

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB2708

Operation Name	VN - Program 135 Phase 2 Support Credit
Region	EAST ASIA AND PACIFIC
Sector	General agriculture, fishing and forestry sector (50%);Sub-national government administration (50%)
Project ID	P104097
Borrower(s)	SOCIALIST REPUBLIC OF VIETNAM
Implementing Agency	Committee for Ethnic Minorities (CEM), Ministry of Planning and Investment (MPI), Ministry of Finance (MOF), Ministry of Agriculture and Rural Development (MARD), Selected Provincial People's Committees (PPCs)
Date PID Prepared	November 28, 2006
Date of Appraisal Authorization	November 27, 2006
Date of Board Approval	March 13, 2007

1. Country and Sector Background

Vietnam has been one of the best performing economies in the world over the last decade. Real GDP has grown by 7.3 percent over the last 10 years with per capita income rising by 6.2 percent. At the same time, broad-based growth has been accompanied by a continuation of Vietnam's remarkable record in poverty reduction, with percentage of the population living in poverty has fallen from 58.1 percent in 1993 to 19.5 percent in 2004, implying an average decline of 3.5 percentage points per year. These impressive achievements sit alongside much slower progress for ethnic minorities. In 2004, only 14 percent of the majority group was living in poverty, compared to 61 percent of the ethnic minorities. Though the latter account for only 13 percent of the total population, they now constitute 39 percent of the poor. Aggregate figures also mask widening disparities in the extent and depth of poverty between regions.

Redressing the persistent gaps in the extent and depth of poverty among different regions and ethnic groups has become a major objective of GoV policy. As an integral part of the SEDP, Government is revamping the National Targeted Programs (NTPs) for poverty reduction, in order to help address the distinct challenges facing communities living in the poorest and most remote areas of the country. More specifically, and of most direct relevance to the proposed operation, Phase 2 of the Program for Socio-Economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (more commonly known as Program 135) has been redesigned on the basis of lessons from recent evaluations of Phase 1, implemented over 1998-2005; lessons from parallel, donor-supported initiatives; and an exceptionally thorough process of consultation throughout 2006 involving key ministries and central agencies in at least ten major workshops, each of the 43 participating provinces in at least three consultation workshops organized on a regional basis, and extensive field studies conducted in a number of provinces.

2. Operation Objectives

The proposed Credit, the first in a series of three single-tranche operations over 2007-2010, would support policy and institutional actions to improve the results of Program 135, Phase 2 as an entry point to a wider, emerging agenda for systemic change in the way NTPs in Vietnam are conceived and implemented.

Specifically, the proposed Credit would support policy and institutional actions to improve the results of P135-2 in the following four main ‘meso-level’ policy areas: (i) improved poverty targeting of program resource allocation; (ii) deepening and scaling-up of community-driven approaches to planning, managing, operating and maintaining basic rural infrastructure; (iii) enhanced fiduciary transparency and accountability in program implementation through wider use of ‘social audit’ approaches; and (iv) process monitoring and impact evaluation. Critical aspects of this reform agenda have already been demonstrated at scale under ongoing IDA- and other ODA-supported initiatives in Vietnam covering at least a half of all the provinces and localities targeted for inclusion in P135-2.

The prior actions for the first operation are primarily policy and institutional actions already shown to deliver results through strengthening community-level ownership over the planning, execution, management and construction supervision, and operation and maintenance of basic infrastructure investments. Some of these would be applied in selected provinces under P135-2 with monitoring mechanisms in place to allow Government, IDA and co-financing donors to assess results.

3. Rationale for Bank Involvement

At the current rate of progress in sustaining widely-shared economic growth and reducing poverty, Vietnam would attain middle-income status by around 2010. While Vietnam will not graduate from IDA within the next five years, its current performance makes a transition to IBRD/IDA blend-status in the latter half this period highly likely. Strategic choices therefore need to be made regarding the most appropriate aid modalities for rapidly scaling-up the impact of innovative approaches supported to date under IDA-supported investment operations – including ways of promoting informed participation and civic engagement at community level in targeted public investment programs – and ensuring their future institutional sustainability.

The Government of Vietnam has gained considerable experience with policy-based lending instruments over the last five years in implementing a series of annual Poverty Reduction Support Credits (PRSCs) in support of its overall policy reform agenda. The proposed series of operations would therefore complement the PRSC-related, ‘macro’ reform agenda by supporting a program of ‘meso-level’ policy and institutional actions to help scale-up and sustain the impact of the reformed elements of P135-2.

The proposed series of policy-based lending operations also offers a powerful vehicle for donor coordination around a high-priority, programmatic reform agenda. Consistent with the Hanoi Core Statement on Aid Effectiveness (Vietnam’s localized version of the Paris Declaration), the Government of Vietnam and donor community are agreed that policy-based budget support, complemented by parallel TA, provides the most appropriate financing modality to help bring about these strategic outcomes for which P135-2 provides the best available entry point. The proposed operation has been jointly prepared and would be co-financed by five bilateral donors (Australia, Finland, Ireland, Sweden, and the UK) and other multilateral agencies (IFAD) in addition to IDA. UNDP is providing parallel TA support, and other bilateral (e.g. Canada) and multilateral (e.g. EC)

agencies have expressed interest in joining the joint donor budget-support group in the near future. All co-financiers would use a common operation policy matrix or results framework as a basis for disbursement, including those who propose to disburse annually, including the alternate years between the IDA-supported operations.

The *strategic policy issues have wider potential application* in GoV's other NTPs. P135-2 is viewed as offering a strategic point of entry to this wider policy agenda. The proposed series of DPCs offers an opportunity to leverage these wider reforms in a way that a SWAp could not, since a SWAp would be necessarily limited in scope to P135-2 alone. The policy and institutional actions relating to public financial management reforms already apply to all NTPs, and a number of others lend themselves readily to wider application;

The proposed series of three programmatic DPCs offers greater *flexibility* and potential for *responsiveness* in support of Government's evolving NTP policy reforms and underlying institutional capacity-strengthening over the coming five-year period. Prior actions and triggers may be adjusted in light of progress and demonstrated results;

Supports strengthening of fiduciary transparency and accountability in the Government's own NTPs as a core aspect of the policy reform agenda (one of the four key policy areas in policy matrix/ results framework). The proposed series of DPCs tackles this high-priority agenda at the country policy level rather than as fiduciary risks to investment lending.

4. Financing

The proposed operation would be the first in a programmatic series of three Development Policy Credits (DPCs) over the life of P135-2 (2006-2010) to support the sustained implementation of the reformed elements of this Government program in a progressive, phased manner:

- DPC1 (US \$50 million equivalent) would support those critical aspects of the reform agenda around which consensus has substantially been built;
- DPC2 (approximately US \$50 million equivalent) would support the rolling-out in more program provinces of the demonstrated policy and institutional actions, and would support additional policy and institutional actions relating to other aspects of the reform agenda
- DPC3 (approximately US \$50 million equivalent) would ideally support the rolling-out of critical actions relating to the entire reform agenda to all provinces included under the program, and perhaps to the Government's future policies and programs intended to sustain the reform agenda beyond P135-2 and NTPs themselves.

Other donor agencies/co-financiers have tentatively indicated their support as following: AusAID – AUD 45 million for 2007-2010; Finland – Euro 17.5 million for 2007 -2009; DFID – UK: GBP 16 million for 2006-2008; Iris Aid – Ireland – Euro 20 million for 2007 – 2010; SIDA – Sweden: Kroner 100 million for 2007 – 2010; IFAD (t.b.d.) – USD 11 million for 03 credits over 2006 – 2010.

5. Institutional and Implementation Arrangements

The Committee for Ethnic Minorities (CEM) is assigned by the Government of Vietnam as the lead agency in managing and supervising the implementation of P135-2, with support from and in

coordination with the four other ministries: Ministry of Planning and Investment (MPI), Ministry of Finance (MOF), Ministry of Agriculture and Rural Development (MARD), and Ministry of Construction (MOC). These ministries have representatives on the Program Steering Committee, which is chaired by a Deputy Prime Minister. State Audit of Vietnam (SAV, which reports to the National Assembly), and the Vietnam Fatherland Front among other mass organizations, play the role of independent supervision bodies. At provincial level, a Steering Committee for the implementation of the P135-2 is set up with participation from all related agencies and the standing agency is the Provincial Committee for Ethnic Minorities, chaired by the Chairperson of the Provincial People's Committee (PPC). The PPC creates an enabling environment for the effective implementation of the P135-2 by developing and issuance of provincial guidance regulations and implementation of capacity building. The same institutional setting is for the district level. The District People Committee provides guidance and supervision for planning and implementation at commune level. The Commune People Committee is the investment owner and makes decisions on implementation and supervision. At commune level there is a 'program management unit' established by District People's Committee.

At provincial level, the PPC takes overall responsibility for quality, progress, and effectiveness of P135-2. Every quarter the PPC takes the lead in supervising, monitoring and evaluating program implementation. The P-135 Provincial Standing Office serves as the key agency to conduct monitoring and supervision, and assists the PPC in synthesizing and reporting results to the Central Standing Agency (CEM). A baseline study to permit meaningful impact evaluation will be conducted in a representative 'treatment' sample of P135-2 target communes and also in a 'control' sample.

Provincial Steering Committees will synthesize reports from local levels and submit regular progress reports to higher level authority. Provinces are to send their reports to CEM on a quarterly and annual basis. CEM submits aggregated reports to the National Steering Committee every six months.

A Partnership Committee (PC) is being formally established by the Government to oversee and review of progress towards the agreed policy and institutional actions under the proposed series of operations. The PC is to be established and chaired by CEM, and made up of senior managers and specialists from all the relevant Government agencies having a role in P135-2 execution (including MOF, MPI, MARD, Office of Government, GSO, and MOLISA). All co-financing donor agencies would also be represented. The PC would be co-chaired by a lead donor on a rotational basis with the World Bank leading in alternate years in which IDA would finance policy-based lending operations.

Annual review missions and interim review missions will be organized according to the following schedule, dictated by the Government's budget cycle: interim review missions will be held around April of each year, and full annual reviews conducted around September-October each year. Interim review missions would involve field visits, while annual reviews would form the basis for preparation of the next operation and involve an assessment of progress towards accomplishing the agreed policy and institutional actions/ triggers.

6. Benefits and Risks

Benefits. Consistent with the Vietnam CAS/CPS, and as a complement to ongoing PRSCs and investment operations, the proposed operation would help the GoV to narrow a persistent poverty gap between the targeted areas/population groups and the rest of the country, in a context of otherwise outstanding economic growth and poverty reduction performance. It would provide a vehicle for IDA and the donor community more broadly to jointly engage the Borrower in a

programmatic reform agenda on a strategically important NTP for poverty reduction, with particular respect to:

- Poverty targeting of NTP resource allocation;
- Deepening and scaling-up community-driven approaches to planning, managing, operating and maintaining basic infrastructure investments;
- Fiduciary transparency and accountability in program implementation; and
- Process monitoring and impact evaluation.

Risks. Possible risks to success of the proposed operation are:

Institutional risks:

- CEM lacks the mandate and/or capacity to provide strong leadership for an expanded and redesigned P135 – *medium risk*.
- Insufficient consistency is achieved between the sectoral policies and procedures of line ministries such as MARD and MOC and those of P135-2 – *low risk*.
- Provincial structures for coordinating/ managing P135-2 prove ineffective for various reasons – *medium risk*.
- Decentralization of investment ownership to communes for local infrastructure does not progress to the extent envisaged, either because district officials are unwilling to delegate authority and resources, or because communes lack the necessary capacity and no clear institutional responsibility or budgetary resources are assigned to help them acquire it – *low to medium risk*.

Fiduciary risks:

- There have been a number of PFM shortcomings which highlighted ways in which relevant PFM systems needed to be strengthened in the context of P135-2 and related NTPs. Risk assessment – *medium risk*.
- Corruption is a significant and growing problem in Vietnam, and in a rapidly-growing economy corruption vulnerabilities and opportunities for graft could outpace measures to combat them for some time. P135-2 and other programs specifically targeted to the poor are often viewed as intrinsically more vulnerable to corruption because of their highly decentralized forms of implementation involving generally weak local-authority institutional capacity. Overall risk assessment – *medium to high risk*.

Policy-related risks:

- Techniques for raising agricultural productivity more suited to Vietnam's irrigated lowlands continue to be introduced to rain-fed, upland farming systems, where they could prove economically, socially or environmentally unsustainable – *medium risk*;
- Efforts to ensure greater consistency and synergy in the design and evaluation of NTPs for poverty reduction are not adequately followed up – *medium risk*;

- The level of joint donor support to improving P135-2 elevates the profile of P135-2 to such an extent that it detracts from other important policy debates concerning ethnic minority poverty – *low to medium risk*;
- Resettlement and compulsory asset acquisition under P135-2 are not well-handled – *low risk*;
- *The proposed operation is associated with other government activities aimed at reducing ethnic minority poverty:*
- Despite the formal exclusion of sedentarization activities from P135-2, a perceived link may remain. This may indirectly associate IDA and the donor community with any adverse social and livelihood-related impacts of sedentarization – *low to medium risk*;
- Some activities under P135-2 may be associated with other activities of Government designed to promote public security. This might: (a) limit the effectiveness of development activities; and/or (b) associate donors with activities that tighten social control in some communities – *low risk*.

7. Poverty and Social Impacts and Environment Aspects

Program 135 is one of the Government's key efforts to tackle poverty, particularly poverty driven by geography or ethnicity. The program's target is well attuned to the poverty profile of Vietnam, which shows a high concentration of poverty among the ethnic minority population living in remote and mountainous areas. Recent review of P135 Phase 1 indicates that the Program was effective in channeling resources to the poorest communes and had substantial positive impacts on poverty although analyses were limited to impacts of infrastructure development. P135-2 provides community-level infrastructure that improves access by the poor to social services and increases their economic opportunities, as well as livelihood support designed to augment household income generation opportunities, especially where a synergy between infrastructure development and livelihood supports is developed.

The institutional and policy reforms supported by this operation will improve P135's impact on poverty by accelerating decentralization, supporting more accountable, participatory decision-making and improving targeting. The reforms will also promote the participation of poorest groups within a commune. The operation, and the dialogue that surrounds it, should deliver poverty and social benefits outside the direct realm of P135-2. Adverse social impacts are minimal, but clear guidelines, prior consultations, active information dissemination, and close monitoring will be needed.

Though sedentarization activities have been de-linked from P135-2, it is likely that in practice there will be some overlap on the ground. This operation does not support the implementation of sedentarization policies and cannot be associated directly with the outcomes of sedentarization. However, P135 is part of a package of Government activities that aims to improve the livelihoods of ethnic minorities. Sedentarization continues to be part of the same package. This creates a risk – that the donor support to reform P135 might be perceived as including support to sedentarization and any adverse social impacts this may have. It also creates an important opportunity. As donors collaborate to provide substantial and coherent support to government efforts to tackle ethnic minority poverty, more space should become available to engage in dialogue on this topic. Donors will seek to use the influence that programmatic support gives them to encourage reforms in the broader package of activities that target ethnic minorities.

Experience under these ongoing investment operations, which finance very similar investments to those under the infrastructure component of P135-2, suggests that adverse environmental impacts are very small, whether considered individually or in the aggregate, while positive environmental impacts are significant. Adverse impacts, when they are a concern, can generally be mitigated or prevented entirely by relatively simple measures during sub-project planning and construction and incorporation of appropriate clauses in construction contracts.

8. Contact point

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