



Asian Development Bank

*Khuc Huang,
Thanks. Please follow-up on action
and timelines during TPRM. Hard
to extend without progress and clear
Memorandum plan to
Viet Nam Resident Mission
implementation, agreed to with
TPM and Def.*

FOR INFORMATION

11 August 2017

To: Eric Sidgwick, Country Director, VRM *9/5. 6/11/17*

Through: Norio Saito, Deputy Country Director, Head of Project Administration Unit, VRM *Norio Saito*

From: Khuc Thi Lan Huong, Project Officer, VRM *Lanhuong*

Subject: **Loan 2721-VIE/Grant 0433-VIE: Greater Mekong Subregional Biodiversity Conservation Corridors Project**
– Back to Office Report of the Combined Loan Review and Grant Mid-term Review Mission (14 – 22 July 2017)

I. INTRODUCTION

1. A combined loan review and a grant mid-term review mission (the Mission)¹ for the captioned Project was fielded to: (i) review the overall project implementation progress; (ii) review the achievement of the Project's contract award and disbursement progress; and (iii) address issues that came up since the last review mission in November 2016. For the grant, the objective of the mid-term review is to reset the eOps targets due to the grant start up delay that caused underachievement of the contract award and disbursement projections for 2017.

II. FINDINGS

2. **General progress.** The loan project elapsed implementation time is 74%, while the total cumulative contract awards and disbursements (including interest during construction-IDC) are \$15.9 million and \$11.7 million, respectively, equivalent to 59% and 44% of the net loan amount of \$26.9 million. 2017 projection of \$2.861 million (contract awards) and \$0.675 million (disbursement) for the loan project will be fully achieved. Significant progress is being made for the core activities of forestation and commune forest management (CFM).

3. The grant project elapsed implementation time is 37%. The 2017 projection of \$0.648 million (contract awards) and \$0.567 million (disbursement) for the grant will be underachieved. By 30 June 2017, the CAD achievements were \$0.207 million and \$0.103 million, respectively, equivalent to 5.4% and 2.7% of the net grant amount of \$3.8 million, and equivalent to 69% and 34.5% versus the e-ops targets of \$0.648 million and \$0.567 million for contract awards and disbursements, respectively.

4. **Decreased net loan amount** of \$3.1 million as of 21 July 2017 due to forex fluctuation resulted in a need to reduce the original project scope. This, along with implementation delays may result in underachievement of the quantifiable DMF targets and risks of the project outcome of the sustainable forest management. A number of project activities will have to be taken out from the original design including partial forest restoration/management and livelihood activities.

¹ The Mission comprised of Khuc Thi Lan Huong, Project Officer, VRM (Mission Leader); and Truong T. Minh Hue, Project Analyst, VRM (Mission Member).

5. **Insufficient ADB fund allocation (disbursement cap) by Ministry of Finance (MOF).** In 2017, the fund shortage for the loan project is \$5.5 million. This seriously impacts the key project activities of forest tending/protection and livelihood support activities that are at the intensive and critical implementation stage. Ministry of Natural Resources and Environment-EA (MoNRE) and provinces-IAs have been constantly following up with MOF; however by the time of the Mission funds were not received by Thua Thien Hue province, and fund shortage situation still remains in Quang Nam and Quang Tri provinces. The issue, if takes place again in 2018, will diminish effort by all stakeholders. The issue has been included in the L2721/G0433 issue paper of the Tripartite Portfolio Review Mission (TPRM) meeting to be discussed in August 2017. ✓

6. **Slow forest restoration and commune forest management (CFM) activities.** Delay in award of the critical contracts for land use certificate (LUC)/forest planting design and forest allocation/inventory caused serious impact to the progress of forest restoration and sustainable forest management activities. The package in Thua Thien Hue went to rebidding (due to possible collusion among bidders, which was already reported to OAI) and has not been re-advertised. The critical paths for those core activities have been updated with the milestones for completion of all forestation activities by Q1 2018 and CFM activities for the pilot sites by Q4 2017.

7. **Risks for sustainable forest management (SFM).** 3 years are needed for tending of planted forests, and implementation of 5-year forest management plan are the key to SFM. With cumulative delay of 4 years including start-up delay and procurement/implementation delays, in addition to the 2017 insufficient funds for project activities, the SFM as the key project outcome will be in a risky situation. Either two-year loan extension or tailored arrangements are needed so that the forest tending/protection could continue after the loan closing date of 30 September 2019. Options are being explored and a decision needs to be made by Q4 2017.

8. **Loan extension.** A two-year loan extension is foreseen due to the matters discussed in paras 6-7. However, a number of issues can be identified: (i) time needed to obtain government and ADB's approval during which project activities could not proceed (if extension request is delayed); (ii) MOF may object the extension because the costs for project activities are classified by MOF as 'recurrent costs' according to the current interpretation of the 2015 State Budget Law; (iii) insufficient loan fund for project management and implementation support costs; and (iv) uncertainty in mobilization of counterpart funds to cover the costs needed for the extended period. Loan extension will be further discussed along with other options.

9. **Tailored arrangements.** The Mission is considering tailored arrangements for forest tending/protection, in which funds could be transferred to the to-be-established forest tending/protection deposit accounts in the provinces before the loan closing date and forest tending/protection supporting documents would be collected after the loan closing date. The Mission will consult relevant departments in ADB whether the proposed arrangements are acceptable.

10. **Start-up delay of the additional financing - grant 0433-VIE.** The grant faced one-year start-up delay and started to catch up since Q2 2017. One among the two key contracts was awarded in June 2017 and the award of the second one is expected in Q1 2018. The first disbursement was made in August 2016 and the next one is expected in August 2017. The grant was rated amber in Eops from Q2 2017 and will be rated red from Q3 2017. A request to reset the eOps targets based on the outcome of the grant mid-term review will be submitted. ✓

11. **Compliance with Loan Covenants.** All covenants are complied or being complied with. The compliance with loan covenants was discussed with the CPMU and the status of compliance is in Attachments 8 of the Aide Memoire (AM).

12. **DMF targets, safeguard and Gender.** DMF targets will be substantially achieved provided that issues as discussed in para 7 above would be addressed. Status of achievement of DMF targets

are in attachment 2 of the AM. Safeguard requirements are complied with and GAP implementation is on track with details in attachment 7 of the AM.

III. RECOMMENDATIONS/DECISIONS

13. With the current intensive stage of project implementation, sufficient ADB fund allocation is important for the project to progress. The Mission will raise this issue at a higher level in TPRM so that funds can be allocated timely and adequately to the EA and IAs.

14. With regard to sustainable forest management as discussed in para 7, the insufficient time for project tending/protection may risk the project outcome. The project team is exploring feasible arrangements so that tending/protection activities could be continued after loan closing date of 30 September 2019 for at least two more years.

15. Regarding the grant, a request to reset the eOps targets based on the outcome of the grant mid-term review will be submitted.

16. Next review mission is proposed in November 2017.

Attachments:

Attachment 1: Project Brief

Attachment 2: Key Project Activities Monitoring Sheet

Attachment 3: Signed Aide Memoire

cc: Director General, Deputy Director General, SERD
Country Director, Deputy Country Director, VRM
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AIDE MEMOIRE

L2721 (VIE) & G0433 (VIE): GMS BIODIVERSITY CONSERVATION CORRIDORS PROJECT Loan Review Mission & Grant Mid-term Review

Viet Nam, 14 – 22 July 2017

I. INTRODUCTION

1. The Asian Development Bank (ADB) fielded a Review Mission for Loan 2721 (VIE) and a Mid-term review Mission (the Mission)¹ for the Grant 0433 (VIE): GMS Biodiversity Conservation Corridors Project (hereinafter referred to as the Project) between 14 and 22 July 2017. The Mission met staff of the Central Project Management Unit (CPMU) based in the Viet Nam Environment Administration (VEA) within the Ministry of Natural Resources and Environment (MONRE) – the Executing Agency (EA), Project Directors and staff of Quang Nam, Quang Tri and Thua Thien Hue Provincial Project Management Units (PPMUs) and District Project Implementing Units (DPIUs). Attachment 1 contains a list of persons met by the Mission.
2. The objectives of the Mission were to review (i) the overall project implementation progress against the action plan prepared during the review mission in November 2016 and the targets included in the design and monitoring framework; (ii) the Project's contract award and disbursement progress; and (iii) address issues that came up since the last review missions in November 2016.
3. Regarding grant project, the Mid-term review mission aims at, in addition to the above, to reset the projections of the contract award and disbursement due to long start up delay since the grant effectiveness on 23 February 2016.
4. This Aide Memoire records the Mission's findings and agreements reached with CPMU and the three participating PPMUs at the wrap-up meeting on 24 July 2017. The agreements reported in this Aide Memoire are subject to review and approval by higher authorities of MONRE, Provincial People's Committees and ADB.

II. BACKGROUND

5. ADB approved \$30 million loan financed from its Asian Development Fund Special Funds Resources for the Project on 10 December 2010. The loan became effective on 9 August 2011. The Project completion date is 31 March 2019 and Project closing date is 30 September 2019. The long-term impact of the Project is climate resilient sustainable forest ecosystems benefiting local livelihoods. The Project outcome is sustainably managed biodiversity corridors in Viet Nam.
6. On 24 June 2015, ADB approved an additional financing in the amount equivalent to \$3.795 million from the Global Environment Facility (the Grant). The Grant Agreement was signed on 4 September 2015 and became effective on 29 February 2016, with the closing date of 30 September 2019. The grant project supplement the loan project scope through addressing the fragmentation of the forest landscape in the Central Annamite and thus maintain the impact of the ongoing loan project.

¹ The Mission comprised Khuc Thi Lan Huong, Project Officer, VRM (Mission Leader); and Truong Minh Hue, Associate Project Analyst, VRM. Safeguard and Gender/Social Specialists provided inputs through desk review.

7. The outputs of the loan project are (i) institutions and communities strengthened for biodiversity corridor management; (ii) biodiversity corridors restored, protected and maintained; (iii) support to livelihood improvement and small-scale infrastructure provided in small communes; and (iv) project management and support services provided. And the outputs of the grant project have been integrated into the four outputs of the loan project. (See attachment 2 for the combined DMF).

8. The loan Project covers 35 communes (13 in Quang Nam, 12 in Quang Tri and 10 in Thua Thien-Hue) located in 6 districts (Tay Giang and Nam Giang in Quang Nam province; Huong Hoa and Dakrong in Quang Tri province; and A Luoi and Nam Dong in Thua Thien-Hue province) in three provinces. The communes that have been selected are (i) within the biodiversity corridor designed area, (ii) supporting ecosystem connectivity, (iii) considered poor communes, and (iv) holding good forest coverage to facilitate the connection of forest ecosystems.

9. The loan project benefit around 15,500 households. Incrementally, the grant will support improved management of 231,000 hectares of protected areas that would benefits about 6,000 people in the three participating provinces through enhanced ecosystem services, improved carbon stocks and enhanced climate resilience, sustainable forest benefit sharing and improved conservation-based livelihoods.

III. FINDINGS, RECOMMENDATIONS, AND AGREEMENTS REACHED

A. General Project Progress

10. Since the review mission of the Project in November 2016, the implementation progress of the project activities has been steady. Activities under component 1 are on track while there are delays for some activities under component 2 and 3.

11. Under component 1, a basis for the establishment and management of biodiversity corridors has been completed and further piloting is underway. Initial institutions at provincial and community levels have been completed to guide the subsequent activities for sustainable forest management in the entire central region landscapes.

12. Activities under Component 2 are experiencing some delay in forestation design and approval of the design results, and forest inventory. However, the forest restoration and commune forest management (CFM) related activities are progressing with contracts on forest inventory have been awarded for Quang Tri and Quang Nam. In parallel with the forest inventory, SFM pilot activities (development and approval of guidelines and regulations, establishment of CFM operating and management arrangements) are being implemented with the pilot sites which need to be replicated in all the CFM areas selected for BCC in the three participating provinces.

13. Under component 3, business development activities were facing a stagnancy since November 2016 because official decision on the feasibility of the proposed models was not made for the proposed models. In addition, there were changes in CPMU staff in charge of the subcomponent and business development consultant replacement in CPMU that delayed the further guidance from the CPMU to PPMUs/DPIUs in moving forward the subcomponent. Commune investment profiles have been developed and approved or being approved though. More details will be further discussed in the AM.

14. As of 30 June 2017, total cumulative contract awards and disbursements (including interest during construction-IDC) were \$15.890 million and \$11.718 million, respectively, which are equivalent to 59% and 44% of the net loan amount of \$26.945 million (74% of the project elapsed implementation period). The status of loan utilization broken down by

categories is presented in Table 1 below. The Project achieved \$2.816 million out of \$2.816 million and \$0.541 million out of \$0.675 million for contract awards and disbursements, respectively for 2017.

Table 1: Status of loan utilization as of 30 June 2017

| Category Number | Category Name | Allocation | Contract Awards | Disbursements |
|-----------------|--------------------|---------------|-----------------|---------------|
| 1 | WORKS | 3,684,677.00 | 867,232.00 | 405,157.00 |
| 2A | EQUIPMENT | 572,951.00 | 395,858.00 | 359,703.00 |
| 2B | VEHICLES | 232,181.00 | 230,672.00 | 230,672.00 |
| 3 | GOODS AND SERVICES | 10,887,593.00 | 5,765,538.00 | 2,725,372.00 |
| 4 | LIVELIHOODS | 4,178,400.00 | 2329,716.00 | 1,495,511.00 |
| 5 | CONSULTING | 3,699,038.00 | 4,116,938.00 | 2,514,691.00 |
| 6 | CAPACITY BUILDING | 1,066,252.00 | 1,002,739.00 | 830,770.00 |
| 7 | PROJECT MGMT. | 2,069,087.00 | 1,182,174.00 | 831,370.00 |
| | | 26,390,179.00 | 15,890,866.00 | 9,393,246.00 |
| | | | 60.21% | 35.59% |
| 8 | INTEREST | 599,136.00 | | 267,980.00 |
| 99A | IA- CPMU | (19,182).00 | | 750,000.00 |
| 99B | IA - QN | (5,486).00 | | 464,788.00 |
| 99C | IA - TTH | (12,967).00 | | 599,208.00 |
| 99D | IA - QT | (6,115).00 | | 243,293.00 |
| | | 26,945,566 | 15,890,866 | 11,718,514 |
| | | | 58.97% | 43.49% |

15. The Project is still included in the list to be closely monitored by the Ministry of Planning and Investment and ADB. Despite effort by the EA and VRM issues that prevent an effective project implementation are observed, several issues are chronic that need greater attention by the EA and the participating provinces. This will be further discussed below. The project detailed implementation plan is in Attachment 3.

B. COMPONENT 1 - Institutional and communities strengthened for biodiversity corridor management

16. The component has achieved a reasonable progress since the last review mission. Continuing with the momentum from the last review mission, the following have been developed as of the time of the Mission.

17. **Biodiversity Corridor Establishment and Management Framework (BCC Framework).** The draft national and provincial guidelines for the establishment and management of biodiversity corridors in the provinces was completed in Q4 2016. The draft framework consists of an Action Plan for the establishment and management of biodiversity corridors.

18. The action plan includes five agreed key outputs as follows:

- Output 1: Guideline for Provincial Biodiversity Corridor Establishment and Management. This is the basic guidelines of the corridor setup, that could be used for any proposed inland corridor in Vietnam.

This Guidelines on piloting provincial biodiversity corridor establishment and management were completed and issued by VEA in May 2017 through its Decision no. 1283/QĐ-TCMT dated 18 May 2017. Provinces are cooperating with the biodiversity expert in developing technical and financial proposals for the establishment of the provincial BC. The proposals will be consulted with stakeholders, finalized and approval is expected in Q4 2017.

- Outputs 2,3,4: On the basis of Output 1 (above), drafting 03 Provincial Biodiversity Corridor Management Plans. The main aspects of corridor establishment would come from output 1, but for each province there would be a customized supplement. The guideline would vary for each province because of different items (a) Biophysical features, (b) Administrative aspects, (c) Provincial Master Socioeconomic Development Plans. Provincial corridor guidelines will serve as the basis for the operations and management of the provincial biodiversity corridor. Approval of those plans by the provincial governments are expected by Q4 2017.

- Output 5: Interprovincial Conservation Corridor Management Guidelines. This is a definition of how the corridor landscape would be managed as a whole, given that there are three different provinces, with seven different protected areas and three main corridors with sub-sections within six districts. It is basically the institutional and administrative setup to manage features of the conservation landscape into attaining the main goals of the conservation corridors. Liked to this output, or separately, inform policy for Corridor Experience and Recommend Policy Action; which is basically to: On the basis of provincial and interprovincial corridor establishment and management guidelines, collate management prescriptions into a national-level policy guideline and recommendation for biodiversity corridors by MONRE.

19. An issue pending for the national and provincial guidelines on biodiversity corridor management is the determination of the rights, benefits, and responsibilities of the forest owners in the established corridor and agreement on which by stakeholders before the guidelines are officially issued.

20. **Recommendation:** CPMU to assist the PPMUs to finalize provincial biodiversity corridor establishment and management plans which is to be submitted to provincial people committees (PPC) for approval in Q4 2017. This is to prepare for the next step of Interprovincial Conservation Corridor Management Guidelines and policy recommendations to the national policy on biodiversity corridor conservation.

21. **Participatory village land use plans – PVLUP** were approved in 2015-early 2016 for all 35 communes. However, due to delay in subsequent activities (especially forest design) the LUP results needed to be revised and reapproved for 24/35 communes (11

communes in Quang Tri, and 13 communes in Quang Nam) during Q2-Q4 2016. Further delay of implementation of the PVLUP approved results exerted negative impacts on the willingness to continue with the project of the local residents and thus delay in forest land use certification (LUC) and forestation activities.

22. **Knowledge exchange:** A study tour to Australia was organized in December 2016 for the PPC's, PPMU's, VEA's and MonRE's senior staff to exchange about the corridor establishment and management. Another study tour to China will be organized in Q3 2017 with the same purpose for the mid-career staff of the same project stakeholders.

23. **Commune Investment Profiles (CIP).** Based on templates and guidance for development of CIP by CPMU the CIPs for all 35 communes were updated by end 2016. Each CIP consists of two parts: a socio-economic profile of the commune and an investment plan developed by the BCC Project which focuses on four main investment categories, namely: small scale infrastructures, integrated biodiversity conservation, forest restoration and sustainable management, and livelihood related development activities.

24. Livelihood development activities were also updated in the CIPs which were submitted for approval by the PPC. By the time of the mission, 10 CIPs were approved in Thua Thien Hue, no information yet was provided on approval of CIPs for Quang Tri and Quang Nam provinces. It's expected to get approval for CIPs in Quang Nam and Quang Tri by September, 2017. The slow approval, in addition to other occurrences, has resulted in the stagnancy of the livelihood development activities. The livelihood activities will be further discussed in the later part of this AM.

C. COMPONENT 2 – Biodiversity corridors restored, protected, and maintained

25. **Site mapping.** Site mapping was completed for all 13/13 communes in Quang Nam, 10/10 communes in Thua Thien Hue, and 12/12 communes in Quang Tri province. Records have been checked by the CPMU in 2016 and the results of the site mapping were used for the forest restoration related activities.

26. **Forest and forest land use certification - LUC.** By the time of the Mission, the LUC has not yet completed in all three provinces. Despite gaining some progress, the land use certification was facing a major issue. Under the project LUC should be allocated to individuals, households and communities. However, 2013 Land Law disallowed granting LUC of natural and production forests to communities.

27. In November 2016, MonRE, after consultation with government stakeholders, issued Guidelines on processes for LUC to households and communities. More importantly, the Government's Decree no 01/2017/ND-CP dated 6 January 2017 on the adjustment of the Land Law had resolved the problem mentioned in para 26.

28. LUC activities started in 2017 in Quang Tri province (after award of contract D6T4 in Q4 2016). For Quang Nam (although the similar contract D6N4 was awarded in Q1 2017) and Thua Thien Hue, the MonRE Guidelines as mentioned in para 27 are still being studied before the LUC can be issued.

29. Without finalization of the LUC to households the forest plantation and regeneration cannot be sustainable. When the forest plantation completes by end 2017, the tending period would fall shorter than 2 years against the required 3 years of a normal forest plantation process. Without LUC to guarantee the forest ownership after project completion, the forest owners would not have the motivation to continue tending and protection of the planted forests.

30. **Recommendation:** LUC should be completed for households by Q3 2018 at the latest. Thua Thien Hue PPMU with assistance from CPMU, if needed, to follow strictly the timeline set for the award D6H4 (the only pending package on LUC). Quang Nam and Quang Tri PPMUs to follow strictly on the milestones for LUC as mentioned in their signed contracts.

31. **CFM activities** are considered the core component of the project and need to be also completed by end 2017 to give sufficient time for the implementation of the forest management plans. The target for the activities is to include establishment and operation of at least 40 village forest management boards for the 10,000 ha of the community forest land use for which will be certified.

32. **Demonstration models with CFM at the core.** CFM sites located between larger tracks of protected forests are key to meet the project's objectives ecosystem connectivity. Because of this, a project strategy for implementation is to establish a minimum of two demonstration landscapes per province (one per district), where CFM sites act as core, and other project interventions are carried out to support the integrity of these cores by working with local communities in forestry livelihoods, agriculture and agroforestry, CDFs, business development, and small scale infrastructure. As such, project demonstration sites will be strategically placed to maintain the greater corridor landscape connectivity, while holding sustainable community forest management functions.

33. **CFM sites.** Six pilot sites in the 6 project districts include:

- Quang Tri province: about 700 ha in Chanh Venh village, Huong Hoa district and 300 ha in Kreng village, Dakrong district;
- Thua Thien Hue province: Ta village of about 600 ha in A Luoi district and village No.6 of 120 ha in Nam Dong district; and
- Quang Nam province: Ro village of about 2,500 ha in Nam Giang district and Tari village of 850 ha in Tay Giang district;

34. Among those six pilot sites the initial institutional set up has been completed for 5/6 sites including approval of CFM village regulations by the district people's committees (DPC), and operational arrangements with some delays in some sites though. Approval of such regulations is pending for the Kreng pilot site in Dakrong, Quang Tri. Furthermore, PPMUs duplicated CFM sites for 12/33 remaining CFM sites as planned.

35. As of the time of the Mission, the identification of all CFM sites is completed including 39 villages in 35 communes of the three provinces with total area of 11,573.7 ha (overachieved compared to the DMF target of 10,000 ha). Similar initial institution set up as mentioned in para 24 had been replicated to other 12 CFM sites. Next steps will be the development of the 5-year plan for forest management for the all CFM sites in each province. The updated status of completion and critical path for the CFM activities is in Attachment 4.

36. Several issues were observed during the mission. First, there is delay in the forest inventory and delay in approval of the forest protection and development regulations by Dakrong DPC in Quang Tri province. The sustainable forest management structure development activities are being implemented in Quang Tri.

37. **Recommendation:** Because the forest inventory is executed by the Quang Tri PPMU, the PPMU would need to coordinate more closely with Dakrong district PC and engage DPIU staff in the contract execution. This will particularly facilitate approval of the forest protection and development guidelines and other CFM works in the Kreng pilot site in Dakrong district. The mission set a timeline for the approval of the guidelines by end August 2017 for 5 villages in Dakrong district and 4 villages in Huong Hoa district, along with

approval of the forest inventory results in all CFM sites in Quang Tri expectedly also by December 2017. Further delay would lead to possible partial cancellation of some CFM activities in Quang Tri province.

38. Second issue is the serious delay in forest inventory activities in Thua Thien Hue due to delay in award of contract D6H4. By the time of the mission, the package was not yet re-advertised while the results of the forest inventory will be the basis for the subsequent CFM works. Thus, there was no CFM progress in Thua Thien Hue since the last review mission. This has resulted in delay for development, approval and implementation of the 5-year forest protection and management plan for the CFM sites in Thua Thien Hue while the CFM activities need to be completed by December 2017 per the CFM critical path.

39. **Recommendation:** The Thua Thien Hue PPMU, with support by CPMU, is to follow strictly the timeline set for the award D6H4 (the only pending package on forest inventory) and CFM critical path. Any further delay will lead to untimely achievement of the project outputs for Component 2 and possible partial cancellation of CFM activities.

40. **Forest Plantation.** The project includes forestry interventions through 'eco-forest plantations', sought for implementation in the immediate surroundings of, or connecting CFM sites, protected and special-use forests in the conservation corridor landscape. Forest restoration methods under the project include reforestation, enrichment planting, assisted natural regeneration, and non-timber forest products which must be carried out with native species. Three-year tending after planting completion is needed according to the requirement of a normal process of forest plantation.

41. Plantation and regeneration has been completed for 2,341 ha for the period 2013 – June 2017 against the identified of 10,208 ha for restoration through the revised LUP and site mapping exercise and the target of 6,000 ha. The forestation quality was facing issues such as (i) in Quang Nam province: quality of the seedlings in Tay Giang district, and (ii) in Quang Tri province: some planted forests were not in the approved PVLUP and site maps or planting works did not follow the approved design. Updated data for forest restoration based on the approved PVLUP and site mapping as of June 2017 is in Attachment 5.

42. With the current progress the DMF target of 6,000 ha for forest restoration and its completion by 2017 as agreed during the last review mission will not be achieved. In addition, the tending period will be less than 03 years and thus would risk the forest sustainable management. Two scenarios are foreseen.

43. **Scenario 1 - Without loan extension.** The loan closing date will remain September 2019. The plantation activities must be completed by Q1 2018 at the latest to allow a minimum of 1.5 year for planted forest tending and implementation of 5-year plan for CFM.

44. In this scenario, the maximum reforestation area can only be around 5,000 ha vs the target of 6,000 ha in the DMF. In addition, to ensure 3 years for tending works for the 2017-2018 planted forests the funds need to be mobilized from the counterpart fund (CF) or contribution by the local households/communities for at least 1.5 years. This scenario seems more sensible at the current context that loan extension would take time and cannot be warranted.

45. **Way forward.** All three provinces confirmed that completion of the forest planting works by Q1 2018 can be achieved with identified area of 5,000 ha. However, the contribution by the local households/communities or CF mobilization for tending and sustainable CFM will need further discussion with the stakeholders. Without continuation of tending and patrolling/protection after project closing date, the outcome of the project cannot be achieved.

46. With two-year extension of loan closing date to September 2021, if warranted, the plantation activities can be continued until end 2018 with expectation to achieve the target of 6,000 ha of forest restoration in the DMF. Also the 03 years tending as well as significant implementation of 5-year plan for CFM can be secured.

47. However, in the current context of (i) significant net loan amount decrease; (ii) additional human and time resources needed for obtaining the government and ADB approval, there would be a foreseen significant cost overrun. In addition, there is uncertainty for government approval of the extension.

48. Parties noted the critical need for SFM and will make effort to coordinate with stakeholders on working out the best among the available solutions to the issue. For the meantime, the CPMU and PPMUs proposed to reduce the areas for forest restoration to 1,646.2 for Quang Tri, 1,906 ha for Quang Nam, and 1,172.5 for Thua Thien Hue. The updated critical path for the forest restoration and plantation is in Attachment 5.

49. Agreement: The Mission supported the CPMU's and PPMUs' proposal to extend the completion of forest plantation to end Q1 2018 taking into account the plantation seasons in the provinces. Quang Nam committed to complete the forest plantation design by end July 2017, and Quang Tri by end September 2017. Any delay will lead to risks of incompleteness of the activities and the possible of a partial cancellation of the activities for the component, and underachievement of the DMF targets.

50. The Mission also reminded CPMU and PPMUs of the common delays of approval of the project annual workplan and inadequate budget allocation and requested the CPMU and PPMU to take actions to prevent similar delays in 2018 which may further contribute to more delays in plantation and other project activities.

51. Recommendations: Similar to the recommendation during the last review mission, CPMU and PPMUs should develop project annual workplan and budget plan and have those plans approved aligning with the Government budget allocation cycle. Delay in approving those plans should be minimized at the VEA and CPMU.

52. Quality control. Unchanged from the last review Mission. The Mission reiterated the agreement reached during the last review mission on the quality control. The commune PIUs, District PIUs, and PPMUs will monitor 100% of the works carried out by the communities in forest planting, assisted natural regeneration, tending and protection. PPMUs will focus on quality control of the works carried out by the DPIUs. If necessary, PPMUs will collaborate with the relevant staff of the Departments of Agriculture and Rural Development in these supervision/quality control activities.

53. Upon PPMUs' and DPIU's appraisal of the field work quality, CPMU will check at least 10% of the amount of work done on a random basis. In case, there are notable disparities between monitoring results of local authorities and checking results of CPMU, the relevant PPMU and DPIU will conduct investigations and revisions until they are satisfactory to CPMU.

D. COMPONENT 3: Livelihoods and Small-scale Infrastructure Subprojects

54. The project supports for the livelihood of the local farmers/beneficiaries through a number of activities including (i) agriculture livelihood improvement, (ii) forestry livelihood activities, (iii) business development subprojects, (iv) commune development funds, and (v) small scale infrastructure.

55. Agriculture livelihood support. The activity seems to be a good support to the local farmers and suitable to the local conditions. The support of 768 invested models in the three

provinces includes cow/duck/pig raising, home gardening, avocado planting and other proposed agriculture local business development projects. The business development projects will be further discussed below.

56. **Forestry livelihood improvement activity** is of good progress with high probability of completion by end 2017 with target of 1,200 ha. The project supports local farmers in the project area with planting of native perennial trees such as Lat Hoa, red Boi Loi species and mixed with acacia in some places. Forest tending support of 3 years is being provided. Against the target of 1,200 ha, the plantation of 1,050 ha was fully completed by the time of the Mission and the set target for this activity will be achieved.

57. **Business development for livelihood improvement.** As agreed during the last review missions, CPMU and PPMUs with support by the business development consultant, who works in direct liaison with field PMUs based on the results of consultation with the local communities by DPIUs and PPMUs to help define, develop, pilot business development models surfacing from project field activities. The consultant also works closely with the CDF specialist to assess the market for CDF products and integrate with CDF livelihood activities.

58. Under the project context, and as outlined in the commune investment plan (CIP) business development activities include assessment of market for local products, connections between producers and markets, and possibility of establishing a stable trade between the buyers and the local producers. The project will support 6 models, one in each district with expectation that the model once has been operational will improve household income and can be replicated in the communities.

59. The review mission in November 2016 assessed that the five out of six business development models were of high feasibility for investment. Those include direct support to (i) group of producers, local farmers, and (ii) local businesses. The target was 6 approved models by end 2016.

60. In Q2 2017 the new business development was mobilized and re-examined the proposed models. It was acknowledged that effort had been made by PPMUs and DPIUs for surveying and proposing the business models for the six project districts. The proposals, however, need more clarification and revisions. The consultant came up with more concrete assessment of feasibility of the proposed models and suggestions for further clarification.

61. **Recommendations.** Within the short time remaining under the project, the CPMU and PPMUs agreed with the Mission on the following:

- a. CPMU to issue the final guidance note on selecting the satisfactory models among the 07 proposed models which would be submitted for final approval. The CPMU's note should explicitly guide the sensibility, feasibility, effectiveness and sustainability of the models. The guidance note should be issued by 15 August 2017.
- b. PPMUs in agreement with CPMU to select satisfactory models among the 07 proposed models following the guidance note. The selection should be complete by end August 2017 and implementation of those selected models will start after that.
- c. The remaining proposals will be further scrutinized and need to be finalized by 30 September 2017. After that time, no approval will be granted. Any delay will lead to untimely completion of the subprojects/models and may lead to subproject partial cancellation.

62. **Commune Development Fund.** Money was transferred to all 35 CDFs in December 2015 amounting to \$700,000 (of which, US\$70,000 are allocated for risk contingency fund). As of June 2017, all 35 CDFs have delivered funds to communities with total disbursed

amount of VND13,997 million, accounted for 95,3% of total seed capital. Total number of people receiving loan to date is 1,520 households. Rate of fund turnover is 54,5% (equivalent to VND3,149 million).

63. The local farmers borrow for livestock raising and agricultural cultivation, mainly for tending coffee trees (Huong Phung and Huong Son communes of Huong Hoa district of Quang Tri province). The funds, although of a modest scale, are fully functional and proves to be an effective facility to help improve livelihood of the local farmers.

64. An issue was observed: since January 2017, upon of the effectiveness of the public investment law, the total budget of 35 CDFs must be returned to state budget and local people can not access to any loan fund from CDFs after the project ends. In June 2016, CPMU issued an official letter to temporarily request PPMUs to allow local people access new loans with a deadline for fund repayment by 31 December 2018. Currently, CPMU in coordination with CDF consultant are working together to find out effective solutions as well as actively consult with MOF to propose feasible measures to address this mater.

65. **Recommendations:** The mission noted the issues on the government policy change and the unfortunate ending of the CDF activity. The Mission will report this issue further to the higher level in ADB.

66. **Small scale infrastructure (SSI) subprojects.** Activities were slowing down in all three provinces because attention and focus were paid on the forest plantation and CMF works of component 2 since Q4 2016. As of June 2017, 15 subprojects have been completed and handed over vs 69 subprojects in the approved list. The final approved list and updated status of the SSI subprojects in three provinces is in Attachment 6.

67. Thua Thien Hue proposed to revise the approved list of the SSI items. The PPMU requested to add 9 subprojects with total value of VND12,890 million, which belong to VND28 million of total budget allocated for SSI in Thua Thien Hue province. The initial survey by the safeguard and infrastructure experts showed insignificant impacts on resettlement and environment. Thua Thien Hue will mobilize CF for preparation of FS and technical design and supervision services for the proposed additional subprojects.

68. The Mission visited a completed section of the commune road, about 0.3 km in Pahy village of Hong Ha commune in Aluoi district, Thua Thien Hue province. The Mission noted that the road section although completed does not at all benefit the local farmers as it was built on the one side of a stream without construction of a crossway connecting to the inner village road section on the other side of the stream leading to Ar Tang agriculture production site. The PPMU proposed to construct a small-scale crossway and the rest of 0.6 km of the that inner road section.

69. The Mission assessed that the commune road if constructed and upon completion will ease the travel of the local residents, especially children while going to school and residents to transport agriculture products from and to the project commune. The total cost estimate is VND1.3 billion (\$60,000).

70. The Mission could not confirm the viability of the proposed water supply (WS) with pipe connections from the main pipe system to households due to (i) no head works including WS station and main pipe systems were in place during the time of the Mission; (ii) uncertainty of the investment on those items by the Government in the near future; and (iii) unclear ownership transfer of the facilities, if constructed.

71. Regarding the proposed additional village roads, the Mission acknowledge that the proposed roads (after being upgraded or constructed) will provide better transportation

opportunities to the local residents in the project areas. However, the Mission noted that approval of those additional road SSIs, completion of their FS and technical design, selection of the contractors and supervision consultants will take long time before the construction works can start.

72. Thua Thien Hue PPMU commits that design, supervision, procurement and safeguard activities will be paid by counterpart fund for the project. Design activities and selection of contractors will be completed no later than 31 December 2017.

73. **Recommendation.** With the except for Pahy additional road section and the small-scale crossway, the mission cannot confirm the viability of the proposed other additional SSIs due to (i) insufficient time for justification and re-approval of the revised list for SSI, including variation for consulting services for the additional SSI items, and (ii) especially the uncertainty of the viability of the WS subprojects thus the same uncertainty of the effectiveness of the proposed extended pipe system proposed under this sub-component.

74. **Recommendation.** Within the short remaining time, the Mission recommended the following:

- (i) Inclusion of the Inner village road to Ar Tang production area in Pahy village, Hong Ha commune, A Luoi district for the immediate approval by the Thua Thien Hue PPMU. Thua Thien Hue to submit the safeguard DDRs by December 2017, otherwise the subproject will be rejected.
- (ii) Thua Thien Hue, with support by SSI and safeguard consultants, to conduct the initial survey of the proposed new road SSIs and approve the inclusion of those SSIs by September 2017. Any subprojects with resettlement and land compensation will not be approved.
- (iii) FS and technical design should be completed by Q1 2018.
- (iv) Construction to be commenced no later than October 2018 at the latest to allow the completion and handing over by March 2019.
- (v) Any works that will not be completed by the loan closing date will not be financed from the ADB loan proceeds.

E. COMPONENT 4: Project Management and Support Services

75. **Communication and awareness raising activities:** have been continuously implemented based on the communication objectives stated in the BCC Communication and Awareness strategy and action plan. Due to limited resources for communication and awareness raising activities, not many outstanding communication and awareness raising activities are implemented at all project levels in 2017. However, regular communication and awareness activities have been implemented such as updating project activities on VEA website, provincial/district portals and local mass media, disseminating project information through workshops, events of the project, distributing communication materials (posters/leaflets), advertising project image (livelihood/small-scale infrastructure signs), broadcasting project news on local loudspeakers and community houses.

76. Community communication network have been established by integrating communication activities into activities of existing community groups of the project (CDF, CFM, reforestation, etc.). Except for Thua Thien Hue with 56 community communication groups, the two other provinces have not yet submitted the official lists of community communication groups while those activities are still going on.

77. **Recommendation.** PPMUs are requested (i) to quickly develop and finalize their own communication action plans based on the project communication action plan and provincial workplan of 2017 (as requested by CPMU's official letter No.38/BCC-BQL dated 5 May 2017) and the list of community communication groups (if missing), then submit to CPMU no later than 31 July 2017 in order to have better implementation of communication and awareness activities as well as effective monitoring and evaluation on communication issues; (ii) Because majority of communication activities must be integrated with other project activities, PPMUs are to mobilize counterpart funds for some communication activities, which were successfully implemented last year such as Communication and Awareness campaign for local communities on biodiversity conservation, printing communication materials and facilities, etc.

78. **Climate Change Impact.** Consultants were mobilized in April 2017 for a 21 month contract. Agreement was reached on initial consultant deliverables. Final deliverables of this consulting service is a Report on identification and assessment of climate change impact on biodiversity values in the Central Annamite Conservation Landscape will be submitted by December 2018.

79. **Allocation of fund to PPMUs:** Shortage of allocated fund is a strain since 2016 after the State Budget Law and decree 16 on ODA management became effective, until October 2016 the budget was not allocated adequately to provinces. The issue was solved only in late December 2016 and disbursements were made for 2016 activities since then.

80. As of 30 June 2017, Thua Thien Hue was not allocated with budget for 2017 workplan by MOF and funds unspent in 2016 was not allowed to be carried forward to 2017. This has resulted in inability of the PPMU to pay for many completed activities, especially for the labor costs incurred to the local workers for component 2, and civil works. Quang Nam PPMU was allocated with VND32 billion vs the request of VND100 billion. The allocation for Quang Tri was VND47.4 billion vs the need of VND82 billion.

81. This matter was discussed many times with MOF and was raised during the project Steering Committee Meeting in early July 2017. However, by the time of the Mission, no update was received about 2017 budget allocation for Thua Thien Hue, and additional allocation for Quang Nam and Quang Tri can only be considered by end 2017. The total shortage of funds for the three provinces in 2017 is VND126 billion (~\$5.5 million).

82. **Acknowledgement and way forward.** The Mission acknowledged the effort made by the CPMU and PPMUs in this matter and learnt that in 2017 leaders of the VEA/MonRE and Thua Thien Hue PPC will further meet and discuss with MOF leaders on this issue. At the same time, VRM will raise the issue to the higher level of the Government during the 2017 tripartite portfolio review meeting.

83. **Decrease of the net loan amount:** due to exchange rate fluctuation and depreciation of the SDR the net loan amount as of June 2017 is \$26.945 million vs the approved amount of \$30M in 2010. This poses a risk for potential cost overrun as project activities were planned based on the original loan amount of \$30M. CPMU and PPMUs proposed options to avoid the potential cost overrun including (i) reducing scope of the current activities, and/or (ii) ceasing activities that are assessed not meeting the expected outcomes or effectiveness.

84. During the last review mission, the issue was raised and stakeholders were well aware of it. CPMU initiated discussion with the PPMUs and came up with an initial option to address the decrease of the net loan amount. During this mission, aligning with the critical path of the key activities of the project (forest restoration, CFM, and livelihood activities), an estimated financial plan for those activities have been developed based on the CPMU's proposal. The plan will be further discussed with the PPMUs.

85. **Recommendation.** Based on the tentative plan developed in 2016 and with consolidated discussion with provinces, the final plan to address the decrease in the net loan amount will be developed by Q3 2017 at the latest.

86. Based on the CPMU plan, and the updated PDIPs for CPMU and PPMUs, the Mission assessed that payments on forest protection and tending to the households and communities will not be able to complete by the loan closing date of 30 September 2019 to achieve the SFM requirements of 3 year tending and maintenance before handing over of the planted forest, and 5 year to maintain the SFM structure. Estimated funds needed for SFM works is greater than \$2 million.

87. **Way forward:** MonRE and VRM will further explore how best to address the issue aiming at achieving the DMF targets and the project outcome of sustainable forest management.

F. Environment, Social Safeguards and Gender

88. The project is categorized B in environment and social safeguard and have positive environment, social and gender impacts. Due diligence reports (DDR) and Ethnic Minority Development Plans (EMDP) for 69 approved subprojects in three provinces were approved by ADB in 2016. Some issues are still however pending.

89. **Recommendations** (i) Thua Thien Hue is to submit safeguard DDR report for the additional Pahy crossway and additional commune road section for ADB's endorsement no later than 31 December 2017, if not, these additional subprojects will be rejected for investment; (ii) Quang Tri, Quang Nam and Thua Thien Hue PPMUs shall arrange the budget for implementing activities specified in approved EMDPs as scheduled; (iii) Safeguard specialists under CPMU is requested to support CPMU and PPMUs to conduct internal monitoring activities on the implementation of DDRs and EMDPs and submit the periodic monitoring report timely.

90. **Gender.** The Gender consultant was mobilized since Q4 2016 and assisted CPMU to set up the M&E templates for sex-disaggregated and ethnicity data collection for monitoring GAP implementation, and achievement of DMF gender targets. Updated Gender Action Plan (GAP) is in Attachment 7.

G. Additional Financing (Grant No. 0433)

91. The additional financing to the BCC project of \$3,794,954, funded by the Global Environment Facility (GEF) was approved on 25 June 2015 and became effective in February 2016 with closing date of March 2019. The grant aims at addressing the impact of the fragmentation of the forest landscape through strengthening (i) the institutional and community capacity in management of protected areas (PAs) and their surroundings in the Central Annamite landscape strengthened; and (ii) landscape conservation measures at the community level strengthened. To support monitoring, the current Project DMF is an integration of the ongoing BCC project and the GEF additional financing and is in Attachment 2.

92. As of 15 June 2017, overall project implementation progress was 10% against the elapsed grant period of 35%. The project faced a start-up delay of one year due to government long approval process. It started to catch up since Q2 2017 but implementation of activities is still delayed due to the same reason and government complicated procedures.

93. The first disbursement of the Project which was the Initial Advance to the Imprest Accounts, was made on 8 August 2016, more than 3 months from the grant effectiveness of 23 February 2016. The cumulative contract awards and disbursements were \$0.207 million

and \$0.103 million, respectively, equivalent to 5.4% and 2.7% of the net grant amount of \$3.794,954 million, and equivalent to 69% and 34.5% versus the targets of \$0.648 million and \$0.566 million for contract awards and disbursements, respectively.

94. The PMU staffing is completed with a part-time Director, a Deputy Director, Coordinator, Accounting and Admin Assistants. Staff of the loan PMU will also contribute to the grant implementation. Individual consultants have been recruited to help the EA with initial grant implementation.

95. One among the two major contracts, the Protected Area Management Support (PAMS1 of \$0.5M) was awarded in June 2017 and consultant is to be mobilized in July 2017. Advertisement of the other major consulting service assignment of Sustainable Forest Management/Monitoring Reporting and Verification and Reduced Emission due to Deforestation and Forest Degradation (SFM/MRV and REDD+ of \$0.8M) is expected in July/August 2017.

96. This mid-term review mission to reset the project implementation plan in response to the start-up delay. The Mission assisted the CPMU to set up a detailed implementation plan and the updated grant DPIP is in attachment 3.

97. The following action plan for the key procurement activities has been agreed:

- i. Advance payment for PAMS1 contract (\$152,000): August 2017;
- ii. Completion of recruitment of individual consultants and contract variations by 30 September 2017;
- iii. Award for Ngoc Linh protected area CS contract (\$50,000): Q4 2017;
- iv. Award of SFM/REDD+ and MRV development contract (\$0.75M in cash advance): Q1 2018.

98. The grant is in its early implementation stage due to the start-up delay mentioned above. Although it is too early to assess the achievement of the overall objectives, the project may face difficulties in delivery all activities due to short implementation time, complicated nature of a number of activities, and government cumbersome procedures while the PMU is not a permanent PMU with part-time PMU management staff.

H. Compliance with Loan Covenants

99. Most of the loan covenants are complied with or being complied with. The updated status of compliance with loan covenants is in Attachment 8.

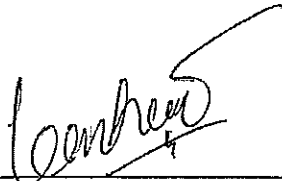
I. Action Plans of Last Review Mission

100. Most of the recommendations set during the last review missions in November 2016 are being done for have been done with some delay. The update is in Attachment 9.

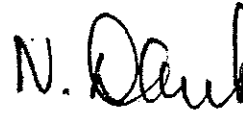
IV. ACKNOWLEDGEMENTS

98. The Mission wishes to express its sincere thanks for the cooperation extended by MONRE, PPMUs of Quang Nam, Quang Tri and Thua Thien Hue, VEA, Biodiversity Conservation Agency, BCC CPMU, PPMUs, DPIUs, CPIUs and all who contributed to the mission and the AM.

Signed on 22 July 2017



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AIDE MEMOIRE

L2721 (VIE) & G0433 (VIE): GMS BIODIVERSITY CONSERVATION CORRIDORS PROJECT Loan Review Mission & Grant Mid-term Review

Viet Nam, 14 – 22 July 2017

I. INTRODUCTION

1. The Asian Development Bank (ADB) fielded a Review Mission for Loan 2721 (VIE) and a Mid-term review Mission (the Mission)¹ for the Grant 0433 (VIE): GMS Biodiversity Conservation Corridors Project (hereinafter referred to as the Project) between 14 and 22 July 2017. The Mission met staff of the Central Project Management Unit (CPMU) based in the Viet Nam Environment Administration (VEA) within the Ministry of Natural Resources and Environment (MONRE) – the Executing Agency (EA), Project Directors and staff of Quang Nam, Quang Tri and Thua Thien Hue Provincial Project Management Units (PPMUs) and District Project Implementing Units (DPIUs). Attachment 1 contains a list of persons met by the Mission.
2. The objectives of the Mission were to review (i) the overall project implementation progress against the action plan prepared during the review mission in November 2016 and the targets included in the design and monitoring framework; (ii) the Project's contract award and disbursement progress; and (iii) address issues that came up since the last review missions in November 2016.
3. Regarding grant project, the Mid-term review mission aims at, in addition to the above, to reset the projections of the contract award and disbursement due to long start up delay since the grant effectiveness on 23 February 2016.
4. This Aide Memoire records the Mission's findings and agreements reached with CPMU and the three participating PPMUs at the wrap-up meeting on 24 July 2017. The agreements reported in this Aide Memoire are subject to review and approval by higher authorities of MONRE, Provincial People's Committees and ADB.

II. BACKGROUND

5. ADB approved \$30 million loan financed from its Asian Development Fund Special Funds Resources for the Project on 10 December 2010. The loan became effective on 9 August 2011. The Project completion date is 31 March 2019 and Project closing date is 30 September 2019. The long-term impact of the Project is climate resilient sustainable forest ecosystems benefiting local livelihoods. The Project outcome is sustainably managed biodiversity corridors in Viet Nam.
6. On 24 June 2015, ADB approved an additional financing in the amount equivalent to \$3.795 million from the Global Environment Facility (the Grant). The Grant Agreement was signed on 4 September 2015 and became effective on 29 February 2016, with the closing date of 30 September 2019. The grant project supplement the loan project scope through addressing the fragmentation of the forest landscape in the Central Annamite and thus maintain the impact of the ongoing loan project.

¹ The Mission comprised Khuc Thi Lan Huong, Project Officer, VRM (Mission Leader); and Truong Minh Hue, Associate Project Analyst, VRM. Safeguard and Gender/Social Specialists provided inputs through desk review.

7. The outputs of the loan project are (i) institutions and communities strengthened for biodiversity corridor management; (ii) biodiversity corridors restored, protected and maintained; (iii) support to livelihood improvement and small-scale infrastructure provided in small communes; and (iv) project management and support services provided. And the outputs of the grant project have been integrated into the four outputs of the loan project. (See attachment 2 for the combined DMF).

8. The loan Project covers 35 communes (13 in Quang Nam, 12 in Quang Tri and 10 in Thua Thien-Hue) located in 6 districts (Tay Giang and Nam Giang in Quang Nam province; Huong Hoa and Dakrong in Quang Tri province; and A Luoi and Nam Dong in Thua Thien-Hue province) in three provinces. The communes that have been selected are (i) within the biodiversity corridor designed area, (ii) supporting ecosystem connectivity, (iii) considered poor communes, and (iv) holding good forest coverage to facilitate the connection of forest ecosystems.

9. The loan project benefit around 15,500 households. Incrementally, the grant will support improved management of 231,000 hectares of protected areas that would benefits about 6,000 people in the three participating provinces through enhanced ecosystem services, improved carbon stocks and enhanced climate resilience, sustainable forest benefit sharing and improved conservation-based livelihoods.

III. FINDINGS, RECOMMENDATIONS, AND AGREEMENTS REACHED

A. General Project Progress

10. Since the review mission of the Project in November 2016, the implementation progress of the project activities has been steady. Activities under component 1 are on track while there are delays for some activities under component 2 and 3.

11. Under component 1, a basis for the establishment and management of biodiversity corridors has been completed and further piloting is underway. Initial institutions at provincial and community levels have been completed to guide the subsequent activities for sustainable forest management in the entire central region landscapes.

12. Activities under Component 2 are experiencing some delay in forestation design and approval of the design results, and forest inventory. However, the forest restoration and commune forest management (CFM) related activities are progressing with contracts on forest inventory have been awarded for Quang Tri and Quang Nam. In parallel with the forest inventory, SFM pilot activities (development and approval of guidelines and regulations, establishment of CFM operating and management arrangements) are being implemented with the pilot sites which need to be replicated in all the CFM areas selected for BCC in the three participating provinces.

13. Under component 3, business development activities were facing a stagnancy since November 2016 because official decision on the feasibility of the proposed models was not made for the proposed models. In addition, there were changes in CPMU staff in charge of the subcomponent and business development consultant replacement in CPMU that delayed the further guidance from the CPMU to PPMUs/DPIUs in moving forward the subcomponent. Commune investment profiles have been developed and approved or being approved though. More details will be further discussed in the AM.

14. As of 30 June 2017, total cumulative contract awards and disbursements (including interest during construction-IDC) were \$15.890 million and \$11.718 million, respectively, which are equivalent to 59% and 44% of the net loan amount of \$26.945 million (74% of the project elapsed implementation period). The status of loan utilization broken down by

categories is presented in Table 1 below. The Project achieved \$2.816 million out of \$2.816 million and \$0.541 million out of \$0.675 million for contract awards and disbursements, respectively for 2017.

Table 1: Status of loan utilization as of 30 June 2017

| Category Number | Category Name | Allocation | Contract Awards | Disbursements |
|-----------------|--------------------|---------------|-----------------|---------------|
| 1 | WORKS | 3,684,677.00 | 867,232.00 | 405,157.00 |
| 2A | EQUIPMENT | 572,951.00 | 395,858.00 | 359,703.00 |
| 2B | VEHICLES | 232,181.00 | 230,672.00 | 230,672.00 |
| 3 | GOODS AND SERVICES | 10,887,593.00 | 5,765,538.00 | 2,725,372.00 |
| 4 | LIVELIHOODS | 4,178,400.00 | 2329,716.00 | 1,495,511.00 |
| 5 | CONSULTING | 3,699,038.00 | 4,116,938.00 | 2,514,691.00 |
| 6 | CAPACITY BUILDING | 1,066,252.00 | 1,002,739.00 | 830,770.00 |
| 7 | PROJECT MGMT | 2,069,087.00 | 1,182,174.00 | 831,370.00 |
| | | 26,390,179.00 | 15,890,866.00 | 9,393,246.00 |
| | | | 60.21% | 35.59% |
| 8 | INTEREST | 599,136.00 | | 267,980.00 |
| 99A | IA- CPMU | (19,182).00 | | 750,000.00 |
| 99B | IA - QN | (5,486).00 | | 464,788.00 |
| 99C | IA - TTH | (12,967).00 | | 599,208.00 |
| 99D | IA - QT | (6,115).00 | | 243,293.00 |
| | | 26,945,566 | 15,890,866 | 11,718,514 |
| | | | 58.97% | 43.49% |

15. The Project is still included in the list to be closely monitored by the Ministry of Planning and Investment and ADB. Despite effort by the EA and VRM issues that prevent an effective project implementation are observed, several issues are chronic that need greater attention by the EA and the participating provinces. This will be further discussed below. The project detailed implementation plan is in Attachment 3.

B. COMPONENT 1 - Institutional and communities strengthened for biodiversity corridor management

16. The component has achieved a reasonable progress since the last review mission. Continuing with the momentum from the last review mission, the following have been developed as of the time of the Mission.

17. **Biodiversity Corridor Establishment and Management Framework (BCC Framework).** The draft national and provincial guidelines for the establishment and management of biodiversity corridors in the provinces was completed in Q4 2016. The draft framework consists of an Action Plan for the establishment and management of biodiversity corridors.

18. The action plan includes five agreed key outputs as follows:

- Output 1: Guideline for Provincial Biodiversity Corridor Establishment and Management. This is the basic guidelines of the corridor setup, that could be used for any proposed inland corridor in Vietnam.

This Guidelines on piloting provincial biodiversity corridor establishment and management were completed and issued by VEA in May 2017 through its Decision no. 1283/QĐ-TCMT dated 18 May 2017. Provinces are cooperating with the biodiversity expert in developing technical and financial proposals for the establishment of the provincial BC. The proposals will be consulted with stakeholders, finalized and approval is expected in Q4 2017.

- Outputs 2,3,4: On the basis of Output 1 (above), drafting 03 Provincial Biodiversity Corridor Management Plans. The main aspects of corridor establishment would come from output 1, but for each province there would be a customized supplement. The guideline would vary for each province because of different items (a) Biophysical features, (b) Administrative aspects, (c) Provincial Master Socioeconomic Development Plans. Provincial corridor guidelines will serve as the basis for the operations and management of the provincial biodiversity corridor. Approval of those plans by the provincial governments are expected by Q4 2017.

- Output 5: Interprovincial Conservation Corridor Management Guidelines. This is a definition of how the corridor landscape would be managed as a whole, given that there are three different provinces, with seven different protected areas and three main corridors with sub-sections within six districts. It is basically the institutional and administrative setup to manage features of the conservation landscape into attaining the main goals of the conservation corridors. Liked to this output, or separately, inform policy for Corridor Experience and Recommend Policy Action; which is basically to: On the basis of provincial and interprovincial corridor establishment and management guidelines, collate management prescriptions into a national-level policy guideline and recommendation for biodiversity corridors by MONRE.

19. An issue pending for the national and provincial guidelines on biodiversity corridor management is the determination of the rights, benefits, and responsibilities of the forest owners in the established corridor and agreement on which by stakeholders before the guidelines are officially issued.

20. **Recommendation:** CPMU to assist the PPMUs to finalize provincial biodiversity corridor establishment and management plans which is to be submitted to provincial people committees (PPC) for approval in Q4 2017. This is to prepare for the next step of Interprovincial Conservation Corridor Management Guidelines and policy recommendations to the national policy on biodiversity corridor conservation.

21. **Participatory village land use plans – PVLUP** were approved in 2015-early 2016 for all 35 communes. However, due to delay in subsequent activities (especially forest design) the LUP results needed to be revised and reapproved for 24/35 communes (11

communes in Quang Tri, and 13 communes in Quang Nam) during Q2-Q4 2016. Further delay of implementation of the PVLUP approved results exerted negative impacts on the willingness to continue with the project of the local residents and thus delay in forest land use certification (LUC) and forestation activities.

22. **Knowledge exchange:** A study tour to Australia was organized in December 2016 for the PPC's, PPMU's, VEA's and MonRE's senior staff to exchange about the corridor establishment and management. Another study tour to China will be organized in Q3 2017 with the same purpose for the mid-career staff of the same project stakeholders.

23. **Commune Investment Profiles (CIP).** Based on templates and guidance for development of CIP by CPMU the CIPs for all 35 communes were updated by end 2016. Each CIP consists of two parts: a socio-economic profile of the commune and an investment plan developed by the BCC Project which focuses on four main investment categories, namely: small scale infrastructures, integrated biodiversity conservation, forest restoration and sustainable management, and livelihood related development activities.

24. Livelihood development activities were also updated in the CIPs which were submitted for approval by the PPC. By the time of the mission, 10 CIPs were approved in Thua Thien Hue, no information yet was provided on approval of CIPs for Quang Tri and Quang Nam provinces. It's expected to get approval for CIPs in Quang Nam and Quang Tri by September, 2017. The slow approval, in addition to other occurrences, has resulted in the stagnancy of the livelihood development activities. The livelihood activities will be further discussed in the later part of this AM.

C. COMPONENT 2 – Biodiversity corridors restored, protected, and maintained

25. **Site mapping.** Site mapping was completed for all 13/13 communes in Quang Nam, 10/10 communes in Thua Thien Hue, and 12/12 communes in Quang Tri province. Records have been checked by the CPMU in 2016 and the results of the site mapping were used for the forest restoration related activities.

26. **Forest and forest land use certification - LUC.** By the time of the Mission, the LUC has not yet completed in all three provinces. Despite gaining some progress, the land use certification was facing a major issue. Under the project LUC should be allocated to individuals, households and communities. However, 2013 Land Law disallowed granting LUC of natural and production forests to communities.

27. In November 2016, MonRE, after consultation with government stakeholders, issued Guidelines on processes for LUC to households and communities. More importantly, the Government's Decree no 01/2017/ND-CP dated 6 January 2017 on the adjustment of the Land Law had resolved the problem mentioned in para 26.

28. LUC activities started in 2017 in Quang Tri province (after award of contract D6T4 in Q4 2016). For Quang Nam (although the similar contract D6N4 was awarded in Q1 2017) and Thua Thien Hue, the MonRE Guidelines as mentioned in para 27 are still being studied before the LUC can be issued.

29. Without finalization of the LUC to households the forest plantation and regeneration cannot be sustainable. When the forest plantation completes by end 2017, the tending period would fall shorter than 2 years against the required 3 years of a normal forest plantation process. Without LUC to guarantee the forest ownership after project completion, the forest owners would not have the motivation to continue tending and protection of the planted forests.

30. **Recommendation:** LUC should be completed for households by Q3 2018 at the latest. Thua Thien Hue PPMU with assistance from CPMU, if needed, to follow strictly the timeline set for the award D6H4 (the only pending package on LUC). Quang Nam and Quang Tri PPMUs to follow strictly on the milestones for LUC as mentioned in their signed contracts.

31. **CFM activities** are considered the core component of the project and need to be also completed by end 2017 to give sufficient time for the implementation of the forest management plans. The target for the activities is to include establishment and operation of at least 40 village forest management boards for the 10,000 ha of the community forest land use for which will be certified.

32. **Demonstration models with CFM at the core.** CFM sites located between larger tracks of protected forests are key to meet the project's objectives ecosystem connectivity. Because of this, a project strategy for implementation is to establish a minimum of two demonstration landscapes per province (one per district), where CFM sites act as core, and other project interventions are carried out to support the integrity of these cores by working with local communities in forestry livelihoods, agriculture and agroforestry, CDFs, business development, and small scale infrastructure. As such, project demonstration sites will be strategically placed to maintain the greater corridor landscape connectivity, while holding sustainable community forest management functions.

33. **CFM sites.** Six pilot sites in the 6 project districts include:

- Quang Tri province: about 700 ha in Chanh Venh village, Huong Hoa district and 300 ha in Kreng village, Dakrong district;
- Thua Thien Hue province: Ta village of about 600 ha in A Luoi district and village No.6 of 120 ha in Nam Dong district; and
- Quang Nam province: Ro village of about 2,500 ha in Nam Giang district and Tari village of 850 ha in Tay Giang district;

34. Among those six pilot sites the initial institutional set up has been completed for 5/6 sites including approval of CFM village regulations by the district people's committees (DPC), and operational arrangements with some delays in some sites though. Approval of such regulations is pending for the Kreng pilot site in Dakrong, Quang Tri. Furthermore, PPMUs duplicated CFM sites for 12/33 remaining CFM sites as planned.

35. As of the time of the Mission, the identification of all CFM sites is completed including 39 villages in 35 communes of the three provinces with total area of 11,573.7 ha (overachieved compared to the DMF target of 10,000 ha). Similar initial institution set up as mentioned in para 24 had been replicated to other 12 CFM sites. Next steps will be the development of the 5-year plan for forest management for the all CFM sites in each province. The updated status of completion and critical path for the CFM activities is in Attachment 4.

36. Several issues were observed during the mission. First, there is delay in the forest inventory and delay in approval of the forest protection and development regulations by Dakrong DPC in Quang Tri province. The sustainable forest management structure development activities are being implemented in Quang Tri.

37. **Recommendation:** Because the forest inventory is executed by the Quang Tri PPMU, the PPMU would need to coordinate more closely with Dakrong district PC and engage DPIU staff in the contract execution. This will particularly facilitate approval of the forest protection and development guidelines and other CFM works in the Kreng pilot site in Dakrong district. The mission set a timeline for the approval of the guidelines by end August 2017 for 5 villages in Dakrong district and 4 villages in Huong Hoa district, along with

approval of the forest inventory results in all CFM sites in Quang Tri expectedly also by December 2017. Further delay would lead to possible partial cancellation of some CFM activities in Quang Tri province.

38. Second issue is the serious delay in forest inventory activities in Thua Thien Hue due to delay in award of contract D6H4. By the time of the mission, the package was not yet re-advertised while the results of the forest inventory will be the basis for the subsequent CFM works. Thus, there was no CFM progress in Thua Thien Hue since the last review mission. This has resulted in delay for development, approval and implementation of the 5-year forest protection and management plan for the CFM sites in Thua Thien Hue while the CFM activities need to be completed by December 2017 per the CFM critical path.

39. **Recommendation:** The Thua Thien Hue PPMU, with support by CPMU, is to follow strictly the timeline set for the award D6H4 (the only pending package on forest inventory) and CFM critical path. Any further delay will lead to untimely achievement of the project outputs for Component 2 and possible partial cancellation of CFM activities.

40. **Forest Plantation.** The project includes forestry interventions through 'eco-forest plantations', sought for implementation in the immediate surroundings of, or connecting CFM sites, protected and special-use forests in the conservation corridor landscape. Forest restoration methods under the project include reforestation, enrichment planting, assisted natural regeneration, and non-timber forest products which must be carried out with native species. Three-year tending after planting completion is needed according to the requirement of a normal process of forest plantation.

41. Plantation and regeneration has been completed for 2,341 ha for the period 2013 – June 2017 against the identified of 10,208 ha for restoration through the revised LUP and site mapping exercise and the target of 6,000 ha. The forestation quality was facing issues such as (i) in Quang Nam province: quality of the seedlings in Tay Giang district, and (ii) in Quang Tri province: some planted forests were not in the approved PVLUP and site maps or planting works did not follow the approved design. Updated data for forest restoration based on the approved PVLUP and site mapping as of June 2017 is in Attachment 5.

42. With the current progress the DMF target of 6,000 ha for forest restoration and its completion by 2017 as agreed during the last review mission will not be achieved. In addition, the tending period will be less than 03 years and thus would risk the forest sustainable management. Two scenarios are foreseen.

43. **Scenario 1 - Without loan extension.** The loan closing date will remain September 2019. The plantation activities must be completed by Q1 2018 at the latest to allow a minimum of 1.5 year for planted forest tending and implementation of 5-year plan for CFM.

44. In this scenario, the maximum reforestation area can only be around 5,000 ha vs the target of 6,000 ha in the DMF. In addition, to ensure 3 years for tending works for the 2017-2018 planted forests the funds need to be mobilized from the counterpart fund (CF) or contribution by the local households/communities for at least 1.5 years. This scenario seems more sensible at the current context that loan extension would take time and cannot be warranted.

45. **Way forward.** All three provinces confirmed that completion of the forest planting works by Q1 2018 can be achieved with identified area of 5,000 ha. However, the contribution by the local households/communities or CF mobilization for tending and sustainable CFM will need further discussion with the stakeholders. Without continuation of tending and patrolling/protection after project closing date, the outcome of the project cannot be achieved.

46. With two-year extension of loan closing date to September 2021, if warranted, the plantation activities can be continued until end 2018 with expectation to achieve the target of 6,000 ha of forest restoration in the DMF. Also the 03 years tending as well as significant implementation of 5-year plan for CFM can be secured.

47. However, in the current context of (i) significant net loan amount decrease; (ii) additional human and time resources needed for obtaining the government and ADB approval, there would be a foreseen significant cost overrun. In addition, there is uncertainty for government approval of the extension.

48. Parties noted the critical need for SFM and will make effort to coordinate with stakeholders on working out the best among the available solutions to the issue. For the meantime, the CPMU and PPMUs proposed to reduce the areas for forest restoration to 1,646.2 for Quang Tri, 1,906 ha for Quang Nam, and 1,172.5 for Thua Thien Hue. The updated critical path for the forest restoration and plantation is in Attachment 5.

49. Agreement: The Mission supported the CPMU's and PPMUs' proposal to extend the completion of forest plantation to end Q1 2018 taking into account the plantation seasons in the provinces. Quang Nam committed to complete the forest plantation design by end July 2017, and Quang Tri by end September 2017. Any delay will lead to risks of incompleteness of the activities and the possible of a partial cancellation of the activities for the component, and underachievement of the DMF targets.

50. The Mission also reminded CPMU and PPMUs of the common delays of approval of the project annual workplan and inadequate budget allocation and requested the CPMU and PPMU to take actions to prevent similar delays in 2018 which may further contribute to more delays in plantation and other project activities.

51. Recommendations: Similar to the recommendation during the last review mission, CPMU and PPMUs should develop project annual workplan and budget plan and have those plans approved aligning with the Government budget allocation cycle. Delay in approving those plans should be minimized at the VEA and CPMU.

52. Quality control. Unchanged from the last review Mission. The Mission reiterated the agreement reached during the last review mission on the quality control. The commune PIUs, District PIUs, and PPMUs will monitor 100% of the works carried out by the communities in forest planting, assisted natural regeneration, tending and protection. PPMUs will focus on quality control of the works carried out by the DPIUs. If necessary, PPMUs will collaborate with the relevant staff of the Departments of Agriculture and Rural Development in these supervision/quality control activities.

53. Upon PPMUs' and DPIU's appraisal of the field work quality, CPMU will check at least 10% of the amount of work done on a random basis. In case, there are notable disparities between monitoring results of local authorities and checking results of CPMU, the relevant PPMU and DPIU will conduct investigations and revisions until they are satisfactory to CPMU.

D. COMPONENT 3: Livelihoods and Small-scale Infrastructure Subprojects

54. The project supports for the livelihood of the local farmers/beneficiaries through a number of activities including (i) agriculture livelihood improvement, (ii) forestry livelihood activities, (iii) business development subprojects, (iv) commune development funds, and (v) small scale infrastructure.

55. Agriculture livelihood support. The activity seems to be a good support to the local farmers and suitable to the local conditions. The support of 768 invested models in the three

provinces includes cow/duck/pig raising, home gardening, avocado planting and other proposed agriculture local business development projects. The business development projects will be further discussed below.

56. **Forestry livelihood improvement activity** is of good progress with high probability of completion by end 2017 with target of 1,200 ha. The project supports local farmers in the project area with planting of native perennial trees such as Lat Hoa, red Boi Loi species and mixed with acacia in some places. Forest tending support of 3 years is being provided. Against the target of 1,200 ha, the plantation of 1,050 ha was fully completed by the time of the Mission and the set target for this activity will be achieved.

57. **Business development for livelihood improvement.** As agreed during the last review missions, CPMU and PPMUs with support by the business development consultant, who works in direct liaison with field PMUs based on the results of consultation with the local communities by DPIUs and PPMUs to help define, develop, pilot business development models surfacing from project field activities. The consultant also works closely with the CDF specialist to assess the market for CDF products and integrate with CDF livelihood activities.

58. Under the project context, and as outlined in the commune investment plan (CIP) business development activities include assessment of market for local products, connections between producers and markets, and possibility of establishing a stable trade between the buyers and the local producers. The project will support 6 models, one in each district with expectation that the model once has been operational will improve household income and can be replicated in the communities.

59. The review mission in November 2016 assessed that the five out of six business development models were of high feasibility for investment. Those include direct support to (i) group of producers, local farmers, and (ii) local businesses. The target was 6 approved models by end 2016.

60. In Q2 2017 the new business development was mobilized and re-examined the proposed models. It was acknowledged that effort had been made by PPMUs and DPIUs for surveying and proposing the business models for the six project districts. The proposals, however, need more clarification and revisions. The consultant came up with more concrete assessment of feasibility of the proposed models and suggestions for further clarification.

61. **Recommendations.** Within the short time remaining under the project, the CPMU and PPMUs agreed with the Mission on the following:

- a. CPMU to issue the final guidance note on selecting the satisfactory models among the 07 proposed models which would be submitted for final approval. The CPMU's note should explicitly guide the sensibility, feasibility, effectiveness and sustainability of the models. The guidance note should be issued by 15 August 2017.
- b. PPMUs in agreement with CPMU to select satisfactory models among the 07 proposed models following the guidance note. The selection should be complete by end August 2017 and implementation of those selected models will start after that.
- c. The remaining proposals will be further scrutinized and need to be finalized by 30 September 2017. After that time, no approval will be granted. Any delay will lead to untimely completion of the subprojects/models and may lead to subproject partial cancellation.

62. **Commune Development Fund.** Money was transferred to all 35 CDFs in December 2015 amounting to \$700,000 (of which, US\$70,000 are allocated for risk contingency fund). As of June 2017, all 35 CDFs have delivered funds to communities with total disbursed

amount of VND13,997 million, accounted for 95,3% of total seed capital. Total number of people receiving loan to date is 1,520 households. Rate of fund turnover is 54,5% (equivalent to VND3,149 million).

63. The local farmers borrow for livestock raising and agricultural cultivation, mainly for tending coffee trees (Huong Phung and Huong Son communes of Huong Hoa district of Quang Tri province). The funds, although of a modest scale, are fully functional and proves to be an effective facility to help improve livelihood of the local farmers.

64. An issue was observed: since January 2017, upon of the effectiveness of the public investment law, the total budget of 35 CDFs must be returned to state budget and local people can not access to any loan fund from CDFs after the project ends. In June 2016, CPMU issued an official letter to temporarily request PPMUs to allow local people access new loans with a deadline for fund repayment by 31 December 2018. Currently, CPMU in coordination with CDF consultant are working together to find out effective solutions as well as actively consult with MOF to propose feasible measures to address this mater.

65. **Recommendations:** The mission noted the issues on the government policy change and the unfortunate ending of the CDF activity. The Mission will report this issue further to the higher level in ADB.

66. **Small scale infrastructure (SSI) subprojects.** Activities were slowing down in all three provinces because attention and focus were paid on the forest plantation and CMF works of component 2 since Q4 2016. As of June 2017, 15 subprojects have been completed and handed over vs 69 subprojects in the approved list. The final approved list and updated status of the SSI subprojects in three provinces is in Attachment 6.

67. Thua Thien Hue proposed to revise the approved list of the SSI items. The PPMU requested to add 9 subprojects with total value of VND12,890 million, which belong to VND28 million of total budget allocated for SSI in Thua Thien Hue province. The initial survey by the safeguard and infrastructure experts showed insignificant impacts on resettlement and environment. Thua Thien Hue will mobilize CF for preparation of FS and technical design and supervision services for the proposed additional subprojects.

68. The Mission visited a completed section of the commune road, about 0.3 km in Pahy village of Hong Ha commune in Aluoi district, Thua Thien Hue province. The Mission noted that the road section although completed does not at all benefit the local farmers as it was built on the one side of a stream without construction of a crossway connecting to the inner village road section on the other side of the stream leading to Ar Tang agriculture production site. The PPMU proposed to construct a small-scale crossway and the rest of 0.6 km of the that inner road section.

69. The Mission assessed that the commune road if constructed and upon completion will ease the travel of the local residents, especially children while going to school and residents to transport agriculture products from and to the project commune. The total cost estimate is VND1.3 billion (\$60,000).

70. The Mission could not confirm the viability of the proposed water supply (WS) with pipe connections from the main pipe system to households due to (i) no head works including WS station and main pipe systems were in place during the time of the Mission; (ii) uncertainty of the investment on those items by the Government in the near future; and (iii) unclear ownership transfer of the facilities, if constructed.

71. Regarding the proposed additional village roads, the Mission acknowledge that the proposed roads (after being upgraded or constructed) will provide better transportation

opportunities to the local residents in the project areas. However, the Mission noted that approval of those additional road SSIs, completion of their FS and technical design, selection of the contractors and supervision consultants will take long time before the construction works can start.

72. Thua Thien Hue PPMU commits that design, supervision, procurement and safeguard activities will be paid by counterpart fund for the project. Design activities and selection of contractors will be completed no later than 31 December 2017.

73. **Recommendation.** With the except for Pahy additional road section and the small-scale crossway, the mission cannot confirm the viability of the proposed other additional SSIs due to (i) insufficient time for justification and re-approval of the revised list for SSI, including variation for consulting services for the additional SSI items, and (ii) especially the uncertainty of the viability of the WS subprojects thus the same uncertainty of the effectiveness of the proposed extended pipe system proposed under this sub-component.

74. **Recommendation.** Within the short remaining time, the Mission recommended the following:

- (i) Inclusion of the Inner village road to Ar Tang production area in Pahy village, Hong Ha commune, A Luoi district for the immediate approval by the Thua Thien Hue PPMU. Thua Thien Hue to submit the safeguard DDRs by December 2017, otherwise the subproject will be rejected.
- (ii) Thua Thien Hue, with support by SSI and safeguard consultants, to conduct the initial survey of the proposed new road SSIs and approve the inclusion of those SSIs by September 2017. Any subprojects with resettlement and land compensation will not be approved.
- (iii) FS and technical design should be completed by Q1 2018.
- (iv) Construction to be commenced no later than October 2018 at the latest to allow the completion and handing over by March 2019.
- (v) Any works that will not be completed by the loan closing date will not be financed from the ADB loan proceeds.

E. COMPONENT 4: Project Management and Support Services

75. **Communication and awareness raising activities:** have been continuously implemented based on the communication objectives stated in the BCC Communication and Awareness strategy and action plan. Due to limited resources for communication and awareness raising activities, not many outstanding communication and awareness raising activities are implemented at all project levels in 2017. However, regular communication and awareness activities have been implemented such as updating project activities on VEA website, provincial/district portals and local mass media, disseminating project information through workshops, events of the project, distributing communication materials (posters/leaflets), advertising project image (livelihood/small-scale infrastructure signs), broadcasting project news on local loudspeakers and community houses.

76. Community communication network have been established by integrating communication activities into activities of existing community groups of the project (CDF, CFM, reforestation, etc.). Except for Thua Thien Hue with 56 community communication groups, the two other provinces have not yet submitted the official lists of community communication groups while those activities are still going on.

77. **Recommendation.** PPMUs are requested (i) to quickly develop and finalize their own communication action plans based on the project communication action plan and provincial workplan of 2017 (as requested by CPMU's official letter No.38/BCC-BQL dated 5 May 2017) and the list of community communication groups (if missing), then submit to CPMU no later than 31 July 2017 in order to have better implementation of communication and awareness activities as well as effective monitoring and evaluation on communication issues; (ii) Because majority of communication activities must be integrated with other project activities, PPMUs are to mobilize counterpart funds for some communication activities, which were successfully implemented last year such as Communication and Awareness campaign for local communities on biodiversity conservation, printing communication materials and facilities, etc.

78. **Climate Change Impact.** Consultants were mobilized in April 2017 for a 21 month contract. Agreement was reached on initial consultant deliverables. Final deliverables of this consulting service is a Report on identification and assessment of climate change impact on biodiversity values in the Central Annamite Conservation Landscape will be submitted by December 2018.

79. **Allocation of fund to PPMUs:** Shortage of allocated fund is a strain since 2016 after the State Budget Law and decree 16 on ODA management became effective, until October 2016 the budget was not allocated adequately to provinces. The issue was solved only in late December 2016 and disbursements were made for 2016 activities since then.

80. As of 30 June 2017, Thua Thien Hue was not allocated with budget for 2017 workplan by MOF and funds unspent in 2016 was not allowed to be carried forward to 2017. This has resulted in inability of the PPMU to pay for many completed activities, especially for the labor costs incurred to the local workers for component 2, and civil works. Quang Nam PPMU was allocated with VND32 billion vs the request of VND100 billion. The allocation for Quang Tri was VND47.4 billion vs the need of VND82 billion.

81. This matter was discussed many times with MOF and was raised during the project Steering Committee Meeting in early July 2017. However, by the time of the Mission, no update was received about 2017 budget allocation for Thua Thien Hue, and additional allocation for Quang Nam and Quang Tri can only be considered by end 2017. The total shortage of funds for the three provinces in 2017 is VND126 billion (~\$5.5 million).

82. **Acknowledgement and way forward.** The Mission acknowledged the effort made by the CPMU and PPMUs in this matter and learnt that in 2017 leaders of the VEA/MonRE and Thua Thien Hue PPC will further meet and discuss with MOF leaders on this issue. At the same time, VRM will raise the issue to the higher level of the Government during the 2017 tripartite portfolio review meeting.

83. **Decrease of the net loan amount:** due to exchange rate fluctuation and depreciation of the SDR the net loan amount as of June 2017 is \$26.945 million vs the approved amount of \$30M in 2010. This poses a risk for potential cost overrun as project activities were planned based on the original loan amount of \$30M. CPMU and PPMUs proposed options to avoid the potential cost overrun including (i) reducing scope of the current activities, and/or (ii) ceasing activities that are assessed not meeting the expected outcomes or effectiveness.

84. During the last review mission, the issue was raised and stakeholders were well aware of it. CPMU initiated discussion with the PPMUs and came up with an initial option to address the decrease of the net loan amount. During this mission, aligning with the critical path of the key activities of the project (forest restoration, CFM, and livelihood activities), an estimated financial plan for those activities have been developed based on the CPMU's proposal. The plan will be further discussed with the PPMUs.

85. **Recommendation.** Based on the tentative plan developed in 2016 and with consolidated discussion with provinces, the final plan to address the decrease in the net loan amount will be developed by Q3 2017 at the latest.

86. Based on the CPMU plan, and the updated PDIPs for CPMU and PPMUs, the Mission assessed that payments on forest protection and tending to the households and communities will not be able to complete by the loan closing date of 30 September 2019 to achieve the SFM requirements of 3 year tending and maintenance before handing over of the planted forest, and 5 year to maintain the SFM structure. Estimated funds needed for SFM works is greater than \$2 million.

87. **Way forward:** MonRE and VRM will further explore how best to address the issue aiming at achieving the DMF targets and the project outcome of sustainable forest management.

F. Environment, Social Safeguards and Gender

88. The project is categorized B in environment and social safeguard and have positive environment, social and gender impacts. Due diligence reports (DDR) and Ethnic Minority Development Plans (EMDP) for 69 approved subprojects in three provinces were approved by ADB in 2016. Some issues are still however pending.

89. **Recommendations** (i) Thua Thien Hue is to submit safeguard DDR report for the additional Pahy crossway and additional commune road section for ADB's endorsement no later than 31 December 2017, if not, these additional subprojects will be rejected for investment; (ii) Quang Tri, Quang Nam and Thua Thien Hue PPMUs shall arrange the budget for implementing activities specified in approved EMDPs as scheduled; (iii) Safeguard specialists under CPMU is requested to support CPMU and PPMUs to conduct internal monitoring activities on the implementation of DDRs and EMDPs and submit the periodic monitoring report timely.

90. **Gender.** The Gender consultant was mobilized since Q4 2016 and assisted CPMU to set up the M&E templates for sex-disaggregated and ethnicity data collection for monitoring GAP implementation, and achievement of DMF gender targets. Updated Gender Action Plan (GAP) is in Attachment 7.

G. Additional Financing (Grant No. 0433)

91. The additional financing to the BCC project of \$3,794,954, funded by the Global Environment Facility (GEF) was approved on 25 June 2015 and became effective in February 2016 with closing date of March 2019. The grant aims at addressing the impact of the fragmentation of the forest landscape through strengthening (i) the institutional and community capacity in management of protected areas (PAs) and their surroundings in the Central Annamite landscape strengthened; and (ii) landscape conservation measures at the community level strengthened. To support monitoring, the current Project DMF is an integration of the ongoing BCC project and the GEF additional financing and is in Attachment 2.

92. As of 15 June 2017, overall project implementation progress was 10% against the elapsed grant period of 35%. The project faced a start-up delay of one year due to government long approval process. It started to catch up since Q2 2017 but implementation of activities is still delayed due to the same reason and government complicated procedures.

93. The first disbursement of the Project which was the Initial Advance to the Imprest Accounts, was made on 8 August 2016, more than 3 months from the grant effectiveness of 23 February 2016. The cumulative contract awards and disbursements were \$0.207 million

and \$0.103 million, respectively, equivalent to 5.4% and 2.7% of the net grant amount of \$3.794,954 million, and equivalent to 69% and 34.5% versus the targets of \$0.648 million and \$0.566 million for contract awards and disbursements, respectively.

94. The PMU staffing is completed with a part-time Director, a Deputy Director, Coordinator, Accounting and Admin Assistants. Staff of the loan PMU will also contribute to the grant implementation. Individual consultants have been recruited to help the EA with initial grant implementation.

95. One among the two major contracts, the Protected Area Management Support (PAMS1 of \$0.5M) was awarded in June 2017 and consultant is to be mobilized in July 2017. Advertisement of the other major consulting service assignment of Sustainable Forest Management/Monitoring Reporting and Verification and Reduced Emission due to Deforestation and Forest Degradation (SFM/MRV and REDD+ of \$0.8M) is expected in July/August 2017.

96. This mid-term review mission to reset the project implementation plan in response to the start-up delay. The Mission assisted the CPMU to set up a detailed implementation plan and the updated grant DPIP is in attachment 3.

97. The following action plan for the key procurement activities has been agreed:

- i. Advance payment for PAMS1 contract (\$152,000): August 2017;
- ii. Completion of recruitment of individual consultants and contract variations by 30 September 2017;
- iii. Award for Ngoc Linh protected area CS contract (\$50,000): Q4 2017;
- iv. Award of SFM/REDD+ and MRV development contract (\$0.75M in cash advance): Q1 2018.

98. The grant is in its early implementation stage due to the start-up delay mentioned above. Although it is too early to assess the achievement of the overall objectives, the project may face difficulties in delivery all activities due to short implementation time, complicated nature of a number of activities, and government cumbersome procedures while the PMU is not a permanent PMU with part-time PMU management staff.

H. Compliance with Loan Covenants

99. Most of the loan covenants are complied with or being complied with. The updated status of compliance with loan covenants is in Attachment 8.

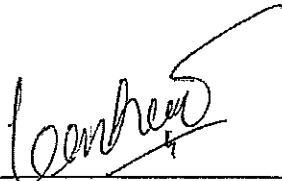
I. Action Plans of Last Review Mission

100. Most of the recommendations set during the last review missions in November 2016 are being done for have been done with some delay. The update is in Attachment 9.

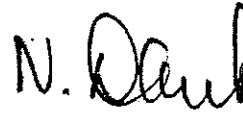
IV. ACKNOWLEDGEMENTS

98. The Mission wishes to express its sincere thanks for the cooperation extended by MONRE, PPMUs of Quang Nam, Quang Tri and Thua Thien Hue, VEA, Biodiversity Conservation Agency, BCC CPMU, PPMUs, DPIUs, CPIUs and all who contributed to the mission and the AM.

Signed on 22 July 2017



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AIDE MEMOIRE

L2721 (VIE) & G0433 (VIE): GMS BIODIVERSITY CONSERVATION CORRIDORS PROJECT Loan Review Mission & Grant Mid-term Review

Viet Nam, 14 – 22 July 2017

I. INTRODUCTION

1. The Asian Development Bank (ADB) fielded a Review Mission for Loan 2721 (VIE) and a Mid-term review Mission (the Mission)¹ for the Grant 0433 (VIE): GMS Biodiversity Conservation Corridors Project (hereinafter referred to as the Project) between 14 and 22 July 2017. The Mission met staff of the Central Project Management Unit (CPMU) based in the Viet Nam Environment Administration (VEA) within the Ministry of Natural Resources and Environment (MONRE) – the Executing Agency (EA), Project Directors and staff of Quang Nam, Quang Tri and Thua Thien Hue Provincial Project Management Units (PPMUs) and District Project Implementing Units (DPIUs). Attachment 1 contains a list of persons met by the Mission.
2. The objectives of the Mission were to review (i) the overall project implementation progress against the action plan prepared during the review mission in November 2016 and the targets included in the design and monitoring framework; (ii) the Project's contract award and disbursement progress; and (iii) address issues that came up since the last review missions in November 2016.
3. Regarding grant project, the Mid-term review mission aims at, in addition to the above, to reset the projections of the contract award and disbursement due to long start up delay since the grant effectiveness on 23 February 2016.
4. This Aide Memoire records the Mission's findings and agreements reached with CPMU and the three participating PPMUs at the wrap-up meeting on 24 July 2017. The agreements reported in this Aide Memoire are subject to review and approval by higher authorities of MONRE, Provincial People's Committees and ADB.

II. BACKGROUND

5. ADB approved \$30 million loan financed from its Asian Development Fund Special Funds Resources for the Project on 10 December 2010. The loan became effective on 9 August 2011. The Project completion date is 31 March 2019 and Project closing date is 30 September 2019. The long-term impact of the Project is climate resilient sustainable forest ecosystems benefiting local livelihoods. The Project outcome is sustainably managed biodiversity corridors in Viet Nam.
6. On 24 June 2015, ADB approved an additional financing in the amount equivalent to \$3.795 million from the Global Environment Facility (the Grant). The Grant Agreement was signed on 4 September 2015 and became effective on 29 February 2016, with the closing date of 30 September 2019. The grant project supplement the loan project scope through addressing the fragmentation of the forest landscape in the Central Annamite and thus maintain the impact of the ongoing loan project.

¹ The Mission comprised Khuc Thi Lan Huong, Project Officer, VRM (Mission Leader); and Truong Minh Hue, Associate Project Analyst, VRM. Safeguard and Gender/Social Specialists provided inputs through desk review.

7. The outputs of the loan project are (i) institutions and communities strengthened for biodiversity corridor management; (ii) biodiversity corridors restored, protected and maintained; (iii) support to livelihood improvement and small-scale infrastructure provided in small communes; and (iv) project management and support services provided. And the outputs of the grant project have been integrated into the four outputs of the loan project. (See attachment 2 for the combined DMF).

8. The loan Project covers 35 communes (13 in Quang Nam, 12 in Quang Tri and 10 in Thua Thien-Hue) located in 6 districts (Tay Giang and Nam Giang in Quang Nam province; Huong Hoa and Dakrong in Quang Tri province; and A Luoi and Nam Dong in Thua Thien-Hue province) in three provinces. The communes that have been selected are (i) within the biodiversity corridor designed area, (ii) supporting ecosystem connectivity, (iii) considered poor communes, and (iv) holding good forest coverage to facilitate the connection of forest ecosystems.

9. The loan project benefit around 15,500 households. Incrementally, the grant will support improved management of 231,000 hectares of protected areas that would benefits about 6,000 people in the three participating provinces through enhanced ecosystem services, improved carbon stocks and enhanced climate resilience, sustainable forest benefit sharing and improved conservation-based livelihoods.

III. FINDINGS, RECOMMENDATIONS, AND AGREEMENTS REACHED

A. General Project Progress

10. Since the review mission of the Project in November 2016, the implementation progress of the project activities has been steady. Activities under component 1 are on track while there are delays for some activities under component 2 and 3.

11. Under component 1, a basis for the establishment and management of biodiversity corridors has been completed and further piloting is underway. Initial institutions at provincial and community levels have been completed to guide the subsequent activities for sustainable forest management in the entire central region landscapes.

12. Activities under Component 2 are experiencing some delay in forestation design and approval of the design results, and forest inventory. However, the forest restoration and commune forest management (CFM) related activities are progressing with contracts on forest inventory have been awarded for Quang Tri and Quang Nam. In parallel with the forest inventory, SFM pilot activities (development and approval of guidelines and regulations, establishment of CFM operating and management arrangements) are being implemented with the pilot sites which need to be replicated in all the CFM areas selected for BCC in the three participating provinces.

13. Under component 3, business development activities were facing a stagnancy since November 2016 because official decision on the feasibility of the proposed models was not made for the proposed models. In addition, there were changes in CPMU staff in charge of the subcomponent and business development consultant replacement in CPMU that delayed the further guidance from the CPMU to PPMUs/DPIUs in moving forward the subcomponent. Commune investment profiles have been developed and approved or being approved though. More details will be further discussed in the AM.

14. As of 30 June 2017, total cumulative contract awards and disbursements (including interest during construction-IDC) were \$15.890 million and \$11.718 million, respectively, which are equivalent to 59% and 44% of the net loan amount of \$26.945 million (74% of the project elapsed implementation period). The status of loan utilization broken down by

categories is presented in Table 1 below. The Project achieved \$2.816 million out of \$2.816 million and \$0.541 million out of \$0.675 million for contract awards and disbursements, respectively for 2017.

Table 1: Status of loan utilization as of 30 June 2017

| Category Number | Category Name | Allocation | Contract Awards | Disbursements |
|-----------------|--------------------|---------------|-----------------|---------------|
| 1 | WORKS | 3,684,677.00 | 867,232.00 | 405,157.00 |
| 2A | EQUIPMENT | 572,951.00 | 395,858.00 | 359,703.00 |
| 2B | VEHICLES | 232,181.00 | 230,672.00 | 230,672.00 |
| 3 | GOODS AND SERVICES | 10,887,593.00 | 5,765,538.00 | 2,725,372.00 |
| 4 | LIVELIHOODS | 4,178,400.00 | 2329,716.00 | 1,495,511.00 |
| 5 | CONSULTING | 3,699,038.00 | 4,116,938.00 | 2,514,691.00 |
| 6 | CAPACITY BUILDING | 1,066,252.00 | 1,002,739.00 | 830,770.00 |
| 7 | PROJECT MGMT. | 2,069,087.00 | 1,182,174.00 | 831,370.00 |
| | | 26,390,179.00 | 15,890,866.00 | 9,393,246.00 |
| | | | 60.21% | 35.59% |
| 8 | INTEREST | 599,136.00 | | 267,980.00 |
| 99A | IA- CPMU | (19,182).00 | | 750,000.00 |
| 99B | IA - QN | (5,486).00 | | 464,788.00 |
| 99C | IA - TTH | (12,967).00 | | 599,208.00 |
| 99D | IA - QT | (6,115).00 | | 243,293.00 |
| | | 26,945,566 | 15,890,866 | 11,718,514 |
| | | | 58.97% | 43.49% |

15. The Project is still included in the list to be closely monitored by the Ministry of Planning and Investment and ADB. Despite effort by the EA and VRM issues that prevent an effective project implementation are observed, several issues are chronic that need greater attention by the EA and the participating provinces. This will be further discussed below. The project detailed implementation plan is in Attachment 3.

B. COMPONENT 1 - Institutional and communities strengthened for biodiversity corridor management

16. The component has achieved a reasonable progress since the last review mission. Continuing with the momentum from the last review mission, the following have been developed as of the time of the Mission.

17. **Biodiversity Corridor Establishment and Management Framework (BCC Framework).** The draft national and provincial guidelines for the establishment and management of biodiversity corridors in the provinces was completed in Q4 2016. The draft framework consists of an Action Plan for the establishment and management of biodiversity corridors.

18. The action plan includes five agreed key outputs as follows:

- Output 1: Guideline for Provincial Biodiversity Corridor Establishment and Management; This is the basic guidelines of the corridor setup, that could be used for any proposed inland corridor in Vietnam.

This Guidelines on piloting provincial biodiversity corridor establishment and management were completed and issued by VEA in May 2017 through its Decision no. 1283/QĐ-TCMT dated 18 May 2017. Provinces are cooperating with the biodiversity expert in developing technical and financial proposals for the establishment of the provincial BC. The proposals will be consulted with stakeholders, finalized and approval is expected in Q4 2017.

- Outputs 2,3,4: On the basis of Output 1 (above), drafting 03 Provincial Biodiversity Corridor Management Plans. The main aspects of corridor establishment would come from output 1, but for each province there would be a customized supplement. The guideline would vary for each province because of different items (a) Biophysical features, (b) Administrative aspects, (c) Provincial Master Socioeconomic Development Plans. Provincial corridor guidelines will serve as the basis for the operations and management of the provincial biodiversity corridor. Approval of those plans by the provincial governments are expected by Q4 2017.

- Output 5: Interprovincial Conservation Corridor Management Guidelines. This is a definition of how the corridor landscape would be managed as a whole, given that there are three different provinces, with seven different protected areas and three main corridors with sub-sections within six districts. It is basically the institutional and administrative setup to manage features of the conservation landscape into attaining the main goals of the conservation corridors. Liked to this output, or separately, inform policy for Corridor Experience and Recommend Policy Action; which is basically to: On the basis of provincial and interprovincial corridor establishment and management guidelines, collate management prescriptions into a national-level policy guideline and recommendation for biodiversity corridors by MONRE.

19. An issue pending for the national and provincial guidelines on biodiversity corridor management is the determination of the rights, benefits, and responsibilities of the forest owners in the established corridor and agreement on which by stakeholders before the guidelines are officially issued.

20. **Recommendation:** CPMU to assist the PPMUs to finalize provincial biodiversity corridor establishment and management plans which is to be submitted to provincial people committees (PPC) for approval in Q4 2017. This is to prepare for the next step of Interprovincial Conservation Corridor Management Guidelines and policy recommendations to the national policy on biodiversity corridor conservation.

21. **Participatory village land use plans – PVLUP** were approved in 2015-early 2016 for all 35 communes. However, due to delay in subsequent activities (especially forest design) the LUP results needed to be revised and reapproved for 24/35 communes (11

communes in Quang Tri, and 13 communes in Quang Nam) during Q2-Q4 2016. Further delay of implementation of the PVLUP approved results exerted negative impacts on the willingness to continue with the project of the local residents and thus delay in forest land use certification (LUC) and forestation activities.

22. **Knowledge exchange:** A study tour to Australia was organized in December 2016 for the PPC's, PPMU's, VEA's and MonRE's senior staff to exchange about the corridor establishment and management. Another study tour to China will be organized in Q3 2017 with the same purpose for the mid-career staff of the same project stakeholders.

23. **Commune Investment Profiles (CIP).** Based on templates and guidance for development of CIP by CPMU the CIPs for all 35 communes were updated by end 2016. Each CIP consists of two parts: a socio-economic profile of the commune and an investment plan developed by the BCC Project which focuses on four main investment categories, namely: small scale infrastructures, integrated biodiversity conservation, forest restoration and sustainable management, and livelihood related development activities.

24. Livelihood development activities were also updated in the CIPs which were submitted for approval by the PPC. By the time of the mission, 10 CIPs were approved in Thua Thien Hue, no information yet was provided on approval of CIPs for Quang Tri and Quang Nam provinces. It's expected to get approval for CIPs in Quang Nam and Quang Tri by September, 2017. The slow approval, in addition to other occurrences, has resulted in the stagnancy of the livelihood development activities. The livelihood activities will be further discussed in the later part of this AM.

C. COMPONENT 2 – Biodiversity corridors restored, protected, and maintained

25. **Site mapping.** Site mapping was completed for all 13/13 communes in Quang Nam, 10/10 communes in Thua Thien Hue, and 12/12 communes in Quang Tri province. Records have been checked by the CPMU in 2016 and the results of the site mapping were used for the forest restoration related activities.

26. **Forest and forest land use certification - LUC.** By the time of the Mission, the LUC has not yet completed in all three provinces. Despite gaining some progress, the land use certification was facing a major issue. Under the project LUC should be allocated to individuals, households and communities. However, 2013 Land Law disallowed granting LUC of natural and production forests to communities.

27. In November 2016, MonRE, after consultation with government stakeholders, issued Guidelines on processes for LUC to households and communities. More importantly, the Government's Decree no 01/2017/ND-CP dated 6 January 2017 on the adjustment of the Land Law had resolved the problem mentioned in para 26.

28. LUC activities started in 2017 in Quang Tri province (after award of contract D6T4 in Q4 2016). For Quang Nam (although the similar contract D6N4 was awarded in Q1 2017) and Thua Thien Hue, the MonRE Guidelines as mentioned in para 27 are still being studied before the LUC can be issued.

29. Without finalization of the LUC to households the forest plantation and regeneration cannot be sustainable. When the forest plantation completes by end 2017, the tending period would fall shorter than 2 years against the required 3 years of a normal forest plantation process. Without LUC to guarantee the forest ownership after project completion, the forest owners would not have the motivation to continue tending and protection of the planted forests.

30. **Recommendation:** LUC should be completed for households by Q3 2018 at the latest. Thua Thien Hue PPMU with assistance from CPMU, if needed, to follow strictly the timeline set for the award D6H4 (the only pending package on LUC). Quang Nam and Quang Tri PPMUs to follow strictly on the milestones for LUC as mentioned in their signed contracts.

31. **CFM activities** are considered the core component of the project and need to be also completed by end 2017 to give sufficient time for the implementation of the forest management plans. The target for the activities is to include establishment and operation of at least 40 village forest management boards for the 10,000 ha of the community forest land use for which will be certified.

32. **Demonstration models with CFM at the core.** CFM sites located between larger tracks of protected forests are key to meet the project's objectives ecosystem connectivity. Because of this, a project strategy for implementation is to establish a minimum of two demonstration landscapes per province (one per district), where CFM sites act as core, and other project interventions are carried out to support the integrity of these cores by working with local communities in forestry livelihoods, agriculture and agroforestry, CDFs, business development, and small scale infrastructure. As such, project demonstration sites will be strategically placed to maintain the greater corridor landscape connectivity, while holding sustainable community forest management functions.

33. **CFM sites.** Six pilot sites in the 6 project districts include:

- Quang Tri province: about 700 ha in Chanh Venh village, Huong Hoa district and 300 ha in Kreng village, Dakrong district;
- Thua Thien Hue province: Ta village of about 600 ha in A Luoi district and village No.6 of 120 ha in Nam Dong district; and
- Quang Nam province: Ro village of about 2,500 ha in Nam Giang district and Tari village of 850 ha in Tay Giang district;

34. Among those six pilot sites the initial institutional set up has been completed for 5/6 sites including approval of CFM village regulations by the district people's committees (DPC), and operational arrangements with some delays in some sites though. Approval of such regulations is pending for the Kreng pilot site in Dakrong, Quang Tri. Furthermore, PPMUs duplicated CFM sites for 12/33 remaining CFM sites as planned.

35. As of the time of the Mission, the identification of all CFM sites is completed including 39 villages in 35 communes of the three provinces with total area of 11,573.7 ha (overachieved compared to the DMF target of 10,000 ha). Similar initial institution set up as mentioned in para 24 had been replicated to other 12 CFM sites. Next steps will be the development of the 5-year plan for forest management for the all CFM sites in each province. The updated status of completion and critical path for the CFM activities is in Attachment 4.

36. Several issues were observed during the mission. First, there is delay in the forest inventory and delay in approval of the forest protection and development regulations by Dakrong DPC in Quang Tri province. The sustainable forest management structure development activities are being implemented in Quang Tri.

37. **Recommendation:** Because the forest inventory is executed by the Quang Tri PPMU, the PPMU would need to coordinate more closely with Dakrong district PC and engage DPIU staff in the contract execution. This will particularly facilitate approval of the forest protection and development guidelines and other CFM works in the Kreng pilot site in Dakrong district. The mission set a timeline for the approval of the guidelines by end August 2017 for 5 villages in Dakrong district and 4 villages in Huong Hoa district, along with

approval of the forest inventory results in all CFM sites in Quang Tri expectedly also by December 2017. Further delay would lead to possible partial cancellation of some CFM activities in Quang Tri province.

38. Second issue is the serious delay in forest inventory activities in Thua Thien Hue due to delay in award of contract D6H4. By the time of the mission, the package was not yet re-advertised while the results of the forest inventory will be the basis for the subsequent CFM works. Thus, there was no CFM progress in Thua Thien Hue since the last review mission. This has resulted in delay for development, approval and implementation of the 5-year forest protection and management plan for the CFM sites in Thua Thien Hue while the CFM activities need to be completed by December 2017 per the CFM critical path.

39. **Recommendation:** The Thua Thien Hue PPMU, with support by CPMU, is to follow strictly the timeline set for the award D6H4 (the only pending package on forest inventory) and CFM critical path. Any further delay will lead to untimely achievement of the project outputs for Component 2 and possible partial cancellation of CFM activities.

40. **Forest Plantation.** The project includes forestry interventions through 'eco-forest plantations', sought for implementation in the immediate surroundings of, or connecting CFM sites, protected and special-use forests in the conservation corridor landscape. Forest restoration methods under the project include reforestation, enrichment planting, assisted natural regeneration, and non-timber forest products which must be carried out with native species. Three-year tending after planting completion is needed according to the requirement of a normal process of forest plantation.

41. Plantation and regeneration has been completed for 2,341 ha for the period 2013 – June 2017 against the identified of 10,208 ha for restoration through the revised LUP and site mapping exercise and the target of 6,000 ha. The forestation quality was facing issues such as (i) in Quang Nam province: quality of the seedlings in Tay Giang district, and (ii) in Quang Tri province: some planted forests were not in the approved PVLUP and site maps or planting works did not follow the approved design. Updated data for forest restoration based on the approved PVLUP and site mapping as of June 2017 is in Attachment 5.

42. With the current progress the DMF target of 6,000 ha for forest restoration and its completion by 2017 as agreed during the last review mission will not be achieved. In addition, the tending period will be less than 03 years and thus would risk the forest sustainable management. Two scenarios are foreseen.

43. **Scenario 1 - Without loan extension.** The loan closing date will remain September 2019. The plantation activities must be completed by Q1 2018 at the latest to allow a minimum of 1.5 year for planted forest tending and implementation of 5-year plan for CFM.

44. In this scenario, the maximum reforestation area can only be around 5,000 ha vs the target of 6,000 ha in the DMF. In addition, to ensure 3 years for tending works for the 2017-2018 planted forests the funds need to be mobilized from the counterpart fund (CF) or contribution by the local households/communities for at least 1.5 years. This scenario seems more sensible at the current context that loan extension would take time and cannot be warranted.

45. **Way forward.** All three provinces confirmed that completion of the forest planting works by Q1 2018 can be achieved with identified area of 5,000 ha. However, the contribution by the local households/communities or CF mobilization for tending and sustainable CFM will need further discussion with the stakeholders. Without continuation of tending and patrolling/protection after project closing date, the outcome of the project cannot be achieved.

46. With two-year extension of loan closing date to September 2021, if warranted, the plantation activities can be continued until end 2018 with expectation to achieve the target of 6,000 ha of forest restoration in the DMF. Also the 03 years tending as well as significant implementation of 5-year plan for CFM can be secured.

47. However, in the current context of (i) significant net loan amount decrease; (ii) additional human and time resources needed for obtaining the government and ADB approval, there would be a foreseen significant cost overrun. In addition, there is uncertainty for government approval of the extension.

48. Parties noted the critical need for SFM and will make effort to coordinate with stakeholders on working out the best among the available solutions to the issue. For the meantime, the CPMU and PPMUs proposed to reduce the areas for forest restoration to 1,646.2 for Quang Tri, 1,906 ha for Quang Nam, and 1,172.5 for Thua Thien Hue. The updated critical path for the forest restoration and plantation is in Attachment 5.

49. Agreement: The Mission supported the CPMU's and PPMUs' proposal to extend the completion of forest plantation to end Q1 2018 taking into account the plantation seasons in the provinces. Quang Nam committed to complete the forest plantation design by end July 2017, and Quang Tri by end September 2017. Any delay will lead to risks of incompleteness of the activities and the possible of a partial cancellation of the activities for the component, and underachievement of the DMF targets.

50. The Mission also reminded CPMU and PPMUs of the common delays of approval of the project annual workplan and inadequate budget allocation and requested the CPMU and PPMU to take actions to prevent similar delays in 2018 which may further contribute to more delays in plantation and other project activities.

51. Recommendations: Similar to the recommendation during the last review mission, CPMU and PPMUs should develop project annual workplan and budget plan and have those plans approved aligning with the Government budget allocation cycle. Delay in approving those plans should be minimized at the VEA and CPMU.

52. Quality control. Unchanged from the last review Mission. The Mission reiterated the agreement reached during the last review mission on the quality control. The commune PIUs, District PIUs, and PPMUs will monitor 100% of the works carried out by the communities in forest planting, assisted natural regeneration, tending and protection. PPMUs will focus on quality control of the works carried out by the DPIUs. If necessary, PPMUs will collaborate with the relevant staff of the Departments of Agriculture and Rural Development in these supervision/quality control activities.

53. Upon PPMUs' and DPIU's appraisal of the field work quality, CPMU will check at least 10% of the amount of work done on a random basis. In case, there are notable disparities between monitoring results of local authorities and checking results of CPMU, the relevant PPMU and DPIU will conduct investigations and revisions until they are satisfactory to CPMU.

D. COMPONENT 3: Livelihoods and Small-scale Infrastructure Subprojects

54. The project supports for the livelihood of the local farmers/beneficiaries through a number of activities including (i) agriculture livelihood improvement, (ii) forestry livelihood activities, (iii) business development subprojects, (iv) commune development funds, and (v) small scale infrastructure.

55. Agriculture livelihood support. The activity seems to be a good support to the local farmers and suitable to the local conditions. The support of 768 invested models in the three

provinces includes cow/duck/pig raising, home gardening, avocado planting and other proposed agriculture local business development projects. The business development projects will be further discussed below.

56. **Forestry livelihood improvement activity** is of good progress with high probability of completion by end 2017 with target of 1,200 ha. The project supports local farmers in the project area with planting of native perennial trees such as Lat Hoa, red Boi Loi species and mixed with acacia in some places. Forest tending support of 3 years is being provided. Against the target of 1,200 ha, the plantation of 1,050 ha was fully completed by the time of the Mission and the set target for this activity will be achieved.

57. **Business development for livelihood improvement.** As agreed during the last review missions, CPMU and PPMUs with support by the business development consultant, who works in direct liaison with field PMUs based on the results of consultation with the local communities by DPIUs and PPMUs to help define, develop, pilot business development models surfacing from project field activities. The consultant also works closely with the CDF specialist to assess the market for CDF products and integrate with CDF livelihood activities.

58. Under the project context, and as outlined in the commune investment plan (CIP) business development activities include assessment of market for local products, connections between producers and markets, and possibility of establishing a stable trade between the buyers and the local producers. The project will support 6 models, one in each district with expectation that the model once has been operational will improve household income and can be replicated in the communities.

59. The review mission in November 2016 assessed that the five out of six business development models were of high feasibility for investment. Those include direct support to (i) group of producers, local farmers, and (ii) local businesses. The target was 6 approved models by end 2016.

60. In Q2 2017 the new business development was mobilized and re-examined the proposed models. It was acknowledged that effort had been made by PPMUs and DPIUs for surveying and proposing the business models for the six project districts. The proposals, however, need more clarification and revisions. The consultant came up with more concrete assessment of feasibility of the proposed models and suggestions for further clarification.

61. **Recommendations.** Within the short time remaining under the project, the CPMU and PPMUs agreed with the Mission on the following:

- a. CPMU to issue the final guidance note on selecting the satisfactory models among the 07 proposed models which would be submitted for final approval. The CPMU's note should explicitly guide the sensibility, feasibility, effectiveness and sustainability of the models. The guidance note should be issued by 15 August 2017.
- b. PPMUs in agreement with CPMU to select satisfactory models among the 07 proposed models following the guidance note. The selection should be complete by end August 2017 and implementation of those selected models will start after that.
- c. The remaining proposals will be further scrutinized and need to be finalized by 30 September 2017. After that time, no approval will be granted. Any delay will lead to untimely completion of the subprojects/models and may lead to subproject partial cancellation.

62. **Commune Development Fund.** Money was transferred to all 35 CDFs in December 2015 amounting to \$700,000 (of which, US\$70,000 are allocated for risk contingency fund). As of June 2017, all 35 CDFs have delivered funds to communities with total disbursed

amount of VND13,997 million, accounted for 95,3% of total seed capital. Total number of people receiving loan to date is 1,520 households. Rate of fund turnover is 54,5% (equivalent to VND3,149 million).

63. The local farmers borrow for livestock raising and agricultural cultivation, mainly for tending coffee trees (Huong Phung and Huong Son communes of Huong Hoa district of Quang Tri province). The funds, although of a modest scale, are fully functional and proves to be an effective facility to help improve livelihood of the local farmers.

64. An issue was observed: since January 2017, upon of the effectiveness of the public investment law, the total budget of 35 CDFs must be returned to state budget and local people can not access to any loan fund from CDFs after the project ends. In June 2016, CPMU issued an official letter to temporarily request PPMUs to allow local people access new loans with a deadline for fund repayment by 31 December 2018. Currently, CPMU in coordination with CDF consultant are working together to find out effective solutions as well as actively consult with MOF to propose feasible measures to address this matter.

65. **Recommendations:** The mission noted the issues on the government policy change and the unfortunate ending of the CDF activity. The Mission will report this issue further to the higher level in ADB.

66. **Small scale infrastructure (SSI) subprojects.** Activities were slowing down in all three provinces because attention and focus were paid on the forest plantation and CMF works of component 2 since Q4 2016. As of June 2017, 15 subprojects have been completed and handed over vs 69 subprojects in the approved list. The final approved list and updated status of the SSI subprojects in three provinces is in Attachment 6.

67. Thua Thien Hue proposed to revise the approved list of the SSI items. The PPMU requested to add 9 subprojects with total value of VND12,890 million, which belong to VND28 million of total budget allocated for SSI in Thua Thien Hue province. The initial survey by the safeguard and infrastructure experts showed insignificant impacts on resettlement and environment. Thua Thien Hue will mobilize CF for preparation of FS and technical design and supervision services for the proposed additional subprojects.

68. The Mission visited a completed section of the commune road, about 0.3 km in Pahy village of Hong Ha commune in Aluoi district, Thua Thien Hue province. The Mission noted that the road section although completed does not at all benefit the local farmers as it was built on the one side of a stream without construction of a crossway connecting to the inner village road section on the other side of the stream leading to Ar Tang agriculture production site. The PPMU proposed to construct a small-scale crossway and the rest of 0.6 km of the that inner road section.

69. The Mission assessed that the commune road if constructed and upon completion will ease the travel of the local residents, especially children while going to school and residents to transport agriculture products from and to the project commune. The total cost estimate is VND1.3 billion (\$60,000).

70. The Mission could not confirm the viability of the proposed water supply (WS) with pipe connections from the main pipe system to households due to (i) no head works including WS station and main pipe systems were in place during the time of the Mission; (ii) uncertainty of the investment on those items by the Government in the near future; and (iii) unclear ownership transfer of the facilities, if constructed.

71. Regarding the proposed additional village roads, the Mission acknowledge that the proposed roads (after being upgraded or constructed) will provide better transportation

opportunities to the local residents in the project areas. However, the Mission noted that approval of those additional road SSIs, completion of their FS and technical design, selection of the contractors and supervision consultants will take long time before the construction works can start.

72. Thua Thien Hue PPMU commits that design, supervision, procurement and safeguard activities will be paid by counterpart fund for the project. Design activities and selection of contractors will be completed no later than 31 December 2017.

73. **Recommendation.** With the except for Pahy additional road section and the small-scale crossway, the mission cannot confirm the viability of the proposed other additional SSIs due to (i) insufficient time for justification and re-approval of the revised list for SSI, including variation for consulting services for the additional SSI items, and (ii) especially the uncertainty of the viability of the WS subprojects thus the same uncertainty of the effectiveness of the proposed extended pipe system proposed under this sub-component.

74. **Recommendation.** Within the short remaining time, the Mission recommended the following:

- (i) Inclusion of the Inner village road to Ar Tang production area in Pahy village, Hong Ha commune, A Luoi district for the immediate approval by the Thua Thien Hue PPMU. Thua Thien Hue to submit the safeguard DDRs by December 2017, otherwise the subproject will be rejected.
- (ii) Thua Thien Hue, with support by SSI and safeguard consultants, to conduct the initial survey of the proposed new road SSIs and approve the inclusion of those SSIs by September 2017. Any subprojects with resettlement and land compensation will not be approved.
- (iii) FS and technical design should be completed by Q1 2018.
- (iv) Construction to be commenced no later than October 2018 at the latest to allow the completion and handing over by March 2019.
- (v) Any works that will not be completed by the loan closing date will not be financed from the ADB loan proceeds.

E. COMPONENT 4: Project Management and Support Services

75. **Communication and awareness raising activities:** have been continuously implemented based on the communication objectives stated in the BCC Communication and Awareness strategy and action plan. Due to limited resources for communication and awareness raising activities, not many outstanding communication and awareness raising activities are implemented at all project levels in 2017. However, regular communication and awareness activities have been implemented such as updating project activities on VEA website, provincial/district portals and local mass media, disseminating project information through workshops, events of the project, distributing communication materials (posters/leaflets), advertising project image (livelihood/small-scale infrastructure signs), broadcasting project news on local loudspeakers and community houses.

76. Community communication network have been established by integrating communication activities into activities of existing community groups of the project (CDF, CFM, reforestation, etc.). Except for Thua Thien Hue with 56 community communication groups, the two other provinces have not yet submitted the official lists of community communication groups while those activities are still going on.

77. **Recommendation.** PPMUs are requested (i) to quickly develop and finalize their own communication action plans based on the project communication action plan and provincial workplan of 2017 (as requested by CPMU's official letter No.38/BCC-BQL dated 5 May 2017) and the list of community communication groups (if missing), then submit to CPMU no later than 31 July 2017 in order to have better implementation of communication and awareness activities as well as effective monitoring and evaluation on communication issues; (ii) Because majority of communication activities must be integrated with other project activities, PPMUs are to mobilize counterpart funds for some communication activities, which were successfully implemented last year such as Communication and Awareness campaign for local communities on biodiversity conservation, printing communication materials and facilities, etc.

78. **Climate Change Impact.** Consultants were mobilized in April 2017 for a 21 month contract. Agreement was reached on initial consultant deliverables. Final deliverables of this consulting service is a Report on identification and assessment of climate change impact on biodiversity values in the Central Annamite Conservation Landscape will be submitted by December 2018.

79. **Allocation of fund to PPMUs:** Shortage of allocated fund is a strain since 2016 after the State Budget Law and decree 16 on ODA management became effective, until October 2016 the budget was not allocated adequately to provinces. The issue was solved only in late December 2016 and disbursements were made for 2016 activities since then.

80. As of 30 June 2017, Thua Thien Hue was not allocated with budget for 2017 workplan by MOF and funds unspent in 2016 was not allowed to be carried forward to 2017. This has resulted in inability of the PPMU to pay for many completed activities, especially for the labor costs incurred to the local workers for component 2, and civil works. Quang Nam PPMU was allocated with VND32 billion vs the request of VND100 billion. The allocation for Quang Tri was VND47.4 billion vs the need of VND82 billion.

81. This matter was discussed many times with MOF and was raised during the project Steering Committee Meeting in early July 2017. However, by the time of the Mission, no update was received about 2017 budget allocation for Thua Thien Hue, and additional allocation for Quang Nam and Quang Tri can only be considered by end 2017. The total shortage of funds for the three provinces in 2017 is VND126 billion (~\$5.5 million).

82. **Acknowledgement and way forward.** The Mission acknowledged the effort made by the CPMU and PPMUs in this matter and learnt that in 2017 leaders of the VEA/MonRE and Thua Thien Hue PPC will further meet and discuss with MOF leaders on this issue. At the same time, VRM will raise the issue to the higher level of the Government during the 2017 tripartite portfolio review meeting.

83. **Decrease of the net loan amount:** due to exchange rate fluctuation and depreciation of the SDR the net loan amount as of June 2017 is \$26.945 million vs the approved amount of \$30M in 2010. This poses a risk for potential cost overrun as project activities were planned based on the original loan amount of \$30M. CPMU and PPMUs proposed options to avoid the potential cost overrun including (i) reducing scope of the current activities, and/or (ii) ceasing activities that are assessed not meeting the expected outcomes or effectiveness.

84. During the last review mission, the issue was raised and stakeholders were well aware of it. CPMU initiated discussion with the PPMUs and came up with an initial option to address the decrease of the net loan amount. During this mission, aligning with the critical path of the key activities of the project (forest restoration, CFM, and livelihood activities), an estimated financial plan for those activities have been developed based on the CPMU's proposal. The plan will be further discussed with the PPMUs.

85. **Recommendation.** Based on the tentative plan developed in 2016 and with consolidated discussion with provinces, the final plan to address the decrease in the net loan amount will be developed by Q3 2017 at the latest.

86. Based on the CPMU plan, and the updated PDIPs for CPMU and PPMUs, the Mission assessed that payments on forest protection and tending to the households and communities will not be able to complete by the loan closing date of 30 September 2019 to achieve the SFM requirements of 3 year tending and maintenance before handing over of the planted forest, and 5 year to maintain the SFM structure. Estimated funds needed for SFM works is greater than \$2 million.

87. **Way forward:** MonRE and VRM will further explore how best to address the issue aiming at achieving the DMF targets and the project outcome of sustainable forest management.

F. Environment, Social Safeguards and Gender

88. The project is categorized B in environment and social safeguard and have positive environment, social and gender impacts. Due diligence reports (DDR) and Ethnic Minority Development Plans (EMDP) for 69 approved subprojects in three provinces were approved by ADB in 2016. Some issues are still however pending.

89. **Recommendations** (i) Thua Thien Hue is to submit safeguard DDR report for the additional Pahy crossway and additional commune road section for ADB's endorsement no later than 31 December 2017, if not, these additional subprojects will be rejected for investment; (ii) Quang Tri, Quang Nam and Thua Thien Hue PPMUs shall arrange the budget for implementing activities specified in approved EMDPs as scheduled; (iii) Safeguard specialists under CPMU is requested to support CPMU and PPMUs to conduct internal monitoring activities on the implementation of DDRs and EMDPs and submit the periodic monitoring report timely.

90. **Gender.** The Gender consultant was mobilized since Q4 2016 and assisted CPMU to set up the M&E templates for sex-disaggregated and ethnicity data collection for monitoring GAP implementation, and achievement of DMF gender targets. Updated Gender Action Plan (GAP) is in Attachment 7.

G. Additional Financing (Grant No. 0433)

91. The additional financing to the BCC project of \$3,794,954, funded by the Global Environment Facility (GEF) was approved on 25 June 2015 and became effective in February 2016 with closing date of March 2019. The grant aims at addressing the impact of the fragmentation of the forest landscape through strengthening (i) the institutional and community capacity in management of protected areas (PAs) and their surroundings in the Central Annamite landscape strengthened; and (ii) landscape conservation measures at the community level strengthened. To support monitoring, the current Project DMF is an integration of the ongoing BCC project and the GEF additional financing and is in Attachment 2.

92. As of 15 June 2017, overall project implementation progress was 10% against the elapsed grant period of 35%. The project faced a start-up delay of one year due to government long approval process. It started to catch up since Q2 2017 but implementation of activities is still delayed due to the same reason and government complicated procedures.

93. The first disbursement of the Project which was the Initial Advance to the Imprest Accounts, was made on 8 August 2016, more than 3 months from the grant effectiveness of 23 February 2016. The cumulative contract awards and disbursements were \$0.207 million

and \$0.103 million, respectively, equivalent to 5.4% and 2.7% of the net grant amount of \$3.794,954 million, and equivalent to 69% and 34.5% versus the targets of \$0.648 million and \$0.566 million for contract awards and disbursements, respectively.

94. The PMU staffing is completed with a part-time Director, a Deputy Director, Coordinator, Accounting and Admin Assistants. Staff of the loan PMU will also contribute to the grant implementation. Individual consultants have been recruited to help the EA with initial grant implementation.

95. One among the two major contracts, the Protected Area Management Support (PAMS1 of \$0.5M) was awarded in June 2017 and consultant is to be mobilized in July 2017. Advertisement of the other major consulting service assignment of Sustainable Forest Management/Monitoring Reporting and Verification and Reduced Emission due to Deforestation and Forest Degradation (SFM/MRV and REDD+ of \$0.8M) is expected in July/August 2017.

96. This mid-term review mission to reset the project implementation plan in response to the start-up delay. The Mission assisted the CPMU to set up a detailed implementation plan and the updated grant DPIP is in attachment 3.

97. The following action plan for the key procurement activities has been agreed:

- i. Advance payment for PAMS1 contract (\$152,000): August 2017;
- ii. Completion of recruitment of individual consultants and contract variations by 30 September 2017;
- iii. Award for Ngoc Linh protected area CS contract (\$50,000): Q4 2017;
- iv. Award of SFM/REDD+ and MRV development contract (\$0.75M in cash advance): Q1 2018.

98. The grant is in its early implementation stage due to the start-up delay mentioned above. Although it is too early to assess the achievement of the overall objectives, the project may face difficulties in delivery all activities due to short implementation time, complicated nature of a number of activities, and government cumbersome procedures while the PMU is not a permanent PMU with part-time PMU management staff.

H. Compliance with Loan Covenants

99. Most of the loan covenants are complied with or being complied with. The updated status of compliance with loan covenants is in Attachment 8.

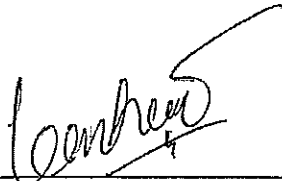
I. Action Plans of Last Review Mission

100. Most of the recommendations set during the last review missions in November 2016 are being done for have been done with some delay. The update is in Attachment 9.

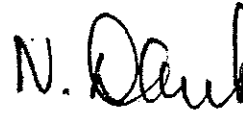
IV. ACKNOWLEDGEMENTS

98. The Mission wishes to express its sincere thanks for the cooperation extended by MONRE, PPMUs of Quang Nam, Quang Tri and Thua Thien Hue, VEA, Biodiversity Conservation Agency, BCC CPMU, PPMUs, DPIUs, CPIUs and all who contributed to the mission and the AM.

Signed on 22 July 2017



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