



Report and Recommendation of the President to the Board of Directors

Project Number: 37097
September 2014

Proposed Loan for Additional Financing Socialist Republic of Viet Nam: Integrated Rural Development Sector Project in the Central Provinces

Distribution of this document is restricted until it has been approved by the Board of Directors. Following such approval, ADB will disclose the document to the public in accordance with ADB's Public Communications Policy 2011.

CURRENCY EQUIVALENTS

(as of 8 September 2014)

Currency unit	–	dong (D)
D1.00	=	\$0.0000474
\$1.00	=	D21,198

ABBREVIATIONS

ADB	–	Asian Development Bank
APMB	–	Agriculture Projects Management Board
CPMU	–	central project management unit
EIRR	–	economic internal rate of return
ha	–	hectare
IEE	–	initial environmental examination
km	–	kilometer
MARD	–	Ministry of Agriculture and Rural Development
O&M	–	operation and maintenance
PAM	–	project administration manual
PPMU	–	provincial project management unit
PRI	–	productive rural infrastructure
QCBS	–	quality- and cost-based selection
REMDP	–	resettlement and ethnic minority development plan
SIR	–	subproject identification report

NOTE

In this report, "\$" refers to US dollars

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Country Director	T. Kimura, Viet Nam Resident Mission (VRM), SERD
Team leader	N. Ikemoto, Senior Environment Specialist, SERD
Team members	N. T. Giang, Social Development Officer (Gender), VRM, SERD
	P. T. Hien, Financial Control Analyst, VRM, SERD
	D. T. Huong, Associate Procurement Analyst, VRM, SERD
	D. T. L. Huong, Operations Assistant, VRM, SERD
	D. Mellor, Country Economist, VRM, SERD
	C. U. Pak, Counsel, Office of the General Counsel
	P. Q. Pham, Environment Officer, VRM, SERD
	H. L. Phong, Senior Project Officer (Co-team leader), VRM, SERD
	A. J. Qari, Senior Procurement Specialist, Operations Services and Financial Management Department
	C. Ramiro, Senior Operations Assistant, SERD
	N. D. Thang, Associate Safeguard Officer (Resettlement), VRM, SERD
	L. N. T. Thanh, Associate Procurement Analyst, VRM, SERD
	N. J. Tiburcio, Safeguard Specialist (Resettlement), VRM, SERD
Peer reviewer	T. Ueda, Senior Natural Resources Economist, East Asia Department

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
PROJECT AT A GLANCE	
I. THE PROPOSAL	1
II. THE PROJECT	1
A. Rationale	1
B. Impact and Outcome	2
C. Outputs	3
D. Investment and Financing Plans	3
E. Implementation Arrangements	4
III. DUE DILIGENCE	6
A. Technical	6
B. Economic and Financial	7
C. Governance	7
D. Poverty and Social	8
E. Safeguards	8
F. Risks and Mitigating Measures	10
IV. ASSURANCES AND CONDITIONS	10
V. RECOMMENDATION	10
APPENDIXES	
1. Revised Design and Monitoring Framework	11
2. List of Linked Documents	14

PROJECT AT A GLANCE

1. Basic Data		Project Number: 37097-044	
Project Name	Integrated Rural Development Sector Project in the Central Provinces - Additional Financing	Department /Division	SERD/VRM
Country Borrower	Viet Nam, Socialist Republic of Socialist Republic of Viet Nam	Executing Agency	Ministry of Agriculture & Rural Development (MARD), Ministry of Agriculture and Rural Development
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Agriculture, natural resources and rural development	Agricultural drainage		6.00
	Irrigation		50.00
	Rural flood protection		16.00
Transport	Road transport (non-urban)		13.00
		Total	85.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Medium
Environmentally sustainable growth (ESG)	Natural resources conservation		
Regional integration (RCI)	Pillar 1: Cross-border infrastructure		
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas	Effective gender mainstreaming (EGM)	✓
Partnerships (PAR)	Implementation		
	Private Sector		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	Yes	Rural	High
Geographic targeting (TI-G)	Yes	Urban	Low
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: B Involuntary Resettlement: B Indigenous Peoples: B		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		85.00	
Sovereign Sector loan: Asian Development Fund		85.00	
Cofinancing		0.00	
None		0.00	
Counterpart		7.50	
Government		7.50	
Total		92.50	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		No	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan to the Socialist Republic of Viet Nam for the additional financing of the Integrated Rural Development Sector Project in the Central Provinces.¹

2. The additional financing will scale up and expand investments in rural infrastructure in 6 of the 13 original project provinces over 4 years.² The six provinces selected based on their good implementation performance are Binh Dinh, Binh Thuan, Ha Tinh, Ninh Thuan, Phu Yen, and Thua Thien–Hue. The additional financing will support the upgrading of underdeveloped or outdated productive rural infrastructure (PRI), thus increasing agricultural and rural productivity. It also aims to improve the integration of strengthened dams and reservoirs, primary and secondary canals, and access roads to facilitate increased agricultural productivity and diversification and reduce vulnerability caused by natural disasters. This is consistent with the approach adopted by the ongoing Productive Rural Infrastructure Sector Project in the Central Highlands.³ It directly supports the Government of Viet Nam's National Target Program for New Rural Development, 2010–2020, the National Water Resources Strategy, 2006–2020, and the recent Prime Minister's decision to restructure agriculture.⁴

II. THE PROJECT

A. Rationale

3. On 15 October 2007, the Asian Development Bank (ADB) approved the project loan of SDR58,723,000 (\$90 million equivalent, excluding the government contribution of \$24.8 million).⁵ Agence Française de Développement provided parallel financing with a €40 million loan (\$52 million equivalent) and a €1.0 million grant (\$1.3 million equivalent). The ADB loan was declared effective on 6 May 2008. The initial project was to (i) improve rural livelihoods by increasing agriculture productivity; (ii) widen employment opportunities; (iii) improve access to health, education, and safe drinking water; and (iv) reduce exposure to natural disasters by improving deteriorated infrastructure.

4. The Ministry of Agriculture and Rural Development (MARD) is the executing agency. The central project management unit (CPMU) established within the Agriculture Project Management Board (APMB) of MARD has been responsible for overall national project implementation, while the provincial project management units (PPMUs) in the 13 project provinces have been responsible for day-to-day implementation. The project was implemented over 6 years and will close on 31 December 2014. At the time of the midterm review mission (11 May–3 June 2011), a minor modification was made to the original target indicators set for impacts and outcome in the design and monitoring framework to extend the impact evaluation period to 2016, and specify the baseline to measure the expected increased income. The original output indicator for rural roads was reduced to reflect the need for more irrigation subprojects to enable water supply, expand irrigated areas for crop diversification, and minimize flood and drought risks.

¹ The revised design and monitoring framework is in Appendix 1.

² The provinces covered were (from north to south) Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien–Hue, Quang Nam, QuangNgai, Kon Tum, Binh Dinh, Phu Yen, Ninh Thuan, and Binh Thuan.

³ ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Productive Rural Infrastructure Sector Project in the Central Highlands*. Manila.

⁴ Government of Viet Nam. 2013. *Agricultural Restructuring Towards Raising Added Values and Sustainable Development* (No: 899/QD-TTg). Hanoi.

⁵ ADB. 2007. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to the Socialist Republic of Viet Nam for the Integrated Rural Development Sector Project in the Central Provinces*. Manila.

5. **Project performance.** The project is considered to be performing well according to the additional financing policy in ADB's *Operations Manual*.⁶ Despite the initial start-up delay, the project is on track to achieve its intended outputs and outcomes. As of 24 August 2014 overall project implementation progress was 99% against the elapsed loan period of 95%. All 129 intended subprojects were physically completed. Cumulative contract awards comprised 95.1% of the ADB net loan amount and disbursements 96.6%. The government has substantially complied with all covenanted safeguard requirements during implementation of subprojects.

6. In terms of achieving the revised output targets, the project rehabilitated 658 kilometers of rural roads (122%); and irrigated 115,163 hectares (105%) of agricultural land with 46 irrigation canals and drainage schemes, six rural water supply schemes (120%), 20 rural markets (111%), and nine flood protection schemes (225%). Appraisal estimates indicated more than 400,000 hectares of irrigation facilities were in need of rehabilitation and about 25,000 kilometers of primary and secondary irrigation canals in need of lining. More than a third of the rural population did not have clean water supplies. The project has made a good contribution to meeting the provincial infrastructure development targets. The monitoring data submitted by the CPMU and the PPMUs in December 2013 indicate the achievement of reduced travel and water collection time, reduced vehicle operating costs, and increased rice and other crop production.

7. **Additional support needed.** Despite the achievements, much work is needed to reduce infrastructure constraints to production, diversification, and economic growth. The climate change modeling study conducted by the World Bank indicates that the agro-ecological zones in the six target provinces will encounter severe to very severe exposure to hydroclimatic risks.⁷ Farmers in those areas are already adapting to changes in climate conditions and relying on various cropping strategies. The study recommends investment in improving and expanding irrigation infrastructure where opportunities for irrigation expansion are greatest in the central region. Because dams and reservoirs are the backbone of irrigation systems, their safety is an urgent national concern. The government's National Socioeconomic Development Plan, 2011–2016, National Target Program for New Rural Development (2010–2020), and the National Water Resources Strategy (2006–2020) recognize the dual objective of rural water infrastructure.

B. Impact and Outcome

8. The additional financing is consistent with ADB's country partnership strategy, 2012–2015 for Viet Nam. The impact will not be changed: improved livelihoods, incomes, and standards of living for the region's rural population through increased agricultural productivity, wider employment opportunities, improved health and education, and reduced exposure to

⁶ ADB. 2011. Additional Financing. *Operations Manual*. OM H5/BP. Manila. The project meets the four eligibility criteria for additional financing. First, the ADB review mission in 2012 and 2013 confirmed the satisfactory performance of the original project. The review mission in December 2013 confirmed that the original project remains technically feasible, economically viable, and financially sound. Second, the government accords high priority to the original project as proposed to be expanded through the additional financing. Additional financing will be crucial in meeting the national priorities stated in National Target Program for New Rural Development, 2010–2020, the National Water Resources Strategy, 2006–2020, and the recent Prime Minister's decision to restructure agriculture. Third, the additional financing scope is consistent with the project's development objective because the intended outcome and three outputs remain essentially the same except for output 2 relating to capacity building which was slightly modified to include agricultural training for farmers. Fourth, the additional financing supports the inclusive growth that is identified as a priority in the *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila. The additional financing meets the three criteria for priority consideration: (i) the project is performing well; (ii) there is a high degree of project readiness to implement the additional financing; and (iii) the additional financing has innovative features that further reduce procurement risks, increase implementation efficiency, and increase project benefits.

⁷ World Bank. 2010. *Economics of Adaptation to Climate Change in Viet Nam*. Washington, DC.

natural disasters. The outcome statement remains the same, while the outcome indicators are modified to adjust to the current socioeconomic conditions, consider direct contribution of the improved PRI, and feasibility of data collection.⁸

C. Outputs

9. The three outputs are unchanged. The output statement related to capacity building is modified to include agricultural training for farmers. Output indicators for the additional financing are (i) improved PRI; (ii) improved capacity of (a) national, provincial, district, and commune staff in technical design; and (b) farmers in agricultural production techniques; and (iii) improved project management skills for infrastructure development. Rehabilitation of water supply is not included in the additional financing as the focus was modified from general rural infrastructure support to improved irrigation system.

10. Activities to improve PRI include civil works to (i) improve irrigation infrastructure including reservoirs and dams; (ii) upgrade river embankments and dikes for flood protection, saline intrusion protection, and other purposes; and (iii) rehabilitate canal roads and access roads around the irrigation schemes. Bioengineering techniques for soil and water stabilization will be adopted to promote soil and water conservation. Twenty-four subprojects were prescreened and a feasibility study conducted for one subproject. A feasibility study will be conducted for each of the remaining 23 subprojects to determine their financial eligibility. One subproject selection criterion is an economic internal rate of return (EIRR) of at least 12%.⁹

D. Investment and Financing Plans

11. The additional financing will support work estimated to cost \$92.5 million. The overall project is estimated to cost \$260.6 million, including taxes and duties of \$20.3 million (Table 1).

Table 1: Project Investment Plan
(\$ million)

Item	Current Amount ^a	Additional Financing ^a	Revised Total
A. Base Cost^b			
Rural and coastal infrastructure	156.0	74.0	230.0
Capacity building	3.2	1.8	5.0
Central project management	4.1	2.8	6.9
Subtotal (A)	163.3	78.6	241.9
B. Contingencies^c	1.7	10.7	12.4
C. Financing charges during implementation^d	3.1	3.2	6.3
Total (A+B+C)	168.1	92.5	260.6

^a Includes taxes and duties of \$13.1 million for the original amount financed by the government and project provinces; and includes taxes and duties of \$7.2 million to be financed by the Asian Development Bank (ADB), the government, and project provinces for the additional financing.

^b In mid-2006 prices for the original amount and second quarter 2014 prices for the additional amount.

^c Physical contingencies computed at 10% for civil works and consultancy, and 5% for all other expense categories. Price contingencies computed at 1.6% on foreign exchange costs up to project start and then at 1.1%, 1.4% and 1.4% for the three project years, and at 6.2% on local currency costs up to project start and then at 6.6%, 6.0% and 6.0% for the three project years; includes provision for potential exchange rate fluctuation under the assumption of a purchasing power parity exchange rate.

^d Interest during construction for an Asian Development Fund loan is computed at 2% per year.

Source: Asian Development Bank estimates.

⁸ The term “productive infrastructure” refers to infrastructure that helps improve agricultural production and diversification through irrigation (reservoirs, canals, water management, and control structures) and access (rural roads and bridges).

⁹ An EIRR of 10% is acceptable if significant unquantifiable benefits are documented.

12. The government has requested a loan in various currencies equivalent to SDR55,024,000 (\$85 million equivalent) from ADB's Special Funds resources for the additional financing of the project. The loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum throughout the grace period and thereafter, and such other terms and conditions set forth in the draft loan agreement.

13. The financing plan is in Table 2. The ADB loan will finance 100% of civil works, equipment, taxes and duties associated with civil works and equipment,¹⁰ consultants, training, interest during construction, and project management.¹¹ The central government will provide \$0.5 million and the participating provinces will provide a total of \$7.0 million. The funds from the central government will finance part of the CPMU operating costs and training. To avoid a substantial implementation delay, the feasibility study, detailed design and construction supervision consultants, and operation and maintenance (O&M) will be financed by the counterpart fund from the provincial budget. Land acquisition and resettlement costs will also be financed by the counterpart fund from the provincial budget.

Table 2: Financing Plan

Source	Current ^a		Additional Financing		Total	
	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)	Amount (\$ million)	Share of Total (%)
Asian Development Bank						
Special Funds resources (loan)	90.00	53.5	85.00	91.9	175.00	67.2
AFD loan	52.00	30.9	0.00	0.0	52.00	20.0
AFD grant	1.30	0.8	0.00	0.0	1.30	0.5
Government	24.80	14.8	7.50	8.1	32.30	12.5
Total	168.10	100.0	92.50	100.0	260.60	100.0

AFD = Agence Française de Développement.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank estimates.

E. Implementation Arrangements

14. The implementation arrangements will be essentially the same as for the initial project except for the number of participating provinces. MARD continues as the executing agency and delegates overall responsibility to its APMB. The CPMU established within APMB will continue to be responsible for central project coordination. The provincial people's committees of the six participating provinces will continue their overall responsibility for implementation coordination in their respective provinces. The PPMUs set up within district agriculture and rural development departments in each of the six project provinces will continue their responsibilities.

¹⁰ ADB will finance taxes and duties for civil works and equipment to avoid delay, ensure completion of the civil works, and realize the intended outcome and outputs within the proposed 4-year implementation period. The total cost of taxes and duties to be financed by ADB is estimated at \$6.5 million. The calculation of taxes and duties to be financed by ADB under the project is based on the following principles: (i) the amount of taxes and duties financed by the ADB loan does not represent an excessive share of the project investment plan and is in line with the eligible expenditure financing parameters set out in the CPS 2012–2015, (ii) the taxes and duties apply only to ADB-financed expenditures and (iii) the financing of the taxes and duties is relevant to the project's success. The government will finance taxes and duties for consulting services, subproject studies and design and safeguard and community participation through cash contribution in the amount of \$0.7 million.

¹¹ ADB will also finance bank charges, transportation, and insurance costs.

15. In the communes, the project will continue to coordinate with the local administrations, using the commune people's committees as points of liaison. The PPMUs will work with commune personnel who will ensure coordination of day-to-day activities between the project and commune authorities. These activities will include organizing public consultations, and design and implementation monitoring by commune supervision boards.¹² The boards are supported by regular budget allocations from the districts.

Table 3: Implementation Arrangements for Additional Financing

Aspects	Arrangements		
Implementation period	January 2015–December 2018		
Estimated completion date	31 December 2018		
Management			
(i) Executing agency	Ministry of Agriculture and Rural Development		
(ii) Key implementing agencies	Six provincial people's committees and project management units of participating provinces (Binh Dinh, Binh Thuan, Ha Tinh, Ninh Thuan, Phu Yen, and Thua Thien–Hue)		
(iii) Implementation units	Existing central project management unit located in Ha Noi and existing provincial project management units located in the participating provinces		
Procurement	National competitive bidding	31–40 contracts	\$61.50 million
	Shopping	1 contract	\$0.04 million
Consulting Services	Single-source selection for existing loan implementation consultant	1 contract 28 person-months for international and 174 person-months for national consultants	\$1.60 million
	Least-cost selection for project audit	1 contract	\$0.17 million
	Fixed-budget selection for baseline and endline surveys and subproject completion audit	2 contracts	\$0.60 million
Advanced contracting	No advanced contracting required for Asian Development Bank (ADB) financing. Subproject design consultants will be recruited and contracted by the provincial project management units using their counterpart funds prior to loan effectiveness.		
Disbursement	The loan proceeds will be disbursed in accordance with ADB's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and ADB.		

Sources: Asian Development Bank and Ministry of Agriculture and Rural Development estimates.

16. The contract packaging reflects key lessons from the initial project on how to improve procurement and consultant recruitment. Based on a review of 75 bid evaluation reports prepared by the PPMUs of six participating provinces, several measures were adopted to improve the quality and speed of civil works procurement. First, a single-stage, one-envelope bidding procedure will serve as the default to maximize transparency and price competition (as opposed to the single-stage, two-envelope procedure, which was the default under the initial project). Second, any requests for direct contracting during implementation will be strictly scrutinized (almost 12% of civil works procurement under the initial project used direct contracting). Third, to address the elevated risk of bidder collusion, civil works packages are consolidated to increase minimum lot size to approximately \$1 million thereby enhancing their commercial attractiveness. To generate bidder interest, business outreach events will be organized in Da Nang, Lam Dong and Quang Tri. Fourth, prior review of procurement documents prepared by Ha Tinh and Thua Thien–Hue PPMUs will be undertaken given the

¹² At least 30% of participants of commune supervision boards are women.

deficiencies identified in their bid evaluation process. Fifth, having identified certain weaknesses in the bid evaluation reports of the PPMUs from six participating provinces, a customized training program will be developed to address deficiencies and increase awareness of the additional explanations provided in the national competitive bidding section of the procurement plan. Detailed description of these measures and the underlying procurement risks they address are set forth in the project administration manual (PAM).¹³

17. Under the initial project, one package for recruiting a loan implementation consultant used quality- and cost-based selection (QCBS) and prior review; the recruitment process had severe delays. The remaining 283 consulting packages were recruited using consultant's qualifications selection and post review. To streamline and expedite consultant recruitment, a new approach will be adopted. Consultant recruitment to be conducted by the PPMUs for feasibility studies, detailed design, and construction supervision will be funded by government counterpart funds following national procedures. Given the large number of packages and the PPMUs' limited knowledge of ADB procedures and the English language, the use of counterpart funding will help minimize recruitment delays. Only four sets of consultants will be recruited. Selection methods that are more competitive than consultant's qualifications selection will be used, except as described in para. 18.

18. Single-source selection of the loan implementation consultant under the initial project, VICA Consultants International, is justified for several reasons. First, VICA's technical capabilities are well aligned with the requirements of the terms of reference and it has experience of exceptional value for this assignment. Also, VICA's actual performance under the initial project was satisfactory. Second, VICA's financial proposal under the new contract will be reasonable because 23 of 28 person-months of international expert input and 132 of 174 person-months of national expert input will be provided by experts recruited under the original VICA contract based on remuneration rates determined competitively during the QCBS selection process. Third, given the specialized nature of the terms of reference, competition will be limited; conducting a new selection process is unlikely to produce a firm with more technical expertise or significantly lower price. Fourth, VICA's recruitment through single-source selection will significantly accelerate implementation by allowing it to immediately commence key activities involving review and/or preparation of technical design and safeguard documents, and subproject investment reports. Fifth, recruitment of VICA will ensure continuity and eliminate learning costs that will be incurred if a new consultant is recruited.

III. DUE DILIGENCE

A. Technical

19. The audit reports for the completed subprojects indicate no major technical issues. Most representatives of the end-users interviewed by the last review mission were satisfied with the completed works that were handed over to them. Technical capacity of the PPMU staff was strengthened through the training provided. Subprojects to be undertaken under the additional financing will be similar to those under the initial project and are straightforward rural infrastructure investments (such as rehabilitating and/or upgrading medium-scale irrigation infrastructure) at a scale within the technical implementation capacity of provincial agencies. The existing loan implementation consultants will confirm the quality of design for each subproject identification report (SIR), while increased ceilings for a subproject introduced as part

¹³ Project Administration Manual (accessible from the list of linked documents in Appendix 2).

of the subproject selection criteria are likely to minimize the frequent design changes experienced under the original project.¹⁴

20. To support increased productivity and diversification, each subproject can include an agricultural training proposal as part of the SIR, and the requested training budget will be evaluated based on the following criteria: (i) potential increase in overall annual production and sales, (ii) likely increase in yields, and (iii) likely crop diversification. The PPMUs will assign the provincial agriculture extension centers the responsibility to deliver the training-related activities.

B. Economic and Financial

21. Direct benefits from improved PRI improvements are more agricultural productivity along with reductions in travel costs and times; indirect benefits include diversification of market-oriented agriculture output, value-added production, and reduced risk of floods and drought resulting in avoided agricultural production loss. Indirect benefits are becoming increasingly important. Completed subproject areas seem to indicate that farm households with small landholdings can no longer advance their living standards by making incremental productivity gains in rice; such households are increasingly reliant on nonrice crops with improved irrigation systems. As part of the preparation for the additional financing, one SIR was prepared for the upgrading of the Saloun reservoir and irrigation system subproject in Binh Thuan Province as a sample subproject. The estimated EIRR for this subproject is 15.3%. The subproject will enable poor ethnic minority households to increase their income and improve their livelihood by diversifying agriculture production, and increase their access to public services.¹⁵ Similar positive effects are expected from the implementation of the candidate subprojects.

22. Provincial government contributions during the additional financing period are expected to be in the range of 0.4%–2.0% per annum per province.¹⁶ Therefore, the contributions are affordable.¹⁷ All six provincial governments are committed to funding O&M under the same terms as for the original project. The six participating provinces have provided sufficient O&M for the completed subprojects according to the amount specified in the SIRs. Therefore, risk of inadequate O&M funding under the additional financing is not likely. Implementation of O&M for the completed subprojects will be monitored during the additional financing period.

C. Governance

23. Procurement and recruitment activities under the original project were vulnerable to significant risks such as lack of competition, collusion, and defective bid evaluation. The proposed additional financing incorporates lessons from the completed subprojects to minimize such risks by (i) introducing the single-stage, one-envelope bidding procedure to maximize transparency; (ii) consolidating civil works contracts to enhance commercial attractiveness for bidders; (iii) requiring prior review for PPMUs that showed relatively weak bid evaluation

¹⁴ The subproject ceiling under the ongoing project was from \$0.5 million to \$5 million. The subproject ceiling under the additional financing is revised from greater than \$2 million to less than \$7 million.

¹⁵ The Dong Gian commune is receiving support from national programs: (i) Prime Ministerial Decision 54/2012/QĐ-TTg (4 December 2012) “promulgating the Policy on loans for development of production with respect to especially difficult ethnic minority households for the period from 2012 to 2015”, and (ii) Decision 551/QĐ-TTg of 4 April 2013 “On approving the Program 135 on supporting the infrastructure investment and production development for specially difficult communes, border communes, safety zone communes and specially difficult villages.” The additional financing will provide complementary training to ensure that the beneficiary farmers will be equipped with necessary skills and knowledge for agriculture diversification.

¹⁶ Provincial government contributions to the project will mainly comprise project investigation and design, construction supervision, and O&M after completion.

¹⁷ Economic and Financial Analysis (accessible from the list of linked documents in Appendix 2).

processes for the completed subprojects; and (iv) customizing procurement training by ADB's Viet Nam Resident Mission. These measures are deemed adequate to address procurement risks.

24. The original project was implemented without any major financial management issues. Financial audits conducted in 2008, 2009, 2010, 2011 and 2012 did not identify any major issues but indicated some weak financial management capacity of the PPMUs in Binh Dinh, Binh Thuan, and Ninh Thuan provinces. The three PPMUs agreed to assign additional staff to ensure that their financial management units comprise at least one chief accountant, one accountant, and one cashier to strengthen their internal control of financial management. The CPMU agreed to provide financial management training to all participating PPMUs prior to approval of the additional financing by the ADB Board of Directors.

25. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government and MARD. The specific policy requirements and supplementary measures are described in the PAM (footnote 13).

D. Poverty and Social

26. In 2012, poverty in the participating provinces¹⁸ ranged from 6.1% to 15.7%, compared with an overall national rate of 9.6% and an average for the central region of 13.4%. The additional financing aims to strike a balance between the implementing capacity of a province and benefits for the poor in selecting the participating provinces. The preliminary data indicate that the original project provided the beneficiaries, including women in the target communities, with improved infrastructure that enabled increased productivity and diversification, increased incomes and empowerment through off-farm income-earning opportunities, reduced the burden of domestic household work, and increased participation in project decision-making. The project also improved access to education, health, and social services. These benefits are expected to accrue to the beneficiaries of the additional financing subprojects.

27. Implementation progress reports indicate that gender targets for participation in meetings and trainings related to resettlement issues, technical O&M, and sanitation and water savings were generally met. About 20%–40% of the commune supervision board members are women. Women's participation in O&M, however, was not feasible as the project did not finance the improvement of tertiary canals. The implementation experiences also indicate the need to set appropriate numerical targets according to the availability of female staff in the PPMUs and training subjects. The gender classification for the additional financing scope is effective gender mainstreaming. Based on the lessons, a gender action plan was prepared and some of the gender action plan target indicators modified to ensure women's equal and feasible participation in decision-making and training opportunities.¹⁹

E. Safeguards

28. **Environment** (category B). The environmental assessment and review framework and procedures developed under the initial project have been followed to date and have proved workable. No major environmental impacts have been recorded since most of the works entail rehabilitating and upgrading existing infrastructure and are small to medium scale. Similar minor and temporal impacts are expected for the additional financing scope. A draft initial environmental examination (IEE), prepared for the sample subproject (upgrading of the Saloun reservoir), concludes that potential environmental impacts are minor and temporary, and the

¹⁸ Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2)

¹⁹ Gender Action Plan (accessible from the list of linked documents in Appendix 2).

proposed mitigation measures will minimize such impacts. If ADB assesses the quality of the first IEE to be satisfactory, then only subsequent subprojects estimated to cost \$3.0 million or more will be required to forward an IEE to ADB for prior review. ADB will conduct a postevaluation of IEEs for projects estimated to cost less than \$3.0 million. The environmental assessment and review framework was updated for the additional financing to describe the detailed implementation procedures and be in line with ADB's Safeguards Policy Statement (2009).²⁰

29. **Resettlement** (category B). The resettlement framework prepared under the original project was followed during project implementation. Forty-five of the 129 subprojects had minor land acquisition requirements. Most affected households only lost a marginal portion of their land and benefitted directly from the upgraded facilities. Independent monitoring was conducted for 14 resettlement activities during 2011–2013, and confirmed that compensation and allowances provided to affected households followed the approved framework and resettlement plans. Additional support for severely affected and vulnerable households was provided. Requirements related to information disclosure, consultation, and grievance redress were generally followed. A postevaluation assessment of the resettlement assistance was conducted in seven provinces to assess impacts and identify lessons from implementation of the resettlement plans. Postevaluation in the remaining six provinces is ongoing.

30. For the additional financing, the PPMUs conducted initial screenings of the 24 proposed candidate subprojects and noted that 8 subprojects are expected to involve minor permanent land acquisition impacts. The resettlement framework under the original project was updated and renamed the resettlement and ethnic minority development framework to reflect provisions under ADB's Safeguard Policy Statement and government policies on resettlement and ethnic minorities. A draft resettlement and ethnic minority development plan (REMDP) was prepared for the sample subproject (upgrading of the Saloun reservoir). REMDPs will be prepared and implemented for any of the remaining subprojects with impacts on land acquisition, resettlement, and ethnic minorities. A resettlement plan will be prepared for subprojects with only land acquisition and resettlement impacts. The provincial people's committees, the PPMUs, and district governments are committed to mobilize adequate staff and to follow the provisions in the updated framework.

31. **Indigenous Peoples** (category B). The resettlement framework approved under the original project includes an ethnic minority specific action. Ethnic minority considerations and measures were implemented for the completed subprojects. Initial screening of the candidate subprojects shows that ethnic minority concerns may be relevant for four subprojects, including the pilot subproject. No change will be made to the ethnic minorities farming and livelihood system or their cultural practices and ancestral domains. The draft REMDP prepared for the pilot subproject attempts to provide additional measures to address the specific needs of the affected ethnic minority households and other farm households belonging to ethnic minority groups in the subproject area.²¹ Impacts on ethnic minorities in the subproject areas are expected to be overwhelmingly positive, as the subprojects will be aimed at overall economic and social improvement of the total population. The resettlement and ethnic minority development framework will ensure adequate measures to address the specific needs of affected ethnic minority households and other farm households belonging to ethnic minority groups in the subproject area.²²

²⁰ Environmental Assessment and Review Framework (accessible from the list of linked documents in Appendix 2).

²¹ Combined Resettlement and Indigenous Peoples Plan (accessible from the list of linked documents in Appendix 2).

²² Combined Resettlement and Indigenous Peoples Planning Framework (accessible from the list of linked documents in Appendix 2).

F. Risks and Mitigating Measures

32. Major risks and mitigating measures summarized in Table 4 are described in detail in the risk assessment and risk management plan.²³ With the proposed mitigation measures, the overall risk rating is low. The integrated benefits and positive impacts are expected to outweigh any negative impacts resulting from the identified risks.

Table 4: Summary of Risks and Mitigating Measures

Risks	Mitigating Measures
Sustainability. Inappropriate designs, poor quality construction, and deficient operation and maintenance (O&M) practices lead to premature asset deterioration and reduced benefits.	The existing loan implementation consultant will continue to provide guidance on the design, especially for dams and reservoirs, and oversight during construction. Close monitoring will ensure O&M implementation for the completed and proposed subprojects. Post construction audit will ensure quality and sustainability.
Climate. Catastrophic climatic events interrupt implementation or damage infrastructure.	Careful attention will be paid to the planning and sequencing of implementation activities to match seasonal conditions. Robust design with bioengineering measures will be used to stabilize local conditions.
Technical capacity. Provincial implementation capacity to meet all Asian Development Bank and project requirements is limited.	Expanded terms of reference for the existing loan implementation consultant will provide increased technical inputs to design civil works that meet ADB's requirements and are climate-proof and resistant to damage by natural disasters.
Governance. Limited procurement and financial capacity may limit efficiency of implementation and allow corrupt practices to develop.	Risk mitigation measures include single-stage, one-envelope bidding procedures, consolidation of civil work packages, prior review for weak PPMUs, customized procurement training, increased staff during the bid preparation and evaluation period and additional staff to be assigned to the PPMUs in Binh Dinh, Binh Thuan, and Ninh Thuan provinces to increase internal financial control.

Source: Asian Development Bank.

IV. ASSURANCES AND CONDITIONS

33. The government and MARD have assured ADB that implementation of the additional financing for the project shall conform to all applicable ADB policies, including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the PAM and loan documents.

34. The government and MARD have agreed with ADB on certain covenants for the additional financing, which are set forth in the loan agreement.

V. RECOMMENDATION

35. 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 the loan in various currencies equivalent to SDR55,024,000 to the Socialist Republic of Viet Nam for the additional financing of the Integrated Rural Development Sector Project in the Central Provinces, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum during the grace period and thereafter; for a term of 25 years, including a grace period of 5 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.

Takehiko Nakao
President

26 September 2014

²³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

REVISED DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
<p>Impact</p> <p>Current project 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> <p>Overall project (unchanged)</p>	<p>Current project Average per capita annual income in participating communes and districts increased by 50% (from D11.4 million to D17.1 million) by 2016 Government achieves target of reducing poverty from 19% to 12% in the target provinces by 2016 Secondary school attendance rates improve from 87% to 90% by 2016</p> <p>Overall project From subproject baselines measured in 2014 and by 2020: changed (i) real average per capita income increased by 4% per year (ii) 2013 household poverty rates reduced by an average of 25% (changed) Secondary school attendance rates improve from 87% to 90% by 2020 (unchanged)(baseline in 2007)</p>	<p>Commune and district statistics National poverty statistics Ministry of Education statistics</p>	<p>Assumption The government will continue to invest in socioeconomic development in the central provinces.</p> <p>Risk Improper use and/or management of PRI or catastrophic events will damage completed PRI.</p>
<p>Outcome</p> <p>Current project Improved quality, greater coverage, and better integration of rural infrastructure in the Central Region with an increased awareness of the need for operation and maintenance</p> <p>Overall project (unchanged)</p>	<p>Current project Vehicle operating costs on improved roads reduced by 50% (from D5,460/km to D2,730/km) by 2014 Travel time on improved roads reduced by 50% (from 69 minutes to 35 minutes) by 2014 Agriculture production in areas with improved irrigation, flood control, and drainage facilities increased by the equivalent in value of 1 ton of rice/ha (from 5 tons/ha to 6 tons/ha) by 2014 Time spent collecting water reduced by an average of 2 hours/day (from 4 hours) by 2014 Proportion of off-farm income in total household income increased by 20% (from 53% to 73%) by 2014</p> <p>Overall project Travel time on improved roads reduced by 50% by 2018 (changed)(baseline survey in 2014) At least 300,000 beneficiaries have access to improved PRI from 2013 to 2018 (added) Income per hectare in subproject areas with improved irrigation, flood control, and drainage facilities increased by 20% from 2014 to 2018 (changed)</p>	<p>PBME surveys PCRs and PPARs Commune and district agricultural statistics</p>	<p>Assumptions Subprojects selected for rehabilitation or upgrading are meaningful and viable. Project works are completed to acceptable standards.</p> <p>Risk Maintenance of structures is not</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
	<p>Time spent collecting water reduced by an average of 2 hours/day (from 4 hours) by 2014 (unchanged)(baseline in 2007)</p> <p>Proportion of off-farm income in total household income increased by 20% (from 53% to 73%) by 2014 (unchanged)(baseline in 2007)</p>	<p>PBME surveys</p> <p>PBME surveys</p>	<p>performed, reducing the economic life of the infrastructure.</p>
<p>Outputs</p> <p>Output 1</p> <p>Current project A significant amount of rural and coastal infrastructure in the project provinces is rehabilitated, upgraded, and maintained.</p> <p>Overall project (unchanged)</p> <p>Output 2</p> <p>Current project Improved capacity of national and provincial staff in technical and safeguard matters</p> <p>Overall project Improved capacity of national and provincial staff in technical design and farmers in agricultural production techniques (changed)</p>	<p>Current project 69 rural road subprojects or about 540 km of rural roads rehabilitated by 2014 (achieved) 42 irrigation and drainage schemes covering about 110,000 ha rehabilitated by 2014 (achieved) 27 miscellaneous rural infrastructure subprojects, i.e., 18 markets, 5 rural water supply schemes, and 4 flood protection schemes constructed or rehabilitated by 2014 (achieved)</p> <p>Overall project 69 rural road subprojects or about 540 km of rural roads rehabilitated by 2014 (achieved) 42 irrigation and drainage schemes covering about 110,000 ha rehabilitated by 2014 (achieved) 27 miscellaneous rural infrastructure subprojects, i.e., 18 markets, 5 rural water supply schemes, and 4 flood protection schemes constructed or rehabilitated by 2014 (achieved) About 100 km of canals and other rural roads upgraded in 10 subprojects by 2018 (added) About 20 irrigation and drainage schemes covering about 29,000 ha rehabilitated by 2018 (added) Women comprise at least 30% of the membership of community supervision boards (added)</p> <p>Current project About 130 provincial staff trained in procurement, GAP safeguard matters, and participatory techniques; 25%–30% are women (achieved)</p> <p>Overall project About 130 provincial staff trained in procurement, GAP safeguard matters, and participatory techniques; 25%–30% are women (achieved) About 130 provincial staff trained in technical designs, agriculture, and</p>	<p>Semiannual and annual progress reports Midterm review PCR and PPAR Project-generated reports and knowledge, attitude, and practice surveys</p>	<p>Assumptions Adequate and timely local cost financing is provided. Subprojects are appropriately designed. Capacity is sufficient to absorb training and meet implementation demands.</p> <p>Risk Natural disaster will delay implementation.</p> <p>Assumptions Adequate and timely local cost financing is provided. Subprojects are appropriately designed. Capacity is sufficient to absorb training and meet implementation</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms (Overall Project)	Assumptions and Risks (Overall Project)
<p>Output 3</p> <p>Current project Improved project management skills for infrastructure development</p> <p>Overall project (unchanged)</p>	<p>participatory techniques (30% are women) (changed)</p> <p>At least 40% of the farmers receiving agricultural training are women (added)</p> <p>Current project About 80 provincial staff (at least 30% women) are trained in project management and supervision (achieved)</p> <p>Overall project About 300 provincial, district, and commune staff (at least 30% women) are trained in project management, supervision, and safeguards (added)</p> <p>About 40 central and provincial procurement staff (15% are women) are trained in ADB's new procurement procedures and requirements (added)</p>		<p>demands.</p> <p>Risk Natural disaster will delay implementation.</p> <p>Assumptions Adequate and timely local cost financing is provided.</p> <p>Subprojects are appropriately designed.</p> <p>Capacity is sufficient to absorb training and meet implementation demands.</p> <p>Risk Natural disaster will delay implementation.</p>

Activities with Milestones (Overall Project)	Inputs
<p>1. Subproject design, preparation, and implementation</p> <p>1.1 PPMUs recruit subproject investment report consultants (Jan–Mar 2014)</p> <p>1.2 Provincial people's committees prepare and approve subproject feasibility studies (Jun–Dec 2014)</p> <p>1.3 The CPMU and ADB appraise and approve subprojects (Aug 2014–Mar 2015)</p> <p>1.4 The district agriculture and rural development departments prepare and approve detail design (Dec 2014–Nov 2015)</p> <p>1.5 Commence construction of subproject infrastructure (Sep 2015)</p> <p>1.6 Commence operation and maintenance of subprojects (June 2018)</p> <p>2. Capacity building</p> <p>2.1 Conduct training on technical design (September–December 2014)</p> <p>2.2 Conduct training on participatory techniques (June 2015–June 2016)</p> <p>2.3 Conduct agricultural training to the beneficiary farmers (January–December 2016)</p> <p>3. Project management</p> <p>3.1 Initiate and complete the single-source selection to retain the existing loan implementation consultants (Oct 2014 - Mar 2015)</p> <p>3.2 Conduct project management training, including safeguards, GAP, monitoring and evaluation (Jan 2015–Dec 2016)</p> <p>3.3 Set up and operationalize the updated PPMS (Mar–Sep 2015)</p> <p>3.4 Conduct training for district and commune staff on supervision (Jun 2015–Dec 2017)</p> <p>3.5 Monitor subproject implementation (Sep 2015–Dec 2018)</p> <p>3.6 Prepare and submit the project completion report (Dec 2018–Jun 2019)</p>	<p>Loan ADB \$90.0 million (current) \$85.0 million (additional) \$175.0 million (overall)</p> <p>Government \$24.8 million (current) \$7.5 million (additional) \$32.3 million (overall)</p> <p>Agence Française de Développement \$53.30 million (current) \$0.00 million (additional) \$53.30 million (overall)</p>

ADB = Asian Development Bank, CPMU = Central Project Management Unit, GAP = gender action plan, ha = hectare, km = kilometer, PBME = project benefit and monitoring evaluation, PCR = project completion report, PPAR = project performance audit report, PPMU = provincial project management unit, PRI = productive rural infrastructure.

Notes:

1. "Current project" refers to the original project with past additional financing (if any).
2. "Overall project" refers to the original project with past (if any) and proposed additional financing.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=37097-044-3>

1. Loan Agreement
2. Sector Assessment (Summary): Agriculture, Natural Resources, and Rural Development
3. Project Administration Manual
4. Summary of Project Performance
5. Contribution to the ADB Results Framework
6. Development Coordination
7. Economic and Financial Analysis
8. Country Economic Indicators
9. Summary Poverty Reduction and Social Strategy
10. Gender Action Plan
11. Initial Environmental Examination
12. Environmental Assessment and Review Framework
13. Combined Resettlement and Indigenous Peoples Plan: Combined Resettlement and Ethnic Minority Development Plan
14. Combined Resettlement and Indigenous Peoples Planning Framework: Combined Resettlement and Ethnic Minority Development Framework
15. Risk Assessment and Risk Management Plan