

Project:	Second Northern Mountains Poverty Reduction Project – Additional Financing (NMPRP-2 AF)
Project Stage:	Implementation
Country:	Vietnam

Key project data

Project Number	IDA P148733	Closing Date	30-Jun-2018
Credit No.	CR 5596-VN		
Total Financing	US\$ 100M (current ~98.03M) (SDR 71M)	Total IDA Disbursements	US\$43.82M (44.76%)
Board Approval Date	27-Feb-2015	Mission Start Date	04-June-2017
Effectiveness date	07-Oct-2015	Mission End Date	19-June-2017

A. Introduction and Acknowledgements

1. A World Bank mission¹ conducted an Implementation Support Mission to the NMPRP-2 during June 4 - 19, 2017. The mission visited Lac Son and Yen Thuy districts in Hoa Binh and Mai Son and Van Ho districts in Son La province. In each visited district, the mission visited villages in two communes. The mission expresses its appreciation and thanks for the hospitality and assistance received from the Central Project Coordination Office (CPO), project staff and leaders in the visited sites. This Aide Memoire summarizes the issues discussed and agreement reached during the mission, which are subject to confirmation by World Bank management.

2. The objectives of the mission are to (i) review the implementation progress and quality of sub-component 1.1, including social and environmental safeguards compliance; (ii) review the operation of established farmer groups-enterprises partnerships under sub-component 1.2 and discuss the legal formalization of such partnership for sustainable results; (iii) review the overall progress of the Commune Development Budget Component (CDBC); (iv) discuss the fiduciary issues; (v) review the progress of SEDP institutionalization and discuss how the process can be more engaging and showing the ownership of the PPCs; and (vi) gauging good practices and lesson learnt in preparation for final impact evaluation.

3. **Project Development Objective (PDO)** is to enhance the living standards of the Project Beneficiaries by improving: (i) their access to productive infrastructure; (ii) the productive and institutional capacity of local governments and communities; (iii) commune integrated investment planning; and (iv) market linkages and business innovations.

B. Implementation Status

4. *Overall Implementation Progress.* To date, the project has achieved the following results: 99.4% of infrastructure investments under sub-component 1.1 (169/170 planned packages) and 83.2% of Commune Development Budget Component (CDBC) sub-projects (5,856/7,039 planned ones) have been awarded, in which 79% packages under sub-component 1.1 have been completed and 52.5% CDBC sub-projects have been completed. Agribusiness Productive Partnerships have also made solid progress and 30 partnership proposals have been

¹ The mission comprised of Lan Thi Thu Nguyen (Task Team Leader), Son Thanh Vo (Senior Rural Development Specialist), Cung Van Pham (Senior Financial Management Specialist), Thang Toan Le (Procurement Specialist), Quang Nhat Nguyen (Social Safeguard Consultant), Khang Van Pham (Environmental Safeguard Consultant), Hoa Phuong Kieu (Program Assistant). Madhu Raghunath (Program Leader, Sustainable Development) joined the field visit to Son La province. The mission was joined in the field by the Central Project Office (CPO) team led by Ms. Nguyen Thi Minh Nghia, Project Deputy Director and the TAPI team.

endorsed and rolled out for implementation. There have been 759 training courses organized for 23,326 trainees, in which 68% is for CIG training classes.

5. Progress with livelihoods development under sub components 2.2 and 2.3 is satisfactory but more emphasis must be placed upon CIG sustainability over the final year of the Project. For livelihood groups and their sub-projects, 9,470 CIGs have been profiled and monitored. Among them, 20.6% belong to Category 1 (most vulnerable group), 71.5% are in Category 2, and 7.9% are under Category 3 (better commercial performing groups). So far, 37.5% of the monitored CIGs have maintained their activities over more than 3 production cycles; 45% of the monitored CIGs have expanded their production scale, as compared to the first production cycle that the project supported with grants, and; 65% of CIGs are assessed as having satisfactory animal waste collection pits. This is a strong indication that these CIGs have been able to establish the momentum for further collective actions within, and among themselves, for sustainable livelihood activities.

6. *Disbursement Progress.* The Project has disbursed approximately US\$43.82 million to date (or 44.76% of the AF amount denominated in USD - which is about US\$98.03 million as of June 15, 2017 due to changes in SDR/USD exchange rate). There has been an impressive disbursement amount of US\$17.4 million achieved in the first half of 2017.

C. Key issues and actions

7. *Project fund allocation.* Changes in ODA management by the central government limiting the ODA allocation to projects have negatively affected the project's implementation since 2016. While IDA allocations to some of the project provinces in 2017 improved as compared to the 2016 (eg. Yen Bai and Son La), the allocations to some other provinces were lower (eg. Hoa Binh and Lai Chau). The overall 2017 budget allocation for the project was only US\$26.88 million as compared to the approved annual plan of US\$42.59 million (around 63% of the 2017 budget allocation). It was further noted that if the project's planning and implementation were not constrained by the IDA budget allocation, then the demand for funding by the provinces would be even be higher in 2017. The real funding gap for 2017 is around US\$23.2 million (VND520 billion), or in the other words the IDA allocation meets only 53% of the real demand. This has been recognized as a national issue that affects all ODA-funded projects. **The mission urged the CPO and PPMUs to realistically calculate and project the annual disbursement targets for the next 12 months. Based on such calculations, there might be justification for the re-allocation of the remaining project funds between provinces so that the funds can be spent effectively by June 30, 2018.**

8. *Counterpart funding.* The issue of counterpart funding in Dien Bien PPMU, which was raised during the last mission (November 2016), still remains unresolved. By May 2017 only VND5.47 billion of the shortfall of VND13.46 billion for the 2010-2015 period, had been arranged. The remaining shortfall of VND7.99 billion has not been met. **The mission strongly requested the Dien Bien PPMU to work out the solution with the PPC and resolve this issue immediately.**

9. *Sustainability beyond the project.* The project is approaching the June 30, 2018 closing date and the importance of sustainability beyond the project was emphasized by the mission. The approach to ensure that the project results have long-term impacts was also discussed. For the invested infrastructure, the O&M mechanism should be in place with well-functioning O&M groups that have adequate funds. All infrastructure should be handed over to the communities for management. Funding for O&M should be an item included in the local recurrent budget. Some water fees can be collected from water users for small repairs or regular maintenance of the project invested domestic community water schemes. For livelihoods support, linkage with markets, and for CIGs partnering with agribusinesses these should all be further enhanced during the remaining time of the project to ensure their sustainability after the project. The project should further support the advanced and better performing CIGs to become cooperatives or collaborative groups and achieve higher levels of commercial performance. For planning

approach, the commune Socio-Economic Development Planning (SEDP) has proved to be a good tool for participatory planning, especially in the context of the Gov.'s recent move to medium term planning. It is necessary for the project to show a stronger commitment for institutionalization and implementation of participatory commune SEDP in the context that the current NTPs will make SEDP use mandatory.

10. *Preparation for impact evaluation.* A lot of positive lessons learnt have been identified during the project's implementation, as well as some aspects that have had less than satisfactory results. Many good practices and approaches have already been applied in the Government of Viet Nam's (GoV) programs (P135, NTPs or provincial owned programs), including the SEDP at the commune level, community procurement, and CIG based livelihoods support, among others. These lessons, both positive and negative, should be well documented and shared. **The mission recommended to start planning for the end of project survey and evaluation.**

11. The following table summarizes the key agreed actions.

Action	By whom	By when
1. Budget allocation for 2017 shall be sufficient for the prioritized activities. Necessary justification for the re-allocation of the remaining project funds to be spent effectively by end of project (June 30, 2018).	PPC, MPI, MOF, CPO, PPMUs	Immediately and regularly
2. Finalization of the review report of Partnerships under sub-component 1.2	FAO consultant, WB, CPO and PPMUs	July 14, 2017
3. Review of infrastructure investments with corrective measures and O&M plan.	CPO and PPMUs	August 31, 2017
4. Update on transitioning mature and advanced CIGs into "Collaborative Groups" or "Cooperatives" and proposed additional support.	CPO, PPMUs, DPMUs	July 31, 2017
5. Son La's institutionalization of SEDP.	Son La PPMU	August 31, 2017
6. Report on the temporary suspension bridge in Suoi Bang Commune plan for strengthening or replacement.	Son La PPMU, Van Ho DPMU and Suoi Bang CDB	July 31, 2017
7. Documentation for capturing and distilling the lessons learnt under the project	CPO and PPMUs	December, 2017
8. Preparation work and plan for the end of project survey and evaluation	CPO, PPMUs and WB	August 31, 2017

D. Detailed technical issues and recommendations

Infrastructure quality and arrangement for O&M

12. The mission assessed the quality of the inspected infrastructure as satisfactory. The infrastructure sub projects were well constructed and maintained. Some design issues, however, need to be addressed. For instance, the mission observed that some culverts in the rural roads were not connected to any drainage system which could lead to trapping the water and jeopardizing the longevity of the road sections. DPMUs and PPMUs need to review the design of the culverts, and technical designs, to make relevant adjustments for the on-going design for the soon to be procured sub-projects. **The mission recommended PPMUs/DPMUs to review thoroughly all infrastructure investments to make a full inventory of the status of these works. Corrective measures are to be put in place in cases of damage, including requests to the contractors to repair any damaged works before the guarantee period expires. This inventory needs to be completed immediately and a report be furnished to the CPO and the Bank by August 31, 2017.**

13. Operations and maintenance: The project has set up a dedicated team for operations and maintenance using the funds from the Credit. O&M funds are being used for operations, small repairs and regular maintenance, however, the sustainability of the funds for long-term rehabilitation remains t a concern. The mission urged the authorities to allocate O&M funds for the overall sustainability of the investments from within their local budgets, or within village agreements, given the region’s vulnerability to natural disasters like floods and extremes of climate over the summer and winter seasons.

14. Critical role of good quality O&M at the commune level. The mission observed that the O&M groups and arrangements at the village and commune levels are functioning well. Beneficiaries met by the mission expressed strong commitment to keeping the civil works in their communities in good condition. There were, however, certain issues to address:

- i) It is hard for communities to control the problem of overweight lorries/trucks which could damage the rural road, even with the weight limit signs placed at the entry of the roads. Once the concrete road is broken due to the overweight pressure, the road will quickly deteriorate.
- ii) O&M of the suspension bridges in one visited commune in Son La needs to be checked urgently. The mission observed that one suspension bridge was affected by some recent road surface improvements. Another bridge which was temporarily set up after the project invested bridge had been washed away by severe flash flood the year before. Suspension bridges belong to a special type of infrastructure that the O&M team at the community level may not have relevant knowledge and skills for regular maintenance. Technical departments at provincial and district levels should include the suspension bridges into their own O&M lists and be responsible for them.

15. **Recommendations:**

- i) Communications activities should support the O&M teams/units by involving community beneficiaries in understanding the potential for damage associated with overweight trucks on the rural roads, especially during the harvesting seasons.
- ii) The temporary suspension bridge in Suoi Bang Commune should be checked and a report provided to CPO and Bank team by July 30, 2017, together with the plan for strengthening or replacement. All project suspension bridges should be technically examined by relevant district technical sections at least every 3 months.

Livelihoods sub-projects

16. **Good progress with livelihood support and further attention to sustainability.** The mission was pleased to note that all visited livelihood sub-projects are functioning well through several production cycles. Livelihood sub-projects have created extra income sources for the CIG member households. Most cow development sub-projects have managed to increase the herd size initially from two household members sharing one cow to each household member now having one or two cows after 2-3 years. It was observed that a cow is a valuable asset for the households as it increases their resilience. Several goat CIGs have managed to triple the herd size after 1.5 years, resulting in increasing the asset value for the CIGs members significantly. Some areas for further attention and improvements are as following:

- i) Animal waste should be better managed. In many visited CIGs, the area for composting of wastes was either temporarily made, or was improperly installed. Poor waste management increases the risks of unhygienic conditions causing diseases for both livestock and the farmer’s household.
- ii) Better recording for types of diseases, type of animal health products used, changes to the herd size, etc., so that farmers can use their records for future reference and also analysis of any problems.

- iii) CIGs members relied on the local available veterinary services at the commune level. However, in some cases, the commune veterinarians could not deal with some diseases which required additional support from district veterinary station. Proper quarantine procedures should be followed at the commune level to prevent the spreading of new type of diseases to the local herds when new animals are bought. New livestock must be isolated for at least two weeks.

17. **Recommendations:**

- i) Commune Facilitators (CFs) together with technical support from Commune Extension Workers, and Extension Stations to guide CIGs households in applying better composting methods, and areas for animal waste management. This should be done on regular basis.
- ii) The practice of recording data in a note book should be promoted and the CIGs members reminded regularly. Good recording is even more important for CIGs that enter into contracts with agri-business enterprises to support the treatability.
- iii) Together with the CFs, CIG leaders should monitor the CIGs situation regularly to be able to report the status of animal diseases to district veterinary services quickly once the commune vet has difficulties in controlling the diseases. This should be done on regular basis.

Strong partnerships for market linkage

18. The mission was pleased to note that the visited market linkage partnerships for sugarcane and honey have worked very well with production continuing for 3 to 4 cycles. In one commune in Lac Son District, Hoa Binh, the project supported the first 10 ha of sugar cane plantation under the partnership with Hoa Binh Sugar Cane Company. The success of the first cycle prompted the company to expand the partnership areas to 42 ha in 2017. The company plans to further increase the total area of sugarcane production in the commune to 100 ha over the next 3 years. Thus the impact from the project's support in the first 10 ha has been significantly increased. The partnership, facilitated by the project in the first place, is now well developed between the local farmers and the company.

19. One of the most important indicators showing the sustainability of project support on livelihood is the maturity of the CIGs when they advance to become "co-operatives" or "collaborative groups". To date 6 co-operatives/collaborative groups have been established. It is intended that 60 other advanced CIGs will be further supported to become co-operatives/collaborative groups. **The mission recommended to carefully review each potential CIGs to evaluate their readiness and specific additional support needed (eg. high end markets, product labels, business registration....) for them to become co-operatives/collaborative groups.**

20. A thorough review which looked at a large number of established partnerships was carried out during the April-June, 2017 with the support from FAO. A draft report has been circulated for review and comments and is expected to be finalized by the end of July.

Other issues

21. **Social Economic Development Planning (SEDP)**. This is one of the "pillars" for the AF phase. Commune SEDP carries a strong legacy of NMPRP-2 and the AF has placed a high stake upon the successful piloting of the SEDP institutionalization process. The mission noted that the level of readiness and application varied among the provinces. It is necessary for the project to show stronger commitment for institutionalization and implementation of participatory SEDP in the context that the current NTPs will make SEDP use mandatory. Up to date Hoa Binh and Lao Cai provinces were able to formalize the SEDP in their provinces. Son La has submitted its institutionalization proposal and plan to PPC for approval. Yen Bai and Dien Bien have also well been progressing in SEDP. Lai Chau is very slow.

22. Monitoring and Evaluation: The project is expected to close in June 2018. At the project level, there is a monitoring and evaluation information system for which information is being collected for the 7 key indicators and other 20 performance indicators over quarterly frequency and 2 other intermediate indicators being reflected annually. While the indicators provide a good basis of information to measure the results of the project, the project will benefit from a more systematic approach of capturing the lessons that are emerging from the CIGs and PPs, including the gender based targeting at the commune level. The lessons from the project can help assess the impact of interventions that have been financed in the project. For example, in Son La Province, the local communes in Van Ho commune have benefited from the agriculture extension services to improve the agricultural practice related to livestock including disease prevention and safe animal handling practices. Similarly, with respect to the PPs, the sustainability of business models at the commune level is going to be key that will require significant support from agricultural universities and other stakeholders. The project also offers lessons that can inform the implementation of the NTP-NRD project and the ongoing CHPRP project. In the next 6 months, efforts will be made to commence capturing and distilling the lessons under the project.

Procurement Management

23. Procurement for activities under sub-component 1.1 have been progressing very impressively with 169 out of 170 packages procured (accounting for 99.5%). There are also 130 out of 169 contracts that have been completed (accounting for 79%). Slowness of contract management is occurring in disbursement due to slow and insufficient budget allocation. Procurement progress under Component 2 is also implemented as planned. Therefore, procurement performance is rated as “Satisfactory”.

24. The Bank conducted procurement post review (PPR) for all contracts under sub-component 1.1 for the DPMUs (except Van Yen and Luc Yen which have been post reviewed during the November 2016 mission) in March 2017. The PPR shows that some deficiencies exist in RFQs, QERs as well as procurement processes such as: (i) environmental mitigation plan is not included in RFQs and signed contracts; (ii) evaluating the financial statement, as well as other similar projects bids, is not completed diligently, thus some financial figures have not been verified correctly; (iii) liquid assets / line credit have not been evaluated correctly; (iv) insurance for works is not procured properly etc. Detailed findings and recommendations will be included in a report and will be dispatched to the Project (CPO) later.

Financial Management

25. The mission focused on the issues of budget allocation for medium term and annual allocation for Hoa Binh under this project.

26. The total demand for disbursement in Hoa Binh for the entire period of the AF is VND380 billion (US\$ 16.9 mil). However, the total amount included in the Medium Term Public Investment Plan 2016- 2020 (MTPIP) which is the basis for the annual allocation, was only VND 250billion (USD11.1 million). If there is no increase of the amount included in the MTPIP for the project, it is highly likely that the project amount allocated for Hoa Binh would be fully utilized.

27. Given the constraints of the medium term plan, in Hoa Binh, the allocation for 2017 was made only for: (i) payments up to 90% of the completed construction works; and (ii) the remaining will be used for the new construction. This has resulted in long outstanding arrears (Yen Thuy District: VND 1.2 billion and the entire Hoa Binh; VND 3.2 billion). It also leads to the non-compliance with the contracted payment terms. There is further risk of delayed payments by the end of the Project (30 June 2018) if sufficient allocation of IDA funds is not made to cover those arrears. Thus the counterpart funds would have to be used for the payments. **Therefore, the PPMU is recommended to ensure that allocation is made for settlement of these arrears.**

28. The total demand for the AF is VND2,124 billion, the total amount included in the MTPIP is VND1,660 billion, leaving the gap of VND464 billion. If no adjusted increase is made to the MTPIP, then it is projected that at the end of the project, the unutilized amount of the IDA loan would be VND464 billion (or US\$20.7 million).

29. The total allocated amount in the project's 2016 and 2017 annual plan is VND1,291 billion. Thus to fully utilize the project amount there requires to be another VND833 billion to be additionally allocated for project disbursement in the remaining 12 months of the Project (to 30 June 2018). For the VND833 billion to be effectively and efficiently utilized it would require that: (i) additional allocation be sufficiently and timely made to the project, and; (ii) the activities of the project have to be carried out in a very efficient manner.

30. The mission requested that the CPO and PPMUs work with the PPCs, MPI and MOF to carry out necessary procedures to get the additional amount of the MTPIP and ensure that those additional amount would be fully allocated for the FY 2018 for the project activities.

Social and Environment Safeguard

31. **Social:** According to the Third Monitoring Report of the monitoring consultant, and other documents accessed during the Mission, the compensation for project affected households associated with the 2016 Component 1.1 construction have been completed. All affected households were only marginally affected and their livelihoods were not affected by the land acquisition. Provincial PPMUs are preparing the Resettlement Action Plan for the construction of Component 1.1 sub projects which are scheduled to be implemented in 2017.

32. However, according to the above mentioned report, some information disclosure activities to affected HHs like the disclosure of compensation policies and assistance entitlements to affected HHs were not done sufficiently during the process of RAP preparation and resettlement implementation. The Mission requested that the PPMUs, using their past experiences, should perform the information disclosure and consultation process sufficiently and in accordance with the project's guidelines, especially during the RAP preparation process for components with resettlement, as stated in the 2017 plan.

33. For the communes of Son La province that the mission has visited, most of the communication activities aimed to assist the ethnic minorities were satisfactorily implemented, meeting all the project's requirements.

34. **Environment:** As per the Third Environmental Monitoring report submitted by CPO, the project has been implemented in accordance with the Bank safeguard policy requirements and the GoV's environmental regulations. Due to the small scale and simplicity of proposed subprojects, Environmental Codes of Practice (ECOPs) have been prepared for all proposed subprojects including infrastructure and livelihood supported by the project. These ECOPs have been incorporated within the bidding documents and contracts for contractor's compliance purpose, and monitored by CDB, local community monitoring board, DPMU, and PPMU. Monitoring results showed that overall contractors complied with ECOPs and thus there were no significant environmental impacts and complaints from local people against environmental impacts associated with project's activities. During the mission, the Bank task team conducted field visits to some infrastructure and livelihood subprojects in Lac Son and Yen Thuy districts in Hoa Binh province. During these visits the team discussed with CPO, PPMU and relevant DPMUs and CDBs about requirements for siting and environmental hygiene and sanitation of livestock cages, clean-up of upgraded roads, auxiliary works for community houses, and tree maintenance. All stakeholders agreed with the Bank's suggestions and were committed to addressing recommendations.