1. Country and Sector Background
Vietnam’s poverty reduction and economic growth achievements over the last 15 years stand as a spectacular success story. Thanks to carefully implemented economic reforms and steady macroeconomic management, the annual real GDP growth rate has averaged around 7.5 percent and the rate of poverty has fallen from around 70 percent to below 20 percent with widespread improvements in the lives of Vietnamese citizens. Moreover, it has been possible to maintain this high economic growth rate with only a modest increase in inequality. Despite the impacts of the recent financial crisis, these fundamental improvements are continuing.

Vietnam has achieved these outcomes through, in large part, an impressive investment program which accounted for about 40 percent of GDP with infrastructure taking up one quarter of the total. Public investment accounted for about 12-13 percent of GDP. While these percentages are quite high and cannot be expected to increase much more, maintaining them as the economy continues to grow will require a larger amount of investment in absolute terms. This will entail an increase in the number, size and complexity of most projects with many of the infrastructure projects having much greater social and environmental impacts. More importantly sustaining
this performance of the economy at this high level will require more attention to the quality and sustainability of investments and their timely and efficient execution.

Development projects will continue to be in high demand in all economic and social sectors. The road, rail and waterway transport networks will require expansion for many years to come, if infrastructure bottlenecks are not to impede growth and, in particular, export performance and particularly with Vietnam embarking on a US$30 billion expressway program. Urban transport will likewise require major investments, particularly in expensive, complex, but essential mass transport systems. In urban areas sanitation and drainage is still seriously inadequate, with limited wastewater collection and few wastewater treatment plants and environmentally acceptable solid waste disposal facilities. In rural areas sanitation facilities are virtually non-existent. Flooding still disrupts Vietnam's cities, is costly and is likely to get worse with the increasing effects of climate change. In addition climate change imposes large demands in terms of both adaptation and mitigation. Investments in rural development and agriculture are still a major contributor to growth and poverty reduction. Investment in health is needed to address variations in health indicators by region and province, and by ethnicity and income. Gains achieved in the quality and penetration of education need further support to tap all the talent available and to build up the skills that the economy, and specifically the business community, needs.

Reflecting this demand, Vietnam’s Five-Year Socio Economic Development Plan for 2006–2010 (SEDP) called for a large increase in investment, including from official development assistance (ODA) sources, particularly for infrastructure development. This is expected to continue in the 2011-15 plan. The ODA that needs to be invested and not just committed in 2006-2010, to achieve the SEDP growth objectives, was estimated at the time the SEDP was formulated to be approximately US$11 billion. While this will be less as a consequence of the recent economic crisis, the reduction should not be substantial, since much of the Government’s crisis-related stimulus financing has been allocated to infrastructure development.

The actual expenditure of these ODA financial resources effectively, in addition to the Government’s own financial resources for the required investment, would be challenging when public investment procedures were well-structured and well-implemented. However, this is by and large not the case. Public investment generally, and infrastructure investment in particular, are typically delayed compared with schedules developed when projects were formulated. This applies equally to Bank-financed and other donor financed investments, as has been observed during the Bank’s Country Portfolio Performance Reviews and the Joint Portfolio Performance Reviews undertaken in the context of the Six Banks initiative. The stock of undisbursed ODA funds was about $11 billion at the end of 2008, and this is likely to increase unless project start-up delays in particular are substantially reduced. This delay in investment would deprive the economy of substantial economic and social benefits.

The Government has established an ODA Inter-ministerial Task Force to address this situation. The Task Force is tasked with improving portfolio performance, and is being supported in this

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1 The Asian Development Bank (ADB), Agence Francaise de Developpment (AFD), Japan International Cooperation Agency (JICA), KfW Development Bank (KfW), the Korean Eximbank (KEXIM), and the World Bank. Together these agencies have provided 80% of ODA investment lending to Vietnam.

with significant amounts of technical assistance from the Six Banks group. This is largely
directed at implementing an agreed joint action plan to improve project performance, which
includes activities related to:

(a) Project Preparation and approval

(i) Harmonizing the GoV’s Project Detailed Outline (the Government’s initial
approval document for an ODA-financed project) with the Donors’ Concept
Note;

(ii) Developing and institutionalizing common feasibility study guidelines for the
GoV and donors;

(b) Improving Project start up

(i) Restructuring Project Management Units (PMUs), to ensure continuity between
preparation and implementation phases of projects;

(ii) Advance action for consultant selection and procurement;

(iii) Reducing the differences between GoV and international procurement
procedures;

(iv) Reforming the approach to project cost estimates;

(v) Developing a common policy framework for involuntary resettlement and
environment;

(c) Improving Project implementation

(i) Developing and adopting an aligned monitoring tool, for better reporting and
improved monitoring and evaluation;

(ii) Accelerating contract payments.

There has been some progress on each of these, but much remains to be done. As a specific
example, more effort is required to reduce the tendency of Government agencies to proceed with
each step of project preparation, start-up, and implementation in a rigidly sequential manner,
rather than using parallel approaches when the opportunity to do this exists. For this, much more
use could be made of advance action for selecting feasibility and design consultants, for the early
stages of works procurement, and for resettlement. More broadly, there is a need to increase the
capacity of Government agencies at all levels and, over time, the capacity of national consulting
companies, to prepare projects efficiently, and to high quality standards. The proposed project
will support this objective.

2. Objectives
The Project Development Objective is that Government agencies have increased capacity to plan and prepare public investments efficiently and to international quality standards. Project outcomes will include:

(a) improved quality at entry,
(b) shortened preparation periods and time to realize project benefits, and
(c) increased capacity within government agencies and the national consulting industry to produce project preparation documents of good quality, to an acceptable schedule.

3. Rationale for Bank Involvement
The Bank has been supporting this Task Force’s action plan process both through its membership of the Six Banks group, and also through high level policy interventions, most recently in the form of a development policy loan for public investment reform.3 This program is organized around four main areas which are viewed as essential to strengthening the public investment project cycle:

(a) Project selection (competitive entry, environmental screening, project approval)
(b) Project implementation (cost estimates, procurement, conflict of interest and dispute resolution, land and resettlement, environmental management);
(c) Financial management (reporting and control, administrative costs, environmental budgets, subsidies and guarantees); and
(d) Project oversight (project documentation, monitoring and evaluation)

The proposed project, which draws on the DPL reform agenda and the Government-Six Banks joint action plan, will support the Government’s efforts to improve project quality and performance. It aims to do this though providing assistance with the critical project preparation activity, from both schedule and quality perspectives, by establishing a project preparation facility that can be drawn upon to undertake, for example, feasibility studies, detailed designs, and procurement for projects across all development sectors. The Bank has a comparative advantage due to its experience and involvement in almost all of the country’s development sectors, from policy development through capacity building, to investment operations. The Bank has a rich pool of global and country knowledge that can add significant value to enhancing the quality and efficiency of Vietnam’s project preparation and implementation processes, and effectively support the institutional and procedural reforms that these processes require. Its role as a leading member of the Six Bank group, and as co-chair of the consultative group process, also strengthens its position as a reliable and effective partner for the Government in these reform processes.

The proposed project is also aligned with the Bank’s current Country Partnership Strategy (CPS), in supporting better planning processes, more transparent procurement and stronger public

3 First Public Investment Reform Development Policy Loan, approved for $500 million in December 2009.
financial management, all of which fall under the governance “pillar” of the SEDP. The CPS also emphasizes that the planning process needs to adapt to achieve a more refined assessment of investment priorities.

There is also a strong rationale for an operation of this nature to improve project implementation performance, enhance the quality of investments and speed up the realization of economic benefits. All of these will impact on the quality of the country’s public investment program, including Bank and other donor-financed operations. Secondly, the future shift from concessional to non-concessional financing, for example from IDA to IBRD funding, will necessitate an increase in the scale of projects to reduce transaction costs and increase the effectiveness of ODA funding to the Government. Taking the Bank’s program as an example, the indicative pipeline of sustainable development sector projects for Bank financing foresees investment of $7,500 million over the period FY2011-15. This compares with new financing of $2,400 million over the previous 5-year period.

4. Description
The Project Development Objective will be achieved through the following three components:

**Component A: Project Preparation Facility (US$ 94.7 million)**

The project will finance the preparation of a large number of sub-projects over a five-year implementation period. These range from large-scale infrastructure investments, requiring preparation budgets of up to US$ 20 million, to smaller scale social sector operations, requiring individual consultant inputs costing around US$ 0.5 million or less. The scope of this Component will include all tasks required to complete the preparation of the selected sub-projects so that their implementation can commence as soon as investment financing is available. To be eligible for consideration for funding under this component a sub-project must have been placed on the Government’s approved list of ODA funded projects, be consistent with the Bank’s CPS for Vietnam, or through a specific agreement between the Bank and MPI. Further, sub-project preparation activities beyond the feasibility study stage (for example, detailed engineering design) are contingent upon the viability of the sub-project being confirmed.

**Component B: Project Preparation Facility Support and Capacity Building (US$ 4.70 million)**

This component provides support to the Ministry of Planning and Investment (MPI), the project’s executing agency to assist it with project implementation, and also for capacity building targeting Implementing Agencies (IAs), and broader policy dialogue and studies to improve the country’s overall development program and project performance. There are three sub-components:

- **Subcomponent B.1: Project Preparation Facility Support Services (US$ 3.90 million)**

  These services will provide MPI with the support required to effectively manage the project, through a facility support consultant team with strong project management expertise. The key areas of support to MPI include:

  (a) to screen and process sub-project applications
(b) overall monitoring and evaluation for the project
(c) consolidated financial management
(d) procurement and safeguards guidance to the IAs,
(e) portfolio management and monitoring/quality assurance, and
(f) preparation of a capacity building program to be implemented under Sub-components B.2 and B.3.

These services will be provided initially by a team of individual consultants (the interim facility support consultants) to accelerate project start-up, and subsequently by a consulting firm.

Subcomponent B.2: Project Preparation Capacity Support Services (US$ 0.40 million)

These services are designed to support overall capacity building (primarily targeting the IAs) for project preparation. The capacity support consultants, under the direction of MPI, will provide targeted assistance to (i) sub-project implementation agencies, both individually and collectively, to increase the capacity of these agencies to efficiently prepare projects to good quality standards; and (ii) Vietnamese consultants and planning institutes in terms of the technical aspects of project preparation documents. The interim facility support consultants supporting the PCU will develop and support MPI to implement a detailed program upon mobilization; including assessing ongoing activities, identifying gaps, designing an appropriate program, and coordinating with other institutions to develop effective partnerships.

Subcomponent B.3: Policy Support and Institutional Strengthening (US$ 0.40 million)

These services will provide MPI, and other central government economic agencies such as the Ministry of Finance and the State Bank of Vietnam, with specialist support for improving the country’s overall public investment project institutions and procedures, including support that arises from the work of the joint Government-Six Banks initiative. The B.1 consultants will support MPI to develop the detailed tasks under this sub-component subject to review and approval by the Bank. Activities may include preparing guidelines, workshops, printing and distribution of materials.

Component C: Incremental Operating Costs and Project Management Expenses (US$ 3.60 million)

Component C includes US$ 0.60 million credit funds to support MPI for (i) conducting annual external audits, and (ii) purchasing minor equipment and facilities required to manage the project. The GoV has allocated US$3 million in counterpart funds which will be applied to MPI’s project management expenses. The IAs (during the application process) will prepare its requirements for government counterpart funding which will be applied to their sub-project management expenses.

5. Financing
6. Implementation

**Partnership arrangements**

Initially the Bank will be the sole financing source of the facility, but other development partners may be involved in the future. If the GoV indicates there is a strategic role for other institutions to contribute to and participate in the facility, the Bank would facilitate developing partnerships where appropriate.

**Institutional and implementation arrangements**

The project will provide funding and management support for a financing facility to be utilized by ministries, government-owned entities\(^4\), provinces, and municipalities for preparation of sub-projects that are priority national investments, and intended to be financed by the Bank. The activities supported by the facility could typically include feasibility studies, detailed engineering and design, procurement, and other forms of preparation support.

MPI – with its multi-sector coordinating role – is the project Executing Agency. The project will work with numerous IAs, (ministries, government-owned entities, provinces, and municipal governments) which will access the facility to prepare investment projects for possible follow-on financing from the Bank. The project’s implementation arrangements are presented briefly below.

**Steering Committee (SC).** The Facility will have a SC to ensure coordination and accountability during project implementation. The SC will be chaired by a Vice Minister of MPI. SC members will include the Ministry of Finance (MoF), the State Bank of Vietnam (SBV), and the Office of Government (OOG). The Bank will liaise with the SC.

**MPI**, as the project owner and Executing Agency, will be responsible for project implementation. MPI’s overall role will be to monitor, coordinate, and manage the project, to provide IAs with capacity building support where required, and to ensure that project IAs implement their respective subprojects effectively, to agreed schedules, and in accordance with the Project Operations Manual (POM).

**Project Coordination Unit (PCU).** MPI will establish a PCU that will be responsible for project coordination and implementation – including procurement of consultants necessary for its functions, financial management, monitoring and evaluation, ‘top-level’ quality assurance of activities undertaken by the IAs, capacity building for IAs (that require this support), overall safeguards compliance of the program, and complaints handling. MPI will procure and manage

\(^4\) Government-owned entities, with separate legal status, for example, the Vietnam Expressway Corporation, Electricity Vietnam, city and municipal water utilities, etc.
the Facility Support Consultants who will report to the PCU in all of its responsibilities. The PCU will be responsible for screening and clearing Sub-project Proposals from IAs based on agreed eligibility criteria and processes.

**Implementing Agency.** The project IAs (through their Project Management Unit) will be responsible for applying for facility funds, procurement of consulting services for implementing sub-project preparation, management of all contracts, and ultimately for preparing the subsequent investment loans. The IAs will also be responsible for ensuring funds are administered in accordance with the POM and the Bank’s policies and guidelines. The IAs will work closely with the Bank’s Task Teams for the respective sub-projects during sub-project preparation.

**World Bank.** The Bank will supervise all activities at the project and sub-project level. At the project level, the Bank’s *Project Task Team* will coordinate with, and supervise MPI’s implementation of the project. At the sub-project level, the Bank *Sub-project Task Teams* (responsible for preparing the sub-project investments) will be responsible for coordination and supervision of preparation activities carried out by the sub-project IAs. The *Project Task Team* will monitor sub-project performance through the online monitoring system developed for the project and, where necessary, will meet with sub-project task teams to identify and resolve issues that are delaying sub-project implementation.

7. **Sustainability**
Since the project is the establishment of a funding mechanism for subproject preparation, the sustainability issue in its usual definition does not arise. The project builds on current practices of grant financing for project preparation to put in place a sustainable model for preparing public investment operations. The capacity building aspects of the Component B activities, for MPI and for the IAs, will support this transition to sustainability. The PPTAF will be one element of larger on-going program being implemented jointly by GoV and the donors to improve efficiently planning, preparation, and implementation of projects.

The project will build capacity to for the high quality and timely implementation of projects. The focus of this project will be on the preparation of about 20 sub-projects. The project will also build capacity within MPI and some implementing agencies to better prepare projects. While it is anticipated the benefits of this project will be substantial, there may be a need to replicate and broaden the project to include participation in the financing by other development partners and possibly the government. Projects that are prepared by the facility could also be financed by other development partners or the government. The different modalities will be explored during project implementation.

8. **Lessons Learned from Past Operations in the Country/Sector**
The project’s design has evolved from studies of causes for delayed project implementation, which have typically caused delayed and/or reduced project development benefits, and slow disbursement of project loan funds. These studies, undertaken by the Government itself, and also by its development partners, have demonstrated that slow project start-up is a major cause of project delays, and also that these delays could be reduced by preparing projects through a separate facility before the investment project financing was in place.
The project’s own implementation arrangements reflect these study findings. The project executing agency, MPI, will have access to adequate consulting services to assist it with managing the project, assessing applications for subproject support, and preparing documentation compliant with the Government’s and the Bank’s requirements.

9. Safeguard Policies (including public consultation)

<table>
<thead>
<tr>
<th>Safeguard Policies Triggered by the Project</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment (OP/BP 4.01)</td>
<td>[X]</td>
<td></td>
</tr>
<tr>
<td>Natural Habitats (OP/BP 4.04)</td>
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</tr>
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<td>Pest Management (OP 4.09)</td>
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<td>Indigenous Peoples (OP/BP 4.10)</td>
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<td>Physical Cultural Resources (OP/BP 4.11)</td>
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<td>Involuntary Resettlement (OP/BP 4.12)</td>
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<td>Forests (OP/BP 4.36)</td>
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<td>Projects on International Waterways (OP/BP 7.50)</td>
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</tr>
<tr>
<td>Projects in Disputed Areas (OP/BP 7.60)*</td>
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<td>[X]</td>
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</tbody>
</table>

The project is a technical assistance facility for project preparation that will finance studies and related activities only. As the project will not include any physical implementation or works, it will have no direct environmental or social impacts. OP 4.01 will be triggered by the project, since it involves the preparation of safeguards instruments. Individual sub-project safeguard instruments will certainly address any or all other safeguard policies, which will be fully considered during the preparation of the necessary safeguard documents. However, these other safeguard policies would actually be triggered only under the ensuing respective investment projects.

A comprehensive Safeguard Management Framework (SMF) has been prepared that sets out the procedures to be used under the PPTAF to (i) ensure that projects are screened for their potential environment and social impacts, (ii) identify applicable Bank safeguard policies and national laws and regulations, (iii) assign EA categories, (iv) determine the type and scope of safeguards instruments required (for each project), including consultation and disclosure requirements for such instruments, and (v) assess capacity for safeguard management and provide support when needed. At the project level, the PCU set up within the Executing Agency (MPI) will be responsible for the compliance of all preparation work with Bank policies and requirements, including all safeguard policies. The PCU will be assisted by the FSC team that will include international environmental and social specialists. These specialists will assist sub-project implementing agencies with screening their proposed sub-projects, scoping, and preparing TOR, and subsequently, supervising and reviewing the various safeguard studies to assure their quality.

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas
The specific key stakeholders for this project are not known but the processes and responsibilities set out in the SMF described above will ensure that for all EIA, RAP and other safeguard instruments that require stakeholder involvement, adequate public consultation will be undertaken, and will also be properly documented at the appropriate stage(s) of the sub-project preparation. All safeguard instruments prepared for subprojects, such as EA, EAP, RAP, or IPDP that reach the final draft stage while still being managed by this project will be disclosed as required under Bank policies, both locally and to the Bank's InfoShop; the respective responsible agents are the IA for local disclosure, and the Bank's subproject task team for the disclosure to the InfoShop. Compliance with the requirements for local disclosure will be assisted as needed by the environmental / social specialists of the FSC team (supporting the IA PMU). Once the safeguard studies have been completed the Bank’s task team for the follow-on investment operation takes over and continues with the processing steps; final disclosure to the InfoShop during appraisal of the investment project will be their responsibility.

10. List of Factual Technical Documents

N/A

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