

## VIETNAM

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

#### 4<sup>th</sup> Supervision Mission July 23 – August 4, and August 26-29, 2012 Aide Memoire

#### A. PROJECT DATA

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

#### B. INTRODUCTION

1. A World Bank mission<sup>1</sup> visited Dien Bien and Lai Chau provinces during July 23 – August 4, 2012 for the Fourth Supervision Mission of the Second Northern Mountains Poverty Reduction Project (NMPP-2). In each province, the mission visited two districts and two communes. A wrap-up meeting was held on August 4, 2012 in Lai Chau Town involving government leaders and project staff from all the participating provinces. The supervision team subsequently visited Hoa Binh and Son La during August 26-29 for a quick review of project implementation there. This included a review of early results from a medical plants farmer-business partnership supported by the project in Hoa Binh. The objective of the mission was to review the overall project implementation since the 3rd Supervision mission of October 2011. The mission reviewed: (i) progress and quality of support for district infrastructure , including social and environmental safeguard compliance; (ii) the progress and appropriateness of livelihood support activities; (iii) the overall implementation of the Commune Development Budget Component (CDBC); and (iv) various management dimensions, including the M&E and MIS systems and the project coordinating performance of the CPO. The mission reviewed the project progress against the agreed actions from the 3rd Supervision Mission in October 2011. The findings of this mission have helped to set the foundation and preparation for the Mid-term review, planned to take place at the end of this year.

2. 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 which they extended to the mission. This Aide Memoire (AM) summarizes key findings, recommendations and agreed upon actions from the mission. The final mission AM will be formally transmitted to Government upon World Bank management clearance.

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<sup>1</sup> The mission comprises of Messrs. Vo Thanh **Son** (TTL), Nguyen Thi Thu **Lan** (Co-TTL), **Steven** M. Jaffee (Lead Rural Development Specialist), Le Toan **Thang** (Procurement Specialist), Pham Van **Cung** (Senior Financial Management Specialist), Pham Van **Khang** (Environment Specialist), Nguyen Hoai **An** (Transport Specialist), Nguyen Huy **Dzung** (DRM Specialist and Water-related Engineer), and Do Thi **Tam** (Team Assistant).

## C. OVERVIEW

3. **Continued Relevance of the PDO.** The objective of the NMPRP-2 Project 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. The mission's findings confirm the continued relevance of the project objectives. For example, very few of the focal communes under the project currently meet more than two or three of the nineteen criteria for rural development established under the government's New Rural Areas Development initiative. And, the recent GSO/WB adjusted poverty line analysis suggests that the number of households now eligible for assistance under the project in the focal districts has increased by some 30 percent.<sup>2</sup>

4. **Achievement of the PDO:** The project is on track to achieve its development objective, with considerable recent momentum related to local level infrastructure, the training of project staff and local cadres, and the formation of common interest groups for livelihood activities. An earlier disbursement lag has been addressed and the project will likely match or exceed its initial disbursement target for the end of 2012 as the completion of many infrastructure activities is expected to take place during the upcoming dry season. The suitability, impacts, and sustainability of some livelihood initiatives are being reconsidered by the project team, with some adjustment in the approaches and areas of emphasis expected to occur in 2013. Table 1 provides a summary of progress related to PDO indicators. Additional commentary related to these indicators is provided below.

**Table 1: Intermediate Indicators Progress Report as of June 30, 2012**

Intermediate Outcomes	Outputs Indicators	Current Progress (Accumulative)
<b>Improvement of access to productive infrastructure</b>	<ul style="list-style-type: none"> <li>Annual investment and subproject completion rate</li> <li>Areas of newly irrigated lands</li> <li>Percent of communes with operation and maintenance teams and plans</li> </ul>	58% (with 1063 sub-projects completed accumulatively) 1929.5 ha 16%
<b>Improvement of productive and institutional capacity for local government and communities</b>	<ul style="list-style-type: none"> <li>Number of training courses organized for commune/village staff and for communities;</li> <li>Number of people attend these training courses</li> <li>Number of common interest groups (CIGs) established</li> <li>Number of female participation in these CIGs</li> <li>Number of trained youth (not only vocational training)</li> </ul>	337 13,649 459 2573 3825
<b>Improvement of market linkages and business innovations</b>	<ul style="list-style-type: none"> <li>Number of business proposals received by the Commune Development Boards (CDBs)</li> <li>Number of farmer group-business partnerships established</li> </ul>	29 2

Source: Project MIS 2012; CPO Progress Report for Quarter 2 of 2012.

5. As of August 15, 2012, the project's disbursed nearly 20% (or US\$27 million) of the IDA . This pattern is in line with the original projections which estimated that some 23.3% of the total would be disbursed by the end of 2012. This will likely be achieved. This disbursement pattern has occurred despite some delays experienced earlier. Provincial work plans for 2012 were generally not approved until April or May due to issues with the quality of some plans and a lengthy review process. Lessons from this experience have been discussed so that such a delay is not repeated in 2013. Despite the delay, it is expected that some 85% of the activities planned for 2012 will, in fact, be completed this year.

6. Project implementation performance has varied among the participating provinces. Implementation and disbursements have advanced furthest in Yen Bai and slowest in Hoa Binh and Dien Bien. The CPO and

<sup>2</sup> 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. The number of poor households in project areas at project preparation is 67,362, whilst the current number of poor households has increased to 87,869.

the Technical Assistance for Project Implementation (TAPI) team have been providing additional support to the latter two provinces. These two ‘lagging’ provinces have, however, been the locales for project supported partnership (or contract farming) arrangements between local companies and farmer groups. Several other proposals for such partnerships are being considered and some cross-learning has begun among project implementers to learn from the initial experiences. The scope for such partnerships is limited in many of the more remote districts given the lack of agro-processing or better organized private companies operating in such areas.

7. The project has, or is in the process of, implementing almost all recommendations from the last supervision mission. A couple of recommendations are to be completed in the next 4 months. The project has been late in submitting financial management and audit reports as required. PPMUs are requested to address this issue as soon as possible and pay more attention to this reporting requirement in the future to avoid regulatory acts being triggered.

8. During the mission and at the wrap-up meeting which was attended by provincial PPC leaders, CPO and provinces proposed that the project closing date be extended with additional financing to sustain the effective livelihoods and market-led supports initiated under the project. The request stems from a number of rationales. First, during the first two years of the project considerable attention was 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 will require some additional project implementation time. This is especially so in Dien Bien and Lai Chau which did not participate in NMPRP1. The second rationale relates to the work on livelihoods. Project staff and local cadres are just beginning to learn what works and what doesn’t and for whom and will now be recasting parts of the livelihood support work to take account of the diversity of local (institutional and agro-climatic) conditions and the prevailing market linkage opportunities. Having more time will better ensure the quality of implementation. The third rationale is for additional financing which includes the impact of high inflation over the past two years on the underlying costs for materials, agricultural inputs, and the recognized need to improve the design of many infrastructure sub-projects in order to ensure their resilience against harsh weather, flooding and other risks.

9. The mission acknowledged this sensible request and confirmed that consultation with the Bank’s management would be sought basing on the thorough assessment of project implementation at the upcoming Mid-term Review.

## **D. REVIEW BY COMPONENT**

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

#### ***Subcomponent 1.1: Economic development investments***

10. As of the end of August, contract awarding for civil work packages for 2012 was at 55% (122 sub-projects out of 272 sub-projects planned for 2012). With the dry season conditions, construction work was to begin in early September.

#### **Key issues and actions**

11. The sub-projects visited during the mission showed average quality and will require improvements in design, supervision and operations and maintenance (O&M). Due to unfavorable weather conditions during the mission, only a few rural roads, rural bridges and irrigation schemes were visited. A common issue identified was that of poor or absent O&M arrangements. This needs to be addressed on a priority basis. The mission observed wide variations in the types of local irrigation schemes – some seemingly benefitting few people and having high cost; others involving more beneficiaries and much lower unit costs. As many small irrigation schemes are being proposed, the TAPI team has embarked on a review of a sample of supported schemes to highlight issues regarding design, costs and (the distribution of) benefits.

12. The mission’s observations reconfirmed findings from an earlier TAPI rapid review of public works in 4 project provinces, which emphasized common problems of poor technical reporting, limited

documentation of technical alternatives, the absence of economic analysis, and limited attention to O&M arrangements.

### **Recommendations**

13. The mission recommended the following actions to address the issues raised:
- a) *CPO and TAPI to develop specific notes to guide PPMUs following the identified issues for quality improvement. Low quality sub-projects that fail to follow the instructions are to be recommended for refunding.*
  - b) *Every completed sub-project must have an O&M plan developed and carried out. This should be linked to the O&M work supported under this project.*

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

#### **Observations and Issues**

14. Under this sub-component the project is seeking to strengthen market linkages via support for farmer group – agro-enterprise partnerships and 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 more 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, involving a few thousand households.

15. Two such partnerships are now under implementation. One involves more than 800 households growing a medical herb under contract for a company which dries and extracts the medical substance to make malaria prevention pills and export to Africa. This scheme has now spread among farmers in four districts. The first crop (harvested in August, 2012) was evidently successful, with farmers obtaining a much higher income than for their traditional cash crop (maize). A second supported partnership relates to ginger production in Dien Bien. Some 273 farmer households were involved in the first plantings whose harvest is expected in October 2012. The firm involved in this partnership dries and exports the ginger to Japan. The company would like to significantly expand the scope of the partnership, both to take on additional farmers and perhaps supply other crops.

16. The innovation grants activity was supposed to involve individuals and organizations with new ideas for rural upland livelihood and poverty reduction. It has not yet started up due to unavailability of mechanism and crucial endorsement from MPI and Ministry of Finance (MoF). At the same time, the design for this sub-component needs reconsideration further to ensure its applicability to the project contexts. The CPO and TAPI will soon be preparing guidance for the implementation of this grants scheme.

### **Recommendations**

- a) *That CPO, together with TAPI to review and document the lesson learned thus far from the two partnerships in Hoa Binh and Dien Bien to inform the similar work in other provinces. Provinces are encouraged to do cross learning on partnership promotion.*
- b) *That consideration be given to an alternative modality for farmer-agro-enterprise partnerships support. Rather than having this work managed by PPMUs—whose attention is rightly focused on monitoring and supporting many infrastructure sub-projects and livelihood initiatives—the 8 to 10 expected partnership initiatives can be supported directly by the CPO, perhaps with technical support and activity oversight provided by a contracted entity, such as an NGO with experience in supporting farmer-agribusiness linkages.*
- c) *CPO and TAPI to find ways to start the pilot of Innovation Grants as soon as possible.*

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

#### **Key issues and actions**

17. The number of sub-projects proposed under this component has increased dramatically compared to those of the first 18 month implementation plan. For 2012, the provinces proposed some 3,728 sub-projects for CDBC. This was about five times the number of sub-projects implemented during the first 18 months of the project. Although the increase indicates larger coverage and considerable progress in local consultative processes, the surge in activity also raises concerns for the workload for project staff and for the quality of implementation. There is concern that the capacities of both the Community Facilitators (CFs) and the Commune Development Boards will be stretched if not overwhelmed by the heightened workload. Very strong support will be needed from higher levels to ensure quality implementation. This is especially important in areas which have experienced a turnover in local staff and CFs.

18. The mission noted the request by some provinces to increase the number of CFs to cover the workload, especially from those communes that are sharing one CF. It was agreed that these provinces submit to CPO a plan for additional CF recruitment and related necessary working facilities for CPO incorporation and approval.

19. Due to the late approval of some provincial work-plans for 2012, by the middle of the year, only 2.5% of the planned sub-projects had been completed; 12% had contracts awarded; 23% had been appraised and 50% had prepared detailed proposals for appraisal. The situation has since improved such that a considerable amount of the planned construction work can now take place during the dry season. At the end of August, 2419 out of 3728 (about 65%) have been appraised and approved. Contracts for 1690 sub-projects (45%) have been awarded. So far, 524 sub-projects (14%) have been completed. The sustainability of CIGs and livelihood support is still an issue to attend to. Many proposed sub-projects involve one-off support or free inputs, neither of which is likely to result in sustainable changes in attitudes, behavior, technologies or institutional arrangements. Other examples of livelihood sub-projects were closer to the original objective of helping to change the level and type of interactions of beneficiary groups with product markets. In some locations it is evident that one form of needed livelihood support relates simply to preserving household assets. In two communes visited, extremely harsh weather conditions last winter had resulted in cattle/buffalo deaths of between ten and fifteen percent. Soil erosion and/or landslides had affected other households.

20. Based upon the observations made, the mission began to work with 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.

21. Over the two years of project implementation, depreciation and inflation have affected the project work immensely. The ceiling for CDBC sub-project grants (US\$5,000) has proven to be inadequate for many construction activities. Proposals from PPMUs and CPO suggested that the ceiling should be increased to US\$10,000 per sub-project to be effective. The mission endorsed this proposal but noted that not all sub-projects need to be granted that full amount so it should not become the norm. Livelihood sub-projects are encouraged to stay with the old ceiling to ensure wide benefit coverage.

22. The mission noted that the CFs are working very hard under difficult conditions (inaccessible villages, heavy workload at communes, large geographical areas to cover, etc). However, some CFs reported insufficient fuel allowances and late payment of salary. The mission noted that the recommendation from the last mission on provision of technical extension books/manuals for CFs to acquire additional knowledge for their use at village consultation has not been followed up in visited districts.

## **Recommendations**

- a) *CIGs should be classified into different categories for effective support and project support could be for two cycles or two years depending which comes first.*

- b) *Sub-projects on supporting mitigation of risks on livelihoods should be given more attention.*
- c) *It is important to review the procedures for CDBC again to adjust and/or simplify in order to aid communes as investment owners more effectively.*
- d) *The ceiling for CDBC sub-projects should be increased to the new level of US\$10,000 and this information should be used in the consultations and planning for the year 2013.*
- e) *CFs should be supported further given the harsh conditions of working. More capacity building activities for CFs should be carried out. Relevant technical/extension material should be distributed to CFs to facilitate their own work at villages and communes.*
- f) *Provinces requested to recruit additional CFs are to submit their recruitment plans to CPO as soon as possible.*

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

23. The project capacity building activities continued to perform well with several rounds of refreshment training courses for staff at all levels. The priority of capacity building for the last 6 months has been on planning for 2013. New methods of planning have been tried out at 50 pilot communes before scaling out to all project communes. The mission noted good progress in the planning for 2013. Provinces were confident to be able to submit their plans for 2013 by the end of September 2012 to both WB and CPO for reviewing. The project was determined to submit the final plans for 2013 to the WB by December 1, 2013 as stipulated in the Financing Agreement.

24. The sub-component on vocational training met difficulties in rolling out because it was difficult to secure employment for the trainees as required in the project design. CPO has proposed to adjust this sub-component to provide training support to CIGs instead.

25. The sub-component dealing with safeguarding public and private livelihood assets has been waiting for more support from the Bank side. The Task Team has been able to secure some resources from GFDRR for this purpose. Consultant selection from the Bank side was on-going and consultants should be mobilized shortly. The work will focus on strengthening capacities for risk identification at the local level and to put into place contingency plans and low cost risk mitigating measures.

### **Recommendations**

- a) *CPO and PPMUs should ensure quality of planning and submit the final plans to the WB by December 2013 as stipulated in the FA.*
- b) *CPO to prepare necessary changes of the original target of vocational training to training of CIGs to ensure this is adequately covered in the upcoming Mid-term review in December 2012.*
- c) *CPO to proactively map out the way to implement the sub-component 3.5 rather than wait for Bank's consultant help.*

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

#### **Key issues**

26. Project management has generally been good, with very effective coordination provided by the CPO. Most PPMUs have performed well, although weak commitment and/or performance at PPMU level in Dien Bien and Hoa Binh has been reflected in the lagging implementation performance by these two project provinces.

27. The mission noted that although the MIS has been up and running on a website managed by CPO, the system itself needed improving as not all information was available when required.

28. The project has recruited more CFs in certain provinces, not all communes have been adequately facilitated by CFs. There appears to be a need to deploy one CF per commune given the increased workload and difficult working conditions.

29. The mission learnt that the purchase of project vehicles have been endorsed by the Prime Minister's Office. This activity should be done with priority so that local staffs could be able to conduct their supervision and implementation more effectively.

### Recommendations

- a) *Hoa Binh and Dien Bien PPMUs should take a critical review of their performance to identify areas for improvement. CPO and TAPI could help during that process.*
- b) *Further work and improvement are requested for the project's MIS to ensure its smooth running and its capacity of generating sufficient project management information when required.*

### Preparation for Mid-term Review (MTR)

30. The mission noted that the Mid-term review of this project was planned for December 2012. After more than two years of implementation, the project has gained insights and experience on what worked and what has not. The acquired knowledge and information would be inputs for the necessary adjustment prior to the Mid-term review. The following table summarizes the areas of adjustments for this project to be enacted prior or at MTR.

**Table 2. Proposed Changes/Adjustment**

<b>Proposed Changes/Adjustments</b>	<b>By When</b>	<b>Task Team's Comments</b>
1. Increase the ceiling for CDBC sub-project from VND100 million (~US\$5000) 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%	By MTR	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 the 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)	By MTR	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	By MTR	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	By MTR	Task Team agreed with the performance based principles in allocation of the remaining unallocated funds.
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## E. SAFEGUARDS

### Social Safeguards

31. Some of the subprojects under the 2012 plan require land acquisition. Due to the constraint on the counterpart budget which is used to pay compensation, some subprojects were not implemented. This is very unfortunate and the mission urged that CPO works out the issue of lack of counterpart budget for project activities, including those to pay compensation.

32. Discussion was conducted with TAPI safeguards team prior to the mission on furthering the guidance and clarifying the procedures for safeguard implementation in the project. Accordingly TAPI has submitted to the Bank for review such guidance. It was recommended that the CPO/TAPI teams closely work with the provinces along their planning process for 2013 to ensure safeguards instruments are followed.

### *Ethnic Minority and Gender aspects*

33. The suggestion to drop the Sub-component 2.3 by some of the provinces, given the possible overlapping of proposed activities with Sub-component 2.2, 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 the project activities. However, the mission agreed that activities might be similar between these two Sub-components, provided that sufficient consultation takes place during the planning process.

### Environmental Safeguards

34. Subprojects under the district economic development component proposed in this year 2102 were prepared using EA documents in accordance with the Bank's and Government's requirement and these EA documents were disclosed locally at subproject sites such as district and communal people's committees.

35. Central Project Coordination Office recruited an environmental monitoring consultant to help monitor project environmental safeguards compliance during implementation and this consultant began the work as of beginning of February 2012. Besides, provincial project management units assigned their staff responsible for environmental safeguards throughout project implementation. According to CPO and PPMUs, implementation of these subprojects is monitored by PPMU's safeguard staff and monitoring consultant. During construction, contractors complied with mitigation measures, and therefore there were no outstanding environmental and social impacts arising from civil works.

36. During the supervision mission, the Bank task team conducted site visits to some subprojects under operation, including (a) a suspension bridge in Dien Bien province and (b) the Ha Nhi kindergarten rehabilitation and village road in Dao San commune in Lai Chau province. For the suspension bridge, the Bank task team strongly recommended Dien Bien PPMU fence both roadsides at bridgeheads to prevent accidents for local travelers from coasting down the river. For the kindergarten subproject, it is not really a full subproject because the kindergarten after rehabilitation lacks necessary ancillary equipment/works such as toilets, waste bins and water supply as well as learning tools/toys and its playground is in bad condition. Thus, Dao San communal people's committee as the subproject owner was recommended to continue with this subproject. For Ha Nhi village road subproject with the length of 190 meters and width of about 1 meter, taking into account of useful comments from subproject-affected persons during consultation, the alignment was changed to avoid adverse impact on a sensitive site that is a small sacred forest area of the community.

## F. PROCUREMENT

37. In general, the project is making a moderately satisfactory progress on procurement. Delays have occurred in some provinces on procurement of consulting services, particularly in Lai Chau and Hoa Binh provinces. Resulting from that civil works packages will be procured late and an implementation may be caused by rainy season. This lesson learnt should be avoided by PPMUs for future packages.
38. Procurement for CBDC component should closely be monitored and guided by PPMUs on the basis of the guidance in the CDBC manual. More training courses should be done by relevant technical agencies/experts (extension centers, technical experts, etc.) and given to Commune Development Units and CFs.
39. The mission has done a procurement post review for 4 project provinces i.e Lai Chau, Dien Bien, Lao Cai and Yen Bai. Detailed findings and recommendations of this post review will be communicated in separate reports.
40. Rating for the Procurement performance under NMPP2 over the past period is *Moderately Satisfactory*.

## G. FINANCIAL MANAGEMENT

41. While the mission noted improvements in accounting and financial reporting at CPO and Dien Bien PPMU, the significant delayed budgeting and planning, the lack of counterpart fund, the delayed implementation of internal audit function and the late submission of audited financial statements were the critical issues which must be addressed to improve the project financial management. In Hoa Binh PPMU, the issue of staffing and ineligible expenditures requires particular attention to the PPMU to resolve.
42. **Supporting the Project FM Staff.** The mission noted a number of changes in Financial Management personnel at district and commune levels (for example, accountant in Dien Bien Dong district (Dien Bien) were replaced). In Hoa Binh, the mission noted that the Chief Accountant of Hoa Binh PPMU and Da Bac DPMU were part time positions which resulted in the ineffective financial management.
43. **Recommendation.** *The mission also noted that the FM consultant has been mobilized whose one of the main tasks is to support the two new provinces (Lai Chau and Dien Bien). The mission recommends that Lai Chau and Dien Bien PPMUs should proactively discuss with CPO on how to best utilize the FM consultant to support the provincial and district FM. The FM consultant therefore should submit the working plan to CPO who in turn will discuss with the concerning PPMUs to revise it accordingly. In Hoa Binh and Da Bac district (and all other PPMUs and DPMUs), the position of Chief Accountants should be made full time.*
44. **Significant delayed budgeting and planning.** The mission is disappointed to note that the plans (including procurement and financial plans) for 2012 had been approved only in April 2012. As result, no activities relating to 2012 plan have been implemented up to May 2012. In Dien Bien and in Hoa Binh, we also noted due to such delayed approval of budget, the salaries of the PPMU staff for January- April 2012 were only paid in May 2012. The disbursement therefore was also severely impacted. In Son La, however, the mission noted that the DPMUs managed to mobilize the other sources to advance to the CFs during that period which was a positive practice.
45. **Recommendation.** *The mission recommends that the timeliness and quality of the annual budgeting and planning should be improved. The project should also 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.*
46. **Improper accounting practices in Dien Bien.** In Dien Bien we noted that the accountant now get familiarized with the accounting software and the issue of maintaining two parallel applications (accounting software and the Spreadsheet) now has been resolved. The mission, however noted some technical accounting issues in Dien Bien which must be improved such as (i) accounting for foreign currency transactions where only the foreign currency amount was booked without the appropriate exchange rates so that the VND equivalent amount reported was not accurate, (ii) the sub-code for Districts were wrongly used, for example, some transactions relating to other districts were recorded using the Dien Bien Dong's

code. In Hoa Binh, the mission was told by the PPMU that the update of the accounting software did not operate properly which may cause difficulty to the extracting of accounting records and reports.

47. The mission also noted that the AMT reporting generation, contract management and consolidation functions have not been used.

48. **Recommendation.** *This issue has been raised by the Bank in all recent missions and has not been resolved satisfactorily. The mission again strongly recommends CPO and PPMUs to fix those issues by 31 December 2012. The accounting practices in Dien Bien should be improved to improve the accuracy of the quality of information.*

49. **Funds transfer practices.** The mission noted the followings for improvement:

- a) There is no notification and confirmation of the transfer (amount, date) from the provinces to districts;
- b) There is no periodically (at least quarterly) reconciliation of the transfers (and the cumulative amount of transfers) from provinces to districts.

50. The mission also noted instances in Dien Bien where the amounts transferred to communes for CDD Block Grants were not used up even when the sub-projects/ activities implemented by the communes completed.

51. The mission also noted in Dien Bien Dong, the delayed payments to the Community Facilitators (CF). Salaries of January, February, March and April 2011 were only paid in May 2011. Similarly the allowances of 18 months for the period from January 2010 to June 2012 were paid to CF in June 2012.

52. **Recommendations.** The mission recommends the following:

- a) *Any variation of the FM implementation from the FM design (indicated in the FM Manual) should be consulted with CPO for guidance and agreement;*
- b) *When funds are transferred from Provinces to districts: (i) the Provinces should notify the districts about the transfer (date, amount) and the districts should confirm the amount received from provinces; (ii) the reconciliation of the transfers and the cumulative amount of transfer should be done at least on a quarterly basis between PPMUs and DPMUs.*
- c) *The un-used amount of the completed sub-projects at the commune level should be deducted in the next disbursement to the (same) communes, or refunded to the Designated Account.*
- d) *All the PPMUs and PPMUs are reminded to review the payment process to ensure that the payments are made promptly, in particular, payments to CF.*

53. **Ineligible expenditure.** In addition, the mission noted that the project used the IDA funds to pay for utilities (electricity, water) as the shared cost of the utilities of the DPI and charged to Incremental Operating Cost (IOC). In Dien Bien, the per diems of participants of training events were also charged to IOC. The mission advised that as the IOC is the cost incremental (directly attributable) to the PPMU, thus the shared cost (or allocated cost) would not be considered as eligible expenditure. The per diems for participants of training events should be charged to the Training Category instead of IOC.

54. The mission also noted in Hoa Binh that in December 2011 (14- 18 December), a study tour to Kien Giang to learn the relevant experiences on poverty reduction, has been taken where visits and working sessions were held with the Kien Giang DPI and Tan Hiep District. A last day of the study tour however was for the delegation to visit Phu Quoc island (a popular tourist destination) which was completely not relevant to the purpose of the study tour.

55. **Recommendations.** *The mission recommends the project to (i) quantify all the payments which have been made for electricity bills as the shared (or allocated cost) and (ii) refund to the Designated Account those amounts. In addition, the payments to per diem of training in Dien Bien shall be reclassified to training expenses category. These shall be done by 30 September 2012. In Hoa Binh, the mission requests that the PPMU to quantify the amount of expenditure relating to a day visiting Phu Quoc island (travel,*

hotel, per diem and others) and refund to the Designated Account by 30 September 2012. CPO is requested to ask all PPMUs to review the similar incidents and refund the ineligible expenditure by 31 October 2012.

56. **Assets management.** The mission noted in Dien Bien, assets are not labeled and assets inventory was not taken at the year end. In Dien Bien Dong, the two high value calculators procured (USD 60 each) could not be located.

57. **Recommendation.** *The mission recommends Dien Bien PPMU to improve assets management by labeling the assets and take the inventory by 31 August 2012 and annually (at the year-end). The Dien Bien Dong DPMU should follow up the “missing” calculators, ask for the compensations from relevant persons if the calculators are lost and report to Dien Bien PPMU by 31 August 2012.*

58. **Financial Reporting.** The submission of the IFRs was still later than the deadline of 45 days after the quarter end indicated in the Financing Agreement. One of the reasons, as explained by the CPO was that CPO had to wait for all the IFRs from PPMUs for consolidation before the package (1 consolidated project IFRs, 1 IFR of CPO, 6 IFRs of PPMUs) was sent to the Bank for review.

59. **Recommendations.** *The mission advised the CPO that (i) the reporting requirements are set for each implementing entity (in the Project’s context, CPO and 6 PPMUs), thus each PPMU and CPO should proactively send the its IFR to the bank without waiting for the delayed IFRs from other PPMUs. The compliance with the covenants of Financing Agreement therefore would be determined for each PPMUs. The mission also reminded that the deadline for submitting the IFRs of quarter 2, 2012 of 15 August 2012.*

60. **Internal Audit.** The mission is disappointed to note that the activities relating to the procurement packages for Internal Audit Capacity Building for MPI Inspectorate has not been started. Up to date, the internal audit has not been implemented though the mission was informed that the MPI and DPIs already delegated their respective Inspectorates to assume the Internal Audit function for the project.

61. **Recommendation.** *The mission recommends that the procurement process for Internal Audit Package should be accelerated and the Consultant should be mobilized by 31 December 2012. In the interim, the internal audit activities should be implemented using the existing approach proposed by the Inspectorates and the reports of the Inspectorate should be sent to the Bank by 31 December 2012.*

62. **External Audit.** The deadline for submission of the audit reports for the period ended 31 December 2012 was 15 June 2012 which was already past and the audit reports have not been submitted to the Bank which was a significant delay.

63. **Recommendation.** *The mission recommends CPO to accelerate the process of mobilizing Independent Auditor to submit the audited reports to the Bank by 15 September 2012.*

## J. NEXT STEPS AND ACTION PLAN

64. The mission has agreed with the counterparts that timely actions will be taken to ensure smooth implementation. The following table presents selected key recommendations and actions (See Table 3). Other recommendations from the mission described in the main text but not included in this table should be treated with equal importance and relevance.

**Table 3. Agreed Actions**

Actions (in the order of appearance in the document)	By whom	By when
<i>CPO and TAPI to develop specific notes to guide PPMUs addressing quality issues of infrastructure investments</i>	CPO, TAPI	November 30, 2012
<i>CPO, together with TAPI to review and document the lesson learned thus far from the two partnerships in Hoa Binh and Dien Bien</i>	CPO, TAPI	November 30, 2012

<i>CPO and TAPI to propose ways to start the pilot of Innovation Grants as soon as possible</i>	CPO, TAPI	Immediately
<i>Classification of CIGs to align relevant support</i>	CPO, TAPI, PPMUs	October 30, 2012
<i>The ceiling for CDBC sub-projects should be increased to the new level of US\$10,000 per sub-project</i>	CPO, PPMUs	Immediately
<i>Improved quality of planning for 2013 Plans and submit to WB review by December 1, 2012</i>	CPO, PPMUs	December 1, 2012
<i>Hoa Binh and Dien Bien PPMUs to take a critical review of their performance to identify areas for improvement.</i>	Hoa Binh and Dien Bien PPMUs, CPO	Immediately
<i>Procurement process for Internal Audit Package to be accelerated</i>	CPO, PPMU	December 31, 2012
<i>Submission of Independent Auditor to the Bank</i>	CPO, PPMU	September 15, 2012

**Annex 1. Consolidated implementation of previous mission's recommendations by end of July, 2012**

	<b>CPO</b>	<b>Lao Cai</b>	<b>Yen Bai</b>	<b>Lai Chau</b>	<b>Dien Bien</b>	<b>Son La</b>	<b>Hoa Binh</b>
1. Improve quality of village meeting and planning	Provinces actively apply different measures for improving village meeting (Strengthen CF supports, CDB, DPMU conducted additional training on how to effectively organize a meeting for CF) and 2013 planning, some provinces shall apply 3.1 methodology into project planning (Yen Bai, Lai Chau, Lao Cai, Hoa Binh are implementing)						
2. Competitive methods to select quality consultants for technical designs for better design.		Done	Not apply, Yen Bai is using counterpart fund	Done	Done	Planned	Done
3. Strengthen procurement and contract management.		Ongoing	Done	Done	Done	Ongoing	Done
4. Award procurement audit contract	Completed in 5/2012						
5. Establishment of O&M groups		Done in some communes	Done	Done		Done (44/46 groups were formed)	Done
6. Submit Draft Guidelines for O&M Groups and O&M Fund to IDA's review	CPO sent the draft guideline for comments from WB and provinces.						
7. Finalize the guidelines for sub-component 1.2	Finalized and promulgated with document no 175 (16/12/2011), revisions have also made.						
8. Scale up of livelihoods sub-projects (both under sub-component 2.2. and 2.3)		Done in all villages under 2012 plan		Done in all villages under 2012 plan		Not replicating yet	
9. Apply livelihoods support approach in Lao Cai to other provinces			Done (CIG purchased by themselves)	Done		Done	Done
10. Training CFs on agriculture extension skills and knowledge	Done						
11. Propose number of additional CFs for recruitment		Done	Done	Done		Done	Done
12. Purchase and supply of books and materials of good practices on farming, agriculture extension models, relevant technical guidelines, etc as reference for both CFs and villagers.	Provinces have planned or done. CPO will continue to support provinces in finalizing their reports on livelihood situation assessment and preparing some leaflet or documents on livelihood sub-projects as well as some extension guide ...etc they will all be compiled and used as knowledge sharing materials.						

	<b>CPO</b>	<b>Lao Cai</b>	<b>Yen Bai</b>	<b>Lai Chau</b>	<b>Dien Bien</b>	<b>Son La</b>	<b>Hoa Binh</b>
13. Pay local contractors for completed CDBC works		Done	Done	Done	Done	Done	Completed
14. Initialize partnership and cooperation with NGOs	Some initial efforts have made to cooperate with NGO in the area to introduce some livelihood models. CPO shall provide further consultation to provinces on this	Has worked with some NGO to implement some works on livelihood and SED planning (3.1)	Not started	Put on plan for collaborating with some organization to province supports on livelihood	Excluding ginger partners, no other works have been done to link with NGO	Not started, shall apply in coming time while implementing market linkage	Shall implement in Q3/2012
15. Yen Bai, Lai Chau, Dien Bien and Hoa Binh provinces to issue the official decision to request relevant provincial extension system to provide technical support to livelihoods groups in their provinces.		PPC has guided districts to inquire extension centers to participate	All districts have published guidance for extension support	Done, PPC has already promulgated a guidance	No official guidance from PPC has been published (PMU reported to PPC)	Done since 10/2011	Completed
16. Train on project introduction for relevant technical sections at districts (finance, infrastructure, extension, etc)		Done	Done	Done	Done	Done, some other details shall be included into 24-month plan	Completed
17. Finalize the revised guidelines for livelihoods support with necessary simplifications	Done						
18. Award contract to consultants for development integrated planning guidelines	Bidding was not applied. CPO implemented with experiences obtained from Hoa Binh and other provinces while conducting harmonization with planning reform view-point adopted by SLGP, Chia se ...etc						
19. Complete all TNA survey for capacity building plan for the next 24 months.	Completed	Completed	Completed	Completed	Completed	Completed	Completed
20. Start-up audio books in ethnic minority languages for CB	This type of activity is rather complicated, at the moment, since there is only partial application took place in Lao Cai for communication, CPO shall collaborate with TAPI and provinces to clarify implementing mechanism including provision of technical assistant as well as promulgation of guidelines for later deployment following the proposed plan						
21. Recruitment of CB consultant position for PPMUs		Not applicable (N/A), use PTI staff	N/A	N/A	N/A, use existing staff (safeguard)	N/A, use existing staff (translator)	N/A
22. Follow-up activities from the South-South Exchange Initiative	Some good practices have been put on use (Vocational training guidance, livelihood ...etc)						

	CPO	Lao Cai	Yen Bai	Lai Chau	Dien Bien	Son La	Hoa Binh
23. Horizontal cross learning events	Provinces have included in their plans, CPO shall arrange some cross learning trip for provinces as well as to other places with sub-projects that can be applicable 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		Done	Done	Done		Implementing	Implementing

	<b>CPO</b>	<b>Lao Cai</b>	<b>Yen Bai</b>	<b>Lai Chau</b>	<b>Dien Bien</b>	<b>Son La</b>	<b>Hoa Binh</b>
training)							
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						

