the last decade. This has resulted in greater access to services and opportunities and has contributed significantly to lower rural poverty levels - access to off-farm employment and markets for nonfarm products. According to the same studies, only 25% of rural families currently rely solely on agriculture for their incomes; the remaining 75% earn supplementary incomes from off-farm employment or self-employment. In many areas, this is only possible due to increased access to markets and employment opportunities from enhanced transport infrastructure. Improved access to clean water (a major factor in reducing diseases), and increasing the availability of productive labor, especially among women, has also been impressive. Between 1993 and 2002, the percentage of rural households with access to clean water increased from 18.1 to 39.6%.

6. However, much remains to be done. In addition to the 26.4% of the rural population still living below the poverty line, a large part of the population has just emerged from poverty yet remains vulnerable to economic shocks that could impact on recent achievements. Declining agriculture commodity prices or natural disasters could still push many rural households back into poverty. Such was the case in 2005 when a series of major typhoons resulted in serious damage to crops and infrastructure and a significant decline in paddy production.

B. Analysis of Key Problems and Opportunities

7. In Viet Nam, poverty (especially rural poverty) currently has a geographic and ethnic bias. The highest levels of poverty in the country are the Northwest (51.9%) and the North Central Coast (36.5%) regions, while the highest absolute number of poor people is found in the North Central Coast Region. Thanh Hoa and Nghe An provinces (both part of the proposed project area) have the highest numbers of poor people in the country. This geographic concentration of poverty also reflects an ethnic bias. Areas with the highest poverty incidence also have high numbers of ethnic minority peoples, and among ethnic minorities poverty levels are still as high as 69.3%⁸ due, in part, to inaccessibility. Poverty in Viet Nam is a rural phenomenon, focused to a large extent in the more isolated central and northern regions of the country, disproportionately affecting ethnic minorities. This is especially the case for families with limited land resources and those living in natural-disaster prone areas such as coastal zones. In these areas, soils are typically poor, land holdings are small in size, and large areas are subject to flooding and seawater intrusion during seasonal storms and typhoons. This situation prevails along much of the north-central coast, but also exists to a lesser extent along the south-central coast.⁹ Efforts focused on poverty reduction will need to focus on these areas and the particular problems poor communities face.

8. One of the main causes of high poverty levels is inadequate rural and coastal infrastructure of all types (i.e., in the transport, agriculture, water, and environment subsectors). This manifests itself in several ways, including (i) reduced access to health and education

⁷ Source: WB. 2006. *Accelerating Viet Nam's Rural Development*. Washington, DC.

⁸ Based on 2002 figures. The 2004 figures are not yet available.

⁹ Ironically, these same areas tend to suffer from drought during the dry season months.

services, (ii) increased transport costs (in time and money), (iii) constrained agricultural productivity, and (iv) increased exposure to both waterborne diseases and natural disasters. Analysis of this situation showed that the rural infrastructure problem was in turn, caused by (i) a lack of investments in upgrading and maintaining the existing capital stock, (ii) poor levels of coverage, notably missing items of infrastructure, especially medium-scale infrastructure, and (iii) inadequate capacity in planning and prioritizing investments. With the present emphasis on decentralization, there remains an essential need to enhance inter-sector coordination and improve efficiency of existing entities responsible for managing rural infrastructure. These entities include (i) state-owned irrigation management companies, (ii) rural irrigation water-user associations, (iii) rural water supply water-user groups, (iv) market management boards, and (v) the provincial departments of transport and road-user associations tasked to maintain rural roads at commune and district level.

9. The Government's poverty reduction strategy¹⁰ and its latest socio-economic development plan (SEDP)¹¹ both place considerable emphasis on the provision of infrastructure at the national level and, more directly, at the province, district, and commune levels through the bottom-up planning process in provincial development plans. As rural infrastructure is essentially a service sector, deficiencies in its performance compromise investments made in the directly productive sectors (such as agriculture and education). The ADB country strategy and program recognizes this priority and has identified limitations in physical infrastructure as one of the main hindrances to accelerated, private sector-led and socially inclusive growth. WB's recent rural development review (footnote 7), moreover, specifically mentions the gap between national level and rural level infrastructure at the medium scale (i.e., at provincial and district level). It notes that only 30% of provincial roads, for example, have all-weather surfaces, severely constraining communications in rural areas, increasing travel times, and the cost of transport for agricultural enterprises. A review of the rural infrastructure sector is provided in Appendix 2 and Supplementary Appendix A.

10. ADB's past experience in rural infrastructure improvement has been generally favorable. Similar ADB-funded projects undertaken in the past include the Irrigation and Flood Protection Rehabilitation Project,¹² the Red River Delta Water Resources Sector Project,¹³ and the RISP (footnote 2) The Forestry Sector Project¹⁴ also included a significant component of rural infrastructure. The Ministry of Agriculture and Rural Development (MARD) was the executing agency for all four projects. The RISP is the closest in design to the proposed Project, involving rural infrastructure of several kinds (rural roads, irrigation, village water supplies, and rural markets). The implementation of the RISP was effectively devolved to 23 participating provinces. Project completion reports (PCRs) for these projects assessed each as successful, all achieving a wider impact than originally intended. In particular, the RISP completed the rehabilitation of 1,900 kilometers (km) of rural roads against an appraisal estimate of 1,500 km, while the irrigation area rehabilitated was 60,000 hectares (ha) against an appraisal estimate of 20,000 ha. Similar projects funded by other donors include the WB first and second Rural Transport Projects that were also assessed as successful. Appendix 3 lists significant external assistance for the development of Viet Nam's rural areas that were predominantly project-

¹⁰ Government of Viet Nam. 2003. *Comprehensive Poverty Reduction and Growth Strategy*. Hanoi.

¹¹ Government of Viet Nam. 2006. *Five Year Socio-Economic Development Plan: 2006–2010*. Hanoi.

¹² ADB. 1993. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Irrigation and Flood Protection Rehabilitation Project*. Manila.

¹³ ADB. 1994. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Red River Delta Water Resources Sector Project*. Manila.

¹⁴ ADB. 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Forestry Sector Project*. Manila.

oriented. More recently, donor investment has adopted a program approach with direct budget support.¹⁵ Previous ADB-supported medium scale rural infrastructure investments, complementary to Program 135 were coordinated through provincial SEDPs, as would future investments of a similar scale under Program 135 phase II.

11. Major lessons learned from these previous investments include (i) that technical capacity exists in Viet Nam to undertake such projects, and (ii) that with adequate coordination and supervision; implementation can be successfully devolved to provincial governments. A sector approach was also judged to be the most appropriate means of providing investment for a large number of subprojects located in participating provinces. While significant efforts have been made in previous ADB-funded infrastructure projects for safeguard compliance issues (with regard to resettlement and environment), government staff do not always have the expertise to adequately deal with these aspects. Other lessons learned from a recent special evaluation study (SES),¹⁶ highlight that investments in rural infrastructure must be contextually appropriate to sustainably lift people out of poverty. It also highlights that upgrading isolated roads did not lead to a meaningful impact on poverty reduction as these were not integrated with other economic opportunities. In the case of irrigation and water supply subprojects, the SES questioned, among other issues, the technical and economic viability of small-scale investments, and also noted issues in operation and maintenance. The proposed Project therefore includes considerable support to ensure selection and design of strategically relevant subprojects that have the capacity to genuinely tackle the most binding of economic and social constraints and are not simply standard or inappropriate physical designs. Special focus is placed on addressing O&M-related challenges.

12. The project design is based on (i) an identified demand for enhanced medium-scale rural and coastal infrastructure to further reduce the high poverty levels in the central coastal provinces, (ii) the Government and ADB strategies of providing rural infrastructure for this purpose, (iii) the successful design and implementation experience of the RISP and other related ADB-funded projects, and (iv) the need for future rural infrastructure projects to include stronger measures to enhance both safeguard compliance and contextual relevance in subproject identification and design. Project investments will be complemented by a strong capacity-building and awareness-raising program for provincial level implementation staff.

III. THE PROPOSED PROJECT

A. Impact and Outcome

13. The project area comprises 13 provinces in the Central Region,¹⁷ one of the poorest regions of the country and, as such, identified by both ADB and the Government as a region of special focus for development investment. The most densely populated areas are the coastal zones and the alluvial plains. The uplands tend to be sparsely populated by ethnic minority people. While the upland and mountainous areas have extremely high levels of poverty (in some cases over 60%), the greatest absolute numbers of poor people are found in the coastal zone and the alluvial plains where there are higher population densities.

¹⁵ WB will support the Government's ongoing rural infrastructure Program 135-II for grassroots rural infrastructure along with policy and institutional amendments.

¹⁶ ADB's Operations Evaluation Department. 2006. *Pathways Out of Rural Poverty and the Effectiveness of Poverty Targeting*. Manila.

¹⁷ From north to south: Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien-Hue, Quang Nam, Quang Ngai, Kon Tum, Binh Dinh, Phu Yen, Ninh Thuan, and Binh Thuan.

14. The economies of all project provinces are dominated by agriculture. The main activity is rice cultivation, supplemented in coastal zones by capture fisheries and aquaculture. However, soils tend to be less fertile and sandier than in other parts of the country, while the climate tends to be drier, resulting in a high demand for irrigation water to achieve full agricultural potential. Moreover, the region is also disaster prone, being subject to typhoons and consequent floods in the rainy season and droughts in the dry season. This adds to the precarious economic situation of the population, most of whom live below or just above the poverty line. Rural infrastructure in the project provinces is in particularly poor condition. Approximately 70% of provincial roads are unpaved and impassable during parts of the wet season, while many of the irrigation systems require rehabilitation and upgrading. As a result, access to agricultural inputs (including water for irrigation) and markets is limited, as is access to public services and clean water supplies.

15. Facing these constraints, the proposed Project has been designed to (i) improve rural livelihoods by increasing agriculture productivity, (ii) widen employment opportunities, (iii) improve access to health and education, and (iv) reduce exposure to natural disasters. This will be achieved through investments in locally identified, strategically important, medium-scale rural infrastructure priorities. Collectively, investments made under the Project will improve the quality, extend the coverage, and better integrate rural infrastructure in the Central Region. The net effect of this outcome will be to raise the efficiency of investments made in the productive sectors and to increase awareness of the need for timely maintenance of rural infrastructure. The types of rural infrastructure to be improved will include (i) rural roads; (ii) irrigation drainage and flood control schemes; (iii) rural markets; (iv) rural water supply schemes; and (v) special coastal works such as sand dune stabilization, salinity intrusion prevention, and mangrove rehabilitation. The proposed Project will finance locally determined priority infrastructure investments outlined in provincial SEDPs. Such plans are prepared on a 5-year basis and reflect provincial rural development and rural infrastructure priorities, identified on the basis of community generated requests from villages, communes, and districts.

B. Outputs

16. The Project has the following three components: (i) rural and coastal infrastructure development, further divided into (a) rural and coastal infrastructure subprojects, and (b) design support studies and community participation; (ii) capacity building; and (iii) central project management. Under the rural and coastal infrastructure development component, the Project will provide funds for the design and implementation of priority rural and coastal subprojects chosen from the provincial SEDPs. In order to ensure compliance with safeguard requirements of the Government and ADB, support will be provided for special design studies relating to resettlement, ethnic minorities and gender, and the environment for all subprojects. The component relating to capacity building provides resources to facilitate training and guidance for national and provincial staff engaged in the Project. Under the project management component, funds will be provided for the coordination and day-to-day management of the Project and the provision of project implementation assistance and capacity-building consultants to assist in the implementation of the Project and training. These are described more fully in Supplementary Appendix B.

17. Being a sector-style project, precise outputs of the proposed Project will be identified during the implementation period from provincial priorities following public consultations. For project design purposes, a series of parameters was developed based on (i) past experience under the RISP, (ii) provincial priorities so far identified, (iii) stakeholder priorities from field interviews, and (iv) the contents of the respective provincial SEDPs. On this basis, it has been

assumed that approximately 110 rural infrastructure subprojects, with an average cost of about \$1.4 million, will be funded under the infrastructure component. About 50% of subproject investment is expected to be applied to rural roads, 30% for irrigation and the balance for water supply and sanitation, markets, and specific coastal infrastructure. Given the prevailing unit costs for such works, the envisaged outputs will comprise construction and upgrading of (i) approximately 55 rural roads totaling about 1,000 km, (ii) 20 irrigation, drainage, and flood control subprojects impacting on an area of about 30,000 ha, and (iii) approximately 30 further rural and coastal infrastructure subprojects (including water supply schemes, rural markets, and coastal works such as the upgrading of special infrastructure for salt processing and aquaculture, the prevention of salinity intrusion, sand dune stabilization, and mangrove rehabilitation). Four sample subprojects of the type expected under the Project were analyzed during project preparation; each was found to be economically viable with a large number of beneficiaries (Supplementary Appendix C).

18. The output from the second component will be the training of a significant number of government personnel in project design, implementation, and construction supervision. Capacities of national and provincial individuals associated with the Project will also be improved in the area of safeguards (including environment, resettlement, and social issues). Activities to be undertaken will include (i) the training of personnel at the provincial level, especially on safeguard matters, but also in project planning, implementation supervision, monitoring, and the financial aspects of project management; (ii) the selection of the subprojects in consultation with key stakeholders; (iii) the recruitment of design consultants; (iv) subproject design; (v) contractor recruitment; (vi) the provision of civil works; (vii) the technical aspects of O&M required for different road standards and other infrastructure design; (viii) implementation monitoring; and (ix) the development of methods to ensure provision of adequate budget and training for O&M of completed subprojects.

19. Outputs from the third component will be the improved capacities of provincial agency staff to manage small- to medium-scale infrastructure investments and to maintain these facilities in sound working condition.

C. Special Features

20. The most significant special feature of the Project is the devolution of responsibility for implementation to provincial and district levels in keeping with the Government's policy on democracy and devolution as expressed in Decree 79/CP on the Regulation of the Exercise of Democracy in Communes (1998) (also known as the Grassroots Democracy Decree). Participating provincial governments will be responsible for their respective subprojects and, during implementation, responsibilities will be devolved (to the extent feasible and workable) to district level. The extent of commitment and ownership by the provinces to these arrangements is evident from the fact that counterpart funding for O&M of completed subprojects will come wholly from the provincial government budgets and that the provinces are in full agreement with these arrangements.

21. The attached advisory technical assistance (ADTA) will provide the opportunity to review the successes and failures in the critical issue of O&M on all types of rural infrastructure including the more public items such as rural roads, markets, and coastal structures, as well as the more individual items (where the main beneficiaries assume greater responsibility for O&M) such as water supplies and irrigation rehabilitation. By taking a broad perspective gained from reviewing other infrastructure-related projects in cooperation with other donors, there will be a unique opportunity to influence government policy on O&M issues. This should lead to (i) a

change in attitude of those allocating budgets to improve sustainability of infrastructure investment, and (ii) improved technical training in the principles of O&M requirements.

22. In addition, an important aspect in the selection of the subprojects will be their key strategic impact, maximized through rigorous local contextual selection and design processes (Appendix 4). For example, rural roads will be selected for upgrading not only because they are in poor condition but also because they open up areas where real development potential and the welfare of the productive poor are presently constrained by a lack of access to markets or inputs. Similarly, irrigation subprojects based on simple and straightforward repairs or improvements will be chosen on the basis of their ability to raise crop production across a broad area so as to maximize the benefit to a large number of people who may now be only partly dependent upon agriculture for their livelihoods. Water supply subprojects for the less productive poor areas, for example, will be chosen based on the estimated cost savings in areas where potable water is not available or seasonal drought causes severe hardship in addition to time and income losses.

D. Project Investment Plan

23. The project investment cost is estimated at \$168.2 million, including taxes and duties of \$13.1 million. A project investment plan is shown in Table 1. Summary cost estimates are presented in Appendix 5 and detailed project costs in Supplementary Appendix D.

Table 1: Project Investment Plan
(\$ million)

Item	Amounts ^a
A. Base Cost^b	
1. Rural and Coastal Infrastructure	156.00
2. Capacity Building	3.20
3. Central Project Management	4.08
Subtotal (A)	163.28
B. Contingencies^c	1.71
C. Financing Charges During Implementation^d	3.18
Total (A+B+C)	168.17

^a Includes taxes and duties of \$13.1 million.

^b In mid 2006 prices.

^c Physical contingencies computed at 0% for civil works being a sector type project; and 10% for training, implementation, consulting services, and operational costs. Price contingencies computed at 3% on foreign exchange costs and 5% on local currency costs; includes provision for potential exchange rate fluctuation under the assumption of a constant purchasing parity exchange rate.

^d Includes interest during implementation computed at 1% per annum (none for Agence Française de Développement).

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

E. Financing Plan

24. The Government has requested a loan of SDR 58,723,000 (\$90 million equivalent) from the Asian Development Fund to help finance the Project. The loan will have a 32-year maturity including a grace period of 8 years, a 1% interest charge during the grace period and 1.5% during the amortization period. Loan joint cofinancing of the Project will be provided by Agence Française de Développement (AFD) in the amount of €40 million (\$52 million equivalent).

Table 2: Financing Plan
(\$ million)

Source	Total	%
Asian Development Bank	90.0	53.5
AFD Loan	52.0	30.9
AFD Grant	1.3	0.8
Provincial Government	24.0	14.3
Central Government	0.8	0.4
Total	168.2	100.0

ADB = Asian Development Bank, AFD = Agence Française de Développement.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

25. Conditions and arrangements for AFD cofinancing will be through a bilateral financing agreement to be negotiated between the Government and AFD. AFD will also provide cofinancing on a grant basis in the amount of €1.0 million (\$1.3 million equivalent). A cofinancing agreement will be entered into by ADB and AFD under which the parties will jointly finance the civil works and international consulting services. The proceeds of the loans will be passed to the 13 participating provincial governments by the national Government as a grant. The balance of the project cost (\$24.8 million equivalent), amounting to 14.7%, will be funded by the Government and participating provincial governments. Provincial budgets of all participating provinces have been examined and it has been concluded that all have the capacity to provide the needed counterpart funding (Supplementary Appendix E). Land acquisition under resettlement plans will not be financed from loan funds but will remain the responsibility of the provinces. The financing plan is shown in Table 2.

26. To facilitate project implementation, the Board is requested to approve the administration of the proposed loan in an amount not exceeding the equivalent of €40 million (\$52 million equivalent) and approve the grant in the amount not exceeding the equivalent of €1 million (\$1.3 million equivalent), both from AFD, which are expected to be confirmed on or before the date of Board approval. Approval from the cofinancier will be reported to the Board in accordance with the standard reporting procedures. If AFD does not approve the loan and the grant, the AFD portions of the loan and grant will not be financed under the Project. Alternatively, the Government may make alternative arrangements, satisfactory to ADB, to cover the funding shortfall.

F. Implementation Arrangements

1. Project Management

27. The executing agency (EA) for the Project will be MARD. The management structure is shown in an organization chart in Appendix 6. MARD has implemented a number of ADB

projects including the RISP (the precursor of the proposed Project), and is the EA for a number of ongoing projects. Almost all completed projects undertaken by MARD have been rated as successful, and while some inefficiency has been reported with ongoing projects, this may be attributed more to the complexities of design rather than any fundamental deficiency in MARD's capacity. In keeping with the principles of decentralization and the devolution of responsibilities, identification and approval of the subprojects will be through the provincial people's committees (PPCs) of the 13 participating provinces. Eight of these provinces participated in the RISP and have had several years experience in the implementation of rural infrastructure subprojects of the type proposed. They are familiar with technical aspects of subproject implementation and the financial aspects of an ADB-financed loan. The other five provinces also have experience with projects funded by ADB and other multilateral agencies including WB and the International Fund for Agricultural Development. To ensure their full capability in subproject identification, design, implementation, and financial management, special capacity-building measures will be focused on these provinces during the early stages of implementation.

28. The CPMU established within the Agriculture Project Management Board (APMB) of MARD will be responsible for overall project implementation at the national level. The CPMU will be managed by a national project director and two vice directors supported by appropriate technical, administrative, and accounting staff.

29. At the provincial level, day-to-day management will be the responsibility of provincial project management units (PPMUs) established by PPCs of participating provinces within the provincial Department of Agriculture and Rural Development (DARD). Eight of these PPMUs will be the same as those established and operated under the RISP, while five will be newly established. As noted, the newly established PPMUs will be given support and training as well as assistance from the experienced PPMUs of neighboring provinces. The PPMUs will be managed by a director, and supported by a full-time coordinator appointed to ensure day-to-day supervision of the PPMU and to coordinate the work of specific technical experts involved in subproject identification, design, and implementation. PPMU staff will be seconded from DARDs as well as other departments as per the requirements. An important position of each PPMU will be the safeguards officer appointed to ensure compliance with public consultation requirements, environmental impact assessment and mitigation, and social impact (including resettlement) assessment and mitigation aspects of subproject implementation.

30. At the district and commune levels, the Project will liaise closely with the existing local administration. The PPMUs shall be responsible for ensuring coordination of day to day activities at the district and commune level. This will include organizing public consultations and monitoring of the subproject design and implementation by the subproject beneficiaries.

31. To guide project implementation at the provincial level and to ensure interagency coordination as required, provincial project steering committees (PSCs) will be established within participating provinces. The PSCs will be chaired by the vice chairman of the PPC and will comprise members of representatives from the respective PPC departments and local agencies. PSCs will meet regularly on a 6-monthly basis and intermittently as required.

2. Subproject Preparation and Appraisal

32. A two-step process has been selected for the identification and preparation of subproject proposals. During the first step, subproject proposals will be selected by the PPCs from priorities within their SEDPs. Subprojects chosen should be strategic and straightforward engineering projects and will comprise rural roads, irrigation (including drainage and flood

control), domestic water supply, markets, and coastal infrastructure, with an estimated cost between \$0.5 million and \$4 million. These will then be reviewed through a process of public consultation¹⁸ with potential beneficiaries and other stakeholders, after which a subproject identification proposal (SIP) will be prepared by the PPMU. The PPMU will ensure that all of the required initial screening selection criteria are properly addressed and reported. These will include the requirements for (i) public consultation, (ii) an initial environmental examination, (iii) a preliminary social assessment including resettlement and land acquisition impacts, (iv) preliminary cost estimation, (v) a preliminary assessment of benefits, and (vi) preliminary proposals for O&M. The first two SIPs of less than \$2 million—one from an RISP province and the other from a non-RISP province—shall be submitted to ADB for approval (on a no-objection basis). SIPs for subprojects expected to cost more than \$2 million will be submitted to ADB for approval on a no-objection basis.

33. The second step in the subproject identification process involves the preparation of a feasibility study or subproject investment report (SIR). SIRs will be prepared by local consultants under the guidance of the PPMU to ensure that subproject eligibility criteria for implementation funding will be met. This includes ensuring that all measures are taken to mitigate possible social impacts including special measures for land acquisition, compensation, indigenous people's specific actions if required, and special measures to improve the participation of women and other disadvantaged groups as beneficiaries. Upon completion of the SIR, the PPC will review the studies to ensure that they fully meet the eligibility criteria for implementation financing and any other internal requirements that may be imposed by the province or the national Government. Upon approval of the SIRs (in the case of subprojects costing less than \$2 million) or ADB (in the case of subprojects costing more than \$2 million) funds will be committed for the commencement of implementation activities. The implementation process is described in Appendix 7 and the selection criteria in Appendix 4.

3. Implementation Period

34. The proposed Project will be implemented over a period of 6 years from 2008 to the end of 2013. Since subprojects will be relatively small and most provinces already have several years of experience in implementing similar subprojects, and since the responsibility for implementation will be spread among 13 provinces, preparation work on most subprojects is expected to begin within the first year. Bidding and construction work will then proceed during the second year and will continue into the fourth year. The initial allocation to provinces will be based on a fixed amount to meet PPMU overheads¹⁹ plus a proportional amount reflecting the respective size of the rural population of participating provinces. During the fourth year, a second phase of subprojects will then be taken up with funds not utilized during the first phase. These are expected to be somewhat smaller in size and will be completed by the end of the fifth year or the middle of the sixth year. The second allocation will be made using incentives based on the implementation performance of the province and the proportional incremental increase in provincial budget allocations for O&M. The final half year of the Project will be spent ensuring that O&M arrangements are in place for completed subprojects. Indicative allocation to provinces is presented in Supplementary Appendix F.

¹⁸ A consultation framework was agreed with the Government during the Appraisal Mission.

¹⁹ A figure of \$6.1 million equivalent per participating province was agreed at appraisal.

4. Procurement

35. A procurement capacity assessment of the EA has been conducted and is presented in Supplementary Appendix G. This included a review of the CPMU capacity and a review of the capacity of two participating provincial PPMUs. A procurement plan is outlined in Appendix 8 with indicative procurement and recruitment contracts that were based on the capacity assessment. Pre- and post-review thresholds were discussed and agreed with the CPMU and are included in the plan.

36. Procurement will mainly be undertaken by PPMUs. Goods and works financed by ADB and AFD will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). Contracts for works valued at over \$2 million equivalent shall be procured through international competitive bidding (ICB) in accordance with ADB's *Procurement Guidelines*. Smaller packages for works valued at less than \$2 million or equivalent but more than \$100,000 or equivalent, shall be procured using national competitive bidding (NCB) procedures acceptable to ADB with a one-stage, two-envelope system. For works below \$100,000 equivalent, shopping procedures acceptable to ADB may be used. Contracts for goods valued at over \$500,000 equivalent shall be procured through ICB in accordance with ADB's *Procurement Guidelines*. Goods costing less than \$500,000 equivalent but more than \$100,000 shall be procured through NCB procedures using a one-stage, two-envelope system acceptable to ADB. Smaller packages for goods valued at less than \$100,000 may be procured through shopping procedures acceptable to ADB.

5. Consulting Services

37. The Project will require three kinds of consulting services: (i) international and national consulting services to assist the CPMU with project implementation, monitoring, and training; (ii) national consultants to assist the PPMUs with the preparation of environmental, resettlement, and social safeguards for SIPs and SIRs; and (iii) national engineering consultants to prepare detailed engineering designs and supervise construction of works.²⁰

38. Consultants will be selected and engaged in accordance with the ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The CPMU will be responsible for recruiting the project implementation and training consultants²¹ through a consulting firm. The CPMU will also recruit national consultants to facilitate community participation and provide advice on safeguards to provincial governments from national firms using the consultants' qualification selection (CQS). This method will be used since (i) few consultants are qualified, (ii) the quality of the firms' output will be critical to the assessment and mitigation of the Project's environmental and social impact; and (iii) recruitment time will be critical. Individual consultants for capacity building and facilitation are also expected to be recruited by the CPMU.

39. The PPMUs will be responsible for recruiting national consultants to provide design and supervision services. These consultants will be recruited using CQS procedures acceptable to ADB because (i) these consultants will be hired under small packages of \$200,000 or less, (ii) recruitment time is critical, and (iii) the small size of contracts does not justify the cost of the preparation and evaluation of competitive proposals.

²⁰ Since categories (ii) and (iii) will be recruited as needed on a subproject-by-subproject basis as part of the sector loan package, it is not currently possible to quantify exactly the required number of person-months of expertise.

²¹ To be partly funded by the AFD grant.

40. The requirement for implementation and training consulting services and safeguard consultants is shown in Appendix 9, and outline terms of reference presented in Supplementary Appendix H. To support implementation and capacity-building initiatives, the Project will fund a total of 60 person-months of international specialists and 271 person-months of national specialists for a total of 331 person-months. Consulting services are necessary for smooth implementation of the Project and to incorporate increased emphasis on safeguards, community participation, and O&M for subprojects, as well as to continue the capacity-building initiated under the RISP. Consulting services will not only support the CPMU in technical areas of engineering design and construction, but will also be instrumental in introducing a more consultative approach during subproject identification and design to improve sustainability. International expertise is to be provided in (i) project management, (ii) technical engineering, (iii) training coordination, (iv) safeguard requirements of ADB and the Government, (v) O&M, and (vi) benefit monitoring. National specialists will be required in similar areas to facilitate technology transfer of the training within PPMUs and other target beneficiaries and will include community participation specialists, indigenous peoples, and gender specialists, together with experts in the economic assessment of subprojects.

6. Advance Action and Retroactive Financing

41. The Government requested that ADB approve advance recruitment action for implementation and training consultants. Advance action is necessary to ensure consultants are available to support the early stages of project implementation. Retroactive financing withdrawals from the loan account may be made for reimbursement of eligible expenditures incurred under the Project from the date of approval by the ADB Board of Directors to the date of effectiveness of the ADB loan, or a maximum of 9 months prior to the date of signing the Loan Agreement, whichever is later. The amount of retroactive financing will be subject to a maximum of \$2 million equivalent in connection with the following items: (i) recruitment of implementation and training consultants; and (ii) consulting services for project design, including environmental, social impact, land acquisition, and baseline surveys. The Government was advised that ADB approval of advance contracting action and retroactive financing will not, in any way, commit ADB to approve the proposed loan, and that ADB financing will be dependent upon compliance with all aspects of ADB procedural requirements, including compliance of the Government with relevant provisions of the loan and project agreements and ADB guidelines.

7. Anticorruption Policy

42. The Government was advised of ADB's *Anticorruption Policy* (1998, as amended to date) and the *Combating of Money Laundering and the Financing of Terrorism* (2003) policy. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* are included in the loan and grant regulations and the bidding documents for the Project. In particular, all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

8. Disbursement Arrangements

43. After loan effectiveness, the Government will establish two first-generation imprest accounts (one for ADB and the other for AFD) in a commercial bank in Hanoi acceptable to ADB. These will be managed by the CPMU under the supervision of the central Treasury. The imprest accounts will be managed in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time). ADB disbursement procedures will be followed for drawing down ADB and AFD loan funds through these two first-generation imprest accounts. The advance to be deposited into each of the imprest accounts will be based on an estimated 6 months of project expenditure or a maximum of 10% of the respective loan amounts, whichever is the lower. Funds in these first-generation imprest accounts will be used to establish advances in the second-generation imprest accounts in participating project provinces. These will be controlled by the PPMUs under the supervision of provincial treasuries. Since a large number of small payments are expected, most funds for the payment of civil works contracts will be drawn from the provincial imprest accounts, and these accounts will be reimbursed using the statements of expenditure procedures against progress payments outlined in works construction contracts. Provincial imprest accounts will be replenished upon presentation of documented liquidation of expenditures as outlined in ADB's *Loan Disbursement Handbook*. The CPMU will manage two imprest accounts, one for ADB funds and the other for AFD; similarly, PPMUs will manage two imprest accounts. Disbursement arrangements are presented diagrammatically in Appendix 10.

44. Payments made directly from the CPMU and PPMUs will be supervised and authorized by the treasury at central and provincial levels upon receipt of payment documents. Based on the payments authorized by provincial treasuries, each PPMU will prepare withdrawal applications with associated payment documents or statements and the second-generation imprest account balance sheet (using the CPMU format) and submit them to the CPMU. Upon the receipt of reimbursement applications and payment documents from PPMUs, the CPMU will prepare an aggregated withdrawal application and submit it to the Ministry of Finance for endorsement. Authorized withdrawal applications will be forwarded to ADB and AFD for reimbursement to the respective first-generation imprest accounts. The percentage of each claim for reimbursement will be paid by the two financiers in accordance with the loan agreements between the Government, ADB, and AFD.

45. The effectiveness and efficiency of the disbursement procedures will be assessed at the midterm review and actions taken to simplify or streamline the processes if appropriate. Statement of expenditure procedures may be used to reimburse expenditures and liquidate the imprest accounts for all individual payments not exceeding \$100,000. The imprest accounts will be replenished on a monthly basis to ensure liquidity of funds or when the accounts are drawn down to 20% of the initial deposit. The imprest accounts and statements of expenditure will be audited annually by auditors acceptable to ADB.

9. Accounting, Auditing, and Reporting

46. Each PPMU and the CPMU will maintain records and accounts that identify the goods and services financed from the loan proceeds, financing resources received, expenditures incurred for the Project, and use of local funds. The accounts will be established and maintained in accordance with internationally accepted accounting standards. Annual project accounts of PPMUs and the CPMU will be audited by auditors acceptable to ADB. Audit coverage will include a special audit of project accounts, including separate opinions on (i) the utilization of

the primary and secondary imprest accounts; (ii) the statement of expenditures, including whether the amount claimed is duly supported and verified; (iii) whether the CPMU and PPMUs are operating the imprest accounts in accordance with ADB procedures; and (iv) compliance with financial covenants specified in the loan and project agreements. The audit reports, management letter, and related financial statements will be submitted to ADB not later than 6 months after the end of the fiscal year to which they relate, or the project closing date if earlier. ADB informed the Government of its policy on submission of audited accounts, which covers failure of submitting audited accounts and financial statements by the due date. A formal warning will be issued for accounts more than 6 months overdue, and disbursements will be suspended for accounts that are 6 months overdue.

47. Each PPMU will provide monthly progress reports to the CPMU. These will be consolidated into quarterly reports and submitted to MARD, PSC, ADB, and AFD. These reports will record (i) the progress made, (ii) problems encountered during the review period, (iii) steps taken or proposed to remedy the problems, (iv) a proposed program of activities, and (v) progress expected for the following quarter. The CPMU will ensure that these reports are submitted to ADB in a timely manner.

48. Within 6 months of physical completion of the Project, the CPMU will submit to ADB a PCR that describes (i) the physical progress of the Project, (ii) actual costs incurred in relation to cost estimates, (iii) the results of capacity-building activities, (iv) the outcome of safeguard efforts, (v) a preliminary assessment of achieved benefits, and (vi) other relevant project implementation matters requested by ADB. The financial management assessment of the Project is presented in Supplementary Appendix M.

10. Project Performance Monitoring and Evaluation

49. Project progress and performance will be monitored through a comprehensive project performance monitoring system (PPMS). Detailed PPMS parameters and procedures will be developed during project implementation. Three different kinds of monitoring will be carried out including (i) implementation progress monitoring, (ii) safeguard monitoring, and (iii) benefit monitoring and evaluation. Implementation progress monitoring will be one of the main tasks of the CPMU. The monitoring unit within the CPMU will monitor the progress of activities in each province based on monthly PPMU progress reports. Withdrawals, disbursement, and reimbursement of project accounts will also be monitored by the same unit. Safeguard monitoring with associated grievance mechanisms will be undertaken to ensure that the required policies and procedures and plans for (i) resettlement including land acquisition and compensation, (ii) environmental impact assessment and mitigation, and (iii) indigenous peoples specific actions, are implemented and achieve their expected outcomes during subproject preparation, implementation, and operation. In addition, an independent agency will be recruited to specifically monitor the implementation of land acquisition and resettlement activities to ensure full compliance with all laws, decrees, policies, and plans, and to review the grievance mechanism for affected persons. Project benefit monitoring activities will entail periodic monitoring of the benefits and impacts of a representative number of selected subprojects. This will be undertaken independently by a university, institute, or similar agency with experience in the identification and quantification of economic development benefits.

50. To assist in financial management and disbursement of loan funds and implementation progress of infrastructure development, specialist inputs will be provided under the consulting services contract. In addition, participatory monitoring of infrastructure construction will be

promoted by the Project to achieve beneficiary commitment to future O&M. Furthermore, each SIR will contain a detailed procurement plan that will assist in achieving open and competitive bidding for design, construction, and supervision of works contracts and other services as required. In addition, the procurement plan requires that selection of the main implementation consulting services contract shall be submitted to ADB for prior approval, as will subprojects that cost over \$2 million.

11. Project Review

51. Apart from regular reviews, ADB, AFD, and the Government will undertake a comprehensive review within 18 months of loan effectiveness when the first batch of subprojects will be in the construction stage. A midterm review will also be undertaken within 36 months of loan effectiveness. These reviews will include (i) a comprehensive evaluation of project implementation arrangements, (ii) detailed evaluation of the scope and implementation process and progress of subprojects, (iii) feedback from the PPMS, (iv) the performance of consultants, (v) capacity-building progress, and (vi) the possible reallocation of loan proceeds. Remedial action will be instituted as required.

IV. TECHNICAL ASSISTANCE

52. The policy environment for rural infrastructure in Viet Nam has continued to evolve. With emphasis on decentralization, responsibility for allocating resources for O&M expenditures has shifted to the provincial governments. Laws and decrees have been issued that devolve to local administrations responsibility for rural development and safeguard practices for matters such as (i) land acquisition and resettlement, (ii) environmental impact assessment and mitigation, and (iii) community participation in decision making. At the same time, ADB's own policy and safeguard requirements covering similar issues have also evolved. Financial management and procurement procedures have also developed considerably. All of these new and emerging responsibilities will need to be adopted by provincial governments during subproject preparation and implementation, as will the single major policy issue in the sector - that of the need for provincial governments to assign sufficient funding for O&M of completed rural infrastructure subprojects.

53. Through an ADTA, the CPMU and PPMUs will (i) be provided guidance at both the national and provincial levels for further analyzing policy developments and their application in anticipation of future investments in the sector, and (ii) ensure that both Viet Nam and ADB policies and procedures are understood and followed during project implementation. This will be implemented prior to and during project start-up and during the first 2 years of implementation. The main thrust of policy compliance will be a thorough analysis of a range of issues faced by provincial governments for O&M funding. Support for policy compliance will ensure that project management is established on a sound financial and procedural basis and that all ADB and Government concerns regarding safeguards, the prevention of graft and corruption, and procurement and community involvement, are fully taken into account. The cost of the ADTA is estimated at \$1.1 million of which \$1.0 million will be funded on a grant basis and the balance by the Government. Terms of reference and cost estimates for this grant are provided in Appendix 11. It will provide 54 person-months of consulting services, comprising 24 person-months of international and 30 person-months of national expertise. An international consulting firm will provide all the international and national consulting services. The consultants will be engaged by ADB in accordance with the *Guidelines on the Use of Consultants*. The QCBS method will be used and the short-listed firms will present simplified technical proposals.

V. PROJECT BENEFITS, IMPACTS, ASSUMPTIONS, AND RISKS

A. Economic Benefits

54. Rural road investments have been shown to produce a broad range of positive impacts, ranging from immediate benefits such as reduced travel costs and times to less direct benefits such as (i) a diversification of sources of income, (ii) higher levels of agriculture production, (iii) a greater diversity of agriculture crops, (iv) improved access to health and education services, (v) reduced costs of inputs and household commodities, and (vi) overall reduced levels of poverty among communities served by the roads. This is confirmed by economic internal rate of return (EIRR) estimates for sample rural road subprojects of 12–19% based on quantifiable benefits (Supplementary Appendix C). One additional potential subproject evaluated in Nghe An, being robust to variations in commodity price levels as well as levels of utilization, showed an EIRR of 16%. The impact on poverty reduction is illustrated by the 50% increase in per capita and household incomes from rehabilitated roads under the RISP.

55. The direct benefit of irrigation rehabilitation will be increased agriculture production and a shift to higher value crops. The sample subproject analyzed shows a change in cropping patterns from a single rain-fed rice crop to irrigated sugar cane production, leading to an EIRR of 19.9%. The benefits from improved coastal infrastructure are broad and varied but include (i) increased crop yields and safer drinking water due to the prevention of saline intrusions, (ii) increased aquaculture and salt production, (iii) reduced loss of farm land from sand dune encroachment, and (iv) enhanced fisheries from mangrove rehabilitation. The benefits from improved domestic water supplies are more difficult to quantify, but include reduced rates of water-borne diseases and reduced time and labor (especially for women and children) used in fetching water, leading to additional time for productive economic activities or education. Improved capacity building in the prioritization of planning, design, implementation, and management of rural infrastructure should lead to more efficient resource allocation and further opportunities to increase long-term economic growth and short-term poverty reduction impact.

56. The net overall economic benefits of the Project include (i) increased accessibility throughout the rural areas of the Central Region, (ii) higher levels of agriculture and aquaculture production, (iii) lower costs of agricultural inputs and consumer commodities, (iv) enhanced access to markets and services, (v) responsive and decentralized investment planning, and (vi) a broader range of economic opportunities both within and beyond the agricultural sector. An overall economic assessment is presented in Appendix 12.

B. Social Benefits and Impacts

57. A summary poverty reduction and social strategy (SPRSS) is presented in Appendix 13. An analysis of the project benefits in the context of the SPRSS indicates that, as a consequence of the economic benefits described above, the more significant social impacts will be improved livelihoods and reduced levels of poverty for the population of the project area as a whole, as well as higher levels of education and improved public health. The provision of road access to ethnic minorities living in isolated mountain areas is likely to have a positive impact, providing them with an outlet for their produce and access to lower priced household commodities as well as health and education facilities. The Project is classified category B for indigenous peoples, and an ethnic minority development framework (Supplementary Appendix I) has been agreed upon in accordance with the Government's applicable laws and regulations and ADB's *Policy on Indigenous Peoples* (1998). The framework will help extend subproject positive impacts to

ethnic minority groups and mitigate any negative impacts. The impact on women is also expected to be positive. Improved road access will open up new opportunities for women who live in previously isolated, rural communities. Not only will they have access to better educational opportunities and health services, but they will also be able to employ entrepreneurial skills in developing new income opportunities, particularly in association with the upgrading of markets.

58. Measures have been built into the design to deal with potential negative social impacts. To address the issue of land acquisition and resettlement, a summary resettlement framework (Appendix 14) sets out the compensation and other entitlements for any unanticipated land acquisition or resettlement impacts in accordance with the Government's applicable laws and regulations and ADB's *Involuntary Resettlement Policy* (1995). The Project is classified as category B. The absence of significant resettlement impacts is one of the eligibility criteria for subproject feasibility study funding and category A subprojects will be screened out at the SIR stage.²² Short resettlement plans will be prepared for any subproject found to have resettlement impacts to the limit of category B. Compensation (excluding land acquisition), allowances, operation and administration costs, surveys, monitoring, and reporting will be financed from loan funds to help ensure full and expeditious implementation of resettlement plans, including compensation for any land acquired. Each PPMU will also appoint a safeguards officer. The Project also includes such measures as capacity building for PPMU and CPMU staff in social safeguards, and arrangements for the independent monitoring of compensation and resettlement during implementation. A representative resettlement plan for the Hung Trung – Nghi Kieu subproject is attached as Supplementary Appendix J. A resettlement framework is presented in Supplementary Appendix K.

C. Environmental Impact

59. An initial environmental examination (IEE) was conducted based on the review of selected completed subprojects under the RISP and one new representative subproject to identify potential impacts, appropriate mitigation measures, and monitoring mechanisms. It concluded that serious negative environmental impact was unlikely since subprojects will primarily entail upgradation of small- and medium-scale infrastructure. In general, existing rights of way will be used so there will be little land clearing, and structures are generally simple so there will be minimal disturbance. Activities of primary concern during construction will be (i) the provision of filling material from borrow sites and the disposal of excavated material, (ii) the impacts on surface and ground-water quality, (iii) changes to property access, and (iv) traffic disruption. For coastal infrastructure, care will need to be taken to avoid damage to key ecological areas such as estuaries and mangroves. In order to ensure a minimum of negative environmental impacts, subprojects will follow environmental assessment procedures stipulated in an environmental assessment and review framework developed to ensure (i) exclusion of subprojects that would cause significant adverse impacts, and (ii) compliance with the Government's environmental regulations and ADB's *Environment Policy* (2002). A summary IEE and environmental assessment review framework are outlined in Supplementary Appendix L.

D. Financial Considerations

60. Since most of the investments under the Project will be public sector investments, the main financial issues will concern the ability of the participating provinces to provide counterpart funding from their provincial budgets and the adequacy of O&M funding. While counterpart

²² Under the RISP, only two out of 183 subprojects funded had significant resettlement impacts.

resources are likely to be made available as per the implementation requirements, provinces are expected to face difficulties in allocating appropriate resources for O&M expenditures (Supplementary Appendix E). Provincial budgets for the O&M of public works are chronically underfunded and there is a likelihood that the same situation will prevail for works carried out under the Project. This is a systemic problem that cannot be resolved through one single project but the Project itself can be used to raise policy issues relevant to O&M.

E. Assumptions and Risks

61. The project design assumes that the participating provincial governments broadly have the capacity and technical skills to identify, plan, design, and implement medium-scale rural infrastructure rehabilitation and upgrading works but that they do not have sufficient budget to meet the infrastructure rehabilitation and upgrading needs that they face.

62. Implementation of such a project at the provincial level does, however, face certain risks, including the following: (i) not all provincial governments are adequately skilled at identifying high-priority and strategic subproject investments; (ii) not all provincial government staff are fully familiar with environmental or social impact issues (other than land acquisition matters); (iii) not all provincial, district, and commune staff fully understand the need for public consultation before and during subproject identification, design, and implementation; and (iv) many provincial governments do not place due emphasis on O&M funding for completed civil works. Through the carefully formulated subproject investment eligibility criteria and the scale and scope of its capacity-building support, the project design has incorporated a series of measures to ensure that (i) project staff have the technical capacity to properly assess subproject proposals, (ii) environmental and social safeguard issues are fully taken into account, (iii) the public in general and beneficiaries in particular are fully consulted about proposed works, and (iv) sufficient understanding and awareness is created to ensure that O&M funds are made available after subproject completion to sustain economic benefits from investments made in rural infrastructure. The capacity-building initiatives incorporated into the design represent a significant attempt to address the sector policy development agenda. In view of the specialist consulting services support under the associated ADTA, the risk associated with inadequate attention to O&M is therefore minimized.

F. Overall Assessment

63. An analysis of sample subprojects examined during project preparation has shown that economic returns will be satisfactory and the number of beneficiaries substantial. Moreover, these analyses indicate that social and environmental costs will be minor or negligible. In addition, measures have been built into the Project to ensure that negative social and environmental impacts are kept to a minimum. The most serious risk is that of potential deficiencies in O&M funding. To the extent possible, measures have been taken to minimize this risk, and assurances have been given by the Government that structures built under the Project will be maintained in fully operational condition. The overwhelming direct and indirect benefits expected from the Project thus indicate that the Project's impact will far outweigh any possible social, environmental, or financial risks the Project might face.

VI. ASSURANCES

A. Specific Assurances

64. The following project-specific assurances were confirmed by the Government in addition to the standard ADB assurances to ensure the smooth implementation of the Project.

- (i) The subprojects to be financed under the Project will have been screened and selected in accordance with the criteria agreed between the Borrower and ADB, as outlined in Appendix 4.
- (ii) Only subprojects where the impacts from resettlement are within the limits of ADB's resettlement category B rating will be permitted under the Project. MARD will ensure that civil works contractors are not issued a notice of possession of site for construction work for any specific section of infrastructure unless, for that section, MARD/PPMUs have, in accordance with the approved resettlement plan, provided compensation payments and relocation to new sites (where relevant) as confirmed by an independent monitoring agency.
- (iii) Approval of IEEs by the relevant local agency will be a precondition for the commencement of civil works for each subproject.
- (iv) Tender documents for civil works will include provisions to ensure contractors' preferential hiring of local labor and guaranteeing equal opportunities for female workers and equal pay for work of equal value in compliance with the labor laws and regulations of Viet Nam. It will also be ensured that the necessary measures are taken to prevent employment of child labor.
- (v) Where subprojects link with tertiary infrastructure (either existing or planned), measures will be taken to ensure that plans will be developed for the O&M of the tertiary infrastructure concurrently with subproject planning.
- (vi) Measures will be taken to ensure that subprojects will not adversely affect indigenous people, households headed by women, disabled, elderly or other similarly vulnerable groups. In the event that indigenous people are affected by or are beneficiaries of any subproject, MARD will ensure that their rights and needs are fully in compliance with ADB's policy on indigenous peoples and the Indigenous Peoples Development Framework (IPDF). Where the ethnic minority population of the subproject area exceeds 20% of subproject affected persons, an Indigenous People's Development Plan will be incorporated into resettlement plan and subproject scope for approval of ADB in accordance with the IPDF and the relevant regulations of the Government and ADB policies.
- (vii) An environmental impact assessment and a resettlement plan acceptable to ADB will be prepared for each category B subproject in accordance with the ADB's *Environment Policy* and resettlement framework and the relevant regulations of the Government.
- (viii) The Government will cause CPMU to ensure participating provinces undertake full community participation and awareness raising initiatives in accordance with the public consultation plan agreed between the Government and ADB prior to and during the implementation of subprojects. The Government will also ensure that a grievance mechanism is established for affected people in the participating provinces.
- (ix) The Government will ensure that adequate funds are allocated for the routine and periodic maintenance of infrastructure under the Project through provincial budgets in order to maintain the infrastructure in sound functional order.

B. Conditions for Loan Effectiveness

- (i) The arrangements for Project implementation, financial management and auditing, subproject identification, preparation and appraisal procedures, and subproject selection and screening criteria shall have been developed and documented in an operation manual in substance and form satisfactory to ADB;
- (ii) DARD shall have set up the PPMUs in the Project Provinces and appointed the key staff to the satisfaction of ADB, including the Provincial Project Directors and the safeguard officers; and
- (iii) The documentation for the AFD loan shall have been duly executed and delivered, and have become effective, subject to the effectiveness of ADB's Loan Agreement.

VII. RECOMMENDATION

65. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan in various currencies equivalent to Special Drawing Rights 58,723,000 to the Socialist Republic of Viet Nam for the Integrated Rural Development Sector Project in the Central Provinces from ADB's Special Funds resources with an interest charge at the rate of 1.0% per annum during the grace period and 1.5% per annum thereafter; a term of 32 years, including a grace period of 8 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft Loan Agreement presented to the Board; and
- (ii) the administration by ADB of Agence Francaise de Developpement (AFD) loan not exceeding the equivalent of €40,000,000 and a grant financing not exceeding the equivalent of €1,000,000 to the Socialist Republic of Viet Nam for the Integrated Rural Development Sector Project in the Central Provinces, in accordance with the proposal set out in paragraph 26 of this RRP.

Haruhiko Kuroda
President

21 September 2007

PROJECT DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Improved livelihoods, incomes, and standards of living for the region's rural population through increased agricultural productivity, wider employment opportunities, improved health and education levels, and reduced exposure to natural disasters.	<p>Average per capita annual incomes in participating communes and districts increase by 50% by 2015.</p> <p>The Government achieves its target of reducing the level of poverty to 20% in the target provinces by 2015.</p> <p>Primary school attendance rates increase by 10% by 2013.</p>	<p>Commune and district statistics</p> <p>National poverty statistics</p> <p>Ministry of Education statistics</p>	Risks <ul style="list-style-type: none"> Funding will not be available in provincial, district, or commune budgets for sustained operation and maintenance in the long term. Infrastructure provided will be damaged by natural disasters.
Outcome Improved quality, greater coverage, and better integration of rural infrastructure in the Central Region with an increased awareness for the need for O&M.	<p>Vehicle operating costs on improved roads reduced by 50%.</p> <p>Travel time on improved roads reduced by 50%.</p> <p>Agriculture production in areas with improved irrigation, flood control, and drainage facilities increased by the equivalent in value of 1 ton of rice per hectare.</p> <p>Time spent collecting water reduced by an average of 2 hours per day.</p> <p>Proportion of off-farm income in total household income increased by 20%.</p>	<p>Project benefit, monitoring, and evaluation (PBME) surveys</p> <p>Commune and district statistics</p> <p>Project completion reports (PCRs) and post project audit reports (PPARs)</p> <p>Commune and district agricultural statistics</p>	Assumptions <ul style="list-style-type: none"> Meaningful and viable subprojects selected for rehabilitation or establishment. Project works are completed to acceptable standards. Risk <ul style="list-style-type: none"> Maintenance of structures is not performed, reducing the economic life of the infrastructure.
Outputs 1. A significant amount of the rural and coastal infrastructure in the project provinces is rehabilitated, upgraded, and maintained.	<p>1.1 Approximately 50 rural road subprojects or about 1,000 km of rural road rehabilitated by 2014.</p> <p>1.2. Around 20 irrigation and drainage schemes covering about 30,000 ha rehabilitated by 2014.</p> <p>1.3. Approximately 30 miscellaneous rural infrastructure subprojects, including about 50 markets and 25 rural water supply schemes, as well as other key infrastructure completed by 2014.</p>	<p>Semi-annual and annual progress reports</p> <p>Midterm review</p> <p>PCR and PPAR</p>	Assumptions <ul style="list-style-type: none"> Adequate and timely local cost financing provided. Subprojects are appropriately designed. Skills of provincial project management unit (PPMU) and design staff are improved to appropriate levels. Risks <ul style="list-style-type: none"> Inadequate attention paid to environmental or social impact. Appropriate beneficiary consultation not undertaken Resettlement and compensation not properly undertaken.

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>2. Improved capacities of national and provincial staff in technical and safeguard matters.</p> <p>3. Improved project management skills for infrastructure development.</p>	<p>2.1 About 130 provincial staff trained in technical topics, safeguard matters, and participatory techniques, 30–40% of whom will be women.</p> <p>3.1 About 80 provincial staff (at least 30% women) trained in project management and supervision.</p>	<p>Project-generated reports and knowledge, attitude, and practice surveys</p> <p>Project-generated reports and knowledge, attitude, and practice surveys</p>	<ul style="list-style-type: none"> Current appointments of women to provincial positions are too low to achieve the target.
<p>Activities with Milestones</p> <p>1.0 Subproject Design, Preparation and Implementation</p> <p>1.1 Establish PPMUs (by Sep 2007)</p> <p>1.2 Briefing and initial training of PPMUs (by Dec 2007)</p> <p>1.3 Identify subprojects, select and prepare subproject proposals (first phase by Mar 2008, second phase by Jan 2009, third phase by Jan 2010)</p> <p>1.4 Subprojects appraised and approved by CPMU and ADB (first phase by Mar 2008, second phase by June 2009, third phase by June 2010)</p> <p>1.5 Detailed design and contractor bidding of subprojects (first phase by Sep 2008, second phase by Sep 2009, third phase by Sep 2010)</p> <p>1.6 Construction of subproject infrastructure (first phase fully completed by Dec 2010, second phase fully completed by Dec 2011, third phase fully completed by Dec 2013)</p> <p>1.7 Subprojects commissioned, O&M activities commence (first phase by June 2011, second phase by June 2012, third phase by June 2014).</p> <p>2.0 Capacity Building</p> <p>2.1 Recruit capacity-building consultant (by Dec 2007)</p> <p>2.2 Undertake needs assessment (by Mar 2008)</p> <p>2.3 Design capacity-building program (June 2008)</p> <p>2.4 Recruit training consultants and institutions</p> <p>2.5 Implement capacity-building activities including formal training, secondment, and on-the-job training</p> <p>2.6 Coordinate international training.</p> <p>3.0 Project Management</p> <p>3.1 Establish implementation structure and appoint staff (by Dec 2007)</p> <p>3.2 Procure vehicles and equipment (by Mar 2008)</p> <p>3.3 Maintain financial management and physical progress reporting</p> <p>3.4 Prepare annual and final reporting requirements (ongoing)</p> <p>3.5 Consultant selection and appointment (by Sep 2007)</p>			<p>Inputs</p> <p>ADB:</p> <ul style="list-style-type: none"> Infrastructure development: \$79.5 million Implementation consultants: \$1.7 million Vehicles and equipment: \$0.4 million Training: \$3.7 million CPMU management: \$1.5 million Interest during implementation: \$3.2 million <p>AFD:</p> <ul style="list-style-type: none"> Civil works: \$52 million Grant - consultants: \$1.3 million <p>Government:</p> <ul style="list-style-type: none"> Taxes and duties: \$13.1 million Project staff and facilities: \$2.1 million Infrastructure O&M: \$9.7 million

ADB = Asian Development Bank, AFD = Agence Francaise de Developpement, O&M = operation and maintenance, PBME = project benefit and monitoring evaluation, PCR = project completion report, PPAR = project performance audit report, PPMU = provincial project management unit.

RURAL INFRASTRUCTURE SECTOR ANALYSIS

A. Recent Macroeconomic Performance

1. Viet Nam has been one of the world's fastest-growing economies in recent years. Gross domestic product (GDP) grew at an average annual rate of just over 8% in 2005, underpinned by both strong domestic demand and exports. Despite this recent macroeconomic performance, poverty remains an issue. Analysis of the 2002 Multipurpose Household Survey data confirmed a continuing decline in the incidence of poverty, from 58% in 1993 to 37% in 1998 and 29% in 2002. The decline in recent years has not been uniform across the country. Poverty in the Mekong Delta area showed the sharpest drop (from 37% in 1998 to 23% in 2002) while it remained the highest in the Central Highlands (about 52%). Poverty is closely linked to agricultural opportunities.

B. Infrastructure, Agriculture, and Economic Growth

2. Underpinning Viet Nam's impressive economic growth has been the national infrastructure investment program focused on three levels: (i) national mainstream infrastructure such as major roads and highways, along with power generation and the rehabilitation of major irrigation schemes; (ii) small-scale, grassroots investments at the village and commune level, often with the assistance of bilateral donors and NGOs, but also through the Government's own infrastructure program (Program 135); and (iii) medium-scale investments linking these two types, such as the ADB funded Rural Infrastructure Sector Project (RISP) and the World Bank's (WB's) first and second Rural Transport Projects. In each year since 1997, total investment in infrastructure has outpaced GDP growth (averaging about 10% of GDP each year, and representing about 45% of total investment over the period).¹

3. As a result of this investment in infrastructure (including irrigation and rural transport), the agricultural sector has grown at about 4% per annum since 1998.² Earlier, the sector responded well to major policy changes (including land decollectivization) initiated by *doi moi*³ in the late 1980s. Market forces (both domestic and external) now largely drive production and trade in agriculture. Domestic markets are deepening as increasing incomes and urbanization increase consumer demand for a greater diversity and quality of higher value products across crop, livestock, and fishery subsectors. The growing market orientation is also linking farmer production choices and incentives more closely with world price signals and market preferences. Transport access and costs are fundamental in determining input and crop availability and prices, production margins, and farm incomes that, in turn, depend upon the stock of physical rural infrastructure such as irrigation facilities and the quality of services it affords. This is confirmed by recent analyses of the determinants of agricultural growth that identify the relative contribution of changes in agricultural inputs and of total factor productivity as the residual explanation for growth in the agricultural sector. Data from these studies show that future growth will increasingly have to come from total factor productivity sources, including through gains in the efficiency of rural infrastructure.

4. Rural transport infrastructure is also a critical contributor to the general development process of structural transformation of the economy. Despite the decline in relative importance of the agriculture sector within the economy, agriculture still plays a very important role in the

¹ WB. 2006. *Infrastructure Strategy - Cross Sectoral Issues*. Washington, DC.

² WB. 2006. *Accelerating Rural Development in Viet Nam: Growth, Equity and Diversification*. Washington, DC

³ The reform process which started in 1986 is known as Doi Moi or the politics of renovation, is geared towards instituting market-based reforms in the economy.

livelihoods of a majority of the country's population; 80% of people remain in rural areas and the sector still employs (fully or partly) around two thirds of the national labor force. However, this involvement with agricultural activities is increasingly part-time (and also increasingly disproportionately female-oriented); only about a quarter of rural households are exclusively engaged in farming, while the rest combine farming with waged and nonfarm employment. The picture that emerges from recent income and poverty studies⁴ across the country is that while many rural households are diversifying their activities, most wish to retain farming as a major source of income for at least some family members. This implies that for labor generally (and for individual family members) to be able to do this, reliable and cheap rural transport is as essential as the availability of income opportunities off-farm.

C. Rural Infrastructure and Poverty in the Central Region

5. The Central Region has one of the highest incidences of poverty in the country, with over 37% of the national total. The underlying causes of this poverty are both geographical and historical. The topographic and climatic conditions are diverse and complicated, but in general they hinder rather than favor broad-based, large-scale agricultural development. Outside of a narrow alluvial coastal plain the land is sloping and the soils are generally unfertile. This together with frequent natural disasters (storms, floods, and drought), make agricultural production difficult and compound other environmental problems (including soil erosion, land degradation, and deforestation).⁵

6. Two essentially historical factors also contribute to the nature of the current socioeconomic situation in the Central Region. The first is the extent of devastation inflicted on the physical infrastructure caused during the wars of the second half of the 20th century (the Demilitarized Zone runs right across the Central Region). The second factor is the relative underinvestment in the region's physical and social capital in recent years, as the national priorities were directed to promoting development in the two most populous, and promising, regions—the Red River and Mekong deltas. The net effect of these factors has been to leave the Central Region relatively underdeveloped, and this is reflected in the physical infrastructure stock (i.e., a high proportion of unsealed roads, the obvious need for canal linings, and required improvements to the rural water supply and coastal infrastructure).

7. Examination of the rural infrastructure stock in the provinces of the Central Region in participating provinces confirms that (i) an imperative for further investment is justified, and (ii) there is significant scope for improvement. The proportion of sealed district roads ranges from as low as 2% to a maximum of 48%, over 400,000 hectares (ha) of irrigation facilities are in need of rehabilitation, some 25,000 kilometers (km) of primary and secondary irrigation canals are in need of lining, and over a third of the rural population do not yet have clean water supplies. Also, while the documented benefits from the RISP were considerable (substantial decreases in poverty, and household income gains of up to 40%), the coverage of that project in terms of its aggregate impact on all rural infrastructure in the Central Region was modest, typically renovating only 6–15% of the district roads in each of its provinces and 5–25% of irrigated areas (Supplementary Appendix A).

8. The causal nature of the relationship between the rural infrastructure stock and peoples' livelihoods (especially including the ways in which poverty is impacted) was examined through

⁴ Klump, Rainer, and Thomas Bonschab. 2004. *Operationalizing Pro-Poor Growth. A Country Case Study on Vietnam*. A joint initiative of AFD, German Federal Ministry for Economic Cooperation and Development (BMZ), German Technical Cooperation (GTZ), KfW Development Bank, Department for International Development, and WB.

⁵ ADB. 2003. *Central Coast and Highlands Region Participatory Poverty and Governance Assessment*. Manila.

field surveys during project preparation. What was apparent is that both addressing rural poverty and promoting economic growth requires investment across a range of rural infrastructure (roads, irrigation and water supplies, and coastal works) because income sources, social and welfare activities, and population locations differ throughout the region, requiring different interventions. The primary need in relation to rural roads, irrigation, drainage, and flood control works in the Central Region is to rehabilitate (and slightly expand) existing networks and systems, while in rural water supply and sanitation the main need is to construct new systems in places presently without safe drinking water. Similarly, investment in coastal works may involve rehabilitating existing dikes and fish landings, but might also include new environmental activities such as sand dune stabilization and mangrove planting.

9. Subprojects must be contextually appropriate so they will sustainably lift people out of poverty. Irrigation rehabilitation and water supply establishment are expected to address the needs of the poorer communities. Rural road improvements can be expected to benefit the more productive commercial activities and the relatively poor in the surrounding population, as they make use of increased employment and marketing opportunities, and also the absolute poorest in terms of reductions in cost of access to health, education, and social facilities.⁶ By providing rural infrastructure improvements to various groups (especially indigenous peoples) in the participating provinces, the underlying dynamic economic growth model is inclusive in nature. Whilst physical investment will predominate in such an undertaking due to the relatively high cost, the analysis revealed that underlying issues of finance, planning, community participation, and capacity building must also be addressed if the core problem is to be effectively addressed. These two factors together provide the logic in delivering the desired project impact of improved livelihoods.

D. Government Plans and Priorities

10. The Government remains committed to maintaining high levels of national economic growth and to achieving structural transformation of the economy, as it does to reducing poverty. The planning and policy agenda for the sector as a whole is moving in the right direction (in terms of issues such as financing and cost recovery), and is already being promoted under Program 135 and the Third Rural Transport Project. Such trends are in need of support rather than wholesale reform as such, hence the suitability of a sector modality as opposed to a policy-based program loan with budget support.

11. The Government recognizes the role of infrastructure in national development and poverty reduction planning in both the Comprehensive Poverty Reduction and Growth Strategy, and the current 5-year socio-economic development plan (SEDP).⁷ The SEDP identifies a clear role for rural transport, water supply, and other infrastructure as supporting various sector objectives (e.g., “the State budget will be focused only on critical areas such as irrigation, transport, and clean water supply to intensify investment in agriculture and rural development” [footnote 6]). In planning for the northern-central and central-coastal areas in particular, the SEDP also talks of raising GDP per capita to \$700–800 by 2010, partly through “comprehensive infrastructure development” (footnote 6) including (i) road-building to provide all-weather links between the eastern and western areas of this region (from areas of agriculture production to coastal towns and seaports) and from highland areas to Cambodia and the Lao PDR; (ii) the upgrading of large irrigation works and the linking of irrigation and flood protection schemes,

⁶ Improving transport facilities is of course only part of the solution to improving access to health, education, and social services; however, without such investments the benefits of increased spending on new facilities such as hospitals, schools, and colleges in rural areas will be compromised.

⁷ Government of Viet Nam. 2006. *Five-Year Socio-Economic Development Plan, 2006–2010*. Hanoi.

especially in Nghe Anh and Thanh Hoa provinces (the two largest participating provinces); and (iii) developing rural markets and fishing services.

E. ADB Plans and Priorities

12. ADB has similarly recognized the role of rural infrastructure and poverty reduction in its updated country strategy and program⁸ by better linking rural areas to emerging economic corridors and by supporting the provision of missing physical and social infrastructure (such as rural water supply and sanitation). Limitations in physical infrastructure are identified as one of the main hindrances to accelerated private sector-led growth, as well as to socially inclusive growth. ADB's past experience in the rural infrastructure sector in Viet Nam has been generally favorable. Similar ADB-funded projects in the past have included the Irrigation and Flood Protection Rehabilitation Project,⁹ the Red River Delta Water Resources Sector Project,¹⁰ and the RISP. The Ministry of Agriculture and Regional Development (MARD) was the executing agency for all three projects. ADB is planning further investment of a similar nature in the northern mountains and hills regions, for which a project preparatory technical assistance (PPTA) is included in the country strategy and program.

F. The Role and Priorities of Other Donors

13. Following the RISP in the late 1990s, other donors have since funded rural infrastructure projects. These donors include, among others, Department for International Development, WB, Australian Agency for International Development, Finnish Department for Development Cooperation, and Swedish International Development Cooperation Agency. About 10 commune-level rural development projects are currently being implemented in the Central Region, leading to a situation in which a large amount of tertiary infrastructure has been constructed without the supporting medium- or secondary-level infrastructure to link it to the main national networks.¹¹ WB and ADB have also included significant rural infrastructure provision as part of other projects such as the ADB funded Forestry Sector Project, the Central Region Livelihood Improvement Project and the WB-funded Agriculture Diversification Project. WB's main thrust in rural infrastructure to date has been through two commune-targeted projects (the Northern Areas Poverty Reduction Project and the Community-Based Rural Infrastructure Project) and three provincial level rural transport projects (the first, second, and third Rural Transport Projects).

14. The focus within the sector on project or sector lending is in transition as some donors will soon be joining WB for an ambitious program approach to rural infrastructure development building on the Government's Program 135. WB will provide direct budget support (\$700 million) for grassroots-level rural infrastructure provision along with policy and institutional adjustments to ensure that funds will be properly spent and adequately monitored.

15. Most prior ADB investments in rural infrastructure focused on secondary level, medium-scale infrastructure. This will be the case with the proposed Project and also the future project planned for the northern mountains. ADB investments are therefore seen as complementary to

⁸ ADB. 2005. *Country Strategy and Program Update Viet Nam 2006–2008*. Manila

⁹ ADB. 1993. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Irrigation and Flood Protection Rehabilitation Project*. Manila.

¹⁰ ADB. 1994. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Red River Delta Water Resources Sector Project*. Manila.

¹¹ The priorities of the Government's own rural infrastructure program, Program 135, focus on commune-level infrastructure in the 2,000 poorest communes in the country and has also contributed to this situation.

Program 135 phase II initiatives. The Project will promote connectivity between different rural infrastructure scales since they will provide the medium-scale (and often missing) link between the tertiary-level infrastructure to be built under Program 135 at the commune level and core national-level infrastructure (especially the ongoing upgrades to national highways).

EXTERNAL ASSISTANCE TO THE SECTOR

Project Title	Duration	Source	Objectives	Amount (\$ million)
Agriculture Sector Development Program	2002–2007	ADB	Support the Government's policy and institutional reforms to develop a favorable environment for market-based agricultural growth and agro-industry development.	90.0 (Loan)
Tea and Fruit Development Project	2000–2006	ADB	Increase farm income and raise the value of agricultural production through tea and fruit industry development.	40.2 (Loan)
Vocational and Technical Education Project	Ongoing from 1998	ADB	Help with the reform of vocational and technical education system in line with the Government's market-oriented industrialization policy.	54.0 (Loan)
Central Region Livelihood Improvement Project	2002–2007	ADB DFID	Livelihood improvements based on small-scale, commune-level infrastructure in central Viet Nam; development of participatory approaches.	60.0 (Loan, and DFID grant)
Central Region Water Resources Project	2006–2011	ADB	Irrigation and drainage rehabilitation; disaster risk mitigation.	99.0 (Loan)
Calamity Damage Rehabilitation Project	2005–2009	ADB	Infrastructure rehabilitation (roads, flood protection, and irrigation) and enhancement of storm and flood protection structures.	59.9 (Loan)
Agriculture Sector Program Support	Ongoing from 2000	Danida	Provide integrated assistance for agricultural and rural development through capacity-building activities at the Ministry of Agriculture and Rural Development. A second phase is being formulated.	46.5 (Grant)
Agriculture Diversification Project	1998–2005	WB	Help diversify and intensify agricultural production, thereby increasing farm income and rural employment through promotion of rubber smallholders and improved livestock production.	66.9 (Loan)
Northern Mountains Poverty Reduction Project	Ongoing from 2001	WB DFID	Promote community-based development activities through improvement of social and rural infrastructure.	132.5 (Loan/Grant)
Third Rural Transport Project	2007–2012	WB	Rehabilitation of rural roads in 33 provinces, including resources for operation and maintenance.	106.3 (Loan)
Natural Disaster Risk Management	2006–2012	WB	Reduce human, economic, and financial losses from natural disasters and ensure rapid post-disaster recovery of poor communities living in hazard-prone areas.	191.0 (Loan, plus TA grant from AusAID)
Collaboration for Agriculture and Rural Development	Ongoing from 2004	AusAID	Increase productivity and competitiveness of smallholder agriculture and rural enterprises through support for agricultural research and development.	7.0 (Grant)

Project Title	Duration	Source	Objectives	Amount (\$ million)
Strengthening of the National Institute of Veterinary Research	Ongoing from 1999	JICA	Support for the resolution of animal health issues and contribute to improved veterinary research.	1.9 (Grant)
Support to Public Administration Reform Program	Ongoing from 2001	UNDP Netherlands	Improve public administration in the Ministry of Agriculture and Rural Development through capacity strengthening in the use of information and communications technology.	3.9 (Grant)
Rural Income Diversification Project in Tuyen Quang Province	Ongoing from 2002	IFAD	Support villages with ethnic minority populations in upland areas to improve their access to rural infrastructure, health services, and finance.	20.9 (Loan)
Rural Transport Project I	1997–2001	WB	Improve and upgrade access to rural communities, linking them to the district and provincial road networks; develop local capacity to improve level of service of low-volume roads; and encourage development of local contractors.	55.0 (Credit)
Rural Transport Project II	2000–2005	WB	Improve access of rural communities in the provinces to markets, off-farm economic opportunities, and social services; develop capacity to improve and sustain rural transport network service; and foster development of small-scale private contractors.	103.9 (Credit)
Forestry Sector Project	1998–2003	ADB Netherlands	Restore vegetative cover of the hilly and mountainous areas in critical watersheds and raise productivity of the country's forest resources.	33.0 (Loan) 7.0 (Grant)
Forests for Livelihood Improvement in the Central Highlands Sector	2006–2014	ADB Trust Fund for Forests	Formulate sustainable forest management plans; and provide wage-generating and livelihood-improvement investments, especially for ethnic minorities.	45.0 (Loan) 15.6 (Trust Fund)

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, Danida = Danish International Development Assistance, DFID = Department for International Development, IFAD = International Fund for Agricultural Development, JICA = Japan International Cooperation Agency, TA = technical assistance, UNDP = United Nations Development Programme, WB = World Bank.

Sources: Asian Development Bank.

SUBPROJECT SCREENING CRITERIA

1. To ensure that viable subprojects are identified, and to assure they will have the greatest possible impact upon the socioeconomic conditions of target beneficiaries, identification of eligible subprojects will follow a two-stage process, one at the completion of the subproject investment proposals (SIPs) and the second upon completion of the subproject investment reports (SIRs). To improve the overall impact of project interventions, potential links with other development initiatives will result in such subprojects receiving higher priority during selection and prioritization of subprojects for funding. These subprojects may include strategically important investments (such as provincial roads linking several district-level roads to a main highway, or the lining of key sections of irrigation canals to prevent water loss through seepage), where higher benefits can be obtained than from new infrastructure. In situations where such links cannot be substantiated, yet the social benefits are substantial (as might be anticipated in the more remote and less populated areas), the lack of obvious links should not prevent the subproject from being implemented. The adoption of an economic internal rate of return (EIRR) figure of 10% for accepting subprojects reflects the fact that some benefits (such as social benefits) are not readily quantifiable and the use of the EIRR level of 10% should ensure that subprojects in less viable areas are not disadvantaged through the selection process.

A. Screening at Subproject Investment Proposal Stage

2. The following screening criteria are to be applied at the SIP stage.

- (i) The subproject must be included in the provincial socioeconomic development plan and will be expected to have significant impact on poverty reduction, economic growth, and livelihood improvement.
- (ii) Priority will be accorded to those subprojects that can demonstrate obvious links with other development initiatives to further enhance the overall impact, or where they improve access to other public services and economic opportunities.
- (iii) The subproject cost is estimated at greater than \$0.5 million but less than \$4.0 million. This cost range is specified to ensure that the number of beneficiaries is maximized, that development is not concentrated in a small area of the province but is more widely spread, and that the provincial project management units (PPMUs) do not have too many separate contracts to administer. If deemed of high priority, a number of smaller subprojects in one sector could be combined into one subproject.
- (iv) Comprehensive public consultations have been undertaken and documented in SIPs within all affected or participating communes.
- (v) The subproject has no significant resettlement impact, no significant impact upon vulnerable people, particularly ethnic minority groups (Supplementary Appendix K), no obvious negative environmental impact, and is likely to have an EIRR of greater than 10%.
- (vi) The subproject proposal outlines feasible and fundable operation and maintenance (O&M) arrangements with implementing organizations identified and sources of funds clearly identified.
- (vii) The subproject is a coherent scheme in an identified subsector(s) with provision for links with additional livelihood-enhancement activities or other donor or

government programs or projects, and is supported by existing tertiary infrastructure, or will include such tertiary works as appropriate.

B. Screening at Subproject Investment Report Stage

3. The following screening criteria are to be applied at the SIR stage.
 - (i) The subproject is shown to be technically feasible and expected benefits have been clearly identified. In addition, the subproject is shown to have an EIRR of return in excess of 10% although this should not exclude those subprojects with more significant social and poverty impacts.
 - (ii) The selected subproject will be cost effective as measured by the unit cost per beneficiary, with priority being given to those with the least cost per beneficiary while providing the greatest benefit in terms of the estimated EIRR.
 - (iii) Procurement packages have been clearly identified, as have the method of procurement; cost estimates have been clearly identified and recorded and all sources of funding have been identified, agreed, and confirmed.
 - (iv) The SIR contains a detailed financing plan for O&M. This requires that an O&M entity shall be specified and both a budget amount and corresponding source of funding specified and agreed upon by the provincial people's committee and other concerned parties to ensure that the overall project investments will be financially viable and sustainable.
 - (v) Public consultation on the subproject proposal has been held in concerned communes and measures for future public consultation at all stages of implementation are clearly defined.
 - (vi) The subproject is shown to have no major negative environmental or social impacts and mitigation measures have been defined for minor impacts.
 - (vii) The subproject is shown to have no significant resettlement impacts and, where needed, a resettlement plan has been prepared in accordance with the resettlement framework and the relevant regulations of the Government of Viet Nam and ADB policy.

DETAILED COST ESTIMATES

Table A5.1: Detailed Cost Estimates by Expenditure Category

Item	Cost (\$ million)			% of Total Base Cost
	Foreign Exchange	Local Currency	Total Cost	
A. Investment Costs^a				
1. Civil Works	11.2	111.7	122.9	75
2. Subproject Preparation and Management				
a. Feasibility Study and Investigations	0.2	2.2	2.5	2
b. Technical Design and Cost Estimation	0.6	5.2	6.1	4
c. Safeguard Studies and Community Participation	0.2	1.6	1.8	1
d. Compensation (excluding land acquisition)		3.3	3.3	2
e. Preparation of Bidding Documents	0.2	2.2	2.5	2
f. Construction Supervision	0.3	2.8	3.1	2
g. PPMU Management Costs	0.3	3.0	3.3	2
h. Monitoring	0.1	0.5	0.6	
3. Vehicles and Equipment	0.3	0.2	0.5	
4. Implementation Consultants				
a. International	1.1	0.1	1.3	1
b. National		0.6	0.6	
c. Consultant Support Costs		0.8	0.8	
5. Training	0.3	2.7	3.0	2
6. Infrastructure O&M	1.0	8.8	9.7	6
7. CPMU Management Costs	0.1	1.3	1.5	1
Subtotal (A) Base Cost	15.8	147.5	163.3	100
B. Contingencies				
1. Physical ^b	0.2	0.6	0.7	
2. Price ^c	0.1	0.9	1.0	1
Subtotal (B)	0.3	1.5	1.7	1
C. Financing Charges During Implementation^d				
1. Interest During Implementation ^e	3.2		3.2	2
Subtotal (C)	3.2		3.2	2
Total Project Costs	19.3	148.9	168.2	103

CPMU = central project management unit, O&M = operation and maintenance, PPMU = provincial project management unit.

^a In mid-2006 prices.

^b Computed at 0% for civil works and associated costs being a sector style project; and 10% for training, implementation, consulting services and PPMU and CPMU management costs.

^c Computed at 3% on foreign exchange costs and 5% on local currency costs and includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Includes interest, commitment charges, and front-end fees. Interest during implementation has been computed at the rate of 1% per annum.

^e Interest during implementation on the AFD loan estimated at \$3.4 million are not included in these costs.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

Table A5.2: Detailed Cost Estimate by Financier
(\$ million)

Item	ADB		AFD Loan		AFD Grant		Provincial Government		Central Government		Total	
	\$	% of cost category	\$	% of cost category	\$	% of cost category	\$	% of cost category	\$	% of cost category	\$	% of project cost
A. Investment Costs												
1. Civil Works												
a. Construction	58.6	53.0	52.0	47.0							110.6	65.8
2. Subproject Preparation and Management												
a. Feasibility Study and Investigations	2.2	100.0									2.2	1.3
b. Technical Design and Cost Estimate	5.6	100.0									5.6	3.3
c. Safeguard Studies and Community Participation	1.6	100.0									1.6	1.0
d. Compensation (excluding land acquisition)	3.3	100.0									3.3	1.9
e. Preparation of Bidding Docs	2.2	100.0					1.5	35.4			2.2	1.3
f. Construction Supervision	2.8	100.0									2.8	1.7
g. PPMU Management Costs	2.3	64.6									4.2	2.5
h. Monitoring	0.5	100.0									0.5	0.3
Subtotal (A2)	20.5	93.3					1.5	6.7			22.2	13.3
3. Vehicles and Equipment	0.4	100.0									0.4	0.3
4. Implementation Consultants												
a. International	0.1	10.9			1.3	89.1					1.5	0.9
b. National	0.6	100.0									0.7	0.4
c. Consulting Sppt Costs	0.9	100.0									0.9	0.5
Subtotal (A4)	1.6	56.8			1.3	43.2					3.0	1.8
5. Training	3.0	100.0									3.7	2.2
6. Infrastructure O&M	0.0	0.0					9.7	100.0			9.7	5.8
7. CPMU Management Costs	1.2	75.5							0.5	24.5	1.9	1.1
8. Contingencies	1.4	100					0.2		0.1			1.7
9. Taxes and Duties							12.8	97.7	0.3	2.3	13.1	7.8
Total Project Costs	86.8	52.6	52.0	31.5	1.3	0.8	24.0	14.6	0.8	0.5	164.9	98.1
10. Interest During Implementation	3.2	100.0									3.2	1.9
Total Disbursement	90.0	53.5	52.0	30.9	1.3	0.8	24.0	14.3	0.8	0.4	168.2	100.0

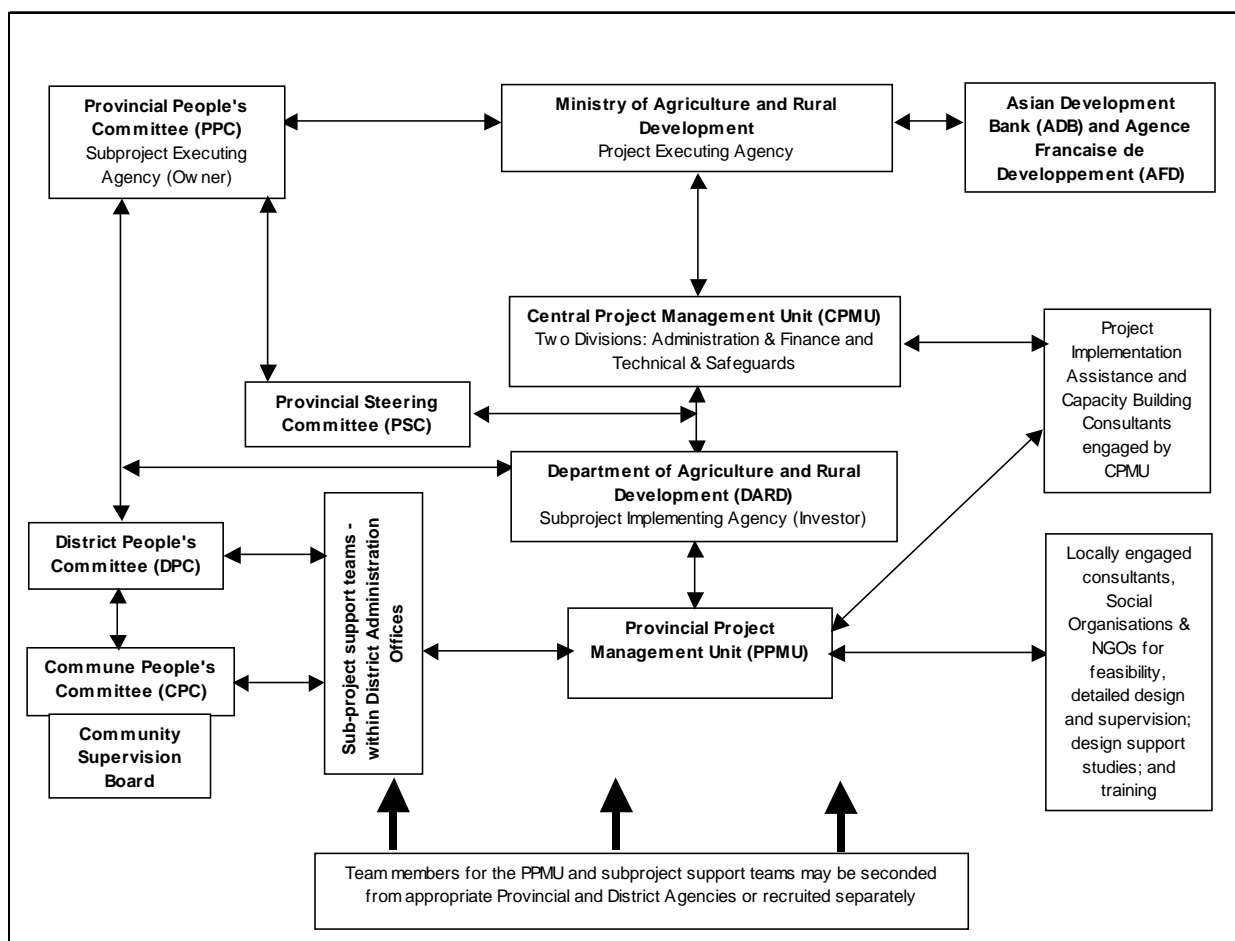
ADB = Asian Development Bank, AFD = Agence Française de Développement, CPMU = central project management unit, O&M = operation and maintenance, PPMU = provincial project management unit.

Notes: The amount of \$3.4 million in respect of AFD interest during implementation is not included in project costs.

Numbers may not sum precisely because of rounding.

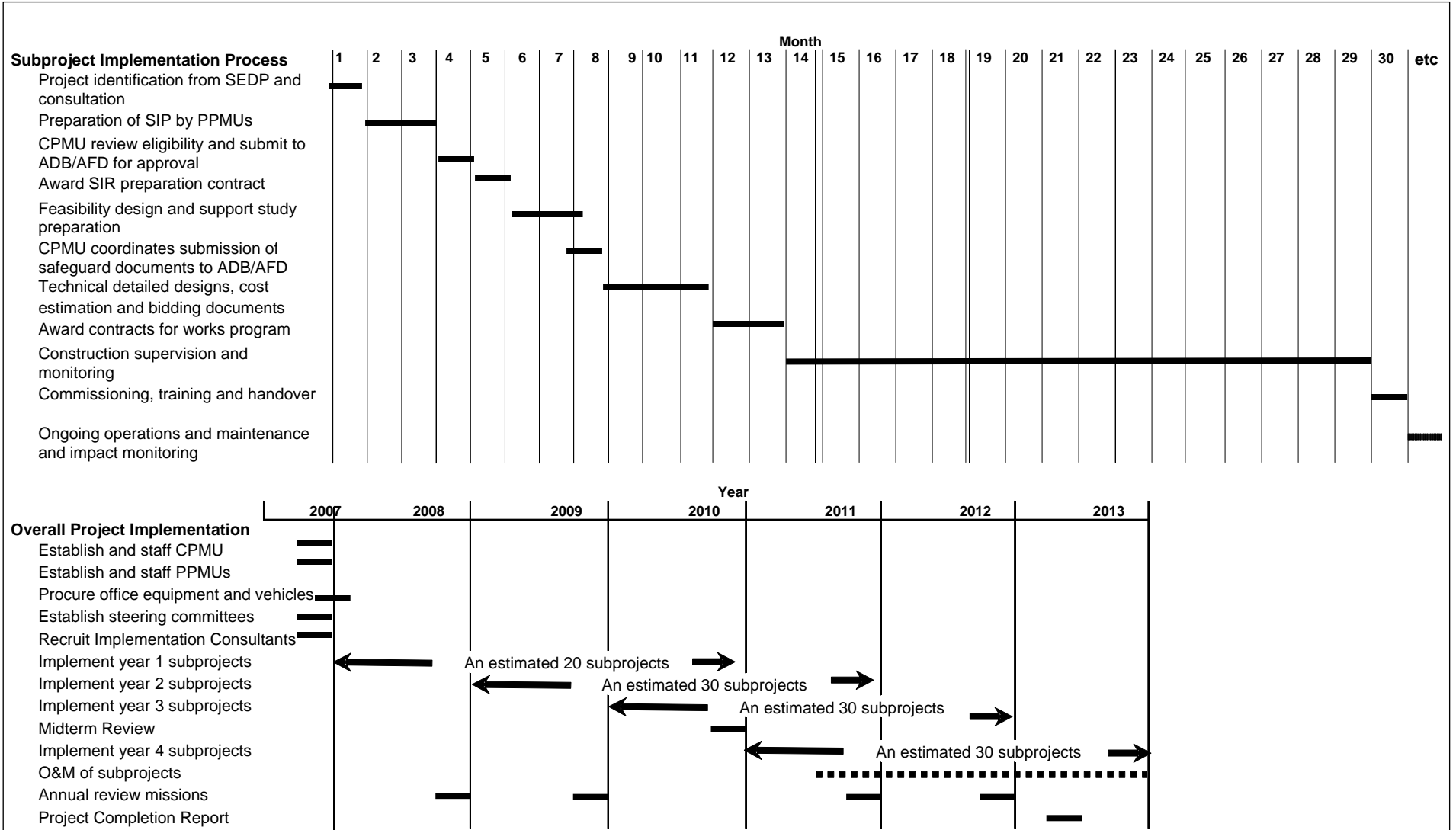
Source: ADB estimates.

PROJECT ORGANIZATION AND MANAGEMENT STRUCTURE



NGO = nongovernment organization.

IMPLEMENTATION SCHEDULE



ADB = Asian Development Bank, AFD = Agence Francaise de Developpement, CPMU = Central Project Management Unit, O&M = operation and maintenance, PPC = Provincial People's Committee, PPMU = provincial project management unit, SEDP = socio-economic development plan, SIP = subproject identification proposal, SIR = subproject investment report.

Source: Asian Development Bank estimates.

PROCUREMENT PLAN

Table A8.1: Project Information

Project Name	Viet Nam: Integrated Rural Development Project in the Central Provinces
Loan Number	to be determined
Loan Amount (\$ million)	90.0
Executing Agency	Ministry of Agriculture and Rural Development
Date of first Procurement Plan	Loan Approval Scheduled for July 2007
Date of this Procurement Plan	May 2007

Source: ADB estimates.

Table A8.2: Goods and Works Contracts

Item	Contracts Value ('000)	Procurement Method	Prequalification Of Bidders (y/n)	Advertisement Date (quarter/year)	Comments
Office Equipment	425	Shopping	N		Multiple contracts
Motor Vehicles	140	Shopping	N		Multiple contracts
Civil Works	123,569	NCB	N	Jan 2008 – 2012	Multiple Contracts

NCB = national competitive bidding

Source: Asian Development Bank estimates.

Table A8.3: Consulting Services Contracts

Consulting Services Packages	Single /Multiple	Int'l Person-Months	National Person-Months	Value (\$ million)	Selection Method	Recruitment
Implementation and Training Consultants	Single	60	271	3.2	QCBS (Through a Firm)	CPMU
Special Support Study Contracts	Up to 10			1.6	CQS	CPMU
Technical Design and Supervision	Multiple			14.1	CQS	PPMUs

CQS = consultants' qualification selection, CPMU = central project management unit, PPMU = provincial project management unit, QCBS = quality and cost based selection

Source: Asian Development Bank estimates.

Table A8.4: Project Procurement Thresholds

Method	Threshold
International Competitive Bidding for Works	> \$2,000,000
International Competitive Bidding for Goods	> \$500,000
National Competitive Bidding for Works	> \$100,000 <= \$2,000,000
National Competitive Bidding for Goods	> \$100,000 <= \$500,000
Shopping for Works	<= \$100,000
Shopping for Goods	<= \$100,000

Note: Except as ADB may otherwise agree, these process thresholds shall apply to procurement of goods and works.

Source: Asian Development Bank estimates.

Table A8.5: ADB Prior or Post Review

Procurement Method	Prior or Post	Comments
ICB for Works	Prior	
ICB for Goods	Prior	
NCB for Works	Prior /Post	Usage subject to clarifications to Decree 111/2006/ND-CP of September 29 2006, guiding the implementation of the Bidding Law and the Selection of Contractors under the Construction Law. Prior review applies to the procurement of the first NCB contract by each PPMU. If first contract is procured satisfactorily, thereafter, post review.
NCB for Goods	Post	
Shopping for Works	Post	
Shopping for Goods	Post	
Recruitment of Consulting Services		
Quality and Cost Based Selection (QCBS)	Prior	Contract packages greater than \$200,000, QCBS based on 80:20 Quality:Cost weighting.
Consultants' Qualification Selection (CQS)	Post	Contract packages less than or equal to \$200,000
Recruitment of Individual Consultants		
Individual Consultant Selection (ICS)	Prior	Applied in accordance with Section 2.34, ADB <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time)

ADB = Asian Development Bank, CQS = consultants' qualification selection, ICB = international competitive bidding, ICS = individual consultant selection, NCB = national competitive bidding, PPMU = provincial project management unit, QCBS = quality-and cost-based selection.

Source: Asian Development Bank estimates.

Table A8.6: Procurement Packages by Procurement Method
(\$'000)

Item	Procurement Method						Total
	National Competitive Bidding	Consulting Services: QCBS	Consulting Services: CQS	Individual Selection ICS	Shopping Goods/ Works	Other	
A. Office Equipment					425.4		425.4
B. Motor Vehicles					140.1		140.1
C. Works Contracts	123,569.4						123,569.4
D. Consulting Services							
1. Implementation Consultants		3,193.9					3,193.9
2. Capacity Building and Facilitation				198.0			198.0
3. Special Studies (multiple packages)			1,566.4				1,566.4
4. Technical Design and Supervision			14,132.5				14,132.5
E. Local Training Services					3,029.5		3,029.5
F. Infrastructure Maintenance	9,748.0						9,748.0
G. Operational Costs						8,986.4	8,986.4
Total	133,317.4	3,193.9	15,698.9	198.0	3,595.0	8,986.4	164,989.6

CQS = consultants' qualification selection, ICS = individual consultant selection, QCBS = quality-and cost-based selection.
Source: Asian Development Bank estimates.

CONSULTING SERVICES INPUTS

1. The Project will require three kinds of consulting services: (i) international and national consulting services to assist the Central Project Management Unit with project management, implementation, and training coordination, (ii) national consultants to prepare the subproject investment proposals and subproject investment reports including associated safeguards studies, and (iii) national consultants to prepare detailed engineering designs and supervise construction of works.

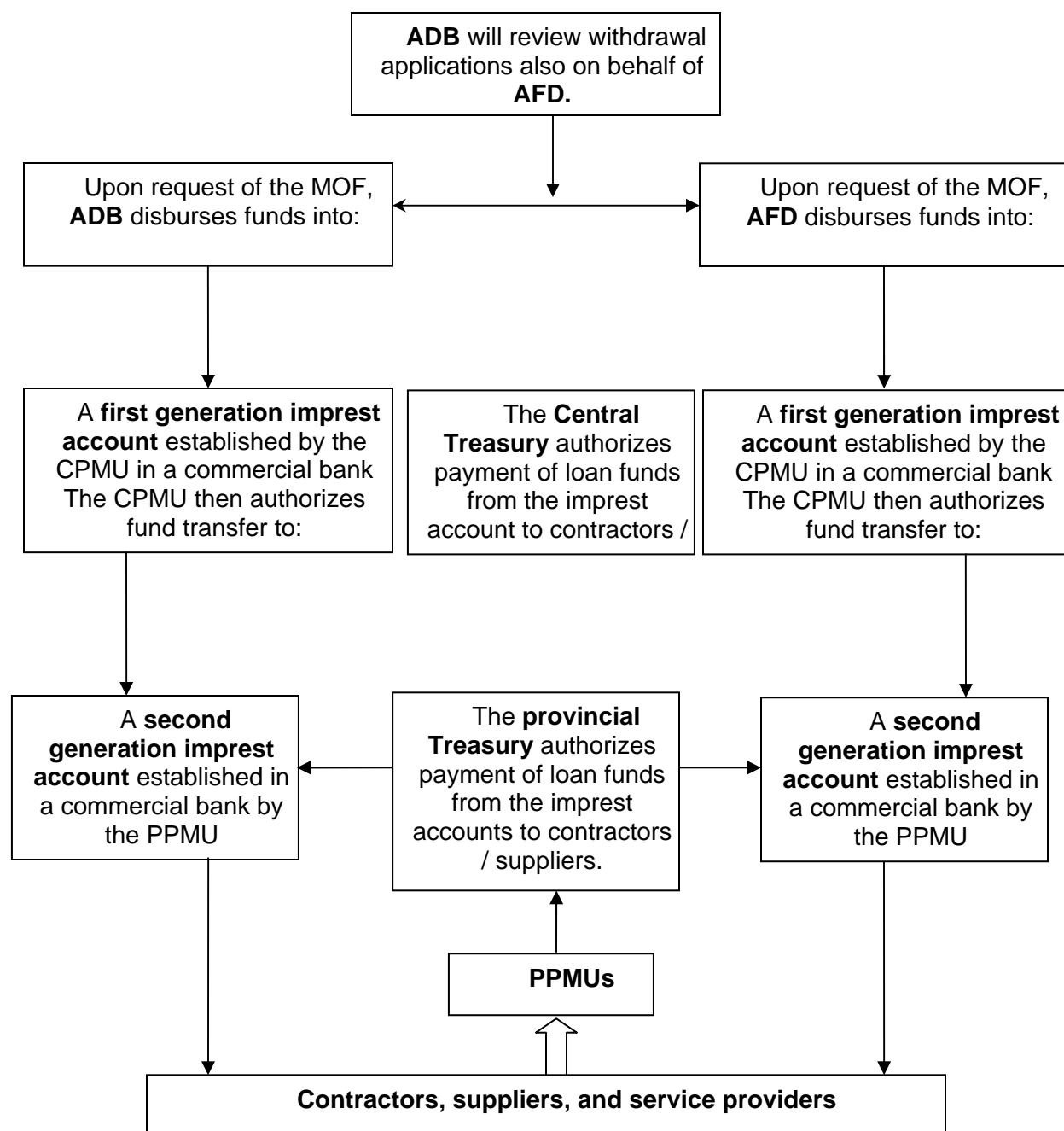
2. Consulting services are considered necessary to assist in the smooth implementation of the Project and to incorporate increased emphasis on safeguards, community participation, and operation and maintenance for subprojects as well as to continue the capacity building that was initiated under the Rural Infrastructure Sector Project. International expertise is to be provided in project management, training coordination, and in safeguard requirements of the Asian Development Bank and the Government, operations and management, and monitoring and evaluation. National specialists will be required in similar areas as well as technical engineering design and construction to support provincial project management unit staff and other target beneficiaries with training activities and will include community participation specialists, ethnic minority and gender specialists together with expertise in economic assessment of subprojects.

Table A9: Implementation Consulting Services Inputs
(person-months)

Implementation Consultant	Year						Total
	2008	2009	2010	2011	2012	2013	
A. International Specialists							
Rural Development Engineer(Team Leader)	3	10	6	1	1	3	24
Training Coordinator	3	3	1	-	-		7
Monitoring and Evaluation Specialist	2	1	-	1	1		5
Operation and Maintenance Specialist	-	6	1	1	1		9
Community Participation and Gender Specialist	3	1	1				5
Resettlement Specialist	3	1	1				5
Environmental Specialist	3	1	1				5
Subtotal (A)	17	23	11	3	3	3	60
B. National Specialists							
Road Engineer	6	11	11	11		3	42
Irrigation Engineer	6	11	11	11			39
Water Supply Engineer	6	6		3			15
Training Specialist	6	6	6				18
Community Participation and Gender Specialist	4	4	2				10
Ethnic Minority and Gender Specialist	6	6	2				14
Resettlement Specialist	10	10	9	4	4	6	43
Environmental Specialist	6	6	2				14
Monitoring and Evaluation Specialist	6	6	4	4	4	4	28
Operation and Maintenance Specialist	-	6	6	6	6	6	30
Economist	6	6	6				18
Subtotal (B)	62	78	59	39	14	19	271
Total	79	101	70	42	17	22	331

Source: Asian Development Bank estimates.

LOAN FUNDS DISBURSEMENT ARRANGEMENTS



ADB = Asian Development Bank; AFD = Agence Francaise de Developpement; CPMU = Central Project Management Unit; PPMU = provincial project management unit; MOF = Ministry of Finance.

ADVISORY TECHNICAL ASSISTANCE BUDGET AND TERMS OF REFERENCE

1. The lack of sustainability of infrastructure development has long been recognized as a serious problem in Viet Nam. With the devolution of responsibility for maintenance to the provinces where there are limited revenue-raising opportunities, resources are scarce and available funds are channeled into establishing new infrastructure at the expense of maintaining existing structures. The Government is now in a position to reassess its policies in respect of rural infrastructure operation and maintenance (O&M). More recently, there has been a tendency to overdesign (using higher cost structures), acknowledging that there will be limited funds available for maintenance in the future. There is an urgent need to change attitudes to infrastructure maintenance and, consequently, the budgetary allocations from national and provincial budgets for these purposes. New policies need to be developed in respect of infrastructure maintenance and there are many projects that have addressed this issue from different perspectives. The proposed advisory technical assistance (ADTA) will provide the resources to engage necessary technical expertise to review these options to recommend to the Government the most appropriate means of addressing this critical issue. The ADTA will also provide supplementary capacity building in the various technical areas covered by the proposed Project, and provide technical specialists to develop appropriate training material while providing the resources for local institutions for delivery of the training material.

2. In addition, there has recently been greater emphasis by the Government and donors alike on the inclusion of safeguard measures (environment, resettlement, and social issues) when undertaking infrastructure development. This was attempted under the recently completed Rural Infrastructure Sector Project (RISP) but met with mixed success as provincial staff in participating provincial project management units (PPMUs) did not understand the incremental benefits to be gained from attending to safeguard matters (increasing ownership-making investments are more sustainable and designs more appropriate). The ADTA will (i) provide resources to engage a project start-up specialist who is familiar with safeguard matters, (ii) ensure that current laws and decrees devolve the responsibility for rural development to local administrations, and (iii) assign responsibilities to local administrations for safeguard practices for such matters as land acquisition and resettlement, environmental impact assessment and mitigation, and community participation in decision making. Similarly, ADB's policies and safeguard requirements have become more rigorous, as have their requirements for financial management and procurement. These policies need to be understood by all personnel associated with internationally funded development projects.

3. The ADTA will support the CPMU and PPMUs with advisory technical assistance to (i) provide guidance and assistance at both national and provincial levels for further policy development in anticipation of future investments in the sector, (ii) provide extensive awareness raising and technical capacity building in the provinces based on lessons learned under donor programs, and (iii) ensure that both Viet Nam's and ADB's policies and procedures are fully understood and followed during implementation. The main thrust of new policy improvement will be a thorough analysis of practical steps that could be initiated to address critical challenges in O&M as it relates to rural roads, rural irrigation, water supply systems, and markets, and recommended measures to accommodate O&M financing requirements. Summary terms of reference for the national and international consultant positions follow.

A. Operation and Maintenance Policy Specialists (national 18 person-months and international 12 person-months).

4. The national consultant will be independently responsible for the following key tasks.

- (i) Review available literature on infrastructure O&M funding in Viet Nam.
- (ii) Examine the O&M experience on previous RISP subprojects and determine how well they are being maintained and what O&M issues are being faced.
- (iii) Identify best practices within the provinces for enhancing inter-sector coordination among different stakeholders responsible for maintaining rural infrastructure.
- (iv) Carry out consultations with the key agencies responsible for O&M and identify the steps to be taken to enhance technical and organizational capacity required for effectively addressing O&M-related problems.
- (v) Recommend specific and time-bound steps for implementing practical measures required for improving O&M processes as they relate to the full range of rural infrastructure investments to be designed and financed under the Project.
- (vi) Identify opportunities for enhancing capacity of farmer and community managed organizations in O&M management.

5. The international O&M policy specialist will be expected to work closely with the national consultant and will be responsible for leading the following tasks in partnership with the national consultant.

- (i) Prepare and present a background paper on international and national challenges in addressing rural infrastructure-related O&M issues.
- (ii) On the basis of the feedback received at these consultations, and supplemented by a review of regional and international best practices in effective O&M processes, examine the structural problems with O&M facing the provincial governments, their O&M companies and the communes or districts tasked with O&M responsibilities. In the process, examine the budgets of selected O&M companies to determine how the limited available funds are being utilized and make recommendations for a reordering of priorities or means of using available funds more effectively.
- (iii) Based on findings from tasks (i) and (ii), prepare policy options and hold discussions with the concerned government institutions, including the ministries of Agriculture and Rural Development, Transport, Construction, and Finance to determine their current policies on O&M funding.
- (iv) Hold discussions with individual donors to further identify O&M issues based on their in-country experience.
- (v) Identify issues in the O&M of medium-scale rural infrastructure and prepare an issues paper describing them.
- (vi) At regular intervals organize seminars and workshops (to be funded by the loan project) as appropriate for Government agencies involved in rural development, representative provincial governments, and donors sponsoring rural development projects to discuss the possible policy options required in addressing key issues in rural infrastructure O&M. The functions will be diagnostic in nature, presenting the result of the study to date, suggesting areas where reform is needed, and requesting views and ideas about how to proceed in improving the rural infrastructure O&M funding situation in the country.

- (vii) On the basis of the findings and recommendations of the functions, identify avenues of further investigation as well as specific measures which should be followed by donors and the Government in order to improve O&M funding.
- (viii) Prepare a paper reporting the findings to the Asian Development Bank (ADB), other donors, and the Government with recommendations for (a) the Project, (b) the preparation of future rural infrastructure projects, and (c) specific measures which can be taken on a general basis to improve the funding situation.

B. Policy Compliance and Project Facilitation Specialists (national 12 person-months and international 12 person-months)

6. The national consultant will be independently responsible for the following key tasks.
 - (i) Thoroughly review the report and recommendation of the President of ADB to the Board of Directors (RRP) and project completion report (PCR) for the RISP, the Project preparation consultants' draft final report and the RRP in order to fully understand the scope, implementation arrangements, and policy compliance requirements of the Project.
 - (ii) Review subproject selection and screening procedures with the staff of the Central Project Management Unit (CPMU) and identify compliance issues which will need to be addressed at provincial and national levels, and assist the CPMU to set up a system for monitoring and addressing them.
 - (iii) Assist the CPMU in the establishment of a project website and in the recruitment of consultants, including those responsible for areas relating to land acquisition and resettlement plans and environmental impact assessments of the provincial subprojects.
 - (iv) Prepare a time-bound framework for facilitating timely implementation of subprojects, particularly in non-RISP provinces in the first year of project implementation.
 - (v) Recommend measures required to facilitate coordination with other development partners working in the provinces covered under the Project.
 - (vi) Organize workshops and consultations on a regular basis in each of the 13 provinces to review lessons learnt from the RISP and other related investments implemented in the rural infrastructure sector.
 - (vii) In consultation with government sponsored civil society organizations and international and national nongovernment organizations, develop modules for scaling-up the technical and managerial capacity of the participating institutions in enhancing attention to O&M arrangements for a variety of rural infrastructure-related investments.
7. With assistance from the national consultant, the international consultant will be responsible for leading the following tasks.
 - (i) Visit each PPMU and review with the PPMU staff the compliance requirements for each subproject and the procurement and consultant recruitment procedures to be followed for the implementation of the subproject investment report (SIR), detailed design, and construction supervision.
 - (ii) Provide advice and guidance to PPMU staff in the preparation of subproject identification proposals (SIPs).

- (iii) Review the first batch of SIPs from each province and identify shortcomings and deficiencies in the SIP content and format, especially from a policy and compliance point of view.
- (iv) Review the proposed financial procedures with the CPMU and advise on measures and procedures which would enhance efficiency and transparency.
- (v) Monitor initial disbursements and reimbursements to the PPMUs and identify any bottlenecks or inefficiencies in the system.
- (vi) Prepare institution-specific performance measures or criteria to assess technical, financial, and managerial performance of agencies responsible for O&M-related arrangements of all types of rural infrastructure included in the Project.
- (vii) Assist with the recruitment of the implementation and capacity-building consultants, ensuring full transparency and compliance with ADB procedures.
- (viii) Provide quarterly reports to ADB on the progress of project start-up and policy compliance, and identify any delays or issues which would require the intervention or assistance of ADB staff.
- (ix) Provide a final report to ADB on the experience of project start-up and policy compliance activities and identify any matters which are likely to need further attention or affect the pace of policy compliance and project implementation.

Table A12: Estimated Advisory Technical Assistance Costs
(\$ '000)

Item	Total Cost
A. Asian Development Bank Financing	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants (24 person-months)	540.0
ii. National Consultants (30 person-months)	90.0
b. International and Local Travel	100.0
c. Reports and Communications	50.0
2. Computer Equipment	20.0
3. Surveys	40.0
4. Miscellaneous Administration and Support Costs	60.0
5. Contingencies	100.0
Subtotal (A)	1,000.0
B. Government Financing	
1. Office Accommodation and Transport	40.0
2. Office Materials, Telephone, and Internet	60.0
Subtotal (B)	100.0
Total	1,100.0

Source: Asian Development Bank estimates.

ECONOMIC ASSESSMENT

1. In view of the sector lending modality, an economic analysis has been carried out on the proposed loan based on ADB guidelines.¹ The proposed Project is an investment loan, but because of the significant number and location of potential subprojects within the target provinces² it was not possible to identify all subprojects during the design phase, nor was it appropriate as the Government has already demonstrated a capacity to implement a sector modality project.³ The Project also seeks to influence policy reform⁴ and thereby qualifies as a sector loan. It will “systematize the present ad hoc approach to sector development through emphasis...on considerations in the development of the sector”,⁵ an ADB requirement for a sector loan. A more detailed analysis of four representative subprojects (to confirm they are economically viable and that they will contribute to poverty reduction) is presented in Supplementary Appendix C. Further material on the sector and planning contexts for the rural infrastructure sector is contained in Appendix 2.

A. Rationale for Government Involvement

2. The Government's Five-Year Socio-Economic Development Plan (SEDP) (2006–2010) has three main outcomes targeted for the 5-year period: (i) growth, to boost the economic growth rate, quickly but sustainably bringing the country out of the low development state (to reach per capita income of \$950–1,000 by 2010); (ii) social development, to significantly improve people's material, cultural, and spiritual life; and (iii) good governance, to create institutional and infrastructure foundations to boost the industrialization and modernization process and gradual transformation into a knowledge-based economy. To achieve its economic growth objective, the Government proposes to (i) liberalize markets, (ii) develop infrastructure, (iii) promote science and technology, (iv) improve factor productivity, (v) improve the quality of resource allocation and use, and (vi) proactively accelerate international economic integration to promote exports and foreign investment. To achieve and maintain its high gross domestic product (GDP) annual growth rate of 7.5%, Viet Nam needs to develop physical infrastructure and maintain investment levels of at least 35% of GDP.

3. The other rationale for Government involvement is that because rural infrastructure is a public good, infrastructure investments tend to require large capital resources, and this precludes private investment. In addition, the means for recovering rents or user charges are not well developed in Viet Nam (although tollways are effective on national routes). With the possible exception of irrigation facilities and water supplies, benefits are distributed over a large and unidentifiable number of users, reinforcing the public nature of the investment. Rural infrastructure is essentially a public good; the responsibility rests with the Government to provide an appropriate environment to facilitate private investment.

¹ ADB Economics Research Division. 2005. Technical Note No.14: *Economic Analysis of a Sector Loan*. Manila.

² Participating provinces include eight former Rural Infrastructure Sector Project (RISP) provinces and five new provinces within the Central Region.

³ ADB 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for the Rural Infrastructure Sector Project*. Manila

⁴ ADB's Operational Manual states that a sector loan is “for project related investments based on considerations relating to a sector... as a whole”.

⁵ ADB. 2003. *Operations Manual*. Section D3/OP: Sector Lending. Manila (29 October).

B. Goals of the Plan

4. The main elements of the Government's rural infrastructure strategy include (i) an emphasis on rural roads, particularly a complete grid of all-weather roads in the supply areas for the major urban centers and a focus on much simpler linkages in remote areas; (ii) a decision to design and implement as much rural infrastructure development as practicable at provincial and lower levels with beneficiary or user participation; (iii) capacity development with regard to training and equipment so as to allow provinces to plan effectively without waste and to supervise construction; (iv) preparation and monitoring of standards for new works and maintenance; (v) priorities established for major national water projects within an overall plan; (vi) a system to determine priorities for national funding contributions to provincial infrastructure plans; and (vii) effective cost-recovery systems and practical, funded management and maintenance programs in place. In the SEDP plans for the Northern Central and Central Coastal regions, targets include raising per capita GDP to \$700–800 by 2010. For the Central Highlands region, the rural infrastructure focus is more on small- to medium-scale irrigation works, development of rural markets to support commodity-based border and domestic trade, and the development of side roads, feeder roads, and border roads from the National Highway 1A. The various ways in which the provision of rural infrastructure supports economic growth and poverty reduction in a range of situations are outlined in Appendix 2.

C. Government Plans

5. Details of Government plans and priorities are given in Section D of Appendix 2.

D. Associated Economic Policies

6. Two recent policy initiatives that are likely to impact upon the rural infrastructure sector (other than the sector development policy itself) are (i) the policy on decentralization and grassroots identification of priority public investments, and (ii) the policy for maintaining rural infrastructure. The Government has given significant importance to the commune-identified investments and has provided funding to resource the implementation of these investments (e.g., Program 135, funded from Government resources) and other bilaterally and multilaterally funded initiatives. Infrastructure items identified through these tend to be smaller-scale public investments of immediate relevance to the concerned communities. They tend not to have the broader economic development rationale or any appreciation of the larger-scale development issues. This has created an opportunity for coordination with these smaller-scale investments to increase their impact. Linking a number of village or commune roads with district road rehabilitation has the potential for a far greater impact than the road alignment in its own right.

7. The second policy is related to the resources of provinces and their financial capacity to maintain rehabilitated structures. The Government is clear in its desire to recover operation and maintenance (O&M) costs from the immediate beneficiaries using rural infrastructure. Local authorities have been charged with responsibility for setting user charges to recover O&M costs. For the larger items with broad-based benefits, contracts are provided to state-owned enterprises to operate and maintain state assets. The pricing policy of local administrations, however, does not provide for full cost recovery and in many cases recovered user-charges are insufficient to meet immediate O&M needs, particularly in the case of rural water supply and sanitation. Local authorities consider that they must retain responsibility for maintaining services to the public at subsidized prices. The subsidy that would allow comprehensive maintenance is not provided from provincial budgetary allocations; inevitably, assets deteriorate. The policy is

based on social considerations and is highly political given the limited capacity of some households to afford tariffs set to achieve full cost recovery. With the limited resources available in the districts and provinces to subsidize user charges, combined with a lack of appreciation of the need for routine and periodic maintenance (or at least the benefits thereof), rural infrastructure is seldom maintained in sound working order. The various dimensions of this planning and financing problem, and the nature of the resulting impacts upon rural livelihoods, are explained in more detail in Appendix 2. The Project has addressed this issue by capacity building for O&M requirements and by providing higher initial capital costs for structures (increasing design standards). However, the policy of allowing local authorities to set user fees at subsidized rates will impact upon the sustainability of the investments under the Project.

E. Government and Local Consultant Capacity

8. The Government has demonstrated a capacity to implement an ADB-funded sector modality project (the RISP) between 1998 and 2005 (footnote 2). In addition, the Government has recently completed the first and second Rural Transport Projects implemented by the national Government (i.e., centralized) project management unit. These projects have generally been regarded as satisfactory in terms of implementation efficiency and overall development impact; over 6,800 kilometers (km) of basic access roads were rehabilitated, and the projects helped to improve capacity to plan and implement work at the national level, and contributed to the emergence of private-sector contractors in the country. The ADB-funded RISP was implemented through provincial project management units where there was significant capacity building in the identification, design, works supervision, and in general project management. While it was assessed that more capacity building was needed⁶ in the areas of safeguards and economic evaluation, the project was rated as successful, demonstrating that capacity to implement a sector modality project has been established. However, the project completion report recommended (i) that further devolution should not be attempted too hastily, (ii) that there be a period of consolidation, and (iii) the refinement of local consultant capabilities in the social aspects of identification and design. Similarly, the capacities of the local consultants to prepare technically sound and appropriate detailed designs and to supervise works construction have been demonstrated.

F. Fiscal Impacts

9. Most of the rural infrastructure being rehabilitated or established under the Project will be of sufficient size that it is unlikely that communities will assume responsibility for its maintenance. Wherever possible, the Government is committed to charging user fees to provide for, or at least contribute towards, O&M requirements. Where it is possible to identify and charge local beneficiaries for contributions to O&M (as is the case in rural water supply and sanitation, markets, and irrigation subprojects), the immediate beneficiaries will be able to contribute to routine maintenance. For roads, the funding of routine maintenance will inevitably become the responsibility of the provinces, as will periodic maintenance requirements of other infrastructure. This places a significant demand on provincial and district resources to maintain rehabilitated infrastructure along with their increased capital stock of infrastructure. While the revenue-raising capacity of the predominantly rural provinces is limited, the issue of sustainability is very much dependent upon central Government allocations. Sustainability is partly an issue of financial management but is more one of limited resources.

⁶ ADB. 2006. *Project Completion Report on the Rural Infrastructure Sector Project in Viet Nam*. Hanoi.

10. A review of the financial position of the 13 target provinces shows significant growth in the level of financial activity, sources of funding, and the allocation of these funds to both capital and recurrent expenditure. In the period ended December 2004, annual budget receipts per capita (from all sources) in the target provinces varied between D0.6 million and D2.9 million, with Binh Dinh the lowest and Kon Tum the highest (the latter due to large transfers from the central Government). Annual per capita expenditure ranged between D0.8 million and D2.4 million with most budgets being balanced (made possible by transfers from the central Government). Provinces maintain their focus on funding capital investments that accounted for, on average, 28% of provincial expenditure. Provincial allocations for routine and periodic maintenance of infrastructure have been estimated to be approximately 40% of actual requirements. The heavy dependence on the central Government for budget resources averages 61% for target provinces, but ranged from 42% in the case of Thua Thien-Hue to 81% in Kon Tum.

11. The Project and associated ADTA have designed the capacity building to raise the awareness of provincial decision makers to achieve increased allocations for routine and periodic maintenance allocations from provincial budgets, but this continues to be a challenge facing the resource-poor provinces. Furthermore, as their respective economies develop, greater allocations will be needed for recurrent expenditure rather than maintaining the focus on investment and capital infrastructure as was needed in the period following the cessation of conflict to rehabilitate the dilapidated infrastructure.

12. ADB funds are not fully fungible as the three financing sources—ADB, AFD, and the Government—have already been specified in the design for the identified subprojects. The allocation of counterpart funds proved to be a major concern during the implementation of the RISP as 20% funding was sought from the provinces.

G. Economic Risks

13. The major economic risk to the successful outcome of the Project is the need for periodic and routine maintenance to sustain benefits. The economic analysis in Supplementary Appendix C draws attention to the sensitivity of the economic internal rates of return (EIRRs) for the representative subprojects to maintenance for road subprojects in particular. If the benefit stream stops 5 years after rehabilitation, the estimated EIRR becomes negative; if it stops after 10 years, the EIRR falls below the cost of capital. Specifically, the sensitivity analysis of the Phu Quy – Phuoc Hau, Phuoc Thai – Lien Son, and Tan Tai – Xom Lang roads suggests that if maintenance stops after 5 years the EIRRs will be about –4.3%, while if maintenance stops after 10 years the EIRR will only be 5.9%. For the Hung Trung – Nghi Kieu subproject (comprising roads, irrigation rehabilitation, and rural markets) the situation is similar, with the EIRR being –5.5% if maintenance stops after 5 years and 10.1% if it stops after 10 years.

14. The importance of attending to maintenance of rehabilitated structures cannot be overstated as it has such a dramatic impact upon the benefits achieved. While the identified economic risk is part policy-related in that tariffs do not reflect the real operational cost of rehabilitated infrastructure, the risk is equally a function of the limited availability of resources to maintain structures. The subproject identification process will go part of the way to ensuring that resources are allocated to the rehabilitated infrastructure, but there is a period of time between the commitment to a maintenance program and the commitment of budgetary resources during which such undertakings could be forgotten. It is therefore important to formalize commitments for maintenance by the provinces and, wherever possible, set minimum financing amounts for specific items of infrastructure.

H. Government Commitment

15. The commitment of both the central and provincial governments was strong during the previous ADB-funded sector loan, and has been evident again during the preparation of the Project. The provinces see considerable merit in the outcomes of the Project as it has been developed in a participatory manner with numerous workshops and individual consultations. Government commitment is clear, in that it financed 31% of the total project cost, compared with the 20% estimated at appraisal for the RISP. Whilst this was provided to ensure that adequate standards of design were achieved given the unit cost limitations in the RISP project documents, it substantiates Government commitment to the sector and its development plan.

I. Coordination of Foreign Aid

16. There are a number of international agencies and bilateral donors working in the rural and coastal infrastructure sector (Appendix 3) as well as a number of state-funded initiatives (such as the Program 135 phase II). Clearly there is a need to coordinate with these development initiatives at the provincial level. To achieve this coordination, responsibility for implementing has been assigned to the provincial people's committees (PPCs). Provincial steering committees have been proposed to ensure that subprojects will be consistent with the provincial SEDPs. Furthermore, as PPCs will have a major role in approving identified subprojects, and as the selection and prioritization process will be administered by the provincial project management units, it suggests that donor coordination will be effectively handled.

J. Conditions Attached to the Loan

17. Most conditions for the proposed Project relate to subproject identification and have been incorporated in the selection criteria. While policy reform may be appropriate in the case of the rural water supply and sanitation sector, the Project is intended to have some impact upon policy development within this sector in respect of the practices for O&M that forms the main condition of the proposed loan. This also constitutes the main risk under the Project that will impact on maximizing benefits from the investment. Time-bound and quantified provincial budgetary allocations that can be monitored after completion should be established during the selection process.

K. Economic Analysis of Representative Subprojects

18. Given the sector modality of the proposed Project, four representative subprojects were analyzed to determine their suitability for funding. In view of the similarity between the proposed Project and its predecessor (the RISP), three completed subprojects were reanalyzed using 2006 costs (indexed from actual costs); they were assessed against demonstrated benefits in current 2006 terms. In addition to the three completed subprojects, a new potential subproject⁷ was evaluated using similar approaches to the completed subprojects under the RISP. Each subproject demonstrated EIRRs in excess of 12%, ranging from 12.2% to 19.9% based on the identified net benefit flows. In each case, there were additional benefits from the investment that could not readily be quantified, and estimates were considered to be conservative. Sensitivity tests were carried out to the main potential variables that might impact upon the findings, including price declines, increases on capital costs, and also a reduction in utilization. The

⁷ Hung Trung Nieu Tru road rehabilitation and associated irrigation rehabilitation and market structures.

sensitivity to routine and periodic maintenance was also analyzed with utilization declining to prerehabilitation levels after the maintenance ceased. In most cases, the benefits were not sensitive to changes in price levels or to increases in the unit investment costs. The area of greatest sensitivity was identified from maintenance practices. Where the maintenance was ceased after 5 years of operation, the EIRRs fell dramatically below the cost of capital. In cases where the maintenance ceased after 10 years from completion, the EIRRs were significantly reduced (but not to below zero) as most of the benefits would have been received before the deterioration of the infrastructure. This result is more an impact of the method of estimating EIRRs, as the more substantial benefits are those occurring immediately after the initial investment.

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

A. Linkages to the Country Poverty Analysis

Is the sector identified as a national priority in country poverty analysis? <div style="float: right;"> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </div>	Is the sector identified as a national priority in country poverty partnership agreement? <div style="float: right;"> <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No </div>
Contribution of the sector or subsector to reduce poverty in Viet Nam:	
<p>Viet Nam has already achieved the first Millennium Development Goals of halving poverty by 2015 as the national poverty rate fell from about 58.1% in 1993 to 24.1% in 2004. Despite the success, regional inequalities remain: poverty, particularly extreme poverty, remains heavily concentrated in isolated rural areas and among ethnic minority groups. Over 90% of the poor (73% of the whole population) are found in rural areas. The need for social equity and balanced development to sustain the country's economic growth is well recognized in the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) and its latest Five Year Socio-Economic Development Plan, 2006–2010, and ADB's country strategy and program (CSP) (2007–2010). Key focuses of the CPRGS are the development of a diversified rural economy, inclusive social development, and addressing the needs of the relatively impoverished Central Region. Both plans place considerable emphasis on the provision of infrastructure, both at the national level and more directly at the provincial, district, and commune levels. The CSP recognizes this priority and has identified limitations in physical infrastructure as one of the main bottlenecks to accelerated, private sector-led growth, as well as to socially inclusive growth.</p> <p>The Project will contribute to achieve balanced and equitable growth in the 13 provinces in the Central Region. It will fund a series of subprojects aimed at rehabilitating and upgrading medium-scale rural and coastal infrastructure such as intercommune roads, irrigation facilities, water supply and sanitation, markets, and special coastal zone works. It is expected that approximately 50% of the subprojects will be roads to improve access to markets, employment opportunities, health centers, and schools by reducing isolation and remoteness of rural communes. It is also expected that another 30% of the subprojects will be irrigation schemes that will increase the productivity of agriculture. Improving access to safe water supplies will reduce health and hygiene problems particularly among the poor women and children quite apart from the time saved from water collection, a task performed by women and children. Likewise, markets will promote livelihood diversification by encouraging trade and enable information exchange.</p>	

B. Poverty Analysis

Targeting Classification: General intervention

What type of poverty analysis is needed?	
<p>The Project is not a direct poverty intervention because all people will have access to, and benefit from, the various subprojects. However, the Project will greatly benefit poor communities as subprojects will be located in geographically poor provinces, where the average rural poverty rate in 13 target provinces is 52%, a figure exceeding the national average of 26.4%.</p> <p>Participating provinces are characterized by a long, narrow coastal zone up to about 10 km wide along the coast in the east. This zone borders a flat, productive coastal plain that in turn is flanked by a series of mountains and hills to the west. The most densely populated areas in the provinces are the coastal zones and alluvial plains. The mountains and hills tend to be sparsely populated by ethnic minority tribal people. While the greatest absolute numbers of poor are in the coastal zone and the alluvial plain (due to the much higher population density), the hill and mountain areas have extremely high levels of poverty. Households in mountainous communes are substantially poorer, with 56% falling into the poor income group, compared with 22% of households in coastal communes and 42% of households in plains communes.</p> <p>All the provinces are predominantly rural and agricultural. The main economic activity is rice cultivation, and this is supplemented in the coastal zones by capture fisheries and aquaculture. Moreover, the region is also disaster prone, being subject to typhoons and consequent floods in the rainy season and droughts in the dry season. This adds to the precarious economic situation of the population, most of which lives below or just above the poverty line. Rural infrastructure in the project provinces is in generally poor condition. Approximately 70% of provincial roads are unpaved and are impassable during the wet season, while many of the irrigation systems require rehabilitation and upgrading. As a result, access to irrigated land and markets is constrained, as are access to services such as health and education. A poverty and social assessment (PSA) was undertaken during project preparation covering six provinces and six districts in each province with two districts selected in each of the three agro-environmental zones - coastal, plains, and mountainous. According to the PSA, upgrading of roads and bridges to all-weather surfaces and improving access to safe water supplies are the highest-ranked infrastructure development priorities of most</p>	

surveyed households, irrespective of gender or ethnicity. Despite the recognition of the need to improve water supply and sanitation, survey respondents are more willing to pay for improvements to infrastructure such as roads, irrigation, and markets. The PSA also revealed that there are differences between ethnic minority households and Kinh households with regard to access to infrastructure and services. Only 18% of ethnic minority households live in villages with a health centre (compared with 26% of Kinh households), 5% with a market (compared with 22% of Kinh households), and 15% with a lower-secondary school (20% of Kinh households). Subproject locations are yet to be determined.

C. Participation Process

Is there a stakeholder analysis? ☒ Yes ☐ No

A stakeholder analysis was conducted during project preparation to identify key project stakeholders, their project-related interests, and their potential roles in project implementation. Project field surveys were also conducted and approximately 400 potential beneficiaries per province were included. In addition, a number of province and national level workshops were held during implementation of the preparation study.

Is there a participation strategy? ☒ Yes ☐ No

A participation strategy has been integrated into the project design and social safeguard documents to ensure that different stakeholders continue to participate during implementation. Screening criteria for subproject investment proposals include that the public consultations have been undertaken on the subproject proposals within all affected or participating communes and feedback from consultations have been included in the proposal. The Project will mobilize community participation specialists in order to ensure that stakeholders, particularly beneficiaries, participate in sharing information about the Project, determine the location and design of subprojects, and supervise construction and benefit monitoring. The various safeguard processes (resettlement, ethnic minority development, and environment) also include consultation and participation of the community as a key step in identification of impacts and mitigation measures.

D. Gender Development

Strategy to maximize impacts on women:

Viet Nam has a long tradition of promoting gender equality, having one of the highest economic participation rates of women in the world (83%). The PSA concluded that women will be beneficiaries of the Project as around half of all workers in the agriculture sector are women, and compared with men, women contribute more hours of labor to cultivation, agricultural processing, and marketing of agricultural produce. In particular, market improvements will primarily benefit women, as over 90% of traders are women. Improvements in water supply may also ease women's physical burden.

The results from the PSA indicate that there is almost no difference between female-head and male-head households across the project area in terms of poverty level, with female-head households being slightly better off than male-head households. With regard to participation of women in community infrastructure planning and implementation, across the project area there is a relatively high participation of women in the decision-making process. Decisions about the types and actual location of new infrastructure had consistent participation of women. Nonetheless, subproject planning and implementation will ensure women, including female household heads, are provided equal opportunity to participate in and benefit from the Project. Gender will be an integral part of resettlement plans and environmental assessments.

Has an output been prepared? ☐ Yes ☒ No

E. Social Safeguards and Other Social Risks

Item	Significant/Not Significant/None	Strategy to Address Issues	Plan Required
Resettlement	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The Project will upgrade mainly existing infrastructure. Category A subprojects (with significant resettlement impacts) will be excluded through the subproject screening process. Short resettlement plans will be prepared for each subproject that may have land acquisition and resettlement impacts in accordance with the resettlement framework presented in Appendix 15.	<input type="checkbox"/> Full <input checked="" type="checkbox"/> Short <input type="checkbox"/> None
Affordability	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant	The affected population, including the poor, generally lacks access to infrastructure and related services. The Project will help to improve connectivity and provide better access to basic	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

Item	Significant/Not Significant/None	Strategy to Address Issues	Plan Required
	<input type="checkbox"/> None	infrastructure and services. User charges and fees for irrigation, water supply and sanitation projects, and markets, will be discussed and agreed to by beneficiaries prior to implementation. There will be no in-kind beneficiary contributions to construction, while operation and maintenance provisions for public infrastructure are included as a project cost.	
Labor	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	No adverse impact is anticipated. The Project will create employment opportunities (mainly for poor, unskilled labor) in infrastructure construction and maintenance, and also ensure that all labor laws and regulations are adhered to by all subproject contractors.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Indigenous People	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	Overall 35 different ethnic minority groups are located in the project area and account for some 12% of the population in total. Two out of 13 target provinces have high proportions of ethnic minority population, namely Kon Tum (53.6%) and Ninh Thuan (21.9%). The ethnic minority development framework will aim to extend the subproject's positive impact on ethnic minority groups. Together with the resettlement framework, it will ensure participation of ethnic minority populations in resettlement planning and implementation, and impacts and mitigating measures are addressed in the resettlement plan. Furthermore, if the ethnic minority population exceeds 20% of all the affected persons, small-scale livelihood activities will be prepared in consultation with ethnic minority affected people as a special rehabilitation program.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
Other Risks and/or Vulnerabilities	<input type="checkbox"/> Significant <input checked="" type="checkbox"/> Not significant <input type="checkbox"/> None	The incidence of HIV/AIDS in the project provinces is not significant, and the increased risk to HIV/AIDS due to the Project is considered minimal.	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

SUMMARY RESETTLEMENT FRAMEWORK

A. Background

1. The Integrated Rural Development Sector Project in Central Provinces funds small- and medium-scale investments in rural and coastal infrastructure such as roads, irrigation, water supply, sanitation, and markets in 13 provinces in the Central Region. Negative impacts from the Project are considered small and are likely to be confined to (i) permanent loss of small areas of land adjacent to the works, (ii) minor damage to structures, crops, and trees, (iii) temporary loss or disruption of the use of land or other assets caused by construction works; and (iv) the movement of construction plant and materials to and from work sites. Few, if any, people will be severely affected by land acquisition. In accordance with the Asian Development Bank's (ADB's) *Involuntary Resettlement Policy* (1995), the Project is classified category B. Full resettlement plans (as required for category A projects) will not be required because any subproject with significant resettlement impact will not be eligible for funding¹. Short resettlement plans will be prepared for any subprojects found to have land acquisition and resettlement impacts up to the limits for category B.

B. Policy Framework and Entitlements

2. The resettlement framework is prepared based on laws, regulations, and policies of the Government of Viet Nam and ADB policies and guidelines. It was endorsed by the Government and guides the preparation of resettlement plans (should any be needed) during project implementation. The provisions and principles adopted in this framework and subsequent plans will supersede the provisions of the relevant decrees currently in force in Viet Nam wherever a gap exists, as provided for under Decree 131/2006/ND-CP (November 2006), which regulates the management and use of official development assistance.

3. The project entitlement matrix (Table A15.1) summarizes the main types of losses and the corresponding nature and scope of entitlement. The extent of impact on vulnerable groups including ethnic minority groups and other disadvantaged groups—such as the landless, poor, households headed by women, elderly, and disabled—who should receive special economic rehabilitation programs will be determined during preparation of subproject investment reports (SIR) and resettlement plans. If the ethnic minority population exceeds 20% of all the affected persons, special economic rehabilitation programs specifically targeted to ethnic minority affected persons will be prepared in consultation with the ethnic minority affected persons. The details are found in the separate Ethnic Minority Development Framework (Supplementary Appendix I).

C. Institutional Framework

4. The Ministry of Agriculture and Rural Development (MARD), through the Central Project Management Unit (CPMU) of its Agricultural Projects Management Board, will assure overall planning, coordination, and reporting for the Project. In each of the 13 participating provinces, the respective Departments of Agriculture and Rural Development (DARD), through their provincial project management units (PPMUs), will prepare and implement subprojects. A safeguard officer will be appointed in each PPMU. The CPMU and PPMU will liaise with the provincial people's committee (PPC), and the PPC will request the district people's committee

¹ As per ADB policy, 'significant' resettlement means that 200 or more people (or approximately 40 households based on an average size of household) will experience being physically displaced or lose \$10 or more of their productive assets (income-generating).

(DPC) in districts where a subproject is located to establish a Compensation, Assistance, and Resettlement Board (CARB). The CARB will lead the resettlement process for each subproject, including preparation and implementation of the resettlement plan. The Committee for Ethnic Minorities and Mountainous Areas and the Fatherland Front have mandates for ethnic minority issues, and these agencies will be included in the special rehabilitation program for ethnic minority population wherever possible.

D. Screening, Preparation, and Implementation of Resettlement Plans

5. Based on information given in subproject identification proposals (SIPs), the CPMU will determine the requirements for resettlement plans using screening and categorization forms. During the initial screening of SIPs, subprojects likely to have significant resettlement impact will be rejected for ADB funding.

6. A short resettlement plan will then be prepared for each subproject investment report (SIR) where resettlement impacts are unavoidable. The preparation of a subproject resettlement plan will use the following procedure.

- (i) Undertake a census of all affected persons.
- (ii) Undertake an inventory and detailed measurement survey² of all losses of all affected persons. At the same time, inform potential affected persons (without discrimination) of the subproject, its likely impacts, and principles and entitlements as per the resettlement framework.
- (iii) Undertake a socioeconomic survey³ of at least 10% of all affected persons, 20% of severely affected persons and ethnic minority population.
- (iv) Undertake a replacement cost survey for various types of affected assets as a basis for determining compensation rates at replacement cost. Determine the losses in accordance with the entitlement matrix.
- (v) Provide project and resettlement information to all persons affected in a form and language understandable to them, and consult them on compensation and resettlement options, including relocation sites and economic rehabilitation.
- (vi) In consultation with those people affected, prepare a special rehabilitation program for affected ethnic minority population when their number exceeds 20% of all the affected persons.
- (vii) Prepare the draft resettlement plans with time-bound implementation schedule, procedures for grievance mechanism, and monitoring and evaluation, and a budget.
- (viii) Finalize the subproject resettlement plan in both Vietnamese and English. Submit plan to the CPMU for preliminary review, then CPMU will forward it to ADB for approval.
- (ix) Disclose the draft and final resettlement plan in accordance with ADB's *Public Communications Policy* (2005) to the affected communities and on ADB's website. The draft resettlement plan will be disclosed prior to submission to ADB for approval. The final resettlement plan will be disclosed after approval.

² Data will be disaggregated by gender and ethnicity.

³ The socioeconomic survey will include gender analysis and data will be disaggregated by gender and ethnicity.

7. Land acquisition, compensation, and relocation of affected persons cannot commence until the resettlement plan has been reviewed and approved by ADB. All resettlement activities will be coordinated with the civil works schedule. MARD will ensure that civil works contractors will not be issued a notice of possession of the site until (i) compensation and relocation of affected persons have been satisfactorily completed; (ii) agreed rehabilitation assistance is in place; and (iii) the site is free of all encumbrances (where relevant).

E. Consultation, Grievance Redress, and Disclosure

8. Consultation with the affected persons will take place from the SIR preparation stage, and will be completed prior to finalization of detailed designs and resettlement plan so that their needs and preferences can be incorporated into the design where practicable. They will also participate in the various resettlement plan processes, including (i) preparation of the inventory of losses, (ii) validation of compensation rates and entitlements, (iii) handover of entitlements, (iv) monitoring of impacts and benefits, and (v) discussion and settlement of grievances.

9. To ensure that all grievances of those affected on any aspect of land acquisition, compensation, relocation, and determination and payment of entitlements are resolved in a timely and satisfactory manner, and that all avenues for airing grievances are available, the Project will set up a mechanism to deal with any such grievances during project implementation. The affected persons will be made fully aware of their rights (both verbally and in writing) during consultations and at each phase of the resettlement process. Detailed procedures for hearing and redressing grievances, including appeal processes, will be made public through an effective public information campaign. The CARB will record and report on all complaints and their resolution. An independent monitor will check procedures and resolutions of grievances and complaints.

10. The PPMUs, assisted by the resettlement committees, will disclose (i) draft resettlement plans prior to submission for review and approval by ADB, (ii) final resettlement plans approved by the CPMU and ADB, and (iii) any revisions to resettlement plan as a result of changes in scope or design layout. Key information in resettlement plan, including compensation and rehabilitation options, will be disclosed to affected persons before commencement of civil works. The information will be made public in a readily accessible location such as village and commune halls and be in the form of an information leaflet or brochure, all in a form and language readily understood by the affected persons. All relevant project information, including final resettlement plan or specific actions prepared under the Project, will be made freely available in both English and Vietnamese to all affected persons and other interested parties, and will be posted on the ADB website following ADB and MARD approval of the related subproject detailed design.

F. Monitoring and Evaluation

11. The PPMU will supervise the preparation and implementation of the subproject resettlement plan and will monitor and report on all resettlement activities. The CARB will submit monthly progress reports to the PPMU which will review and forward them to the CPMU. The CPMU will consolidate all provincial reports into the project performance monitoring system, which will be used to prepare regular progress reports for submission to ADB. Monitoring and evaluation will also focus on social impacts and whether the people affected are able to restore, and preferably improve, their preproject living standards, incomes, and productive capacity.

12. The CPMU will recruit an independent monitoring organization to conduct external monitoring and evaluation of resettlement for the Project, focusing on the social impacts of the Project and whether affected persons are able to restore, and preferably improve, their preproject living standards, incomes, and productive capacity about 12 months after compensation and relocation have been completed. All such reports will be submitted to the CPMU and ADB.

G. Budget

13. All compensation for land and other affected assets will be paid at replacement cost based on current market prices. Compensation rates will be established for each project province, at replacement cost based on market prices during the replacement cost survey. All costs for subproject resettlement programs under the Project including land acquisition, compensation and allowances, operation and administration costs, surveys, monitoring, and reporting will be financed from loan funds. The commune resettlement committees will be responsible for payment of compensation directly to those affected. If ADB loan funds are utilized, the resettlement plans will identify key activities for which funds will be used, and any disbursement and auditing requirements that will facilitate appropriate and timely delivery.

Table A15: Project Entitlement Matrix

Type of Impact	Entitled Persons	Entitlements	Implementation Issues
A. Affected Land (Permanent)			
1. Minor Impact Agricultural and Forestry Land: if less than 10% of the total productive landholding is affected Residential and Commercial Land: If there is remaining land sufficient to rebuild structures Fishpond Land: If the area still meets the expected personal or commercial yield	User with legal or legalizable right and eligible land management organizations (LMOs)	(i) Cash compensation for acquired land at replacement cost. (ii) Affected assets (e.g., houses, structures, crops, and trees) will be compensated at replacement cost, see Items B to D.	Replacement cost for land is equivalent to current market value plus transaction costs such as administration, taxes, and titling cost; productive value and similar location attributes.
	User with lease or temporary right	(i) Cash assistance for affected land corresponding to 30% of replacement cost of the affected land; or, cash compensation of loss of net income for the remaining leased or assigned period, whichever is higher. (ii) Affected assets (e.g., houses, structures, crops, and trees) will be compensated at replacement cost, see Items B to D.	
	Nontitled user	(i) No compensation for land but will be allowed to continue to use any remaining land that affected persons are illegally occupying. (ii) Affected assets (e.g., houses, structures, crops, and trees) will be compensated at replacement cost, see Items B to D.	Poor, vulnerable affected persons and landless affected persons will be allowed to continue to use any remaining land that they are illegally occupying.

Type of Impact	Entitled Persons	Entitlements	Implementation Issues
2. Severe or Significant Impact Agricultural and Forestry Land: 10% or more of the total productive landholding affected Residential and Commercial Land: Without sufficient remaining land to rebuild upon Fishpond Land, if the remaining area is no longer viable or can no longer meet the expected personal or commercial yield	User with legal or legalizable right	(i) As a priority, allocation of replacement land (a) equal in area to affected land up to a maximum of land quota in province, (b) of same category (or productive capacity), (c) at a location satisfactory to affected persons and, (d) with full title. If the household head is married, title will be issued in the names of both husband and wife. Affected persons will not be charged for taxes, registration and land transfer costs; or, cash compensation for loss of land at replacement cost. (ii) Affected assets (e.g., houses, structures, crops, and trees) will be compensated at replacement cost, see Items B to D. (iii) Assistance for livelihood stabilization and livelihood restoration programs (Item H).	Priority will be given to land-for-land compensation within the same or neighboring commune. Cash in lieu of land will be offered only as a last resort or at the informed request of the affected persons. PPMU will consult with affected persons who are eligible to rehabilitation for their options and prepare proposal for rehabilitation programs in the period of resettlement plan preparation and implementation.
	User with lease or temporary right	(i) As a priority, allocation of replacement land: (a) equal in area to affected land up to a maximum of land quota in province of subproject, (b) of same category (or productive capacity), (c) at a location satisfactory to affected person, and, (d) with lease or temporary rights. If the household head is married, lease rights will be issued in the names of both husband and wife. Affected persons will not be charged for taxes and registration; or, cash assistance for affected land corresponding to 30% of current market value of the affected land; or, cash compensation for loss of net income for the remaining leased or assigned period, whichever is higher. (ii) Affected assets (e.g., houses, structures, crops, and trees) will be compensated at replacement cost, see Items B to D. (iii) Assistance for livelihood stabilization and livelihood restoration programs (Item H).	
	Nontitled user	(i) No compensation for loss of land but will be allowed to continue to use any remaining land that affected persons are illegally occupying; (ii) Affected assets (e.g., houses, structures, crops, and trees) will be compensated at replacement cost, see Items B to D. (iii) Assistance for livelihood stabilization and livelihood restoration programs (Item H).	Poor and vulnerable affected persons who have no other land will be allocated with replacement land with title or temporary or lease land rights. Landless affected persons will not be displaced until the commune allocates land within the same or neighboring commune.
	Eligible land management organizations	(i) As a priority, replacement land equal in area to affected land up to a maximum of land quota in province; of same category (or productive capacity), at a location satisfactory to affected person; or, cash compensation at replacement cost. (ii) Affected assets (e.g., houses, structures, crops, and trees) will be compensated at replacement cost, see Items B to D.	LMO will not be charged for taxes, registration, and land transfer costs.

Type of Impact	Entitled Persons	Entitlements	Implementation Issues
B. Loss of Houses, Structures, and Other Fixed Assets			
Totally affected houses	Owners of houses whether or not land is owned	Compensation at replacement cost (in cash or in kind) equivalent to current market prices of materials and labor, with no deduction for depreciation or salvageable materials.	Affected persons will demolish the impacted areas and reconstruct or improve their houses themselves. Notice to be given at least 3 months before land clearance.
Partially affected houses	Owners of houses whether or not land is owned	Compensation for cost of materials with no deduction for depreciation or salvageable materials and cost of repair.	Affected persons will demolish the impacted areas and repair their houses themselves.
	Tenants in private or government housing or buildings	Has an option to (i) stay with the owner's agreement or (ii) if affected person decides to move out, 6 months' rent allowance; and (iii) assistance in finding new, affordable rental accommodation.	Notice to tenants by the owner has to be given at least 3 months in advance.
Other structures (including secondary and industrial structures)	All owners regardless of whether land is owned or not	Compensation at replacement cost (in cash or in kind) equivalent to current market prices of materials and labor, with no deduction for depreciation or salvageable materials.	Affected persons will demolish the impacted areas and reconstruct or improve the structures themselves.
C. Affected Community Assets, Graves, and Public Properties			
Loss of graves	Affected family	(i) All costs of excavation, relocation, and reburial will be reimbursed in cash to the affected family; (ii) The graves will be relocated in existing municipal cemeteries.	Graves to be exhumed and relocated in culturally sensitive and appropriate ways.
Community assets, community resources, or public property	Village, ward, government unit	(i) Land replaced in areas identified in consultation with affected communities and relevant organizations. (ii) Restoration of affected community buildings and structures to original or better condition.	If income loss is expected (e.g., irrigation, community forest, income from fishpond), the affected village will be entitled to compensation for the total production loss over 3 years. This compensation will be used collectively for income restoration measures or new infrastructure.
D. Affected Crops and Trees			
Crops and trees	Owners, regardless of whether or not land is owned	For annual crops, cash compensation at replacement cost is equivalent to the highest production of crop over the last 3 years multiplied by current market value of crops at the time of compensation. For perennial crops and trees, cash compensation at replacement cost is equivalent to current market value given the type, age, and productive value at the time of compensation.	Affected person has the right to use salvageable trees. Affected persons will be given 2 months notice that the land on which their crops are planted will be recovered and that they must harvest their crops in time. Affected persons will receive cash compensation at current market cost for any unharvested crops that are near or ready to harvest at the time of land acquisition.

Type of Impact	Entitled Persons	Entitlements	Implementation Issues
E. Business and Income Sources			
Temporary loss of income (i.e., while business is rebuilding)	Nonregistered business	Cash compensation for the duration of disruption based on the minimum wage per month in the province.	Full compensation for incomes lost to affected persons at least 1 month before land clearance.
	Registered business	Cash compensation for the duration of disruption based on net income (tax receipts).	
Permanent loss of business or income source affected (relocated business)	Nonregistered business	Cash compensation based on the minimum wage per month in the respective province for 12 months.	PPMU consult with affected persons who are eligible for rehabilitation for their options and prepare proposal for rehabilitation programs in the period of resettlement plan implementation.
	Registered business	Cash compensation based on net income (tax receipts) for 12 months.	
F. Income of Employees and Hired Labor			
Temporary loss while business reorganizes within remaining land	All	(i) Cash compensation for lost salary or wages for each month they cannot work; or (ii) Assistance in securing new employment, including relevant skills training expenses if required.	Businesses will be encouraged to retain existing employees. PPMU consult with affected persons who are eligible for rehabilitation for their options and prepare proposal for rehabilitation programs in the period of resettlement plan implementation. The Project will encourage business to provide severance pay for employees.
Permanent loss in case the business stops its activities	All	(i) Cash compensation for 6 months salary or wages, or cash compensation for remaining period of contract, whichever is higher. (ii) Assistance in securing new employment, including relevant skills training expenses. (iii) Assistance for livelihood stabilization and livelihood restoration programs (Item H).	
G. Any Damages Caused by Contractors			
Land and non-land assets	All persons affected by damage	(i) Contractor to (a) pay rent for the additional land required for construction working space, and (b) compensate for damages on properties at replacement cost (as indicated in Items A to F). (ii) Temporary use of land will be promptly restored or improved in its preproject condition at no cost to the affected persons.	For the contractor working space, to the extent possible, only unused land will be used to avoid disruption to households and business establishments; use of residential land will not require any impacts on houses and structures and will not disrupt access to households; If use of land is more than 1 year, affected persons has the option to sell the land at replacement cost (See Item A above).

Type of Impact	Entitled Persons	Entitlements	Implementation Issues
H. Severely Affected and Poor And Vulnerable Affected Person Households			
1. Allowances During Transition			
Materials transport allowance	All relocating affected persons	All affected persons moving away from their original residence but relocating within the province are entitled to a maximum allowance of D3 million per household and all affected persons relocating beyond the province are entitled to a maximum allowance of D5 million per household.	This allowance is for the transportation of their household contents, salvaged materials, and any other living facilities.
Life and production stabilization allowance	All relocating affected persons, all affected persons losing significant impacts on their productive land, and employees losing their job.	Cash allowance equivalent to 30 kg of rice per family member per month for a minimum period of 6 months or longer.	
	Affected persons rebuilding structures on remaining land.	Cash allowance equivalent to 30 kg of rice per family member per month for a period of 3 months.	
Special cash assistance for poor and vulnerable affected persons	All poor and vulnerable affected persons (marginally and severely affected persons).	Special cash allowance equivalent to 30 kg of rice per family member per month for a period of 6 months.	This is in addition to the life and production stabilization allowance
2. Livelihood Restoration Programs. (They are recommendations given by ADB. Specific program will be determined during subproject resettlement planning and included in the Resettlement Plan as given below).			
Project-related job opportunities	Severely affected persons; poor and vulnerable affected persons.	In each severely affected family, one person of working age will be prioritized for employment during the construction phase.	The family members will decide which person will benefit from these measures. the PPMU will ensure that the executing agency will hire these persons. The PPMU will ensure that this is included in the contractors' specifications wherever possible.
Agricultural extension	Severely affected persons; poor and vulnerable affected persons.	(i) Assistance to improve productivity on remaining agricultural or forestry land by linking them with preexisting government-run programs such as agricultural extension. (ii) Agricultural assistance will be of a value of \$110 per severely affected household.	Links will be facilitated by the PPMU and the other implementing agencies with the executing agency, once a demand assessment is completed. The \$110 will be given to the agency providing the extension services.

Type of Impact	Entitled Persons	Entitlements	Implementation Issues
3. Ethnic Minority Specific Action and Livelihood Development Program			
Affected ethnic minority households	All affected people	(i) Ethnic minority affected people are ensured for equal entitlement to Kinh affected people. (ii) Ethnic minority affected people have separate opportunities for consultations and meetings.	
	Ethnic population represent 20% of affected people	In-kind economic rehabilitation assistance to strengthen or initiate income-generating activities, to be decided in consultation with eligible people; forms of assistance may include agricultural extension assistance, technical and other assistance to develop new nonfarm income-generating activities, project-related employment, and partial or full assistance for provision of tertiary infrastructure.	The detail of economic rehabilitation assistance will be prepared with affected persons and included in the resettlement plan. These programs will target the needs of both men and women. Careful attention will be given to the special needs of and opportunities for women, young adults, ethnic minority, and other vulnerable affected persons.

LMO = land management organization, PPMU = provincial project management unit,

Source: Resettlement Framework, Ministry of Agriculture and Rural Development, Hanoi, Viet Nam.