

VIETNAM

Second Northern Mountains Poverty Reduction Project (NMPRP-2) Credit No. 4698-VN

3rd Supervision Mission October 23 – November 1, 2011

Aide Memoire

A. PROJECT DATA

Original IDA Amount:	USD 150,000,000 (SDR 96,600,000)
Revised Amount:	NA
Board Approval Date:	April 6, 2010
Effectiveness Date:	August 23, 2010
Closing Date:	June 30, 2015
Number Of Closing Date/Restructuring/ Extensions:	NA
Co-financing	NA
Environmental Category:	B

B. INTRODUCTION

1. A World Bank mission¹ visited Lao Cai, Lai Chau, Dien Bien and Son La provinces during October 23 – November 1, 2011 for the Third Supervision Mission of the Second Northern Mountains Poverty Reduction Project (NMPRP-2). In each province, the mission worked with two districts and visited two communes. (Annex 2 for names of the visited districts and communes). A wrap-up meeting was held on October 31, 2011 in Dien Bien Phu City, and co-chaired by Mr. Dao Quang Thu, CPO Director and Bank's Task Team.

2. The main mission objective was to review the overall project implementation since the 2nd Supervision Mission of April 2011, with special focus on reviewing the following areas: (i) the implementation progress and quality of sub-component 1.1, including social and environmental safeguard compliance; (ii) the implementation of piloting livelihood support activities; (iii) the preparation for rolling out of pilot innovation grants under the sub-component 1.2; (iv) the preparation and readiness of the communes to roll out the Commune Development Budget Component (CDBC); (v) M&E and MIS system; and (vi) the activities under the responsibilities of CPO in coordination and supporting project provinces. In addition, the mission reviewed the project progress against the agreed actions from the 2nd Supervision Mission in April 2011.

3. The mission would like to thank the staff of CPO and representatives of the provincial, district and commune people's committees in the visited provinces for their time, effort, cooperation, assistance and hospitality extended to the mission. This Aide Memoire (AM) summarizes key findings, recommendations and agreed actions from the mission. The final mission AM will be formally transmitted to Government upon World Bank management clearance.

¹ The mission comprises of Messrs. Vo Thanh **Son** (TTL), Nguyen Thi Thu **Lan** (Co-TTL), Tran Trung **Kien** (Senior Procurement Specialist), Le Toan **Thang** (Procurement Specialist), Pham Van **Cung** (Senior Financial Management Specialist), Pham Van **Khang** (Environment Specialist), **Hisham** Abdo-Kahin (Senior Counsel, Lawyer of the WB Office in Viet Nam) and Do Thi **Tam** (Team Assistant).

C. OVERVIEW

4. **Achievement of the PDO.** The objective of NMPRP-2 Project is to enhance the living standards of the project beneficiaries by (i) improving their access to productive infrastructure; (ii) the productive and institutional capacity of local governments and communities; and (iii) market linkages and business innovations. The mission's findings confirm the relevance of the project objectives. The project meets its objectives with concrete results on the grounds of significant acceleration in awarding contracts for civil works of productive rural infrastructure, strengthened staffing at all levels, continuous capacity building, and piloted livelihoods schemes in most of the provinces.

5. **Key Performance Indicators.** A summary of progress on PDO indicators is provided in Anex2. More detailed monitoring of the intermediate outcome indicators and progress towards targets is included in the component write-ups. The project has been moving towards its stated objective. The first two key indicators (improved productive infrastructure and strengthened capacity) are well on track whilst the third one (market linkages and business innovations) is progressing slower due to longer required time for the piloted new areas of activities to be prepared and rolled out. The project will need more technical assistance, which will be soon on board, to give it more support to accelerate the pace of piloting market linkages and business innovations.

Table 1: Intermediate Indicators Progress Report by September 30, 2011

Intermediate Outcomes	Outputs Indicators	Current progress
Improvement of access to productive infrastructure	<ul style="list-style-type: none"> Annual investment and subproject completion rate Areas of newly irrigated lands Percent of communes with operation and maintenance teams and plans 	59.9%
Improvement of productive and institutional capacity for local government and communities	<ul style="list-style-type: none"> Number of training courses organized for commune/village staff and for communities; number of people attend these training courses Number of common interest groups (CIGs) established and number of female participation in these CIGs Number of trained youth 	261 training courses for 10,341 man times 3,838 youths trained
Improvement of market linkages and business innovations	<ul style="list-style-type: none"> Number of business proposals received by the Commune Development Boards (CDBs), DPMUs to support innovative business ideas/plan Number of business partnerships established 	Newly carried out

Overall Implementation Progress:

6. After 16 months of implementation (27% of the project period), level of the commitments is at 9.1% (Table 2), and disbursements is at 8.9% (Table 3). In the past quarter, disbursements have slowed, evidently due to weather related factors and high inflation. The project is expected to see a higher disbursement rate for the last quarter of 2011 when it enters the dry season.

Table 2: Projected Disbursements by year

Sources of Funds	2010	2011	2012	2013	2014	2015	Total
WB	3.5	10	35	45	40	16.5	150
Counterpart	1.2	1.9	2.5	3.5	3.5	2.4	15
Total	4.7	11.9	37.5	48.5	43.5	18.9	165
% of projected disbursement over commitment for IDA sources	2.4	6.7	23.3	30	26.7	10.9	

Source: NMPRP-2 Feasibility Study

Table 3: Disbursement Data

Financing source	Original allocation (US\$ m equivalent)	Current disbursement (US\$ m equivalent)	Percentage disbursed
IDA Credit 4698-VN	150	13.5	8.9
Counterpart Fund	15	2.1	14
Total	165	15.6	9.5

Source: WB Client Connection, Nov 17, 2011 and CPO's Progress Report of Quarter 3, 2011

7. Physical implementation is progressing with the rate of contracts awarded increasing sharply compared to the progress achieved last April. Over 60% of contracts of civil works and goods under the 18 month Procurement Plan have been awarded and 50% of them have been completed and handed over for operations. For the Commune Development Budget Component (CDBC), progress has also been noted with completed sub-projects having increased from 149 to 265 between Q2 and Q3. Livelihoods pilots have started to roll out and positive initial results have been achieved on the ground. Capacity building has successfully been conducted to provide training to all project staff for project implementation.

8. The mission, however, noticed the slowness in the pace of project implementation and issues with the quality of planning. Presented disbursement rate showed cumulative data of both advance to the Special Designated Accounts and actual payments. The real disbursement of actual payment has been lower than committed. One possible factor involved complicated procedures for claiming advances from the State Treasury which discouraged contractors to make requests for advances and opted for full payment claims when the works are completed.

9. The project has, or is in the process of, implemented almost all recommendations from the last mission, except the ones related to improvement of Accounting Software use and training of CFs on basic relevant agriculture extension knowledge and skills.

10. **Key Issues and findings.** The mission observed slow progresses in relation to Component 1, the livelihoods pilots, and overall CDBC. Actual disbursements have been a bit lower than the committed level. Quality in procurement management, contract management, village meetings and planning, reporting and coordination across different levels need to be strengthened. The mission recommends that besides accelerating the pace of implementation and disbursement, the quality of activities and process monitoring should always be the top priorities.

D. REVIEW BY COMPONENT

Component 1: District Economic Development (US\$57 million)

Subcomponent 1.1: Economic development investments

11. Contract awarding for civil work packages under the 18 month procurement plan has progressed well with 59% of packages cumulatively awarded. The provinces forecasted that by the end of the mission all contracts under this subcomponent would be awarded. Yen Bai led the progress with the highest number of sub-projects awarded and completed (See Table 4)

12. Over the past 16 months, provinces focused more on training of PMUs staff whilst staff from other related agencies (of appraiser, supervision, treasury, finance agencies, etc) were not trained or introduced properly to the project. Hence, delays have happened in the processes that involved external processes and agencies. Capacity building (Component 3) has a crucial role here to provide essential courses for provincial and district staff that will be engaged through various steps and stages of project activities.

Table 4. Consolidated implementation progress of sub-projects of the project

Sub-project title	Total sub-projects under annual plan approved	Total cost estimations approved (VND million)	Total volume (*)	Number of sub-project under implementation	Implementation level in comparison with the plan	Total subprojects completed
Road	46	116.437	73.13km	22	64.7%	8
Irrigation schemes	57	103.504	612.5 ha	39	68%	14
Clean water works	39	62.946	1098 households +9.6km	26	66.7%	17
Bridges	18	38.55	333m	10	77%	5
Markets	4	11.902	4 CT	1	50%	1
Others	3					3
Total	167	333.339		98		48

(*):Hoa Binh and Yen Bai did not synthesize this information

Key issues and actions

13. Rural roads and rural irrigations sub-project have dominated the proposed civil works so far. Diversity of sub-projects under this sub-component is limited. This could be attributed partly to the quality of village meetings and selection of sub-projects. Project efficacy might be impacted if sub-projects continue to concentrate in limited areas and might not effectively support the diverse livelihood contexts of the project areas.

14. High inflation and price fluctuation have had major impacts on progress of civil works investments. Procurement plans have to be revised many times during the course of implementation to reflect the new price estimates which have increased the transaction costs.

15. Provinces reported poor quality of technical design contracts which have been financed through counterpart funds and procured through single sourcing. Provinces opted for this route with the hope to expedite the investment process. However, poor technical designs meant longer time of appraisal and re-design which was counterproductive. Competitive selection of consultants for technical design has now been preferred by provinces and this appears to be the norm to select better quality consultants.

16. Procurement and contract management showed some weakness that needs to be addressed. In Lao Cai province, issues have been identified in three procurement packages (subject to prior review), which resulted in re-bidding of the packages. In Dien Bien province, contract management was not adequately carried out which resulted in a last minute request for contract extension.

17. Operations and Maintenance (O&M) groups were established in 4 provinces, whilst none was present in Dien Bien and Hoa Binh. The O&M groups have been instructed to cover all project investments both under the NMPRP-1 and the current NMPRP-2. Many provinces were hesitant as the specific guidelines for O&M groups and activities have not been issued by CPO though it has been instructed that mechanisms for O&M funding are to follow the same pattern as under the CDBC Component.

18. **Recommendations.** The mission recommended the following actions to address the issues raised:

- a) *The quality of village meetings and planning should be improved so that types of civil works proposed for project investments truly reflect the diverse needs of productive infrastructure that could enable more effective livelihoods support. Communication and information, and capacity building should, accordingly, be improved to serve this purpose. CFs and project staff should at the same time help local people and project beneficiaries understand better the project's objective and priorities.*
- b) *Provinces are advised to combine similar types of civil works and use competitive methods to select quality consultants for better technical designs.*

- c) *Procurement and contract management must be strengthened immediately. PPMUs should share responsibility in reviewing and supporting districts in procurement management. Procurement audit contract should be awarded by end of January 2012.*
- d) *O&M groups should be established in Dien Bien and Hoa Binh no later than December 31, 2011 and functioning with mechanism as currently applied under CDBC. Draft Guidelines for O&M Groups and O&M Fund should be submitted to IDA's review by end of February 2012.*

Subcomponent 1.2: Diversification of opportunities for market linkages and business innovation support.

19. **Key issues.** For the past six months, CPO has produced two draft guidelines on (i) Partnership for livelihoods support and (ii) Innovation grants. CPO and provinces have, during the process, visited and sought lessons learned from other WB-funded projects (like ACP and PEDC) on partnerships and innovation grants. Several meetings and discussions with international and local NGOs on these issues have been conducted. On livelihoods and market linkages for the poor, there are many relevant experiences applied by NGOs in the project areas.

20. There are several enterprises of agriculture products in the project areas that could enter into partnerships with farmer groups that promise good outcomes for both poor farmers and enterprises. Initial partnerships have been tried.

21. Overall, this sub-component has gained the least progress as provinces keep waiting for the formal guidance from CPO. Pilot partnerships have been tried in Hoa Binh (for rattan) and initial efforts have started in Dien Bien (for ginger) but no concrete results have yet been shown.

22. **Recommendations.** *The mission strongly recommended that CPO, with support from the international consultant, finalize the concerned guidelines as soon as possible. Provinces are also recommended to be pro-active in exploring any possible partnership opportunities with local enterprises and NGOs in the provinces.*

Component 2: Commune Development Budget Component (US\$40 million)

Key issues and actions

23. This component has shown most progress over the past 6 months with the number of completed sub-projects increasing sharply. As of September 2011, there are 997 CDBC sub-projects planned for the first 18 months, of which 763 sub-projects are under sub-component 2.1 (village infrastructure improvement); 115 sub-projects under sub-component 2.2 (livelihoods support and production services) and 119 sub-project under sub-component 2.3 (Support for women's social and economic development activities). Out of these numbers, 264 sub-projects have been completed and put in use, about 450 sub-projects are under the process of appraisal, approval and procurement. The rest are under technical design and cost estimation.

24. At the end of September 2011, implementation of CDBC in Dien Bien, Lao Cai and Son La showed slowest progress with no sub-projects completed. Yen Bai province continued to lead the progress with the highest number of proposed sub-projects being awarded, implemented, and completed.

25. Disbursement for the CDBC has been lower than the rate of completion. This was partly because of the complicated advance and payment processes which discouraged contractors (groups of local artisans, in these cases) to prepare documents for final payment and/or commune staff are slow in making due payments to contractors. The mission noticed that advances to commune accounts in Dien Bien have not been done at visited communes.

26. The mission observed that appraisal processes at district levels have not been handled effectively which has caused the hold-up of large number of sub-projects. At the same time, technical sections at districts are not familiar with the project approach and applied high standards, beyond what are expected of CDD-type sub-projects which led to a longer time of processing and appraisal. This had been dealt with quite

effectively in the NMPP-1 where provinces intervened with clear instructions. However, the NMPP-2 hasn't yet seen such support from the provincial level.

27. Low capacity of staff at communes and districts was also often cited as one of the key factors of slow progress of the CDBC. Newly appointed staff, lack of practical experience, less experienced CFs, etc were referred to as key reasons for the late start of CDBC. The mission acknowledged the request from Muong Khuong district (Lao Cai) and Son La province for more CFs deployed to communes given the large areas of coverage and difficult access to remote communes and villages. This is a legitimate request but it will have certain implications for the project to address, such as provision of additional working facilities (eg. motorbikes) for CFs. CPO should work with PPMUs and DPMUs to review this proposal and take into account all possible implications this may have.

28. The mission noticed the rigidity and unnecessary complexity that have been applied in community procurement in visited communes of Lai Chau province. In all visited communes there, the supporting documents of CDBC sub-projects presented three quotations from three groups of local artisans but competition was weak because all groups had access to detailed technical design and approved cost estimates. In many instances, the proposals from the local groups showed exact copies of the approved cost estimates. Even though positive results were observed on the ground and local beneficiaries were satisfied with the CDBC outputs, the practice was seen as too complicated and could create loopholes.

29. The mission also noted limited diversity of sub-projects under CDBC despite the fact that livelihoods contexts in the project areas are very diverse. This could be the result of low quality village planning and passive (rather than active) participation from villagers in deciding their priorities. For sub-component 2.1, proposed sub-projects in several communes were monotone with only one type of infrastructure (be it hamlet roads or water supply). Limited diversity was also noticed of sub-projects under sub-components of 2.2. and 2.3. The purchase and supply of small-scale processing machines and subsidized production inputs appears to be the norm. Experience of similar kinds of subsidized machines and production inputs from other national programs showed that this was a very ineffective and counter-productive way for livelihoods support. The project approach should be more sustainable and the support should be for groups of poor farmers.

30. The mission observed that the pilot livelihoods sub-projects were few in number (as all provinces took cautious steps in this new type of activity) but considerably high in quality and with initial positive outcomes. Groups of poor farmers who were involved with livelihoods sub-projects showed high level of satisfaction and strong determination to actively work to improve their own livelihoods. The mission highly commends the livelihoods sub-projects as piloted in Lao Cai (with strong support from the PPMU Coordinator).

Recommendations

- a) *More livelihoods sub-projects (both under sub-component 2.2. and 2.3) should be initiated in all project communes for the plan of 2012.*
- b) *The approach used for livelihoods groups in Lao Cai is highly recommended to be applied and scaled up. Adaption is advised to ensure flexibility and suitability with local contexts but key principles and mechanism should be followed to ensure effective participation and sustainable principles.*
- c) *More training on agriculture extension for CFs should be conducted as soon as possible, ideally before the start of the new CDBC cycle next year.*
- d) *CPO should coordinate with PPMUs and DPMUs to take stock of current CFs arrangements and propose the specific number of CFs to be recruited.*
- e) *Books and materials of good practices on farming, agriculture extension models, relevant technical guidelines, etc should be purchased and provided to every commune as references for both CFs and villagers.*

- f) *FM staff of PPMUs and DPMUs should review and support CDBs in paying local contractors for completed works as soon as possible.*
- g) *PPMUs and DPMUs should reach out to other NGOs currently working in their localities to initiate partnerships and cooperation for effective livelihoods support.*
- h) *Yen Bai, Lai Chau, Dien Bien and Hoa Binh provinces should issue the official decisions to request their provincial extension networks to provide technical support to livelihoods groups in their provinces.*
- i) *Provision of processing machines or direct subsidies are advised against. Instead, support must be geared to livelihoods groups.*
- j) *Training on project introduction and project approach should be conducted for relevant technical divisions at districts (finance, infrastructure, extension, etc) so that they could provide necessary support as well as avoid unexpected delays in appraisal processes.*
- k) *CPO to review and instruct provinces in simplifying livelihoods procedures where possible and ensure unnecessary complexity is avoided.*

Component 3: Capacity Building (US\$10 million)

31. The project capacity building activities have been rolled out well in advance for training of project staff at all levels to facilitate the project implementation. Over 10,000 commune staff (of which about 7000 are men and about 3000 are women) have now been trained on project key topics of CDBC, community procurement, financial management, community supervision, civil works investment procedures, project safeguards policies, O&M, etc. Nearly 3000 provincial and district staff (of which about 1900 are men and 850 are women) have also been trained on project management, financial management, project Management and Information System (MIS), community facilitation skills, O&M, supervision skills, IT, etc. The training courses have proved to facilitate the implementation process well. However, there are still several issues to be addressed to ensure effective capacity building for the project.

32. Several technical workshops and study tours (international and local) have been conducted to facilitate cross learning and peer-to-peer learning. The project actively participated in the South-South Exchange Initiative on Livelihoods through a series of video-conferences and a study tour to India to learn from their livelihoods experiences.

Key issues

33. The mission noticed that the integrated planning sub-component (3.1) has not progressed much over the past 16 months. Hoa Binh benefited from a JICA-funded project on integrated planning, and the provincial authority has institutionalized this as the norm for development planning in the province. Dien Bien has also benefited from a UNICEF-supported project on Friends of Children where integrated socio-economic development planning has been promoted. Lao Cai province has recently been approached and proposed by Oxfam to pilot a similar integrated planning approach (after it has been successfully tried in Ninh Thuan province). The NMPRP-2 should not start this sub-component from scratch but rather should scale up the tested methods developed by projects like those supported by JICA and UNICEF (and possibly Oxfam) with some adaption to fit with local provincial contexts if required.

34. The mission observed that all training courses and materials were delivered through the national language. Though this is important to be maintained this way, reports from provinces and CPO mentioned problems and difficulties in getting trainees from ethnic minority groups to benefit from the training. It was recommended from the last mission that alternative ways of delivering training courses and production of audio books through key ethnic minority languages in the project areas are more effective in reaching out to project targeted beneficiaries.

35. With support from a FAO/CP consultant, the TNA guidance has been developed. The TNA survey has taken place and the results are being analyzed. This is considered an important activity that will steer and

shape the capacity building plans and activities throughout the project span. The mission observed that the TNA survey has now been conducted in all provinces but progress and level of pro-activeness varied.

36. Staff turn-over in the project implementation units was very high over the last 6 months due to overall staff reshuffles. The mission notes that there was an urgent need for refresher training courses for both old and new staff to ensure all staffs are adequately trained to implement the project.

37. Some provinces requested a full-time capacity building officer in PPMU. The current arrangement of one representative of Provincial Training Institution (PTI) assuming the role of part-time capacity building officer is not working properly. In subsequent meetings during and after the mission, it was agreed that a PTI representative at PPMU is still needed for capacity building activities. PPMUs were advised/allowed to hire consultant(s) to work as full time capacity building officers in complementing the PTI staff.

38. The mission also noted that vocational training to local youth and training on safeguarding household and community assets have not taken place yet. CPO was on the process of developing guidelines and conducting explorative activities for relevant materials and trainers. There were also some demands for training courses that were not readily available or offered by the PTIs. CPO and PPMUs should conduct a review of possible training providers for relevant topics of training and vocations to develop a database of local training providers with detailed profiles to serve the project training needs in the long run.

Recommendations

- a) *CPO and PPMUs should take advantage of the currently available materials and experience of integrated planning in Hoa Binh, Dien Bien and (upcoming) Lao Cai to roll-out the integrated socio-economic planning sub-component as soon as possible, preferably starting with 2012 planning.*
- b) *CPO and PPMU should pay higher attention and efforts to complete all TNA survey with good quality data and ensure good analysis of TNA results for capacity building plan for the next 24 months.*
- c) *Alternative and innovative ways of delivering capacity building activities and training through using audio books in ethnic minority languages should be explored and implemented.*
- d) *CPO and PPMU should discuss and agree on the TORs of the CB consultant position and recruitment should start as soon as possible to ensure effective analysis of TNA and planning for CB of 2012 and 2013.*
- e) *Several relevant lessons have been identified from the South-South Exchange Initiative from India study tour. CPO and PPMUs should ensure effective follow-up activities.*
- f) *Horizontal cross learning events were very effective for implementing units to learn from each other and should be continued and strengthened.*

Component 4: Project Management (US\$16 million)

Key issues

39. Recommendations from the last mission on strengthening of project staffing have been addressed quite effectively. However, due to high staff turn-over which has happened recently, staffing issues remain to be the most critical ones that required constant attention.

40. The selection of project Technical Assistance for Project Implementation (TAPI) and the Independent Process Monitoring (IPM) has been going on for the last 12 months and no contract has been awarded yet.

41. Information, education and communication (IEC) activities have been rolled out but more could be done. Printed materials about the project have been done. However, audio-visual means are more effective in reaching to poorer villages and communes.
42. The strict implementation of Resolution 11 on inflation control and reduction in public expenditure to stabilize the macro-economy has prevented the project from purchasing the needed vehicles for project implementation. This had major negative impacts on project implementation as project staff could not carry out regular monitoring and provide in-time support to lower levels as required. The mission has learnt that the project's request to purchase vehicles is under re-consideration by the Government.
43. The M&E system of the project has improved compared to 6 months ago. The quality of progress reports has also been greatly improved. The MIS needs further strengthening and M&E staff at all levels need more support to carry out effective M&E work. The mission discussed with CPO about a possible web-based system that collect information through mobile phones, which were readily available throughout project areas to simplify and enhance the MIS. FAO/CP resources have been assigned to support this initiative.
44. Photo documentation has not been implemented as instructed. Digital cameras have been provided to all districts and provinces, but photo documentation, as part of the M&E system was not done systematically.
45. The project's Baseline Survey Analysis has been completed and the draft findings have been presented at the wrap-up meeting for comments. Many interesting findings have been drawn from the Baseline Analysis which would have significant impacts on project targeting.
46. The mission noted that the project's Website has been established and running quite smoothly. This should be an effective way to get information within the project and with outside.

Recommendations

- a) *Project staffing should be strengthened where relevant. Many CFs and district consultants whose training backgrounds are very different from their current assignment should be equipped with basic extension skills and project management skills.*
- b) *The selection process for the packages of TAPI and IPM should be accelerated so that necessary technical support is readily available to project implementation units as soon as possible.*
- c) *IEC activities should be done more so that information about the project could reach every intended project stakeholders to ensure meaningful and effective participation.*
- d) *CPO should make another request to Office of Government to get the official endorsement to purchase project vehicles. Vehicles should be available to be deployed to provinces and districts no later than August 2012.*
- e) *CPO, PPMUs and DPMUs should pay more attention to get the M&E and MIS functioning at full capacity to serve the project management. Every M&E staff at all levels should be equipped with one computer, assigned specifically for M&E purposes and protected against possible loss of data.*
- f) *CPO and PPMUs should guide and help districts to conduct the photo documentation for every project activities and sub-projects. This is to ensure the project evaluation is well prepared and documented for.*

E. SAFEGUARDS

Social

47. Civil works under the first 18 month Procurement Plan were anticipated to have no impact on private or community land and assets and thus no Resettlement Plan was developed at project appraisal. However, during implementation, due to the change of either the subprojects or design, a number of sub-projects in Lao Cai and Son La, were slightly impacted. Compensation for the affected land and assets was paid to the affected households. The mission requested Lao Cai and Son La to document these compensation payments in a report and submit to the Bank and CPO by the Dec. 15, 2011. The mission requested other provinces to carefully review the subprojects under their 18 month plan to make the necessary corrective measures in terms of social safeguards.

48. As the provinces have started the new cycle of annual work planning, the mission requested that subprojects under these provincial annual work plans be carefully reviewed and screened on social safeguards. Annual compensation and resettlement plans should be prepared in case the screened subprojects are found to involve land or assets compensation. The review of these annual work plans by the CPO and the Bank will not be done in separation of the information on social safeguards and an annual compensation and resettlement plan as applicable.

49. Training on safeguards was provided to all provinces as one of the basic courses. However, due to the change of staff assignment of many PPMUs, refresh training on safeguards was recommended by the mission.

Ethnic Minority and Gender aspects

50. Meaningful participation of the ethnic minorities, who are majorities in the project areas, in each and every step of the project implementation is a decisive factor of the success of the project. Therefore, the project provinces have paid much attention to capacity building for the commune officials and especially for the CFs who played the critical role in the implementation of many activities under the project. The roll-out PRA training was provided to all recruited CFs and was very highly appreciated by them as it equipped them with useful skills to effectively work with the communities. Facilitation in or through the ethnic minority languages has been ensured in order to maximize the meaningful participation of ethnic minorities especially of women from smaller ethnic minority groups who might have low proficiency in the national language.

51. Participation of ethnic women in the planning of meetings was reported to be high across the project provinces. Quality of those planning exercises, which was reflected through the variety and feasibility of subprojects, varied between provinces though. While the quality was seen to be high in Lao Cai, it was less so in Dien Bien where notorious subprojects were proposed under the CDDB activities, including those of the subcomponent on support for women's social and economic development activities.

Environmental Safeguards

52. The mission observed that relevant staffs have been assigned to be in charge of the environmental issues at both provincial and district levels. These staffs are responsible for reviewing and preparing EA documents for rural infrastructure subprojects in accordance with the Bank and Government requirements. All of them have already been trained in environmental safeguards policy at least twice by CPO and PPMUs in collaboration.

53. To date, subprojects under the district economic development component have completed EA reports in the form of EPC and these reports were already approved by DPCs and disclosed in communal people's committees and accessible to affected groups and local NGOs. The mission carried out site visits and made comments on some of these reports in terms of whether they are in compliance with the Bank and Government environmental safeguards policies. No significant adverse environmental impacts were found when visiting some construction sites during the supervision mission. For the case of the suspension bridge

subproject in Muong Ang district, the project owner – PPMU needs to construct a temporary bridge crossing over the small stream to facilitate local people’s commute and place a signboard and a barrier at the edge of the road for travelers safety .

54. Concerning the quality of these EPC reports, there are weak points which are noticeable and should be improved in order to have more quality reports. For instance, some environmental standards applied to subprojects are no longer applicable, so EA must be updated with latest standards. Also, it is recommended to have more specific details of scoping of impacts for different types of rural infrastructure development subprojects including (a) rural water supply, (b) rural road improvement, (c) irrigation, and (d) suspension bridge.

55. Local communities, especially affected groups have been involved in environmental monitoring, yet the subproject implementation reports prepared by PPMUs and DPMUs do not show details about whether contractors comply with mitigation measures as well as ambient environmental quality during construction. Until now, independent monitoring consultant for environmental monitoring has not yet been selected.

56. A baseline study report for the project prepared by a consultant focused on social and economic aspects, yet environmental issues such as local people’s awareness of environmental protection and environmental infrastructures have not been surveyed. It would be good to know about this aspect.

F. PROCUREMENT

57. Procurement activities since the last supervision mission have been accelerated, although the procurement was slightly behind the agreed procurement plan. In the year of 2011, there still remained 18 packages under bidding process as of October 10, 2011. The packages of vehicles, as well as packages of office equipment procurement planned for the year of 2011, are being delayed by the impact of Government Resolution No.11.

58. The mission noted that the quality of the procurement packages subject to the Bank's prior review have sometimes not been acceptable. This causes a lengthy revision process with several back-and-forth communications. The PPMUs has made notable progress in this area but there is still room for improvement. Also CPO should strengthen its close monitoring in procurement activities of PPMUs in order to avoid mistakes during implementation of bidding process and contract management, especially the post review packages. Unfavorable practice or lack of specific criteria has been identified in Request for Quotations (RFQ) for some Shopping packages implemented at provincial level. Detailed analysis will be provided in a separate report of Procurement Post Review. CPO and PPMUs are recommended to avoid this practice in future preparation of bidding documents for any kind of procurement under the project.

59. The mission reviewed the procurement activities and paid site visit to Dien Bien province, where the works were located in a very remote area and road conditions are very difficult and inaccessible by cars. Weather conditions with unprecedented heavy downpour in this year’s raining season also contributed to slow progress of civil works which resulted in time extension of a specific contract. The mission noted that a procurement plan should be prepared so that the implementation period reflects practically and sufficiently for the contractor to implement.

60. Rating for the Procurement performance under NMPRP2 over the past period is *Moderately Satisfactory*.

G. FINANCIAL MANAGEMENT

61. The mission is pleased to note improvements in accounting and financial reporting at CPO and PPMUs visited. The mission encourages CPO and PPMUs to take further actions to improve the financial management of the project to fully satisfactory level. Below are the key findings and recommendations.

62. **Lack of counterpart fund.** We noted that the significant issue of lacking counterpart fund may delay payments to contractors and/or project management staff, which had negative impacts on project

implementation. In Lai Chau, salaries of October and November 2011 of PPMU staff have not been paid. In Lai Chau and Dien Bien, payments to the contractor (using counterpart fund) have been delayed. The reported shortage of counterpart fund which is needed for the fiscal year 2011 is: in Son La about VND 4 billion, in Lai Chau VND 1.4 billion, and in Yen Bai more than VND 5 billion.

The mission recommends that the PPMUs and CPO request PPCs and MPI to allocate sufficient counterpart fund for the project implementation in 2012.

63. **Problems with accounting software.** The accounting software still does not function properly. There are 3 main reasons which are (i) the accountant (for example accountant in Dien Bien PPMU) does not have full knowledge of using the accounting software, (ii) the accounting software has not been fully utilized (for example the contract management, the report consolidation modules were not used), and (iii) the software itself still has some issues to be fixed (for example AMT reporting generation function). As result, the Interim Financial Reports has to be prepared manually, the reports (balance sheets) generated by the accounting software in Lai Chau and Dien Bien are not accurate. In Dien Bien, the ledgers generated by the software are not reliable, thus the Chief Accountant has to use the MS Excel spreadsheet to manually prepare the Interim Financial Reports which results in unnecessary heavy workload to accountants.

This issue has been raised by the Bank in all recent missions and has not been resolved satisfactorily. The mission again strongly recommends that CPO and PPMUs fix those issues by 31 December 2011.

64. **Changes of staffs.** The mission noted a number of changes in Financial Management personnel at district and commune levels (for example, the accountant in Muong Te district (Lai Chau), and the accountant in Dien Bien Dong district (Dien Bien) were replaced).

The mission recommends all PPMUs to provide support to the newly appointed accountants and CPO to consider organizing a training course to those staff.

65. **Ineligible expenses.** The mission noted that in Lai Chau (and in Lao Cai as having been informed by the PPMUs) training fees were paid to PPMU staffs for delivering training to district and commune levels. The delivery of training is part of the job description of the PPMU staffs whose salaries are financed by counterpart fund other than IDA.

The mission recommends that all the PPMUs review these types of expenditure, quantify the amount and refund to the Bank by 31 January 2012. The PPMUs are required to discuss with the World Bank's Manila Regional Disbursement Center on the modality of the refund.

66. **Interim Financial Reports.** The IFRs for quarter 2, 2011 were submitted on 15 September 2011 (one month later than the deadline of 15 August 2011). The main reason, as explained by CPO is due to the quality of the reports submitted by PPMUs.

The mission recommends that CPO and PPMUs to address the issues of reporting to ensure that the IFRs for Quarter 4, 2011 will be submitted by 15 February 2012.

67. **Internal Audit.** Up to date, the internal audit has not been implemented. The mission was informed that the MPI already delegated the Internal Audit of CPO to the MPI Inspectorate.

The mission suggests that (i) the PPCs to confirm the responsible department/ agency at the provincial level to be responsible for internal audit at the provincial level by 31 December 2011, and (ii) CPO, PPMUs, MPI

Inspectorate and the provincial appointed Internal Audit to discuss on the adequate internal audit plan for the project by 31 January 2012.

J. NEXT STEPS AND ACTION PLAN

68. The mission has agreed with the counterparts that timely actions will be taken to ensure smooth implementation.

Table 5. Agreed Actions

Actions (in the order of appearance in the document)	By whom	By when
<i>Improve quality of village meeting and planning</i>	PPMUs, DPMUs, CDBs	Immediately
<i>Competitive methods to select quality consultants for technical designs for better design.</i>	PPMUs, DPMUs	Immediately
<i>Strengthen procurement and contract management.</i>	CPO, PPMUs, DPMUs, CDBs	Immediately
<i>Award procurement audit contract</i>	CPO	February 2012.
<i>Establishment of O&M groups</i>	Dien Bien, Hoa Binh	January 15, 2012
<i>Submit Draft Guidelines for O&M Groups and O&M Fund to IDA's review</i>	CPO	End of February 2012
<i>Finalize the guidelines for sub-component 1.2</i>	CPO	December 2011
<i>Scale up of livelihoods sub-projects (both under sub-component 2.2. and 2.3)</i>	PPMUs, DPMUs, CDBs	31 December 2011
<i>Apply livelihoods support approach in Lao Cai to other provinces</i>	CPO, PPMUs, DPMUs, CDBs	Immediately
<i>Training CFs on agriculture extension skills and knowledge</i>	CPO, PPMUs, DPMUs,	End of March 2012
<i>Propose number of additional CFs for recruitment</i>	CPO, PPMUs, DPMUs	15 January 2012
<i>Purchase and supply of books and materials of good practices on farming, agriculture extension models, relevant technical guidelines, etc as reference for both CFs and villagers.</i>	PPMUs, DPMUs, CDBs	15 February 2012
<i>Pay local contractors for completed CDBC works</i>	PPMUs, DPMUs, CDBs	Immediately
<i>Initialize partnership and cooperation with NGOs</i>	PPMUs, DPMUs	Immediately
<i>Yen Bai, Lai Chau, Dien Bien and Hoa Binh provinces to issue the official decision to request relevant provincial extension system to provide technical support to livelihoods groups in their provinces.</i>	Yen Bai, Lai Chau, Dien Bien and Hoa Binh PPMUs	Immediately
<i>Train on project introduction for relevant technical sections at districts (finance, infrastructure, extension, etc)</i>	PPMUs, DPMUs	15 February 2012
<i>Finalize the revised guidelines for livelihoods support with necessary simplifications</i>	CPO, PPMUs, DPMUs	6 January 2012
<i>Award contract to consultants for development integrated planning guidelines</i>	CPO, PPMUs, DPMUs, CDBs	February 2012

<i>Complete all TNA survey for capacity building plan for the next 24 months.</i>	CPO, PPMUs, DPMUs	31 December 2011
<i>Start-up audio books in ethnic minority languages for CB</i>	CPO, PPMUs, DPMUs	February 2012
<i>Recruitment of CB consultant position for PPMUs</i>	CPO, PPMUs	End of February 2012
<i>Follow-up activities from the South-South Exchange Initiative</i>	CPO	January 2012
<i>Horizontal cross learning events</i>	CPO, PPMUs, DPMUs, CDBs	On-going
<i>Refresher training for CFs and district consultants/staff on project management and livelihoods procedures</i>	CPO, PPMUs, DPMUs	March 2012
<i>Award contract for the packages of TAPI and IPM</i>	CPO	January 2012
<i>Purchase of project vehicles and deploy to PPMUs, and DPMUs.</i>	CPO, PPMUs	August 2012
<i>Strengthen M&E and MIS</i>	CPO, PPMUs, DPMUs	January 2012
<i>Provision of assigned M&E computer to staff</i>	PPMUs, DPMUs	January 2012
<i>Photo documentation for every project activities and sub-projects.</i>	PPMUs, DPMUs	Immediately
<i>Improvement of quality of procurement packages</i>	PPMUs, DPMUs	Immediately
<i>PPCs and MPI to allocate sufficient counterpart fund for the project implementation in 2012.</i>	CPO, PPMUs	December 31, 2011
<i>Fix issues with accounting software</i>	CPO, PPMUs	31 December 2011.
<i>Support to the newly appointed accountants (regular support and training)</i>	CPO, PPMUs	On-going and by end of March 2012
<i>PPMUs to review ineligible expenditure, quantify the amount and refund to the Bank (Discussion with the World Bank's Manila Regional Disbursement Center is needed on the modality of the refund).</i>	PPMUs	31 January 2012
<i>In time submission of IFRs for Quarter 4, 2011</i>	CPO, PPMUs	15 February 2012
<i>PPCs to confirm the responsible department/ agency at the provincial level to be responsible for internal audit at the provincial level</i>	PPMUs	31 December 2011
<i>Adequate internal audit plan for the project</i>	<i>CPO, PPMUs, MPI Inspectorate and the provincial appointed Internal Audit</i>	31 January 2012.
<i>Award External Audit Contract</i>	CPO	March 2012

69. The next short mission will be in early January 2012 to review the first 18 months of the project. And the next full supervision is tentatively scheduled for 2 weeks in April 2012.

ANNEXES:

1. Status of previously agreed actions

Agreed Actions	Responsibility	By when	Progress up to 30/9/2011
1. Remaining contracts under first 18-month procurement plan awarded	PPMUs, DPMUs	July 31	Partially done
2. Training Needs Assessment (TNA) guidelines issued and training is conducted	CPO, PPMUs	August 31	Completed
3. Hoa Binh to address all remaining staffing issues	Hoa Binh PPMU	May 31	Completed in July
4. CPO to conduct a follow-up visit to Hoa Binh to verify results	CPO	June 10	Completed
5. New staffs trained and ready for project work	PPMUs and DPMUs	June 15	Completed
6. Community Facilitation and PRA skills delivered to train CFs	CPO, PPMUs, and DPMUs	June 30	Completed in June
7. Additional guideline for sub-component 1.2 and 3.4 finalized and issued.	CPO and PPMUs	June 30	Drafted and consulted on guidelines for sub-component 1.2, tentatively issued in October. Guideline for sub-component 3.4 is under drafting by reference results from South – South exchange organized by WB
8. MPI/CPO to ensure sufficient counterpart fund is available to project activities.	CPO, PPMUs	June 30	Partially done
9. MPI/CPO to submit justifications for purchasing of cars for project's use to Office of Government for endorsement.	CPO	May 15	MPI/CPO had submitted written explanation. However, the problem is not resolved due to impacts of resolution No. 11/NQ-CP
10. Functional accounting software	CPO	June 30	Partially done
11. Submission of Interim Financial Report	CPO	May 15	Completed

2. Visited communes, districts and provinces for this mission:

Provinces	Districts	Communes
Lao Cai	Muong Khuong	Tung Chung Pho
	Sa Pa	Hau Thao
		Ta Phin
Lai Chau	Tam Duong	Ban Hon
	Sin Ho	Ta Ngao
Dien Bien	Muong Cha	
	Muong Ang	Ang Nua
		Ang To
	Dien Bien Dong	