
VIETNAM
NORTHERN MOUNTAINS POVERTY REDUCTION PROJECT - 2
[Credit No.4698]
MID-TERM REVIEW
January 7 – 21, 2013
Aide-Memoire

A. INTRODUCTION

1. A World Bank mission¹ conducted the Mid-Term Review mission for the Second Northern Mountains Poverty Reduction Project (NMPRP-2) from January 7 – 23, 2013. As per the Mission Announcement Letter dated December 26, 2012, the objectives of the mission were to: (i) assess the continued relevance of the project for the country's effort on poverty reduction in rural and ethnic minority areas as well as project sustainability and risks; (ii) conduct a comprehensive review of the overall project design, implementation progress and performance; (iii) review the project's key performance indicators and other project impact data and assess progress towards achieving the project development objective; (iv) discuss and agree on the features of proposed project restructuring to facilitate improved project implementation and performance; and (v) develop and agree on a time-bound action plan to address implementation weaknesses identified during the MTR. The MTR provided a timely and important opportunity for all stakeholders to discuss and reaffirm the project's contribution to overall poverty reduction efforts in Vietnam, and take stock of project achievements to date with particular attention on the institutionalization of project innovations and ensuring the sustainability of project impacts.

2. The mission met with Mr. Dao Quang Thu, Vice Minister and Mr. Cam Doan, Director of the Agriculture Economics Department, MPI. The mission worked with the Central Project Office (CPO) and its Technical Assistance for Project Implementation team (TAPI). The mission visited Yen Bai and Lao Cai provinces and met with Provincial Project Management Units (PPMUs), District Project Management Units (DPMUs), Commune Development Boards (CDBs) and farmers involved in the livelihoods activities supported through the common interest groups (CIGs). A wrap-up meeting was held on January 20, 2013 in Lao Cai and attended by provincial leaders and selected project staff from all the participating provinces. The mission would like to thank the staff of the CPO and representatives of the provincial, district and commune people's committees in the visited provinces for their time, effort, and cooperation, and the assistance and hospitality that they extended to the mission. This Aide Memoire (AM) summarizes key findings, recommendations and agreed upon actions from the mission.

B. Summary of Key Actions

The mission has agreed with the counterparts that timely actions will be taken to ensure smooth implementation. The following table provides a summary of key agreements, required actions with responsible party and anticipated timeframe for completion.

¹ The mission was comprised of Messrs. Nguyen Thi Thu **Lan** (TTL), Vo Thanh **Son** (Co-TTL), **Mark** Woodward (Lead Social Development Specialist), Le Toan **Thang** (Procurement Specialist), Pham Van **Cung** (Senior Financial Management Specialist), Pham Van **Khang** (Environment Specialist), Nguyen Huy **Dzung** (DRM Specialist and Water-related Engineer), and Do Thi **Tam** (Team Assistant).

Table 1: Agreed Key Actions

Actions (in the order of appearance in the document)	By whom	By when
<i>Review the quality of all infrastructure sub-projects (including those in the infrastructure assessment report). Comprehensive lists of invested schemes with their current status and measures applied are to be sent to the World Bank.</i>	PPMUs/DPMUs	April 30, 2013
<i>Quality audit to check the infrastructure schemes and propose strict disciplines for poor quality sub-projects</i>	CPO, TAPI	First report by July 2013 Periodically
<i>Study the proposal made by Lao Cai PPMU on the Innovation grants activities for its feasibility for wider application</i>	CPO, TAPI	Immediately
<i>The Dien Bien PPMU is to complete its assessment of the ginger project as soon as possible</i>	Dien Bien, CPO, TAPI	March 31, 2013
<i>Review the feasibility of implementing sub-component 1.2 and report to the CPO and World Bank so that a decision regarding moving available funds to other provinces for this sub-component can be made</i>	CPO, PPMUs	March 31, 2013
<i>CIGs are to be classified into different categories for effective support and project support could be for two cycles or two years depending on which is more appropriate</i>	CPO, TAPI, PPMUs	April 30, 2013
<i>Hoa Binh and Son La PPMUs to take a critical review of their performance to identify areas for improvement.</i>	Hoa Binh and Son La PPMUs, CPO	Immediately
<i>Review of CFs' performance</i>	CPO, PPMUs	April 15, 2013
<i>Finalize the assessment of the capacity building program and make necessary adjustments for implementation in 2013 Submission</i>	CPO	April 15, 2013
<i>Modification of PIM, including to allow communes to include commune extension workers as members of the CDBs if and where appropriate</i>	CPO, PPMUs	April 15, 2013
<i>Improvement of web-based MIS</i>	CPO	April, 2013
<i>Improving the environmental quality of invested activities: testing the quality of domestic water, management and treatment of animal wastes, proper use of fertilizers and pesticides in food crop development</i>	PPMUs, DPMUs, CDB	Immediately
<i>Resolve the delayed budget allocation and insufficiency of counterpart fund</i>	CPO, PPMUs	Immediately
<i>All Commune Development Board shall make payments for completed contracts to contractors</i>	PPMUs/DPMUs/CDB	Immediately
<i>Procurement process for Internal Audit Package be accelerated and the Consultant be mobilized</i>	CPO	June 31, 2013

B. PROJECT BACKGROUND, OBJECTIVE AND STRATEGIC CONTEXT

1. **Project background.** The project was approved by the IDA Board on April 6, 2010 and became effective on August 23, 2010. It is financed by an IDA Credit of US\$150 million. The project is being implemented over a period of five years, with a closing date of June 30, 2015.

2. **Strategic context and project objective.** The project is designed to support the Government's effort in sustainable poverty reduction in the poorest region of Vietnam, the North-West region. The Project Development Objective is *to enhance the living standards of the project beneficiaries by improving (i) their access to productive infrastructure; (ii) the productive and institutional capacities of local governments and communities; and (iii) their linkages to remunerative markets.*

3. The mission confirmed that the project remains relevant for the Government's priority in addressing poverty by supporting productivity and growth in the rural sector through improving connectivity, strengthening skills, expanding access to basic services, and better targeting of agricultural support measures to the needs of poor and ethnic minority farmers. The link to the Government's priority is reflected in the project's comprehensive design comprising the four following components:

- **Component 1: District Economic Development** aims to provide support for the implementation of District Socio-economic Development Plans focusing on productive infrastructure for local employment and income generation, and diversification of the livelihoods of the rural poor; including: (a) provision of support for financing small and medium size investment projects including, but not limited to, intra-commune roads, small-scale irrigation schemes, drinking water supplies and rural markets; and (b) provision of support to make supply side and market institutions work better for the poor, including: (i) research and analytical studies to identify market opportunities and create enabling environment; (ii) establishing partnerships with banks, nongovernmental organizations, and the private sector for providing dedicated linkage support to rural producers and microenterprises; and (iii) provision of Innovation Grants to promote new business ideas and unconventional approaches for commercial linkages for the rural poor.
- **Component 2: Commune Development Budget** provides grants to finance sub-projects to support the implementation of the Commune Development Plans, including: (a) small scale communal infrastructure activities (e.g. road repair, micro-irrigation systems, and markets); (b) livelihood support to the poor to assist them to form common interest groups, develop necessary skills and explore linkages with credit and product markets; and (c) support for women's social and economic development activities.
- **Component 3: Capacity Building** strengthens human resource capacity of all project stakeholders at the central, province, district, commune, and village levels, including capacity building for: (a) District and Commune staff to prepare socio-economic development plans and facilitate their process; (b) Commune and Village staff on project implementation and management; (c) central, Province, and District staff on project implementation and management; (d) development of skills for local level employment opportunities; and (e) safeguarding assets of communes and households including understanding and mitigating natural disaster risks.
- **Component 4: Project Management** provides support for effective Project management, monitoring, and evaluation, including facilitation of implementation,

coordination, communication, information sharing and learning, and quality enhancement efforts, in addition to internal and external supervision and auditing.

4. **Assessments/studies in preparation for the MTR – In preparation for the MTR, a number of background reports were prepared or commissioned by the project team, including:** (i) the comprehensive MTR report prepared by CPO and TAPI; (ii) the Limited Baseline Survey Report prepared by the Independent Process Monitoring (IPM) team; (iii) a series of background studies including: Capacity Building Evaluation, Social Economic Development Plan (SEDP) pilot evaluation, Infrastructure Quality evaluation; and (iv) the evaluation of the Pilot Common Interest Group (CIG) approach. The MTR report was well prepared and, along with the combined background information, presented a good description of project progress and outstanding issues. The Limited Baseline Survey report utilized a combination of methods including: (a) Light Survey on selected baseline indicators; (b) Citizen Report Card survey focusing on beneficiaries' feedback on project planning and implementation; and (c) Focus Group Discussion exclusively targeting women groups established and supported by the project.

5. **Focus on quality implementation and institutionalization.** At mid-term, project implementation is increasingly demonstrating results on the ground. For the remaining 2.5 years of project implementation, attention needs to focus more on quality improvements and the institutionalization of the various project innovations being demonstrated in the field into the government's own policies and programs.

6. **Innovation in poverty reduction – Market linkage and value chain approach.** Although the initial development of market linkages and value chains has been slow, the pace of implementation increased during 2012. Two partnerships between commercial companies and poor farmers were formalized and additional partnerships were in the early stages of development by the end of 2012. Several CIGs formed in the project's first 18 months had established value chain linkages through local traders. Developing market linkages and strengthening these value chain relationships, however, needs additional emphasis in order to increase financial benefits for poor farmers. Lessons need to be shared between project provinces and also incorporated into government rural development programs.

C. IMPLEMENTATION PERFORMANCE AND KEY ISSUES

7. **Continued Relevance of the PDO.** The missions' findings reaffirm the continued relevance of the project objectives. Two recent missions confirm that the project targeting remains appropriate. Under the government's New Rural Areas Development initiative, communities are judged according to nineteen criteria. While most focal communes under the project currently meet the criteria on politics and security, none of them meet the social and economic criteria. Second, the recent re-estimation of Vietnam's poverty line by General Statistics Office (with technical support from the World Bank) suggests that the number of households now eligible for assistance under the project has increased by some 30 percent.²

8. **Achievement of the PDO:** The project is on track to achieve its development objective, with considerable recent momentum related to local level infrastructure, livelihood improvement

² The revised rural poverty rates for the project provinces in 2010 range from 53.3% and 54.7% in Yen Bai and Hoa Binh, respectively, to more than 80% in both Dien Bien and Lai Chau. The rural poor in the six project provinces account for just under 14% of all of Vietnam's poor.

through the functional common interest groups formed under the project and the training of project staff and local cadres. Disbursement has much improved, and is now in line with expectations for mid-term. Initial results from the livelihoods support activities are encouraging, are likely to be sustainable and can be scaled up with some minor adjustment in the approaches and areas of emphasis. Table 2 provides a summary of progress related to PDO indicators. Additional commentary related to these indicators is provided below.

Table 2: Summary of Achievement of Project Outcome Indicators

Project Outcomes Indicators	Target Values		Status to Mid Term
	Year 3	Year 5	
<ul style="list-style-type: none"> At least 60% of the project beneficiaries report satisfaction on the selection, design, and implementation of project activities. 	10%	60%	<u>Citizens Report Card</u> : Selection – 85%, Design – 66%, implementation – 68% <u>Community Report Card</u> (all-women FGDs): Selection – 72%, Design – 47%, Implementation – 75%
<ul style="list-style-type: none"> Project beneficiaries report an improvement of per capita income at least by 10% 	5%	10%	Not included in Limited Survey and no other data available
Intermediate Outcome Indicators			
<i>Improvement of access to productive infrastructure</i>			
<ul style="list-style-type: none"> At least 60% of households in the project areas report satisfaction of economic benefits due to productive infrastructure improvement in accessibility to basic infrastructure (road, irrigation, water supply and market) 	10%	60%	<u>Citizens Report Card</u> : Access to roads – 48%, Access to irrigation – 37%, Access to water supply– 45%, Access to markets – 11% <u>Community Report Card</u> (all-women FGDs): Access to roads – 45%, Access to irrigation – 28%, Access to water supply– 20%, Access to markets – 0%
<ul style="list-style-type: none"> Improvement in agricultural output at least by 10% 	5%	10%	<u>Household survey</u> : Rice production and yield – 11-17% increase
<i>Improvement of productive and institutional capacity for local government and communities</i>			
<ul style="list-style-type: none"> At least 60% of villagers project beneficiaries report satisfaction with public services delivery. 	30%	60%	<u>Citizens Report Card</u> : Public services delivery – 77%, Public representation and service delivery – 73%
<ul style="list-style-type: none"> At least 60% of women and ethnic minorities satisfied with public representation their level of participation in planning and decision making process, and service delivery 	30%	60%	<u>Community Report Card</u> : Public services delivery – 45%, Public representation and service delivery – 27%
<ul style="list-style-type: none"> At least 60% of communes integrate the NMPRP-2 into their SEDPs 	30%	60%	41%
<ul style="list-style-type: none"> At least 60% of villages and communes have undertaken natural disaster mitigation plans and implement readiness exercises on an annual basis 	30%	60%	To be modified
<ul style="list-style-type: none"> Targeted clients satisfied with agricultural services 	30%	80%	No data on satisfaction with agricultural services was collected in the Limited Survey. The baseline satisfaction rate was 20%.
<i>Improvement of market linkages and business innovations</i>			
<ul style="list-style-type: none"> Number of households involved in non- 	20%	30%	Income data was not collected by Limited

Project Outcomes Indicators	Target Values		Status to Mid Term
	Year 3	Year 5	
farm income generating activity increases at least 30%			Survey
<ul style="list-style-type: none"> 30% of households report improved opportunities and public support to start or improve businesses 	20%	30%	Citizens Report Card: 55% Community Report Card (all-women FGDs): 22%

Source: Project MIS 2012; CPO's Mid-Term Review Report, January 2013.

9. **Disbursement** has steadily picked up. As of January 18, 2013, the project disbursed 36.63% (or US\$54.6million) of the IDA Credit. This pattern is in line with the original projections, which estimated that some 40% of the total would be disbursed by the end of 2012. Yen Bai and Lao Cai provinces have had the highest disbursement rates (60% and 50%, respectively). These two provinces are more experienced in project management. The two new project provinces of Dien Bien and Lai Chau have performed well, with disbursement rates of 42% and 44% respectively, despite some prior delays. Provincial work plans for 2012 were generally not approved until April or May because of the poor quality of initial drafts, and a lengthy review process. Lessons from this experience have been internalized within the CPO to avoid a repeat in 2013. Notwithstanding these delays, some 85% of the activities planned for 2012 were completed by the year end.

10. **Project implementation performance** has varied among the participating provinces. Implementation and disbursements have advanced furthest in Yen Bai and Lao Cai and slowest in Hoa Binh and Son La. The CPO and the TAPI team have been providing additional support to Dien Bien, which has made relatively good progress during the last quarter of 2012. Hoa Binh and Dien Bien were the first locales for project supported partnerships or contract farming arrangements (between farmer groups and agribusiness). These involved more than one thousand farm households in the production of herbal plants and ginger. Five other proposals for such partnerships were approved by the end of 2012 and are now being implemented. Cross-learning has started among project implementers to evaluate these initial experiences. It is important that experience from the first two supported partnerships be documented and conclusions shared among the province implementers. Although these arrangements have significant potential, it should be noted that the scope for developing such partnerships is limited in the more remote project districts given the lack of agro-processing enterprises and/or better organized private trading companies operating in such areas.

11. **Project Restructuring:** For the remainder of the project period, a number of revisions are required to implementation modalities to maximize the likelihood of achieving project impact. In this regard, the following changes to the project have been discussed and agreed (for the details, refer to Table 4, page 16):

- Increase the ceiling for CDBC sub-projects from VND100 million (~US\$5,000) to VND200 million (~US\$10,000): this stems from the cost escalation and the improved capacity of CDBs to manage larger subprojects, deepening the decentralization process;
- Increase of IDA's financing for categories 3 for Goods, Works including vehicles and 5 for Incremental Operating Costs in Financing Agreement from 95% to 100%: this is to solve the issue of shortage of counterpart fund and improve the project progress;
- Increase the proportion of investment in rural roads from 30% of sub-component 1.1 to 50%, without increasing the overall component budget allocation: this is to meet the higher demand for rural connectivity and to further support physical market linkages;

- Move the O&M funds to Component 2 as sub-component 2.4 of O&M (accounting for 10% of the Component)
- Shift the focus of sub-component 3.4 from vocational training to capacity for CIGs: to meet the capacity building need of a large number of newly created CIGs for sustaining the livelihood support activities under the project;
- Allocate the unallocated amount of US\$23.34 million to provinces based on their performance and absorption capacity;
- Modifications to some intermediate indicators (as detailed in the attached draft Restructuring Paper).

12. **Project Extension and Additional Financing:** During the mission and at the wrap-up meeting, the Government proposed to the Mission that the project closing date be extended and additional financing be provided to ensure project objectives are met. The request for a closing date extension stems from two considerations:

- First, thus far considerable attention has been given to building up local capacities – at district, commune and village levels – for managing public resources and implementing sub-projects. Capturing the full benefits from such enhanced local capacity and entrenching these new behaviors into planning norms will require some additional project implementation time. This is especially so in Dien Bien and Lai Chau, which did not participate in the first phase of the project (NMPRP-1).
- Second, additional time will permit necessary further testing and scaling up of the good livelihood initiatives developed under the project in order to draw out suitable lessons for mainstreaming within the Government’s poverty reduction program. This would ensure the quality of implementation with the varied livelihood activities which make a more compelling case for wide up-take of the approaches used and possible institutionalization of the CDD project approach into government or provincial programs.

13. The request for additional financing also stems from two considerations:

- First, project costs have escalated (especially with regard to construction materials and agricultural inputs) because of higher-than-expected inflation over the past two years. Some interventions have already had to be scaled back because their costs now exceed the original cost norms.
- A second consideration is the need to improve the design of many infrastructure sub-projects compared to earlier investments. Experience with early sub-projects has demonstrated that while the construction quality has met original standards, the assets have been susceptible to damage from harsh weather, flooding and other risks. Rehabilitation costs have been high. In order to ensure project-funded infrastructure is sustainable and resilient to such risks, design specifications need to be improved which will entail higher upfront costs (with subsequent savings in rehabilitation needs).

14. The mission noted these requests from the provincial leaders and CPO and requested that the provinces follow up with MPI. The Bank task team further noted that any additional financing would have to have an objective of institutionalizing the CDD approach into the national or provincial programs.

D. REVIEW BY COMPONENT

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

Subcomponent 1.1: Economic development investments

Key issues and actions

15. **The project has achieved good results with high rates of completion for infrastructure investments.** By the end of December 2012, the project has invested in over 400 infrastructure sub-projects with over 70% completed and handed over to local beneficiaries for use. The reported outputs showed that nearly 4,000 km of rural roads were paved and/or upgraded, over 2,000ha of farmland irrigated, nearly 1,300m of small bridges constructed, nearly 6,000m² of improved rural markets built, and over 100 water supply schemes established, thereby benefiting tens of thousands of households. The immediate outcomes are generally very positive. The Limited Survey, conducted by the Independent Process Monitoring team, showed very encouraging impacts thus far (Table 3):

Table 3: Summary of Benefits for Main Types of Infrastructure Investments in Sub-Component 1.

Type of Infrastructure	Main Benefits
Roads	<ul style="list-style-type: none"> • Reduced travel time to social, administrative services and some business services
Irrigation schemes	<ul style="list-style-type: none"> • Increased rice yield • Reduction in annual hunger days
Water Supply Systems	<ul style="list-style-type: none"> • Reduced distance to collect water • Reduced time required to collect water • Improved health of families

16. The year 2012 saw an improvement of implementation in this sub-component with a total budget envelop of nearly US\$24 million – compared US\$8 million for the first 18 months of the project. Many of the individual sub-projects have been designed and implemented correctly. Yet, as reported in the Infrastructure Assessment Report (and confirmed by the Mission) a number of problematic cases involving inappropriate designs, poor quality construction, and/or poor O&M arrangements have been encountered. For instance, the suspension bridge in Na Tam Commune (Tam Duong, Lai Chau) was designed with the wrong materials and design for the handrails. The new irrigation scheme in Cun Pheo Commune (Mai Chau, Hoa Binh) was built parallel to another scheme for irrigating the same areas with identical purposes. There were also several cases of overlapping/duplicate investments. This raises the concern that the faster pace of implementation may have come at the expense of investment quality, warranting serious corrective actions.³ The CPO should provide careful oversight to ensure quality norms are being maintained.

17. The Mission also reported that a number of recommendations from previous ISMs regarding O&M of project-funded infrastructure have not been dealt with adequately. Several infrastructure sub-projects visited by the mission in Yen Bai were in poor status due to a lack of routine maintenance. The Infrastructure Assessment Report confirmed a similar pattern in other

³ Notably, the mission observed that (i) the irrigation scheme in Ban Mu commune (Tram Tau, Yen Bai), and (ii) the rural road scheme in Suoi Giang Commune (Van Chan, Yen Bai) both required immediate repair and maintenance activities given the poor status of those schemes when visited. The mission was particularly worried by the speedy implementation in Yen Bai and noted that previous concerns that Yen Bai was proceeding too fast, which could result in compromising quality.

provinces. The CPO should address these weaknesses in O&M management as a matter of urgency as they pose a serious threat to the sustainability of project outputs.

Agreements:

18. The following actions were agreed upon to address the issues raised:
- a) *PPMUs and DPMUs are to review all infrastructure sub-projects to check their quality and to ensure routine maintenance. A comprehensive list of project-supported schemes including their current status and proposed remedial measures to be applied is to be sent to the World Bank no later than April 30, 2013.*
 - b) *The CPO and TAPI should introduce a random and independent verification procedure to verify the quality of infrastructure schemes and propose strict disciplines for poor-quality sub-projects.*

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

19. Under this sub-component the project is seeking to strengthen market linkages via support for partnerships between farmer groups and agro-enterprise through the use of an innovation grants scheme. The formation of partnership arrangements has proven challenging in many project districts due to the absence of viable (i.e. larger than micro scale) agricultural processing companies and the limited size and capabilities of most local trading companies. While it was initially expected that partnership schemes could be fostered across the project's geography, the project team now believe that a realistic goal of achievement would be to foster between 8 and 10 sustainable partnerships during the project life, concentrated in the potential provinces of Lao Cai, Dien Bien, Hoa Binh, and Yen Bai, and involving approximately 5,000 households.

20. Two such partnerships were supported in 2012. One involves more than 800 households in Hoa Binh growing a medicinal herb under contract for a company which dries and extracts the medicinal substance to make malaria prevention pills for export to Africa. A second supported partnership relates to ginger production in Dien Bien – some 273 farmer households were involved in the first round of planting whose harvest was completed in December 2012. The firm involved in this partnership dries and exports the ginger to Japan. The company has significantly expanded the scope of the partnership, both to take on additional farmers and supply other crops such as chillies.

21. The initial results from these first two pilot partnerships are mixed. On the one hand, it was encouraging to see that farmers are organized in their production and linked to better markets, resulting in a much higher income than for their traditional cash crop (maize) when good harvests occurred. On the other hand, some problems were encountered in localities that started planting too late in the season. The medicinal herb planting in some communes of Hoa Binh was an example of the latter. Still, the participating companies remain highly committed to these initiatives and continued project support may well lead to sustainable links between a growing number of farmers and these companies.

22. The market linkages through partnership with local enterprises showed positive initial results and this is encouraging more partnerships to emerge. Following the implementation of the first two market linkages schemes in Dien Bien and Hoa Binh, several other partnerships have started in Lao Cai with partnerships for orchids, dill, and cassava farming with positive initial results, and in Son La with a taro production partnership. As of mid-term, Lai Chau and

Yen Bai have no partnerships either set up or planned. Dien Bien has, in the meantime, started with another partnership for chilli production, following their earlier experience with the ginger sub-project.

Key issues

23. Some 2013 provincial plans propose a number of partnerships involving the production of already well-established traditional crops (e.g., maize or rice). While there could be small benefits from improved market relations for such traditional crops, these crops will be produced anyway and the project can bring potentially more value by encouraging partnerships which involve the introduction of new, higher value crops and/or the facilitation of improved techniques and services to raise productivity in existing crop or livestock activities.

24. The documentation of lessons learned from the two first partnerships needs to be systematically improved. An initial assessment has been made of the herbal medicine scheme, yet the insights provided by that assessment are limited. The ginger partnership in Dien Bien has been better monitored although the full report on this partnership is still under the process of development.

25. The project still experiences difficulties and slowness in implementing the Innovation Grants (IG) activities. Lao Cai PPMU has suggested that successful CIGs should be rewarded with further funding provided by modifying the IG program to include a competitive bidding element. CIGs with the best proposals to develop their business activities are, therefore, suggested as one way to move this sub-component forward.

Agreements

- a) *Given that the partnerships often involve a large number of farmers and the agriculture production is risky and seasonal, it was agreed that an advanced preparation for the partnership has to be guaranteed before it can start. If a late start occurs, the partnership should be delayed to the next season.*
- b) *The CPO and TAPI are to study the proposal made by Lao Cai PPMU on the Innovation grants activities for its feasibility for wider application and make a recommendation to the Bank task team by end-June. Proposal for revision of the PIM related to this activity should also be submitted to Bank's review by end of June 2013.*
- c) *The Dien Bien PPMU is to complete its assessment of the ginger project by end of March 2013*
- d) *Hoa Binh PPMU should obtain supplemental information so that the experience and lessons learned from the medicinal herb partnership are better understood. A recommendation should also be made as to whether the project should support this partnership for an additional year in order to correct for earlier difficulties and enhance the scope for a sustainable scheme. This should be done by the end of April, 2013.*
- e) *For the new partnerships coming online, a determination should be made as to whether project support would last one or two seasons (or years) and the trigger points needed to move to the second season/year of support. CPO and TAPI are to propose arrangements for this by end of May 2013.*
- f) *Lai Chau and Yen Bai will review the feasibility of implementing this sub-component and report to the CPO and World Bank no later than March 31, 2013.*

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

26. Component 2 combines small scale village infrastructure with livelihoods development and is based on the community driven development (CDD) approach that empowers villagers to participate in planning, implementation and monitoring. By the end of 2012, over 1,743 contracts had been awarded to community groups for implementation. All 230 project communes are investment owners of some 4,446 sub-projects with an aggregate value of around US\$13 million.

27. Under this sub-component, more than 510km of road had been rehabilitated, irrigation improved for over 1,600ha and domestic water provided for hundreds of households. Benefits from the village investment programs as found by the Limited Survey are very positive. Water supply schemes reduced the time required to collect water, and the number of sick days per month for the family fell. Irrigation schemes increased rice yields, as well as the number of different crops grown, and there was also a reduction in hunger days per month.

28. Supporting CIGs has been a focus of the project for sustainable livelihoods. By the end of 2012, there were 1,674 CIGs formed to implement different livelihood activities with an aggregate cost of more than US\$5million. Although the range of crop and livestock activities has followed more traditional farming methods, some more innovative activities have also been implemented, including the production of eel, porcupines, and rabbits for consumption and local sales. Initial results showed a certain level of sustainability. Many CIGs in all 6 provinces were able to reinvest in the 2nd or 3rd production cycles and recruit more households after the first support from the project. Some examples of the effective CIGs include production of chilli (Muong Khuong, Lao Cai), ginger (Dien Bien), cinnamon extract (Luc Yen, Yen Bai), pigs (Van Ban, Yen Bai or Da Bac, Hoa Binh), eels (Luc Yen, Yen Bai or Yen Thuy, Hoa Binh), coffee seedlings (Thuan Chau, Son La), chayote (Tan Lac, Hoa Binh), and orchids (Sa Pa, Lao Cai).

29. This component was also designed to especially support women to enhance their social and economic status. Sub-projects chosen by women have included a range of social and economic activities, with the majority being livestock- and chicken-raising, which are traditionally undertaken by woman. It was encouraging to observe woman's empowerment through the project's support to women CIGs where members made their own decisions on how the project should support their livelihood needs and spoke up in commune meetings.

30. According to the Limited Survey, CIG membership brought a number of changes to farmers' livelihoods. Most notably, these changes included the farmers receiving more market information, training and extension services, and information on production technology. The CIG members share their production experience in regular group meetings and have learned how to do book keeping for their businesses CIGs also contributed to developing new markets, introducing new crops and livestock as well as access to post production services.

31. Livelihood sub-projects implemented under the pilot program in sub-components 2.2 and 2.3 have achieved satisfactory results in both Lao Cai (in particular) and Yen Bai. During field visits to Van Ban district the Mission met with farmers who were on their third pig production cycle. Factors that contributed to the success of these livestock activities reported to be: technical training and on-going assistance by commune extension staff, farmers saving sufficiently from the sale proceeds to reinvest in the next production cycle, and market linkages with local traders. The Lao Cai livelihoods program has been well managed by the PPMU and this is demonstrated by the available monitoring information, including data on how many production cycles the pilot livelihood sub-projects have completed. The importance of farmers

quickly generating income from their sub-project activities is also a feature of the Lao Cai livelihoods program.

32. Livelihoods development in Yen Bai is not as advanced. Field visits found that in some cases the livelihoods program had only commenced in 2012 and participants were still in their first production cycle. In contrast to the Lao Cai sub-projects, there was less emphasis upon quick income generation and reinvestment. The Mission expressed concern at the cost of the hybrid maize model. The income generated from this intervention was similar to the cost of inputs (provided by the project), and the farmers did not save enough funds to reinvest in another crop of maize. Other livelihood sub-projects were focusing on building up livestock numbers within their CIGs (with no sales having yet taken place). Thus it will take several annual production cycles for farmers to begin to generate income, thereby limiting the project's immediate poverty reduction impact. The Yen Bai sub-projects also had a more limited emphasis upon market linkages.

Key issues

33. There remains a big issue of quality of construction with implications for sustainability. The irrigation ditch in Ban Mu commune, Yen Bai, is unlikely to last given the poor quality of cement, and the small bridge in this commune is being undermined. Sustainability is at risk because of both (i) a lack of attention to quality on the part of project staff and (ii) inadequate ownership on the part of some community members. Poor quality cement should have been identified by community supervision – when the sense of ownership is high then the communities themselves can make sure that implementation is done properly. Moreover, there was insufficient vetting of the design. Beneficiaries might not have the knowledge to catch this sort of design error, but project staff should be able to do so.

34. While there were signs of sustainability in many CIGs, some other proposed sub-projects involve one-off support and/or free inputs, neither of which is likely to result in sustainable changes in attitudes, behavior, technologies or institutional arrangements. Some CIG-focused activities, such as hybrid corn, are unlikely to be sustained because the cost of inputs is high and returns very small. While some expanded cattle and pig production efforts look promising, the underlying costs and benefits from these interventions need to be better accessed.

35. The recent assessment of the CIGs conducted by the TAPI and CPO team has identified a number of areas for improvement in the CIG livelihoods program. These include: (i) better quality sub-project proposals; (ii) developing CIG capacity, especially group leadership; (iii) increased market knowledge of CIG members; and (iv) more knowledge by CIG members about the profitability of sub-projects and strengthened group operations, especially financial records and minutes of meetings. There is also a need to regularly monitor the CIG activities by the CFs.

36. Based upon the observations made, the Mission assisted the CPO and TAPI to lay out a classification scheme covering different types of CIGs, a hierarchy of objectives (ranging from asset preservation at one level to transformative commercial change at the other end), and a distinct set of interventions appropriate for each. Discussions were also held regarding the time period over which CIGs would be supported. Rather than simply obtain support for one season or year, it was agreed that in many cases, support would be carried over for two stages. The mission noted in certain visited communes that lengthy and unnecessarily complicated procedures for CDBC sub-projects were causing challenges for Commune Development Boards and that CFs have ended up being involved directly in preparing the sub-project documents for the commune cadres. This practice poses risks that commune cadres would not act as true investment owners.

Agreements

- a) *PPMUs and DPMUs are requested to furnish to CPO and WB short inventory reports of current status of all invested civil works under the project and keep them updated by quarterly. This should be done by end of April 2013.*
- b) *CPO is recommended to conduct random quality audit of the invested infrastructure in project areas. Pilot of such quality audit could be done by end of July 2013 and report should be sent to WB and all PPMUs by end of August 2013.*
- c) *CIGs are to be classified into different categories for effective support and project support could be for two cycles or two years depending on which is more appropriate. This should be done by end of April 2013.*
- d) *The quality of CIG proposals is to be improved through better facilitated consultations and capacity building on business development for CIGs. Refresher training of CFs and CBDs should focus on this issue and reflected in the imminent training courses.*
- e) *As part of the PIM revision, the procedures for CDBC are to be revisited again to adjust and/or simplify them in order to aid communes as investment owners more effectively.*
- f) *Further training is to be provided for the CIGs to help them function better. CFs in the visited communes in Yen Bai are to spend more time with the CIGs to help them enhance the acquired skills to run their groups.*
- g) *CFs performance is to be reviewed and the possibility of not extending contracts will be considered in the case of under-performing CFs.*

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

37. The project has developed an extensive capacity building program for project stakeholders at all levels, including a large number of farmers. This program has been implemented in two phases. Phase 1, which was implemented over the first 18 months, focused on the core skills for project implementers. The second phase commenced in early 2012 and is a broader based program that was developed following the training needs assessments completed in each of the project provinces in late 2011. Each province prepared a capacity building plan for the period 2012 – 2013.

38. Over the first half of the project there have been about 650 training courses and study tours conducted for over 22,000 participants, of which ethnic minorities accounted for 79% and women's participation was 32%. Following recommendations made in the last ISM, the CPO has assessed the effectiveness of the training courses provided with a view to improving the impact of the future capacity building program. A final assessment report is under preparation and is expected by April 30, 2013.

Socio Economic Development Planning

39. Socio-economic development planning was piloted under the project in 2012 in 5 of the project provinces. In each province, 10 communes were selected to implement an integrated SED planning procedure (originally developed by Hoa Binh and later improved by Quang Tri DPI). The objective of this pilot was to find ways to institutionalize this planning approach

which helps the communes through participatory planning to integrate all resources for commune development in an integrated plan. Hoa Binh was the only province in the project which has formalized the SEDP program in all communes with support from a donor program.

Disaster Risk Management

40. The project received support from the GFDRR which financed a study on “Resilient Livelihoods – Increasing the ability of communities to prevent, mitigate, and cope with extreme weather events.” The study started in December, 2012 and was expected to help inform the decisions on agricultural production by the farmers, including livestock raising, in the natural disaster prone areas. A detailed study plan was discussed at the wrap-up meeting of the Mission and the inception report is now being finalized.

Agreements

- a) *The CPO is to finalize the assessment of the capacity building program and make necessary adjustments for implementation in 2013. This is to be done by April 2013*
- b) *The CPO is to do the assessment and prepare necessary changes of the original target of vocational training to training of CIGs to ensure that this is adequately covered in the restructuring paper.*

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

Key issues

41. **Overall project management has greatly improved in the third year of the project,** with smoother coordination and communications. However, the improvement was not observed in all provinces: Lao Cai showed significant improvement in project management since its internal reform and establishment of provincial ODA management during 2011. Dien Bien province has also showed improvements in project performance due to greater efforts by project staff, closer attention by provincial leaders and effective support from the CPO and TAPI.

42. In contrast, Hoa Binh province has shown a downward trend in project management and implementation due, seemingly, to ineffective coordination. This has resulted in poor project performance at all levels, though the communes and CFs in Hoa Binh still fared better than that at province and district levels. This is troubling, in particular because Hoa Binh benefited from having prior experienced with the NMPRP-1 and was one of the best performing provinces. The Mission noted that the PPMU management and leadership are not performing at their best and there seems also to be a lack of guidance from the provincial leaders. No follow-up measures were carried out by Hoa Binh PPMU as recommended from previous ISMs. Son La, another NMPRP-1 province, has also performed far below expectation and requires greater effort to improve its performance. Proper attention and oversight from provincial leaders is crucial to ensure good project management and implementation. As in all the project provinces, the Provincial Steering Committees were set up in Hoa Binh and Son La, although they do not seem to be effective in helping steering the project on track as required.

43. **Project staffing has improved but remains weak at the commune level.** The Mission observed limited capacity among some Commune Development Boards (CDBs). The project activities were mostly managed by the assigned CFs and seconded district staff. It was proposed by several communes that commune extension workers need to be included in the CBDs to increase the CDB’s capacity in working on livelihoods issues.

44. **The performance of the contracted CFs has also improved; at the same time the CFs have been stretched to cover an increasing portfolio as the project has scaled up.** However, there are some cases of under-performing CFs that PPMUs will need to review. The possibility of not extending some contracts has been raised.

45. **The Project's Monitoring and Evaluation (M&E) has improved but additional modifications would help it better serve project management.** The project has set up its Management Information System (MIS) as an essential part of the M&E arrangements. The project's MIS was originally designed on an Excel-based system to progressively update data on project activities. The system has recently been changed to a web-based system for regular and live updating, using the same sets of Excel worksheets. This is a welcome innovation to make project data more accessible to the public and more regular updates were expected. However, the interface needs improving to make the design more user-friendly as the titles and order do not follow any logical order (i.e, by project components). Furthermore, regular updates have not taken place as expected. More training is needed for district M&E staff to ensure data are verified, coordinated and updated regularly. The current delays in reporting time cause the MIS to be less useful for management decisions.

46. A mid-term limited survey was conducted and demonstrated the project is already delivering results. The survey was intended as a compliment to the baseline survey that was conducted and finalized in late 2011. These have created a good foundation for the NMPRP-2 impact evaluation planned for 2015. Several studies have also been conducted to inform the MTR (including (i) assessment of infrastructure quality; (ii) assessment of integrated SEDP planning and (iii) review of project's MIS). Those studies have been providing good analyses of areas for just in-time interventions.

47. At this mid-term check point, the project staff proposed some changes to the intermediate outcome indicators, mainly by rewording of the indicators to better match the project activities, plus the addition of core sector indicators as requested by the World Bank. The mission concurred with the proposed changes as they will better represent project status and improve understanding while not affecting the nature of the indicators to be monitored. Detailed proposed changes are presented in Annex 2.

Agreements

- a) *CPO/MPI is to hold meetings and/or communicate directly with the provincial leaders of Hoa Binh, Yen Bai and Son La requesting their proper attention to project issues and problems.*
- b) *PPMUs are to prioritize capacity building for CDBs.*
- c) *The PIM is to be modified to allow communes to include commune extension workers as members of the CDBs if and where appropriate.*
- d) *CF performance is to be reviewed and cases of under-performing CFs could result in contracts not being renewed.*
- e) *The improvement of web-based MIS is to be finalized by the end of March, 2013.*

E. RESTRUCTURING

48. The following table summarizes the areas of adjustments for this project to be reflected in the Restructuring Paper:

Table 4. Proposed Changes/Adjustment

Proposed Changes/Adjustments	By When	Task Team's Comments
1. Increase the ceiling for CDBC sub-projects from VND100 million (~US\$5,000) to VND200 million (~US\$10,000)	Immediately for 2013 planning	Task Team endorsed this proposed change.
2. Increase of IDA's financing for categories (3) for Goods, Works including vehicles and (5) for Incremental Operating Costs in Financing Agreement from 95% to 100%	Immediately	Task Team supported this proposal to help ease the pressure on counterpart funds
3. Increase the proportion of investment in rural roads from 30% of sub-component 1.1 to 50%, without increasing the overall component budget allocation.	Intermediate for 2013 planning	Task Team endorsed this proposed as road links played key roles in supporting further production and connection capacity
4. Move the O&M funds to Component 2 as sub-component 2.4 of O&M (accounting for 10% of the Component)	Immediately	Task Team endorsed this proposal as this will help increase the ownership of communes and local beneficiaries for the infrastructure.
5. Shift the focus of sub-component 3.4 from vocational training to capacity for CIGs	Immediately	Task Team supported this proposal to support CIGs further whilst vocational training would be addressed adequately by national programs
6. Allocation of the unallocated amount of US\$23.34 million to provinces based on the provincial performance and absorption capacity	Immediately	Task Team agreed with the performance based principles in allocation of the remaining unallocated funds.
7. Modifications of some intermediate indicators (as detailed in the attached draft Restructuring Paper)	Immediately	Task Team agreed with the proposed modifications

49. These areas of changes are to be reflected in the revised PIM, Financing Agreement and will be duly documented in the Restructuring Paper. The draft Restructuring Paper will be discussed and agreed before it is included in the package sent, via State Bank of Viet Nam, to the World Bank for official endorsement and processing.

F. SAFEGUARDS

Social Safeguards

Land Acquisition and Resettlement

50. The project is being implemented in accordance with the Bank's social safeguards policies. Affected people of the project's investments have been fully consulted and compensated.
51. Some of the subprojects under the 2012 plan have required land acquisition. A lack of counterpart budget to pay compensation has led to some subprojects not being implemented. The Mission were informed that the CPO has resolved this problem for the 2013 workplans and that required funding for compensatory payments has been secured.
52. The TAPI safeguards team was requested to provide the PPMUs with additional guidance regarding the procedures for safeguard implementation in the project. Accordingly TAPI has developed a Guidance Note which describes in details the steps and approach to social safeguards under the project that will be shared with all the provinces. It was agreed that the CPO/TAPI teams would closely work with the provinces during their planning process for 2013 to continue to ensure that safeguards instruments are followed.

Ethnic Minority and Gender aspects

53. The suggestion to drop Sub-component 2.3 (which supports women's social and economic development activities) by some of the provinces, given the possible overlapping of proposed activities with Sub-component 2.2 (which provides livelihood support to the poor through common interest groups), was not endorsed by the mission. The mission reiterated the importance of giving opportunities to women in the project area to participate in planning and implementing project activities. However, the mission agreed that activities could be similar between these two Sub-components, provided that sufficient consultation takes place during the planning process.

Environmental Safeguards

54. The project is adhering to the Bank's environmental safeguards policies. Subprojects have been prepared with Environmental Protection Commitments (EPC) in accordance with Bank policy and national laws. The monitoring program, especially with community participation, has also been conducted to ensure that: (a) mitigation measures would be followed; and (b) impacts would be adequately addressed in a timely manner. Project implementation has not caused any significant adverse impacts nor been subject to any grievances from stakeholders, including local affected persons.
55. During the mission, site visits were carried out to a range of infrastructure works under operation (e.g., roads, water supply systems, and irrigation canals) and livelihood models (e.g., chicken and pig raising) in two communes of Suoi Giang and Hanh Son in Van Chan district and two communes of Ban Cong and Ban Mu in Tram Tau district. The Mission observed that these infrastructure facilities contribute to improvement of the quality of life. However, further actions are needed in the following areas: (a) testing the quality of domestic water, (b) management and treatment of animal wastes, and (c) Integrated Pest Management (IPM) should be further promoted and practiced to reduce further the use and reliance on chemical fertilizers and pesticides. Local extension stations could be a good source of advice on this matter. Regarding the infrastructure subprojects proposed for 2013 under the district economic development

component, it was agreed that EPCs would be disclosed locally in communal people's committees before appraisal.

G. PROCUREMENT

56. The mission reviewed the project procurement implementation to date and found that despite a small number of problematic cases among the sub-projects, the overall procurement performance of the project is **Moderately Satisfactory**. The procurement actions previously agreed with the CPO as a result of the procurement capacity assessment have been largely implemented. The CPO is staffed with a Procurement Officer who is familiar with IDA's procurement and consultant selection procedures. The bidding process for civil works, most of which are through lump-sum contracts, has been generally effective, resulting in meaningful savings in contract awards compared to the pre-bid cost estimates. The following provides a detailed assessment of main aspects and the respective agreements.

57. **Procurement Planning:** A detailed procurement plan should be prepared in addition to the General Procurement Plan and should be regularly monitored and updated. Since procurement activities are conducted during dry seasons and then construction works have commenced during the rainy seasons, many contracts have needed extensions, driving up costs and creating inefficiency. To avoid this, more efforts should be made during procurement packaging and planning to minimize the risk of delay.

58. **Bidding Documents:** The bidding documents prepared by a number of DPMUs were not fully compliant with the Bank's Sample Bidding Documents. Specifically, the evaluation criteria were set lower than requirements, including, for instance, required validity of bids/quotations, average annual turnover, liquid asset/line credit, number of experienced year, etc. (This occurred in Tram Tau and Van Chan DPMUs in Yen Bai province, for instance). The mission noted that all PPMUs and DPMUs needed technical assistance from the CPO in preparation of bidding documents. Therefore, the CPO should conduct additional training courses for DPMUs on the Sample NCB and Shopping Bidding Documents for Works and Goods, especially with respect to the preparation of evaluation criteria.

59. **Bid evaluation and contract award.** In general, bid evaluation has been satisfactory. However, some recent cases with the bidding process in Hoa Binh PPMU, Van Chan and Tram Tau DPMUs have revealed a number of concerns which have implications not only for these PPMU and DPMUs but also for all other PPMUs and DPMUs, including the following:

(i) *Potential collusion of bidders:* An ex-post review of irregularities in the bidding process for Chong Rua Irrigation Upgrading Packages (Tram Tau district) undertaken during the MTR show the likelihood of bidder collusion.

(ii) *Inadequate bid evaluation.* It appears that information provided by bidders in their bids was inaccurate, misleading or possibly fraudulent. Future bid evaluations should be strengthened by, in particular, including due verification of the information provided in the bids, such as past experience in similar contracts.

(iii) *Lengthy bid evaluation and approval process.* A lengthy bid evaluation process can be an indication of corrupt practices and there are many cases where the lowest priced bidders refuse repeated requests from the CPO for extension of bid validity, which results in contract awards for higher priced bids with sometime very significant differences in bid prices. Since the prolonged bid evaluation and approval process has been one of the main causes of delay in project implementation, there is a need to streamlining this process in order to improve project implementation.

(iv) *Procurement capacity of PPMUs and DPMUs.* Capacities of these agencies are inadequate and the CPO should carry out training on the Bank's bid evaluation method and contract management with assistance from the Bank's procurement specialist. The Mission recommends that all PPMU and DPMU staff benefit from the training – not just procurement staff – since all are involved in bid evaluation and contract management.

H. FINANCIAL MANAGEMENT

60. The Financial Management of the project has improved in the last six months: the Interim Financial Reports were submitted on time and to a standard acceptable to the Bank. The Internal Audit activities has now started, the Independent External Auditor is now in place and is expected to perform the 2013 audit on time. Previous issues of ineligible expenditure have been resolved. However, the lack of counterpart funds, the delayed recruitment of the consultant for internal audit assignment, and the delayed budget allocation continue to be issues requiring the attention of project management.

For the purpose of the MTR, the followings are highlighted and agreed (refer to FM Annex for other FM issues and recommendations)

- *No changes to FM circular:* The FM circular serves as frame for Project FM for which the details have been set out in the Financial Management Manual (FMM). No changes were proposed to the FM circular.
- *Specific guidance to be added to the FMM:* Specific guidance for certain circumstances arising from project implementation shall be made (for example, how to resolve the cases of unspent funds for the block grants at the Commune Development Boards).
- *FM Staffing:* It has been observed that the performance of the project FM in Provinces and Districts without full time designated FM positions is not satisfactory. It is again emphasized and recommended that the key position of the project FM at provincial and district level should be full time.
- *Quality of Budgeting and Planning and Long Term budgeting:* In 2012, the budget allocation was delayed for more than 4 months. In 2013, it is highly likely that it would be delayed for more than a month⁴. The main reasons were: (i) the low quality of the budgeting and planning process, and (ii) the absence of a long term plan, which can serve as basis for the annual planning. The efforts shall be made to improve the quality and timeliness of the budget one of which is the availability of the longer term planning and budgeting (for example a plan to cover the remaining time of the project which can be updated on an annual basis).
- *Counterpart funds:* The lack of counterpart funds continues to be a significant issue in all provinces. According to the CPO, the allocated counterpart fund for 2013 only meets 50% of the demand. In Lai Chau and Son La, the lack of counterpart funds has been carried forward for several years.
- *Internal Audit effectiveness:* The Internal Audit function was not in place for the first half of the project mainly due to the delayed recruitment of the consultant for Internal Audit Technical Assistance.
- *Accounting Software:* The Accounting Software in a number of provinces and districts is not being fully utilized as a management tool. The fact that not all modules are used, transactions are not posted promptly, and financial reports have to be generated from a parallel system (MS Excel) suggests inefficient use of project resources.

⁴ As of 29 January 2013, the 2013 budget has been allocated for Lao Cai, Yen Bai and Hoa Binh only.

	CPO	Lao Cai	Yen Bai	Lai Chau	Dien Bien	Son La	Hoa Binh
	in project area such as implementation of Livelihood sub-projects, M&E in SEDP...etc.						
24. Refresher training for CFs and district consultants/staff on project management and livelihoods procedures	CPO conducted some refresher training classes for CFs in 4 provinces of Yen Bai, Lai Chau, Son La and Hoa Binh. It's expected to organize the remaining classes in 2 provinces in August, 2012.						
25. Award contract for the packages of TAPI and IPM	Done						
26. Purchase of project vehicles and deploy to PPMUs, and DPMUs.	MPI consolidated ministries and related sectors' comments and resubmitted its clarification to the prime						
27. Strengthen M&E and MIS	Upon finalization of M&E framework and MIS, CPO shall conduct coaching for M&E staff via working sessions in provinces. At the moment, M&E guideline is developing. MIS is upgrading and deploying for provinces. CRC shall be considered for piloting with infrastructural works and livelihood activities.						
28. Provision of assigned M&E computer to staff		Done	Done	Done	Done	Done	Not started
29. Photo documentation for every project activities and sub-projects.	Following finalization of M &E framework, CPO will develop specific guidelines for provinces	Required to do		Developed photo document of sub-projects	Done with some sub-projects	Done	Not started
30. Improvement of quality of procurement packages		Ongoing	Ongoing	Ongoing	Ongoing	Ongoing	Done
31. PPCs and MPI to allocate sufficient counterpart fund for the project implementation in 2012.		PPC has committed to provide sufficient fund for the project	Sufficient provided but delays sometimes	Already provided, PPMU is proposing for additional fund	PPC requested DPI to provide sufficient fund for 2012	Insufficient	Already provided, PPMU is proposing for additional fund
32. Fix issues with accounting software	Required BUCA consultants to conduct direct accounting software in the provinces.	Done	Software application in province and districts are smooth, but much difficulties in commune level.	Done, additional training has been conducted	Done	Has been implementing	Completed
33. Support to the newly appointed accountants (regular support and training)		Done	Done	Done		Implementing	Implementing

	CPO	Lao Cai	Yen Bai	Lai Chau	Dien Bien	Son La	Hoa Binh
34. 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).		Completed		Reviewing is underway			
35. In time submission of IFRs for Quarter 4, 2011	Timely done						
36. PPCs to confirm the responsible department/ agency at the provincial level to be responsible for internal audit at the provincial level		Done	Done	Done	Done	Done	Done
37. Adequate internal audit plan for the project Inspectorate and the provincial appointed Internal Audit	CPO is coordinating with Inspectorate for preparation	Not started	Not started	Not started	Not started	Not started	Not started
38. Award External Audit Contract	Biding is underway						

Annex 2: Annex for M&E

The Results Framework requires some modifications to better reflect the evolving nature of the project. Inclusion of the Extension Services objectives, as required by the Bank, into the results Framework has already occurred. The targets related to the Extension Services still however need to be agreed. Proposed Changes to the Results Framework is presented below. The majority of the proposed changes make the wording of the indicators better match the situation of the project. The targets related to the indicator: *Number of households involved in non-farm income generating activity increase by at least 15%* has been reduced to 12% at mid tem and 15% at end of project. The baseline for non-farm income is 10% and the revised targets are more in line with what is feasible to be achieved.

The only other significant proposed change is for the replacement of the indicator: *30% of households report improved opportunities and public support to start or improve businesses with: Over 60% of farmers in CIGs market their products beyond the farm gate to retailers, processors and other value chain members.* The proposed replacement indicator is much more closely aligned with the market led focus of the project. The baseline data shows that about 70% of beneficiary farmers sell their produce on farm, and the project objective is for them to “move along” the value chain.

Extension Services Targets

The following Extension Service Targets are proposed

Proposed Extension Services Targets

	Targets	
	Year 3	Year 5
• Targeted clients satisfied with agricultural services	30%	80%
• Targeted clients satisfied with agricultural services –male (number)	1,800	16,000
• Targeted clients satisfied with agricultural services – female (number)	5,100	44,000
• Targeted clients of agriculture services - male (number)	6,000	20,000
• Targeted clients of agriculture services female (number)	17,000	55,000

The baseline for satisfaction with extension services is 20%. The proposed targets are based on the following parameters:

- Over 2,000 CIGs formed by mid term
- About 7,500 CIGs formed by the end of the project (sub components 1.2, 2.2 and 2.3)
- Average member of CIGs is 15, with 40% men and 60% female for sub component 2.2, and 100% women for sub component 2.3.

The number of women targeted is much higher than the number of men because there are more women members of the sub component 2.2 CIGs, and the number of CIGs under sub component 2.3 is expected to be about 80% of the number formed in sub component 2.2.

Proposed Changes to the Results Framework

Intermediate Outcome Indicators		
Improvement of Access to Productive Infrastructure		
	Targets	
	Year 3	Year 5
Current		
At least 60% of households in the project areas report improvement in accessibility to basic infrastructure	10%	60%
Proposed		
At least 60% of households in the project areas report satisfaction of economic benefits due to productive infrastructure improvement in accessibility to basic infrastructure (road, irrigation, water supply and market)	10%	60%
Improvement of Productive and Institutional capacity for local Government and Communities		
Current		
At least 60% of villagers report satisfaction with public services delivery	30%	60%
Proposed		
At least 60% of project beneficiaries report satisfaction with public services delivery	30%	60%
Current		
At least 60% of women and ethnic minorities satisfied with public representation and service delivery	30%	60%
Proposed		
At least 60% of women and ethnic minorities satisfied with their level of participation in planning and decision making process	30%	60%
Current		
At least 60% of villages and communes have natural disaster mitigation plans and implement readiness exercises on an annual basis	30%	60%
Proposed		
At least 60% communes have undertaken natural disaster assessment before submitting proposals for project interventions	30%	60%
Improvement of Market Linkages and Business Innovations		
Current		
Number of households involved in non-farm income generating activity increase by at least 30%	10%	30%
Proposed		
Number of households involved in non-farm income generating activity increase by at least 15%	12%	15%
Current		
30% of households report improved opportunities and public support to start or improve businesses	20%	30%
Proposed		
Over 60% of farmers in CIGs market their products beyond the farm gate to retailers, processors and other value chain members.	30%	60%

Annex 3: Detailed findings and recommendations on FM-related issues.

Rotation of the Project FM Staff

The mission noted from the visit to Van Ban District (Lao Cai) a staff rotation policy of the Government where the communes' accountants were required to be rotated every three (3) years. The rotation may result in the discontinuance of the financial management of the project at the commune level. ***The mission recommends the districts Government to review the commune's accountant rotation policy to ensure that the impact (if any) is minimal.***

Delayed Budget allocation and insufficiency of counterpart fund.

Though the timeliness of budget allocation seemed to be improved (budget allocation for 2012 was delayed for more than 4 months), it is still an issue. Up to the date of the Mid Term Review (MTR) which is end of January 2013, the allocation for 2013 has not been made. The main reasons were: (i) the low quality of the budgeting and planning process, and (ii) the absence of a long term plan, which can serve as basis for the annual planning. It could be anticipated the allocation for this year would be again delayed for more than a month.

The mission also noted the significant issue of the lack of the counterpart funds which were huge (Son La: lack of more than VND 20 billion, Lai Chau: lack of more than VND 10 billion). These amounts now are being overdue to contractors and will be overdue for indefinite period until sufficient counterpart fund can be allocated.

The mission recommends that the timeliness and quality of the annual budgeting and planning be improved. The budget for 2013 would be allocated by 15 February 2013. The mission continues to advise the project to consider exploring the possibility of having the multi-year (say 3 year plan) to reduce the long and ineffective processes which have to be taken every year.

Under-utilization of accounting software as a project management tool.

Certain functions of the accounting software - the AMT reporting generation, contract management and consolidation functions - have not been used either because these functions did not operate properly or the accountants did not have confidence to use the software fearing that the software may be crash without being recovered. The mission also noted from the visits that the transactions were not always posted in timely manner into the accounting system. In Van Ban, only transactions up to Quarter 3, 2012 have been posted. Similarly, in Lao Cai, all bank transactions of the last 3 months have not been posted. The Accountant in Van Ban therefore had used a parallel application (Microsoft Excel) to generate the Quarter 3 financial report to the PPMU. The accounting software therefore has not been in full use as a reporting and management tool for the Project management.

The mission strongly encourages the use of the Accounting Software for the project financial management and for financial reporting in particular. The timeliness of posting transactions shall be assured where all accountants shall post the transactions into the system within a month. The practice of parallel system for financial reporting to ensure the integrity of data and the efficiency of the financial management shall be eliminated.

Funds Flow and Disbursement

In Lao Cai, the mission noted a good practice where advances were cleared on a monthly basis between communes and districts, and districts and provinces. The clearance procedures included

the reconciliations of the funds advanced, funds used, and funds balances which help to monitor the uses of the project's funds. In Son Thuy commune (Van Ban district) the mission noted the following which must be improved immediately.

- The advances to commune had not been cleared for 3 months; and
- The payments to contractors were delayed at the commune level at least for 3 months.

The mission recommends the following:

- *Advances to communes and districts shall be cleared on a monthly basis;*
- *Son Thuy Commune Development Board shall make payments for completed contracts to contractors immediately.*

In addition, the mission also noted that Lao Cai PPMU used the IDA funds to pay for certain representations (for example, lunches with consultants) which may not be relevant to the project and thus cannot be considered as eligible expenditures.

The mission therefore advised the Lao Cai PPMU to use the Counterpart fund to repay the IDA the relevant amount by 31 March 2013.

The mission also noted in Lao Cai PPMU that Withdrawal Applications have not been sent to the Bank for the 3 months from July to October 2012. As result, the balance of the Designated Account of Lao Cai PPMU sometimes was insufficient to make payments to contractors.

The mission recommends CPO and all PPMUs to follow the instruction of Disbursement Letter seriously on the monthly submission of Withdrawing Application.

The mission noted in Van Ban district that the 5% retention monies of the construction contract that have not been paid to contractor but still have been transferred out of the District's Project Account to another District's bank account for retention monies and have been claimed to the Bank as if they had been paid to contractors.

The mission advised that only the payments that were actually paid to contractors can be considered as the paid amounts and claimed from the Bank. The missions therefore advised that the entire retentions amount shall be released to the contractors upon their submission of the bank's guarantees for warranty.

Delayed start-up of Internal Audit activities

The mission is disappointed to note that the activities related to the procurement packages for Internal Audit Capacity Building for MPI Inspectorate has been slow. Up to date, the consultant for the internal audit assignment has not been recruited. Nevertheless, the Internal Audit activities have been started with MPI Inspectorate organizing the workshops of Internal Audit in Hoa Binh (in December 2012) and in Lao Cai (in coming February 2013). The actual Internal Audit will be implemented in CPO and Lao Cai in March 2013 following the "temporary" approach as agreed with CPO and the Bank.

The mission recommends that the procurement process for Internal Audit Package should be accelerated and the Consultant should be mobilized by 31 June 2013. In the interim, the internal audit activities should be implemented using the approach proposed by the Inspectorates and the reports of the Inspectorate should be sent to the Bank by 31 March 2013.

External Audit

The audited financial statements for the period ended 31 December 2011 which were posted to the project's website were submitted on 17 September 2012 which was significantly later than the deadline of 30 June 2012. The quality of the reports was acceptable. However, the action plan prepared by the PPMUs to address the audit issues was not specific. The revised action plan was sent to the Bank on 15 January 2013 and now is under review.

The mission recommends CPO to work closely with the auditor to ensure that the audit for the year ended 31 December 2012 will be carried out on time so that the audited financial statements can be submitted to the Bank by 30 June 2013.

Other issues: reporting on the implementation of the FM issues

The mission advised that the implementation of the FM issues shall be presented explicitly in all the project progress reports from CPO and all PPMUs so that the improvement of the project FM can be easily tracked.