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Report No: 26767

GEF PROJECT DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR----(US$40.2 MILLION EQUIVALENT)

AND

GRANT FROM THE

GLOBAL ENVIRONMENT FACILITY TRUST FUND

IN THE AMOUNT OF US$9 MILLION

TO THE

SOCIALIST REPUBLIC OF VIETNAM

FOR A

FOREST SECTOR DEVELOPMENT PROJECT

April 26, 2004

Rural Development and Natural Resources Sector Unit
East Asia and Pacific Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective February 29, 2004)

Currency Unit = US Dollar
15,738 Dong = US$1
US$1 =

FISCAL YEAR
January 1 -- December 31

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CWGs	Commune Working Groups
DARD	Department of Agriculture and Rural Development
DF	Department of Forestry
DLA	Department of Land Administration
EA	Environment Assesment
FFGs	Farm Forestry Groups
FPD	Forest Protection Development
FMB	Forestry Management Board
FMRs	Financial Monitoring Reports
FSSP	Forest Sector Support Program
GEF	Global Environment Facility
GoV	Government of Vietnam
LUC	Land Use Certificates
MARD	Ministry of Agriculture and Rural Development
MOF	Ministry of Finance
NGOs	Non-governmental Organizations
PCA	Procurement Capacity Assessment
PIP	Project Implementation Plan
SFEs	State Forest Enterprises
SUF	Special Use Forests
VCF	Vietnam Conservation Fund

Vice President:	Jemal-ud-din Kassum
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Task Team Leader/Task Manager:	Susan S. Shen

VIETNAM
FOREST SECTOR DEVELOPMENT PROJECT

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Annexes

VIETNAM
Forest Sector Development Project

GEF Project Document

East Asia and Pacific Region
EASRD

Date: April 26, 2004
Sector Director: Mark D. Wilson
Country Manager/Director: Klaus Rohland
Project ID: P066051
Lending Instrument: Specific Investment Loan (SIL)

Team Leader: Susan S. Shen
Sector(s): Forestry (100%)
Theme(s): Other environment and natural resources management (P), Biodiversity (P)

Global Supplemental ID: P074414
Sector Manager/Director: Mark D. Wilson
Lending Instrument: Specific Investment Loan (SIL)
Focal Area: B - Biodiversity
Supplement Fully Blended? No

Team Leader: Susan S. Shen
Sector(s): Forestry (100%)
Theme(s): Other environment and natural resources management (P) , Biodiversity (P)

Project Financing Data

[ ] Loan [X] Credit [X] Grant [ ] Guarantee [ ] Other:

For Loans/Credits/Others:
Amount (US$m): Credit US$40.23 million equivalent; GEF Grant US$9 million

Proposed Terms (IDA): Standard Credit
Grace period (years): 10
Years to maturity: 40
Commitment fee: 0.5%
Service charge: 0.75%

Financing Plan (US$m): Source	Local	Foreign	Total
BORROWER/RECIPIENT	5.16	0.14	5.30
IDA	33.59	6.64	40.23
LOCAL COMMUNITIES	9.26	1.64	10.90
FINLAND: MINISTRY FOR FOREIGN AFFAIRS	1.42	3.58	5.00
GLOBAL ENVIRONMENT FACILITY	8.50	0.50	9.00
NETHERLANDS: MIN. OF FOREIGN AFFAIRS / MIN. OF DEV. COOP.	1.30	3.80	5.10
Total:	59.24	16.29	75.53

Co-financing for GEF Supported Activities: US$5.1 million from Dutch Government and $1.6 million from Borrower.

Borrower/Recipient: VIETNAM
Responsible agency: MINISTRY OF AGRICULTURE AND RURAL DEVELOPMENT
Address: 2 Ngoc Ha, Hanoi, Vietnam
Contact Person: Nguyen Quang Duong, Vice Director, Forestry Development Department
Tel: 84-4-8438795 Fax: 84-4-8438793 Email: cucptin@hn.vnn.vn

P066051 Estimated Disbursements (Bank FY/US$m):									
FY	2005	2006	2007	2008	2009	2010			
Annual	2.90	4.34	4.50	9.35	9.49	9.65			
Cumulative	2.90	7.24	11.74	21.09	30.58	40.23			

P074414 (GEF) Estimated Disbursements (Bank FY/US$m):								
FY	2005	2006	2007	2008	2009	2010		
Annual	0.33	0.90	1.97	1.87	1.93	2.00		
Cumulative	0.33	1.23	3.20	5.07	7.00	9.00		

Project implementation period: 6 years

Expected effectiveness date: 09/30/2004 **Expected closing date:** 12/31/2010

OPCS PAD Form: Rev. March, 2000

A. Project Development Objective

1. Project development objective: (see Annex 1)

The objective of the project is to achieve sustainable management of (plantation) forests and the conservation of biodiversity in special use forests to achieve improved livelihood of people in forest dependent areas; enhanced contribution of forestry to the national economy; and environmental protection. This objective will be attained by improving the environment for sustainable forestry development and biodiversity conservation; providing attractive packages to mainly poor farming households to plant trees on a sustainable basis for generating additional income and employment; providing small competitive grants for effectively managing priority special use forests of international importance; and enhancing capacity in regional, provincial, district-levels, and site-levels to provide needed support services and to monitor and evaluate impact and outcomes.

2. Global objective: (see Annex 1)

The global environment objective of the project is to improve the conservation of biodiversity of international importance in ***up to*** 50 Special Use Forests (national parks and nature reserves). This objective will be achieved by: (a) establishing a Vietnam Conservation Fund, a new financing mechanism that will provide small amounts of finance to initiate and improve management of special use forests of high biodiversity value on a competitive basis; and (b) mobilizing international and local technical assistance to build the capacity of the Special Use Forest Management Boards and the local communities at these sites to plan and implement priority conservation activities with a focus on developing and promoting the use of co-management based approaches to planning and management.

3. Key performance indicators: (see Annex 1)

Achievement of the project development objective would be monitored by the following key performance indicators: (a) institutional and financial arrangements for promoting smallholder plantation forestry developed and available for replication; (b) environmentally, socially, and economically viable smallholder forestry sector established and benefiting rural households in the four project provinces; (c) management effectiveness in 30 special use forests increased; and (d) threats to biodiversity of international importance in 30 special use forests reduced. The tracker tool for management effectiveness to be applied as a monitoring tool at each SUF that weeks support from the VCF specifically includes monitoring progress of the extent to which local communities and ethnic minorities are engaged in protected areas planning and management. The contribution of the project to poverty reduction will mainly be measured by the number/proportion of households below the poverty line benefitting directly and indirectly from land allocation and related forestry development. This will be measured as part of (b) above.

Detailed performance indicators are found in Annex 1.

B. Strategic Context

1. Sector-related Country Assistance Strategy (CAS) goal supported by the project: (see Annex 1)

Document number: 24621 **Date of latest CAS discussion:** September 16, 2002

The project is consistent with the main goal of the World Bank's CAS of assisting Vietnam in poverty reduction and promotion of equitable growth. The CAS emphasizes three themes which are also consistent with the Comprehensive Poverty Reduction and Growth Strategy of the Government of Vietnam (GoV). They are: (a) high growth through a transition to a market economy; (b) an equitable, socially inclusive, and sustainable pattern of growth; and (c) adoption of a modern public administration, legal and

governance system. The project supports these themes through (a) encouraging the restructuring of state forest enterprises and the creation of farm forestry groups managed by smallholders; (b) promoting tree growing in poor rural areas to contribute to diversification of farm economies and improve rural livelihood including those of ethnic minorities; and (c) enhancing managerial and financial management capacity for both forestry and biodiversity conservation. It will also help progress in a number of important areas of the national Forest Sector Support Program (FSSP), a sector-wide program subscribed to and supported by 21 signatories comprising of Government, donors including the World Bank, and non-governmental organizations (NGOs).

1a. Global Operational strategy/Program objective addressed by the project:

The project is fully consistent with the GEF's Operational Strategy for Biological Diversity, and especially with Operational Program 3 (OP3) Forest Ecosystems and OP4 (Mountain Ecosystems), in that it will strengthen the protection and management of globally important forest ecosystems. The project is also consistent with OP12, Integrated Ecosystem Management, and OP15, Sustainable Land Management, in that it: (a) addresses cross-sectoral policies and land use issues to ensure better forest classification and use, in order to enhance protection of environmental services, including biodiversity; and (b) promotes reforestation of unproductive lands to meet forest production needs. Many of the Special Use Forests (SUF) that will eligible to benefit from the proposed new financing mechanism lie in remote border forests along international boundaries, so strengthening their management will also contribute to transboundary conservation efforts.

The project is also consistent with the findings of the GEF Second Biodiversity Program Study and the Second Overall Performance Study, in that it will: (a) provide funding that is consistent with absorptive capacity; (b) pilot and promote a sustainable conservation funding mechanism; (c) encourage flexibility and innovation; (d) directly involve local communities and reflect their development needs; and (e) measure results. Moreover, it is consistent with the GEF's strategic approach to biodiversity conservation as articulated in its FY04-06 Business Plan, in that it: (a) takes a strategic and system-wide approach to conserving biodiversity; (b) builds local capacity; (c) promotes sustainable use and benefit sharing; (d) systematically addresses stakeholder participation, and (e) emphasizes sustainability and replication. And the project is consistent with three of the GEF's four strategic directions and targets for biodiversity in FY04-06, namely catalyzing the sustainability of protected areas, mainstreaming biodiversity conservation in IA sector programs and generating and disseminating best practices.

The overall project responds to COP guidance by promoting an ecosystem approach and economic incentives and appropriate land tenure and land use to improve forest management. The GEF component addresses issues raised in the Biodiversity Program Study and GEF evaluations in regard to the sustainability of biodiversity initiatives by establishing an open-ended sinking fund to provide small but necessary grant funds to priority conservation areas to create a minimal level of core management capacity and support priority conservation activities.

2. Main sector issues and Government strategy:

Forestry sector background and issues

Vietnam's forest cover is about 10.7 million ha (34%) down from 14.3 million ha (43%) in 1943. After decades of deforestation, Vietnam has 7-8 million unused forest land that is degraded and denuded. Forests are classified into different management categories of production, protection (watershed) and special use forests (sites of both biodiversity and historical interests). Vietnam's rural population is estimated at about 58 million out of total population of 80 million. The forestry sector contributes officially

only about 1.4 percent of the country's recorded gross domestic product, but forests still play a central role in the livelihood of the rural population and ethnic minorities. An estimated 25 million rural people, most of them poor, use forest resources to meet subsistence needs and finance purchases. About 14 percent of Vietnam's total population are ethnic minorities, who mostly live in remote upland areas characterized by high poverty levels and forest dependence. Forests supply most of the energy they use and act as a safety net for rural poor. Forests are also important for providing critical environmental services, such as conserving soil and water resources and biodiversity. Vietnam's forests have high biodiversity value and lie within four of WWF's 200 Globally Important Ecoregions and contain four Endemic Bird Areas and 63 Important Bird Areas identified by Birdlife International. The capacity of these forests to provide various environmental services continues to decline, despite the apparent slowing down of deforestation. Forest degradation and fragmentation are destroying valuable habitats and putting a large number of vertebrate species at risk of extinction. In many areas, watershed degradation is causing environmental, human, and economic disasters as a result of floods, soil erosion, siltation, and reduced agricultural productivity.

At the same time when forest land resources are being degraded and biodiversity lost, the demand for both subsistence and industrial forest products has increased due to rapid population growth and economic development. The supply of logs from domestic natural forests is declining because most of the forests have already been exploited and the remaining face smaller quotas, or have already been put under some form of protection. Industrial raw material requirements are increasingly met by imports from neighboring countries, which has a negative impact on the trade balance and sustainability of natural forest management, especially in the border areas of Laos and Cambodia. In Central Vietnam, imported logs supply an estimated 80% of log input of some 60 large export-oriented sawmills/furniture factories.

Currently, State Forest Enterprises (SFEs) still control a large portion of forest land areas including natural forest and unused land. Natural forests under SFE control have not been managed effectively contributing to deforestation and increase in degraded forest land. Government has recognized this and has put forward a number of reforms. For instance, the number of SFEs has declined from 403 in the mid-1990s to about 350 and during the same period their land holdings have decreased from 6.8 million ha to 5 million ha million ha due to measures to restructure SFEs into viable commercial entities and reallocate land to households. This trend is expected to continue and provides an opportunity to put released SFE land under effective management by smallholders. The process, however, will require support from the national Government, reform-minded provincial governments, and SFEs.

The Government of Vietnam (GOV) has long recognized the need to make better use of available unused, bare land for forestry development to reduce dependence on the remaining natural forests and provide watershed protection and other environmental services. It has initiated a number of ambitious forestry-related programs with mixed results during the last two decades. Of note is the launch of the nationwide 327 Program in 1993 which offered better tenure security and cash incentives to replant and protect forests. While plantation areas have increased from some 100,000 ha in 1976 to 1.3-1.5 million ha at present, the gap between demand and supply for forest products and services has widened. Existing plantations contribute relatively little to the overall wood supply and economic development in rural areas. Plantations suffer from low productivity and poor survival, making many of them economically unviable. Tree planting under the 327 Program also had limited impact on forest protection. Although in some areas quite successful private plantation schemes have emerged driven especially by industrial development (e.g., wood chip exports), past investments as a whole have not resulted in the establishment of a commercially viable and sustainable plantation sector contributing both to the rural and national economic development. The existing plantations do not provide enough wood to meet increasing requirements and reduce pressure to over-exploit scarce natural forests which house globally important biodiversity.

The main reasons for the inadequate performance of the plantation sector are the same problems which plague state-driven plantation forestry throughout the developing world--inadequate incentive framework; insufficient market orientation; heavy top-down planning; weak extension capacity; limited technological and managerial capacity; and inadequate investment. An additional limitation to the development of a non-state plantation sector has been insufficient land available for planting by the non-state sector combined with insecure land tenure. The allocation of forest land and the issuance of Land Use Certificates (LUC) for forest use has been extremely slow. There are many reasons for the delay including limited resources and budget; lack of cadastral maps and land use maps in forest areas; priority given to other land uses, particularly urban, rural residential, and agricultural land; and difficulties arising from the transfer in 1999 of responsibility for allocating forest land from the Department of Forest Protection to the cadastral offices.

If the future forest-related needs of society are to be met and the potential of the land to contribute to rural livelihood to be tapped, the economic viability of forest plantation development has to be improved; the area under market-oriented forest plantations and mixed forestry-agriculture systems greatly expanded; and the range of forest managers widened. To achieve these, a number of issues need to be addressed:

- Government policies and legislation must provide an investment and market environment that promotes commercial tree growing by a mix of land managers including households, communities, and the private sector.
- The role of the state including SFEs and non-state sectors in commercial forestry development must be clarified, including responsibilities for provision of efficient market-driven extension services.
- The process of land classification and allocation to the different uses and users, and provision of long-term tenure for the allocated land must be accelerated and followed up with measures to improve forest management capacity.
- Financing mechanisms that reach the different land managers, including communities and smallholders, in a transparent and cost-effective manner need to be developed and supported both financially and technically.
- The international competitiveness of the forest industry, which could provide a market that can pay attractive prices for wood grown by the different land managers, including households, needs to be improved.

To protect valuable biodiversity and culturally-significant areas, GOV has established a nationwide system of Special Use Forests (SUFs). Currently, there are some 121 SUFs covering nearly 2.5 million ha. Even though the 327 Program was revamped under the 661 Program to focus primarily on forest protection, SUFs still suffer from a lack of effective management on the ground. Like other developing countries, many of the SUFs are paper parks. Limited funding and capacity within MARD and the provincial and district forest protection units are serious constraints. Any system-wide conservation effort therefore has to address the following challenges:

- Increasing demands on national and provincial budgets both for conservation and for socio-economic development and poverty alleviation which starves most SUFs of management funds.
- SUF management regulations which prohibit potentially sustainable use of natural resources that might provide incentives for local stakeholders to support conservation.
- Limitations in capacity among government institutions mandated to manage SUFs.
- Lack of understanding of the objectives and values of SUFs among decision makers at all levels; and

- A conservation financing system that directs funds towards a small number of sites and infrastructure investment, as opposed to conservation field activities on a system-wide basis.

Government strategy

GOV's strategy to tackle declining forest cover, diminishing wood supply, and environmental degradation including loss of biodiversity is articulated in its 2001 Forest Sector Development Strategy (FSDS) which focuses on protection of crucial watersheds, biodiversity conservation, and expansion of production forests. Other related strategies include the National Biodiversity Action Plan, the National Environmental Action Plan, and Vietnam's GEF Strategy (2001-2010).

In 1998, GOV launched the 5 Million Hectare Reforestation Program (5MHRP), which aims at reforesting 5 million ha by 2010 to bring the national forest cover back to 43 percent. Broad targets comprise 2 million ha of production forests, 2 million ha of protection and special use forests, and 1 million ha of perennial tree crops. However, 5MHRP lacks a detailed implementation plan; the financial resources needed to realize its targets; and a strategy to link market and wood production by the non-state sector in such a manner that national objectives and local development needs would be simultaneously met on a sustained basis. The financing gap to develop production forest plantations and perennial tree crops is very large and in the order of magnitude of some US$ 700 million. In 1999, the Ministry of Agriculture and Rural Development (MARD) and the donor and NGO community formed a partnership to further the work related to 5MHRP and facilitate the preparation of a more comprehensive sector-wide program that would help with implementation of 5MHRP and address a wide range of sector development needs. The Forest Sector Support Program (FSSP) was formulated and adopted in 2001. Central to the FSSP partnership is a framework for cooperation and dialogue, comprising 9 'result areas' in which priorities for support have been negotiated and agreed. The nine result areas are: (1) effective systems for collaborative planning and monitoring; (2) policy, legal and institutional framework to harmonize national-provincial policies; (3) macro land-use planning; (4) integrated micro (decentralized) land-use planning; (5) SFE renovation; (6) sustainable forest management planning and implementation; (7) sustainable use and conservation of indigenous forest flora and fauna; (8) integrated system of demand-driven research, extension, education, and training; and (9) marketing and processing of forest product at a sustainable rate.

3. Sector issues to be addressed by the project and strategic choices:

This project was formulated under the umbrella of the FSSP to support the implementation of the 5MHRP and GOV's conservation strategies and focus on the key sector issues identified above. The project cross-cut most of the FSSP result areas (especially 6, 7, and 9, and to a lesser extent 2, 5, and 8). Since the FSSP is a framework for donor coordination and harmonization, the emphasis of the project is on areas where there are critical gaps and which are high priorities for national and provincial governments. Only one or two donors are involved in production plantation forestry in Vietnam, although this is a high government priority. None focus on bringing degraded unused land under more efficient use and improving land tenure security by allocating land to rural households for commercial forestry purposes. The emphasis of the plantation component is on advocating a policy and market environment that supports investment in tree growing by smallholders, accelerating forest land allocation, and providing support to plantation and mixed forestry-agriculture crop establishment and management. Land allocation under the project will be a demand-driven approach in response to applications by individual households in the project areas after extensive community consultation. Strengthening related extension capacity and developing technical plantation management capacity especially at the province and forest management level are essential features of the project. Linkages between wood production and end-users will be strengthened through supporting the establishment of farm forestry groups and plantation forest certification. In addition to improving market access, certification is expected to increase financial profitability of tree growing and reduce dependence on the wood chip markets where prices can be volatile.

With respect to biodiversity conservation, recent work on protected areas financing commissioned by the Royal Netherlands Embassy identified the need for a system-wide, performance-related, and institutionalized system for protected areas financing. This is based on the premise that current ODA supported conservation financing is focused on delivering support to a rather small number of sites, which often exceeds the absorptive capacities of local management boards. The fragmented nature of the Vietnam's Special Use Forest (SUF) system requires a mechanism that could deliver smaller and more flexible support to a much larger number of SUFs supporting biodiversity of international importance. The Special Use Forest component will use the first large GEF grant to Vietnam creatively by establishing such a financing mechanism and providing up to 50 SUF managers with access to funds and with the capacity for basic conservation and management planning and activities.

Several strategic choices were made in designing the project concept to reflect the sector situation and strategy:

First, it was decided that the focus of the plantation forestry development would be on the non-state sector to provide opportunities to the non-state sector to engage in forestry to accelerate tree planting and gain direct benefits from a sector which has long been dominated by the state (e.g., SFEs). The private sector includes a broad spectrum from large-scale enterprises, to medium-sized family-owned plantations, and to household-based farms. The preparation team concluded that the two former categories are evolving without need of much external support as the rapid development of the local garden furniture processing industry has shown. Whereas the farm household-based plantation is in need of quality input and extension, as well as financing, in order to reach a take-off stage. For this reason, and to achieve maximum impact on poverty alleviation, it was decided that the main focus of the project would be the establishment of a viable private smallholder plantation sector.

The *second* strategic choice was between two alternative approaches to land allocation which is critical to investments in forestry activity by farm households. That is, whether to cover the whole village systematically with LUCs or confine activity only to issuing LUCs to those households that want to

participate in the project. The latter demand-driven approach was adopted as: (i) it did not lock in a fixed land use classification; (ii) it would not force land holders to apply for LUCs with the commitment to put the land to the declared use within 1 year or risk having their use right cancelled; and (iii) reduced costs.

Third, it was decided to keep the project design quite simple in terms of component structure and concentrate project implementation on a few adjacent target provinces for the Smallholder Plantation Forest component and initially for the Special Use Forest component. The World Bank portfolio review in 1997 indicated that there are serious problems with projects that have multiple, often loosely related, components, dispersed over large geographical areas with responsibilities spread over multiple (inexperienced) agencies. The FSSP framework also emphasized the need for donors to concentrate in a coordinated manner on selected geographical areas.

The *fourth* strategic choice relates to a decision to focus the Institutional Development component to policy implementation related issues based on the preparation team's conclusion that the legal framework is already in place and market development already occurring through the private sector with no need for further assistance.

The *fifth* choice was to work with and through existing institutional mechanisms (e.g., use Vietnam Bank for Social Policy [VBSP] for the credit; strengthening of existing extension centers to deliver support services; channeling of the conservation fund through the forest protection departments, use the 5MHRP steering committee, and so on) to avoid establishment of parallel structures and enhance local ownership and institutional sustainability. This is also consistent with the principles of FSSP.

The *sixth* choice relates to the design of the conservation fund under the Special Use Forest component. Two options were considered: (1) the establishment of an independently-managed endowment; and (2) the creation of a sinking fund established within the existing government institution. During preparation, it became clear that an endowment fund is not feasible in Vietnam at the present time. There are no precedent or experience for managing such a mechanism, nor is there a supportive legal framework, such as trust law for the establishment of an independent financial entity outside the government system. Hence the approach being taken is to pilot a sustainable conservation financing mechanism within the existing institutional framework which could, if successful, develop into a permanent national-level conservation fund at the end of the pilot.

C. Project Description Summary

1. Project components (see Annex 2 for a detailed description and Annex 3 for a detailed cost breakdown):

The project will finance, over a period of six years, the following main components and activities.

Component 1: Institutional Development (US$1.26 million). This component, national in scope, will assist the GoV in strengthening the enabling environment for sustainable forest management and biodiversity conservation. The component includes the following subcomponents and key activities: (i) revising selected policies and regulations based on field implementation experiences with regard to management of production plantation forest and special use forests (examples include improved forest land allocation guidelines; development of management regulations which will enable SUF management boards to enter into co-management agreements with local stakeholders; and incentive and tax systems to support planation forestry); (ii) establishing farm forestry groups to facilitate the development of smallholder forestry; and (iii) promoting certification of plantation forests in selected areas to ensure environmental sustainability and higher prices and improved and secured market access for participating households.

Component 2: Smallholder Plantation Forest (US$53.40 million). This component, covering the four provinces of Quang Nam, Quang Ngai, Binh Dinh, and Thua Thien Hue, will establish forest plantations based on different cropping systems, including fast-growing plantations, mixed forestry-agriculture crops, and fruit trees and promote small-scale tree growing by rural communities, many of whom are poor. In addition, special attention will be paid to improving productivity of existing but poorly performing plantations. It will include the following subcomponents and activities: (i) participatory site section involving village consultations and technical and environmental screening of proposed sites; (ii) land allocation and land use right certificate (LUC) issuance which is an eligibility criteria for the investment credit; (iii) extension and services delivery to assist the smallholders in all aspects of plantation forestry; (iv) plantation design and management; and (v) plantation investments in the form of credits to eligible households. While SFEs may also participate if they meet the agreed eligibility criteria, it is likely that the number would be very few, if any.

Component 3: Special Use Forest (US$15.63 million). This component will improve the conservation and sustainable use of biodiversity resources in priority special use forests and increase the reliability of special use forest funding through the establishment of an innovative financing mechanism. It will be implemented nationally and include the following subcomponents and activities: (i) Vietnam Conservation Fund (VCF) establishment and operations including the set-up of the fund management structure and procedures; administration of a competitive small grants program; and monitoring, reporting, and dissemination of lessons learned; and (ii) special use forest planning and implementation which focuses on site-specific activities such as completion of conservation needs assessment, development of operational management plans, developing the capacity of Management Boards to reach co-management agreements with local communities; strengthening of field implementation capacity; and operationalization of a site-specific monitoring and evaluation system. It is expected that up to 50 priority SUFs could benefit from the grant packages during the course of the project. The fund would be open-ended and could be replenished at the end of the project by other donors based on the evaluation of performance. Institutional-related issues and the revision of forest management regulations related to SUFs will be dealt with in component 1.

Component 4: Project Management and Monitoring and Evaluation (US$5.24 million). This component would facilitate efficient project implementation and the coordination of the various government agencies at central, provincial and district levels as well as undertaking project specific monitoring and ensuring effective collaboration and cooperation with other partners in the FSSP Partnership in accordance with the signed MOA and related principles. There are two subcomponents: (i) project management; and (ii) monitoring and evaluation to ensure the project is on course, improve project performance, and determine project impact.

Component	Indicative Costs (US$M)	% of Total	Bank financing (US$M)	% of Total	GEF financing (US$M)	% GEF financing
Institutional Development	1.26	1.7	0.02	0.0	0.00	0.0
Smallholder Plantation Forest	53.40	70.7	38.39	95.4	0.00	0.0
Project Management and Monitoring & Evaluation	5.24	6.9	1.82	4.5	0.00	0.0
Global Components						
Special Use Forest	15.63	20.7	0.0	0.0	9.00	100.0
Total Project Costs	75.53	100.0	40.23	100.0	9.00	100.0
Total Financing Required	75.53	100.0	40.23	100.0	9.00	100.0

Project Costs and Financing: The total project costs are estimated at US$75.53 million (VND 1.17 trillion). A summary of the project costs is shown in Annex 3. Detailed cost tables are provided in the Project Implementation Manual (PIM). The total project costs include price contingencies for foreign-based prices based on projected price escalation factors of 2.0% for year 2004 through 2010.

The following donors have expressed an interest in co-financing the project. The Special Use Forest component has been accepted into the GEF Work Program during the November 2003 GEF Council meeting. Final approval by GEF Council is pending and dependent on the outcome of project negotiations. In addition, the Royal Netherlands Government intends to provide funds for the technical assistance package of that component. The Government of Finland indicated its potential interest in financing the technical assistance package for the rest of the project and will provide a response by end of January 2004. Both the Dutch and Finns would like to channel their funds through the FSSP Multi-Donor Trust Fund which is in the process of being established. The financing would be implemented by IDA, therefore IDA would be responsible for processing, management, and supervision.

2. Key policy and institutional reforms supported by the project:

The project supports GOV's efforts to: (a) move towards a more market-oriented forestry sector and non-state sector; (b) decentralize management of natural resources by involving a wider range of managers, including farmers and communities, in forest development and protection; (c) accelerate participatory land allocation to improve land tenure security and land management; (d) diversify the rural economies; and (e) improve the financing and management of Special Use Forests and support ongoing efforts to introduce multiple use and co-management-based approaches. The project will ensure that the policy environment will be conducive to the development of a strong forest plantation/agroforestry sector driven mainly by market and household needs and where the non-state sector becomes the dominant force in commercial forestry. The development of plantations would be driven by the self-interest of land managers rather than by top-down targets. This represents a paradigm shift in forest management complementing and supporting the independently emerging private industry-driven operations and will require the development of a more needs- and service-oriented forestry extension and research system.

The project will establish improved guidelines and procedures for accelerating the allocation of forest land, especially SFE land, to individual households who live in the communes, and will accelerate the issuance of the LUCs aimed at improving land tenure security. Credit can only be secured with land as collateral where the land has a LUC, and for this reason land allocation and the issuance of LUCs are essential prerequisites for the project. Users with LUCs for forest land can use the land for forestry or agro-forestry production (including long-term agricultural crops such as tea, coffee, fruit trees, rubber etc.) and can use up to 20% of the land area allocated for agriculture or aquaculture. Although project implementation will take place only in a few provinces, it is anticipated that guidelines and procedures developed would accelerate allocation of forest land to households, and the issuance of LUCS in other provinces. In Vietnam and other countries, forest land allocation programs have in many cases failed partly because land allocation was not followed with technical support to improve the productivity of land use and ensure both environmental and financial sustainability. In this project, these activities go hand in hand.

The GEF component addresses issues raised in the Biodiversity Program Study and GEF evaluations in regard to sustainability by establishing a sinking and open-ended fund to provide small but necessary grant funds to priority conservation areas to create a minimal level of core management capacity. The fund will be designed to be simple and consistent with levels of funding, absorptive capacity, and institutional mechanisms already in operation within Vietnam to ensure cost effectiveness and harmonization of administrative and institutional structures. It will be tested on a pilot basis and could be replicated to more

protected areas and other ecosystems within Vietnam if it proves effective.

3. Benefits and target population:

Proposed Project Area: The Smallholder Plantation Forest component will focus on four provinces in the central coast of Vietnam. Selection of Binh Dinh, Quang Nam, Quang Ngai, and Thua Thien Hue was based on their level of poverty and their commercial forestry development potential (e.g., relatively large amounts of under-utilized forest land and close proximity to the main markets and ports). The area for plantation development is estimated at approximately 66,000 hectares of which 49,000 ha (or 74 percent) is bare production forest land and 17,000 ha (or 26 percent) is old poorly-stocked forest plantation land. The coverage of the Special Use Forest component is country-wide.

Beneficiaries: An estimated 19,000 poor or medium income households from 120 communes in 21 districts could be involved in the plantation forest component. The 21 districts are mostly among the poorer in the four provinces. The poverty statistics at commune level (1999 census) shows great variation in poverty levels between communes, ranging from 20-90% poor households. On average the project communes reflect the rural poverty level of the four provinces, ranging from 44% in Quang Nam to 58% in Thua Thien Hue. Poverty levels are higher in the upland communes, where ethnic minorities are also concentrated, than in lowland communes. The 20 poorest project communes (>75% poor households) all have ethnic majority populations, with a maximum of 92% poor households. More than half of the project communes (73) have more than 50% poor households, and only 21 of the 120 project communes have poverty levels less than 40%. In addition, a few reform-minded SFEs in the project provinces may participate if they pass the agreed eligibility criteria test site selection. Participation in the smallholder plantation component will be voluntary and based on personal choice as well as technical, economic, and environmental criteria. For the Special Use Forest component, the target population would include protected area managers and staff and local populations. The latter has been largely excluded from SUF management and the conservation fund will seek to address this by supporting greater levels of engagement and pilot approaches to co-management, building on current experiences. Many of the SUFs are located in remote mountainous areas with poor rural populations, predominantly combined of or surrounded by ethnic minorities.

Benefits: The project benefits can be grouped under five categories: (a) benefits that flow from improved policy implementation and institutional refinements that will encourage investment in forest production and biodiversity protection; (b) benefits mainly to small holders that flow from land tenure improvements that will increase the productivity of under-utilized land; (c) benefits through increased employment and revenue to small holders and tree growers that flow from improved productivity of agro-forestry and forestry production systems as well as the diversification of production by complementing agriculture with forestry production; (d) benefits that flow from increased supply of investment capital for forestry production; and (e) environmental and biodiversity conservation benefits that flow from the improved management of Special Use Forests. In addition, in the long term, the Smallholder Plantation Forest component will contribute to the development of properly functioning wood markets and a competitive plantation sector and will send positive signals to industry relating to future wood supply. New, more efficient private industries or joint ventures are likely to be competitive and will be able to afford better prices for raw material. Similarly, the conservation fund under the Special Use Forest component is expected to continue beyond the life of the project thus ensuring a sustainable financing mechanism to protect Vietnam's valuable biodiversity.

4. Institutional and implementation arrangements:

Project Management. Project steering committees at the central and provincial levels would be established to provide general policies and guidelines, review annual work plans, and ensure coordination and linkages with relevant agencies. Project entities at the national-, provincial-, district-, commune-, and SUF levels would be responsible for day-to-day implementation, supervision, and monitoring.

National-level. The National 5MHRP Steering Committee will be the *National Project Steering Committee* (NPSC) for the overall project to avoid the need to develop a parallel structure and offer opportunities to scale up learning and experiences to the national program. However, for the Special Use Forest component, a separate *Management Committee* will be established to oversee the policy and operations of the Vietnam Conservation Fund (VCF) and endorse small grant proposals recommended by the Technical Review Group (TRG) and authorize fund disbursement to sub-projects. A small *National Project Coordination Unit* (NPCU) will be established [within the Department of Forestry (DF)] in MARD to handle overall administration, consolidation of reports, and any centralized procurement. NPCU under the direction of the NPSC, will also be responsible for coordinating with DF and Forest Protection Department (FPD) in the implementation of national level project activities related to institutional development as well as liaison with the FSSP. The Special Use Forest component will be managed by the Nature Conservation Division of FPD with a deputy director appointed to run the VCF Secretariat. This arrangement is designed to promote the institutionalization of the VCF which is expected to continue its operations after the project ends. The VCF Secretariat will be supported by the TRG comprising of national and international specialists independent of government. The TRG would be responsible for the technical review and selection of all proposals sent to the VCF Secretariat for approval by the Management Committee. *An assurance would be obtained at negotiations that a list of proposals selected by TRG would be furnished to the Trustee for comments by ??? of each year.* The credit sub-component will be managed by a project management unit within VBSP.

Field-Level: Field implementation of the Smallholder Plantation Forest component would be a direct responsibility of each of the four provinces. A *Provincial Project Management Unit* (PPMU) will be established in each project province under the oversight of the Provincial 5MHRP Steering Committee. The PPMU will be responsible for coordinating implementation of the component dealing with plantation forests as well as the financial management of provincial project funds and procurement through national competitive bidding and national shopping. It will also be responsible for liaising with Department of Land Administration in land allocation and issuance of Land Use Certificates (LUCs), a critical project activity. A *District Implementation Unit* (DIU) and a *Commune Working Group* (CWG) will be established in each of the participating district and commune, respectively, to implement and facilitate day-to-day implementation. The DIUs should be closely integrated into routine operations of the district administration. The CWGs would facilitate and be in charge of participatory planning and information dissemination. Existing District Extension Centers, with support from contracted staff, will be providing support services to households.

Field implementation of the Special Use Forest component will be the responsibility of the individual SUF Management Board in concert with the related provincial Forest Protection Department.

Official Establishment and staffing of the NPCU and PPMUs; and VCF Secretariat, Technical Review Group, and Management Committee in accordance with terms of reference and composition acceptable to IDA will be a condition of project effectiveness.

Project management will be guided by the Project Implementation Manual (PIM) which contains three

volumes: Volume I will cover the overall project, but will focus on the Smallholder Plantation Forest component; Volume II is the Vietnam Conservation Fund Operational Manual; and Volume III is Sub-Credit Manual for the project for VBSP. *Submission of the draft PIM is a condition of negotiations, and submission of the MARD-adopted PIM is a condition of project effectiveness.*

Accounting, Financial Reporting, and Auditing Arrangements. Assessment of the adequacy of the project financial management system were conducted at pre-appraisal and appraisal and concluded that this project meets the minimum IDA financial management requirements (see Annex 6B). All previous forestry projects have been in full compliance with audit and accounting covenants. The Project will be monitored using standard Financial Monitoring Reports (FMRs). In terms of disbursement technique, traditional transaction-based disbursement techniques will be used. Project accounts will be kept for all project related expenditures using accounting principles and practices acceptable to IDA. Project accounts will be audited on an annual basis in accordance with international standards on auditing and in compliance with the independent auditing regulations of Vietnam. The auditor's report will be made available to IDA within six months of the close of each fiscal year. A management letter addressing internal control weaknesses of the implementing agencies will also be provided by the auditor together with the audit report. *An assurance would be obtained at negotiations that this auditing procedure would be followed.*

On-Lending Arrangements: Only the credit scheme under the Smallholder Plantation Forest component would be on-lent. The Ministry of Finance (MOF) would on-lend IDA Credit to the Vietnam Bank for Social Policy (VBSP) under a Subsidiary Loan Agreement. VBSP will make sub-loans available to households and other eligible entities and the sub-projects financed will be carried out with due diligence and efficiency, in accordance with sound financial and technical practices, consistent with appropriate environmental measures set forth in the Environmental Management Plan. While there are concerns about using the recently-established VBSP as the financial intermediary for passing on the IDA credit, VBSP was set up explicitly by GoV to channel credit to poor households. The project therefore would provide a mechanism for the World Bank to stay engaged with the operationalization of VBSP, although due caution is needed in identifying what can realistically be achieved under the project. Foreign exchange risk between SDR and local currency would be borne by MOF. The interest rate under the project, at a minimum should be based on recovering the cost of IDA funds, the operating costs of the financial intermediary, and risk provision. Since there are no detailed estimates of these costs, from a practical perspective, it was agreed that VBSP's current prevailing interest rate of 0.5 percent per month for similar loans would be applied. The interest rates would be variable subject to semi-annual reviews to reflect the actual costs to the VBSP as more information on the bank's actual operational efficiency and loan performance for determining appropriate levels of the risk provisions become available. If at any time, the cost recovery for the institution cannot be achieved, then GoV will need to cover the difference with GoV budget. This will prevent an erosion of capital and deposits. A Sub-Credit Manual for this project has been drafted by VBSP and includes the purpose, terms and conditions of the sub-loans; procedures and criteria for evaluation of credit applications and approval of sub-loans, disbursement procedures, and post disbursement management supervision and monitoring requirements. *Submission of a draft Sub-Credit Manual for this arrangement as part of the Project Implementation Manual is a condition of negotiation. Establishment of a PMU in VBSP and submission of a signed Subsidiary Loan Agreement between MOF and VBSP are conditions of project effectiveness.* Furthermore, *initial training of at least two VBSP staff at each of central, provincial, and district levels is also a condition of project effectiveness.*

Monitoring and Evaluation Arrangements. Monitoring and evaluation will be undertaken at four levels--FSSP-M&E, the project-level, special use forest site-specific level, and plantation block level as a result of forest certification. The latter is an independent tool for M&E. *The overall project M&E plan will be developed during the first year of implementation and submitted to IDA for review and approval*

by [date], and specific special use forest M&E will be included as part of each special use forest operational management planning process. During implementation, project performance, including the achievement of project outputs and progress toward the attainment of development objectives, will be monitored through the use of semi-annual progress reports and impact studies prepared by the NPCU.

Supervision and Reporting Arrangements. The project will be supervised through IDA missions scheduled for twice a year consisting of both Field Office and Headquarters staff. A project launch workshop will be arranged soon after Board approval which will focus on (a) the project concept and objectives; (b) project management activities including procurement, financial management, and implementation arrangements; and (c) the project environmental management plan, resettlement policy framework, and ethnic minority development strategy. *An annual work and financing plan for the next calendar year would be furnished to IDA for comments by [date] of each year. In addition, two mid-term reviews will be undertaken by [date] and [date]*. Prior to each review, *a mid-term report will be prepared by the NPCU and furnished to IDA one month prior to each review.* The report will summarize the results of M&E, identify problems encountered during implementation, revise project costs, and discuss measures to complete the Project as scheduled. It will also contain annexes evaluating the participatory site selection process and the plantation models. In addition, an implementation completion report, reviewing the planned objectives and achievements of the project, including costs and benefits derived and performance and contribution of all parties associated with project execution, would be prepared by the NPCU and submitted to IDA within three months of the closing date.

D. Project Rationale

1. Project alternatives considered and reasons for rejection:

The following different design options were considered and rejected.

(a) A critical Watershed Protection option to improve the protection and management of critical watersheds was considered but rejected because many donors are already supporting this area (including ADB, bilaterals and NGOs), and the Bank is already working on forest protection with the two ongoing and relatively new projects. Hence a new project may not be much value added. However, there is definitely a need to improve watershed management and bring both nationally important watersheds and locally important micro watersheds under efficient protection. After the lessons learned from current programs and projects are accumulated and consolidated, the Bank may want to consider scaling up watershed protection activities.

(b) An integrated Community-Based Rural Development option would improve the management of land resources and increase the livelihood of the rural community. This option would directly address the GOV's poverty alleviation and rural development objectives, and would be consistent with the Bank's poverty alleviation objectives as reflected in the CAS. It would also be consistent with the FSSP approach of focusing on communities as planning units. This alternative was rejected, not because of its deficiencies, but because many donors already in work in this area, including two on-going World Bank forestry projects.

(c) A (forest) land management project concentrating on improving land management policies and procedures, and accelerating land allocation and issuance of titles in land nationwide was also considered. This option was rejected for two reasons. First, GOV is not prepared to proceed with a full-scale forest land allocation project. Also, both international experience and experience in Vietnam has demonstrated that land management/allocation projects can be very complex and time consuming when implemented

nationwide, and may not result in great improvements in the sustainability and productivity of land use if land allocation is not supported by extension and research services, and most importantly by investments into land development. However, due to the importance of forest land allocation and improving security of land tenure, the project closely integrated land allocation and LUC issuance in the forest plantation component. Second, IDA-PRSCs include land as a major area for reform.

(d) A project focusing only on the SFE reform, and the use of the reform process as an entry point for improving forest management including natural forest management was considered and rejected for the following reasons: *First*, reforming state enterprises is a complex and politically sensitive affair. If the central Government, and especially provincial governments, are not fully committed to reform, the entire project may fail. *Second*, this approach does not pay adequate attention to the overall land-use in the province and to the other stakeholders, including farmers and communities. *Third*, it might be seen as a way of propping up SFEs instead of truly reforming the sector. *Fourth*, experience from on-going donor projects show that working with SFEs will require individual and tailor-made support to each province and each SFE in their reform process and considerable technical assistance for both the restructuring and moving towards sustainable forest management practices. GoV is also not keen on borrowing for mainly technical assistance. Therefore, it was decided that systemic SFE reform can best be addressed through ongoing IDA involvement in the overall State-Owned Enterprise reform under the Poverty Reduction Strategy Credits. However, the project indirectly promotes the restructuring of SFEs in the four provinces. SFEs who wish to borrow from the project will need to meet a set of rigorous eligibility criteria which is consistent with the recent Party Resolution 28. Parallel grant funding from the Netherlands under the FSSP umbrella is providing technical assistance to the reform-minded SFEs to accelerate their restructuring.

(e) Supporting only selected Protected Areas in the four key provinces was considered. This model has been tested in previous Bank projects as well as by other donors. It was rejected because such interventions can only support a few PAs, whereas a much greater need is to provide a smaller but more accessible amount of resources to larger number of PAs, to promote core activities and strengthen protection and management across the whole PA system. It is expected that the awarding of smaller funds on a competitive basis will be more in line with normal levels of government PA financing and will encourage greater sustainability in recipient PAs.

2. Major related projects financed by the Bank and/or other development agencies (completed, ongoing and planned).

Sector Issue	Project	Latest Supervision (PSR) Ratings (Bank-financed projects only)	
Bank-financed		Implementation Progress (IP)	Development Objective (DO)
Protect and manage effectively natural forests with high biodiversity and reduce dependency on forests for subsistence and cash income by improving the livelihood status of residents in the buffer zone of the project areas.	Forest Protection & Rural Development Project	S	S
Re-establish coastal mangrove wetland ecosystems and protect their aquatic	Coastal Wetlands Protection and Development Project	U	S

nurturing and coastal protection function through rehabilitation, protection, and improving the livelihood of local communities.			
Other development agencies			
Improve the administrative and policy environment for the conservation and sustainable management of natural resources.	Public Administration Reform in Forestry Sector (REFAS) Project (GTZ)		
Restore the vegetative cover of hilly and mountainous areas in critical watersheds and raise the productivity of the country's forestry resources.	Vietnam Forestry Sector Project (ADB/Netherlands Government)		
Comprehensive sector review.	Study on the Policy and Institutional Framework for Forest Resource Management (ADB)		
support to multiple use afforestation for smallholders	National Afforestation Programme (1-6) (KfW)		
Encourage smallholders to plant trees on leasehold "barren land" and strengthen field extension.	Smallholder Forestry Development (WFP)		
Promote rural development in mountainous regions, through the integration of commercial forestry activities in rural land-use and economy.	Vietnam - Finland Forestry Sector Cooperation Programme (Government of Finland)		
Strengthening of training and education capacity through training of trainers and setting up a Social Forestry Center in a college.	Social Forestry Support Project (Helvetas)		
Reforestation and rehabilitation of degraded/barren lands through agroforestry.	Reforestation through Agroforestry in Dac Lac Province and Forest Rehabilitation through Agroforestry in Northwest Vietnam (JICA)		
Reforestation and afforestation in coastal areas to protection watersheds and reduce damage of shifting sands	Reforestation in the Coastal Areas of 4 Provinces of South Central Vietnam (JICA/JBIC)		

and winds from the seaside.			
Upgrade the institutional capacity of national tree seed sector.	Support to Build the Institutional Capacity of the National Tree Seed Sector in Vietnam (DANIDA)		
Reduce destruction and degradation of forest resources in a nature reserve and its buffer zone.	Social Forestry and Natural Resource Conservation in Nghe An Province (EC)		
Support poor farmers to establish social forestry programs.	Afforestation in Bac Giang, Lang Son, Ha Tinh, Quang Binh, and Quang Tri (BMZ)		
Improved protection and park management of Yok Don and Ba Be	PARC project (UNDP/GEF)		
Building of capacity for Special Use Forest managers and forest guards	Training on Biodiversity Conservation and Planning (GEF/UNDP/WWF)		
Remove threats to Cat Tien National Park through improved protection and park management with a socio-economic component to assist the ethnic minority communities.	Conservation of Cat Tien National Park (Netherlands/WWF		
Review of Special Use Forest system and formulate proposals to fill gaps in coverage	Expanding the Protected Areas Network in Vietnam for the 21st Century (EU/Birdlife International)		
Develop a strategy for improving Special Use Forest management	Strengthening Protected Area Management in Vietnam (Danida/WWF		

IP/DO Ratings: HS (Highly Satisfactory), S (Satisfactory), U (Unsatisfactory), HU (Highly Unsatisfactory)

3. Lessons learned and reflected in the project design:

The World Bank, Asian Development Bank, bilateral development agencies and NGOs have only limited experience in promoting production-oriented forestry in Vietnam. However, several donors have accumulated experience in afforestation and reforestation of barren lands mainly for protection purposes or as part of the development of an integrated farming system. Some of the main lessons learned in Vietnam are:

- Plantations should be established to meet specific needs, which will require a better understanding of the markets and the needs of local populations.

- Policy, market and organizational analysis and development must receive proper attention, since policy and market failures can create even more serious constraints than technical forest management problems.
- Security of land tenure must be improved.
- Farm forestry cannot be divorced from the rest of the livelihood systems of rural families.
- Technical management standards related to all aspects of forest management need to be raised in order for plantation forestry to become a viable land-use alternative
- Site and species matching must receive more attention.
- Forestry extension has to be provided for the period after plantation establishment.
- Land availability for plantation development can be overestimated; land that is assumed to be unused is often already being used for agriculture or grazing.
- Natural regeneration has turned out to be a cost-effective way of rehabilitating degraded land.
- Plantations that are linked to industries tend to have much higher productivity than plantations that are not linked to the industries and the market place.

The OED review of 1991 Bank Forest Policy, World Bank's Forest Policy Implementation Review and Strategy (FPIRS) and related working papers have highlighted the following issues of concern related to the development of the forest plantation sector in Vietnam:

- The Bank's forestry interventions should be based on the following three pillars of engagement: (i) harnessing the potential of forests to reduce poverty; (ii) integrating forests into sustainable economic development; and (iii) protecting vital global forest values.
- Forest concerns should receive due consideration in the Bank's macroeconomic work, and if possible, they should be explicitly treated in its Country Assistance Strategy in countries where forest development and conservation are important issues.
- The Bank should, *through partnerships*, help to create both public and private capacity for the widespread application of improved forest management and tree planting.
- Sound national policies, and institutional and management capacity for their implementation are preconditions for aid effectiveness. The Bank can support countries to improve policies and legislation and build the capacity to put the enabling conditions in place, or implement effectively existing sound policies and legislation.
- It is important to better address the needs of the forest-dependent poor and improve the understanding of the complex land and other rights on the ground.
- Plantation development should only be undertaken within the framework of a transparent, accountable and consultative land use plan, which aims at determining the permanent forest estate and land available for production forestry, and which considers the needs of all stakeholders.
- Plantations should be established giving due consideration to the end uses and markets.
- Environmental impacts need to be fully considered, especially in respect of biodiversity, hydrology, soil conservation and adjacent land use practices.
- Social impacts, which can be more serious than environmental impacts, must also receive due consideration.
- Concentrated production through industrial plantations allows intensive management at acceptable cost, and can thus result in high productivity per unit area, which is very important in high population countries such as Vietnam.

A variety of lessons have been learned from the implementation of conservation projects in Vietnam. These include the following:

- Protected areas in Vietnam rely almost wholly on state budgets or donor funds. Few other sources

of income are currently generated or retained at the SUF level. Government sources tend to cover salary and infrastructure development and little else. Therefore, a source of sustainable funding for protected areas will strengthen conservation on-the-ground.

- Biodiversity conservation success will depend on an improved planning and budgeting process linked to biodiversity conservation. Developing investment plans linked to conservation needs is critical to ensure more effective fund allocation to Special Use Forests.

- Community access to natural resources is important both for local economies and conservation and practical approaches are needed to balance the reality of community needs and conservation.

4. Indications of borrower and recipient commitment and ownership:

GoV has shown its commitment towards sustainable forest management and conservation through the 5MHP and by launching the FSSP framework with donors and NGOs. The project will be assisting MARD to implement several key results areas of the FSSP framework. The four key project provinces have shown strong commitment and ownership through their high level of readiness and participation throughout project preparation. The final design has been developed and shaped by inputs and participation from these major stakeholders. Given the programmatic nature of the project, the final recipients of the IDA credit and GEF grant are yet to be identified. However, funds will be allocated based on demand driven proposals from mainly poor households and eligible SFEs in the case of plantation establishment and from Special Use Forest management boards and local communities in the case of the Special Use Forests.

5. Value added of Bank and Global support in this project:

IDA and GEF involvement in the project and in FSSP would provide the following contributions:

- This is IDA's third forest sector-related operation in Vietnam. Through these and similar projects elsewhere in the region and worldwide, IDA can facilitate integration of experiences and results into its policy dialogue with GoV. The project will be the first large-scale project under the FSSP and thus test out some of the key principles.

- IDA and GEF can be considered to have a comparative advantage in piloting effective and efficient financing mechanisms--in this case, the use of the VBSP for the provision of credit will complement IDA's ongoing work on financial sector reform and could lead to a more efficient mechanism for financing production forestry activities. Similarly, the piloting of the conservation fund will draw upon experiences with other conservation funds financed by the GEF and implemented through the World Bank. These mechanisms will help to foster the development of a sector-wide approach program (SwAP) for the forestry sector and is in line with the FSSP.

- The Government has identified an increasing gap between the rapidly expanding demand for timber and forest products and the present and anticipated output from plantations and remaining natural forests intended for production. Investments in commercially viable and environmentally sustainable wood production would help in reducing this gap and directly contribute to poverty reduction by providing rural households with employment opportunities and increased incomes from the land allocated to them. Despite the potential of production forests and the high GoV priority placed on developing the plantation has sector, a review of on-going projects and programs has shown that most of the large-scale assistance has focused on protection forestry and smaller-scale assistance on integrated community-based projects or social forestry with a focus on poverty reduction. Producing multiple forest products for subsistence purposes to complement and

diversify rural production systems have not received much attention. Land allocation programs have too often been implemented without adequate support to land managers to increase land productivity on a sustainble basis. Linking tree planting and improving land tenure and the efficiency of forest land management is one of the most innovative features of this project. IDA has extensive experience in land administration and forest plantation establishment, particularly in the East Asia Region; therefore, IDA is in a good position to assist GoV in promoting the forest plantation sub-sector.

- The project will require multiple sources of financing. IDA's experience in working with and coordinating multiple donors in financing a range of sub-projects is an area of comparative advantage.

E. Summary Project Analysis (Detailed assessments are in the project file, see Annex 8)

1. Economic (see Annex 4):

● Cost benefit NPV=US$11.4 million; ERR = 17 % (see Annex 4)
○ Cost effectiveness
○ Incremental Cost
○ Other (specify)

Economic analysis was carried out for the Smallholder Plantations Forestry component while incremental cost analysis was carried out for the Special use Forest component (as required by the Global Environment Facility). The plantations component is economically viable with an economic rate of return of 17%. The present value of the net benefits was estimated at VND 176,026 million or US$ 11.4 million. These results are based on conservative plantation yield and product price estimates and realistic input cost estimates. Based on the analysis of factors influencing profitability of tree growing, sensitivity analysis paid special attention to the volatility of pulpwood (wood chip) prices. Based on recent trends, it was assumed that pulpwood prices will continue to decline annually amounting on average to a 20% decrease in output price. This price decline would reduce ERR only by about 2 percent. A decline of 50% in price would decrease the ERR to 14.1%, and an extreme drop to 75% would decrease the ERR to 12.5% indicating that the project ERR is quite robust. The switching value for a change in pulpwood price alone is thus greater than a 75% decrease in the pulpwood price. The sawlog price has a similar switching value. The switching value for a simultaneous change in pulp wood and saw log prices is greater than a 50% decrease in the base saw log and pulpwood prices used in the analysis.

See Annex 4 for details and Annex 12 for Incremental Cost Analysis of the Special Use Forest component.

2. Financial (see Annex 4 and Annex 5):

NPV=US$ 1.5 million; FRR = 10.6 % (see Annex 4)

The financial rate of return for the project is 10.6% with a present value of the net benefits estimated at VND 22,922 million or US$ 1.5 million. Eight indicative plantation models were used to identify the financial rate of return to beneficiaries. The FRR for the indicative plantation models on bare land (48,900 ha) ranges from 10.5% to 27%. Beneficiaries, who use their own labor, can earn between VND 15,500 and VND 61,500 per person-day depending on the model employed. This compares to a VND 20,000/person-day unskilled wage rate in the agricultural planting and harvesting seasons. The FRR, based on the incremental cash flows for poorly stocked plantation land (16,700 ha), ranges from 13% to 49% for households adopting one of the indicative plantation models.

Fiscal Impact:

The project is expected to provide only a limited negative fiscal impact. Plantation establishment costs, which make up about 68 percent of the total US$75.4 million project cost, will be borne by the beneficiaries. In addition, 25 percent of the total project costs are in the form of grants. In total, the government would have to directly finance only US$5.2 million of the total project cost of US$75.4 million (or 7 percent) spread over the six year life of the project. Part of this would be off-set by 4 percent government sales tax on wood revenues would generate some US$4 million over the life of the 31 years that project trees will be harvested. Furthermore, the increased employment created by the project would also generate additional income tax revenues.

3. Technical:

Land Allocation. Land allocation under the project will be a demand-driven approach in response to applications by individual households in project areas. This approach to land allocation accords with the current practice in project districts. The demand-driven approach presents a number of challenges. First, the land allocation activity requires specialist input in areas such as surveying and mapping, current resources for land allocation in project districts are inadequate and additional resources will be required. There are therefore efficiencies in undertaking the activity systematically. This challenge will be addressed by focusing the public information campaigns and setting clear minimum levels of demand at a village level to trigger activity in the village. Second, there are limited resources for land allocation in project areas and geographically concentrating activity runs the risk of creating 'bottle-necks'. This challenge will be addressed by ensuring that the activity is geographically distributed and by building in flexibility in the deployment of activity in project villages. Third, there is diversity in the skills, knowledge and background of potential household beneficiaries and this will result in variation in the time required to elicit demand. This challenge will be addressed by comprehensive community consultation in project villages, allowing adequate time for demand to develop and by planning for follow-up campaigns in villages if appropriate.

To facilitate project implementation, there will be pre-implementation activity to establish a register of interest by households in participating in the project. This activity will require the preparation of material and information about the project (based on the information prepared during project preparation, see 5.4 below) and will involve consultation with the community at district and commune levels. This register will record the current land status of interested households (unallocated/allocated/LUC issued) and will be used to plan and prioritise activity in the smallholder plantation component. The register of interest will be updated during project implementation.

Forest Plantation Models. The proposed eight plantation models have been found technically and financially viable, and in general applicable in all the provinces. The updated financial analysis based on up-to-date cost information suggests that tree growing is more profitable than initially estimated. Early in project implementation, provinces are to develop appropriate tree growing models for a range of sites within the framework provided by the eight plantation models to reflect the variation in site conditions between provinces and within provinces. For the purpose of the broader classification of the models, the eight models can be re-grouped to five models as recommended in the August 2003 technical workshop in Da Nang (i.e., three models become variations within the five). The menu of approved models will provide the per hectare inputs (seedlings, fertilizer, weeding, labor, and so on) needed to produce an expected yield as described under the management regime of each model. These models form the basis for estimating the Credit requirements, and after adjustment and refinement, enable the assessment of the financial feasibility

of tree planting. However, it is important to note that these models are indicative and during implementation the models should be continuously reviewed based on new market information. This implies that some of the currently proposed models may need to be modified in the future and new models may be considered if they are found technically feasible and more profitable.

Planting Material Quality and Accreditation of Nurseries. Good quality planting materials are needed to increase the productivity of plantations. The profitability of tree growing can be achieved only if the planting materials used by participating farmers come from reliable, accredited nurseries using high quality seeds and/or clones of known origin. The DANIDA-funded Vietnam Tree Seed Project (VTSP) is assisting MARD in developing national procedures for the accreditation of nurseries; however this is still under development and the system is not yet in place. During the project implementation period, an interim system needs to be developed in cooperation with VTSP. At present, only Binh Dinh province has an accreditation system, but this system does not yet meet the requirements for a proper internationally accepted accreditation system. To ensure successful implementation, pre-implementation work will need to be carried out in all four project provinces to quickly establish an acceptable nursery accreditation system. The PPMU, in collaboration with DARDs, is to maintain an updated list of "approved" planting materials sources. Technical assistance will be provided during implementation to ensure quality control.

4. Institutional:

Since the project is working through existing institutions, a key institutional issue for project implementation is the limited capacity of existing government agencies at the various levels. Consequently, the project is providing substantial inputs into capacity building and systems development aimed at overcoming the limitations identified during project preparation. The technical assistance provided will compensate for some of the weaknesses in the short-term until such time as staff become more experienced and confident.

Another institutional issue is the use of VBSP as the financial intermediary for the Smallholder Plantation Forest component. Being a newly-established banking institution, VBSP does not yet have a formal credit manual like most other financial institutions. However, VBSP has developed a sub-credit manual for the project with assistance from international financial sector consultants which includes all the relevant details for administering the credit. At the same time VBSP is developing an overall credit manual. In addition, its new officers must undergo a two-month training before beginning work, and its district and branch managers are primarily former managers of VBARD with extensive banking experience.

4.1 Executing agencies:

The project will be executed by the Ministry of Agriculture and Rural Development and the provincial Agriculture and Rural Development Departments for the non-credit activities and by the Vietnam Bank for Social Policy for the credit.

4.2 Project management:

The Department of Forestry (DF) and the Forest Protection Department (FPD) under the direction of the Ministry of Agriculture and Rural Development will manage the project at the central level. The 5MHRP Steering Committee will be the National Project Steering Committee and will provide direction and guidance, and ensure coordination among and between agencies. Overall coordination between central government agencies/units and between central government and provincial governments will be undertaken by a National Project Coordination Unit (NPCU). Field implementation of the Smallholder Plantation Forest component will be the direct responsibility of the four provinces (the provincial project management unit), 21 districts (through district implementation units), and 120 communes (through commune working

groups) concerned. Provincial, district, and commune extension stations will be involved in delivery of services to smallholders. Implementation of the Special Use Forest component will be carried out by the VCF Secretariat in FPD and by the participating SUF management boards. Credit will be provided by the VBSP and its project implementation unit (PIU).

Given the importance to implementation of having the organizational structure established and staff appointed, trained and in place prior to project start-up, *the identification of qualified persons for key positions such as the project director, chief project accountant, and procurement staff of NPCU, PPMU, and VCF Secretariat and the project director and accountant for VBSP implementation unit is a condition of project negotiations*, and *official appointment of these staff a condition of effectiveness.*

4.3 Procurement issues:

A Procurement Capacity Assessment (PCA) was conducted in June 2003 and updated in July and August 2003. The overall finding is that the procurement risk is high mainly because of the very limited procurement experience of the NPCU and provincial DARDs (PPMUs). The four DARDs and NPCU have some experience with the procurement procedures of the Government and other donors such as JBIC, ADB and KfW. However they have limited experience with World Bank procurement procedures. To mitigate this risk, an action plan was developed including: (a) recruitment of at least one procurement staff at each PPMU and two at NPCU; (b) intensive training on World Bank procurement procedures at all levels before project effectiveness; (c) prior and post review by procurement staff of the WB Hanoi Office; (d) use of a consultant to prepare an overall procurement plan, and a detailed procurement plan for the first year of the project; and (e) use of consultants to assist the PPMUs and NPCU in handling procurement work during the first year of the project and to train the project staff through "hands-on training" on Bank procurement procedures. In addition, since the Project Implementation Manual (PIM) is critical to project implementation, especially in the first year, *the PIM should be finalized by project negotiations.*

To ensure implementation success, it is crucial that procurement is decentralized appropriately. All ICB contracts and employment of consultants should be executed at the NPCU-level. However, contracts procured through NCB, Shopping or Small Works procedures should be decentralized to the PPMUs. One of the largest components of this project is Component 2 which provides a credit line to households to invest in plantation forestry. The provision of plantation inputs will be based on a commercial and market driven approach. The borrowing households will be allowed to purchase the required inputs from any source with the exception of planting materials which should be purchased from an accredited producer. DARDs will prepare a regularly updated list of accredited/approved planting materials producers which have been assessed to be able to produce high quality planting materials. Whenever possible, competition amongst accredited producers should be encouraged to assure economy and efficiency of procurement. Procurement arrangements are detailed in Annex 6.

4.4 Financial management issues:

A financial management review and analysis of the project were conducted by the IDA's preappraisal and appraisal missions, and concluded that this project meets the minimum requirements of the World Bank's OP/BP10.02. The project will adopt the traditional disbursement method and will produce quarterly financial monitoring reports. The Forestry Management Board (FMB) of MARD has been managing several IDA-financed projects and is familiar with the disbursement procedures and financial reporting requirements. The DARDs of a couple of the project provinces also have financial accounting staff familiar with IDA-financed projects. However, due to inadequacy of its existing staff at national level including NPCU and VCF, the project Chief Accountant and other accounting staff need to be hired with qualifications and experiences acceptable to IDA.

Adequate and timely training has to be provided by FMB to ensure smooth project start-off. FMB already uses computerized accounting software, which can be modified with minimum cost to fit with the specifics of this project. However, the present accounting system and existing accounting software do not have accounting codes for the classification of disbursements by component, subcomponent and expenditure categories. The software also cannot record transactions in the Special Account and consolidate the account statements from different PPMUs. As a result, on-going forestry projects use spreadsheets for analyzing the financial information required for financial reports. This causes delays in report preparation and inaccurate information. This project would need to design the sub-level chart of accounts and modify the accounting software to include project specifics and the reporting requirements of different sources of financing. In addition, there is no system in place to register bills and invoices when payments are received at PPMU or NPCU level, thus causing delays in payment which might impede timely implementation. There is a need to introduce a tracking system and to prepare monthly statement of pending bills for the information and action by the Project Director. These and other issues are addressed by the Action Plan detailed in Annex 6 and detailed procedures and guidelines will be documented in the Financial Management Manual and Credit Manual for this project.

5. Environmental: Environmental Category: B (Partial Assessment)

5.1 Summarize the steps undertaken for environmental assessment and EMP preparation (including consultation and disclosure) and the significant issues and their treatment emerging from this analysis.

An independent environmental consultant was hired by MARD during project preparation to assess any environmental issues encountered, to evaluate the potential environmental impact of the project and to identify, where necessary, mitigation measures for any potentially negative environmental impact. Both the environmental (and social) inputs were made continuously throughout the project preparation process to guide design. Early in project preparation, the environmental assessment (EA) and social assessment (SA) consultants collaborated with the project preparation team in the preparation of an environmental and social impact assessment matrix that identified potential impacts and possible means of impact management. The intent of this document was to guide the environmental and social aspects of project design. This document and a simple project description were used in initial consultations (see 5.4 below) to gauge the views of local communities on potential issues. The EA consultant also provided comments to the various versions of the project feasibility reports and consulted with various GoV agencies and institutions and environmental NGOs.

The EA process itself involved two three-week in-country field trips and review of project documents. During those trips, site visits were made to a sample of potential project areas in 11 communes and six SFEs in 8 districts.

Potential environmental impacts identified in the draft EA all relate to the Smallholder Plantation Forest component. They are: (a) the potential loss of residual biodiversity as a result of conversion to plantations of better quality successional vegetation communities; (b) the potential site degradation and nutrient depletion of sites after several rotations; (c) the potential increased incidence of pest and disease due to overly simplistic plantation communities; and (d) the potential increase in soil and water loss due to poor plantation practices and infrastructure development (e.g., trail/road upgrade). Since most of the proposed plantation sites are located within 2 km of a secondary service road, building of access tracks within plantation blocks will be limited to that necessary to transport planting materials to the site and to extract products from primary landings in the woods to secondary landings on the service road. Such tracks should be sufficient for passing motorcycles and wagons towed by either draft animals or small tractors. This component is not located in any natural forest area; has no pesticide issue; and covers a potential area of 66,000 ha in four provinces which is considered small relative to many other World Bank-financed

forestry projects. The EA consultant concluded that the potential issues can be mitigated and the prescriptions are laid out in the Environmental Management Plan (EMP). Even though there is no anticipated pesticide use, the EMP includes measures if pesticide use becomes necessary during implementation. The EA methodology taken will be adapted for use in the Forest Sector Manual of the FSSP and will have an impact beyond the four project provinces.

5.2 What are the main features of the EMP and are they adequate?

The EMP consists of Environmental Guidelines for Plantation Management based on best code of practice. The guidelines focus on environmental prescriptions in eight main areas of plantation management: (i) site selection; (ii) species selection; (iii) plantation establishment; (iv) plantation tending; (v) integrated pest control; (vi) fire prevention and control; (vii) access and harvesting; and (viii) monitoring and evaluation. Of critical importance is the site selection process which uses improved technical criteria and planning procedures for classifying and allocating land to ensure important natural vegetation communities are not converted and that environmental quality is protected. Application of the EMP will be undertaken by the Forestry Department responsible for plantation block design. Field inspections will include monitoring of compliance of the EMP and reported as part of the M&E reports.

5.3 For Category A and B projects, timeline and status of EA:
Date of receipt of final draft: 08/25/2003

A draft EA was completed August 25, 2003 and sent to the World Bank Info Shop and to the World Bank's Hanoi office for disclosure on September 12, 2003. The document both in English and Vietnamese is also available through MARD and has been sent to provincial DARDs. *Submission of the EA and EMP adopted by MARD is a condition of negotiations.*

5.4 How have stakeholders been consulted at the stage of (a) environmental screening and (b) draft EA report on the environmental impacts and proposed environment management plan? Describe mechanisms of consultation that were used and which groups were consulted?

The stakeholder consultations on environmental and social dimensions and possible impacts of the project have been undertaken during the whole project preparation process. The consultation was undertaken at two levels: (i) in the project area, i.e. in the four provinces and in selected SUFs, and (ii) at the national level.

Project area consultations

Initial screening interviews with all stakeholder representatives were undertaken during initial project preparation to identify the risks of negative impact as well as opportunities of positive impact of the project. A subsequent series of interviews in sample communes in all four provinces has allowed the preparation of environmental and social recommendations to support project preparation. In addition to the above interviews, further consultation consisted of dissemination to potential beneficiaries of project information leaflets. A first version of the leaflet was distributed in July 2002 to the provinces and some districts. A second version was disseminated in February 2003 to all 120 project communes, and meetings were held in all 21 project districts. A third and final version, highlighting the social and environmental impact assessment was disseminated in September 2003, in all project communes, and sample districts and communes had meetings, facilitated by the national social and environment consultants, to solicit feedback on the proposed project and the social and environmental impacts.

Consultation of the Special Use Forest component involved two weeks of field visits to four provinces in central and southern Vietnam and included consultations with stakeholders at all levels involved in SUF

management.

National Workshops

Four national-level workshops with participation of all stakeholder groups, including provincial representatives, national government representatives from a number of ministries, international NGOs, donors, and research organizations. The purpose of the environmental and social assessments was briefly introduced in the September 2002 national project workshop. The findings of the environmental and social assessments were presented at the February 2003 workshop. The third national workshop was held in early June 2003, where the draft final project design was presented. A full day was devoted to discussions of environmental and social impacts of the project. Finally, a two-day national-level workshop was held during the appraisal of the project in October 2003 to confirm the implementation arrangements and operating procedures including safeguards of the final project design.

The proposed project is very participatory in nature such that the communities and enterprises concerned will be actively involved in selecting planting sites, identifying proposed activities, and the land allocation process. Environmental criteria will be developed and fully integrated into this participatory process.

5.5 What mechanisms have been established to monitor and evaluate the impact of the project on the environment? Do the indicators reflect the objectives and results of the EMP?

The environmental impact assessment and environmental management plan include indicators to measure the impact of the project on the environment, and include site selection criteria for the plantation forest component. These will be regularly monitored by the project M&E system. In addition, monitoring of environmental aspects of field implementation will also be undertaken during supervision missions.

6. Social:

6.1 Summarize key social issues relevant to the project objectives, and specify the project's social development outcomes.

Since there are substantial differences in project area and scope between the two major project components, two social assessment (SA) processes were carried out in parallel, with the same mandate and overall approach. The SA process identified stakeholders, carried out consultations with representatives of all stakeholders, identified the key social issues to be addressed by the project, and provided recommendations for enhancing opportunities for optimizing social outcomes and minimizing social risks and exclusion. These recommendations have been incorporated into the overall project design. Notably, the plantation component was substantially modified, using the participatory framework developed during the SA as the guiding principle for the phasing of the project at the village level. (See Annex 14 for more details on the findings and recommendations of the SA.)

For the Smallholder Plantation Forest Component, the following principles form the basis of the project design:

1. The project focuses on the development of smallholder forestry with the participation by households;
2. The project builds on a village participatory process, providing transparent information about the participation of all stakeholders;
3. Participation will be voluntary and households deciding not to participate cannot be made to move from their land;
4. Land allocation is provided on a demand basis with priority to households currently using or occupying the land and living in project areas;
5. Land currently under communal use and management for swiddens and food security will not be

allocated to individual households;
6. Land Use Certificates will be issued in the name of both husband and wife;
7. Management of the project will be undertaken by the district and commune authorities and not by the SFEs.

Special attention was paid during project design to ensure that food security concerns of poor farmers and ethnic minorities were incorporated into the project and that participation would be attractive to smallholders.

The expected social development outcome is an overall reduction in poverty and enhanced food-security in project communes. It is expected that beneficiaries, including ethnic minorities who live in the project areas, will benefit from the project through more secure land tenure, better access to information and participation in community affairs, extension services, inputs and credit. Farmer participation in the management of forest resources is expected to lead to better management of resources and the empowerment of local people. Gender disparities will be reduced through access to secure land tenure and extension services.

For the Special Use Forest Component, the following procedures have been incorporated into the design of the Vietnam Conservation Fund and the SUF component in general:

1. Proposals from SUFs for funding must demonstrate that Conservation Needs Assessment has been conducted with involvement of local communities in order to be eligible for funding.
2. Proposal packages which include innovative activities to include local people in co-management and in agreements on sustainable natural resource use will be prioritized in selection.
3. Social screening procedures require that SUF management authorities negotiate with and receive the consent of local communities for any activities that restrict local communities' access to resources that are integral to their cultural practices or that they rely on for their subsistence. This includes mechanisms for addressing grievances and resolving conflicts arising between forest users and SUF management authorities. Recently, Forest Protection Department announced plans to introduce revised management regulations for SUFs which would enable the introduction of multiple use zonation, and thus would provide the regulatory basis for the introduction of co-management agreements. The project would support and promote this approach at central level through technical support and at local level by providing support to Management Boards for developing capacity to design co-management agreements.
4. The conservation fund can help to address development issues through joint consultations between local communities and SUF management authorities on development activities appropriate to conservation goals. SUF management authorities can apply to the Conservation Fund to finance this activity.
5. The TA fund is expected to broaden its scope in the long term to work on leveraging funds for buffer zone development towards conservation friendly development activities.

Special attention was paid during project design to ensure that food security concerns of poor farmers and ethnic minorities were incorporated into the project and that participation of local communities in sustainable resource management, conservation and protection activities would be attractive to SUF managers, and contribute to the overall objective of conservation. The expected social development outcome of this component is the empowerment of local communities in and around SUFs, via co-management arrangements of natural resource use together with management boards of the SUFs.

It is expected that local communities, including ethnic minorities who live in the project areas, will benefit from the project through better access to information and participation in community affairs. Resource use agreements will give local people more secure rights over use of some resources within the SUF.

6.2 Participatory Approach: How are key stakeholders participating in the project?

As described above, the project has adopted participatory approaches to ensure that all stakeholders were represented and heard during preparation of the project, and that they will continue to be engaged during implementation. Attention to primary stakeholders' participation is given high priority and ensured through the basic participatory approach, the voluntary participation in the plantation component, and in decisions regarding land allocation which will be undertaken in a participatory and transparent manner in village meetings. The required collaborative conservation needs assessment to be submitted with any application for funding under the conservation fund ensures a minimum of co-management in the SUF component, and the priority given to proposals with elements of co-management arrangement provides a strong incentive to SUF managers to adopt participatory approaches in the management of the SUFs.

6.3 How does the project involve consultations or collaboration with NGOs or other civil society organizations?

Representatives of mass organizations, such as the Women's Union and Farmer's Union, will be involved in the consultation process associated with land allocation and planning of small-holder production forestry arrangements. The mass organizations may also be involved in the delivery of support services to participating small-holders. Traditional community leaders will also be consulted. There are many foreign international NGOs working in the forestry sector in Vietnam. Numerous discussions have occurred and will continue with these stakeholders throughout preparation and during implementation for sharing of experience and cross fertilization. An appropriate forum is the Forestry Partnership with which several key NGOs are actively involved. In addition, opportunities may be available for these groups to work with local groups in the delivery of services to the small-holders.

6.4 What institutional arrangements have been provided to ensure the project achieves its social development outcomes?

Smallholder Plantation Forest. While the preparation of this component has been managed by the provincial Departments of Agriculture and Rural Development (DARD), the project has adopted a bottom-up decision making hierarchy for implementation. Thus the ultimate decision makers regarding plantations lies with the household, while the village meetings are the main vehicle for transparent information dissemination, debate, and community decisions on land use land allocation, and plantation planning. The technical extension will be based at the District level, and not with the SFEs, backed up by the facilitators and technical staff at the Province (PPMUs) and the national level (NPCU). The Institutional Development Component of the project will promote the establishment of Farm Forestry Groups at local and provincial levels, which is seen as a way of strengthening the interest of smallholders vis-à-vis access to markets, information, etc. This is a pilot activity, but has the potential of empowering smallholder tree growers.

Special Use Forest. The criteria for selection of proposals for funding are designed in such a way that there are strong incentives for collaborative management and involvement of local communities in the conservation of the SUFs. The Institutional Development component will explore and develop opportunities for engaging local communities more effectively into SUF planning and management and will work with MARD to identify and promote revisions to forest management regulations that would institutionalize a greater role for local stakeholder involvement in the management of Vietnam's SUF system.

6.5 How will the project monitor performance in terms of social development outcomes?

The SA recommended monitoring and evaluation frameworks for both the plantation and conservation

components, incorporating both regular quantitative indicators and the use of case studies. In the Smallholder Plantation component, the main indicator is the number of beneficiary households, broken down into a number of sub categories, based on gender, ethnicity, SFE workers, and so on. However for the purpose of monitoring social development outcomes, i.e. that plantation increases smallholder incomes, in-depth case studies will be conducted with a representative sample of households at mid-term and at the end of the project to predict the gross and net income at the time of harvest.

For the Special Use Forest component, a tracking tool has been developed, incorporating social dimensions of the fund performance and of the individual SUF performance. The dimensions that will be tracked are: consultation of local communities in assessing conservation needs; SUFs that are developing co-management arrangements with local communities; and SUF developing resource use agreements with local communities. More importantly from the perspective of social development outcomes are the activities of the Institutional Development component under which 'best practice' case studies and experiences from SUFs will be documented and fed into the national policy level.

7. Safeguard Policies:

7.1 Are any of the following safeguard policies triggered by the project?

Policy	Triggered
Environmental Assessment (OP 4.01, BP 4.01, GP 4.01)	● Yes ○ No
Natural Habitats (OP 4.04, BP 4.04, GP 4.04)	● Yes ○ No
Forestry (OP 4.36, GP 4.36)	● Yes ○ No
Pest Management (OP 4.09)	○ Yes ● No
Cultural Property (OPN 11.03)	○ Yes ● No
Indigenous Peoples (OD 4.20)	● Yes ○ No
Involuntary Resettlement (OP/BP 4.12)	● Yes ○ No
Safety of Dams (OP 4.37, BP 4.37)	○ Yes ● No
Projects in International Waters (OP 7.50, BP 7.50, GP 7.50)	○ Yes ● No
Projects in Disputed Areas (OP 7.60, BP 7.60, GP 7.60)*	○ Yes ● No

7.2 Describe provisions made by the project to ensure compliance with applicable safeguard policies.

Environmental Safeguards:

An EA was carried out and an EMP was prepared by MARD focusing on the Smallholder Plantation Forest component. No pesticides will be procured under the project, and the Environmental Protection Guidelines for the plantation component will ensure that critical natural habitats and sites of cultural significance are screened out as part of the site selection process. The project as a whole deals with sustainable forestry development, and the Special Use Forest component specifically addresses measures to improve natural habitats of international importance. *An assurance would be obtained at negotiations that project activities would be carried out in accordance with the EMP.*

Social Safeguards:

No resettlement and only minor land acquisition is expected under the project. Access tracks to the woodlots will be made and some minor expansion of forestry extension offices in the project districts may take place. Since exact impacts cannot be determined beforehand, a draft *Resettlement Policy Framework* has been prepared by MARD to address any possible impacts mentioned above in accordance with the provisions of OP 4.12 on Involuntary Resettlement. The Resettlement Policy Framework includes a Process Framework for the Special Use Forest component. The Process Framework will assess and address

any restrictions in access to natural resources faced by local communities, and provide for remedies to these restrictions on a case-by-case basis. The Process Framework incorporates features of the other social safeguard policy that applies to this project, i.e. OD 4.20 on Indigenous Peoples. *An assurance would be obtained at negotiations that project activities would be carried out in accordance with the Resettlement Policy Framework.*

Indigenous Peoples (Ethnic Minorities) in the project area will benefit from the project, if they chose to participate in plantation forest. They may, however, need additional support to fully utilize the provisions of the project. There are ethnic minorities living in and around most of the Special Use Forests that are eligible for funding under the conservation fund. To ensure that ethnic minority communities benefit from the project and are not adversely impacted, a draft *Ethnic Minority Development Strategy* has been prepared by MARD, under which, for the plantation component, commune level Ethnic Minority Development Plans will be developed in a participatory manner with the ethnic minority communities themselves, at the stage when the project enters the commune in which they live. *An assurance would be obtained at negotiations that project activities would be carried out in accordance with the Ethnic Minority Development Strategy.*

Since the conservation fund of the Special Use Forest component builds on applications from the SUFs, the provisions of OD 4.20 have been incorporated in two ways: (i) screening criteria have been designed for the review of applications from special use forests to benefit from the Conservation fund in order to ensure compatibility with OD 4.20; and (ii) a Process Framework has been prepared to address the eventuality that reduced natural resource use is warranted for conservation of important biodiversity. It set the rules of engagement between the SUF management authorities and local communities in negotiating acceptable Natural Resource Use Agreements. The Process Framework is included in the Resettlement Policy Framework.

Submission of the Ethnic Minority Development Strategy adopted by MARD and the Resettlement Policy Framework approved by the Prime Minister's Office and adopted by MARD are conditions of negotiations. Further details on the provisions of the Resettlement Policy Framework, The Process Framework, and the Ethnic Minority Development Strategy is provided in Annex 14.

F. Sustainability and Risks

1. Sustainability:

A number of measures have been taken to ensure sustainability. *First*, institutional sustainability is being addressed through the use and strengthening of existing service and financing delivery mechanisms and not the creation of new and parallel structures. This will also foster greater ownership by the implementers. Extensive training will be implemented to build up training and extension capacity and strengthen management capacity of the forest managers including smallholders. *Second*, the financial sustainability of the plantation forest component will be ensured by promoting tree growing that is expected to be financially profitable, allowing cost recovery and repayment of credits. The project addresses the financial and institutional sustainability of special use forests through the provision of small, realistic financing for core protection and management activities, that can be sustained with limited external support and capacity building. It is expected that the VCF will be replenished through other donor financing if the model proves successful. *Third*, environmental and social sustainability will be ensured through improving land-use planning, enhancing security of land tenure and recognizing traditional land management systems, strengthening protection of special use forests, promoting environmentally sound forest management, applying socio-economic plantation development guidelines, and involving all stakeholders including ethnic groups and women in planning and forest management.

1a. Replicability:

This project is conceived under the FSSP framework to demonstrate the potential of smallholder plantation forest development and a novel financing mechanism to support conservation efforts in Vietnam. If successful, the plantation forest component would be scaled up and replicated to other provinces in Vietnam through the Government's own 5MHRP and credit line. Similarly, the use of simple and cost-effective approaches to special use forest management can be sustained with limited external support and is more likely to be replicated by government funds. It is envisioned that the VCF would led to the institutionalization of a long-term sustainable financing mechanism financed with contributions from other donors and financing sources as well as test case for sector-wide financing approach.

2. Critical Risks (reflecting the failure of critical assumptions found in the fourth column of Annex 1):

Risk	Risk Rating	Risk Mitigation Measure
From Outputs to Objective		
Central Government and provincial governments may not facilitate the enhanced role of the private sector, especially smallholders, in commercial plantation forestry, but maintain the dominating role of SFEs, and delay the process of re-classifying and reallocating SFE land to other managers.	S	The reform of SFEs is linked to the larger SOE reform progress with strong links to other Bank policy-based lending instruments (PRSC) which may promote faster progress and allow ongoing dialogue to remove constraints.
Government may plan development activities and investments in special use forests that may irreversibly and negatively impact the conservation values of priority special use forests	S	The Vietnam conservation fund requires that the operational management plans are linked to the 5 year and 10 year investment plans, to ensure that these do not include investments that would damage the conservation values.

MARD, DLA-MONRE, province and district agencies dealing with land management do not adopt participatory land use planning and allocation procedures.	M	Training of project staff in participatory methods is an essential capacity building effort of the project. The participatory framework for implementation of the plantation component at the village level was discussed and developed with the participating provinces.
Growing of pulpwood becomes unprofitable due to declining woodchip prices causing losses to farmers and reduce farmer interest in forestry	M	While the risk is small due to predicted overall increase in demand for pulpwood and saw wood, the project will provide farmers with timely market information and strengthen their bargaining position through the Farm Forestry Groups; and promote production of sawlogs and certification to improve log sale prices and access to markets and diversity production to manage market risks.
From Components to Outputs		
Capable central, provincial and district staff may not be available, and if available, once trained may be transferred	H	Identify staff for implementation as soon as feasible, agree on TOR and qualifications, and start training prior to project start-up. In addition the project will rely on a mix of government staff and local consultants for implementation of the project. This may reduce the risk of discontinuity and limited capacity.
VBSP may not be sufficiently experienced to handle the credit.	S	While VBSP is a newly established bank, its credit officers are required to take a two-month up front training before starting work. Its district and branch managers are former employees of Vietnam Bank for Agriculture and therefore have extensive banking experiences already.
Sufficient counterpart financing may not be available to implementing entities on timely basis.	M	Require written commitment from provinces to provide needed counterpart funds and pre-financing of activities; ensure annual budget plans developed and approved in time.
Overall Risk Rating	S	

Risk Rating - H (High Risk), S (Substantial Risk), M (Modest Risk), N(Negligible or Low Risk)

3. Possible Controversial Aspects:

The use of VBSP as financial intermediary for channeling funds for plantations establishment may be potentially controversial in terms of reputational risk to both VBSP and IDA if the project is not properly administered or managed. If circumstances arise wherein the VBSP is not sufficiently able to target the project borrowers and ensure that the funds are being used as intended, it may damage the credibility of the newly established bank. As a related negative spill-over effect, such a failure would potentially harm the reputation of the IDA because of the choice of VBSP as an intermediary without the necessary safeguards

to ensure project effectiveness. The team is working closely with the EAP Financial Sector team to ensure that proper safeguards are in place to mitigate any potential risks (e.g., credit, market, interest rate, and market distortion) prior to negotiations and to provide on-going TA and training. Furthermore, the Financial Sector team will be involved in project supervision to ensure appropriate level of attention.

G. Main Conditions

1. Effectiveness Condition

Establishment of the NPCU and PPMUs and official appointment of key positions such as project director, chief project accountant and procurement staff in accordance with terms of reference acceptable to IDA.

Establishment of the implementation unit in VBSP and official appointment of project director and chief accountant in accordance to terms of reference acceptable to IDA.

Establishment of the Vietnam Conservation Fund with a Management Committee; VCF Secretariart, and Technical Advisory Group and the official appointment of project director, chief accountant, and procurement staff for the VCF in accordance with terms of reference acceptable to the Trustee for the Special Use Forest component.

Accounting staff of NPCU, PPMUs, VBSP, VCF Secretariat, and procurement staff of NPCU and PPMUs have completed their training

Establishment of a computerized accounting system by NPCU which will (a) classify disbursements by component and sub-components, expenditure categories, sources of funds and location; (b) record and analyze transactions in the Special Account and Direct Payments; and (c) consolidate the PPMUs financial statements in consolidated project accounts satisfactory to IDA.

Adoption of the Project Implementation Manual by MARD acceptable to IDA.

Subsidiary Loan Agreement signed between MOF and Vietnam Bank for Social Policy.

All conditions precedent to the effectiveness of the GEF Trust Fund Grant Agreement, the Netherlands Trust Fund Grant Agreement and the Finnish Trust Fund Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Condition of Negotiations

Submission of the draft Project Implementation Manual consisting of three volumes--Smallholder Plantation Forest Manual including the Financial Management Procedures and Requirements; the VCF Operational Manual for the Special Use Forest component; and VBSP Sub-Credit Manual for the Smallholder Plantations component acceptable to IDA

Submission of the Environmental Assessment and Environmental Management Plan dated ____; and the Ethnic Minority Development Plan dated ____ and evidence of their adoption by MARD.

Submission of the Resettlement Policy Framework dated ____, and evidence of its aproval by the Prime Minister and adoption by MARD.

Identification of qualified persons in key positions such as the project director, chief project accountant, and procurement staff for NPCU, PPMUs, and the project director and accountant for VCF Secretariat and VBSP implementation unit in accordance to TOR acceptable to IDA.

Submission of a commitment letter of counterpart and prefinance fund from the four project provinces of Quang Nam, Quang Ngai, Thua Thien Hue, and Binh Dinh.

2. Other [classify according to covenant types used in the Legal Agreements.]

Implementation:

Adequate policies and procedures would be maintained to monitor and evaluate project implementation and the achievement of objectives on an on-going basis, in accordance with indicators satisfactory to IDA and a proposed plan for such monitoring and evaluation would be prepared and furnished to IDA for review by [date].

Semi-annual progress reports would be furnished to IDA for review by [date] and [date] of each year, beginning with [date], 2004; and semi-annual progress reports shall contain results of monitoring and evaluation activities performed pursuant to above, beginning [date]. The reports should contain a section on compliance with environment and social safeguards.

An annual work and financing plan for the project for the next calendar year including a list of next year's planting sites would be furnished to IDA for review by [date] of each year.

A procurement consultant would be recruited by [date] to assist the NPCU and PPMUs in handling procurement work during year one of the project.

A list of sub-project proposals under the Special Use Forest component selected by the Technical Review Group of VCF would be furnished to the Trustee for comments by [date] of each year.

A consolidated updated list of approved seedling sources in the four project provinces under the Smallholder Plantation Forest component furnished to IDA for review by September 30 of each year.

Two mid-term reviews will be conducted by [date] and [date]. A mid-term report on the progress of and prospects for implementation would be furnished to IDA one month prior to each review. The report will include an evaluation of the participatory site selection process and plantation models as annexes. In addition, a list of further policy-related studies for the Institutions Development component will be submitted to IDA in the first mid-term review report.

Financial:

Consolidated accounts would be maintained for annual auditing by independent auditors acceptable to IDA, and the consolidated project accounts together with the auditor's report would be submitted to IDA within six months of the close of each financial year.

VBSP would undertake to maintain a financial management system acceptable to IDA and have its financial statements for each fiscal year audited.

Environment and Social:

All project activities would be carried out in accordance with the Environmental Management Plan prepared by MARD dated __ .

All project activities would be carried out in accordance to the Resettlement Policy Framework including the Process Framework for the Special Use Forests prepared by MARD and approved by the Office of the Prime Minister dated ___, and subsequent Resettlement Action Plans prepared by the PPMUs will be approved by IDA prior to implementation.

All project activities would be carried out in accordance with the Ethnic Minorities Development Strategy prepare by MARD dated _____, and subsequent Ethnic Minorities Development Plan prepared by PPMUs will be approved by IDA prior to implementation

H. Readiness for Implementation

☐ 1. a) The engineering design documents for the first year's activities are complete and ready for the start of project implementation.
☒ 1. b) Not applicable.

☒ 2. The procurement documents for the first year's activities are complete and ready for the start of project implementation.
☒ 3. The Project Implementation Plan has been appraised and found to be realistic and of satisfactory quality.
☐ 4. The following items are lacking and are discussed under loan conditions (Section G):

The draft first year procurement plan will be reviewed at appraisal. A draft Project Implementation Manual has been prepared and will be revised during appraisal. A PIM acceptable to IDA will be a condition of negotiations.

I. Compliance with Bank Policies

☒ 1. This project complies with all applicable Bank policies.
☐ 2. The following exceptions to Bank policies are recommended for approval. The project complies with all other applicable Bank policies.

Susan S. Shen	Mark D. Wilson	Klaus Rohland
Team Leader	**Sector Director**	**Country Manager/Director**

Annex 1: Project Design Summary

VIETNAM: Forest Sector Development Project

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Sector-related CAS Goal: To assist Vietnam in poverty reduction and promotion of equitable growth.	**Sector Indicators:** Improved welfare, i.e., reduced poverty according to national quantitative and qualitative standards (measuring food security, income, etc.)	**Sector/ country reports:** 1. Rural and forestry sector studies 2. Periodic surveys and poverty assessments	**(from Goal to Bank Mission)** Government commitment to poverty reduction applies also to forestry sector
Sector-related Goal The sustainable management of forests and the conservation of biodiversity to achieve: (a) protection of environment; (b) improved livelihood of people in forest dependent areas; and (c) enhanced contribution of forestry to the national economy.	1. Increased forest cover and area under forest certification 2. Increased contribution of forest sector to economic development and poverty reduction 3. Increased capacity of production forest lands to link protection and special use forests	1. Forest Sector Support Programme monitoring system 2. Forest Certification Reports 3. Report on National Forestry Inventory 4. Annual Statistical Yearbook	Government is committed to implement its forestry development strategy

GEF Operational Program:	Outcome / Impact Indicators:		
Support long-term protection of globally important forest and mountain ecosystems.	1. Ratio of budget spent on capital investment versus operational management. 2. Improvement of management effectiveness of special use forests 3. Improved engagement of local communities and ethnic minorities in SUF planning and management.	1. National reports to Convention on Biodiversity 2. NEA-MONRE annual State of Environment reports to the National Assembly 3. Conservation Needs Assessment/Protected Area Management Effectiveness Assessment	

Output from each Global Component:	**Output Indicators:**		
3. SPECIAL USE FOREST: Improved conservation management of approximately 50 Special Use Forests	● Initial conservation needs assessment and PA effectiveness scorecards is completed for 30 SUFs by end of year 2 ● Standardized Operational Management Plans prepared and implemented in at least 30 SUFs ● VCF funds disbursed according to approved proposals ● Biodiversity in 30 SUFs maintained, based on (a) changes in # of sightings of designated species and scale of local resource uses; (b) changes in size of vegetation size blocks and in land use of priority sites within the SUFs, and between SUFs and other mature natural forest areas; and (c) changes in perceived harvest volume of non-timber forest products per effort. ● Threats to biodiversity of international importance in up to 30 SUFs reduced ● Effective models developed and disseminated for local communities in co-management of forest resources.	● Progress reports ● Conservation needs assessment reports and PA effectiveness scorecards ● Operational Management Plans ● Threat reduction scorecards and infraction records	● GoV adjusts procedures/arrangements for planning and management of SUFs ● GoV retains trained staff in positions ● GoV will not undertake developments which will irreversibly harm the conservation values of the SUFs

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Project Development Objective: Sustainable management of plantation forest by rural households and of Special Use Forest by Management Boards	**Outcome / Impact Indicators:** ● Institutional and financial arrangements for promoting smallholder plantation forestry developed and available for replication (results of Component 1) ● Financial arrangements for funding of Special use Forests management in place (result of Component 1) ● Environmentally, socially, and economically viable smallholder forestry sector established and benefiting rural households in Binh Dinh, Thua Thien Hue, Quang Nam, and Quang Ngai provinces (result of Component 2) ● Improved conservation management of approximately 30 Special Use Forest (result of Component 3) ● Reduced threats to areas with ecosystems of international conservation importance (result of Component 3) ● Procedures for functional management information and monitoring and evaluation system for plantation forest and management of Special Use Forests developed and operational (result of Component 4)	**Project reports:** ● Impact Evaluation Reports ● Implementation review reports ● Beneficiary assessments ● National reports to Convention on Biodiversity ● NEA-MONRE annual State of the Environment reports to the National Assembly	**(from Objective to Goal)** ● The national and provincial authorities are committed to enhanced role of private sector in plantation forest development ● MARD/DARDs will support demand and market-driven tree planting ● Provinces are able to identify available soils capacity of sustaining project growth rates ● Prices and demand for forest products remain on average at or above the level at time of project preparation ● GoV allows sustainable use of forest resources in SUFs and buffer zones ● GoV will not undertake developments which will irreversibly harm the conservation values of priority SUFs ● SUF management authorities and local communities willing to cooperate with each other on improving natural resource management

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Output from each Component:	**Output Indicators:**	**Project reports:**	**(from Outputs to Objective)**
1. INSTITUTIONAL DEVELOPMENT - institutional and financial arrangements for promoting smallholder plantation forestry developed and available for replication in other provinces	• Tax and incentive policies including product pricing relevant for plantation forestry improved and adopted based on lessons learned and analytical studies. • Simplified, transparent forest land classification and allocation procedures based on the lessons learned and integrated in the relevant chapters of the FSSP Forest Sector Manual and Project Implementation Manual. • 21 District Farm Forestry Groups established and operational with more than 70% of all farm households benefiting from the FFG as members. • Forest certification achieved by 2009 by more than 50% of registered individual households and future financing for certification services identified.	• Progress reports • Case studies • Workshop proceedings • Project Implementation Manual • FSSP Forest Sector Manual • Forest Certification Reports	• Recommendations based on lessons learned are seriously considered by policy makers • MARD/MONRE and provinces are committed to implementing the proposed procedures under the project • Farm Forestry Groups are accepted and allowed to operate independently • Forest certification will receive high level GoV acceptance
Financial arrangements for funding of Special Use Forests management in place	• Constraints and opportunities for co-management of SUFs discussed at a high level national workshop, and Decision 8 on forest management revised to enable Management Boards to enter into co-management arrangements with local communities living around or within SUFs. • Drafting and initial implementation of long-term financing and outreach strategy for	• Strategy document for sustainable financing mechanism for SUFs	

	SUFs completed including assessment of future institutional arrangements and legal and operational modalities		
2. SMALLHOLDER PLANTATION FOREST Environmentally, socially, and economically viable smallholder forestry sector established and benefiting rural households in Binh Dinh, Thua Thien Hue, Quang Nam, and Quang Ngai provinces.	● Increased share by smallholders of total wood production in project areas. ● Living standards of 19,000 households improved through forest income and employment. ● Extension and training guidelines covering all aspects of forest plantation development prepared. ● 950 local (block-level) Farm Forestry Groups formed and operational (participation recorded by gender and ethnic groups); and extension provided to at least 750 (block-level) Farm Forestry Groups by year 2009. ● 53,000 ha of land allocated and LUCs issued to approximately 19,000 households (by ethnic group and income). ● Plantation design completed for 66,000 ha in accordance with approved plantation models by 2008. ● Smallholder production of 4 million m^3 of pulpwood; 0.5 million m^3 of sawlogs and 0.4 million m^3 of fuelwood in 20 years	● Records on approved provincial plantation models ● Copies of plantation business plans ● Progress reports ● M&E reports ● Beneficiary assessment and other special studies ● Extension reports ● District and province land allocation records in the registries ● Certification Reports	● Government policies and procedures allow implementation of participatory village-level land-use consultations and allocations especially at district and commune-level ● SFEs will reduce their areas and facilitate allocation to households ● Sufficient # of extension and promotion staff are available for recruitment ● Tree growing is perceived as a profitable business by the non-state sector
4. PROJECT			

MANAGEMENT Procedures for functional management information and monitoring and evaluation system for plantation forest and management effectiveness in Special Use Forest developed and operational.	● Procedure established for planning, accounting, fund flow, and procurement ● Trained staff in place in NPCU/PPMUs/VCF Secretariat ● TA recruited ● Procedure established for M&E ● M&E providing timely feedback for management action	● Project management manuals and guidelines ● Progress reports ● M&E reports	● Qualified staff available ● Appropriate incentives are in place for staff performance ● GoV and Bank procedures compatible

Hierarchy of Objectives	Key Performance Indicators	Data Collection Strategy	Critical Assumptions
Project Components / Sub-components:	**Inputs: (budget for each component)**	**Project reports:**	**(from Components to Outputs)**
1. INSTITUTIONAL DEVELOPMENT 1.1 Linking field implementation with policy 1.2 Establishing Farm Forest Groups 1.3 Promoting Forest Plantation Certification	US$1.26 million		
2. SMALLHOLDER PLANTATION FOREST 2.1 Participatory Site Selection 2.2 Land Allocation/LUC Issuance 2.3 Extension and Services delivery 2.4 Plantation Design and Management 2.5 Plantation Investment	US$53.40 million		
3. SPECIAL USE FOREST 3.1 Fund Financing of Special Use Forests 3.2 Special Use Forest Management	US$15.63 million		
4. PROJECT MANAGEMENT AND MONITORING AND EVALUATION 4.1 Project Management 4.2 Project Monitoring and Evaluation	US$5.24 million		

Annex 2: Detailed Project Description
VIETNAM: Forest Sector Development Project

By Component:

Project Component 1: Institutional Development - US$1.26 million

The component will support development of an enabling framework for smallholder plantation forestry and the management and sustainable financing of special use forest through a broad range of targeted interventions required to clarify and implement policies; facilitate a supportive institutional framework; and undertake market development measures. There are three sub-components: (a) linking field implementation with policies; (b) establishing farm forestry groups; and (c) plantation forest certification.

A. Linking Field Implementation and Policy Development

This sub-component will support a lessons-learned process based on implementation activities as well as from management of special use forests in Vietnam to policy makers at provincial and national levels. The sub-component will support review of existing regulations, guidelines, incentives and practices for commercial plantation forests and related extension and other support services at provincial and national levels; land classification and allocation procedures; and key issues related to management and sustainable financing of special use forests such as potential for co-management of SUFs. This sub-component will finance consultants services to undertake studies and policy analysis, consultation workshops, and report dissemination.

The studies to be carried out during the first two years of implementation have been identified and are as follow:

- *Plantation management:* (a) provincial and national policies on investment, credit, tax exemption and tax reduction and other incentive schemes in the forest sector relevant for plantation forestry including sources and management of provincial reforestation funds; and (b) pricing of forest products from plantations in the four provinces; flow of wood from farm households to processing companies; analysis of potential and constraints to increase farm gate prices of plantation wood and development of practical recommendations how the situation can be improved.

- *Land management*: review of experiences and good practices on procedures for classification and allocation of forest land resulting from experiences in the four provinces in preparation of project implementation.

- *Special use forest management*: review of potential and constraints for co-management of Special Use Forests under Decision 08 and any new regulatory initiatives (e.g. current proposals of the Forest Protection Department on the creation of multiple use nature reserves to allow for co-management)

Further studies will be identified and included in the first mid-term review report scheduled at the end of year two and to be submitted to IDA for review.

B. Establishing Farm Forestry Groups

This sub-component will support the establishment and development of Farm Forestry Groups for plantation forestry in the participating districts as a major tool to stimulate private sector and market development in plantation forestry. The functions and tasks of the Farm Forestry Groups (FFG) are:

- Information exchange amongst the members on all aspects of plantation forestry, including land issues
- Organization of joint marketing and sales of the forest products from the plantation forests
- Development of a group certification scheme according to FSC (i.e. application for group certification; administration of group certification scheme; maintenance of group records; coordination between group members; internal monitoring of group certification scheme; communication with certification body)
- In a later stage of the development of the FFG, joint procurement on behalf of FFG members of fertilizers, seedlings, extension service
- Promotion of concepts of private landowner buy-outs of state-owned plantations, joint ventures, leasing and other mechanisms

This sub-component wil financeconsulting service to establish the FFG, develop business plans for FFG, and self-financing schemes; workshops and meetings; start-up operating costs; newsletters and technical bulletins; inter-provincial visits and exchanges; and one regional study tour.

C. Promoting Plantation Forest Certification

This sub-component will assist FFGs or part of their members (forest plantation owners) to (i) obtain certification for their plantation forests, (ii) attain high quality standards for forest plantation management operations in terms of technical, social, economic, and environmental criteria, (iii) assist to organize themselves for promoting their common interests, including forest certification, improvement of productivity of their plantations, and marketing of plantation wood, and (iv) improve their export market access thus increasing the demand for industrial plantation grown timber.

The sub-component will finance consulting services to carry-out certification pre-assessment and assessment, and periodic surveillance audits; training for local staff in auditing of certification standard; market promotion of the certified products for export; and development and maintenance of a data bank of certified forests.

Project Component 2: Plantation Forest - US$53.40 million

This component is piloting the development of a small-holder commercial forest plantation sub-sector in 4 central provinces of Vietnam--Binh Dinh, Quang Nam, Quang Ngai, and Thua Thien Hue. The component will offer an attractive credit line for smallholders for the purpose of commercial tree plantation establishment using a range of tree planting and agroforestry models. The available credit financing will be combined with assistance in forest land allocation, extension and technical advice. The component will also support building capacity in the Forest Development Sub-Departments and Forest Sections under the Provincial Departments of Agriculture and Rural Development, credit institutions, districts and households to plan, implement and monitor a commercial forest plantation program based on a credit line to smallholders. Participation and borrowing from the credit line will be voluntary. The credit and other services to be provided will be demand-driven. This basic principle will require flexibility in implementation since the component must be responsive to the demand for land, financing and support

services by the households.

The component include five sub-components:

A. Participatory Site Selection

This sub-component will carry-out the final plantation site selection process using a participatory approach. Key elements in this process are three village meetings:

(a) An initial village meeting to provide information to potential beneficiaries;
(b) A second village meeting some time later to collect applications for land and prepare a map and name list of applications in the village;
(c) A third meeting to provide information on credit arrangements and contracts, and information on plantation models, extension services and inputs supply.

An assurance would be obtained at negotiations that an evaluation of this participatory site selection process will be included in the mid-term review report.

The sub-component will finance training of trainers; preparation of land use maps; village meetings, incremental operating costs; and technical assistance to screen sites based on technical, social and environmental criteria.

B. Land Allocation/LUC Issuance

This sub-component will support the actual land allocation process and the issuance of Land Use Right Certificates (LUC) for plantation forest establishment purposes. Activities include: (i) preparing a proposal on the process by each district for the approval of the province and PPMU; (ii) surveying and mapping; (iii) arranging for public display of the results of the survey and mapping; (iv) preparation of LUCs; and (v) approval of the LUCs by District People's Committee and distribution of LUCs to households.

The sub-component will finance incremental staff and operating costs, travel costs, surveying and mapping equipment and materials, and contractual staff.

C. Extension and Service Delivery

The sub-component will strengthen the capacity of agroforestry extension units to provide technical and financial advisory services to participating households to plan and implement commercially-oriented wood production and agroforestry plantations. Provisions have been made to recruit contracted technical staff to supplement the limited capacity of the local extension units. In addition, the quality of the seedling material for the plantations will be secured through assessing seed sources and seedling production under an accreditation program. The accreditation program will include a requirement that the approved nurseries only raise seedlings and other planting material from approved source. The PPMUs, in collaboration with provincial DARDs will maintain an updated list of “approved” seedlings sources. If there is a problem in obtaining sufficient seedling supplies from approved sources, then DARDs in liaison with the PPMUs will approve interim arrangements to maximize the use of the best quality seed, seedlings and sources available. Technical assistance will be provided to ensure quality control.

The PPMUs/NPCU will submit a consolidated updated list of approved seedling sources in each of the

four participating provinces by September 30 of each year.

The sub-component will finance incremental operating costs; contractual staff to work in partnership with the agroforestry extension centers/stations and those involved in seedling production; technical training of trainers, extension staff, and contractors; extension materials; motorcycles to reach the beneficiaries; and consulting services to accredit providers of planting materials from approved sources and conduct annual audits of the nurseries and tree seed sources.

D. Plantation Design

The sub-component will provide technical support to farmer/tree growers in plantation design based on a range of tree cropping systems, including fast-growing and longer rotation tree plantations, mixed forestry-agriculture crops, and non-timber tree plantations (e.g. cashew nuts, cinnamon, rubber, rattan, and so on).

Financing will be provided for detailed plantation design at block and individual plot levels; demonstration sites; on-farm trials/technical studies to improve performance; and quality control assessment aimed at improving quality of inputs (e.g., fertilizer use).

E. Plantation Investment

This sub-component provides a financing in the form of a line of credit to smallholders and other eligible project participants for forest plantations based on the agreed planting models. Participation in the plantation activities will be voluntary and demand-driven. Although majority of beneficiaries are expected to be smallholders, SFEs can be recipients of project funds provided they meet eligibility criteria, which would promote and accelerate reforms. Initial screening of SFEs to be eligible borrowers was carried out prior to appraisal based on the following rigorous criteria: (i) SFEs should be independent viable business operations; (ii) SFEs are focused on plantation forestry in the project areas proposed by MARD for the project implementation and are not involved in harvesting in natural forests; (iii) SFEs should transfer all their public functions (including planting of protection forest under the 5MHRP) to Management Boards; (iv) eligible SFEs should have good track record in reallocation of land to the districts for household use; and (v) SFEs should have transparent long term contracts with households. The result was only three out of the twelve proposed SFEs have the potential to be eligible during year two of implementation provided they continue with their reforms. Further screening will take place in years one, three, and five for respect year two, four, and six plantings. Given the above, it is estimated that the project will provide credit for the establishment of some 66,000 ha of plantations.

The sub-component will also establish a system of field inspection of plantation sites, linked with authorizing disbursement of credit installments if performance and quality criteria are fulfilled Credit for seedlings will only be given to growers that purchase planting materials (seedlings, cuttings and tissue culture) that originate from approved sources. *An assurance would be obtained at negotiations that a list of proposed planting sites for the next planting season will be furnished to IDA for review.*

Project Component 3: Special Use Forest - US$ 15.63 million

This component will improve the conservation and sustainable use of biological resources in special use forests and increase the reliability of special use forest funding through piloting an innovative national-level financing mechanism. The latter will be a fund to provide priority special use forests access to small grant packages, on a competitive basis, to finance conservation-related activities on-the-ground. Such a

financing mechanism would meet a critical need in improving protection and management of key conservation area. By providing a small but reliable source of financing to many conservation areas across the whole protected area network in Vietnam, the fund would complement current large-scale donor and government investments. The latter has historically been mostly on physical infrastructure.

This component will be implemented nationally and includes two sub-components: (i) conservation fund establishment and operations; and (ii) special use forest planning and implementation.

A. Conservation Fund Establishment and Operations

This sub-component will establish a Vietnam Conservation Fund (VCF) as a six-year, performance-based, sinking fund with an initial capital contribution of US$7.5 million from the Global Environment Facility (GEF) to conserve biodiversitiy of international importance in Special Use Forests. VCF's continued operation after the first six years will depend on its ability to attract additional donor and government funds and raise money through development of other financial instruments.

The sub-component will support (i) establishment and operationalization of the VCF Management Committee, Secretariat, and Technical Review Group and implementation of procedures outlined in the VCF Operations Manual; (ii) proposals from eligible special use forest management authorities for priority conservation activities on a competitive basis; (iii) monitoring and reporting of VCF funded conservation activities, and its impact on reducing threats; promoting forest connectivity; and compliance with social safeguards; and regular assessments of fund effectiveness to improve grant disbursement and performance; and (iv) dissemination and promotion of VCF and VCF-supported activities.

Funds from the GEF and Netherlands Government are being sought to finance this sub-component. The sub-component will finance incremental operating costs, staff travel costs, and contractual staff needed to operate the VCF; office renovation, office equipment, and one vehicle; technical assistance at the central level for fund management and implementation; and approved proposals for site level conservation. See below for eligibility criteria and indicative eligible activities for financing by the VCF.

Eligibility criteria for activities

Criterion	**Conditions**
Activities likely to address threats to biodiversity	Activities can be eligible for support if they are prioritised in an SUF Operational Management Plan, or Conservation Needs Assessment
Activities not included on the negative list	The following activities are **NOT** eligible for support: • Activities already budgeted for in an international donor funded project; •Significant infrastructure including roads, buildings, dams, and guest houses. *The exception to the infrastructure prohibition will be small-scale infrastructure directly linked to an operational conservation project. Only the following infrastructure will be eligible for funding: a) construction of boundary markers as part of a boundary demarcation program, and b) cementing of masts to secure communication tower as part of a wireless communication program for patrolling.* • Purchase of major equipment such as vehicles, generators, air conditioners, furniture and furnishings. • Basic staff salaries and office running costs.

	• Forestry activities already funded under the national 661 programme. • Rural development activities. • Human resettlement. • Overseas study tours and academic study. • Modification to natural habitat. • EIA or mitigation measures for major development projects. • Activities beyond the mandate of SUF management authorities.
Activities consistent with the objectives of the Conservation Fund	Preference will be given to activities: • With a significant commitment of co-financing from government budgets. • That demonstrate a significant commitment to involving local communities in conservation • With a high likelihood of implementation success. • That form part of a multi-year operational plan and whose implementation will further the objectives of that plan. • With high potential for replicability elsewhere. • At SUFs that received a grant in the previous funding round that was used effectively and properly accounted for.

Indicative list of eligible activities

Category	Example activities
Capacity building for SUF staff	Training programmes Exchange visits, study tours to other SUFs in Vietnam Site-specific transboundary study visits
Engagement of local stakeholders	Negotiation of household conservation agreements Establishment of community co-management mechanisms Joint patrolling with local community members Establishment and operation of SUF support groups Networking and exchange visits on conservation between communities Development of regulations and local agreements
Conservation planning and management	Preparation of Operational Management Plans with local stakeholder involvement Boundary delineation and demarcation (stakeholder workshops; participatory mapping exercises; installation of boundary pillars and signboards) Habitat and species management (e.g. habitat management, control invasive species) Facilitating community access to funds/advice from other sources so as to make use of buffer zones sustainable Enhancing connectivity of SUFs e.g. supporting survey and gazettment of forests adjacent to or between existing SUFs.
Conservation awareness raising	Awareness campaigns at local level (e.g. village meetings) Use of local media (radio, television, etc) Fire prevention awareness and training activities Preparation and dissemination of awareness materials School-based environmental education campaigns Activities to encourage environment-friendly land-use planning in the buffer zones
Hunting/wildlife trade control	Planning and implementing anti-hunting patrols Training in wildlife law for staff from enforcement agencies (FPD, police, customs etc). Provision of radio communications and related patrolling equipment
Sustainable tourism	Training local people as tourist guides Development of ecologically sensitive visitor regulations
Surveys and research	Status assessments of globally-threatened species in order to develop recommendations for management Gathering of baseline data on threats, resource use and biodiversity in sites where this is seriously needed in order to develop recommendations for management Review options for expanding SUF boundaries to include adjacent ‘protection’ forests Assessment of options for developing corridors between two close-by SUFs
Monitoring	Establishment of ecological/threats-based monitoring systems Training in data collection, analysis, monitoring

	Community-based systems for monitoring

B. Special Use Forest Planning and Implementation

This sub-component will support (i) site-specific conservation needs assessment to identify priority activities for possible funding; (ii) SUF operational management plans to be linked to SUF investment plans; (iii) capacity building of SUF management boards and local communities to implement priority conservation activities; and (iv) simple system of monitoring and evaluation for VCF implementation and will include monitoring impacts on the conservation of key species and forest resources.

The sub-component will finance international and local technical assistance at national and regional levels in support of the above activities especially the development of conservation needs assessment and operational management plans. The TA from at regional level will be delivered through three regional TA teams operating in northern, central, and southern Vietnam. Funds from the Netherlands Government through the FSSP-Multi-Donor Trust Fund are being sought to finance this sub-component in its entirety.

Project Component 4: Project Management and Monitoring and Evaluation - US$5.24 million

This component includes two sub-components: (a) project management, and (b) monitoring and evaluation.

A. Project Management

This sub-component will support the institutional capacity building necessary to plan, coordinate and manage the implementation of the overall project at a national, provincial, district, and commune-levels. In particular, this involves the development of planning, technical, and management skills to be able to produce quality and timely annual work plans and budget; anticipate and resolve implementation problems quickly; and make adjustments based on implementation progress and feedback.

The sub-component will finance incremental operating costs; contractual staff; project management-related technical assistance; training and workshops; renovation of project office and office equipment and furniture; and project vehicles.

B. Project Monitoring and Evaluation

The sub-component will provide support for the detailed design, establishment and implementation of an internal M&E system to track technical and financial project progress and performance at central and provincial level, district-, and commune-level including assessment of planned work program outputs against actual performance (target numbers and location, quality, timeliness, etc). The M&E system should also enable monitoring of the effectiveness of implementation processes and incorporation of lessons learned into future planning processes and linked to the FSSP Monitoring system.

The sub-component will finance consulting services needed to carry out any base-line studies; short-term technical assistance for the design; establishment and testing of the M&E system; training and workshops; M&E-related equipment, travel costs of project staff and incremental staff costs.

Annex 3: Estimated Project Costs

VIETNAM: Forest Sector Development Project

Project Cost By Component	Local US $million	Foreign US $million	Total US $million
Institutional Development	0.57	0.63	1.20
Smallholder Plantation Forestry	39.70	8.14	47.84
Special use Forest (Conservation fund)	10.23	4.16	14.39
Project management and Monitoring & Evaluation	2.89	2.14	5.03
Total Baseline Cost	53.39	15.07	68.46
Physical Contingencies	1.96	0.30	2.26
Price Contingencies	3.89	0.92	4.81
Total Project Costs[1]	59.24	16.29	75.53
Total Financing Required	59.24	16.29	75.53

Project Cost By Category	Local US $million	Foreign US $million	Total US $million
Goods	1.21	1.41	2.62
Works	1.01	0.11	1.12
Services and Training	5.19	7.33	12.52
Field Activities	2.02	0.11	2.13
Plantation Credit sub-loans	32.77	5.78	38.55
Small grants	6.45	0.33	6.78
Incremental Operating cost	3.17	0.00	3.17
Government staff salary	1.57	0.00	1.57
Physical contingencies	1.96	0.30	2.26
Price contingencies	3.89	0.92	4.81
Total Project Costs[1]	59.24	16.29	75.53
Total Financing Required	59.24	16.29	75.53

[1] Identifiable taxes and duties are 0 (US$m) and the total project cost, net of taxes, is 59.83 (US$m). Therefore, the project cost sharing ratio is 67.24% of total project cost net of taxes.

Annex 4: Cost Benefit Analysis Summary
VIETNAM: Forest Sector Development Project

Million US$ in 2003 Constant Dollars

[For projects with benefits that are measured in monetary terms]

	Present Value of Flows		Fiscal Impact	
	Economic Analysis	Financial Analysis[1]	Taxes	Subsidies
Benefits:	35.8	36.9/a	1.0/b	
Costs:	24.4	35.4		
Net Benefits:	11.4	1.5		
IRR:	17%	10.6%		

a / Financial and economic analysis benefits estimates differ because of the sales tax on wood and opportunity cost calculations. Costs differ because of the economic and financial labour price difference.

b/ Government sales tax on sawlog and pulpwood revenues at the farm gate of 4%. Total sales tax of about US$ 4 million over the 31 year life of the project which equates to a present value of about US$ 1.0 million @ 10% discount rate.S$ 1.0 million @ 10% discount rate.

[1] If the difference between the present value of financial and economic flows is large and cannot be explained by taxes and subsidies, a brief explanation of the difference is warranted, e.g. "The value of financial benefits is less than that of economic benefits because of controls on electricity tariffs."

Summary of Benefits and Costs:

1.1 Project Economic and Financial Rate of Return

1. The project is economically viable. The economic rate of return, based on the eight indicative plantation model cash flows and FSDP costs is 17% (Table 8). The present value of the net benefits was estimated at VND 176,026 million or US$ 11.4 million. These results are based on conservative plantation yield and product price estimates and realistic input cost estimates.

2. The overall project financial rate of return is 10.6%. The present value of the net benefits is calculated to be VND 22,922 million or US$ 1.5.

1.2 Financial Profitability of Plantation Investments under Different Models and Conditions

3. Eight indicative plantation models were used to identify the financial rate of return to beneficiaries. Of the 65,600 hectares in the project, 48,900 hectares will be planted to bare land. The FRR for the indicative plantation models on bare land ranges from 10.5% to 27% (Table 6). Beneficiaries, who use

their own labour, can earn between VND 15,500 and VND 61,500 per person-day depending on the model employed (Table 7). This compares to a VND 20,000/person-day unskilled wage rate in the agricultural planting and harvesting seasons.

4. The remainder of the 65,600 hectares (16,700 ha) is planted to poorly stocked plantation land. The FRR, based on the incremental cash flows, for households adopting one of the indicative plantation models ranges from 13% to 49%.

Main Assumptions:

2.1. Market Scenarios Underlying the Plantation Program

5. The project design, including the scale and scope of the plantation program, is based on a careful assessment of the market look for forest products, including analysis of comparative and competitiveness advantage of Vietnamese forest industries and products in the domestic and international market. Based on a Jaakko Pöyry Consulting study commissioned by the World Bank after the project identification mission in 2001 and comprehensive additional work carried out by the Project Preparation Team in 2002-2003 (Project Preparation Report, Annex 13), the following can be concluded:

- Vietnam has strong competitive advantages in furniture and similar added value export-oriented wood industries.

- Some 80% of wood needs of the furniture industry needs are met through imports, which offers good opportunities to substitute plantation grown logs for imports.

- The clustering of sawmilling, furniture, wood-chip and wood-based panel industries is taking place in Qui Nhon and Danang offering a growing market for a range of products; markets prospects especially for certified logs for furniture industry are assessed to be good.

- Pulpwood prices are below maybe what they could be because of state-controlled companies sometimes benefiting from excessive margins in collection, selling and partial ownership of chipwood exports outlets.

- Asia will remain a wood deficit region in the foreseeable future, with Japan remaining the largest importer of small diameter wood. Japan's demand for plantation grown woodchips is expected to continue and probably expand for at least the next 20 years, and Vietnam as a low cost producer is well positioned in that market.

- Demand for pulpwood will increase because of new domestic investments into woodchip exports (and possibly even a pulp mill).

- International long-term prices for woodchips are predicted to be quite stable; no real price increases can be expected in the Asia-Pacific market at least in medium term. In fact, during the last ten years, hardwood chip import prices in the major Asian countries have declined. However, Vietnam is a low cost/low price (probably the lowest) international supplier of woodchips to Japan and there appears to be scope for pressure for higher prices, which should also be reflected in a higher stumpage.

- In addition, there is scope for the Vietnam to increase production and replace imported particle board with domestically produced board.

- The market for larger diameter logs is seen as secure and ongoing growth in furniture output is expected to continue at a rapid rate with diversification into indoor furniture and higher quality lines.

- Prices for logs used in sawmilling and furniture manufacture can fluctuate annually depending on the species. However, in long term real prices of sawlogs in the Vietnamese market can be expected rise slowly.

- There is a need to support certification of plantation logs in order to increase the market share and obtain higher prices for plantation wood.

- In terms of volume, the main output of the project-supported plantations will be small diameter pulpwood logs for woodchip exports, but production of logs for sawmilling and wooden furniture will also play an important role especially because its good profitability and growth prospects.

2.2 Proposed Plantation Development Program

6. Based on technical and economic assessment carried out during the project preparation, involving a number of steps and explicit screening criteria, including access to markets, it was estimated that some 65 600 ha of the 120 000 ha in the four project provinces could be developed into commercial forest plantations. The exact final plantable area will depend on the interest by the households, amongst a number of other factors. The potential volume available from these plantations is clearly below the projected future demand in the region. The area anticipated for plantation development under FSDP by bare land and poorly stocked plantation and by year is presented in Table 1.

Table 1. Estimated Hectareage for Tree Planting under FSDP by Land Type and Year (Hectares)

	Planting Year						
	1	**2**	**3**	**4**	**5**	**6**	**Total**
Bare Land	1,490	2,980	5,960	12,815	12,815	12,815	48,870
Poorly Stocked	510	1,020	2,040	4,386	4,386	4,386	16,728
Total	2,000	4,000	8,001	17,201	17,201	17,201	65,604

***Source**: Table 16, Annex 2, FSDP Project Preparation Report (PPR).*

2.3 Characteristics of Potential Plantation Investors and Managers

7. The majority of the expected plantation managers and beneficiaries are smallholders who have access to between one to three hectares of agricultural land and have the potential to plant up to 2 hectares of plantation land. A small number of beneficiaries will be medium-scale farming households with the potential to plant 2 to 10 hectares of plantation land. Few smallholders are presently engaged in forest plantations. The smallholder family unit provides the majority of the agricultural labour and opportunity

for off-farm employment is scarce. Very few smallholders have experience with credit and will not borrow at the market interest rate. Most smallholders have little opportunity to expand their agricultural landholdings thus acquiring land for tree plantations though the FSDP is seen as one of the very few available opportunities for increased income generation. Some medium-scale beneficiaries may have the need to hire labour for plantation work.

3. Models and Assumptions Underlying Plantation Profitability Calculations

3.1 Plantation Models and Their Coverage

8. The financial and economic analyses are based on eight indicative project plantation models. In addition, a plantation model was constructed that represents existing smallholder plantation practices. These original models were developed by the Vietnam Project Preparation Team and are found in Annex 12 of the PPR. The original models have been revised and the following changes have been made (i) the addition of a replanting activity in the second year to account for a 90% seedling survival rate as opposed to a 100% seedling survival rate in the original models, (ii) no tax on fuelwood, (iii) minor adjustments to labour requirement coefficients, (iv) minor revisions to some of the tree growth rates, and (v) the addition of a second rotation to Models 1 and 2. In addition, based on recent information, adjustments have been made to the fertilizer regime and fertilizer prices and planting material prices have been decreased to present day levels.

9. The basic characteristics of the existing and indicative plantation models are presented in Table 2. Models 1 through 4 are wood production models and models 5 through 8 are agroforestry models. The input coefficients used in the indicative models for labour, planting density and fertilizer application are presented in Table 3.

Table 2. Existing and Indicative Plantation Model Characteristics

Models	**Tree [a] & Agricultural Species**	**Location**	**Soil Depth**	**MAI**	**Rotation Length**	**Wood Volume**	**Saw logs**	**Pulp Wood**	**Fuel Wood**
			(cm)	**m^3/ha/yr**	**Years**	**m^3**	**m^3**	**m^3**	**m^3**
Existing Model									
1. Smallholder	Acacia Eucalyptus	/b	/b	6	7	42	0	34	8
Indicative Models									
1. Short rotation (medium yield)	Acacia H Eucalyptus	Coast & mid-hills	30-50	12	7	84	7	69	8
2. Short rotation (high yield)	Acacia H Eucalyptus	Interior Hills	> 50	14	7	98	8	80	10
3. Long-rotation (medium yield)	Acacia	Coast & mid- hills	30-50	14	15	210	90	103	16
4. Native Species	Acacia Hopea	Coast & mid- hills	30-50	6	7 25	155	80 10	0 35	0 30

5. Agroforestry (short-rotation)	Acacia/ melia Cassava	Coast & mid- hills	30-50	12	7	84	7	69	8
6. Fruit/nut trees	Cashew Cassava	Coast & mid- hills	30-50	-	15	/c	-	-	-
7. Agroforestry- (long rotation)	Acacia/ melia Cassava	Coast & mid- hills	30-50	14	15	210	90	103	16
8. Non Timber Forest Trees	Acacia Cinnamon/d	Coast & mid- hills	30-50	10	7	70	4	41	5

Source: Revision of Annex 3a and Annex 12, Draft FSDP Project Preparation Report. Revision based on information from Provinces and MARD Plantation Consultants Report.

a/ *Existing practice models have lower productivity because of inappropriate species use, poor planting materials, and little or no fertilizer use. Indicative project model tree species include: Acacia auriculiformis, Acacia Mangium, Acacia hybrids, Eucalyptus camaldulensis, Eucalyptus urophylla Hopea odorata, Dipterocarpus alatus, Cinamomom cassia, Canarium spp., Melia azadirachta.*

b/ *Average over all locations.*

c/ *Cashew nut yield kg/ha: 540, 540, 900, 1,080,1,260,1,440, 1,620, for years 3 to 9 respectively and 1,800 thereafter for years 10 to 15 respectively.*

d/ *Cinnamon bark yields 1,125 kg in year 10 and 875 kg in year 15.*

Table 3. Model Coefficients for Labour, Planting Density, and Fertilizer Application

	Models 1,2,3,5 & 7			Model 4			Model 6[a]			Model 8		
Activities[b]	**Year 0**	**Year 1**	**Year 2**	**Year 0**	**Year 1**	**Year 2**	**Year 0**	**Year 1**	**Year 2**	**Year 0**	**Year 1**	**Year 2**
I. Site Preparation, Planting and Maintenance (Person-days/ha)[b]												
Land Clearing	30	0		25			25	0		30	0	0
Dig planting Holes	18	2		15	9		9	2		15	13	3
Fill Holes	8	2		7			5	1		7	6	1
Transport Fertilizer	6	2		8			6	1		6	7	1
Apply Fertilizer	6	2		8			6	2		6	7	1
Transport Seedlings	4	1		5			2	1		5	4	1
Plant & Replant	8	2		10	8	3	4	2		10	9	1
Weeding	30	45	15	20	30	10	25	18	16	20	45	15
Check/Replant	4	1		5			2	1		4	4	1
Inspect/Protect	4	0		4			2			4	3	1
Protection[c]	0	4	4	0	4	4	0	0	4	5	6	6
Total	118	61	19	107	51	17	86	28	20	112	104	31
II. Track Maintenance (Person-days/ha)[d e]												
	7	0	0	7	0	0	0	0	0	7	0	0
III. Planting Densities (Seedlings/Cuttings/ha)												
Acacia/Eucalyptus	1,650	165	0	1,000	0	0				1,000	0	0
Hopea/Dipte.					500	50						
Cashew Nut							400	40	0			
Cinnamon										0	850	150
IV. Fertilizer Application (kg/tree)[f]												
Super Phosphate	0.5	0.5		0.5	0.5	0.5	2.5	2.5	0	0.5	0.5	0.5
NPK	0.25	0.25	0	0.25	0.25	0.25	0	0.25	1.5	0.25	0.25	0.25
Manure							10					

***Source**: Revision of Attachment 1, Annex 3a, and Annex 12, Draft FSDP Project Preparation Report. Revision based on information from Provinces and MARD Plantation Consultants Report.*

***a**/ Labour for fertilizer application of 20 days in years 3, 5, 6, 8, 9, 11, 12, 14 and 15. Labour for fertilizer and manure application of 32 days in years 4, 7, 10, and 13.*

***b**/ Models 5, 6 and 7 include cassava site preparation and planting of 30 person-days/ha in Year 1 and Harvesting of 56 person-days/ha each of Year 0 and Year 1.*

***c**/ Protection person-days/ha for Year 3 and each year thereafter to harvest is the same number of person-days as in Year 2.*

***d**/ Track maintenance of 14 days in year 7 for models 1, 2, and 5. Model 3 track maintenance of 10 days in year 7 and 8 days in year 15. Model 4 track maintenance of 20 days in year 7, 12 and 25. Model 7 track maintenance of 10 days in year 7 and 8 days in year 15. Model 8 track maintenance of 15 days in year 7, year 12 and year 15.*

***e**/ All models include an infrastructure cost (site buildings and miscellaneous expenses) of 100,000 VND in each year.*

***f**/ In all Models with the exception of Model 6, farmers have the option of using super phosphate only or NPK only or a suitable combination of the two but with a budget constraint of 750 VND per tree. For model 6, the actual amount as indicated is applied but also includes an NPK application of 800 kg/ha in*

year 3 and 1,000 kg/ha in each year thereafter. 4,000 kg/ha manure is applied in years 4, 7, 10, and 13.

10. Table 4 presents the anticipated hectareage share that each indicative plantation model will occupy of the available project hectares. The model hectareage shares are based mainly on the characteristics in Table 2 in terms of what tree species and agricultural crop will grow in which location (rainfall, terrain) and in what soil (type, depth). The shares are also based on distance from markets and household planting intentions as gauged from the Project Preparation Team field visits. The PPR hectareage shares have been revised for Models 5 and 6. Based on the Williamson et al., October, 2003 Consultancy Report, the hectareage share of Model 6 (Cashew) was decreased from 10% to 2.5% Their assessment was that cashew should be grown only in select areas for best performance and that the number of hectares be limited in the project area from a marketing/pricing point of view. The share of Model 5 was increased from 45% to 52.5% based on information that farmers have a preference for short-rotation agroforestry.

Table 4. Anticipated Indicative Plantation Model Hectareage Share

Indicative Plantation Models	Hectares	Percentage
1. Short rotation (medium yield)	6,560	10%
2. Short rotation (high yield)	6,560	10%
3. Long-rotation (medium yield)	3,280	5%
4. Native Species	3,280	5%
5. Agroforestry (short-rotation)	34,440	52.5%
6. Fruit/nut trees (Cashew)	1,640	2.5%
7. Agroforestry (long rotation)	6,560	10%
8. Non Timber Trees	3,280	5%
Total	65,600	100%

Source: Revision of Annex 3b, Draft FSDP Project Preparation Report.

3.2 Financial and Economic Price Assumptions

11. The financial product and input prices are presented in Table 5. All prices are average prices over the locations in the four provinces. The adopted wood product prices are conservative, and they are expected to hold on average when the trees are harvested. The details concerning methods for deriving the prices and sources of information can be found in PPR Annex 13.

12. The financial prices in Table 5, other than for labour, are assumed to adequately reflect economic prices and are used for the economic analysis. Planting materials and fertilizer can be purchased in a relatively competitive market. The economic cost of labour was estimated at 50% of the on-going unskilled wage rate to reflect the excess supply of labour and lack of alternative employment opportunities in the labour market, particularly in the off-season agriculture period, when much of the labour for forest plantation establishment will be required. Opportunity costs in terms of lost agricultural production and income streams were estimated for three cases: (i) existing household agricultural production, (ii) swidden agriculture practiced mainly by ethnic minority households on bare production forest land, and (iii) existing poorly stocked plantations. These costs were found to be insignificant or small concerning existing household agricultural production and swidden agriculture (PPR Annex 3). Opportunity costs for poorly stocked plantation land are taken into consideration in the analysis.

Table 5. Financial Product and Input Prices

	Unit	VND
1. Product Prices[a]		
Acacia & Eucalyptus		
Sawlogs (>20 cm)	m^3	600,000
Pulpwood (> 6 cm)	m^3	130,000
Fuelwood	m^3	100,000
Hopea/Dipterocarpus		
Sawlogs (>20 cm)	m^3	1,600,000
Fuelwood	m^3	100,000
Cashew (dried nuts)	kg	6,500
Cassava	kg	500
Cinnamon Bark	kg	40,000
2. Input Prices		
Acacia & Eucalyptus Seedling	Seedling	300
Acacia & Eucalyptus Cutting	Cutting	500
Hopea/Dipterocarpus Seedling	Seedling	1,500
Cinnamon Seedling	Seedling	1,500
Cashew Seedlings	Seedling	4,500
Fertilizer (Super Phosphate)	kg	1,200
Fertilizer (NPK)	kg	3,000
Manure	kg	285
Labour (unskilled)	Person-day	20,000

Source: Product prices from Table 4, Annex 3a and Annex 13, Draft FSDP Project Preparation Report. Input prices: (1) Acacia & Eucalyptus seedling and cuttings prices from Williamson et al., The Development of a System to Ensure Quality Forestry Germplasm Supply by State Forest Enterprises, Regional Forest Seed Centers and Other Providers, October, 2003. The prices include 50 VND/seedling/cutting for transport to farm gate. (2) Other seedling prices, fertilizer prices, manure, and labour costs are farm gate prices based on a telephone survey of providers in the four participating provinces in October, 2003.

a*/ Wood prices are stumpage prices and there is a sales tax of 4% on sawlog and pulpwood wood revenues. No price premium has been given to sawlogs, which would be the case if the plantation land was certified. It is anticipated that certification could increase the sawlog price by 10%-15%.*

4. Plantation Profitability Analysis at the Management Unit Level

13. There are two financial analysis scenarios based on the different opportunity cost assumptions. The first analysis concerns land allocations to production forest (bare) land and the second analysis concerns land allocations to poorly stocked plantation land. Table 6 presents the financial analysis of the eight indicative models and the existing smallholder practice model. Also presented is the sensitivity of the FRR to a 20% change in the pulpwood price. Table 7 presents the labour returns to beneficiaries who use their own labour. The FRR, based on the incremental cash flows of poorly stocked plantation land, for households adopting one of the indicative plantation models ranges from 13% to 49%.

Table 6. FRR for Existing and Indicative Models

Plantation Models[a]	Return From Cash Flow After Costing Labour		Pulpwood Price Sensitivity Analysis	
	FRR	NPV @ 10%	20% Price Decrease	20% Price Increase
	(%)	(1000 VND/ha)	FRR %	FRR %
Existing Plantation Model				
Smallholder	5.0	negative	-	-
Indicative Plantation Models				
1. Short rotation (medium yield)	10.5	135	8.0	12.5
2. Short rotation (high yield)	13.0	1,424	10.5	15.0
3. Long-rotation (medium yield)	17.0	8,249	16.5	17.5
4. Native Species	14.5	7,123	14.0	14.5
5. Agroforestry (short-rotation)	19.5	2,486	17.0	22.0
6. Fruit/nut trees (Cashew)	27.0	15,776	-	-
7. Agroforestry (long rotation)	22.0	11,060	21.5	23.0
8. Non Timber Trees	25.5	18,888	25.0	26.0

Source: *One hectare indicative models. (Percentages rounded to nearest 0.5%)*

a/ For the analysis, the existing Smallholder Model and Models 1, and 2 include a second rotation.

Table 7. Returns To Beneficiary Labour

Plantation Models[/a]	NPV @ 10% of Cash Flow Before Costing Labour	Labour Use	NPV/ Person-Days/ha[/b]
	(1000 VND/ha)	(Person-days/ha)	(VND/person-day)
Existing Plantation Model			
Smallholder	1,860	160	11,500
Indicative Plantation Models			
1. Short rotation (medium yield)	3,692	239	15,500
2. Short rotation (high yield)	4,695	239	19,500
3. Long-rotation (medium yield)	12,370	275	45,000
4. Native Species	11,165	334	33,500
5. Agroforestry (short-rotation)	8,899	381	23,500
6. Fruit/nut trees (Cashew)	24,155	717	34,000
7. Agroforestry (long rotation)	17,671	417	42,500
8. Non Timber Trees	23,143	377	61,500

a/ *Analysis using first rotation NPV and person-days/ha from all Models.*

b/ *Rounded to nearest 500 VND*

5. Project Economic Analysis

14. The economic rate of return (ERR) for the entire project was estimated at 17%, based on the aggregation of the individual farm models and inclusion of various project costs, which were not part of the plantation profitability calculations. The projected benefits and cost flows in 2005-2035 are presented in Table 8.

Table 8. Aggregate Plantation Cash Flow, Project Costs and Economic Rate of Return

Year	Plantation Revenues	Plantation Costs	Net Plantation Benefits	FSDP Project Costs		Plantation Plus Project Costs	Net Benefits
(Million VND)				US$	VND Million x 0.9 SCF	(Million VND)	
2005	3,900	7134	-3234	4,378,711	61,083	68217	-64317
2006	11,700	16881	-5181	1,975,544	27,559	44440	-32740
2007	23,400	34410	-11008	1,129,631	15,758	50168	-26766
2008	49,189	73490	-24301	687,970	9,597	83087	-33899
2009	67,218	87678	-20460	693,906	9,680	97358	-30140
2010	67,397	92336	-24939	618,927	8,634	100970	-33573
2011	34,240	34608	-368			34608	-368
2012	26,327	16396	4931			16396	4931
2013	42,129	14626	27503			14626	27503
2014	83,037	15149	67888			15149	67888
2015	178,162	15380	162781			15380	162781
2016	181,149	13691	167458			13691	167458
2017	186,114	12131	173984			12131	173984
2018	20,239	7997	12242			7997	12242
2019	22,379	8319	14061			8319	14061
2020	45,658	8800	36858			8800	36858
2021	57,024	8655	48369			8655	48369
2022	98,464	8627	89837			8627	89837
2023	189,033	8294	180739			8294	180739
2024	188,285	7297	180988			7297	180988
2025	189,274	6842	182432			6842	182432
2026	0	6052	-6052			6052	-6052
2027	0	6052	-6052			6052	-6052
2028	0	6052	-6052			6052	-6052
2029	0	6052	-6052			6052	-6052
2030	12,867	6072	6795			6072	6795
2031	25,734	5907	19827			5907	19827
2032	38,745	5578	33167			5578	33167
2033	110,662	4932	105730			4932	105730
2034	110,662	3345	107316			3345	107316
2035	110,662	1759	108903			1759	108903
						ERR %	**17.0**
					NPV (million VND)		176,026
					NPV (million US$)		11.4

Assumptions employed for calculation of the ERR:

- Land will be allocated over the 6 year planting horizon in accordance with Table 1 and the share of land planted to each model in each year is in accordance with Table 4.
- The timber tax of 4% on timber revenues used in the financial analysis is excluded.
- An opportunity cost of labour of VND 10,000/person-day is assumed; all other input and product prices (table 5) are assumed to adequately reflect economic price.
- No opportunity cost for bare land; opportunity cost for poorly stocked plantation land.

- Project costs: All costs for the Special Use Forest component are excluded. Project costs include investment costs (omitting the cost of the plantation credit fund), travel, operating costs and contingencies and 60% of technical assistance costs and training/workshops for all non SFU components. A Standard Conversion Factor (SCF) of 0.9 is employed.
- Exchange rate: US$ 1 = VND 15,500.

Sensitivity analysis / Switching values of critical items:

15. Sensitivity analysis concentrated on the impacts on ERR from changes in wood yields and wood product and input prices. The ERR is not sensitive to changes in wood volume yields or input prices in the range of a 10% to 20% change. The long-term outlook for sawlog prices are stable however, pulpwood prices may decline and could represent a risk for the project. A sensitivity analysis of the ERR to a change in pulpwood prices was undertaken. A decrease in the pulpwood price of 50% would decrease the ERR to 14.1%. A decrease of pulpwood prices by 75% decreases the ERR to 12.5%. The switching value for a change in pulpwood price alone is thus greater than a 75% decrease in the pulpwood price. The sawlog price has a similar switching value. The switching value for a simultaneous change in pulpwood and sawlogs prices is greater than a 50% decrease in the base sawlog and pulpwood prices used in the analysis.

Annex 5: Financial Summary

VIETNAM: Forest Sector Development Project

Years Ending
2009

	IMPLEMENTATION PERIOD						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Total Financing Required							
Project Costs							
Investment Costs	7.7	7.8	9.9	15.1	14.9	15.2	0.0
Recurrent Costs	0.7	0.7	0.8	0.9	0.9	0.9	0.0
Total Project Costs	8.4	8.5	10.7	16.0	15.8	16.1	0.0
Total Financing	8.4	8.5	10.7	16.0	15.8	16.1	0.0
Financing							
IBRD/IDA	4.3	2.9	5.1	9.2	9.3	9.4	0.0
Government	1.2	0.9	0.8	0.8	0.9	0.7	0.0
Central	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Provincial	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Co-financiersDutch	0.5	1.1	1.1	1.0	0.7	0.7	0.0
		0.0	0.0	0.0	0.0	0.0	0.0
Other GEF Investment Costs	0.9	1.7	1.6	1.6	1.5	1.7	0.0
Government of Finland	1.2	1.3	0.8	0.6	0.5	0.6	0.0
Tree Growers	0.3	0.6	1.3	2.8	2.9	3.0	0.0
Total Project Financing	8.4	8.5	10.7	16.0	15.8	16.1	0.0

Main assumptions:

Annex 6(A): Procurement Arrangements
VIETNAM: Forest Sector Development Project

Procurement

Institutional Arrangements. At the national level, a National Project Coordination Unit (NPCU) will be established with a project director to coordinate all project implementation activities. The NPCU will be established in the Ministry of Agriculture and Rural Development (MARD) with staff drawn from various departments: the Department of Forestry (DF), the Forest Protection Department (FPD) and the Forest Management Board (FMB). The NPCU will be responsible for (i) centralized procurement including procurement of four-wheels vehicles and major field equipment; (ii) selection of consultants; and (iii) procurement of office equipment and civil works (office renovation) which are directly related to operations of the NPCU. In addition, the NPCU will coordinate procurement activities of the project provinces and report to IDA.

A Provincial Project Management Unit (PPMU) will be established in each of the four project provinces from the respective provincial Department of Agricultural and Rural Development (DARD). The PPMUs will be under the oversight of the NPCU. The PPMUs will be responsible for (i) procurement of goods including motorbikes and office equipment which are directly related to operations of the PPMUs; and (ii) procurement of civil works in the province including office renovation and field activities.

A District Implementation Unit (DIU) and a Commune Working Group (CWG) will be established in each of the participating districts and communes to facilitate day-to-day implementation. However, DIUs and CWGs will not be involved directly in procurement activities under the project.

A Procurement Capacity Assessment (PCA) was conducted for the DF, FPD and the FMB (the NPCU) and the four DARDs (the PPMUs) in June 2003 and consequently updated in July, August and November 2003. The overall finding is that the procurement risk is **high.** The PPMUs and the NPCU generally have very limited procurement experience, particularly on World Bank's procedure.

Action Plan. To mitigate these risks, an action plan was set in the Procurement Capacity Assessment, including:

1. identification of at least one procurement staff at each PPMU and two at NPCU – To be completed *by negotiations**;***
2. extensive training at all levels – Initial training to be completed *by effectiveness* and further training workshops to be conducted during the life of the project;
3. preparation of the Project Implementation Manual which will be reviewed by IDA - To be completed *by effectiveness*;
4. prior and post review by staff of the World Bank Hanoi Office – through out the project implementation;
5. use of consultant to prepare the detailed procurement plan for the project - to be completed *by December 2003*; and
6. use of consultant to assist the PPMUs and NPCU in handling with procurement work in the first year of the project.

Training Plan. To expedite the process, it is important that identification/selection of procurement staff at all level should be completed early, as *a condition of project negotiation*. The World Bank Hanoi Office

procurement specialists will provide procurement training for project procurement staff during *February and March 2004*. *By project effectiveness*, the project procurement staff are expected to receive initial procurement training, which will be followed by periodic training workshops during the life of the project.

The procurement training will be designed based on the needs of the procurement staff. The procurement staff at all levels will be provided with basic procurement training; and special topics on the NCB, Shopping and Small Works procedures. Besides these topics, procurement staff at the central level will be provided extensive training on ICB procedures and Selection of Consultants.

The World Bank Guidelines: "*The Guidelines for Procurement under IBRD Loans and IDA Credits*" (published in January 1995 and revised in January and August 1996; September 1997; and January 1999) would be applied to IDA and GEF-financed procurement of Works and Goods. Contracts for consulting services would be procured in accordance with provisions of the "*Guidelines for Selection and Employment of Consultants by World Bank Borrowers*," published by the Bank in January 1997 and revised in September 1997; January 1999; and May 2002.

Procurement Methods (Table A)

Civil Works. About USD108,000 will be allocated to cover the costs of office renovating, using IDA and GEF funds. These costs are expected to spread over small value contracts. No contract will exceed USD50,000. Civil works for office renovating costing less than USD50,000 per contract will be procured through the Small Works procedure (i.e., obtaining written quotations from a minimum of three qualified contractors and awarding a lump sum contract to the contractor submitting the lowest evaluated quotation). No NCB and ICB contracts are envisaged for office renovation. Procurement of civil works (office renovation) will be carried out at both the NPCU and PPMUs. Sample Bidding Documents for Small Works contracts may be obtained from the World Bank Hanoi Office and used by the project management units.

Field activities (USD 2,233,000) consisting of:

1. land surveying and mapping for land allocation up to an aggregate amount not exceeding USD1,350,000 will be carried out by the district and provincial Department of Land Administration through the Force Account method in accordance with government procedures acceptable to IDA, using government-approved standard unit rates based on cost norms. Proceeds from the Credit shall not be used to pay for salaries of civil servants or personnel who are on the government's permanent payroll, but may be used to pay for the salaries of incremental staff engaged from the private sector for the purpose of carrying out the works; and

2. land surveying and mapping for plantations planning and design up to an aggregate amount of USD883,000 will be carried out by the provincial Department of Forestry (an agency under DARD) and procured through the Force Account method in accordance with government procedures acceptable to IDA, using government-approved standard unit rates based on cost norms. Proceeds from the Credit shall not be used to pay for salaries of civil servants or personnel who are on the government's permanent payroll, but may be used to pay for the salaries of incremental staff engaged from the private sector for the purpose of carrying out the works.

Field activities will be financed by IDA and procured by the PPMUs.

Special Use Forest (SUF) Civil Works. Funding for SUF infrastructure will be provided to the VCF by the Government entirely from its own resources and directed toward infrastructure related to conservation activities. This fund amounts to about USD1,081,000. Specific activities have not been identified in advance. However, no big contracts are envisaged. Procurement of civil works related to conservation activities will follow the Government procurement procedure or any other procurement procedures, at the choice of the Government.

Goods. Goods to be procured (vehicles and equipment) are estimated to cost a total of about USD2,666,000 (USD1,833,000 for vehicles and USD833,000 for equipment) and to be financed by IDA and GEF. Individual contracts for goods with an estimated value of more than USD100,000 will be procured using the ICB procedure in accordance with World Bank Procurement Guideline, Section 2. Goods costing less than USD100,000 and more than USD50,000 per contract up to an aggregate amount not exceeding USD576,000 may be procured on the basis of the National Competitive Bidding (NCB) procedure. Contracts less than USD50,000 per contract up to an aggregate amount not exeeding USD526,000 may be procured through National or International Shopping procedure based on comparing price quotations from at least three suppliers. Requests for price quotations will indicate the description, quantity, desired time, and delivery place.

Agreement was reached with the Government that the NCB procedures listed in the Supplemental Letter to the DCA shall be applicable. This arrangement would encourage the participation of eligible qualified local bidders (enterprises which are financially and managerially autonomous and have the capacity to undertake the proposed contract.)

Procurement of goods will be executed at both national and provincial levels. Procurement of four-wheels vehicles (cars and mobile banking cars) and field equipment (GPS equipment and plotters) will be done exclusively at the NPCU, using ICB, NCB and Shopping methods, depending on the value of the contract. Vehicles and motorbikes may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines. Office equipment and other equipment will be procured by the NPCU and the four PPMUs – the end users of the equipment, using the NCB and Shopping methods, as applicable. No ICB procurement of this type of equipment is expected. Motorbikes will be procured at the provincial level, using the NCB and Shopping procedures, depending on the value of the contract.

To facilitate smooth start up of the project, two cars (estimated at USD50,000) and 20 motorbikes (estimated at USD50,000) will be purchased at the beginning of the project using the Shopping method.

For ICB goods contracts, the Standard Bidding Documents for Procurement of Goods issued by the World Bank shall be mandatory. For contracts applying the NCB and Shopping procedures, the Borrower may use the NCB biddings documents (in Vietnamese) and sample Invitation to Quote which are also being used on other projects in Vietnam.

Domestic Preference: For goods contracts procured under ICB, qualified domestic bidders will be eligible for a preference equal to 15% of the CIP or CIF price of goods or the sum of the customs duties and import tax payable by a non exempt importer, whichever is less. The domestic preference procedures are described in Appendix 2 to the Guidelines for Procurement under IBRD Loans and IDA Credits.

Consulting Services. The total consulting services cost for this project was estimated at USD9,800,000 and will be financed by the Netherlands Government and the Government of Finland without any contribution by IDA and GEF. Out of this, consulting services associated with Component 3 – Special Use

Forest including technical assistance and technical support to individual SUF activities and monitoring estimated at USD5,100,000 will be financed entirely by the Netherlands Government. Consulting services associated with the institutional development, technical assistance for the plantations and project management components (Components 1, 2 and 4) and estimated at USD 4,514,000 will be financed by the Government of Finland.

Contracts for services estimated to cost USD100,000 or more and requiring consulting firms shall be procured through the Quality and Cost Based Selection (QCBS) method. Contracts for technical assistance for (i) smallholder plantation forestry and land allocation and management; (ii) the establishment and operation of VFC, and SUF planning and implementation may be procured through the Quality Based Selection (QBS) method. Contracts for auditing service, irrespective of value, will be procured through the Least Cost Selection (LCS) method. When team personnel are not required and the experience and qualifications of the individual are the paramount requirement, selection of Individual Consultants shall apply. Selection of specialists and project staff shall be based on selection of Individual Consultants. Consulting services shall be procured exclusively by the NPCU.

The Bank's Standard Request for Proposals (SRFP) will be used to select consulting firms.

Plantation Credits. The total plantation investment in the project for the six years period is estimated at USD43,726,000. This figure includes IDA financing of USD32,710,000 which will be disbursed over the life of the Project in the form of small credits to be given to about 25,000 households/tree growers to cover their cost of plantation inputs such as seedlings, fertilizers and mechanical site preparation. The tree growers' own contribution in the means of labor is estimated at USD10,903,000.

The procurement of seedlings, fertilizers, and site preparation will be carried out by the households in accordance with acceptable commercial practices, which may include National Shopping or Direct Contracting. This is because the maximum loan for plantation inputs is expected at USD600 per ha (or maximum USD1200 per household), and the loan will be disbursed in several tranches over two to three years. Additionally, households may not need all inputs (planting materials and fertilizers) at the same time due to different plantation models being applied. Thus, it will be more practical for farmers to procure inputs by themselves, which will also promote community participation and ownership.

At the same time, the Project places great importance on the quality of planting materials. The borrowing households will be allowed to purchase the required inputs from any source with the exception of seedlings which, due to quality assurance reasons, must be brought from seedling producers approved by PPMUs/DARDs. The four PPMUs/DARDs will prepare and update on a quarterly basis a list of accredited/approved seedlings producers which are assessed to be able and commit to produce high quality seedlings. Seedling producers shall be permitted to apply for accreditation at any time. The accreditation by the PPMUs/DARDs must be transparent and open, i.e., based on pre-disclosed criteria treating all producers, regardless if they are from the public sector or the private sector, fairly and equally. The list of the accredited seedlings producers will be made available to tree growers and they will decide by themselves the source of seedlings.

To achieve economy and efficiency, it is advisable to organize purchase orders of households into bigger packages with the assistance of the DIU and CWG. Such packaging may be done at a village or commune level where group(s) of farmers jointly agree to purchase certain inputs (seedlings or fertilizer) from the same producer/seller. The approach will ensure that the farmers obtain a better price.

The project may provide support to eligible SFEs and other SOEs in terms of financing for tree planting

and other project support, provided that they meet the project's rigorous eligibility criteria. It is expected that SFEs and other SOEs' participation will be very limited.

Small Grants. GEF will finance various conservation activities which will be identified through a conservation needs assessment process and on a competitive basis. The total of the small grants amounts to USD7,599,000. Since these activities have not been identified yet, the procurement arrangements for the grants cannot be designed in advance. However, the thresholds for procurement methods and prior review as specified in Table B below will also apply to the small grants.

Training/Workshops. IDA, GEF and Government of Finland grant will finance about USD3,337,000 for various training and workshops activities (including extension services training) of which IDA will finance about USD2,314,000; GEF: USD522,000; and Government of Finland: USD501,000. Training and workshop activities are limited to small items of expenditures under SOE and procured in accordance with the government procedures

Incremental Operating Costs. Incremental operating costs amount to USD4,822,000, of which USD1,631,000 will be financed entirely by the Government for salaries of key project staff. The remaining (USD3,191,000) will be co-financed by IDA, GEF and the Government to cover the costs of communication, copying, printing, brochures, translation and interpretation, meetings, office stationery and consumables, vehicle and office maintenance, field allowance for project staff, salaries and allowances for incremental contracted staff for extension services and consumables for field trials and demonstrations.

Procurement Planning

The final procurement plans for goods, works and consultants' services will be completed by Negotiations and agreed with the Bank. The plans will be updated on a biannual basis and will be subject to IDA's prior review and no objection. All procurement under the project shall be carried out in accordance with the agreed plans, as updated.

Advertising Procedures

The Borrower is required to prepare and submit to the Bank a draft General Procurement Notice. IDA will arrange for its publication in Development Business (UNDB). IDA will provide the Borrower with the template of the Notice.

For a specific contract, the Invitation to Bid shall be advertised as a Specific Procurement Notice in at least one national newspaper. Such invitations shall be also transmitted to those who have expressed in bidding in response to the GPN. Publication on the invitations in Development Business is also encouraged.

The Borrower shall advertise Request for Expression of Interest for all contracts for consulting firms in the national gazette or a national newspaper. In addition, all contracts expected to cost more than USD200,000 shall be advertised in Development Business (UNDB on-line). Sufficient time (not less than 14 days from date of posting on UNDB on-line) shall be provided for EOI responses.

Eligibility Issues

State Owned Enterprises (SOEs). SOEs under the direct supervisory authority of the MARD shall be excluded from any bids for civil works, goods, or services under the project. State-Owned Enterprises

(SOEs) under the direct supervisory authority of a DARD/Provincial People's Committee shall be excluded from any bids for civil works, goods and services which are procured by the respective PPMU. However, an exception is allowed for seedlings producers who are SOEs under direct supervisory authority of the DARDs. These SOEs, if accredited through an agreed transparent and open process, are eligible to provide seedlings to tree growers. The accreditation process shall be based on pre-disclosed criteria treating all the producers, regardless if they are from the public or private sector, fairly and equally. The list of the accredited seedlings producers will be made available to tree growers and they will decide by themselves the source of seedlings. The DARDs/PPMUs must not influence tree growers' decision on the source of seedlings. Military entities or SOEs under the Minister of Defense and Ministry of Police are not eligible to participate in World Bank-financed contracts.

Hiring of Government Agencies, Universities and Research Institutes. Government agencies not dependent on MARD are eligible to participate in consulting assignments only if they can establish that they: (a) are legally and financially autonomous, and (b) operate under commercial law. The same principles apply to universities and research institutes in the Borrower's country.

Hiring of Government Officials. Government officials and civil servants cannot be hired under consulting contracts financed under Bank loans, credits, trust funds and grants, since the principle of transparency would be compromised and the opportunity for abuse heightened. This applies regardless of their being on leave, with or without pay, or on secondment. University professors or scientists from research institutes can be contracted individually under Bank financing provided that they have full time employment contracts with their institution, and have regularly exercised their function for a year or more before they are contracted under Bank funding.

Procurement methods (Table A)

Table A: Project Costs by Procurement Arrangements

Expenditure Categories	Procurement Methods			Total[3]
	ICB	NCB	Other Methods[1]	
A. Civil Works				**108,000**
IDA	-	-	74,000	74,000
GEF	-	-	23,000	23,000
Others[2]	-	-	11,000	11,000
B. Field Activities				**2,233,000**
IDA	**-**	**-**	2,010,000	2,010,000
GEF	**-**	**-**	**-**	**-**
Others[2]	**-**	**-**	223,000	223,000
C. SUF Civil Works				**1,081,000**
IDA	-	-	-	-
GEF	-	-	-	-
Others[2]	-	-	1,081,000	1,081,000
D. Goods				**2,666,000**
IDA	525,000	576,000	456,000	1,557,000
GEF	-	-	70,000	70,000
Others[2]	-	-	1,039,000	1,039,000
E.Services				**9,858,000**
IDA	-	-	-	-
GEF	-	-	-	-

Others[2]	-	-	9,803,000	9,858,000
F.Plantation Credits				**43,726,000**
IDA			32,710,000	32,710,000
GEF	-	-		
Others[2]	-	-	11,016,000	11,016,000
G.Small Grants				**7,599,000**
IDA	-	-	-	-
GEF	-	-	7,599,000	7,599,000
Others[2]	-	-	-	-
H. Training & Workshops				**3,337,000**
IDA	-	-	2,314,000	2,314,000
GEF	-	-	522,000	522,000
Others[2]	-	-	501,000	501,000
I. Incremental Operating Costs				**4,822,000**
IDA	-	-	1,564,000	1,564,000
GEF	-	-	710,000	710,000
Others[2]	-	-	2,548,000	2,648,000
TOTAL			**-**	**75,530,000**
IDA	525,000	566,000	39,138,000	40,229,000
GEF	-	-	8,924,000	8,924,000
Others[2]	-	-	26,045,000	26,377,000

1/ Includes Civil Works (office renovation) procured through the Small Works procedure and Field Activities procured through Force Account procedures; SUF Civil Works; Goods (vehicles and equipment) to be procured through the Shopping procedure; Consulting Services; Plantation Credits to farmers and SFEs; Small Grants; Training and Workshops; and Incremental Operating Costs.

2/ Includes Non-Bank and Non-GEF Financing. Government will finance SUF Civil Works and salaries for key Project Staff entirely. The Dutch Government and the Bilateral Donor will finance Consulting Services. Tree growers will contribute in the Plantation Credits component in the means of labor costs. Others also include local taxes.

3/ Includes contingencies.

Table A1: Consultant Selection Arrangements (Optional)

Consulting Service Expenditure Category	Selection Methods[1]						Total[3]
	QCBS	QBS	SFB	LCS	CQ	Other	
A. Firms							**8,914,000**
Dutch		4,793,000		89,000			4,882,000
Finns	1,674,000	2,100,000		53,000			3,827,000
Other[2]	13,000	185,000		7,000			205,000
B. Individuals							**944,000**
Dutch						218,000	218,000
Finns						687,000	687,000
Other[2]						39,000	39,000
TOTAL	**1,687,000**	**6,846,000**		**149,000**		**944,000**	**9,858,000**
Dutch							5,100,000
Finns							4,514,000
Other[2]							244,000

1/ Note: *QCBS = Quality-and Cost-Based Selection*
QBS = Quality-Based Selection
SFB = Selection under Fixed Budget
LCS = Least-Cost Selection
CQ = Selection based on Consultants' Qualifications
Other = Selection of Individual Consultants (per Section V of the Consultants Guidelines)

2/ Includes Non-Dutch Government and Non-Finnish Financing and includes local taxes.
3/ Including contingencies

Reviewed by the Bank of Procurement Decisions

Prior review of Contracts. The Bank will conduct prior review of procurement documents and actions in accordance with the Procurement Guidelines for:

- ***Procurement Plans.*** The Bank shall review the procurement arrangements proposed by the Borrower, including contract packaging, applicable procedures and scheduling of the procurement process.
- ***Works***. The first works contract of each year procured by each project implementing agency. This applies to only the civil works financed by IDA and GEF.
- ***Goods***. All ICB contracts; the first contract procured through the NCB procedure and the first contract procured through the Shopping procedure conducted by each project implementing agency during each year.
- ***Consulting Services***. First contract with firms and first contract with individual consultants by each implementing agency and thereafter all contracts that exceed USD100,000 per contract for firms and USD50,000 per contract for individuals.
- ***Prior review of civil works and goods includes****:* bidding documents and bid evaluation reports. Prior review for consultant services will be in accordance with Appendix 1, Consultant Guidelines and includes: terms of references, shortlists, requests for proposals, evaluation reports and final draft negotiated contracts.

Table B: Prior Review by the Association

Expenditure Category	Contract Value Threshold (US$)	Procurement Method	Contracts Subject to Prior Review (US$)
1. Works	>50,000 <50,000	NCB Small Works	(not envisioned) 1st contract each year of each PIA
2.Goods (Equipment & Vehicles)	>100,000 >50,000 and < 100,000 <50,000	ICB NCB Shopping	All ICB 1st contract of each year of each PIA 1st contract of each year of each PIA
3. Services	>100,000 <100,000 N/A	QCBS, QBS, CQ Individual Consultants	1st contract; and contracts>100,000 for firms; 1st contract; and contracts>50,000 for individuals

The estimated value of the contract that will be subject to prior review is USD11,367,000.

Post review. Contracts below the prior review threshold for works, goods and services shall be subject to post review as per procedure set forth in paragraph 4 of Appendix 1 of the Procurement Guidelines and Consultant Guidelines. The rate of post review will be initially 20%. This rate will be adjusted periodically during project implementation based on performance of the executing agencies. Each implementing agency shall send to IDA on a biannual basis, a list of all awarded contracts for goods, works and consultants' services that are subject to the IDA's post-review. This list should provide a brief description of the contract, estimated cost, procurement method, date of contract award, name of supplier/contractor/consultant and contract value.

Procurement record-keeping. The project shall retain all procurement documents during the project implementation and up to two years after the closing date of the Credit Agreement. This document would include, but not limited to, the Procurement Plan, General Procurement Notice, Specific Procurement Notice, Request for Expression of Interest, Biding Documents/Request for Proposals, Bid/Proposal Evaluation Report, Record of Bid Opening, Award Recommendation, Contract Agreement, Contract Amendment and all the correspondence related to the bidding process. Each project implementing agency will also establish and maintain a consolidated contract roster/register, in a form acceptable to the Bank, to list in chronological order all contracts awarded to date including the key milestones and basic contract data.

Annex 6(B): Financial Management and Disbursement Arrangements
VIETNAM: Forest Sector Development Project

Financial Management

1. Summary of the Financial Management Assessment

A financial management review and analysis of the project was conducted in June and October 2003, and concluded that this project meets the minimum requirement of World Bank OP/BP10.02. The project will adopt the traditional disbursement method and will produce quarterly financial monitoring reports.

Country Issues

IDA recently conducted a Country Financial Accountability Assessment (CFAA) of Vietnam, which provides a diagnosis of the country's financial management environment. The CFAA helps the Government and IDA to, among other things, assess and manage the risk that public funds might be used for unintended purposes and identify the key risks, capacity gaps and constraints to progress in this area. An action plan to address the key findings of the CFAA has been agreed to upon with the Government.

Among the key findings of the CFAA that are relevant to financial management aspects of the project are the following: (a) management reports for effective decision-making are not widely used; b) since the requirements of public expenditure accounting are very comprehensive and detailed, compliance with the requirements is challenging for all units particularly at the lower levels; and (c) since accounting staff focus more easily on accomplished requirements like mechanical verification of payments and receipts, the regular and efficient monitoring of state budget information for effective use of public funds at times is not carried out in a timely manner.

The CFAA also reports that "the current budget arrangement in Vietnam suffers from a lack of transparency for achievement of objectives." The conclusion of the assessment is that there is a certain degree of fiduciary risk in the use of public resources, although overall the fiduciary risk for this project is manageable for on-budget items considering the steps that are envisioned to be taken under the financial management plan.

Implementation Arrangement

Overall management and execution of this project will be entrusted to existing national and provincial Steering Committees of 5MHRP to ensure better coordination in sector activities and to avoid duplication of efforts. A National Project Coordination Unit (NPCU) will be established under administrative control of MARD's Forest Management Board for forestry projects but will be physically located in the Department of Forestry (DF). Each of the four provinces will establish a Provincial Project Management Unit (PPMU) under DARD. District Implementation Units (DIU) will be established at district levels. In addition, there will be Commune Working Groups (CWG) that would work under the Commune People Committee. Farm Forestry Groups will also play an important role during project implementation. The Vietnam Bank for Social Policy (VBSP) will be the financial institution to manage the credit under the Plantation Forest component, and the branches offices in the four project provinces and district transaction centers will be responsible for appraising, disbursing and collecting the loan repayment.

Risk Analysis and Mitigating Measures

Multiple implementation agencies at central, provincial, district and commune level, including non-structural ones such as local mass organization and extension workers increase the risk of slow approval, reporting and disbursement process. Mitigation is possible through clear documentation of operating authorities and procedures. However, the current inadequate accounting information program could lead to vulnerability in overall reconciliation of statement of expenses verses the actual expenditures in the field. A modified accounting software which accommodates project specifics needs to be installed for the central and each provincial project office. Failure to provide pre-finance funds to cover IDA's share from the provincial budget may cause cash flow problems and delay implementation. Financial management action plan (attached) to address risks have been agreed with the GOV and will be carried out accordingly.

The prime risk facing the VBSP in administering this credit line project is credit risk, and the project may also pose other potential challenges to the bank as a newly created institution. Discussions have been taken with MOF and VBSP and actions taken to mitigating risks. The project loans will be targeted and managed to assure that the project is not distorting the credit market by providing preferential loans to commercially viable projects (i.e., projects that are eligible for commercial bank funding). The loans will be strictly monitored by the project field extension staff to prevent the funds being used for other purposes. Loans will be disbursed by VBSP by tranches, only with verification by the project extension staff that seedlings have been purchased and trees be planted, can the next tranche be released. The VBSP developed the project lending sub-Credit Manual with close involvement and assistance of international financial sector consultants, which includes all of the relevant details for administering the credit (such as eligibility, conditions, maturity, rate, disbursement, monitoring, provisioning. Many of the VBSP credit officers are new, but the VBSP have instituted a two month training program for these officers before they begin to work and the managers at the District and branch levels of the VBSP are primarily former managers of VBARD operations with extensive banking experience. In addition, the VBSP does have some experience with the forestry sector, individual-based, and medium-term credit operations and lessons learned from this limited experience can be applied to the project on-lending program. The group lending arrangements have the involvement of the Commune People's Committee (CPC) and other local authorities that certify the eligibility of Borrowers for the project and this certification process also generally ensures that the Borrowers under VBSP programs are eligible for loans (and not commercial bank loans). For added security, the VBSP credit officers visit the Borrowers prior to undertaking the loan and in cases where collateral is warranted, the VBSP actually possesses the Land Tenure Certificate. There will be further training provided to the VBSP staff working in the project districts through out the implementation of the project, and technical assistance will also be sought to help VBSP in managing this loan program.

Strengths and Weakness

The Forestry Management Board (FMB) has been managing several IDA-financed projects and is very familiar with IDA disbursement procedures and financial reporting requirements. A couple of the project provincial DARDs also have financial accounting staff familiar with IDA-financed projects. FMB has already in place computerized accounting software, which can be modified with minimum cost to fit with the specifics of this project. However, the NPCU will be located in DF and would need to hire a competent chief accountant and other accounting staff to manage this project due to the inadequacy of the existing relevant staff. Adequate and timely training by FMB has to take place to ensure initial smooth project implementation.

The current accounting system and existing accounting software does not have accounting codes for classification of disbursements by component, subcomponent and expenditure categories. The software also lacks capacity to record transactions in Special Account and to consolidate the account statements

from different PPMUs. There is no system to register bills and invoices when received for payments at PPMU or NPCU level, thus may cause delay of payment and hence of implementation. There is a need to introduce tracking system and also to prepare monthly statement of pending bills for information and timely action by the Project Director. Existing projects are experiencing delays in submission of SOEs to the PMU from the provinces for replenishment of project account causing blockage of project funds and overall slow disbursement.

Accounting Policies and Procedures

The project should use accounting standards acceptable to IDA. The FMB has been using accounting system under Decision 2156 issued by MARD. Under this accounting system, a PMU could open sub-accounts to record project activities by expenditure category or by project component. However, the existing accounting software does not have the capacity to analyses disbursements by categories of expenditure, components and locations, nor does it have the capacity to prepare consolidated statement on disbursement by sources of funding. As a result, all on-going projects PMU and PPMUs uses spreadsheets for analyzing financial information required for financial reports. This causes delay of reporting preparation and inaccurate information. This project would need to design the sub-level chart of accounts and modify the accounting software to including the project specifics and reporting requirements of financiers including IDA, GEF, and funding sources.

Staffing

The FMB has a pool of 12 accountants. One or two accountants from this pool may be assigned to NPCU which needs a project chief accountant and one staff accountant. They shall have adequate qualifications and relevant experiences acceptable to IDA. DARD in provinces has experienced accounting staff with professional accounting background, and DARD will second one accountant to PPMU established under this project. The main project component and most disbursement will be managed by VBSP, and a PMU has been set up within the International Cooperation Department staffed with director, credit officer, accountant and administrative personnel.

Reporting and Monitoring

A set of project Financial Monitoring Reports (FMR) will be agreed during project negotiation and submit by NPCU to IDA quarterly. In principal, the FMR would comprise the following reports:

-Sources and Uses of Funds
-Uses of Funds by Project Components
-Special Account Statement
-Implementation Progress
-Procurement Process Monitoring
-Contract Monitoring Report

Financial Management Action Plan

Action	Responsibility	Completed by
Submit to IDA the draft final Financial Management procedures and requirements satisfactory to IDA including detailed funds flow arrangement,	FMB/NPCU/VBSP	Negotiations

reimbursement procedure from Special Account to 4 project' prefinance fund, and the VBSP Sub-Credit Manual for the Plantation Credit as well as amended procedures for operation of project accounts to make the submission of monthly SOEs mandatory by the PPMUs		
Adopt the Financial Management procedures and requirements which are part of the of the Project Implementation Plan	MARD/NPCU	Effectiveness
Identify key accounting staff including Chief Accountant in NPCU, accountant for VCF Secretariat and VBSP with qualifications and experiences acceptable to IDA	FMB/NPCU/VBSP	Negotiations
Submit to IDA the commitment letter of counterpart and prefinance fund from the 4 project provinces	4 PPMUs	Negotiations
Appoint key accounting staff including Chief Accountant for NPCU; accountant for VCF Secretariat; and accountant for VBSP with qualifications and experiences acceptable to IDA	NPCU/VBSP	Effectiveness
Establish a standard computerized accounting system which will (a) classify disbursements by component and sub-components, expenditure categories, sources of funds and location (b) record and analyze transactions in Special Account and Direct Payments, and (c) consolidate PPMUs financial statements in the consolidated project accounts satisfactory to IDA.	MARD/NPCU	Effectiveness
Train NPCU and PPMUs staff on the FMM, and VBSP staff on Credit Manual, IDA disbursement procedure, financial reporting requirements and accounting software.	FMB/NPCU/PPMU/ VBSP	Effectiveness
Submit to IDA signed Subsidiary AgreementAgreement between MOF and Vietnam Bank for Social Policy.	MOF/VBSP	Effectiveness
Introduce system of registration of bills and invoices and preparation of monthly statement for pending bills for action by Project Director.	NPCU/PPMUS	6 months after first disbursement
Start the annual action plan and budget preparation process for the project by July/August every year to provide inputs to GOV national budget.	NPCU/PPMUS	Every year

Supervision Plan

The NPCU would conduct field review trip to PPMU and local project grant recipient at least twice per year. The VBSP drafted a sub-Credit Manual which has a focused supervision plan including the loan initiation procedures, loan monitoring procedures and accuracy and relevance of financial reporting.

The project financial management specialist will join the IDA's supervision mission to review the project financial management system and conduct the random review of the supporting documents to the SOE. The supervision of the financial aspects of the Project would be conducted at least twice a year to cover both the grant and credit delivery system.

2. Audit Arrangements

The proposed project account will be audited annually subject to international auditing standards by an independent external firm of public accountants. The audit will be carried out in accordance with terms of reference satisfactory to IDA. The Auditor shall be appointed within 6-10 months after the first disbursement. The auditor's report will be submitted to IDA no later than six months after the close of the previous fiscal year. A management letter addressing internal control weaknesses of implementation agencies will also be provided by the auditor together with the audit report. Auditing fees are to be covered mostly by the technical assistance category.

3. Disbursement Arrangements

Funds flow procedures will be different for different components of the project based on implementation arrangements and funding sources. Key fund flow activities will involve:

(a) In case pre-finance funds are available - disbursements of GOV counterpart and pre-finance funds and reimbursements to pre-finance funds from the IDA and other donors Special Accounts.

(b) In case pre-finance funds are not available disbursement of GOV share in cost from the project account with treasuries and IDA and other donors share from the Special Accounts directly.

(c) Frequent replenishments to Special Accounts by preparing Withdrawal applications and in some rare cases direct payment to suppliers/contractors by preparing withdrawal applications.

Fund Flow Procedure for IDA Funds (other than Plantation Credit funds)

IDA will finance all activities under the project except Special Use Forest Component and technical assistance-related activities for the other three components. For this purpose IDA will provide funds in one Special Account for activities other than plantation credit managed by NPCU of MARD. National and Provincial treasuries will open and operate a Project Account to receive counterpart funds from government and pre-finance funds from Provincial Government and to disburse funds for eligible project expenditure. The IDA Special Account will reimburse the actual amount paid from the prefinance fund with summary SOEs. The detailed funds flow arrangement with chart and explanation have been documented in the draft FMM.

Funds Flow procedures for IDA-Financed Plantation Credit funds

The project will provide a credit line to VBSP for providing soft loans to households and other eligible project participants (including State Forest Enterprises) for implementation of credit fund sub-component. Subsidiary Loan Agreement between MOF and VBSP will be signed prior to project effectiveness to formalize the arrangements for on-lending the project funds. IDA will establish a separate Special Account for Plantation Credit Funds, which would be managed by VBSP HQs in Hanoi. VBSP will have a financial management system in place including maintaining adequate records and accounts and preparing financial statements with accounting standards acceptable to IDA. VBSP will also have its financial statements for each fiscal year audited by an independent auditor with standards acceptable to IDA. VBSP has drafted a sub-Credit Manual for managing and disbursing IDA funds for plantation investment

under the project. This Manual covers the following aspects: general provisions for clients, loan purposes, terms of loan repayment of principals and Interests, level of authority and lending procedures including evaluation of application, approval of loan, disbursement of fund, post disbursement management and monitoring, supervision and reporting requirements. This Manual has been reviewed by the project preparation mission including IDA's financial sector staff who suggested VBSP seek feedback from it's provincial and district offices within the project area and modify if necessary. *The final sub-Credit Manual will need to be submitted to IDA prior to negotiations and will be finalized before project effectiveness.*

Funds flow procedures for Special Use Forest component (GEF-financed)

An individual SUF management board submits a proposal to the VCF Secretariat that addresses a threat to conservation or which contributes to more effective protected area management. The VCF Secretariat initiates the review of the proposals from the SUFs against agreed eligibility criteria. The proposal is reviewed by a Technical Review Group which makes decision as to whether to approve or reject the proposal. The VCF will make the grant money available in accordance with the agreed upon disbursement schedule in the proposal. All SUFs, which apply successfully for grant support, will be required to open an account at a commercial bank in the district. Payments will be in tranches specified in the contract for each grant. For grants of 1 year duration, the first tranche will be 50% of grant value, and 50% on completion, subject to checking and verification by the District Treasuries on uses of funds, and endorsement by the regional TA teams on the physical progress of the financed activities. For grants of two years duration, the first tranche will be 50% of total approved amount, the second for 40%, with the remaining 10% payable on successful completion. District Treasury must endorse the effective use of funds and sign-off prior to payment of next tranche. Regional TA teams will have responsibility for advising the VCF secretariat of fund use in terms of outputs achieved. District Treasuries will be responsible for checking the supporting documentation of funds disbursed to ensure that funds have been used for the purposes for which they were granted. Funds unspent at the end of the grant period must be paid back to the VCF. Grant recipients which misuse funds will be debarred ('blacklisted') from further support from the VCF. The detailed funds flow chart has been documented in the Operations Manual for Conservation Fund.

Fund Flow Procedures for Dutch and Finland grant funds

These two co-financing grants will finance technical assistance-related activities under the project. Consultancy contracts will be paid through the SAs which are managed by the NPCU.

Allocation of credit/grant proceeds (Table C)

Table C: Allocation of Credit/Grant Proceeds

Expenditure Category	Amount in US$million	Financing Percentage
Plantation Credit Sub-loans	32.71	100% of sub-loan disbursed
Goods & Vehicle	1.56	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 85% of local expenditures for other items procured locally
Civil Works	0.08	90%
Training & Workshops	2.32	100%
Field Activities	2.00	90%

Incremental Operating Cost	1.56	70%
Total Project Costs with Bank Financing	40.23	
Total	40.23	

Table D: Allocation of GEF Proceeds

Expenditure Category	Amount in US$ million	Financing Percentage
1. Small Grants	7.60	100%
2. Civil Works	0.02	90%
3. Goods & Vehicles	0.07	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 85% of local expenditures for other items procured locally
4. Training & Workshops	0.52	100%
5. Incremental Operating Cost	0.79	70%
Total with GEF Financing	**9.00**	

Use of statements of expenditures (SOEs):

Expenditures for (a) goods under contracts costing less than $100,000 equivalent each; (b) works under contracts costing less than $50,000 equivalent each; (c) plantation credit sub-loans costing less than $50,000 equivalent each; (d) consultants' services provided by firms under contracts costing less than $100,000 equivalent each; (e) consultants' services provided by individuals under contracts costing less than $50,000 equivalent each; and (f) training and incremental operating costs, withdrawal applications will be supported by statements of expenditures (SOEs). All other withdrawal applications will be supported by full documentation and signed contracts. Supporting documentation for statement of expenditures would be retained by project management unit of MARD and Vietnam Bank for Social Policy for review by IDA missions and external independent auditor acceptable to IDA.

Special account:

Four Special Accounts (SA) will be established in a commercial bank specifically designated for this purpose by the Borrower's central bank and on terms and conditions acceptable to IDA. They will be receiving the credit from IDA, grants from GEF, Dutch and Finland separately. A fifth SA will be established in the VBSP to facilitate the on-lending to tree growers in the four project provinces.

Disbursements from the SA will be made against Withdrawal Applications for: (i) direct payments; (ii) reimbursements of eligible expenditure with full documentation; (iii) reimbursement of eligible expenditures against SOEs; and (iv) grant payments by tranches for special use forest management unit against cost estimates in Letter of Agreement agreed between the Vietnam Conservation Fund and the Special Use Forest Management Board.

Applications to replenish the special account, supported by appropriate documentation, will be submitted regularly, preferably monthly, or when the amount withdrawn equals 50 percent of the initial deposit,

whichever comes first. Applications will be prepared by the NPCU of MARD and VBSP, the special account holders, in accordance with IDA procedures and submitted to IDA in accordance with procedures in decision 96/2000/QD/BTC of the Ministry of Finance dated June 12, 2000.

Annex 7: Project Processing Schedule
VIETNAM: Forest Sector Development Project

Project Schedule	Planned	Actual
Time taken to prepare the project (months)	12	14
First Bank mission (identification)	04/02/2001	04/02/2001
Appraisal mission departure	10/13/2003	10/13/2003
Negotiations	06/03/2004	
Planned Date of Effectiveness	09/30/2004	

Prepared by:
Department of Forestry, Ministry of Agriculture and Rural Development

Preparation assistance:
Japanese Population and Human Resources Development (PHRD) Grant
GEF Preparation Development Fund (PDF) Block B
Government of Netherlands Grant

Bank staff who worked on the project included:

Name	Speciality
Susan Shen	Task Team Leader, Environment
Lars Lund	Social Scientist
Cao Thang Binh	Operation Officer (Field)
Nguyen The Dzung	Agriculture Economist (Field)
Igor Artemiev	Private Sector Development, SOE/SFE Restructuring
Wael Zakout	Land Management (Advisory)
Xiaolan Wang/Tran QuangThong	Financial Management (HQ/Field)
Tran Thi Hong Hiet/Ahsan Ali	Procurement (Field)
Hoi-Chan Nguyen	Lawyer
Kathy MacKinnon	Biodiversity Specialist
Tom Rose/Miguel Navarro-Martin/James Seward	Financial Sector (Advisory)
Joe Nagy	Project Economist, FAO/CP
Marko Katila	Forest Economist/Forestry Consultant
Martin Geiger	Forester/Forest Institutions Consultant
Tony Burns	Land Administration Consultant
Finn Danielsen	Biodiversity Consultant
Robin Broadfield	GEF-related matters
Uma Lele	Peer Reviewer
John Bruce	Peer Reviewer
Andy White	External Peer Reviewer
Ross Hughes	Forest & Biodiversity Advisor, Royal Netherland Embassy

Minhnguyet Khorami	Program Assistant (HQ)
Nguyen Thi Le Thu	Program Assistant (Field)

Annex 8: Documents in the Project File*
VIETNAM: Forest Sector Development Project

A. Project Implementation Plan

Project Preparation Reports including detailed Implementation Manual, Conservation Fund Operation Manual, and Procurement Plan

B. Bank Staff Assessments

Project Concept Document (PCD)
PCD Meeting Minutes
PCD Safeguard Meeting Minutes

Interim Safeguard Meeting Minutes
Minutes of Meeting on State Forest Enterprises
Minutes of Meeting on Fund Flow Mechanisms

Draft Project Appraisal Document
Decision Meeting Minutes
Appraisal Safeguard Meeting Minutes

Identification Mission Reports
Preparation Mission Reports
Pre-appraisal Mission Report
Appraisal Mission Report

Technical Note on SFE Reform in Vietnam - Unlocking the Potential for Commercial Wood Growing, May 03.
FSDP and the Vietnam Bank for Social Policies: The Financial Sector Risks and Mitigating Factors, Nov 03.

C. Other

Safeguards Related Documents:
Initial Social Screening Report, Tercia Consultants, June 2002
PRA Mission Report, Nguyen Thi Kim Nguyet and Do Hai Dang, February 2003
Social Design Team Report, Bui Thi Thanh Ha and Tara Rao, February 2003
Social Analysis of Conservation Fund component, Natasha Pairaudeau, March 2003
Social Assessment Report, Tercia Consultants and Natasha Pairaudeau, May 2003
Draft Resettlement Policy Framework, MARD, August 2003
Draft Ethnic Minority Development Strategy, MARD, August 2003
Environment Impact Assessment Report August 2003

State Forest Enterprise Related Documents
SFE Reform in Quang Nam province
SFE Reform in Binh Dinh, Quang Ngai, Thua Thien - Hue provinces
SFE Restructuring in Binh Dinh and Quang Ngai provinces
Assessment of SFE restructuring in Quang Ngai

SFE land lease contract in Thua Thien Hue and Binh Dinh provinces
Mapping of SFE forest land in Thua Thien Hue and Quang Ngai
Assessment of SFE Extension service

Technical Documents
Main Project Preparation Report, June 03
Vietnam Conservation Fund Design, July 03
Development Potential of Vietnam's Wood Growing Sector, December 01
Review of Financing Mechanisms for Forestry Projects in Vietnam
Financing Mechanism Options
Tree Planting Materials
Wood Production Markets and Profits Report, November 02
Land - related Issues, November 03
Summary of Institutional Development and Policies, November 03
Existing and Indicative Plantation Models, November 03
Enterprise Analysis Models, February 04
Accreditation and Improvement of Tree Plant Production in the four project provinces - March 04
*Including electronic files

Annex 9: Statement of Loans and Credits

VIETNAM: Forest Sector Development Project

27-Oct-2003

Project ID	FY	Purpose	Original Amount in US$ Millions IBRD	IDA	GEF	Cancel.	Undisb.	Difference between expected and actual disbursements[a] Orig	Frm Rev'd
P044803	2003	VN-PRIMARY EDUC FOR DISADVANTEGED CHI	0.00	138.76	0.00	0.00	139.44	4.00	0.00
P075399	2003	Public Financial Management Reform Proj.	0.00	54.33	0.00	0.00	56.68	-0.10	0.00
P075398	2003	Vietnam PRSC II	0.00	100.00	0.00	0.00	103.32	0.00	0.00
P051838	2002	VN-PRIMARY TEACHER DEVELOPMENT	0.00	19.84	0.00	0.00	20.65	5.62	0.00
P059936	2002	VN -Northern Mountains Poverty Reduction	0.00	110.00	0.00	0.00	116.92	23.20	0.00
P066396	2002	VN-SYSTEM ENERGY, EQUITIZATION & RENE	0.00	225.00	0.00	0.00	251.77	36.11	0.00
P073305	2002	VN-Regional Blood Transfusion Centers	0.00	38.20	0.00	0.00	42.66	9.07	0.00
P072601	2002	VN - Rural Finance II Project	0.00	200.00	0.00	0.00	178.87	-31.17	0.00
P073778	2002	VN-GEF-System Energy Equitization-Renewa	0.00	0.00	4.50	0.00	4.90	-0.25	0.00
P052037	2001	VN-HCMC ENVMTL SANIT.	0.00	166.34	0.00	0.00	173.50	13.89	6.11
P042927	2001	VN-Mekong Transport/Flood Protection	0.00	110.00	0.00	0.00	109.51	69.39	0.00
P062748	2001	VN - COMMUNITY BASED RURAL INFRA.	0.00	102.78	0.00	0.00	111.62	-5.61	0.00
P042568	2000	VN - COASTAL Wetl/Prot Dev	0.00	31.80	0.00	0.00	30.42	21.76	0.00
P056452	2000	VN-RURAL ENERGY	0.00	150.00	0.00	0.00	79.75	67.89	0.00
P059864	2000	VN-RURAL TRANSPORT II	0.00	103.90	0.00	0.00	46.03	18.48	0.00
P004845	1999	VN - MEKONG DELTA WATER	0.00	101.80	0.00	0.00	83.00	69.99	0.00
P004833	1999	VN-Urban Transport Improvement	0.00	42.70	0.00	8.19	21.46	28.51	12.64
P004828	1999	VN-HIGHER EDUC.	0.00	83.30	0.00	0.00	64.72	47.09	18.36
P051553	1999	VN-3 CITIES SANITATION	0.00	80.50	0.00	0.00	63.94	30.42	0.00
P004839	1998	VN - FOREST PROT.& RUL DE	0.00	21.50	0.00	0.00	17.22	15.40	8.22
P004843	1998	VN-Inland Waterways	0.00	73.00	0.00	0.00	51.31	50.38	6.67
P004844	1998	VN-AGRIC. DIVERSIFICATION	0.00	66.90	0.00	0.00	36.81	20.12	7.30
P045628	1998	VN-TRANSMISSION & DISTR	0.00	199.00	0.00	0.00	115.79	111.98	6.69
P004830	1997	VN-WATER SUPPLY	0.00	98.61	0.00	31.28	16.96	53.04	6.58
P036042	1996	BANKING SYSTEM MODERNIZATION	0.00	49.00	0.00	0.00	22.63	26.52	26.51
P004838	1996	VN-NATIONAL HEALTH SUPPORT	0.00	101.20	0.00	2.35	28.20	38.64	0.00
		Total:	0.00	2468.46	4.50	41.82	1988.08	724.35	99.08

VIETNAM
STATEMENT OF IFC's
Held and Disbursed Portfolio
June 30 - 2003
In Millions US Dollars

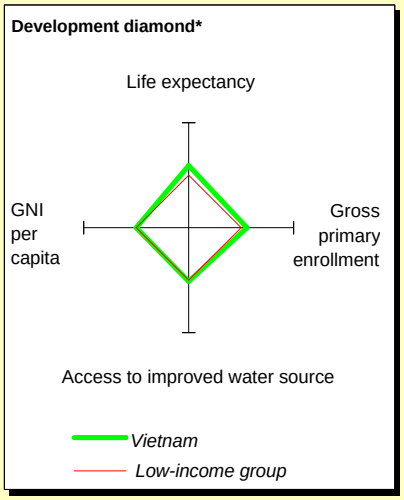
		Committed				Disbursed			
		IFC				IFC			
FY Approval	Company	Loan	Equity	Quasi	Partic	Loan	Equity	Quasi	Partic
2003	ACB-Vietnam	0.00	5.02	0.00	0.00	0.00	0.00	0.00	0.00
2002	AZ/AGF Vietnam	0.00	1.32	0.00	0.00	0.00	1.32	0.00	0.00
2002	CyberSoft	0.00	1.25	0.00	0.00	0.00	1.25	0.00	0.00
2002	Dragon Capital	0.00	2.00	0.00	0.00	0.00	2.00	0.00	0.00
2002	F-V Hospital	5.00	0.00	3.00	0.00	4.21	0.00	3.00	0.00
2003	Glass Egg	0.00	1.75	0.00	0.00	0.00	0.00	0.00	0.00
1996	Holcim Vietnam	18.54	0.00	0.00	31.29	18.54	0.00	0.00	31.29
1998	MFL Vinh Phat	0.15	0.00	0.00	0.00	0.15	0.00	0.00	0.00
1997	NATL	14.56	0.00	0.00	11.34	14.56	0.00	0.00	11.34
1995/97	Nghi Son Cement	16.99	0.00	0.00	12.43	16.99	0.00	0.00	12.43
2001	RMIT Vietnam	7.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1996	SMH Glass Co.	6.11	0.00	0.00	0.56	6.11	0.00	0.00	0.56
2003	Sacombank	0.00	2.93	0.00	0.00	0.00	2.77	0.00	0.00
2002/03	VEIL	0.00	8.00	0.00	0.00	0.00	0.00	0.00	0.00
1996	VILC	0.00	0.75	0.00	0.00	0.00	0.75	0.00	0.00
	Total Portfolio:	68.60	23.02	3.00	55.62	60.56	8.09	3.00	55.62

		Approvals Pending Commitment			
FY Approval	Company	Loan	Equity	Quasi	Partic
2002	F-V Hospital	0.00	0.00	0.00	0.00
2000	Interflour	0.01	0.00	0.00	0.01
1999	MFL Chau Giang	0.00	0.00	0.00	0.00
1999	MFL Minh Minh	0.00	0.00	0.00	0.00
2000	MFL Mondial	0.00	0.00	0.00	0.00
2000	MFL-AA	0.00	0.00	0.00	0.00
	Total Pending Commitment:	0.01	0.00	0.00	0.01

Annex 10: Country at a Glance

VIETNAM: Forest Sector Development Project

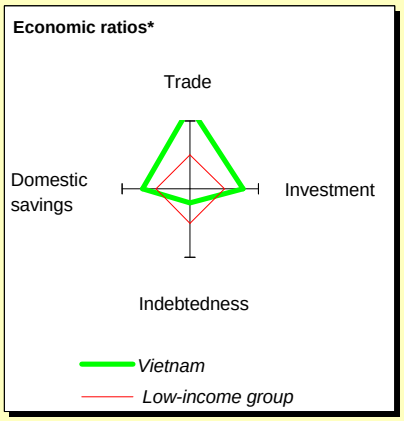
POVERTY and SOCIAL	Vietnam	East Asia & Pacific	Low-income
2002			
Population, mid-year *(millions)*	80.5	1,838	2,495
GNI per capita *(Atlas method, US$)*	430	950	430
GNI *(Atlas method, US$ billions)*	34.8	1,740	1,072
Average annual growth, 1996-02			
Population *(%)*	1.3	1.0	1.9
Labor force *(%)*	1.7	1.2	2.3
Most recent estimate (latest year available, 1996-02)			
Poverty *(% of population below national poverty line)*	..	..	..
Urban population *(% of total population)*	25	38	30
Life expectancy at birth *(years)*	70	69	59
Infant mortality *(per 1,000 live births)*	26	33	81
Child malnutrition *(% of children under 5)*	34	15	..
Access to an improved water source *(% of population)*	77	76	76
Illiteracy *(% of population age 15+)*	7	13	37
Gross primary enrollment *(% of school-age population)*	106	106	95
Male	109	105	103
Female	102	106	87



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

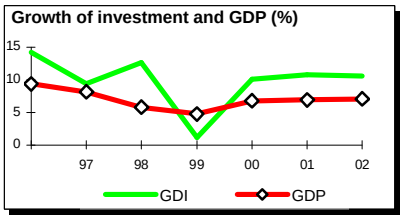
	1982	1992	2001	2002
GDP *(US$ billions)*	..	9.9	32.7	35.1
Gross domestic investment/GDP	..	17.6	31.2	32.1
Exports of goods and services/GDP	..	34.7	54.6	55.5
Gross domestic savings/GDP	..	13.6	28.8	28.1
Gross national savings/GDP	..	..	30.9	..
Current account balance/GDP	..	-0.8	1.6	-1.5
Interest payments/GDP	..	0.4	1.1	0.8
Total debt/GDP	..	246.6	38.5	38.0
Total debt service/exports	..	7.1	6.7	5.9
Present value of debt/GDP	..	..	33.5	..
Present value of debt/exports	..	..	60.8	..

	1982-92	1992-02	2001	2002	2002-06
(average annual growth)					
GDP	5.2	7.4	6.9	7.0	..
GDP per capita	2.9	5.8	5.5	5.7	..

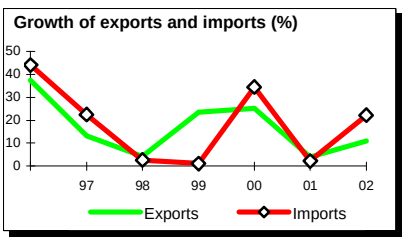


STRUCTURE of the ECONOMY

	1982	1992	2001	2002
(% of GDP)				
Agriculture	..	33.9	23.2	23.0
Industry	..	27.3	38.1	38.5
Manufacturing	..	15.4	19.8	20.6
Services	..	38.8	38.6	38.5
Private consumption	..	80.7	64.8	65.7
General government consumption	..	5.8	6.3	6.2
Imports of goods and services	..	38.8	56.9	59.5

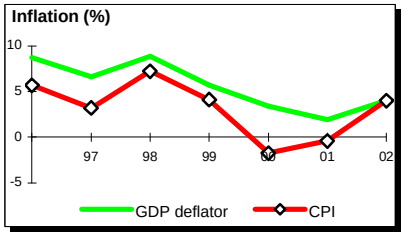


	1982-92	1992-02	2001	2002
(average annual growth)				
Agriculture	3.1	4.2	3.0	4.1
Industry	5.0	11.2	10.4	9.4
Manufacturing	1.9	11.3	11.3	11.6
Services	7.9	6.6	6.1	6.5
Private consumption	..	5.0	5.6	7.9
General government consumption	..	3.4	6.6	5.4
Gross domestic investment	..	13.8	10.8	10.6
Imports of goods and services	..	23.9	2.3	22.2



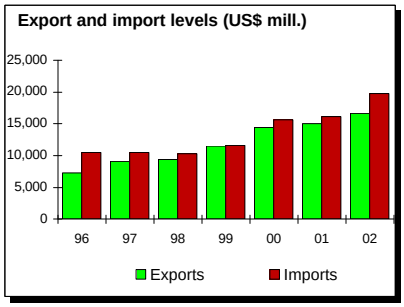
PRICES and GOVERNMENT FINANCE

	1982	1992	2001	2002
Domestic prices				
(% change)				
Consumer prices	..	37.7	-0.4	4.0
Implicit GDP deflator	..	32.6	1.9	4.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	19.0	21.4	21.0
Current budget balance	..	0.0	5.4	5.5
Overall surplus/deficit	..	..	-2.5	-2.3



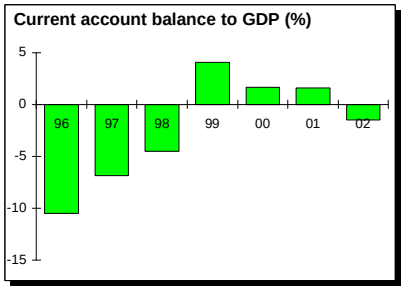
TRADE

	1982	1992	2001	2002
(US$ millions)				
Total exports (fob)	..	2,475	15,027	16,706
Rice	..	300	588	725
Fuel	..	756	3,175	3,270
Manufactures	..	..	..	..
Total imports (cif)	..	2,950	16,162	19,733
Food	..	82	..	..
Fuel and energy	..	616	1,871	2,017
Capital goods	..	950	..	..
Export price index *(1995=100)*	..	..	..	..
Import price index *(1995=100)*	..	..	..	..
Terms of trade *(1995=100)*	..	..	..	..



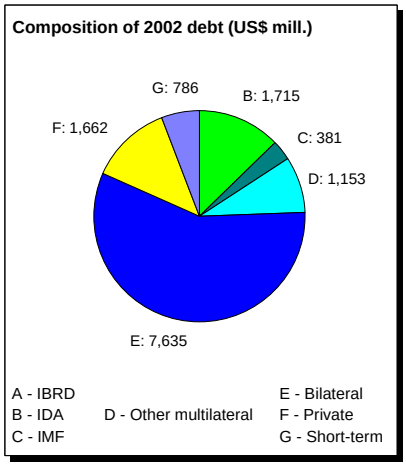
BALANCE of PAYMENTS

	1982	1992	2001	2002
(US$ millions)				
Exports of goods and services	..	3,199	17,837	19,654
Imports of goods and services	..	2,950	17,783	21,177
Resource balance	-659	249	54	-1,523
Net income	-85	-384	-634	-766
Net current transfers	90	59	1,100	1,767
Current account balance	-654	-76	521	-522
Financing items (net)	458	538	-196	986
Changes in net reserves	196	-462	-325	-464
Memo:				
Reserves including gold *(US$ millions)*	..	..	..	..
Conversion rate *(DEC, local/US$)*	0.9	11,202.2	14,725.2	15,279.5



EXTERNAL DEBT and RESOURCE FLOWS

	1982	1992	2001	2002
(US$ millions)				
Total debt outstanding and disbursed	43	24,332	12,584	13,332
IBRD	0	0	0	0
IDA	35	57	1,344	1,715
Total debt service	0	232	1,213	1,174
IBRD	0	0	0	0
IDA	0	1	10	13
Composition of net resource flows				
Official grants	67	113	263	..
Official creditors	17	248	993	686
Private creditors	0	140	-591	-641
Foreign direct investment	13	385	1,300	1,100
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	0	739	558
Disbursements	16	0	279	261
Principal repayments	0	1	2	2
Net flows	16	-1	277	259
Interest payments	0	0	8	11
Net transfers	16	-1	268	248



Additional GEF Annex 3: Incremental Cost Analysis
VIETNAM: Forest Sector Development Project

Context and Broad Development Goals

1. ***Context.*** In 1943, Vietnam's natural forests covered about 14 million hectares (ha). Today, less than 10 million ha remain, and much of this is degraded and fragmented. These remaining forest areas span a wide range of habitats across 13 distinct eco-regions and harbor many endemic and globally threatened species such as tiger, elephant, gaur, endangered gibbons and five endemic primates, as well as many threatened and endemic birds, other vertebrates and plants. Vietnam's forests are part of two WWF Globally Important Ecosystems and overlap with several Endemic Bird Areas. Forests also play a central role in the livelihoods of Vietnam's rural population, supplying most of the energy they use and acting as a safety net for rural poor, who harvest various forest products, such as poles and medicinal plants, both for subsistence use and cash. Forest lands also provide critical environmental services in the form of water supplies and flood protection for downstream communities and infrastructure (Box A4.1). But despite the Government of Vietnam's (GoV) considerable commitment to conservation, the biodiversity in Vietnam's forests is increasingly threatened. The major immediate causes of biodiversity loss are over-exploitation and habitat degradation. Underlying these threats are severely limited management capacity and resources; tenure insecurity and distorted policies and markets that limit local peoples' incentives to sustainably manage and protect the forests; institutional and policy frameworks that are excessively complex and top-down; rapid population growth; and increasing demand for forest products and export crops, such as coffee, rubber and cashew. Loss of natural forest in Vietnam has been accompanied by soil erosion, degradation of water catchments, diminished groundwater sources, and loss of biodiversity.

2. In response to these challenges, the GoV, with the support of several donors and NGOs, has implemented a series of policies, programs and projects aimed at promoting more effective conservation and sustainable use of its natural forest resources. For administrative management purposes, it has classified its forests into three types – Production, Protection and Special Use Forests (SUFs). Production Forests are plantation forests that supply timber and other forest products. Protection Forests are natural forests that are intended to protect key natural assets, such as watersheds. Special Use Forests, which contain many of Vietnam's richest assemblages of biological diversity, are so demarcated in order to conserve their biodiversity and/or cultural heritage. Currently, there are 121 SUFs covering nearly 2.5 million hectares, but very few of them are professionally managed. In 2001, the Ministry of Agriculture and Rural Development (MARD) produced a Forest Sector Development Strategy (FSDS) for the next ten years, which focuses on protection of crucial watersheds, biodiversity conservation, and expansion of production forests. This project has been formulated within the framework provided by the FSDS. Furthermore, its GEF-supported Special Use Forest management component addresses priorities established in the National Biodiversity Action Plan, the National Environmental Action Plan, and Vietnam's GEF Strategy (2001-2010) concerning the conservation of forests critical for biodiversity and environmental services.

3. ***Project Scope.*** The non-GEF co-financed components of the proposed Forest Sector Development Project (FSDP) will address the forest management-related root causes of forest loss through policy and institutional reform, market reform, improved land classification and allocation, especially of forest lands in key provinces, and measures to increase production of locally-grown timber on suitable lands by farmers and other private and public stakeholders. These efforts will help to meet Vietnam's commercial needs for wood and forest products and reduce pressure on its natural forests and those of the broader Indochina

region.

4. The root cause of the deterioration of many of Vietnam's Special Use Forests (its conservation areas) is that they have few resources or management capability. One component of the FSDP, to be co-financed by the GEF, will address this need by establishing a new grant funding mechanism, on a pilot basis, to award small, multi-year grants to key conservation areas that are currently not receiving any external financial support at the time of proposal submission to implement a basic package of management activities and to turn these "paper parks" into areas actively managed for biodiversity conservation.

Box A4.1 Direct and Indirect Economic Values of Special Use Forests in Vietnam

Economic valuation of Vietnam's forests and their biodiversity provides an indicator of the potential domestic values of these ecosystems. A number of site studies have been undertaken recently that demonstrate the nature and scale of some of these values.

Values that are associated with sustaining local livelihoods are perhaps the most critical from a domestic perspective. In a study of various hamlets adjacent to SUFs in South Vietnam, Mai Van Nam et al. (2000) determined that direct forest products contributed as much as VND120,000/ha/yr in net income to local populations. Typical values of sustainable harvesting were of the order of VND20,000/ha/yr over large landscapes. Similarly, in North Vietnam, Nguyen Nghia Bien (2000) estimated that forests were sustainably generating some VND22,000/ha/yr.

In addition to direct forestry benefits, the SUFs also support agricultural and fishery activities in many areas. In community-led studies undertaken by Kuchelmeister (2003) in seven villages in the Provinces of Bac Giang and Lang Son in North Vietnam, it was found that forests provided agricultural services in the order of VND15,600/ha/yr to VND600,000/ha/yr (depending on the local farming intensity for rice paddy), and up to VND41,900/ha/yr in improved fishery production.

Indirect services can also provide significant benefits, although these are less easily quantified and are often sporadic in terms of their temporal or spatial impacts. Kuchelmeister also estimated that the reduced sediment extraction benefits from maintaining forests intact were as high as VND225,000/ha/yr. Similarly, extensive studies in Thua Thien Hue Province showed substantial economic and social benefits to flood control in South Vietnam (MRDPAR, 2002); forest clearances in the south were associated with property damage of as much as U$100 million in one year and the death of 383 victims.

Finally, social and cultural existence values are also of importance to local populations. Kuchelmeister estimated the present value of ÒSpirit ForestsÓ in North Vietnam to be VND5.3 m-VND11.2 million/ha.

Note: 1US$ is approximately VND15,000

Sources: (i) Nguyen Nghia Bien. 2000. Alternative regimes for forest management in the North Upland of Vietnam from social, economic and environmental perspectives. Economy and Environment Program for South-East Asia (EEPSEA), Singapore. (ii) Mai Van Nam et al. 2000. Comparative analysis of alternative forest management systems in the Mekong River Delta, Vietnam. Economy and Environment Program for South-East Asia (EEPSEA), Singapore. (iii) Mekong River Delta Protected Areas Review. 2002. Field study in Thua Thien Hue Province - various documents. www.mekong-protected-areas.org . (iv) Kuchelmeister, Guido. 2003. Participatory economic evaluation – experience in forest valuation with villagers in Vietnam. Presentation to the Frontiers 2 Conference: European Applications in Ecological Economics, 12-15 February, Tenerife, Canary Islands, Spain.

5. The major focus of the Special Use Forest component of the FSDP is on the geographical and political units, the social and economic structures and the institutions that manage, use and influence the status of biodiversity in Vietnam. The component has the following characteristics:

a. ***Political and administrative boundaries.*** The component's activities will all fall within the recognized

international boundaries of the Socialist Republic of Vietnam. It will cover 30-40 of the roughly 50 SUFs located in 34 provinces of the country that have been identified as containing biodiversity of international importance. It is anticipated that the project will result in improved biodiversity conservation within this administrative and political system boundary.

b. ***Geography and ecology.*** The GEF-supported SUFs include lowland terrestrial and wetland habitats and forested areas in the mid-hills and in the mountains, but not any marine protected areas. A set of eligibility criteria has been used to shortlist approximately 50 SUFs (estimated 53 sites) that could qualify for support from the proposed Vietnam Conservation Fund. These 50 SUFs cover a total area of 1,632,000 hectares (see Table 6 in Appendix 4 of the Operations Manual). Additional sites may become eligible over time as more SUFs develop basic management capability or as research indicates the existence of important biodiversity in other SUFs. While the project will initially focus on SUFs in the South Central and Central Regions, which have been chosen because of their importance in global biodiversity terms and their linkages to the associated WB and ADB-supported forestry projects, assistance will be provided later in the project to all eligible provincial SUFs throughout Vietnam. It is anticipated that the project will result in improved plant and animal biodiversity conservation and maintenance of ecosystem integrity within this overall geographical and ecological system boundary.

c. ***Socio-economy.*** The project component's main stakeholder and beneficiary groups will be the managers of SUFs and their biodiversity, primary user communities, NGOs, and national and local government line agency personnel. Particular attention will be given to the more vulnerable and marginal sectors of the rural population, such as women, indigenous dependent communities and the poor that live within the buffer zones of the supported SUFs. This will be achieved by including vulnerability criteria in the selection process. Additional target beneficiaries are members of the global community who also benefit from the biodiversity of Vietnam. It is anticipated that the project will result in significant gains in biodiversity conservation and sustainable development knowledge, information, awareness, income and non-monetary economic benefits within this socio-economic system boundary.

d. ***Institutions.*** The SUF project component is focused on the national and local institutions, primarily government, that are mandated to manage the SUFs in Vietnam, including national and provincial forest protection agencies and institutions concerned with coordinating implementation of the policy and planning framework. It is anticipated that the project will result in a considerably strengthened institutional and human resource capacity, awareness and information base from which these agencies and institutions will be able to manage the SUFs sustainably. As such, it is intended that project activities will result in increased capacity and awareness on biodiversity conservation and management issues in these sectors and institutions, and improve the environmental sustainability of their activities.

e. ***Threats and root causes.*** The project is focused on overcoming threats to terrestrial forest biodiversity within protected areas relating to insufficient capacity, knowledge, resources and awareness for management planning and action; and to high local community dependence on but low involvement in their management. One set of root causes relating to biodiversity degradation – those relating to the socio-political context (for example civil unrest, poor infrastructure, corruption), lie outside the project's system boundary because they do not relate to its primary institutions and target beneficiaries. Additionally, overcoming socio-political threats to terrestrial biodiversity requires action at political and programmatic levels, not at a single project level. However, it is anticipated that the project will produce a number of positive effects on ecosystem integrity and functions and improve government institutional capacity.

6. ***Vietnam's Development Goals and Strategy.*** The goals of Vietnam's current 10 year strategy for socio-economic development (2001-2010) are: "*To bring the country out of underdevelopment; improve*

noticeably the people's material, cultural and spiritual life; and lay the foundations for making ours basically a modern-oriented industrialized country. To ensure that the human resources, scientific and technological capacities, infrastructures, and economic, defense and security potentials be enhanced; the institutions of a socialist-oriented market economy be basically established; and the status of our country in the international arena be heightened." The Strategy lays down 5 Specific Objectives and adopts 5 Development Approaches, the first of which is, *"To ensure rapid, efficient and sustainable development, economic growth is to go along with social progress and equity,* ***and environmental protection.****"* This is further elaborated, *"Socio-economic development is to be closely associated with* ***environmental protection and improvement,*** *to ensure harmony between man made and natural environment* ***to conserve biodiversity****"* (emphasis added). Protection of endangered species and management of protected areas are considered important criteria for sustainable development planning in Vietnam.

7. ***The Role of Biodiversity in Vietnam's Development.*** The *Biodiversity Action Plan* (BAP, December 1995) for Vietnam seeks to promote conservation and wise use of biological diversity and resources, the maintenance of ecological processes and systems, and the equitable sharing of costs and benefits, thereby fulfilling the country's obligations under the CBD. It explicitly articulates need for establishing and effectively managing protected areas with high biodiversity values, including terrestrial, marine and coastal areas. Its main strategies include: (i) strengthening the policy, legal and regulatory framework; (ii) raising public awareness as a means of encouraging the public to protect biodiversity; (iii) training of staff and capacity building of other stakeholders, such as local communities; (iv) conducting studies and research on various aspects of biodiversity; (v) considering socio-economic issues as a means of achieving sustainable development; and, (vi) promoting international cooperation. Major emphases of the BAP are to establish and to consolidate protected areas with high biodiversity value and in doing so to give priority for investment to those areas that possess national and international high biodiversity values. Along with the consolidation and establishment of strictly protected areas, the BAP articulates the need for working out synchronised plans to develop the buffer zones so as to stabilise the living conditions of the local inhabitants.

8. To integrate environmental protection, social equity and economic development and to shift Vietnam towards sustainable development, the GoV has initiated the formulation of Agenda 21. Vietnam's Agenda 21 identifies several priority areas in natural resource management, one of which pertains to biodiversity conservation. Under this, the priority activities aim: (i) to improve policies and legislation related to biodiversity conservation; (ii) to review regularly biodiversity action plans to align them with national socioeconomic planning; (iii) to enhance communication and education activities to raise people's awareness of biodiversity conservation; (iv) to consolidate management systems for national parks and other preservation areas, while expanding the system and decentralizing management; (v) to develop action plans for the protection of biodiversity in different regions of the country; (vi) to promote biodiversity inventory, establish a national database, and develop and widely disseminate Vietnam's Red Lists to enforce strict conservation policies; (vii) to provide forest and natural reserve managers, central and local officials as well as scientists with training in biodiversity conservation; (viii) to conduct scientific research and technological applications to sustainable exploitation and use of biodiversity values; (ix) to develop and pilot eco-tourism projects; (x) to encourage communities to establish and realize common regulations on biodiversity protection in local areas; and, (xi) to enhance international and regional cooperation in biodiversity protection.

9. In summary, macroeconomic and sustainable development goals in Vietnam support and re broadly consistent with the project's goal – conserving biodiversity of international importance at sites of highest national priority through sustainable financing of protected areas.

Baseline Scenario

10. ***National Situation***. In the absence of GEF assistance for this project, the GOV would nonetheless pursue a biodiversity conservation program. Some of this would receive other donor support and some would be undertaken through its own limited financial resources. Significant support is, for example, being given outside of the scope of this project to a number of SUFs. The average annual budget for 8 SUFs that are under the direct administrative and management control of MARD is US$3 million. A recent study by the "Strengthening Protected Area Management in Vietnam" (SPAM) project revealed that there are 45 internationally funded projects related to SUFs, with an average annual budget of about US$30 million per year. Source: Institutional and financial arrangement for protected area management in Vietnam (2002); by Martin Geiger et al. Strengthening Protected Area Management in Vietnam (SPAM): Technical Report No. 6; WWF and MARD; Hanoi. Although most of the SUFs directly under MARD receive substantial funding, the 80-plus SUFs that are the responsibility of the provincial governments receive relatively little support, because most of the provincial governments have huge budget deficits and are unable to allocate even the bare minimum funding required for basic SUF management. Given the inadequate resources for biodiversity conservation in the provincially-managed SUFs, it is certain that most of these areas will continue to be degraded and global biodiversity values will continue to be lost unless significant, targeted actions are taken to supplement the current baseline.

11. ***Scope of the Project's Baseline Scenario.*** The GEF co-financed project component will focus on about 50 of the more biologically-rich SUFs. To help determine an appropriate level of incremental expenditures on them, a budget survey of all the provincially-managed SUFs was undertaken (see Table A4.1). It revealed that their average annual budget is just under $70,000/year, and that the expenditure priorities are infrastructure and recurrent staff salaries and office expenses. Baseline expenditures on conservation-related activities are very modest, so the baseline expenditures primarily generate domestic benefits, not global benefits.

12. ***Costs.*** Over a six year project period, the total expenditures under the Baseline Scenario at the 50 target SUFs are estimated to be US$20.7 million. These are constituted as follows:

- ***Operation of ~50 Special Use Forests -– Core Activities.*** (US$20.70 million) This substantial baseline activity includes support for core activities in the SUFs that are targeted by this project over the 6 year period. Consistent with the questionnaire survey of existing and planned expenditures in provincial SUFs, the baseline amount corresponds to an average annual expenditure for operations and investments of approximately US$69,000. Expenditures are for recurrent salary costs, fuel, utilities and other operational costs and for infrastructure, such as roads, equipment and boundary demarcation. Approximately 43% of this baseline expenditure is for various forest protection efforts being undertaken through Vietnam's 5 million hectare reforestation program (Program 661).

13. ***Benefits.*** The benefits of the Baseline Scenario flow from the SUFs ecological services, including some sustainable use by local populations. This is a consequence of defining and attempting to uphold the protection status of the areas, even though the condition of the forest within them often continues to degrade. In addition, the Baseline confers modest global benefits through permitting the identification of core areas of biodiversity significance, and providing partial protection to forests that act as a potential carbon store. The level of these domestic and global benefits is not estimated as it is the same in the Baseline and GEF Alternative cases.

TABLE A 4.1 – SUMMARY RESULTS OF QUESTIONNAIRE SURVEY COVERING RESPONSES FROM 48 PROVINCIALLY MANAGED SPECIAL USE FORESTS (NATURE RESERVES & NATIONAL PARKS)

NO.	NATURE OF INVESTMENT	Average budget per SUF per year (US$)	
		For all 48 SUFs	For 21 SUFs[1]
1	Recurrent expenditure from provincial budget (calculated on the basis of staff numbers @ VND11-16 million or US$700- 1000 per staff per year) to meet the cost of salaries, operations and maintenance costs such as fuel, stationery, utilities, repairs and other running expenses	13 956	20 873
2	Investment expenditure from provincial budget for infrastructure (office and other buildings, roads, boundary demarcation, equipment)	24 814	43 499
3	International projects	249	569
4	Scientific research and education	493	129
5	Forest protection expenditure under national target programme 661 or the 5 million hectare reforestation programme, managed by the management boards of SUFs (used for forest protection and reforestation activities in the core and buffer zones of SUFs)	29 465	26 686
	Total (average investment/year/SUF)	**68 977**	**91 756**

[1] These 21 SUFs are included within the total list of 48 responding SUFs, but they also represent those that are within the list of the approximately 50 SUFs that will be targeted for support by the VCF during the project period.

Source: Survey of Special Use Forests conducted during FSDP Project PDF-B Phase, February 2003.

Global Environmental Objective

14. The global environmental objective of the GEF Alternative is to maintain the biodiversity and ecological integrity of a group of ecosystems represented in 50 of Vietnam's SUFs. The proposed GEF Alternative project component aims to address the management-related underlying causes of biodiversity loss and degradation. Key globally threatened, endangered and endemic species and habitats will be conserved and improved, and global biodiversity values, including the share of functional benefits that accrue to the global community, will be maintained. As a result of the project, the risks of extinction of globally threatened, endangered and endemic species and habitats will be reduced.

15. The global environmental and development objectives will be achieved via the following operational outputs, which are consistent with the GEF's Operational Strategy: (i) support long-term protection of globally important ecosystems; and (ii) ensure conservation of biodiversity by increasing the involvement of civil society institutions in the planning, management and sustainable use of Vietnam's

biodiversity resources. In sum the project's global objective is to "improve conservation of biodiversity of international importance in Special Use Forests."

GEF Alternative

16. ***Scope*.** The project scope of the GEF Alternative includes approximately 50 SUFs. Support will be provided to complement ongoing core activities, and to supplement them with activities that will improve the quality of these forests. The major thrust of the incremental activities is to provide targeted implementation support that will improve biodiversity management within these SUFs, and to provide institutional capacity support at the local and national levels. A key delivery mechanism is the Vietnam Conservation Fund (VCF), which will be complemented by technical assistance through a Multi-Donor Trust Fund for Forestry (MDTFF) that provides management and institutional support.

17. ***Costs*.** The total expenditures associated with the GEF Alternative are estimated to be about US$36.22 million; these are summarized in Table A4.2. Under the GEF Alternative, the program would still comprise the following Baseline component with no changes or additions: (i) Operation of ~50 Provincial Special Use Forests -– Core Activities (US$20.70 million). In addition, the GEF Alternative would involve expanded or new activities as follows:

- ***Operation of ~50 Special Use Forests -– Biodiversity Enhancement.*** (US$7.60 million) This **new activity** is absent from the Baseline. The activity involves delivery of a series of grants to the network of target SUFs, in support of the individual SUFs. The activity presumes that about 200 annual grants will be delivered over the six year period at an average annual grant size of about US$38,000/yr. Two typical grants are summarized in Table A4.3. They will generally pay for items such as planning activities, consultation activities, equipment and demarcation, and education and awareness building. All of these activities will be expected to improve biodiversity and sustain local incomes. The funding for these activities will be delivered through the sinking fund capital of the VCF.
- ***Establishment and Management of Vietnam Conservation Fund.*** (US$2.25 million) This **new activity** is absent from the Baseline. The activity includes the administrative and monitoring functions associated with establishing and operating the VCF. The available funds will be dedicated to: (i) a secretariat that covers staffing costs (to include a fund manager and administrative and program support staff), office equipment, travel and operations; (ii) review and selection of proposals from priority SUF management authorities; (iii) monitoring and evaluation, including audits; and, (iv) dissemination and communications, including publications.
- ***Operation of ~50 Special Use Forests -– Local Institutional Support for SUF Planning and Implementation.*** (US$5.67 million) This **new activity** is absent from the Baseline. The activity provides local institutional support that complements the implementation activities in the previous components. The funds will be made available for conservation needs assessments at the local level, proposal development to access the VCF, operational plan development, monitoring, oversight and some experimental conservation implementation activities. Typical complementary activities are also shown for the two cases in Table A4.3. The funding for these activities will be delivered through the Multi-Donor Trust Fund.

18. ***Benefits*.** The GEF Alternative incorporates the benefits of the Baseline Scenario, and will enable further locally and globally beneficial outcomes to be achieved. In addition to the Baseline benefits, incremental benefits to the global community include the ability to conserve and sustain globally significant and representative biodiversity, despite competing economic pressures on the resource base. GEF

assistance will enable Vietnam to protect and to utilize sustainably the country's biodiversity in the 50 mainly provincially-managed SUFs beyond a nationally justified and affordable level. Global benefits will include enhanced monitoring and information exchange through improved record-keeping, and effective capacity to preserve endangered species and habitats. Continued protection of many additional ecological functions, and of option and existence values is an unquantified but a large benefit to the regional and global community.

19. The GEF Alternative also provides institutional benefits that remove a number of the barriers to long term biodiversity conservation in these ecosystems. These institutional benefits include the following:

- ***Strengthened institutional and technical capacity and awareness for effective conservation and management of SUFs.*** Basic information on biodiversity resources of SUFs on which to base management planning is currently often lacking due to the lack of capacity and resources for collecting and using such information. The project will enhance knowledge, technical skills and tools for conservation planning in globally important SUFs in Vietnam. Management-relevant information and capacity to use it will improve, such as improved capacity to identify biodiversity values and factors that threaten globally endangered species, improved capacity for operational management planning, and improved knowledge and capacity to implement relevant management activities. Through its communications and awareness-building activities, the project will also improve understanding at all levels of the values and functions (biological, ecological and socioeconomic), of the principles of protected area conservation and management, and of the global importance of the biodiversity they contain and seek to protect.
- ***Development of replicable models of effective protected areas management linked to local and national capacity and policy strengthening.*** Under the Baseline, "on-the-ground" field testing of management approaches and policies and linking this with refinement of policies and practices at sub-national and national level is unlikely to occur. Under the GEF Alternative, by contrast, the activities will demonstrate how mechanisms for better institutional collaboration can result in better protected areas conservation, while not compromising local community and national benefits. These activities will contribute to sustainable livelihoods rather than relying simply on traditional rural development type activities that have few linkages to biodiversity conservation.
- ***Development of sustainable financing mechanisms for protected area management.*** The framework that is currently used to make annual provincial budget allocations to SUFs is the 5 or 10 year Investment Plan that, in fact, forms the very basis for their establishment. These investment plans do not link budgets to management priorities as they are not based on any systematic assessment of site-specific threats and the related management needs. Under the GEF Alternative, sustainable financing mechanisms will be established, piloted and demonstrated to improve the long-term likelihood of successful biodiversity protection efforts.

20. ***Domestic Benefits.*** It is estimated that incremental domestic benefits of US$4.5 million will be realized in the GEF Alternative case. These benefits are associated with readily quantifiable sustainable uses associated with direct interventions supported through the targeted initiatives in the GEF Alternative. Other indirect benefits may also be realized through improved ecosystem management (e.g., improved watershed management, reduced flooding risk, enhanced local existence values) but any incremental economic benefits from these improvements have not been estimated or included here; they are acknowledged by GOV to be one of the justifications for some level of Baseline support to the sector as a whole and for some further contributions towards the incremental costs identified under the GEF Alternative. The US$4.5 million in sustainable use benefits are a best estimate of additional incomes that might be generated through successfully targeted initiatives. As shown in Box A4.1, these incomes are

primarily associated with improved forestry, agricultural and fishery yields in areas proximate to the SUFs. While the actual levels of benefits will vary from location to location, for this assessment a conservative estimate of VND50,000/ha/yr has been taken as a realistic average incremental contribution to net incomes within the portfolio as a whole, if project activities at a given site are 100% effective. This will result in a maximum annual benefit by the end of the project of about US$4 million/yr. Given that the grants and activities will be phased in over a six year period, the total benefit (at 100% success rate) will be approximately US$13.5 million for the period as a whole. A further adjustment to this figure is necessary to reflect the expected success rate in realizing these maximum benefit levels. For this analysis, a 33% success rate is taken as being consistent with the objectives and operational aspects of this project, which results in the estimated domestic benefit of about US$4.5 million. The breakdown of this contribution is approximately as follows: (i) net forestry benefits VND20,000/ha/yr; (ii) net agricultural service benefits VND16,000/ha/yr; and, (iii) net fishery productivity benefits VND14,000/ha/yr. At an exchange rate of 15500VND/USD, the expected benefit is US$3.23/ha/yr, which is allocated to a maximum of 40 out of the candidate SUFs. Phasing of this benefit due to staged grant-giving generates a domestic benefit over the six years of US$13.55 million. An expected success rate of one in three is subjectively taken to obtain a best judgmental estimate of the expected value of this benefit, which accounts for potentially reduced performance, delays due to staff turn-over, losses due to natural disasters, or political risks.[2]

Incremental Costs

21. The total expenditure under the Baseline Scenario is estimated to be US$20.70 million while the total expenditure under the GEF Alternative is estimated to be US$36.22 million. The incremental expenditures (costs) under the GEF Alternative are therefore US$15.52 million. The expenditures will generate an expected additional domestic benefit of US$4.5 million. This benefit would not have been realized in the Baseline Scenario, and is primarily associated with local sustainable direct uses from the targeted activities of this project.

22. Of the incremental expenditures (costs) of US$15.52 million, the GEF is requested to fund US$9.0 million; the balance will be funded by other donors and stakeholders. US$7.60 million of the GEF's contribution will be dedicated to capitalizing the VCF, while the remainder will cover some civil works for the national office (US$20,000), goods (US$70,000), national consultants (US$10,000), training and workshops (US$500,000), and operating costs (US$800,000).

2/ The breakdown of this contribution is approximately as follows: (i) net forestry benefits VND20,000/ha/yr; (ii) net agricultural service benefits VND16,000/ha/yr; and, (iii) net fishery productivity benefits VND14,000/ha/yr. At an exchange rate of 15500VND/USD, the expected benefit is US$3.23/ha/yr, which is allocated to a maximum of 40 out of the candidate SUFs. Phasing of this benefit due to staged grant-giving generates a domestic benefit over the six years of US$13.55 million. An expected success rate of one in three is subjectively taken to obtain a best judgmental estimate of the expected value of this benefit, which accounts for potentially reduced performance, delays due to staff turn-over, losses due to natural disasters, or political risks.

Table A4.2 – Incremental Cost Matrix
(US $ million) [2003$]

Sub-component *	Category	Cost	Domestic Benefit	Global Benefit
A. Operation of ~50 Provincial Special Use Forests -– Core Activities	Baseline	US$20.70	Basic maintenance of protected areas and selected ecological services, including some sustainable use to local populations.	Identification of core areas of biodiversity significance. Partial protection of carbon stores.
	With GEF Alternative	US$20.70	As above.	As above.
	Incremental	**US$0.00**	–	–
B. Operation of ~50 Provincial Special Use Forests -– Biodiversity Enhancement	Baseline	US$0.00	–	–
	With GEF Alternative	US$7.60	Sustainable use and incomes to communities and households in and around the system of Provincial SUFs. Improved protection of ecological services.	Improved protection of key globally and regionally threatened ecosystems, flora and fauna. Higher levels of conservation; improved animal welfare and protection of endangered species. Improved protection of carbon stores.
	Incremental	**US$7.60**	**US$4.50 (see text**)**	Not estimated.
C. Establishment and Management of Vietnam Conservation Fund	Baseline	US$0.00	–	–
(excludes Fund Capitalization – see Sub-component B)	With GEF Alternative	US$2.25	Efficient delivery of project fundsand evaluation of progress. Demonstration of financing models that potentially will be transferable to other protected areas, with concomitant efficiency gains.	Efficient delivery of project funds, and evaluation of progress.
	Incremental	**US$2.25**	**US$** [included in Sub-component B]**	–
D. Operation of ~50 Provincial Special Use Forests -– Local Institutional Support for SUF Planning and Implementation	Baseline	US$0.00	–	–
	With GEF Alternative	US$5.67	Enhanced monitoring and information exchange permitting adaptive management. Efficient coordination of implementing institutions, monitoring of progress, and domestic awareness-building.	Enhanced monitoring and information exchange through improved record-keeping.

				Efficient coordination of implementing institutions, and monitoring of progress.
	Incremental	**US$5.67**	**US$** [included in Sub-component B]**	–
	Baseline	US$20.70		
Totals	With GEF Alternative	US$36.22		
	Incremental	**US$15.52**	**US$4.50**	–

* Sub-component A is explicitly described as a baseline activity, and is not included in Annex 2 Project Description. Sub-components B and C correspond to the VCF Sub-component 1 described in Annex 2 Project Description. Sub-component D corresponds to the "SUF Planning and Implementation" Sub-component 2 described in Annex 2 Project Description.
** Domestic benefits are ascribed only to those activities generating capturable sustainable income by affected domestic populations over the six year project period. It does not include the value of erosion control or flood protection services that might be associated with enhanced protection, as some of these may be adequately protected over the project period in any event through the core (baseline) expenditures. See text for additional discussion.

Additional GEF Annex 4: STAP Roster Technical Review
VIETNAM: Forest Sector Development Project

by Andrew Grieser Johns, GEF STAP Reviewer
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Endorsement

This project is helpful in making Vietnam's overall forest sector development approach more cohesive. The proposed GEF component is of utmost importance in providing management support to many SUFs currently lacking conservation activities and in helping to catalyze a national change towards conservation- oriented management and exploring the potential for community participation. Reviewer considers the GEF component as excellently conceived and strongly recommends its support.

Key issues

1. ***Scientific and technical soundness of the project***

The project is designed to fill in gaps in the forest sector developmental approach perceived by the global community (not addressed by other donors and/or not a priority within the VN FSDS). This is helpful in that it creates a more wholistic approach to sustainable forest management. In particular, it reinforces the partially adopted GOV policy of devolving resource management to communities, and it helps support the idea that forest management should encompass biodiversity as a whole rather than just timber trees.

The project follows on from a great deal of forest sector developmental work. Experience in Vietnam has shown that a) rural poverty reduction through livelihood improvement ***does not*** reduce the unsustainable exploitation of forest resources, and b) protected forests ***do not*** necessarily benefit from the involvement of local communities in their management. In the first case, illegal exploitation is fuelled and organized by urban Kinh rather than local ethnic minority communities. In the second case, there is no evidence from 661 Program that issuing forest protection contracts in SUFs (paying local people to protect forest) supports biodiversity conservation. The project clearly appreciates the first point. With regard to the second point, the project aims to give local people a long-term stake in natural resources through collaborative management rather than paying a management fee, which is clearly an improvement, but monitoring to ensure sustainability of resource extraction and a net gain to biodiversity conservation must be put into place. This is addressed within the proposed monitoring system.

In the case of the four target provinces, there may be an opportunity for linking of small-scale plantation benefits coordinated by district and commune working groups to the achievement of conservation targets elucidated in Operational Plans developed by SUFs with VCF funding. The components of the project could work together here. The conservation targets would include reduction of 'outsider' involvement in forest exploitation (a main cause of biodiversity loss). The project does not indicate how such a trade-off mechanism might work, however, and project experience to date is that it is very difficult for parties to agree on such a mechanism.

As VCF funds are accessed by SUFs away from the four provinces, there may be a case for funds to be used

for enforcement purposes as much as for developing local community liaison. Project criteria requiring community agreement of restrictive policies (p.26) are not in themselves limiting to SUF managers. Circular 56 (not mentioned in the Project Brief) already requires villages to sign such agreements with FPD, and most have. However, such agreements are not kept. Objective human impact monitoring would reflect this.

At present, SUF managers are not required to report on either human impacts or biodiversity. A high project priority is to introduce effective monitoring and feedback into management (central to the concept of operational planning). Impact monitoring would evaluate the risks inherent in allowing (or being unable to prevent) forest access. It would also provide data to help target small interventions to where they are most useful. Social tracking might show that a SUF is succeeding in that dimension; impact monitoring would not. Risk is that the VCF component is likely to have a significant failure rate in terms of biodiversity conservation success (even if achieving community involvement success) and closing of large numbers of grants after a year or two ***if biodiversity conservation success is a controlling factor.***

As pointed out by the project, current GOV legislation is unsupportive of community involvement in SUFs. Legislation is open to interpretation by provinces, however, who are able to authorize co-management activities within provincially-controlled SUFs. This should therefore not be a constraint on the project - given its focus of provincially-controlled areas. Some on-going examples would be development of forest co-management at Pu Luong (GEF grant to FFI) and community-regulated hunting in Pu Huong (DANIDA).

2. ***Identification of global environmental benefits***

The small-scale plantations component concentrates on four provinces of high to moderate significance for biodiversity conservation in Vietnam. The proposed VCF component is likely to be initiated in the SUFs that meet appropriate criteria within these provinces, but by the end of Year 1 will extend into perhaps 10-15 provinces. Eventually the VCF will operate throughout the national SUF system, encompassing forest landscapes of major significance for biodiversity conservation and for ecosystem protection in general (specifically *'four of WWF's 200 Globally Important Ecoregions and four Endemic Bird Areas and 63 Important Bird Areas identified by Birdlife International'*).

Although the SUF system is large, it currently confers little global benefits. The individual protected areas are mostly poorly managed or not managed at all. The VCF proposes to develop conservation and management programs where they currently do not exist. Thus a greater part of the SUF system, instead of being unmanaged or conferring only domestic benefits unrelated to environmental protection, may begin to provide measurable global benefits.

3. ***How does the project fit within the context of the goals of GEF?***

The project as a whole focuses on sustainable forest management as a tool towards poverty alleviation and livelihood improvement. Landscape and biodiversity conservation is integrated within the overall approach as a necessary component to achieve sustainable management and ultimately confer various environmental and social benefits. The VCF component relates specifically to GEF objectives, particularly OP3 and OP4 (Project Brief section B1a). The project is also in line with Vietnam's GEF strategy (2001-2010).

4. ***Regional context***

The project is restricted to Vietnam, but the VCF component is expected to extend over the whole country and is likely to focus in remote forested areas, many of which are border areas. Support for key protected areas along the international border contributes to trans-boundary conservation programs. However, linkages can

only occur at the national level and not between individual SUFs. See recent WWF review on constraints to trans-boundary cooperation in the region..

5. ***Replicability of the project***

A key feature of the project as a whole is to pilot ***small scale*** local forest management systems, including local involvement or co-management within SUFs. The project focuses on provision of funding consistent with local absorptive capacity. Thus it avoids investment of large sums beyond absorptive capacity and beyond possibility of replication in areas without similar donor funds.

6. ***Sustainability of the project***

As mentioned above, all interventions by the project are consistent with local absorptive capacity to assist sustainability. Institutional development and VCF grants for SUFs, for example, would not exceed possibilities for GOV/provincial funding in future, but are important in helping to shift the emphasis of protected area management towards the implementation of conservation activities. Thus they are helping to re-focus existing funds rather than building large and unsustainable donor-driven programs.

Secondary issues

7. ***Linkage to other focal areas***

The project as a whole focuses on reversing land degradation through forest development, both as land cover and for livelihood improvement. There is an implicit, although un-stated, link with the focal area 'climate change' in that reforestation and forest protection increases carbon sequestration. The expected establishment of 66,000 ha of plantation is rather minor in comparison with the 5 million ha of forest lost since the 1940s, but protection of up to 40 SFUs represents a sizeable carbon sink as well as having a measurable role in watershed protection and maintenance of local climatic conditions.

The proposal suggests that a potential use of VCF funding is for fire control (VCF Operations Manual, Table 1). This is recently highlighted as a particular problem in SUFs (major fires occurred in 2002 and 2003) and also contributes atmospheric carbon. However, Reviewer doubts that this is appropriate for GEF funding since this aspect of protected area management can generally be covered by provincial recurring funds targeted towards GOV fire prevention programs.

8. ***Linkage to other programs and action plans at the regional or sub-regional level***

The project is an integral part of FSSP, part of a coordinated donor support and closely integrated with the MARD-generated FSDS.

There is a high degree of inter-donor coordination in environmental activities in Vietnam, such that linkages of new project activities with on-going projects, transfer of experience and lessons learned, etc., can all be expected. There is much less coordination between Government departments, particularly at the provincial level. Little history of cooperation between SUF Authorities and socio-economic and agricultural development agencies (DARD, etc.) will constrain the development of co-management activities and coordinated conservation/development agendas. Coordination will need to be generated by project implementers and will not happen on its own.

It must be mentioned that recent GEF experience in Vietnam has shown that there is very little coordination of

national environment and development programs. Any environment program may be overridden by infrastructure development projects considered 'of national interest'. Thus a commitment of MARD that developmental activities damaging to SUFs will not be undertaken ('*Vietnam Conservation Funds requires that the management are linked to the 5 and 10 year investment plans to ensure that these do not include investments that would damage conservation values'*) cannot be regarded as binding on other Government Departments. This represents a High Risk to GEF interventions. However, the project cannot be expected to determine in advance or to prevent this type of GOV intervention, and the concept of supporting many SUFs avoids the trap of putting all eggs into one basket. Even if some of the SUFs are adversely affected through future national development schemes, the project will still result in a high net gain to biodiversity.

9. ***Other beneficial or damaging environmental effects***

Potential environmental impacts are adequately considered in the project proposal (Project Brief section E5).

Concerning the plantation program, one concern is that naturally regenerating forest land will be replaced by mono-specific plantations of trees normally used under 661 Program, such as *Acacia mangium* and *Pinus merkusii* for timber, and cinnamon, cashew, etc., for mixed plantations in itself not without risks. For example, there is currently a severe die off of *Pinus merkusii* in central provinces through insect infestation.. Provincial Forest Development Units and SFEs are generally unwilling to diversify plantings, with the justification that there are Government 'norms' for plantation work that are difficult to apply to diverse species. However, providing plantation development is linked to better protection of SUFs in general, this can still result in a net gain for biodiversity. The project might also consider CIFOR research on Agroforestry and Biodiversity Conservation in Tropical Landscapes, concerning enhancing the value of plantation systems for biodiversity.

Concerning SUFs, the prevalent project agenda of involving local people in SUF management can be justified on social grounds, but is not without risks. Experience with 661 Program suggests that giving people a right to be inside a poorly-staffed protected area can complicate enforcement activities. The project faces a major challenge here in devising systems to regularize community access while not exceeding the capacity of SUF managers (or community leaders) to control that access. Resource use agreements must be carefully designed. Human impact (and biodiversity) tracking is needed as well as tracking of community involvement. To give an extreme example, local fishing rights may be agreed and even succeed in maintaining fish stocks, but if fires lit for smoking said fish burn the forest down, the loss to overall biodiversity can be considerable.

10. ***Degree of involvement of stakeholders in the project***

The FSDS and FSSP have generally been decided at Government level and reflect Government policies with adaptations to fit with donor support agendas. The project is an integral part of the FSSP and its development has appeared to involve a wide range of stakeholders during the project development missions (e.g. Project Brief section E5.4).

Plantation component institutional arrangements are complex, with national level management and steering groups interacting with project entities down to commune level (at least in four provinces). The project is intending to utilize existing Government structures, and also delivers institutional capacity building at district, commune and individual SUF levels. Project activities will be controlled through the existing apparatus. This is established primarily to implement Government programs, which deliver formulaic benefits or services and do not generally involve local consultation. The project will need to ensure that it's commitment to genuine participation is fulfilled at the local level. Also, women and ethnic minorities are very under-represented in the existing structures, and the project will need to ensure that representation reflects composition of beneficiary

groups. Building up the extension infrastructure is positive and clearly necessary – it can also assist in engaging disadvantaged groups – but its sustainability beyond end of project could be questioned. For lessons learned, refer to the EC-funded SFNC project, which has supported the development of gender-matched district, commune and village extension services.

Project implementation experience in Vietnam has generally shown that it is difficult to achieve genuine local participation. Although there is a policy of decentralization to communes, this in practice involves decentralization of implementation responsibility - not decision-making. Project implementers must be aware that site selection for plantations, will need to be carefully monitored such that the poorest people benefit rather above those with most political influence - despite the well-conceived participatory processes.

Local beneficiary involvement in planning for SUF management is also difficult. Co-management is not supported by GOV legislation (the recently revised Decree 08 is especially problematic here) and many SUF Authorities feel that they will be criticized if they initiate such approaches. Project implementers must be aware that SUF staff will need to be persuaded, through examples and pilots, that this approach can deliver positive results.

11. ***Capacity building aspects***

The project pays considerable attention to capacity building. This will, however, be an extremely complex job.

Local farmers generally have little or no experience of tree planting, SFEs are generally not geared up to providing services to farmers, and extension services generally function only as distributors of free inputs from Government programs (where they exist at all). District working groups will lack the capacity to move forward. The project addresses this through attention paid to building up the extension services and institutional capacity building in general. Given a lack of the required technical staff at the district and even provincial level, the project correctly proposes a high level of ToT. This will slow down implementation progress but will probably result in the required capacity by Year 2 or 3.

Managers and staff responsible for SUFs are mostly trained as forest inspectors/enforcers and have little capacity for (and often no interest in) biodiversity conservation. They have no experience in co-management, conflict resolution or other social skills. (Currently, their jobs do not require any of this.) There are very few or no training schemes available in VN language for social skills With the exception of some courses in conflict resolution, etc., run by CARE Vietnam. . Very considerable technical support will be required to develop operational planning in SUFs and in establishing the capacity for local involvement. Here again, however, the project has proposed a high level of pre-planning technical support through the SUF Planning and Implementation component. This pre-planning support will begin to be delivered at the same time as start-up of the GEF project. However, a number of targeted SUFs are already involved in development of Operational Plans, etc., though NGO or other support, such that they will probably have met VCF criteria by Year 1.

12. ***Innovativeness of the project***

The mechanisms proposed for land allocation and small-scale plantation development are tried and tested, and run parallel to other programs. The main variations proposed by the project are a greater deal of participation in deciding the plantation program to be undertaken and a more diversified ownership of plantations (i.e. households own the plantations as opposed to working as laborers for large plantation owners). As stated earlier, however, the project implementers and working groups will need to ensure that the participatory resource use planning processes to be employed are effective.

The SUF component is in general innovative, with the following main attributes:

- In supporting a protected area system rather than one or two areas it avoids several common problems, such as: (a) withdrawal of GOV funds in expectation of GOV programs being funded by a project; (b) delays and entanglements as a result of large sums of money being available for large contracts; (c) absence of capacity to absorb large project funds effectively; d) possible loss of time and investments due to target areas being impacted by large Government infrastructure projects.

- Support for individual SUFs is contingent on effective conservation pre-planning.

- Support is restricted to enhancement of conservation activities that are generally low on the priority list of SUF managers.

- Support is contingent upon local community involvement ('appropriate to the local conditions' – which is a little unclear but gives some flexibility of approach).

- Support is performance related. SUF managers will be expected to monitor progress objectively and to deliver results (and the onus is on them, rather than project staff, to do so).

Reviewer strongly endorses all of the above as a potentially much more effective approach to SUF conservation than is provided by a typical ICDP.

Of course, there are risks attached to being innovative in this way. The project will have to work hard to convince SUF managers that they should implement activities that they may not view as priorities and some of which may technically be illegal. For a project to set itself such a hurdle is in itself rather innovative.

Specific comments on Project Brief

Section D3. Lessons learned from conservation projects. The project notes that the current GOV investment planning approach to SUF management does not support the goals of SUFs. MPI currently imposes strict criteria for fundable activities and design documentation, and specifically excludes recurring activities (just about all conservation activities: such as demarcation, patrolling, community involvement costs and M&E). The volume of GOV funds available for SUFs is potentially quite high (statement on p.4 that MARD lacks access to funds is incorrect), but it is awarded on ability to meet MPI criteria, not on ability to achieve the goals of the SUFs. The project might consider whether it is appropriate for Component 1 to add a review of SUF funding policy to its activity list. Reviewer considers, however, that this would be better addressed within the overall umbrella of FSSP. Achieving a change in how SUFs are funded would certainly assist sustainability of this project's VCF funding.

Section E2. Financial. These figures compare less favorably with estimated financial returns from hunting or timber logging, which can be 4.5 times that of agriculture in communities close to SUFs. Trading in these commodities realises considerably more. Data from Nghe An province. This is a difficult issue, but the project can address it through its proposed co-management approaches in SUFs giving local communities a long-term stake in the resources, and through SUF funding to assist FPD clampdowns on traders (often not local people) if appropriate.

Section E6.1 Resettlement. Of course, where a village that specializes in (and generates considerable funds from) hunting and wildlife trapping is located within a SUF, it is very difficult to find a politically-correct solution. The question then arises as to whether the people should be relocated or the SUF degazetted, as there is no real middle ground. VCF funding criteria are in any case likely to exclude SUFs where this type of conflict can be expected to arise.

Bank Task Team's Responses to STAP Reviewer Comments

A. KEY ISSUES

1. SCIENTIFIC AND TECHNICAL SOUNDNESS OF THE PROJECT:

The reviewer believes that the project is scientifically and technically sound. He stresses the importance of effective monitoring of resource extraction and achievements of biodiversity conservation objectives. He notes that livelihood improvement or direct payment to communities for protection do not necessarily reduce unsustainable exploitation and suggests that funds should be used for enforcement purposes. He mentions that current Government legislation is unsupportive of community involvement in SUFs but that this is not a constraint to the project because provinces can authorise co-management activities within provincially-controlled SUFs. He suggests that the project further describes the mechanism envisaged to coordinate delivery of farm forestry benefits with achievement of conservation targets in the Special Use Forest (SUF) operational plans in the four target provinces. He notices that the project criteria requiring community agreement of restrictive policies are not in themselves limiting to SUF managers and thus project funds may in some cases be used for enforcement purposes. He mentions that current Government legislation is unsupportive of community involvement in SUFs but that this is not a constraint to the project because provinces can authorise co-management activities within provincially-controlled SUFs.

The Task Team agrees on the importance of effective monitoring, and project design proposes monitoring at four levels—programmatic level of the Forest Sector Program; project-level; special use forest site-specific level and plantation block level, the latter through forest certification. Provisions have been made for local and international consultants on M&E, and a more detailed M&E plan is a requirement of year one implementation. On the balance between conservation measures and local community development, the emphasis of the fund is more on the former but could provide assistance to local communities to tap into existing government or other donor funds for livelihood enhancement activities.

On the issue of coordination between forestry development and biodiversity protection in the four provinces for the plantation forest component, the project is using the existing provincial 5 MHRP steering committees which includes provincial protection/production units as the project provincial steering committees and such issues would be addressed at the annual work planning sessions which will be assisted by technical assistants.

2. IDENTIFICATION OF GLOBAL ENVIRONMENTAL BENEFITS:

The project activities, while piloted in four provinces of high to moderate significance to biodiversity conservation, is expected to extend throughout the national system of Special Use Forests (conservation areas). This would encompass forest landscapes of major significance for biodiversity conservation and for ecosystem protection in general.

The Task Team agrees.

3. HOW DOES THE PROJECT FIT WITHIN THE CONTEXT OF THE GOALS OF GEF:

The project focuses on OP3 (Forest Ecosystems) and OP4 (Mountain Ecosystems).

The Task Team agrees.

4. REGIONAL CONTEXT:

The project is restricted to Vietnam but may include activities in remote forested areas, many of which are border areas. Transboundary cooperation could be facilitated by national-level linkages with conservation programmes in Laos and Cambodia.

The Task Team agrees. There is scope in the dissemination sub-component to (a) share relevant information with neighboring countries and adjacent protected areas in Laos and Cambodia; and (b) field-level exchanges.

5. REPLICABILITY OF THE PROJECT:

The project will pilot small scale forest management systems including local involvement within Special Use Forests. The project avoids investment of large sums beyond possibility of replication in areas without similar donor funds.

The Task Team agrees. If the project is successful in establishing a financial resource allocation and technical support system for Vietnam's Special Use Forest, the system will be nationally and internationally replicable, e.g., in other countries that have many medium-sized conservation areas that are resource-starved and poorly managed.

6. SUSTAINABILITY OF THE PROJECT:

All proposed project interventions are consistent with local absorptive capacity to assist sustainability.

The Task Team agrees. The project will also enhance sustainability: (i) by strengthening of the human and institutional capacity for Special Use Forest management so that better use is made of future resource inputs;(ii) by employing simple and flexible approaches to Special Use Forest management that can be sustained with limited future external support;(iii) by working through already existing institutions and focussing capacity building in Special Use Forest management on government staff and other stakeholders at the local level, where most decisions on resource management are taken; and (iv) by actively seeking new sources of finance to replenish the Vietnam Conservation Fund.

B. SECONDARY ISSUES

7. LINKAGE TO OTHER FOCAL AREAS:

The reviewer describes linkages to the climate change focal area. He notices that fire control is eligible for funding from the Vietnam Conservation Fund and suggests this could be covered by provincial recurring funds targeted towards fire prevention.

The project should have some indirect climate change benefits but the main area benefit will be to biodiversity conservation. On fire control, while the task team agrees with the reviewer comment in principle, training on some aspects of fire management (e.g. engaging and training local communities in better field preparation practice, fire awareness and reporting) is justifiable. The text in the list of eligible activities in the Vietnam Conservation Fund Operations Manual have been modified to ensure the very restricted eligibility..

8. LINKAGE TO OTHER PROGRAMMES AND ACTIONS PLANS AT THE REGIONAL OR SUB-REGIONAL LEVEL:

The reviewer believes that the project links well with other programmes and action plans. However, he is concerned that Special Use Forests to be supported by the Vietnam Conservation Fund may be degraded by

large-scale infrastructure developments as a result of limited coordination between Government departments.

The Task Team agrees. The requirements of a Conservation Needs Assessment (CNA) and a SUF Operational Management Plan (OMP) are attempts to ensure better coordination of development activities with the conservation objective of the SUF. The CNA will flag the threats and the OMP will address the removal or mitigation of the threats. Also, as suggested by the reviewer, however, supporting many Special Use Forests avoids the trap of putting all eggs into one basket.

9. OTHER BENEFICIAL OR DAMAGING ENVIRONMENTAL EFFECTS:

The reviewer believes that potential environmental impacts are adequately considered in the project proposal. However, with regard to the plantation programme, he is concerned that naturally regenerating forest land may be replaced by mono-specific plantations of exotic trees.

As part of the Environmental Assessment of the overall project, a Environmental Protection Guidelines for the plantation forest component was developed to among other things screen out sites which have better quality successional vegetation communities. In addition, there are at least 8 proven planting models which could be used by the smallholders depending on site suitability, and the project will finance the development of additional models (based on international and national research results) with emphasis on longer-rotation and indigenous species. The project is already linked to the regional Danida-financed tree seed program which is promoting the development of seed sources for indigenous tree species.

10. DEGREE OF INVOLVEMENT OF STAKEHOLDERS IN THE PROJECT

The project development has appeared to involve a wide range of stakeholders. The project is intending to utilise existing Government structures. In these structures, however, women and ethnic minorities are under-represented and genuine stakeholder participation minimal.

The Task Team agrees. By working through the existing institutional structures, the project can strengthen the capacity of the Government institutions in Special Use Forest management and meaningful ways of involving local stakeholders. The project's social assessment identified means to strengthen the participation of women and ethnic minorities, the latter is encapsulated in the project's ethnic minority development strategy.

11. CAPACITY BUILDING ASPECTS

The project pays considerable attention to capacity building. Substantial technical support will be required, e.g. for conflict resolution and operational planning in Special Use Forests.

Considerable attention has been given to developing capacity through careful phasing during implementation. There is a recognition that implementation will be slow during the first two years.

12. INNOVATIVENESS OF THE PROJECT

The mechanisms proposed for land allocation and small-scale plantation development are tried and tested and run parallel to other programmes. The component on Special Use Forests is in general innovative. Five examples are provided.

The Task Team agrees that innovation carries associated risks and tried to mitigate against the potential major risks through careful planning and phasing of activities, implementation of a monitoring and

evaluation system to provide timely feedback, and tackling key policy-related implementation issues to remove bottleneck.

C. SPECIFIC COMMENTS

13. LESSONS LEARNED FROM CONSERVATION PROJECTS:

The project notes that the current investment planning approach to Special Use Forests (SUFs) does not support the goals of SUFs. Ministry of Planning and Investment (MPI) imposes strict criteria for fundable activities and specifically excludes recurring activities (e.g., demarcation, patrolling, community involvement costs, and M&E). The volume of Government funds available for SUFs is potentially high, but it is awarded on ability to meet MPI criteria. Revision of MPI funding mechanisms for SUFs would improve project sustainability.

The Task Team agrees. A review of Special Use Forest planning and funding policy and development of more effective guidelines for planning management, and budgeting will be included in the Institutional Development component.

14. FINANCIAL:

The financial returns from hunting and logging for timber can be much higher than for agriculture. The project can address it through its co-management approaches in Special Use Forests giving local communities a long-term stake in the resources, and through Special Use Forest funding to assist government clampdowns on traders if appropriate.

The Task Team agrees.

15. RESETTLEMENT:

Special Use Forests with villages that specialises in wildlife trapping may need to be degazetted or the villagers relocated as there may be no real middle-ground. Vietnam Conservation Fund funding criteria are however likely to exclude SUFs where this type of conflict can be expected to arise.

The Task Team agrees.

Additional GEF Annex 5: Summary of Environmental Issues
VIETNAM: Forest Sector Development Project

General Approach

1. The approach to deal with environmental issues under the project was to make a clear distinction between environmental assessment and an environmental impact assessment (EIA). Environmental (and social) assessments are *functions* that, along with institutional, technical and financial assessments, are an integral and continuous part of project/program design. The EIA is a *report*, and a *process* to review that report, leading to project/program appraisal and approval. Thus, design should be based on a set of integrated environmental, social, technical and financial principles and objectives. Likewise, the examination of alternatives to avoid risks/impacts and the development of management prescriptions to minimize adverse impacts and enhance positive benefits are both essential components of project design. The EIA is an objective analysis of the effectiveness of project design in avoiding or mitigating anticipated environmental impacts, and an honest evaluation of residual (unresolved) impacts and the manner in which the risk of those impacts might be managed. In summary, environmental and social issues in the project have been addressed in two steps: ***first***, social and environmental assessments at project preparation and design; and ***second,*** an objective EIA based on the completed design, prepared for project appraisal. The first step was accomplished through:

- development of an Environmental Impact Matrix early in project preparation, to guide project design, that identified potential environmental benefits, risks and uncertainties and suggested possible management measures to enhance benefits and minimise risks and uncertainties; and

- review of draft project design documents as they were made available and providing comments and suggestions to the project preparation team.

The second step, the completed draft EIA, is based on the final project preparation documents for the two major project components (June-July 2003) and several supplementary documents prepared after pre-appraisal by World Bank consultants (July 2003). It follows the analytical framework and contents for an EIA prescribed in Annex B of the World Bank Operational Policy on Environmental Assessment.

Summary Impacts

2. Of the four project components only Smallholder Plantation component has the potential to generate environmental risks and negative impacts; the other three components provide significant opportunities for improved environmental practices and biodiversity conservation. The potential negative impacts of plantations include: the conversion of valuable native vegetation communities, uncertainties about plantation sustainability and soil nutrient depletion, and the effects of plantation operations and small-scale infrastructure development on soil erosion and water quality degradation. As detailed below, all of these potentially negative impacts cam be avoided or mitigated by good planning during site selection, the use of diagnostic nutrient budgeting models to derive appropriate management regimes (rotation periods and harvest rates), and the application of environmental protection guidelines to plantation operations.

3. ***Smallholder Plantation Component*** will establish forest plantations and promote tree growing by rural communities, many of whom are ethic, poor or both. It will provide technical and financial support for small-holders to chose and implement a range of tree cropping systems, including: short and longer

rotation plantations, mixed forestry-agriculture crops, and non-timber tree plantations (e.g. cashew nuts, cinnamon, rubber, rattan, etc). While SFEs may also participate if they meet agreed-to eligibility criteria, it is likely that very few will chose to do so.

4. Early in project design it became apparent that no single plantation model would suit all project situations. Rather, participants would have to be given a range of alternatives from which to chose the one(s) that fit their particular site(s), level of skill, personal needs and economic circumstances. Thus the project has proposed an initial range of 8 plantation models: models 1 to 4 focussing solely on wood production; and models 5 to 8 providing choices of mixtures of wood and non-wood forest products and food production in agro-forestry systems that could be applied both to sedentary and rotational agriculture. Details of these eight models are provided in the main EIA report. These eight models are expected to evolve and expand as households become more oriented toward tree growing market opportunities and as plantations expand into areas with different site conditions. During the project, the provincial PMUs, will develop and evaluate appropriate tree growing models for representative site conditions in their provinces.

5. The small-holder plantation component has the potential to contribute to closing the gap between domestic demand and supply of wood products, and thus reduce pressures on remaining areas of natural forest, providing that the respective products are substitutable in the market. With provision of adequate extension services, proper choice of species, and environmentally sensitive cultural practices, this component could also lead to the rehabilitation of many degraded lands and to real improvements to the welfare of local communities, providing that:

- due attention is paid to sustaining site productivity;
- participation is voluntary;
- all relevant households have equal opportunity to participate;
- there are no changes to land tenure, resource access or land use that will impact food security or otherwise disadvantage local communities; and
- credit and marketing arrangements are accessible, fair and equitable.

6. The most significant potential environmental impacts associated with this component are:

- that overly simplistic (in terms composition and structure) plantation communities may be vulnerable to pest and nutrient depletion, thus requiring;
  enhanced levels of inputs (fertilizers and pesticides); and
- poor cultural practices may lead to soil depletion and surface water quality degradation.

As part of the full EIA, Environmental Protection Guidelines for Plantation Management have been prepared that prescribe environmental impact management measures in nine main areas: site selection, species selection; management regime, plantation establishment; plantation tending; integrated pest control; fire prevention and control; access and harvesting; and monitoring and evaluation.

Additional GEF Annex 6: Summary of Social Analysis and Safeguards
VIETNAM: Forest Sector Development Project

1. Social Assessments (SA) were carried out during the preparation of the Vietnam Forest Sector Development Project under the responsibility of MARD. The specific purpose of the SA was to:

- Increase opportunities of positive social impact and reduce risks of negative social impact, and
- Ensure compliance with the World Bank's operational policies on indigenous peoples (OD 4.20) and involuntary resettlement (OP 4.12)

Since the Smallholder Plantation component and the Special Use Forest component have different scope and design and were prepared by two different technical assistance teams, separate SA were carried out following a common overall approach.

Stakeholders and Consultations during the Social Assessment Process

2. The SA identified all project stakeholders, and the social assessment process itself involved extensive consultations with all identified stakeholders.

Smallholder Plantation Forest Component. Since the project communes were already identified, the SA has taken the form of an extensive consultation with 14 weeks of field visits in the 4 project provinces. The SA has involved 7 professionals including 4 social science specialists and 3 rural development specialists, both Vietnamese and international. Some 140 households and more than 40 commune cadres were consulted in 15 percent of the proposed project communes. All household interviews were conducted directly in Vietnamese. Additional interviews took place with district and province-level stakeholders and candidate State Forest Enterprises (SFEs). A visit of at least two days has been paid to one community from each of the 4 main ethnic groups living in the proposed project districts.

Special Use Forest Component. Due to the programmatic nature of this component and its wide geographical scope, the SA was limited to a one-month assignment by one social science specialist and a forestry specialist. The two weeks of fieldwork in 2 provinces have allowed some consultation with households and with institutional stakeholders. The SA outlines the steps to ensure that appropriate consultation with local people takes place during project implementation, especially when preparing applications for the conservation fund.

3. ***Main Findings from the Stakeholder Analysis.*** While many of the potential sites for the conservation fund are in remote and isolated areas, plantation sites have been identified in the lowland and the less remote uplands of the proposed provinces. The two parts of the project therefore involve contrasting sets of stakeholders and the issues are different under the two components. The following are the main social issues identified during the stakeholder consultations:

Smallholder Plantation Forest Component

- *Land use, land management and allocation*. In many, especially upland, areas, there are differences between actual land use and the official classification of land. Thus some forest land and land classified as "unused" are in fact used for agricultural purposes by people. Most forest land has not yet been allocated according to the land law, but is under customary tenure, with a known de facto manager. The project area is now in a transition from customary tenure system to

formal allocation of forest land by issuing Land Use Certificates (LUC, commonly known as Red Book).

- *Food security and the role of rotational ("swidden") agriculture.* The number one concern of most medium and poor people is year round food security. While rotational agriculture (shifting cultivation) is not formally recognized, the practice is largely tolerated by local authorities due to its importance to households. Generally, upland rice is no longer a common crop, as yields are too low, due to a very short fallow period (3-4 years). The preferred crops are maize and cassava, which provide cash income for farmers, critical in their food security and livelihood strategies. The practice of swidden is not limited to ethnic minorities, but is practiced by all groups, including the majority group (kinh).
- *Gender*. The law provides for joint titling of land for husband and wife. This is however seldom practiced. Female headed households have difficulties accessing land, as they are viewed as having limited capacity. Many households are de facto female headed during long periods, as the husband migrates seasonally for casual employment. Differences appear between men and women in preferences for tree species, with women preferring fuel wood, and men preferring timber species. While women often will do seedling production and forest tending, they are generally excluded from extension services.
- *Relation between SFEs and local communities.* Many SFEs still consider forest activities and forest land as their 'domain', and reform and change is only advancing slowly. Commune authorities and farmers often have negative views about the SFEs, because they feel that the good quality soils have been given to the SFEs, and that they are operating in a top-down mode, not including local people and authorities in decision making and plantation planning.

Special Use Forest Component

The main social issues raised by stakeholders and emerging from the SA are the following:

- *The threat of restriction on resource use by legislation related to SUFs.* Prohibitions on the use of forest resources by local people are far from being enforced. The understaffing and under funding of protected area management boards is such that patrols have not had the means to fully implement existing regulations. Moreover, forest protection authorities acknowledge the extent to which many of the rural poor continue to depend upon forest resources. In this context, SUF management boards have adopted pragmatic strategies. Local communities are allowed to make some use of resources within the protected zones, while forest protection officers focus their attention on more destructive violations committed by illegal loggers and hunters who operate on a larger scale and are usually not associated with local communities. However, the very threat of complete restriction to access sometime in the future has created insecurity and led to ruthless behavior in the use of resources. In some situations, the restrictions have led local people to think that they should get as much from the forest as they can before the law is really properly implemented, or before other people do.
- *The absence of development activities in and around SUFs.* At present there is little coordination between buffer zones and protected areas on conservation-friendly development activities. Short-term forest protection contracts under Program 661 are the only development activity in the buffer zone which makes any connection between local people and forest resources, but it falls short of providing a long term, targeted solution.
- *Involvement of local communities in natural resource management*. Currently the law restricting people's use of forest resources is not being fully implemented. In practice, very informal local level agreements exist on what local communities can and cannot collect from the protected areas. Harvesting that is tacitly permitted by forest protection staff tends to reflect the harvesting patterns

and items harvested by those people who are most reliant on the forest for subsistence. Some SUF management authorities have begun to contract local people on an ad hoc basis to assist in forest protection and many of them have indicated that they would like to further develop co-management and resource negotiation agreements with local people.

- *Resettlement of people out of the SUF*. When a protected area is established, people living inside the protected area are 'enclaved', that is, a boundary is drawn around their residence and fields which remain within the boundaries of the protected area. They are encouraged to move through cash compensation packages, construction of new houses, and infrastructure built in areas outside of the core zone. If they do not, they cannot be forced to move. However, they are not allowed (in principle) to make use of resources in the park and are cut off from social and economic development. New approaches have been taken to boundary demarcation in recent years to avoid 'trapping' households inside the reserve. Boundaries are now usually drawn around populated areas so that they do not fall within park boundaries. Some state-planned resettlement of households does occur but it tends to be within buffer zones, as part of the process of allocating agricultural land to local people (usually migrants) and thus reducing pressure on resources in the protected area.

4. ***Main Risks and Opportunities Identified.***

Smallholder Plantation Forest Component. The SA leads to highlight four areas of risk of negative impact. *First*, smallholders might remain a minority of tree growers, especially in upland districts. *Second*, top-down planning practices might result in a project failing to deliver even the most basic information. *Third*, land allocation might impact negatively on the vulnerable groups. *Fourth*, the participation of ethnic minority communities in the project might remain very limited. However, for each type of risk, an important related opportunity has been identified and can reverse the impact of the project into a positive impact. Risks related to land allocation is identified as the major risk factor, especially when large enterprises are involved. To minimize this risk, a transparent, participatory process of land allocation and local project planning is a core feature of the project design, and strict eligibility criteria has been formulated for SFE participation in the project.

Special Use Forest Component. Any initiative to provide greater protection to special use forests bears the risk of impacting the livelihoods of the forest-dependent swidden and "post-swidden" farmers. There is an opportunity for the project to support approaches based on the negotiation of improved resource use and management with local people. The Conservation Fund cannot finance development activities, but its Conservation needs assessments provide a sound forum for strengthening participation of local communities in management of the special use forests, and for a process of negotiation between these and the special use forest management if there is a need for changes in the resource use within the special use forest, resulting in natural resource use agreements. The preparation of these assessments on a case-by-case basis would limit the risk of insufficient attention to the diversity of ethnic groups and to their capacity to adjust to changes in natural resource management on their own terms.

World Bank Social Safeguard Policies

5. ***OP 4.12 Involuntary Resettlement.*** MARD has prepared a draft **Resettlement Policy Framework**, in accordance with OP 4.12, since any adverse impact can not be identified prior to implementation. However, minor land acquisition may occur as access tracks to woodlots may be built and some minor expansion of forestry extension offices in the project districts may take place. Most proposed plantation sites are located within 2 km of a secondary service road. Access tracks within plantation blocks will be limited to those necessary to transport planting materials to the site and to extract products. Tracks

will be limited to narrow tracks used by draft animals and small tractors. Plantation block plans will show how the site is to be accessed. No land acquisition is anticipated during the first year of the project.

6. In the *special use forest component*, the improved management of special use forests may result in reduced access of local people to forest products and land. The Government is implementing its Fixed Cultivation and Sedentarization program. This program sometimes involves some resettlement of small communities of forest dwellers. Such resettlement is not eligible for project funding. This Resettlement Policy Framework will however apply in possible instances where such resettlement is directly related to the achievement of the project conservation objective. Minor construction of small infrastructure such as office space or small tracks might also take place.

7. A Resettlement Policy Framework is needed to address the various types of land acquisition and resettlement that may occur during the project. The Resettlement Policy Framework lays down the principles and objectives, eligibility criteria of displaced persons, modes of compensation and rehabilitation, participation features and grievances procedures that will guide the compensation and potential resettlement of these persons. It further describes the planning and documentation requirements for such activities under the project.

8. This Resettlement Policy Framework includes a Process Framework for the special use forest component. The Process Framework will assess and address restrictions in access to natural resources and remedies to these restrictions on a case-by-case basis. It addresses two World Bank safeguard policies: OP 4.12 on involuntary resettlement and OD 4.20 on indigenous peoples.

9. The main provisions of the draft Resettlement Policy Framework are summarized below:

Principles

- Acquisition of land and other assets will be minimized as much as possible, and a minimum of structures or fixed assets will be affected:
- All Displaced Persons (DPs) will be compensated at full value for the loss of land and other assets.
- Resettlement of individuals or communities (whether voluntary or involuntary) will not be funded by the project. Displaced persons should be provided with rehabilitation measures to assist them to improve their livelihoods and standard of living, or at least restore them in real terms to pre-displacement levels or to levels prevailing prior to beginning of project implementation, whichever is higher.
- Plans for acquisition of land, provision of compensation, and any restriction in forest resource use will be carried out in consultation with the affected people.

The DPs include individuals, groups and organizations that hold land use certificates and other legal titles to the land affected under the project, as well as other rural households and communities who currently use the land or the products of the land without holding legal titles. These have a claim to legal rights based upon (i) the laws of Vietnam, (ii) the possession of documents such as land tax receipts and residence certificates; (iii) the unwritten permission of local authorities to occupy or use the project affected plots, or (iv) continued possession of public land where the Government has not sought their eviction.

Entitlements

DPs loosing agricultural, forestry or residential land due to project activities in any of its components will be entitled to two types of compensation:

- agricultural land or forestry land of equal productive capacity acceptable to the DP (or replacement of premise land of equal size for urban land). The land provided must be free from encroachment, conflict and dispute; or
- compensation at replacement cost (market value) for land lost.

The DPs are informed of both these options. After they have been informed, they are entitled in any case to cash compensation upon their request. Compensation through land is however the preferred option in this Policy Framework for the purpose of ensuring food security. Replacement premise and agricultural land will be as close as possible to the land that was lost, or in another location acceptable to the DP.

Process Framework for the Special Use Forest Component

The purpose of the Process Framework is to establish a process by which communities, potentially affected by biologically justified restricted resource access, and the management authority of an SUF engage in a process of informed and meaningful consultations and negotiations to identify and implement means of reducing, or mitigating the impact of restricted, resource access.

In many SUFs, informal local-level agreements exist on what communities can and cannot collect from the protected areas, although this is not encouraged by the current legislation. This provides opportunities to develop improved methods to protect the important biodiversity resources that are the target of GEF support, while fostering participation and sustainable resource use instead of prohibiting traditional forest uses.

Since the fund will provide grants of a limited amount to individual special use forests, the project will not be in a position to fund alternative income generation activities out of these small grants. The Process Framework therefore focuses on alternative mitigation means. The primary mitigation measure will derive from formal Natural Resource Use Agreements regarding permissible levels of resource use within the SUF. These agreements are a minimum requirement under the Process Framework. Restrictions on resource use will not be enforced prior to the finalization of Natural Resource Use Agreements.

The individuals and communities targeted by the Process Framework are those who utilize natural resources in/from a special use forest that receives assistance from the VCF and may be adversely impacted by improved conservation measures supported by the fund. They live (i) within a special use forest and are affected by the improved management measures, or (ii) in the vicinity of the special use forest, and are users of forest resources inside the special use forest affected by the improved management measures. Individuals and communities considered as illegal occupiers in a special use forest are eligible under this Process Framework.

The Conservation Needs Assessment that forms the basis of an application to the Vietnam Conservation Fund must fulfill the social criteria of the project. These criteria are:

- Information in the Conservation Needs Assessment on uses of natural resources in the SUF was derived from consultation with the local communities whose lives are affected by the SUF;
- The Conservation Needs Assessment has been reviewed and revised with input from these local communities and their representatives; and
- For any activities that restrict local communities' access to resources that are integral to their cultural practices or that they rely on for their subsistence, SUF management authorities negotiate and reach agreement with local communities on acceptable levels of local use of specified

resources.

The need for restrictions on local resource use must be precisely identified. They are limited to those types of restrictions identified in the initial Conservation Needs Assessment or subsequent updates approved by the Vietnam Conservation Fund. The Conservation Needs Assessment provides biological justification for each of these proposed restrictions with a reasonable degree of detail.

When a Natural Resource Use Agreement already exists, participatory activities are undertaken to implement and monitor this agreement. When no such Natural Resource Use Agreement exists yet, consultations and negotiations are undertaken to reach such an agreement. These activities must start no later than 6 months after the VCF application has been declared successful.

Whether a Natural Resource Use Agreement already exists or not, a baseline survey must be undertaken to identify people who reside within areas of improved management and who are affected by them. This survey is to be completed no later than 12 months after the application has been declared successful. The objective of this exercise is to identify the differential impacts on the restrictions on local people, and to be able to monitor its implementation.

At least one person in the special use forest management and/or in the supporting NGO is responsible for consultation and participatory activities. The project's Technical Assistance staff provide support to the special use forests to build capacity in participatory resource management.

In cases where ethnic minorities are users of natural resources from the SUF, the additional provisions will apply:

- Representatives of the relevant ethnic groups and communities will participate in local management boards and in consultation and participatory activities.
- The baseline survey identifies with care the ethnicity, population numbers and location of all ethnic communities in and around the special use forest. Land use inside the SUF should also be described in relation to customary rights, sacred sites, and specific areas for non-timber forest product harvesting.
- The traditional knowledge of native ethnic minority communities is analyzed and is used wherever relevant as a basis for improved natural resource management.
- It is required that improved management initiatives of the special use forest does not create risks of reduced food security among native communities.
- Information and training activities as well as consultation and participatory activities are carried out using the communication guidelines of the Ethnic Minority Development Strategy.

Supervision is carried out by the project's Technical Assistance staff. Lessons learnt are disseminated among special use forests through the first component of the project.

Each SUF receiving VCF funds reports on activities planned under the Process framework and their implementation in its annual planning and implementation reports. This section is entitled: Special Use Forest Process Plan.

Implementation responsibilities

Smallholder Plantation Forest Component. Each of the four provincial PMUs is responsible for the implementation of this Policy framework. It will guide district working groups in carrying out the tasks

required for this implementation. The central PMU remains responsible for organizational support. The national and provincial PMUs and the district working groups will select one person at each level to be in charge of land acquisition. The provincial and district person may be a PMU staff or a staff from a relevant government agency seconded for this purpose. He/she will preferably be in charge of all social and environmental safeguards under FSDP.

The district staff in charge of land acquisition will (i) inform other project staff, Commune People Committees and smallholders about the land acquisition policy, (ii) fill in district land acquisition inventories on a regular basis, (iii) complete annual plans and reports showing totals by commune and for the whole district. Based on these district inventories the PPMUs will prepare provincial Abbreviated Resettlement Plans.

As no land acquisition is foreseen on the first year, the first Abbreviated Resettlement Plans will be for Year 2 of the project. The final Abbreviated Resettlement Plans will identify all project plantations in which forest tracks have not been built but are planned to be built within the next 2 years. Provision will be made to fund this future compensation.

Special Use Forest Component. At the time of applications to the Conservation fund, the national technical assistant for social issues informs the special use forest managers about the Process Framework and supports them to prepare a Conservation Needs Assessment that is fully compatible with this process. The special use forest managers and/or the NGO that provides support to them will appoint a qualified adviser to prepare this section through consultation with the manager, local governments and the communities.

After a grant has been approved, the special use forest managers and/or the NGO that provide support to them allocate responsibility of the consultation and participatory activities to one designated staff.

The VCF secretariat is responsible for overseeing potential occurrence of actual relocation of individuals or communities occur during the project in a special use forest that receives a project grant. The Conservation fund secretariat informs about any such occurrence in its annual implementation report to GEF. It also organizes technical assistance.

In the event of land acquisition for office building or other minor infrastructure, the SUF management unit is responsible for an inventory similar to the district inventories of the smallholder plantation forest component and for delivering compensation for land acquisition.

Grievance mechanisms

At a first stage, displaced persons (or communities in and around special use forests) will present their oral or written complaints and grievances to the Commune authorities, which will have to provide a written response to the DP, within fifteen calendar days of receiving the complaint. If the DP is not satisfied with the decision of the Commune authority, the DP may present the case to the District People's Committee within fifteen calendar days of receiving the written response from the Commune authorities. The decision of the People's Committee should be rendered within thirty calendar days of receipt of the DP's appeal, and can, at the request of the DP within fifteen days, be reviewed and revised by the Provincial People's Committee. The decision of the Provincial People's Committee will be provided to the DP in writing within thirty calendar days of the request.

If faced with inaction or an impasse, the disputing parties are entitled to take the dispute to a higher level of

government authority. If the displaced person or community is not satisfied with the decision of the Provincial People's Committee, the case may be submitted for consideration by the District Court. DPs will be exempted from all administrative and legal fees.

Supervision and Monitoring

Implementation of the land acquisition plans will be regularly supervised by the respective provincial PMUs in coordination with the respective district staff and communes authorities. The findings will be recorded in annual reports to be furnished to the central PMU. Implementation of the consultation and participation section of the Conservation needs assessments will be directly monitored by the Conservation fund secretariat.

The technical assistance staff will carry out independent monitoring of the implementation of (i) the Abbreviated Land Acquisition Plans, and (ii) the Social Screening Reports of the Conservation Needs Assessments. They will monitor the implementation of this Resettlement Policy Framework by visiting all (or a representative sample of) displaced persons at the end of each year from the second year of project implementation. In addition, IDA will periodically supervise the implementation of the Resettlement Policy Framework.

10. ***OD 4.20 Indigenous Peoples.*** In accordance with OD 4.20, MARD has submitted a draft ***Ethnic Minority Development Strategy***, identifying the ethnic minority people who live in the proposed project areas and analyzed the development issues that they face, especially those that relate directly to the development of plantation forests, to the management of special use forests, and to project participation in relation with other stakeholders. Consultations were carried out with representatives of all ethnic groups in the 4 main project provinces. This ethnic minority development strategy directly builds on the suggestions and ideas provided through consultation. The main features of the Ethnic Minority Development Strategy is summarized below:

11. In the *smallholder plantation forest component,* 20 of the 120 proposed project communes have ethnic minority villages. These villages and their communities may need additional support to be able to take full advantage of project opportunities. Ethnic minority development plans will be set up for each commune with ethnic minority villages. Since these commune plans will be prepared with active participation of the communities themselves, this Ethnic Minority Development Strategy is prepared to serve as a basis for the preparation and the implementation of the commune-level plans.

12. In the *special use forest component,* 30 of the 40 eligible SUFs pre-identified during project preparation have a population living in and around the protected areas that mostly comprise of ethnic minority people. The improved management of the protected areas may create opportunities for local people but may also impact their use of natural resources. Special measures need to be taken to ensure that project activities are culturally appropriate to the needs of local communities. The overall design of the project needs to take into account the special needs of ethnic minority people. This has been done in two ways: (i) screening criteria have been designed for the review of applications from special use forests to benefit from the Conservation fund in order to ensure compatibility with OD 4.20; and (ii) a Process Framework has been prepared to address the eventuality that reduced natural resource use is warranted for conservation of important biodiversity. It set the rules of engagement between the SUF management authorities and local communities in negotiating acceptable Natural Resource Use Agreements.

Overall strategy of Ethnic Minority Development

The ethnic minority development strategy aims to promote opportunities of positive project impact on ethnic minority people, reduce risks of negative impact.

The central element of the strategy for the development of ethnic minorities is to reinforce local participation of ethnic minority people. Participation will be reinforced in two ways:

- Ethnic minority representatives will formally participate in project management at local level. It is envisaged that the district working group and the commune working group will eventually include representatives from the smallholder tree growers.
- The project's overall participatory process for the design of plantations and the improved management of protected areas will be implemented in all communes including those with ethnic minority communities. This will require additional inputs to make the process effective and appropriate to the specific features and needs of the ethnic communities.

In the *smallholder plantation forest component*, even with a participatory process, ethnic minority communities may have reduced access to the smallholder plantation forest component due to their lack of capacity to deal with policies, administrative matters, written communication, and generally the mainstream society outside of their own community. The strategy is to use IDA funding primarily to reinforce the capacity of ethnic minority communities to participate in an informed manner in the project and in other matters. Training, communication and other capacity-building activities will be encouraged. Outside facilitators will provide support to the communities in the selection and implementation of activities.

All project information in ethnic minority communities will be in a form appropriate to local needs. Verbal communication in meetings will be used in preference to written information. Time to involve more community members will be taken. In many ethnic groups, the process will start with households with higher status in the community and should then extend to other households. Various ways to allow some participation from women in community meetings will be tried. The experience of locally-active NGOs and other programs will be useful in all these activities.

Another key element of the strategy is based on the recognition that the appropriate ways for ethnic minority communities to develop plantation forest differs markedly from more market-integrated farmers. In upland districts, the project's extension activities would deliver technology that takes into account the specific needs of ethnic minority communities. Agroforestry, and the development of a range of non-timber species such as fruit trees or spices, will be among the technologies promoted by the project. All technology promoted will generally be well-tested, low-cost technology creating no additional risks – with the exception of tree seedlings for which high quality planting material will be a project requirement.

The project would proceed slowly in order to ensure that farmers make informed decisions before taking credit for tree planting. The credit procedure allows farmers to take credit for seed only, and the Ethnic Minority Development Plans may choose to develop tree seedling nurseries in the villages in order to allow some small-scale planting of trees. Training and extension are a means to promote smallholder plantations without households taking credit, provided seedlings are locally available. They will play an important role in ethnic minority communes.

Ethnic Minority Development Plans

Each of the 20 project communes with one or more ethnic minority community, and some of the other 20 project communes with mixed communities, will prepare a Ethnic Minority Development Plan to promote project activities that create opportunities for these communities.

The selection of activities will be based upon a menu of options. An initial menu has been prepared in this document (and is subject to the outcome of consultation with ethnic minority communities). This menu will be updated by using the experience of the first ethnic minority development plans. Updates will be subject to approval from IDA.

Community activities must be related to the objectives of this project. Activities should not duplicate activities for which funding is already available from the project itself or from other local programs. They should not be centered on technology but on capacity strengthening.

The menu of community activities agreed upon at the beginning of the project is as follows:

Eligible community activities:

- All training activities in the commune that contribute to build the capacity of the community or its members to participate in the project.
- Training courses additional to project activities that are planned in all communes, such as: literacy courses, especially for women, and numeracy courses.
- Additional technical training in forestry, such as in the management of a village tree seedling nursery.
- Training in credit management.
- Training in community forest management and/or protection.
- Training in other land use activities and income generation activities.
- Training courses in vocational schools for selected community members

Although the community may select any activity that is of an eligible type in the menu, the facilitators will advise during the meeting that preferable activities are as follows:

- They benefit the community as a whole or large numbers of community members instead of a few individuals;
- They provide benefits that are sustainable or at least last a number of years; and
- Training and other capacity-building is an important type of community activity.

Preparation and documentation of Ethnic Minority Development Plans

At least two meetings are needed to inform communities about the ethnic minority development plan and to select community activities will take place in project communes and villages in addition to the participatory meetings needed for plantation design. The first meeting will provide information and answer questions before plantation design starts. The second one will allow the selection of community activities after plantation design is completed. People invited at this meeting should be not only commune and village leaders but also traditional community representatives and other representatives of local residents. In between these two meetings, each ethnic minority community should be consulted in the form of a meeting of village residents.

At the end of preparation of the Ethnic Minority Development Plan, a short summary should be prepared to document the activities planned. This document should be prepared in a form that is appropriate to the commune and village leaders while providing IDA with clear evidence about on-going activities. Simple Vietnamese language should be used, and a sketch map of the commune should be added.

This summary should not duplicate plantation design documents. It will only provide a rapid description of the project activities planned in the commune, and mostly describe the enhancement and mitigation activities to be funded in addition to the development of plantations.

Implementation, Monitoring and Supervision

The central PMU is responsible for the implementation of the overall Ethnic Minority Development Strategy. Specifically, it takes responsibility for organizing independent monitoring case studies and for resolving any outstanding issue.

The provincial PMUs are responsible for the preparation and implementation of the ethnic minority development plans. They carry out this responsibility in close consultation with the district working group and commune leaders. Specifically, they are responsible for hiring facilitators and for channeling the IDA budget for community activities to the communes and for accounting for all expenses to IDA.

The central, provincial PMU and the district working group designate one staff who is responsible on a part-time basis for the supervision of the implementation of the ethnic minority strategy and plans.

The Commune People Committees are responsible for using the community activity budget in accordance with the commune's Ethnic Minority Development Plan, with the support of the facilitator and the provincial PMU.

The ethnic minority commune facilitator is responsible for providing support to the Commune People Committee during the preparation of its ethnic minority development plan. The facilitator may be (i) a staff from an international NGO or a domestic program on-going in the same commune or district, (ii) an independent provincial, national or international consultant, or (iii) a trainer or researcher from a provincial or national institution. During implementation, he or she takes part in training and other capacity-building activities in the commune as needed, and pays follow-up visits to the commune to help resolve any arising issue.

The international technical assistance position specialized in ethnic minority development identifies and assembles existing materials, and produces new materials where needed, to support institutional strengthening and human resource development. He or she advises the commune facilitators.

The smallholder plantation forest component has adopted an approach to the monitoring of the participation of ethnic minority people based on simple but reliable monitoring of beneficiary numbers, and on the monitoring and evaluation of other issues, including social impact, through case studies:

- Types of beneficiaries (farming households, other households, and organizations) and their plantation areas will be accounted for separately. Name lists recording participation throughout the duration of the project are used for this purpose. The monitoring system will identify ethnic minority people among beneficiaries in a systematic manner, mentioning the names of ethnics groups.
- Case studies will be carried out by independent consultants with a background in social sciences at project mid-term and before project end. These case studies serve the purpose of monitoring overall social impact and any outstanding issue. Project communes with ethnic minority people will be a focus point of these case studies.
- The initial steps of project work in the ethnic minority communities will require additional supervision and support. At the end of Year 1, an evaluation workshop will take place at local level

to examine the outcome of the strategy in the first commune and decide on improvements and dissemination to other communes. This workshop will be organized jointly by the central PMU and provincial PMU where the Year 1 commune is located. Participants in the workshop will include commune and district representatives, the provincial PMU, the provincial CEMMA, the commune facilitator, and IDA.