

**VIETNAM**

**POVERTY REDUCTION BUDGET SUPPORT TO PROGRAMME  
135 (PRBS-P135)**

**PROGRAMME MEMORANDUM  
MARCH 2005**

**DFID VIETNAM**

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## **List of Abbreviations**

CAP	Country Assistance Programme
CEM	Committee for Ethnic Minorities
DARD	Department of Agriculture and Rural Development
DFID	Department for International Development
DPI	Department of Planning and Investment
FCPD	Finance and Corporate Performance Division
GDD	Grassroots Democracy Decree
GSO	Government Statistics Office
HEPR	Hunger Eradication Poverty Reduction
MARD	Ministry of Agriculture and Rural Development
MOF	Ministry of Finance
MOLISA	Ministry of Labour Invalids and Social Affairs
MPI	Ministry of Planning and Investment
NTP	National Poverty Targeted Programme
O&M	Operations and Maintenance
ODA	Official Development Assistance
OOG	Office of Government
PA	Partnership Arrangement
PC	Partnership Committee
P135	Programme 135
PFMA	Public Financial Management and Accountability
PRBS	Poverty Reduction Budget Support
VLSS	Vietnam Living Standards Survey

## 1. SUMMARY

- 1.1. This one-year intervention is one of the first pilots of poverty reduction budget support (PRBS) in Vietnam<sup>1</sup>. DFID will make a financial allocation of £10 million to the Government of Vietnam's national poverty reduction programme, known as Programme 135 (P135). A further £250,000 will be managed by DFID for related Technical Cooperation. The goal is to reduce poverty for those living in the country's poorest and most marginalised communes. The purpose is to strengthen implementation of P135 by addressing key programme weaknesses. This intervention is fully consistent with the Government of Vietnam's poverty reduction strategy and DFID Vietnam's Country Assistance Plan 2004-2006.
- 1.2. The DFID contribution will channel additional resources to the poorest 250 communes in P135, support the government's decentralisation process, and improve operation and maintenance systems. Our additional finance will support the agreed P135 workplan to increase spending on basic infrastructure facilities such as electricity, water and roads. This intervention will help to deepen decentralisation by increasing P135 training budgets resulting in more capable commune staff. It will also pilot sustainable and pro-poor operation and maintenance systems for small-scale infrastructure.
- 1.3. This pilot is part of a two-phased approach. This first phase will put in place mechanisms and activities to strengthen the effectiveness of P135, and support the Government to address social exclusion more effectively, including through P135, in the future. The second phase will be designed during 2005. It will be a longer term, wider ranging intervention to assist Government's efforts to tackle social exclusion.
- 1.4. The Government of Vietnam is keen to pilot the PRBS approach to P135. This pilot phase is seen as an opportunity by Government to lobby other donors to take this approach in Vietnam, rather than setting up traditional projects that avoid using government systems. This approach lays the foundation for more harmonised ways of working and reducing transaction costs on government. This pilot is supported by a 'learning framework', which will inform more hesitant donor partners of the outcomes of this support.
- 1.5. This intervention has a medium level of risk. The key fiduciary risks identified in the design of DFID support will be mitigated through a supplementary audit, an expenditure tracking study and publishing financial details of P135 expenditure.

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<sup>1</sup> In 2005 PRBS will be piloted in three sectors in Vietnam – Programme 135, education and rural transport.

## 2. PROGRAMME DETAILS

### 2.1 Poverty Reduction Budget Support to Programme 135

2.1.1 Vietnam has made impressive progress in reducing poverty. In a decade poverty has been reduced by more than half. It has fallen from 60% in 1993 to 29%<sup>2</sup> in 2002. However, rapidly falling poverty is not mirrored across all parts of the country and for all social groups. This is a clear sign that development is becoming less inclusive. Ethnic minorities and upland provinces are being left behind. Poverty amongst the ethnic minorities is three times higher than that for the majority Kinh community. Poorer provinces are characterised by a lower well-being index. Inequality is growing and gaps in human well-being are widening.

2.1.2 The Government of Vietnam seeks to address increasing inequality through National Targeted Programmes (NTPs). The most significant poverty focused NTPs are the Hunger Eradication and Poverty Reduction (HEPR) and Programme 135 (P135). The HEPR targets poor households and consists of eleven different components, whereas P135 targets poor communes across the country and is smaller, more sharply focused with a relatively high impact. Both of these NTPs are redistributive mechanisms to promote pro-poor growth and protect poor households through financial transfers and social assistance. As part of the next five-year plan (2006-2010) the Government of Vietnam is redesigning all NTPs, including these two, with a view to strengthening their poverty reduction impact.

2.1.3 DFID's intervention as set out in this project memorandum is to pilot PRBS to P135 for the final year of its current cycle (2001-2005). This one year intervention is the first phase of a two phased approach to tackle social exclusion in Vietnam by engaging directly with Government's own strategies and programmes with PRBS and associated technical support and monitoring. The second phase will be designed during 2005 and will build on the experience of this pilot. It will be a longer term, wider ranging intervention to assist Government in tackling social exclusion.

2.1.4 In this first phase, DFID aims to provide additional finance for P135, pilot PRBS for a specific government national targeted programme, put in place mechanisms and activities to strengthen the effectiveness of P135 in the future, and engage with Government in a dialogue on how to address social exclusion issues in the future.

2.1.5 In the second phase, which will be designed during 2005, DFID Vietnam will be exploring how best to directly support the Vietnam

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<sup>2</sup> Poverty figures are based on food and non-food expenditure data from the Vietnam Living Standard Measurement Surveys, in line with international best practice. The Government of Vietnam relies on the national poverty line issued by MOLISA. The national poverty line is based on average income per person of \$5 per month for mountainous regions, \$6.5 per month for rural areas and \$10 per month for urban residents. In the next five-year plan (2006-10), the Government plans to base its national poverty line in line international best practice.

Government's efforts to tackle social exclusion over the next five years, building on the lessons from the first phase. The second phase of support will be longer term and is likely to include, but have a broader focus than P135. The focus will depend on the direction provided in the Government's new five year plan 2006-10, currently under development, the outcome of re-design efforts for both P135 and HEPR and ongoing analysis of drivers of inequality and options for effectively tackling social exclusion. It will be the subject of a separate project memorandum submitted in late 2005.

2.1.6 The goal of this first phase intervention of PRBS for P135 is to reduce poverty and ensure sustainable livelihoods for those living in the country's poorest and most marginalised communes. The purpose is to strengthen implementation of P135 by addressing some key programme weaknesses and engaging in the design of the next phase of the NTP. This intervention will support the five existing outputs of P135:

- a. Construction of productive and social infrastructure including roads, small-scale irrigation, domestic water supply, electrification, schools, clinics, markets etc;
- b. Agriculture extension in association with product processing and marketing;
- c. Planning and construction of commune cluster centres, inter commune roads etc;
- d. Training for commune and village cadres for management and monitoring of works; and
- e. Sedentarisation<sup>3</sup> activities where these are necessary.

2.1.4 More specifically, DFID's support will channel additional resources to the poorest 250 communes of P135. It will also strengthen fiduciary aspects of the programme, including through a supplementary audit and an expenditure tracking study exercise in 2005. It will help to deepen decentralisation of programme implementation by doubling the budget for training village cadres and commune supervision boards. It will also pilot Operation and Maintenance (O&M) models to develop sustainable and pro-poor O&M systems for small-scale infrastructure. In addition, DFID support will strengthen the donor-government dialogue around the design of the new NTPs.

2.1.5 DFID support will help secure two key P135 targets. Firstly, that 1200 communes are provided with seven basic infrastructure facilities (electricity, water, school, clinic, irrigation, markets, and roads); and 850 communes graduate from P135 by the end of 2005. DFID's support will also contribute to meeting the targets that Government has set for itself:

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<sup>3</sup> The sedentarisation component of P135 is concerned with relocating people living in protected areas or vulnerable locations with high costs of service delivery

- a. Reduce the number of poor households in P135 communes from the current level of 23% to around 20%<sup>4</sup>;
- b. Increase the number of poor households in P135 communes with access to clean water to over 50%;
- c. Ensure the remaining 78 communes without vehicular access to commune cluster centres have such access;
- d. Sustain primary school enrolment at over 90%;
- e. Ensure diseases are controlled in 90% of communes; and
- f. Increase the number of adults in P135 communes provided with extension and enterprise training from 40 to over 50%.

2.1.6 The rationale for PRBS to P135 is premised on P135's status as a strategic Government tool to address social exclusion. P135 promotes pro-poor growth by investing in small-scale infrastructure, livelihood support services, and capacity building, primarily amongst ethnic minorities. Although the bulk of resources are allocated to infrastructure, P135 takes a multidimensional approach to poverty reduction aimed at ensuring poor households can benefit from P135 investments. P135 channels resources to over one quarter of Vietnam's 10,000 communes. 70% of the P135 communes are in the bottom two poverty quintiles and are largely inhabited by ethnic minorities. The recent impact study indicates that P135 is benefiting poor households and has successfully helped to reduce poverty rates in some of the poorest communes.

## **2.2 Programme Appraisal**

### **Background**

2.2.1 Since the early 1990s DFID, along with a number of other donors, has been focusing its rural development efforts on the poorest and most remote areas of Vietnam that are largely inhabited by ethnic minorities. DFID co-finances project interventions such as the Northern Mountains Poverty Reduction Project and the Central Regions Livelihood Improvement Project. These closely mirror the P135 model emphasising decentralised provision of infrastructure and associated livelihood support services, and capacity building. The view of P135 at the time of project design was that financial management was inadequate and that a project approach could avoid some of the weaknesses perceived in P135 implementation.

2.2.2 In recent years, the experience of P135 has been examined through internal government monitoring, an ongoing government-donor lesson learning partnership, and from experiences with donor projects that coincide with P135 content and location. Most importantly, a comprehensive and rigorous joint government-donor impact evaluation has been underway since 2003 focusing on P135 and HEPR to provide lessons to inform the next phase of NTPs.

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<sup>4</sup> Based on the national poverty line issued by MOLISA which is much lower than the international poverty calculations.

- 2.2.3 Alongside this evaluation has been a Government of Vietnam commitment to continue with P135, and increase resources devoted to poor and disadvantaged areas. There has also been a growing unease with the challenges and delays of implementing ODA projects in parallel to P135 with their imposed reporting, procurement, and implementation procedures. This has prompted government and a growing number of donors to jointly consider options for streamlining and harmonising donor support for poverty reduction through direct support for P135, and DFID's proposal to pilot PRBS for P135 in 2005.
- 2.2.4 This intervention is fully consistent with DFID Vietnam CAP 2004-06. It represents a direct attempt to strengthen Government's efforts to achieve socially inclusive development and accountability to citizens (CAP objective b) by strengthening the implementation of P135 and paving the way for improved design and implementation of future NTPs. Through improved resource allocation and fiduciary arrangements, and by seeking greater decentralisation in P135 this intervention will help promote the effective, efficient and equitable use of public financial resources (CAP objective a).

### **Approach**

- 2.2.5 The Government of Vietnam is very keen to pilot the approach of donors directly supporting P135. The Prime Minister of Vietnam recently gave approval to this one year PRBS to P135 - a first in Vietnam. The design of this intervention has involved dialogue with three key Ministries - Committee for Ethnic Minorities (CEM) in its capacity as the executing agency for P 135, along with the Ministry of Planning and Investment (MPI) and the Ministry of Finance (MoF). The MPI is using DFID's approach to P 135 as an opportunity to lobby other donors to take a similar approach of directly supporting and strengthening Government programmes, rather than setting up programmes in parallel.
- 2.2.6 A growing number of bilateral and multilateral donors are considering support to the re-designed NTPs from 2006. Several are hesitant about providing direct support due, at least in part, to a lack of evidence about its effectiveness in the Vietnam context. By piloting PRBS in 2005, DFID will lay the foundations for donor harmonisation and provide important evidence of PRBS effectiveness. The development of a 'learning framework' to capture the process and outcomes of this instrument will ensure awareness is raised and lessons learned by the Government of Vietnam and donors in a transparent manner.

### **2.3 Economic Appraisal**

- 2.3.1 The total allocation for P135 has increased in recent years while overall levels of poverty in the poorest communes has been decreasing, albeit

slowly. This reflects the Government's commitment to targeting resources on poverty reduction. Funding for P135 mainly comes from the state budget and increases in expenditures from 2001 to 2004 have averaged 6% and 12.5% respectively for P135 and all NTPs. The NTPs represent around 3% of the state budget, and P135 as the largest NTP, represents around 30% of the total budget for NTPs.

- 2.3.2 The government has recognised that there is a large funding gap in meeting the needs of the poor communes in P135. Given the strong pressure on government budget, the resources available have met less than 50% of P135 commune needs (Government evaluation, July 2004). This intervention will partially bridge this gap. The allocation from government budget for P135 in 2005 before the DFID grant remains about the same in real terms. The DFID PRBS will be on budget, additional, and increase the P135 budget by around 18%.
- 2.3.3 Rigorous documentary evidence of the cost effectiveness of P135 investments is not available. Informal observations suggest that procurement under donor projects save 3-10% compared to costs under P135. Preliminary findings from a perception survey in 24 communes comparing projects to P135 suggest that project investments perform better in terms of transparency, capacity building and environmental protection. But to achieve these perceived advantages, projects have substantially higher overhead costs, especially those relating to specialised local and expatriate staff. Projects also operate on a much more restricted scale. It is not feasible for these levels of service and overheads to be maintained in a national programme. DFID and World Bank research is currently underway to substantiate these findings and better understand the reasons for these differences. Importantly, the level of satisfaction in all these areas is high under both P135 and projects. Supporting P135 creates opportunities to improve efficiency and service quality directly and to have impact on a national scale.
- 2.3.4 The financial allocation system among the eligible P135 communes provides a fixed equal amount (500 million Vietnamese Dong in 2004) given to each commune. To increase the poverty focus, DFID has reached an agreement with government for DFID's contribution in 2005 to be spent on 250 of the poorest communes. In the medium term, DFID will engage in the re-designed P135 to look at possible measures to make the allocation more poverty-sensitive.
- 2.3.5 The focus on infrastructure in P135 has been too dominant. Around 95% of resources are financing infrastructure leaving 5% for the remaining components: training, extension and resettlement. Little or no allocation has been made for O&M. DFID is working in the broader context of public financial management, and within P135, to raise the need for more spending on recurrent O&M. The P135 capacity building component will double in 2005 for more training to commune cadres. The agreed P135 workplan for 2005 further documents the changes in

O&M and capacity building expenditures, and is detailed in the partnership arrangement.

- 2.3.6 Within the infrastructure component there is also a bias towards larger-scale investments and schemes. This is often caused by district rather than commune authorities being responsible for investment decisions. These issues are priority areas for our intervention and have featured strongly in the negotiation for this PRBS. It is envisaged in the workplan that with improved capacity for planning and supervising investment, more communes (50% of them in 2006) will be given investment owner responsibilities in the new phase of the programme. This will help project choices that better reflect the needs of poor people and improve overall efficiency and effectiveness of P135.

## **2.4 Social Appraisal**

- 2.4.1 P135 is a reasonably well-targeted programme but community consultation is weak, especially at the planning stage. P135 covers most of the poor communes in the lagging regions of the country that are largely inhabited by ethnic minorities. Around 55% of the households in P135 communes are poor. Despite the pro-poor focus of the programme, studies suggest that the selection of basic infrastructure activities do not always reflect the priorities of the poor. The impact assessment indicated that only a third of the respondents had been consulted for road and school projects. Large infrastructure investments tend to be prioritised over smaller village based investments, and infrastructure over other livelihood support or income generation activities, which are often more relevant to the poor. Remote villages within a commune do not always get their share of public investment. These issues are being addressed within P135 re-design.
- 2.4.2 Given this context, P135 needs to strengthen participatory mechanisms to ensure that “voices” of the poor/remote villages are heard, specifically at the planning stage. P135 also needs to build upon the grassroots democracy process to ensure mass organizations encourage communities to participate in P135 processes, and that information about P135 contracts and projects is publicised in local communities. The efforts to decentralise P135 management to the commune level are also important to encourage greater participation of people in the planning, implementation and monitoring of infrastructure investments. DFID’s support will help to further realise grassroots democracy objectives by requiring greater P135 information availability to poor people and by strengthening the skills of local cadres. The government is committed to address this weakness in the future NTP by strengthening mechanisms for participation and oversight by beneficiaries.

- 2.4.3 The current system for O&M is anti-poor. Under the Government of Vietnam's socialisation policy<sup>5</sup> most O&M for local infrastructure is covered through community contributions, which takes the form of compulsory labour, and/or cash contributions. This particularly impoverishes poor households and diminishes their income earning opportunities. To address this, P135 will need to establish a pro-poor and sustainable O&M system. DFID's intervention is raising the importance of this issue and alternative O&M models will be piloted for scaling up in 2006.
- 2.4.4 Wage and labour opportunities for the poor are not being created as stipulated in P135 guidelines. The majority of people living in the P135 communes are poor and largely dependent on agriculture for their livelihoods. Given that most of these communes are in remote uplands, opportunities for wage labour are limited. The P135 is designed to create wage labour opportunities for the poor and this is not always implemented. Analysis suggests that contractors appointed by the district (84% of the P135 communes), usually ignore this stipulation, in contrast to contracts managed by the commune, which provide better opportunities for local labour. Measures to ensure the implementation of this guideline will be discussed under the broader framework of the redesigned NTP.
- 2.4.5 The P135 agriculture extension system provides standardised models that are not always suited to the diverse livelihood strategies of the poor in remote upland areas. Ethnic minorities are often dependent on forest land for their living and intensive cropping models are frequently inappropriate for their circumstances. This issue will need to be addressed as part of the broader framework of redesign of the NTP. The limited access to, and security of tenure over, forested land is a further issue to be addressed in the medium term if P135's goals are to be effectively reached.
- 2.4.6 The resettlement component (known as sedentarisation) of P135 is concerned with relocating people living in protected areas or vulnerable locations with high costs of service delivery. This is potentially sensitive for DFID. Impact assessments suggest it is the least effective component of P135 leaving beneficiaries in certain locations no better, or sometimes worse off, than before resettlement. The quality of infrastructure built in new settlements is often poor. The associated intensification of agriculture does not always suit the living patterns of mobile ethnic communities. The allocation to resettlement has declined over the recent years to its current level of 1.5% of P 135 budget. Nevertheless, discussions with Government of Vietnam on this issue have led to a joint assessment of the resettlement process and

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<sup>5</sup> The Government of Vietnam in the next five-year Socio-Economic Development Plan will accelerate the implementation of the Socialisation/Commercialisation of public services in health, education, science and technology, culture and sports. This is expected to structurally reform the public services sector to improve the efficiency and to reduce burden on state budgets. The government is committed to pay for the poor but will make the non-poor pay for these services.

impacts with a view to generating lessons about such activities in the future.

## **2.5 Governance Appraisal**

2.5.1 P135 is one of 11 NTPs being implemented by Government of Vietnam in the current 5 year planning cycle [2001-2005]. The NTPs are designed to provide additional resources and facilitate co-ordination between different government agencies to achieve specific social and economic goals. Funding is ring-fenced and overseen by a specially established committee, and implementation occurs through existing structures and adheres to relevant sectoral procedures and standards.

2.5.2 At national level, P135 is coordinated through an inter-ministerial Steering Committee led by the CEM. CEM has responsibility for overall P135 design and monitoring, and for implementing the commune and commune cluster centre infrastructure and training components. The Ministry of Agriculture and Rural Development (MARD) is responsible for the extension and resettlement components. MPI determines the final resource allocations within P135 and MOF ensures funds are disbursed and accounted for. At provincial level, the programme is managed by the Province People's Committee as a separate part of the socio-economic development plan of the province, with the management units variously under the Department of Planning and Investment (DPI) or the Department of Agriculture and Rural Development (DARD). These units set the framework for P135 implementation at district and commune levels.

2.5.3 Whilst clear criteria - including poverty, remoteness, and infrastructure assets - exist for the selection of P135-eligible communes, they are not always applied transparently at the provincial level. Very few communes have graduated from the programme whilst provinces have been known to subdivide poor communes in order to access additional P135 resources. These concerns are being addressed in future programme redesign.

2.5.4 Appraisal identified issues regarding the relative merits of financing and implementing NTPs separately from existing sector policies and plans. This approach has the risk of marginalising the social exclusion debate from central policy and budgetary discourse. However, Government of Vietnam's approach to programming exhibit a strong recognition of the need to grapple with this particular challenge. It believes that the institutional arrangements of the NTPs at the national and provincial level will allow for coordination across sector ministries while maintaining the focus on the poor excluded groups.

2.5.6 Monitoring is relatively weak and under-resourced. There is limited attention to the linkages between P135 activities and outputs and outcomes. Ad hoc reviews and statistics of dubious validity are the

norm rather than systematic reporting. By using Government of Vietnam reporting systems, this intervention will highlight management and monitoring weaknesses to be addressed in the new NTP.

- 2.5.7 With its emphasis on locally-specified plans and communes having responsibility for procuring and managing small scale infrastructure, P135 represents an important vehicle for testing out decentralisation. However, this intent has only been realised to a limited extent to date. Only around 15% of communes currently exercise full 'investment ownership'.
- 2.5.8 Ensuring the development of local capacity in planning, technical supervision and financial management is key to addressing these concerns. However, capacity building continues to receive low priority in P135 accounting for less than 2% of annual funding. There is still no overall capacity building strategy under P135. Instead training activities are conducted in an ad hoc manner.
- 2.5.9 The current intervention directly addresses this through a doubling of the capacity building budget for 2005 with a focus on the skill sets of commune and village cadres and Commune Supervision Boards. Further support to realising decentralisation through P135 will include developing and piloting templates for P135 information provision to communities in appropriate languages and formats. P135 redesign will also seek to refine the criteria for investments best managed at commune, rather than higher levels.

## **2.6 Environmental Appraisal**

- 2.6.1 Most P135 investments are small-scale in both budget and scope and therefore direct environmental impacts will generally be limited. However, P135 communes are often in environmentally sensitive areas. Despite a clear and functional environmental assessment process in Vietnam, there are no requirements for environmental management plans. Local environmental agencies often lack technical guidance and the requisite capacities to design and implement mitigation measures or to promote sustainability more generally. Environmental monitoring is also weakly enforced.
- 2.6.2 These issues will be directly addressed through a joint review of how Government procedures are applied in practice with a view to generating lessons about ensuring environmentally sustainable investments in the future.

## **2.7 Fiduciary appraisal**

- 2.7.1 The overall assessment of fiduciary risk for P135 is judged to be medium. This assessment has been reached in consultation with the Public Financial Management & Accountability (PFMA) Team and is available at Annex 2.

- 2.7.2 The recent Public Expenditure Review and P135 tracking studies in selected provinces concluded that P135 funds are generally managed in accordance with financial regulations and that leakage was low. The flow of ring-fenced funds under the NTP from central to local Treasuries enables control over fund use and helps prevent leakage. Whilst corruption is a problem in Vietnam, the decentralised nature of P135 implementation and the transparency of resource allocations suggest that corruption is less of a risk for P135 than for public expenditure as a whole.
- 2.7.3 The assessment suggests that the highest risks are in the areas of data quality, and the effectiveness of scrutiny and procurement systems.
- 2.7.4 There are two separate financial reporting systems, one based on Treasury records and one for P135 spending agencies. Locally-generated resources, which are additional to the resources from central Treasury and account for as much as 15% of P135 spend, are not consistently and systematically recorded by spending agencies. Record keeping by spending agencies is generally weak, and data from these two reporting systems are not systematically reconciled.
- 2.7.5 Audit and review mechanisms for P135 are inadequate. The system relies on occasional selective audits that provide a snapshot but no ongoing control. No audit of aggregated P135 expenditures has been conducted. Internal audit units are mandated at the local level, but they are yet to be effectively established in practice. Financial and audit reviews tend to be at a high level of generality, and rely heavily on a relatively weak state audit agency.
- 2.7.6 Procurement systems are weak. Many P135 contracts are too small to use competitive procedures and there are few potential contractors competing anyway at local levels. Although P135 has established Commune Supervision Boards to monitor contractors' adherence to specifications, these Boards lack the technical skills to do this effectively .
- 2.7.7 The government has credible reform programmes in place that address each of these areas of concern across the public financial management system. There is a generally positive trajectory of change with regard to fiduciary risk. In addition, further risk mitigation measures are built into the proposed aid arrangement and related agreements with Government and include the following:
- a. A supplementary audit exercise on 2005 transactions covering the reconciliation of financial records, the observance of financial regulations, and contracting propriety.

- b. An expenditure tracking study to cover a sample of transactions with regards to planning, authorisation, commitment, contracting, payment and completion.
- c. Requirements for spending agencies to publish and disseminate financial information in accordance with Grassroots Democracy Decree legislation.

These measures will help to expose poor practice and inform the discussions about NTP redesign and fiduciary risk management for all stakeholders.

2.7.8. DFID's Finance and Corporate Performance Division (FCPD) has been consulted and is satisfied that the fiduciary risk assessment has been carried out in accordance with current DFID policy and operational guidance and that related judgements are explicitly presented and consistent with reasonable evidence.

## **2.8 Lessons & Evaluation**

2.8.1 The key appraisal issues and related mitigation measures identified above have been derived from internal Government of Vietnam monitoring reports, an ongoing Government-donor lesson learning partnership, donor project experiences, and the recently concluded joint evaluation of P135.

2.8.2 The indicators described in the logical framework will provide a sound basis upon which to judge the success of this intervention in three ways:

- a. Output monitoring will enable an assessment of P135 results and contributions to poverty reduction, and DFID's contribution to those.
- b. Monitoring the supplementary fiduciary and technical measures and the P135 re-design process will indicate the trajectories of change in P135 that this intervention has helped to catalyse.
- c. The Learning Framework will enable broader lessons to be drawn by donors and Government about the effectiveness of the PRBS instrument.

## **3. IMPLEMENTATION**

### **3.1 Management Arrangements**

3.1.1 A Partnership Arrangement (PA) between DFID and Government of Vietnam will govern the implementation of the PRBS instrument. The day-to-day implementation and monitoring of the PA is the responsibility of the P135 Partnership Committee (PC) chaired by CEM with permanent membership from MPI, MOF, Office of the Government (OOG), MARD and DFID. Ad hoc representation from local government, other donor agencies and civil society is subject to agreement from the PC. The PC is responsible for synthesising

proposals and recommendations for consideration by the Central P135 inter-ministerial Steering Committee.

- 3.1.2 The PC will provide technical oversight and manage the work associated with the supplementary fiduciary and technical measures agreed under the PA, whilst the finances provided for this purpose will be managed by DFID.
- 3.1.3 The Sustainable Livelihoods Adviser will be responsible for implementation within DFID.

### **3.2 Timing**

- 3.2.1 The PA will become effective upon signature by DFID and Government of Vietnam and will be terminated by mutual agreement at the end of 2005. DFID will release funds in two equal tranches in April 2005 and October 2005. The release in April will be triggered by the signing of the PA. The release in October will be triggered by completion of a Joint (Government of Vietnam and DFID) Review of P135 progress conducted during August or September 2005.

### **3.3 Funding**

- 3.3.1 DFID will contribute £10m as PRBS to P135 during the UK financial year 2005-06. This is additional to around £54m of Government of Vietnam's funding to P135 for 2005.
- 3.3.2 DFID will contribute up to £250,000 as stand-alone technical cooperation during the UK financial year 2005-2006. Funds are available within DFID Vietnam aid framework.

### **3.4 Contracting and Procurement, Accounting and Audit**

- 3.4.1 The DFID funds provided as PRBS will be subject to Government of Vietnam procurement and audit procedures and regulations.
- 3.4.2 The stand-alone technical cooperation funds provided for the work associated with the supplementary fiduciary and technical measures agreed under the PA will be subject to DFID procurement, accounting and audit procedures.

### **3.5 Monitoring and Reporting**

- 3.5.1 CEM has developed a 2005 workplan setting out expected outputs with indicators . These are reflected in the logical framework (Annex 1).
- 3.5.2 Monitoring will be conducted jointly with the Government, based upon existing government systems and procedures. This intervention will seek to further develop these to increase the quality and availability of information to all stakeholders. Quarterly and semi-annual progress

reports from Central Agencies (CEM, MARD) and from a sample of Executing Agencies at Provinces, Districts and Communes will be provided to the PC covering:

- Overall progress with P135 implementation, contracts awarded, work quality, extent of poor people's participation in project selection, problems arising and subsequent actions taken;
- Implementation of extension and sedentarisation components of P135, including number of beneficiaries;
- Effectiveness of P135 training conducted; and
- Extent of locally generated funding and contributions.

3.5.3 In addition, progress against measures agreed in the PA to mitigate key fiduciary and technical risks identified during appraisal will be reported at the PC quarterly meetings. A joint review in August or September will include an assessment of financial commitment and releases to P135, an assessment of progress on agreed fiduciary and technical measures, and a discussion of the P135 policies, priorities and work plans for a re-designed P135.

#### 4. RISKS

4.1.1 The key risks associated with this intervention are the fiduciary risks inherent in a PRBS modality, the extent to which O&M and the key decentralisation issue of capacity building will be addressed, and risks relating to follow-on activities in Phase 2 of this intervention.

*Risk 1: DFID funds are not used for their intended purpose, are not properly accounted for, and do not represent value for money*

4.1.2 Generic and P135 risk assessments indicate that there have been substantive improvements in public financial management in recent years. There is a credible programme of change in hand led by the Government that is being supported by donors. However, the current level of fiduciary risk is assessed as **medium**.

4.1.3 Monitoring the supplementary measures agreed in the PA will increase the level of safeguard significantly. It will also provide further impetus to reform programmes. The single year only commitment to P135 further mitigates this risk.

4.1.4 In addition, the implementation of the proposed decree on community supervision of local investment projects with respect to P135 will be monitored during the course of the year.

*Risk 2: The intervention fails to catalyse the establishment of a sustainable and pro-poor O&M system, thereby risking the further impoverishment of poor households.*

- 4.1.5 The lack of a system to address future O&M requirements has serious implications for the cost-effectiveness of P135 investments, and often leads to a heavy burden on the poor. Despite a wide range of analysis and useful pilots, there has been no attempt to apply these at scale in the context of P135. The multi-sectoral nature of P135 infrastructure requires a variety of approaches to sustainable O&M and poses the additional challenge of ensuring consistent policy within and across sectoral ministries.
- 4.1.6 Some progress in this area has been made, with CEM intending to pilot O&M funds in 850 P135-graduating communes next year. This will be complimented by the piloting of alternative O&M models as part of this intervention. There is also growing consensus around the need for a community O&M fund in the P135 re-design process.
- 4.1.7 The risk of failing to leverage further progress is assessed as **medium**.

*Risk 3: The intervention fails to deepen decentralisation by leveraging reforms of, and resource increases to the capacity building component of P135*

- 4.1.8 Ensuring that staff in P135 communes have the appropriate skills to plan, manage and maintain P135 investments is a key challenge for decentralisation in general and for the success of P135 in particular. Ongoing dialogue around P135 re-design has highlighted these concerns, but as yet there has been limited observable change in the approach or resourcing of capacity building activities. Promising signals are emerging from the Public Administration Reform Programme. These include a list of the skills required of commune and district officials developed in January 2004. This may help leverage change within P135.
- 4.1.9 Responsibility for capacity building in P135 has recently been consolidated in CEM who are developing a capacity building strategy. As part of this intervention, a doubling of the capacity building budget for 2005 was agreed with a focus on core technical and managerial skills. Close monitoring will create further opportunities for dialogue and progress in this area.
- 4.1.10 The risk of failing to leverage further progress in this area is assessed as **medium**.
- Risk 4: Government does not proceed with this or similar targeted programmes and other donors fail to respond positively to the lessons demonstrated*
- 4.1.11 The review of the structure and design of the NTP is in hand, and strong statements have been made by Government about the importance of their continuing role as an instrument for achieving policy priorities.

4.1.12 There is considerable interest within the donor community in this initiative. At least seven donors including the World Bank have expressed interest in supporting a similar initiative if it works effectively. A wide range of donors have been involved in discussions around design, and the learning framework will ensure PRBS P135 experience is widely shared.

4.1.13 Despite relatively open and high quality discussions about the re-design of P135 and similar programmes, the extent to which final programme design will be acceptable to donors will remain unclear until mid 2005.

4.1.14 This risk is assessed to be **low**.

Risk Area	Degree of Risk (High, Medium, Low)	
	Impact	Probability
Major failures in Government financial control systems	High	Low
Decentralisation constrained by limited progress on capacity building in P135	Medium	Medium
Limited progress on O&M in P135	High	Medium
Government of Vietnam decides not to proceed with P135 or similar programmes	High	Low

4.1.15 Overall, the risk is assessed as **MEDIUM**.

## **ANNEXES**

1. Logical Framework
2. Fiduciary Risk Assessment
3. Cost estimates for £250,000 Stand Alone TC

## **KEY BACKGROUND DOCUMENTS (available on request)**

4. Learning Framework
5. Partnership Arrangement

## Annex 1. Logical Framework

Narrative Summary	OVI	MOV	Assumptions
<p><b>Goal</b> Reduced poverty and more sustainable livelihoods for those living in the country's poorest and most marginal communes.</p>	<p>Income and food poverty indicators in P135 communes improve, or do not worsen.</p> <p>At least 35% of P135 communes graduate from P135 by 2006.</p>	<p>VLSS &amp; GSO data</p> <p>P135 commune list</p>	
<p><b>Purpose</b> Implementation of GoV's P135 is more effective</p>	<p>Significant increase in resources going to poorest 250 communes.</p> <p>X fiduciary weaknesses highlighted by supplementary audits, expenditure tracking study and financial data reconciliations highlight fiduciary weaknesses.</p> <p>X replicable lessons for more pro-poor and sustainable small scale infrastructure generated by O&amp;M pilots.</p> <p>P135 management decentralised to commune level in 20% of P135 communes in 2006.</p>	<p>Government of Vietnam internal P135 reports</p> <p>Joint GoV-donor review</p>	<p>Other policies and budgets are supportive of sustainable livelihoods in remote poor communes.</p> <p>Vietnam's global integration process does not undermine livelihood sustainability in remote communes.</p>
<p><b>Current P135 Outputs</b></p> <p>1. Poverty-reducing productive and social infrastructure investments delivered in P135 communes and commune cluster centres</p>	<p><b>Current Government of Vietnam Targets</b></p> <p>1. Numbers of SSI investments in P135 communes; no. of poor households in P135 communes falls to 20% by end 2005; no. poor households with access to clean water exceeds 50 %; primary school</p>	<p>1. Government of Vietnam monitoring reports; Joint Review</p> <p>2. Government of Vietnam monitoring reports; Joint Review</p> <p>3. Government of Vietnam monitoring reports; Joint</p>	<p>No substantial deviation from the agreed poverty reduction programme or no serious breakdown in financial management and accountability occurs to undermine the Partnership Agreement.</p>

<p>2. Agricultural extension, in association with product processing and marketing services, provided to the poorest households in P135 communes.</p> <p>3. Resettlement activities secure the livelihoods of poor households in P135 communes</p> <p>4. The capacity of commune and village cadres to plan, implement, supervise and maintain P135 investments is enhanced.</p> <p><b><u>Additional Outputs</u></b></p> <p>5. Additional resources provided to P135 through Government of Vietnam systems.</p> <p>6. Supplementary fiduciary and technical measures agreed between Government of Vietnam and DFID are carried out</p>	<p>enrolment sustained at over 90%; diseases controlled in 90% of communes.</p> <p>2. Number of adults receiving extension advice and enterprise training exceeds 50%</p> <p>3. Number of conflicts arising; proportion of resettled households satisfied with process and outcome.</p> <p>4. Quality of new training materials developed; course evaluations reflect positive capacity gains</p> <p>5. P135 budget (and outturn) before and after DFID contribution.</p> <p>6. Supplementary audit and expenditure tracking studies completed; P135 information templates designed and piloted; O&amp;M pilots underway; Sedentarisation and Environmental studies completed.</p>	<p>Review; Resettlement study</p> <p>4. Government of Vietnam monitoring reports; Joint Review; informal DFID assessment</p> <p>5. Treasury records; P135 Workplan; Joint Review</p> <p>6. P135 Partnership Committee quarterly meeting minutes; Joint Review; P135 design document.</p>	<p>Lessons arising from the application and monitoring of agreed measures to strengthen P135 are deemed appropriate inputs for P135 re-design by GoV.</p> <p>The Learning Framework generates convincing evidence about the most appropriate modalities for coherent donor support to P135.</p>
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