### I. Project Context

**Country Context**
Vietnam has achieved remarkable poverty reduction results over the past 15 years for all segments of society. Sustained and broad-based economic growth has been central to Vietnam’s success. These achievements in the 1990s are generally attributed to market-oriented policies that created economic opportunities for the majority of the poor; economic reforms contributing to the rapid development of the private sector; and widespread improvements in access to basic education and health services far better than the norm for countries at similar levels of development. Reform momentum continued in the 2000s and growth rates remained consistently high. Pro-poor programs became more varied to address the needs of an increasingly diversified rural population and new initiatives were introduced to address concerns about rising inequality between regions and socio-economic groups.

The Government of Vietnam’s (GoV) poverty reduction efforts have included targeted area development programs and related policies to improve the living conditions of ethnic minorities.
(EMs). Programs were also developed to address rising household vulnerability, such as the Hunger and Poverty Eradication Program (HEPR), health insurance for the poor, and monthly social protection allowances paid to the most vulnerable under Decree 67. A new budget law went into effect in 2004 that facilitated rapid decentralization; 45 percent of public spending decisions are now made at provincial and lower levels. Equalization grants were put in place (with provincial poverty rates included in the allocation formulas) to ensure adequate funding for capital and recurrent costs in less well-off provinces. For some of the poorest provinces, equalization grants from the central budget comprise more than 90 percent of the overall provincial budget.

While Vietnam’s success at alleviating poverty has been noteworthy, poverty has become increasingly concentrated among ethnic minorities. Recent evidence suggests that overall progress has slowed and there is a large and growing gap between some of the poorest households and the better off, as well as a persistent gap between different regions of the country and well as households living in urban and rural areas. While the overall rate of poverty for the country as a whole stands at 20.7 percent, there is a marked difference between the rate of urban poverty (6%) and that of the rural population (27.0%). Notably, while the poverty rate for the Kinh/Hoa majorities was only 12.9 percent in 2010, 66.2 percent of minorities lived below the poverty line. In 2010, ethnic minorities accounted for 70 percent of individuals in the poorest welfare decile, up from 53 percent in 2006, even though they make up less than 15 percent of the total population.

Slower progress in the gains of ethnic minority groups is also reflected in other (non-income) measures of welfare. Although education levels have improved, in 2008, 45 percent of EM household heads still had not completed primary school (compared to 25 percent of Kinh/Hoa household heads) and less than 10 percent of ethnic minority heads had completed upper secondary school or tertiary education. In light of their limited education achievements, it is not surprising that most members of ethnic minority households still work primarily in agriculture and as unskilled labor. This stands in sharp contrast to the Kinh/Hoa majority who continue to move out of agriculture and into (higher paid, higher skill) industrial and service activities. According to the 2008 VHLSS, 83 percent of workers from ethnic minority households still said agriculture was their primary sector of employment, as compared to only 44 percent of workers from Kinh/Hoa households. Nutritional outcomes also diverge. In 2010, some 37 percent of EM children less than five years old were stunted, compared with a 22 percent incidence among Kinh children.

In terms of landholding, ownership of assets and access to essential public goods and services such as clean water and electricity, EMs are also demonstrably lagging behind. While total landholdings of EMs are actually larger than for the majority group, the quality of land is more likely to be of poorer quality. They also own forestland, but hold this as custodians and are unable to exploit it fully for commercial gain. These lower quality land holdings are also more susceptible to weather-related stresses and shocks that in turn negatively affect traditional livelihood strategies and returns. Analysis of EMs living in the extremely difficult communes shows that they are far less mobile and less integrated into labor markets than their majority neighbors, are more likely to be engaged in agriculture for subsistence, and much less likely to be producing higher value or industrial crops for which the economic return is far higher. Moreover, the distribution of welfare for ethnic minorities has changed more slowly than for the general population and remains highly concentrated around the poverty line. As such, a high percentage of EM households are at greater risk of falling back into poverty as a result of financial shocks, adverse weather, commodity price shifts or agriculture-related pests or diseases.
The paradoxical ‘poverty despite growth’ phenomenon is particularly persistent among the EMs in the Central Highlands (CH) of Vietnam. With an estimated 73.6 percent of the CH minorities living below the GSO-WB poverty line, the situation for these groups in this region is considered to be the worst in the country. Moreover, Central Highlands ranks at the top in terms of income inequality. According to VHLSS and Nutrition Surveillance data, the CH has the worst rates of stunting and wasting among children in the country, the lowest rate of primary school enrollment and less than half of EM children enrolling in lower secondary school. Many EM households eke out a precarious livelihood combining various activities and, quite commonly, recurrent patterns of indebtedness. Yet, all this happens in a region that has experienced almost double the national average rate of economic growth over the past 10 years (at 12 percent), and has featured rapid growth in multiple sectors (including tourism, mining, coffee, industrial crops, and horticulture), some of which provide widespread employment opportunities. The region also lies in close proximity to coastal growth poles (for instance, Danang for manufacturing and logistics; Nha Trang for tourism and fish processing), that represent significant opportunities.

**Sectoral and institutional Context**

Policies, strategies and programs to tackle EM poverty remain a high priority for the Government. While there is wide diversity among the EMs of Vietnam both in terms of challenges they face and economic well-being, recent analytical work on these groups point to four general constraints to improving welfare: access to less productive lands, less secure rights to natural resources, lower levels of education, and stereotyping and other cultural barriers. The latter two constraints have had a negative impact on access to markets and services and overall levels of social mobility.

A focal effort bridging the growth and poverty reduction agendas in the CH region fits within the context of several (past and present) programs and plans of the Government. Resolution 80, issued by the Government in late 2010 presents a common framework for sustainable poverty reduction. This framework is still under development is being coordinated by the Ministry of Labor, Invalids and Social Assistance (MOLISA). The specific content of this framework is still under development. MOLISA is also overseeing the program to support the poorest 62 districts in Viet Nam (the “30A” program). The Committee on Ethnic Minorities (CEM) has also recently proposed an investment program for the poorest communes in upland and ethnic minority areas, which is a follow-up of the Bank supported P-135 Phase 2 program. At the same time, the Ministry of Agriculture and Rural Development (MARD) is coordinating a new national targeted program for “New Rural Areas” (NRA) featuring a broad set of infrastructure and access to services targets for each rural commune in the country. This multi-sectoral interest in and support for rural poverty reduction among EM and other poor communities presents an opportunity for the proposed project to seek synergies and leverage other complementary inputs to achieve better development outcomes.

Despite these Government and other partner-supported efforts, several gaps remain. One relates to the degree and quality of participation of indigenous EM groups in decisions regarding local development initiatives that directly affect them. This stems, in part, from the unique demographics of the Central Highlands in which many communes feature a mixed population of Kinh, migrant EM and indigenous EM households, with the latter frequently being underrepresented within commune leadership. A second gap is the typical lack of synergy between efforts to upgrade community infrastructure and those to strengthen livelihood opportunities. A third gap relates to the still poor ‘connectivity’ between many EM communities and regional economic centers/growth centers.
poles. Physical connectivity—via communal access roads and linkages between these and the broader district/provincial road network—remains limited for some communities. Yet, just as important are various for ms of socio-economic connectivity, via marketplaces, product supply chains, and other mechanisms. The project will seek to strengthen multiple forms of connectivity, rather than address EM poverty through isolated interventions.

II. Proposed Development Objectives
The proposed project development objective of the Central Highlands Poverty Reduction project is to: enhance living standards by improving livelihoods opportunities in targeted communes of uplands districts of the Central Highlands of Vietnam.

III. Project Description

Component Name
Village and Commune Infrastructure Development
Comments (optional)
Two sub-components: 1.1 design, construction or repair of small-scale village and commune-level infrastructure, and 1.2 financing operational and maintenance sub-projects

Component Name
Sustainable Livelihoods Development
Comments (optional)
Two sub-components: 2.1 self-reliance (food security) and income generation for h/holds, and 2.2 market linkages initiatives involving productive partnerships w/ agro-businesses

Component Name
Connective Infrastructure Development, Capacity Building and Communications
Comments (optional)
Three sub-components: 3.1 connective (intra & inter commune) infrastructure, 3.2 capacity building (including tech assistance), and 3.3 communications

Component Name
Project Management
Comments (optional)
Two sub-components: 4.1 overall management and coordination, and 4.2 monitoring, evaluation and reporting

IV. Financing (in USD Million)

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V. Implementation

A. Institutional and Implementation Arrangements
Institutional Arrangements

The Department of Local and Territorial Economies of MPI would coordinate the overall project and ensure that provinces implement the project in accordance with agreements reached between the World Bank and the Government, as reflected in the Project Appraisal Document and the Financing Agreement. A Central Project Coordination Office (CPO) will be set up to monitor overall implementation, coordinate among the participating provinces and other key partners (such as MARD, MOLISA, the Nutrition Institute of Vietnam, etc.), and report on technical and financial progress of the project to both Government authorities and the World Bank. The CPO is overseen by the Deputy Director of the Department, and would be staffed by a combination of appointed civil servants from MPI and project consultant recruited especially for the project.

At provincial level, Provincial Project Management Units (PPMUs) would be set up within the Department of Planning and Investment (DPI) to oversee the implementation of the project, while at district level, the District Project Management Units (DPMUs), established within the Division of Finance and Planning, would be responsible for the day-to-day execution of the project in their districts and target communes. Staff of both PPMUs and DPMUs will be a combination of appointed staff from DPI, seconded staff from other relevant departments (such as DARD) and project consultants. Given variations in experience and existing “implementation units” in a number of the target provinces and districts, the Bank and Government have agreed to allow certain flexibility in how the staffing is arranged in each locale. It was also agreed that the appointment or hiring of project staff would be the responsibility of the relevant level to ensure effective human resource management. An illustrative staffing plan for each of these three levels is shown in Annex 3 of the Project Appraisal Document (PAD).

At commune level, the existing Commune Development Board (CDB) would be responsible for organizing village groups and facilitating participation in the prioritization process, consolidating and endorsing commune plans, ensuring technical input for sub-project design and implementation, and monitoring the work of contractors and village groups for investments under their control. The existing staff of the CDB (generally Chairman, Vice-chair, accountant, cadastral/infrastructure officer and agriculture officer) would be strengthened under the project through capacity building and support on technical and project management issues. Each commune would also have a Supervisory Board (CSB), consisting of representatives of the Commune People’s Committee, mass organizations (i.e., women’s union, farmers’ union, etc.), village representatives and possibly respected local civil servants (such as the teachers), which oversees the work of the CDB and community groups (LEGs) who are financed under the project. Different structures would be established at village level—either project implementation groups or LEGs—depending on the types of activities being supported, and would be provided training and support to fulfill their respective project implementation responsibilities.

These management units referred to above are overseen by the relevant People’s Committees at provincial, district and commune levels. These Committees are responsible for ensuring sufficient and timely counterpart funding, ensuring appropriate coordination across departments and integration with local development plans, and resolving technical, administrative or political constraints that may arise. Each participating commune, district and provincial PC would issue a formal decree to establish the relevant PMUs and to appoint the Director, vice-Director, and key staff (financial management) of the management unit.
Implementation Arrangements

As a project that builds on a foundation of community-driven development, a process of bottom-up planning will be used to identify component 1 (commune and village level infrastructure) and component 2.1 (livelihoods) investments, and to recommend those financed under component 3.1 (connective infrastructure) investments. Component 2.2 investments that would promote livelihoods activities with market linkages will be prepared in a different manner discussed below. Sub-project investments under components 1 and 2.1 must be identified, prepared and proposed annually at village level. The process for developing and approval of these sub-project plans will involve four stages: participatory needs assessment at village level, sub-project concept identification and recommendation by villages, technical review and prioritization by communes, and district endorsement of commune plans. A slightly different process would apply for component 2.2, which would necessarily be more selective. Investment activities would be identified through a process where demand for support by villagers is matched by an analysis of natural resource conditions and viable commercial interest and outlets. Business development officers (BDOs), based in each DPMU, will be responsible to appraise the sub-project concepts. District PMUs would have responsibility for identifying component 3.1 “connective” investments based on priority recommendations that emerge from the commune plans and through their own analysis of what investments could optimize “connectivity” in their project area.

Financial management, disbursements and procurement: Overall responsibility for financial management (FM) and procurement under the project rests with MPI at national level. MPI will delegate responsibilities for FM and procurement to project management units at central, provincial and district levels, and existing commune development boards. Specific regulations, procedures, systems and requirements to operationalize the fiduciary systems will be described in detail in the Project Implementation Manual (PIM). Existing staff at commune level will be trained in the basic requirements of systems, particularly relating to community procurement and financial management, which would be outlined in separate sub-manuals. Internal audits would be conducted annually by the Inspectorate of MPI at central level and of DPI at local level, and reports submitted to MPI and the World Bank within 6 months of the completion of the audit. The project would also be audited annually by an independent agency acceptable to the Bank.

Safeguards: The CHPov is rated a category B project—partial assessment—and therefore requires an Environmental Assessment as per Operational Policy (OP) 4.01. Given the demand-driven nature of the project’s investments, the Environmental Assessment requirements are addressed through the use of an Environmental and Social Management Framework (ESMF) document. The Operational Policies regarding Forests (OP 4.36), Pest Management (OP 4.09), Indigenous Peoples (OP 4.10) and Involuntary Resettlement (OP 4.12) are also triggered under the project. Based on experiences with similar projects in Vietnam and the initial identification of sub-projects in the Government’s feasibility studies, the Bank concludes that the overall impacts of CHPov will be positive. Furthermore, it is felt that any negative environmental impacts of investments would be minor, temporary, site-specific and reversible, and limited to the construction phase of the sub-projects. As such, they would be addressed through the application of basic Environmental Codes of Practice (ECOPs) and technical guidance on appropriate construction designs and practices. These ECOPs are included in the ESMF.

A Resettlement Policy Framework (RPF) document has been finalized. The RPF includes
procedures and forms for preparing annual Provincial Resettlement Action Plans, if needed, based on initial screenings of sub-projects to be done by district and provincial project staff. The OP on Indigenous Peoples has also been triggered. Given that the majority of the project’s beneficiaries will be members of EM groups, the project has been designed specifically to directly benefit these groups and is considered in compliance with OP 4.12. Consistent with this policy, a social assessment (SA) has been undertaken and disclosed prior to appraisal. As a participatory demand-driven project, free, prior and informed consultation that would result in broad community support for project investments will be undertaken before any sub-project is approved. As part of this participatory process, particular attention will be given to ensure that mitigation measures and project benefits are culturally appropriate. This process would be fully elaborated in the PIM. A grievance redress mechanism that would cover all aspects of project management and implementation, including the application of relevant social and environmental safeguards and mitigation measures would also be included in the project and described in the PIM.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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