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ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR 161.80 MILLION
(US\$250 MILLION EQUIVALENT)

TO THE

SOCIALIST REPUBLIC OF VIETNAM

FOR THE

RESULTS-BASED NATIONAL URBAN DEVELOPMENT PROGRAM IN THE
NORTHERN MOUNTAINS REGION

May 1, 2014

Vietnam Sustainable Development Unit
Sustainable Development Department
East Asia and Pacific Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2014)

Currency Unit = Vietnamese Dong (VND)

VND 21,097 = US\$1

US\$1.5451 = SDR 1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACG	Anti-Corruption Guidelines
BP	Bank Procedure (World Bank)
CPC	City People’s Committee
CPS	Country Partnership Strategy
DLI	Disbursement Linked Indicator
DOC	Department of Construction
DONRE	Department of Natural Resources and Environment (Province)
DPF	Division of Planning and Finance (City-level)
DPI	Department of Planning and Investment (Province)
ECOP	Environmental Codes of Practice
EHS	Environment, Health and Safety
EIA	Environmental Impact Assessment
EPC	Environmental Protection Commitment
ESSA	Environment and Social Systems Assessment
FSA	Fiduciary Systems Assessment
GDP	Gross Domestic Product
GI	Government Inspectorate
GoV	Government of Vietnam
GSO	General Statistics Office of Vietnam
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
INT	Integrity Vice Presidency (World Bank)
IRR	Internal Rate of Return
IT	Information Technology
IVA	Independent Verification Agent
LIA	Low Income Area
M&E	Monitoring and Evaluation
MOC	Ministry of Construction
MOF	Ministry of Finance
NUDP	National Urban Development Program

OP	Operational Policy (World Bank)
PAP	Program Action Plan
PDO	Program Development Objective
PforR	Program for Results
PMU	Project Management Unit
POM	Program Operational Manual
PPC	Provincial People's Committee
PPT	Project Preparation Team
PPTAF	Project Preparation and Technical Advisory Facility
RBNUDP-NM	Results-Based National Urban Development Program in the Northern Mountains Region
SAV	State Audit of Vietnam
SEDP	Socio-Economic Development Plan
SOE	State Owned Enterprise
TABMIS	Treasury and Budget Management Information System
UDA	Urban Development Agency (of MOC)
US\$	United States Dollar
VND	Vietnamese Dong
WCC	Worker's Codes of Conduct

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VIETNAM

Results-Based National Urban Development Program in the Northern Mountains Region

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PAD DATA SHEET

Vietnam

**Results-Based National Urban Development Program
in the Northern Mountains Region (P143596)**

PROGRAM APPRAISAL DOCUMENT

EAST ASIA AND PACIFIC
SUSTAINABLE DEVELOPMENT

Basic Information

Date:	May 1, 2014	Sectors:	General urban transportation sector (40%); Urban Upgrading and general water, environment and sanitation sector (35%); National and Sub-national government administration (25%)
Country Director:	Victoria Kwakwa	Themes:	Urban Infrastructure; Decentralization; Public Sector Reform
Sector Manager/Director:	Jennifer J. Sara / John A. Roome		
Program ID:	P143596		
Team Leader(s):	Parameswaran Iyer, Huyen Thi Phuong Phan		
Program Implementation Period:	6 years	Start Date:	01-Jan-2015
Expected Financing Effectiveness Date:	03-Dec-2014	End Date:	31-Dec-2020
Expected Financing Closing Date:	30-Jun-2021		

Program Financing Data

<input type="checkbox"/> Loan	<input type="checkbox"/> Grant	<input type="checkbox"/> Other
<input checked="" type="checkbox"/> Credit		Terms: The credit would be on IDA blend terms, with a final maturity of twenty-five years, including a five-year grace period.

For Loans/Credits/Others (US\$M): 250

Total Program Cost:	300	Total Bank Financing:	250
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Total Co-financing: 50 Financing Gap: 0

Financing Source	Amount
BORROWER/RECIPIENT	50
IBRD/IDA	250
Total	300

Borrower: Socialist Republic of Vietnam

Responsible Agency: Ministry of Construction

Contact: Mr. Trần Quốc Thái

Title: Deputy Director General, UDA

Telephone No.: 0983025527

Email: tranquocthai.moc@gmail.com

Expected Disbursements (in US\$ Million)

Fiscal Year	2015	2016	2017	2018	2019	2020
Annual	33.37	52.89	35.95	51.48	58.90	17.41
Cumulative	33.37	86.26	122.21	173.69	232.59	250.0

Program Development Objective: *to strengthen the capacity of participating Northern Mountains cities to plan, implement, and sustain urban infrastructure*

Compliance

Policy

Does the Program depart from the CAS in content or in other significant respects? Yes [] No [X]

Does the Program require any waivers of Bank policies applicable to Program-for-Results operations? Yes [] No [X]

Have these been approved by Bank management? Yes [] No []

Is approval for any policy waiver sought from the Board? Yes [] No [X]

Does the Program meet the Regional criteria for readiness for implementation? Yes [X] No []

Overall Risk Rating: Substantial

Legal Covenants:

Name	Recurrent	Due Date	Frequency	
Institutional and Implementation Arrangements (Section I.C of Schedule 2 to the Financing Agreement)	X			
Description of Covenant Provision requiring the Recipient to carry out the Program in accordance with institutional and administrative arrangements of the National Urban Development Program (NUDP); undertake (and cause the Participating Cities to undertake) the actions set forth in the Program Action Plan; and carry out (and cause the Participating Cities to carry out) the Program in accordance with the Program Operations Manual.				
Name	Recurrent	Due Date	Frequency	
Verification reports (Section III.A.2 of Schedule 2 to the Financing Agreement)	X	July 31	Annually	
Description of Covenant Provision requiring the Recipient to cause the State Audit of Vietnam to undertake a verification process in accordance with terms of reference acceptable to the Association for the fulfillment of the Disbursement Linked Results and to furnish, by no later than July 31 of each CY, the corresponding verification reports.				
Name	Recurrent	Due Date	Frequency	
Mid-term review (Section III.C.2 of Schedule 2 to the Financing Agreement)		September 30, 2017		
Description of Covenant Provision requiring the Recipient to carry out jointly with the Association a midterm review to assess the overall progress in implementation of the Program and, based on the conclusions of the review, take any needed measures.				
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VIETNAM
RESULTS-BASED NATIONAL URBAN DEVELOPMENT PROGRAM IN THE
NORTHERN MOUNTAINS REGION

I. STRATEGIC CONTEXT

A. Country Context

1. Vietnam is entering a crucial period in its urban transition, as both the population and economy begin to rapidly urbanize. Over 30 percent of the population currently lives in urban areas and, with an annual growth rate of 3.4 percent, this is expected to reach 45 percent by 2020. Urbanization involves significant changes to welfare and basic service delivery needs, the physical form of urban areas, and the administrative arrangements for urban management. The Vietnam Urbanization Review¹ emphasizes the influential and cross-cutting nature of the administrative transition (e.g., the overarching policies as well as institutional and management practices central to urbanization) in ensuring that Vietnam is able to maximize the benefits of the urbanization process in reducing poverty and broadly sharing the advantages of economic growth.

2. Globally, the urbanization process has proven its potential to generate significant opportunities for inclusive growth, poverty alleviation, and environmental sustainability. Urban centers provide agglomeration economies that can enable economic dynamism, scale for the financing and development of major facilities, and a growing source of tax receipts. However, poorly managed urbanization processes can lead to growing inequality, environmental damage, and bottlenecks to economic growth as the provision of urban land and infrastructure fails to keep pace with demand. Inadequate or poorly planned land development can create inefficient urban forms and exclude poor people from effective participation in the benefits of urban growth.

3. Focusing on the Northern Mountains region presents an opportunity to address extreme poverty and promote shared prosperity in Vietnam. Economic growth and poverty reduction in Vietnam over the last two decades has been remarkable - the poverty headcount fell from 58 percent of the population in the early 1990s to 14.2 percent by 2012 - but not all regions have benefited equally. Poverty, and extreme poverty, rates are highest in the Northern Mountains region of the country (Table 1), and this region has experienced substantially less poverty reduction than other parts of Vietnam over the last decade. Since 1999, the Northern Mountains region has had the lowest income per capita in the country.² In addition to the high incidence of poverty, districts in the Northern Mountains suffer higher expenditure inequality than other regions, indicating an uneven distribution of recent prosperity not only among the regions but also within them. This is attributed, in part, to poor connections between rural areas and markets

¹ Vietnam Urbanization Review, World Bank, 2011

² Government Statistics Office, Monthly average income per capita at current prices by residence and by region (17/09/2013).

and a growing number of workers from rural areas migrating to the cities to work in private industry and services.³

Table 1: Poverty Estimates by Region

	WB-GSO ^[1] Poverty Estimates		Official ⁴ Poverty Estimates (%)	Population Share (%)
	Poverty Rate (%)	Extreme Poverty Rate (%)		
All Vietnam	20.7	8.0	14.2	100
East Northern Mountains	37.3	17.9	24.2	11
West Northern Mountains	60.1	36.5	39.4	3
Red River Delta (Hanoi)	11.4	2.8	8.4	22
North Central Coast	28.4	9.7	24.0	12
South Central Coast	18.1	5.9	16.9	9
Central Highlands	32.8	17.0	22.2	6
Southeast (Ho Chi Minh City)	8.6	3.1	3.4	18
Mekong Delta	18.7	4.8	12.6	19

Source: Vietnam Poverty Assessment, Table 1 (World Bank, 2012).

Note: ^[1] GSO is General Statistics Office of Vietnam.

B. Sectoral and Institutional Context

4. Urban economies in Vietnam have grown even more rapidly than urban populations, with average annual growth rates exceeding 12 percent. By 2009, urban areas already accounted for more than 50 percent of GDP. Although the bulk of economic activity is concentrated in the two largest cities, other urban centers are increasingly experiencing significant growth benefits. Urban poverty rates are lower than in rural areas, although there are concerns over the accuracy of urban poverty measurement due to the appropriateness of the poverty lines used, the exclusion of migrants from headcounts, the need to recognize the non-income dimensions of urban poverty and growing intra-urban inequality.⁵ These concerns are highly relevant in Vietnam's small cities and towns, which lag behind Vietnam's larger cities in terms of basic infrastructure and public services. Vietnam has about 760 cities and towns in its rapidly evolving urban system, and the Government understands the need to enable them to design differentiated and dynamic responses to their own development challenges, within an enabling national framework.

5. The growth of cities in the Northern Mountains region of Vietnam presents a significant opportunity to support regional growth and poverty reduction. The region is lagging, and faces significant development challenges, including a rapid growth in the size of urban centers and the

³ Vietnam Poverty Assessment. World Bank, 2012.

⁴ The GSO-WB poverty rate is substantially higher in rural areas, in part due to differences between official poverty lines and the new GSO-WB poverty line, but also due to differences in the overall methodological approach. For example, the GSO-WB poverty rate is calculated on the basis of the VHLSS but official poverty rates are calculated at the commune level using a short-form questionnaire and local consultations, then aggregated up to province and national levels. (Vietnam Poverty Assessment. World Bank, 2012)

⁵ See Hoang Xuan Thanh, et al (2013). "Urban poverty in Vietnam – a view from complementary assessments," IIED Working Paper #40, October 2013.

highest concentration of extreme poverty in Vietnam. Urban centers in the Northern Mountains play a key role in local area development, serving as economic and administrative hubs and are increasingly becoming the engines of regional economic growth. These centers vary in size (see Table 3) and often play complementary roles in the regional economy, ranging from market towns that are hubs for social and administrative services to commercial centers for regional or cross-border trade, to agricultural processing and manufacturing centers.

6. Managing these urban settlements in a mountainous setting often raises geo-technical challenges, for example in land availability. While these cities have become adept at working within these constraints they increasingly face other structural challenges. In particular, there is a widening gap between their expanding need for urban infrastructure investments and the financial resources that are currently available. Moreover, city and provincial administrations tasked with urban development and management functions are weak, fragmented, and under-resourced. They are unable to respond adequately to expanding local needs, are unable to leverage local resources effectively for sustained investment and asset management, and – despite evidence of capabilities in some areas – have generally weak capacity and incentives to deliver investments on time and within budget.

7. The strategic challenge facing these cities is to establish an effective urban management and implementation model, including a sound framework for predictable financing for infrastructure investments. This will support the Government in sustainably addressing the twin goals of poverty reduction and inclusive economic growth.

8. The Government of Vietnam (GoV) has been implementing a program of decentralization since the introduction of the *Doi Moi* reforms, involving a gradual delegation of powers to district and City People’s Committees (CPCs). The functions and structure of CPCs are legally assigned in the Constitution (2013) and the Law on Organization of People’s Council and People’s Committee (No. 11/2003/QH11 on 11/26/2003). CPCs are principally responsible for the planning, implementation and operation of public infrastructure under the city’s jurisdiction. They are empowered to develop and execute the approved city master plan and to operate or supervise the operation of assigned urban infrastructure. These functions include urban lighting, water supply and drainage, urban transport and safety, environmental sanitation, building control and the management of land and housing development. However, extensive controls and overlapping functions remain among different levels of the government. Fiscal powers remain relatively more centralized. Local taxation arrangements are subject to central approval of rates and revenue sharing prescriptions, while the system of intergovernmental transfers (consisting largely of gap filling transfers for recurrent expenditures and tightly earmarked transfers for “National Target Programs”) provides relatively less stable or predictable sources of finance.⁶ This has resulted in significant gaps in local expenditure frameworks, particularly relative to infrastructure investment needs. Decentralization in Vietnam, as elsewhere, is a long term and non-linear process.

⁶ Disaggregated financial data on urban investment is not available by sector, national transfers are not fully disclosed by target area, and provincial and city level reporting is not aggregated nationally nor does it fully account for sources of revenues. Budgeting practices and functional overlaps also significantly complicate financial analysis.

9. The Government's approach has resulted in significant expansion in access to basic urban infrastructure services. An estimated 75 percent of urban households have access to water services (up from 35 percent in 1997), 67 percent have access to toilets (up from 17 percent), and eight larger cities now have waste water treatment plants (from a baseline of zero). At the national level, 96 percent of households have access to electricity services, and over 90,000 kilometers of roads have been paved in the last decade.⁷ However, massive challenges remain as urban populations continue to expand and their spending power increases. Residual shortfalls in access to services need to be addressed, while networks require expansion to accommodate growth in households and their demands. The number of vehicles on urban roads has more than doubled in the last decade, while still only 8 percent of waste water is currently treated. It is estimated that an additional 50 million square meters of housing stock will be required each year to 2020. The above gaps will drive the demand for associated bulk, connector and internal infrastructure services.

10. The Government has established ambitious national targets for addressing urban investment needs by 2020 (see Decision No. 1659/QĐ-TTg), including expanding access to:

- water supply to 90 percent of households, and 120 liters/person/day, while reducing non-revenue water to between 10 percent and 25 percent, depending on the class of town;
- sewerage and drainage systems to over 80 percent of urban catchment areas, with at least secondary treatment of 60 percent of waste water (rising to 100 percent and 70 percent, respectively, by 2025);
- solid waste collection and disposal services to 90 percent of households and firms (with 100 percent coverage for hazardous waste);
- street lighting to over 85 percent of urban roads outside of the largest urban centers (and 100 percent within them);
- housing to 75 percent of the urban population, with an average floor area per person of 29 square meters (m²);
- road space to between 20 percent and 30 percent of urban land (depending of class of town), and expanding access to public transport services; and
- urban green spaces to between 4m² and 15m² per person depending on the class of town.

11. These ambitious national targets will require large, but as yet poorly quantified, amounts of investment making it difficult for Government to gauge the level of funding required. Initial estimates suggest that US\$1.5 billion is required *annually* for water supply, wastewater and low-income housing investments. Other estimates suggest that at least US\$1 billion is required annually just for wastewater investments.⁸ Disaggregated estimates for energy and transport investment needs are not available. The Infrastructure Finance Review⁹ notes that despite these

⁷ World Bank, 2013(a), Assessment of Financing Framework for Municipal Infrastructure.

⁸ Vietnam Urban Wastewater Review. World Bank, 2013 (b).

⁹ Infrastructure Finance Review. World Bank, 2013 (c).

uncertainties, there is a significant shortfall between investment needs and available resources (estimated at between 50 percent and 60 percent for all infrastructure sectors nationally), and significant policy, regulatory and local capacity weaknesses that will need to be addressed. Capacity building programs, for example, have typically provided only generic training on technical topics, rather than also focusing on improved results through strengthening the public expenditure management cycle.

12. The Government adopted the National Urban Development Program (NUDP) (Decision No. 1659/QĐ-TTg of the Prime Minister) in 2012 to address the lack of coherence in the management of urbanization, and to provide a programmatic focus to achieving the 2020 targets for urban service delivery. The objective of the NUDP is to promote an efficient, sustainable and equitable process of urban development by: (a) improving levels of access to basic urban services (water supply, sewerage and drainage, solid waste management, public lighting, roads and public transport, environmental services and public space); (b) expanding the provision of serviced land for high-density housing and economic activities; and (c) making improvements through integrated urban upgrading of low-income urban areas. The NUDP recognizes the importance of developing effective planning, financing, implementation and monitoring systems, particularly at the local level, to ensure the efficient execution and sustainability of required investments in urban infrastructure. It specifically notes the importance of strengthening urban management through improving mechanisms for investment planning and works management, increasing public awareness of local government roles and responsibilities, building the capacity of local officials, and encouraging new mechanisms to finance infrastructure.

13. The NUDP is an "umbrella" program through which the Government aims to coordinate and focus current efforts by all levels of government in addressing the urbanization challenge. The Prime Minister thus assigned responsibility for program coordination and implementation to the Ministry of Construction (MOC), and established a multi-departmental Steering Committee (headed by the Minister of Construction) to supervise the execution of the program. It thus complements existing government programs (such as the Urban Upgrading Program).¹⁰ Until now, the NUDP has not had designated resources, as its operating expenses have been covered by budgets of implementing agencies and resources for infrastructure investment have been channeled through existing transfer mechanisms or own-source revenue. It is not possible to estimate past or current annual urban development expenditures in Vietnam. The NUDP has sought to leverage these expenditures without specific program expenditures assigned to it, operating through existing government agencies and budgets. This fundamental weakness in the government program will be addressed through this operation, which establishes a dedicated resource envelope and implementation modalities for the NUDP.

14. Progress with the implementation of the NUDP has been slow in the first year of its implementation. This has been due to the limited attention paid to the design of detailed implementation modalities. MOC has recognized this, and initiated a stocktaking exercise in May 2013 across all provinces on NUDP implementation. A concluding workshop in December 2013 found that, overall, provinces across the country have started to align their implementation

¹⁰ The absence of financial data in existing government programs makes it difficult to evaluate the size of actual expenditures that are within the framework of the NUDP (i.e., transfers supporting urban development).

of urban development activities with the NUDP's core principles and that a revision to implementation modalities and timelines is necessary, specifically to align financing mechanisms, capacity support and national oversight systems with NUDP objectives and to account for variations in progress between classes of cities. Government is now considering implementing the NUDP incrementally through a series of regional sub-programs that will provide a comprehensive package of performance-based fiscal support, capacity support and enhanced oversight.

15. The Results-Based National Urban Development Program in the Northern Mountains Region (RBNUDP-NM) will be the first regional implementation of the NUDP and the first step in translating the Government's overall urban development strategy into a concrete and implementable delivery mechanism.

C. Relationship to the CPS and Rationale for Use of Instrument

16. This operation is consistent with the World Bank Vietnam Country Partnership Strategy (CPS) for 2012 to 2016 in several aspects, including its focus on: (a) strengthening competitiveness through increased investment in urban infrastructure to support urbanization and rural development; (b) enhancing sustainability through improved planning and management of urban investments for both mitigation and adaptation to climate change; and (c) broadening access to social and economic opportunity through improved access to basic urban infrastructure and services. Cross-cutting themes in the CPS include: (a) strengthening governance through enhanced accountability of local governments; (b) increased resilience to economic and climate-related shocks through promotion of climate-smart infrastructure services investments; and (c) assigning priority to gender issues and the active participation of women in program activities. One strategy to achieve this is to make use of more effective results-based and programmatic approaches as Vietnam graduates to middle-income country status.

17. The Government is facing huge demands for urban infrastructure investment, with particularly acute needs from cities in the Northern Mountains region. Government requested World Bank support to address urban investments needs as early as 2011. Subsequent discussions led the Government to request support for the introduction of a results-based implementation framework for the NUDP, focusing on strengthening arrangements for infrastructure planning, appraisal, implementation and monitoring in seven selected cities in the Northern Mountains region alongside effective urban management and supervision systems. Key dimensions of this approach are: (a) rewarding performance through a results-based financing approach that provides an incentive to encourage cities to strengthen their own planning and implementation capabilities; (b) clarifying roles and responsibilities for infrastructure delivery; and (c) establishing a simple and replicable implementation framework.

18. The World Bank is following a dual approach to supporting urbanization in Vietnam. One track focuses on the development of large cities such as Ho Chi Minh City and Hanoi, and a second track provides support to second-tier cities. While support to larger cities is for more comprehensive "green" development strategies, the focus in smaller urban areas is on increasing access to basic urban infrastructure services in a climate-resilient manner. It is vital that the

development of these secondary cities is supported as they provide key services to both existing urban residents as well as rural migrants. In all cases, the World Bank is giving priority to improved planning, financial management, and reporting to build the capacity of local governments to manage their cities in a fiscally-sound, responsible, and transparent manner. Moreover, the World Bank's assistance to these secondary cities is closely aligned with the Government's targets for urban services investment needs. Two recently completed analytical products have focused on improving the delivery of basic services in cities and informed the design of the Program. The *Vietnam Urban Wastewater Review*¹¹ evaluated investment performance and the impact of existing sector policies and regulations, and the *Assessment of the Financing Framework for Municipal Infrastructure in Vietnam*¹² assessed the constraints and opportunities for enhancing local government capability to access financing for infrastructure development. Finally, lessons from recent World Bank urbanization reviews have informed the design of the operation (Box 1).

Box 1: Lessons from Global Urbanization Reviews

China—importance of sustainable urbanization finance.¹³ Urbanization finance reform is the cornerstone for efficient, inclusive, and sustainable urbanization. In China, reforms are needed to address underlying problems rather than to simply fill the financing gap for public services and infrastructure spending. China's urbanization has revealed several weaknesses in the fiscal and financial systems that have contributed to making Chinese economic growth less efficient and less inclusive, including an overreliance on land financing, unregulated borrowing by local governments, fiscal distortions that skew the location decisions of enterprises and people, and a lack of discipline on local government spending decisions. Public finances will need to accommodate the integration of migrants and their families in urban areas. Revenues from land conversion are likely to taper off, so new local revenue sources are needed to replace lost revenue in a manner that is neutral to the type of economic activity. Properly regulated access to borrowing will be needed to finance infrastructure investment. The financial sector will need to efficiently intermediate capital to meet local governments' needs for infrastructure finance, and at the same time impose financial discipline on local governments and avoid financial sector disruption. Finally, the private sector could play a larger role in financing and delivering infrastructure and other public services. This requires a comprehensive reform rather than piecemeal changes to the system.

Colombia—importance of connecting smaller cities to a system of cities.¹⁴ The challenges of connecting, coordinating, and financing vary in intensity, scale, and nature across small, mid-sized, and large cities in Colombia. Connectivity for smaller cities is critical to improve the potential for trade with mid-sized and large cities and reduce economic isolation. For mid-sized cities, improved economic linkages might encourage specialization and improved trade with both diversified urban agglomerations and external markets. Improved connectivity for large cities may enable them to move from a currently autarkic economic structure to regional networks of mid-sized and small cities, exploiting economic complementarities. Finally, connecting large cities to international markets is also

¹¹ Vietnam Urban Wastewater Review, World Bank, 2014

¹² Assessment of the Financing Framework for Municipal Infrastructure in Vietnam, World Bank, 2013

¹³ Forthcoming. 2014. *China: Toward a More Efficient, Inclusive, and Sustainable Urbanization*. Washington DC, World Bank.

¹⁴ Samad, Taimur; Lozano-Gracia, Nancy; Panman, Alexandra. 2012. *Colombia urbanization review: amplifying the gains from the urban transition*. Directions in development; countries and regions. Washington DC, World Bank.

a critical challenge in Colombia, given the increasing importance of external trade and the high logistics costs for primary inland cities.

India—importance of capacity building for improving urban service delivery.¹⁵ The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) raised the profile of urban challenges among policy makers in India, catalyzing about US\$24 billion of investments in infrastructure. However, initial evaluations have found that while JNNURM has been effective in renewing focus on the urban sector across the country and in catalyzing huge investments in urban infrastructure, it has had lackluster performance on reforms critical to improving accountability and urban governance. Moreover, capacity building remains a key constraint for effectively implementing infrastructure projects and reform measures, and most cities have not embraced the notion of integrated urban planning when preparing the city development plans.

19. The PforR has been selected as the most effective instrument to facilitate the Government's efforts in articulating the implementation modalities of the National Urban Development Program, particularly through aligning the provision of finance for strategic urban infrastructure services in targeted cities with incentives for better planning and timely delivery of the infrastructure investments, and at the same time building their technical, managerial and financial capacity. The focus of the operation on "how to deliver" local infrastructure and build local capacity is well aligned with the World Bank Group's emphasis on the science of delivery. The operation will add significant value to the government program by:

- enabling the Government to pilot the first phase of its national program in the Northern Mountains, the most impoverished region of the country, as part of a programmatic, national approach;
- implementing a results-based approach to urban infrastructure service delivery, based on agreed indicators linked to disbursements, which will create incentives for: (a) improved sub-project planning and execution; (b) institutional strengthening; and (c) improved sustainability of sub-projects and overall local investment programs;
- strengthening country systems for appraisal of infrastructure sub-projects, social and environmental systems, fiduciary control, monitoring, evaluation and management that will result in improved value for money in urban infrastructure investments; and
- addressing key policy and regulatory issues that constrain urban infrastructure investment.

20. The design of the operation integrates lessons learned from other PforR operations under implementation and other performance-based transfer systems supported by the Bank. The PforR instrument is still quite new - it was approved in January 2012 - but it is possible to garner some lessons from the early experiences. The Results-Based Rural Water Supply and Sanitation under the National Target Program in Vietnam was the first PforR operation in the country and among the first of such operations in the Bank. Although it differs from RBNUDP-NM in terms of geographic and service focus, it is similar in regard to its decentralized and results-based

¹⁵ Vishwanath, Tara; Lall, Somik V.; Dowall, David; Lozano-Gracia, Nancy; Sharma, Siddharth; Wang, Hyoung Gun. 2013. *Urbanization beyond municipal boundaries: nurturing metropolitan economies and connecting peri-urban areas in India*. Directions in development; countries and regions. Washington DC, World Bank.

approach. An early lesson from its implementation is the need to ensure that the central agency responsible for the program is prepared to assume its capacity building role and local governments are empowered to take responsibility for producing results. This lesson is echoed by the Da Nang Priority Infrastructure Investment Project (PIIP), which attributes its success to investing significantly in building a proper enabling environment conducive to infrastructure development, developing institutional capacities, and ensuring the engagement and empowerment of all relevant stakeholders.¹⁶

21. The World Bank has cross-country experience with performance-based transfer systems that incentivize institutional strengthening at the local level. There are already two PforR operations under implementation in Tanzania and Uganda that support programs similar in concept to the RBNUDP-NM. Both programs have annual performance assessments (with about 20 and 40 indicators, respectively) against which participating cities are measured. Depending on their results, the cities receive a transfer for small-scale infrastructure development. The RBNUDP-NM simplifies this model to reflect the novelty of this approach in the Vietnamese context. To promote transparency among the MOC, the participating cities, and other stakeholders, the indicators used for disbursement for the PforR operation and the performance indicators for the cities are one and the same. The Program also allows cities to select slightly larger investment sub-projects that reflect relevant local priorities, as this enhances the incentive for participating cities to strengthen their institutional capacity.

22. The operation also reflects the findings of the Vietnam Urbanization Review and other urban poverty projects implemented in the country. The rural to urban economic transition is happening at a fast rate and, consequently, Vietnam will need to carefully manage the trade-offs that will come with rapid urbanization. Workers are moving out of the agriculture sector and into industry and services in growing numbers, accompanied by high rates of internal migration – to large cities, but also smaller cities and rural townships. There is the potential for increased congestion costs, regional inequalities, increasing urban poverty and rising land and housing prices. Many of these risks are already manifest and increasing rapidly. Urban poverty and its consequences can proliferate rapidly, especially in smaller urban areas less equipped to address these problems. These findings have influenced the Government’s decision to begin the roll-out of the NUDP in a phased manner, starting with a cluster of cities in the Northern Mountains region.

II. PROGRAM DESCRIPTION

A. Program Scope

23. Through the RBNUDP-NM, the Government will pilot a regionally-focused, performance-based transfer program with capacity building support for participating cities and improved national oversight systems. The Program operates at two levels: (a) in selected cities within the target region, through performance transfers and capacity support activities; and (b) at the national level by strengthening program management systems, urban policy development,

¹⁶ Implementation Completion and Results Report for the Da Nang Priority Infrastructure Investment Project.

and oversight. These activities will influence both the continuing implementation of the NUDP and the framework for all government expenditures on urban development (including, as a first step, assisting the Government to quantify existing financing arrangements and investment needs). The Program Outline for the RBNUDP-NM has been approved by the Prime Minister as the official document of the Government to define the key characteristics of this Program investment project.

B. Program Development Objective (PDO)

24. The Program Development Objective is to strengthen the capacity of participating Northern Mountains cities to plan, implement, and sustain urban infrastructure.

The PforR (“the Program”)

25. The Program to be supported by this International Development Association (IDA) operation is a results-based approach to operationalizing the NUDP in seven geographically-clustered cities in the Northern Mountains region (Dien Bien Phu, Bac Kan, Cao Bang, Thai Nguyen, Hoa Binh, Tuyen Quang and Yen Bai).

26. The Program aims to enable participating Northern Mountains cities to effectively plan, deliver and sustain priority infrastructure services through strengthened systems and capacity, with the support of the Ministry of Construction. The Program will have four key results areas, namely: (a) Institutional Strengthening at City Level; (b) Delivery of Infrastructure Services in Participating Cities; (c) Sustainable Infrastructure Investments; and (d) National Policy, Support and Oversight. These results areas are designed to work together to improve the quality of infrastructure delivery by CPCs. The results chain is described in Section C on page 15. In addition to targeting these specific results areas, the Program will directly contribute to shared prosperity in the region through the development of secondary cities as provincial and regional centers of growth. These cities are expected to become economic and administrative hubs that will drive development, create jobs, and provide services.

27. Program expenditures are estimated to total US\$300 million and there is a six-year implementation period, from 2015 to 2020. US\$280 million will constitute the performance-based transfer system, financing infrastructure investments and project management activities by CPCs as specified in the investment menu. This includes US\$50 million in counterpart contributions from the participating cities. An additional US\$20 million will support MOC activities, including the provision of capacity support (training and technical assistance) to participating cities, the development of national urban policy and implementation frameworks, and the strengthening of oversight systems (see Table 2 on the next page).

Table 2: Program Expenditure Framework (US\$ millions)

	2015	2016	2017	2018	2019	2020	Total
<i>Estimated expenditures by cities including IDA and counterpart funds^[1]</i>							
Thai Nguyen City	13.50	31.00	19.50	8.00	6.00	1.00	79.00
Cao Bang City	8.50	3.50	12.00	5.00	3.00	0.50	32.50
Bac Kan City	6.00	8.50	5.50	5.00	3.00	0.50	28.50
Dien Bien Phu City	4.00	10.00	10.00	5.50	2.50	0.50	32.50
Yen Bai City	5.50	2.50	14.50	9.00	2.50	0.50	34.50
Tuyen Quang City	4.00	3.00	12.00	15.00	6.00	0.50	40.50
Hoa Binh City	3.00	1.50	10.50	8.00	8.50	1.00	32.50
Sub-Total for cities	44.50	60.00	84.00	55.50	31.50	4.50	280.00
<i>Estimated national level Ministry of Construction Expenditures by Type</i>							
National Policy Development	1.00	1.00	1.00	1.00	1.00	2.00	7.00
MOC Staffing and Capacity Development	2.00	2.00	2.00	2.00	1.00	1.00	10.00
Annual Audits (SAV) ^[2]	0.50	0.50	0.50	0.50	0.50	0.50	3.00
Subtotal for MOC	3.50	3.50	3.50	3.50	2.50	3.50	20.00
Total for Program	48.00	63.50	87.50	59.00	34.00	8.00	300.00

Notes: ^[1] Expenditures by cities include recurrent expenditures associated with sub-project management. Vietnamese public sector accounting practices require these costs to be included in sub-project cost estimates and budget provisions. ^[2] SAV is State Audit of Vietnam.

28. CPCs have a range of functions that are not directly related to urban development, as well as existing expenditures that are not included in the Program Expenditure Framework. These existing CPC expenditures are expected to continue. On average, the Program will add an additional US\$5.5 million to the annual expenditures of each city, or US\$47 per capita. This constitutes about 24.8 percent of total CPC expenditures in 2012, and 101 percent of their capital spending baseline. However, the Program's share in total CPC expenditure and their capital spending is anticipated to decline sharply (to 3 percent and 34 percent, respectively, by 2020) due to ongoing growth in existing CPC revenues and expenditures outside of the Program. This provides a critical opportunity for the Program to enhance the effectiveness of these future CPC expenditures, in line with NUDP objectives.

Program Activities

29. The Program encompasses three primary activities that support these results areas, namely: (a) performance-based transfers for local infrastructure to participating cities; (b) capacity support for participating cities; and (c) support for national policy development and oversight.

30. *Performance-based transfers:* Under the Program, participating City People's Committees will receive performance-based transfers from the Ministry of Finance (MOF) to support priority investments in urban infrastructure that have been identified through the city master plans and reflected in detailed CPC five-year and annual plans. The CPCs will be

responsible for planning and implementing sub-projects financed with performance-based transfer funds, and transfer funds will be reflected in the revenues and expenditures of the CPC annual budgets and assets incorporated into their asset registers. Sub-project implementation will be undertaken by Project Management Units (PMUs)¹⁷ reporting to the CPCs. Existing asset management arrangements will continue.

31. Performance-based transfers, over the life of the Program, have been allocated to the participating cities subject to the maximum allocations shown in Table 3 below. These allocations are weighted by population, subject to a basic minimum allocation per city to ensure that all cities are able to finance at least a basic level of infrastructure investments in each year of the Program. These allocations provide an average annual allocation of US\$5.5 million per city, or US\$47 per capita, doubling existing levels of capital expenditure. The performance-based transfer allocations for the cities will be supplemented by US\$50 million of counterpart funds. It is important to note that the transfer allocations under the Program are expected to be in addition to the existing national fund transfers and will not replace the latter. This will be closely monitored during the course of the Program.

Table 3: Maximum IDA Performance-based Transfer Allocations to Participating Cities (under DLIs 1, 2, and 3; for 6 Years)*

City	Population	Total (US\$ million)
Thái Nguyên	330,707	61.01
Điện Biên Phủ	69,586	26.65
Cao Bằng	84,421	28.61
Bắc Kạn	38,012	22.50
Hòa Bình	93,400	29.78
Tuyên Quang	110,120	31.99
Yên Bái	90,830	29.46
Total	817,076	230.00

* The Table shows the maximum IDA fund envelope that each city is eligible to receive under Disbursement Linked Indicators (DLIs) 1, 2, and 3, assuming that they achieve the Program results in full. This does not include the additional US\$50 million of counterpart funds.

32. The actual annual disbursement of IDA funds will be made on the basis of verification of each city's performance (measured against Disbursement Linked Indicators 1, 2 and 3, which are described below).

33. The activities eligible for Program funding are detailed in the investment menu in Table 4 on the next page. These activities include Low Income Area (LIA) upgrading, road rehabilitation and upgrading, bridge construction, urban drainage/sewerage and other environmental improvements, as well as the development of resettlement areas and social infrastructure facilities such as schools and markets. The criteria for sub-project eligibility, prioritization, and screening are summarized in Table A1.1 in Annex 1 and are described in more detail in the Program Operational Manual (POM). The selection of sub-projects by cities has been refined

¹⁷ In Vietnam, PMUs are public service units that commonly exist in local governments to manage infrastructure projects.

during preparation of the Program to emphasize those with high economic and social returns, including a focus on poor households, and to minimize risks of negative social and environmental consequences.

Table 4: Menu of Urban Infrastructure Supported by the Program

Type of Infrastructure	Description
Roads	Roads and minor bridges (<25m length) under management, operation and maintenance of the city
Bridges	Bridges (>25m length) under management, operation and maintenance of the city
Drainage	Urban drainage and environmental amenities: including regulation lake and channel rehabilitation that is demonstrably linked to flood control and erosion protection
Low Income Areas	Improvement of tertiary infrastructure including streets, water supply, drainage and lighting.
Resettlement Areas	Provision of public infrastructure in areas where housing/land will be allocated to households resettled due to city infrastructure projects (potentially including but not limited to the Program sub-projects), excluding infrastructure for commercial purposes
Social Infrastructure	Including construction and rehabilitation of schools and markets, excluding clinic and health centers (due to special requirements)

34. The average value of sub-projects (approximately US\$3 million) is slightly larger than similar PforR operations, reflecting the focus on supporting government to strengthen its own systems for the delivery of infrastructure that has been identified as a local priority. Infrastructure investments that are not economically, environmentally or socially viable will not be financed with Program funds. Each Program sub-project will be screened for its potential environmental and social impacts by the CPCs. Sub-projects that are high-risk based on the project context or of a value that exceeds standard thresholds for PforR operations will be excluded.¹⁸

35. The Program will also ensure that the urban infrastructure services delivered in participating cities will adopt climate-resilient planning processes, engineering designs and implementation activities. Guidelines and technical assistance for this purpose will be provided to the implementing agencies as a part of overall capacity building support.

36. The results-based approach and the associated rules and procedures governing the Program investments provide a key incentive for participating cities to absorb technical assistance and to achieve the PDO. For example, compliance with eligibility, prioritization and screening criteria, as well as appropriate standards of fiduciary governance (“clean audits”), are embedded in the definitions and verification protocols for DLI 2 (see Annex 3) and are detailed in the POM. Meeting these requirements will require CPCs to strengthen their public expenditure management cycle to ensure that investments meet locally identified priorities, are effectively

¹⁸ All Program expenditures have been screened for excluded expenditures in accordance with Paragraph 9 of OP 9.00 and Paragraph 5 of BP 9.00.

designed, appraised and implemented, and that appropriate arrangements are in place for the operation and maintenance of the assets that are created. This sustainability dimension also requires that, over time, participating cities face a direct incentive to increase local revenue generation in order to finance their operational and investment requirements. Local revenues can also provide the basis for raising private finance by larger cities.

37. *Capacity support for participating cities:* Higher levels of government have a critical role to play in creating an enabling environment for cities, through providing sound regulatory frameworks, capacity support, and regular and effective appraisal and oversight. The MOC will strengthen its capacities in these areas, while provinces will continue to play their role in the approval of city plans and budgets. As the Program coordinator, the MOC will organize orientation, training and ‘hands-on’ technical assistance to participating cities. These activities will focus on the key support required to assist cities to achieve DLIs, and thus contribute to the achievement of the Program Development Objective. Progress in the performance of these activities is measured in sub-DLI 4.2. Given heterogeneous demand from cities, capacity support will be provided based on an Annual Capacity Development Plan to address the needs identified during a capacity needs assessment that was carried out during Program preparation. The four broad areas identified as requiring capacity building support at the city level include: (a) infrastructure investment prioritization and planning; (b) management of infrastructure sub-projects; (c) technical quality, including procurement and environmental and social management; and (d) systems and mechanisms for operations and maintenance and own source revenue enhancement. The provision of support on planning under the first area of capacity building support is an area of particular priority. The capacity building plan will include a focus on promoting a planning culture that focuses on regional hubs. A more detailed description of the focus areas and modalities for capacity support and performance measurement as well as a preliminary capacity development plan is provided in Annex 1.

38. *National policy development and oversight:* The MOC will further develop national policies, strategies and implementation frameworks for the management of urban development, and strengthen its capacity for effective oversight of cities participating in the Program. This strongly complements other primary activities in the Program through developing an enabling environment for effective local governance and ensuring local performance is effectively monitored. Within the scope of this activity, MOC is also responsible for deepening the analysis of urban infrastructure investment needs and financing options, and capturing early lessons learned from the Program experience. This will inform the development of a national implementation strategy and sequenced national rollout of the NUDP. Annual national consultations and peer-to-peer exchanges will be carried out to feed into this ongoing process of program development. A detailed review will take place at the Program’s mid-term with all relevant stakeholders to analyze the lessons learned.

39. The POM is the primary document guiding the implementation of the Program. It is required by the Government to complement existing implementation manuals and will specify the relationship between the MOC and the participating cities. The POM sets forth: (a) the Vietnamese laws and regulations that will govern the various aspects of the Program; and (b) the supplemental provisions necessary to address the gaps identified in the Program Action Plan (PAP), which is described on page 33 and given in Annex 8. The POM has been approved and issued by the MOC, and the participating cities will follow its provisions. During

implementation, each city will have to ensure that it puts in place the necessary arrangements described in the POM.

40. The POM includes the following sections:
- Objectives and Guiding Principles;
 - Organization, Roles and Responsibilities;
 - Program Implementation Processes:
 - Implementation Arrangements
 - Planning and Budgeting
 - Preparation of Investment Sub-Projects
 - Procurement
 - Contract Management
 - Financial Management including Guidelines on Funds Flow
 - Governance and Anti-Corruption;
 - Environmental and Social Management;
 - Monitoring and Evaluation (including the Verification Protocol); and
 - Policy Development, Support, Oversight and Capacity Development.

Beneficiaries

41. The current total population of the participating cities is 817,076, of which 759,300 residents are estimated to directly benefit from improved infrastructure services and, indirectly over time, from improved local planning, implementation and financing capacity that will enable participating cities to scale-up the delivery of urban infrastructure. Residents of the Northern Mountains region suffer the highest poverty rates in the country and earn the lowest income per capita. Indirect benefits will accrue at a national level over time, as the Government strengthens its urban program nationwide. Finally, beneficiaries of the Program include institutions at the city and national level whose capacity will be enhanced. Further details on the Program beneficiaries are included in Annex 1.

C. Program Key Results and Disbursement Linked Indicators

42. Progress towards the PDO will be measured through a set of simple and measurable indicators, the majority of which will be linked to disbursements. The Results Framework for the Program has four key results areas that are closely inter-related. Each results area is linked to DLIs, Program Actions and planned capacity support, as well as to monitoring, evaluation, and verification activities in the Program. This provides a coordinated incentive for participating cities to improve their capacity to plan, deliver, and sustain local infrastructure delivery. The Results Framework and monitoring arrangements are provided in Annex 2, while the DLIs are provided in Annex 3. These results and their associated results chains are:

- (a) **Results Area 1 - Institutional Strengthening at City Level:** The targeted outcome in this results area is to strengthen the capacity of cities to plan urban infrastructure. The key intermediate outcomes contributing to this, and which form the basis of sub-DLIs 1.1 and 1.2, are: (i) the ability of CPCs to prioritize their local infrastructure investments effectively, as measured through the approval and public disclosure of

Enhanced Annual City Plans that include a full statement of the anticipated expenditures and revenues of the CPC for the following financial year as well as a detailed list of all the infrastructure sub-projects authorized in full by the CPC; and (ii) that professionally staffed Project Management Units are in place within each CPC. These intermediate outcomes will be supported by additional outputs, including guidance materials on infrastructure prioritization and preparation of annual plans. Their achievement will require actions by MOC to provide capacity support for the annual planning process and technical assistance to PMU staff to build their capacity for capital investment planning, economic/feasibility analysis and master planning techniques. The strengthening of the annual planning process will lead to improvements in the delivery of infrastructure services, by concentrating the focus of planning efforts on delivering high quality and efficient infrastructure investments that prioritize poverty and regional growth objectives in the seven cities. MOC has clearly established minimum staffing requirements for PMUs, and will need to monitor compliance with these requirements throughout Program implementation. Box 2 below describes the enhanced annual city planning process.

Box 2: Enhanced Annual City Plan (for all investments in the participating cities)

Cities in Vietnam are required to prepare two planning documents on an annual basis. The first is the annual update to the Social-Economic Development Plan (SEDP), which sets annual targets and budget allocation towards meeting the goals across multiple sectors included in the 5-year SEDP. The current 5-year SEDP period is 2010-2015. This means that by 2015, participating cities will have to prepare and approve the next five-year plan. The second annual plan, the construction investment plan, describes the infrastructure investments that are anticipated for the following year. Currently, these plans are submitted for approval as data tables without justification for budget allocation. The Enhanced Annual City Plan to be developed by each city participating in the RBNUDP-NM will consolidate and improve these two annual plans by requiring a description and rationale, including an emphasis on service delivery to poor households, for each sub-project being supported as well as its implementation status, and by strengthening the investment selection and prioritization process underlying the next five-year SEDP. The Enhanced Annual City Plan will include all local government expenditures, including infrastructure investments made using Program funds from the RBNUDP-NM.

The Enhanced Annual City Plan will include:

- (a) **Operating Budget**—a full statement of the anticipated revenues and expenditures of the CPC for the following financial year;
- (b) **Capital Budget**—a detailed list of all infrastructure sub-projects that will be implemented in the following year, including a rationale for each sub-project, including an emphasis on service delivery to poor households, in accordance with guidelines prescribed in the POM; and
- (c) **Sub-project Performance**—the status of each sub-project under implementation (i.e., stage of development and status relative to scheduled completion) and completed (i.e., physical condition) as well as budget allocation for operations and maintenance.

Following approval by the CPC, the Enhanced Annual City Plan is disclosed to the public through the CPC website.

As part of the RBNUDP-NM, the development of the 2016-2020 SEDP will be enhanced by

establishing an infrastructure investment prioritization process using a weighted criteria-based system as described in the POM.¹⁹ At the beginning of the planning process, the CPC establishes a set of criteria to guide the selection of investments and applies relative weights to each. All proposed sub-projects are reviewed, allocated points based on the respective criteria met, and ranked. These criteria could include, for example, the following:

- Provides positive economic impacts, including a significant impact on poverty reduction and local economic development;
- Facilitates access to markets and economic development opportunities for poor households in peri-urban areas (i.e., strengthens the city's role as a regional hub);
- Supports sustainable city development and brings positive environmental impacts;
- Benefits a high proportion of poor and low-income households and promotes gender equality; and
- Minimizes negative social impacts on the community (e.g., project requiring no or few households to be resettled).

Only 52 percent of the sub-projects identified by participating cities during the preparation of the Program are anticipated to start in the early years of Program implementation (i.e., before implementation of the 2016-2020 SEDP). This presents the opportunity for cities to align their selection of investments based on the improved capital investment planning process that will be conducted as part of the five-year plan.

(b) Results Area 2 - Delivery of Infrastructure Services in Participating Cities: The targeted outcomes in this results area are strengthened capacity of CPCs to implement urban infrastructure sub-projects and higher quality urban infrastructure. Progress towards this intermediate outcome will be measured through the actual execution of infrastructure sub-projects according to agreed plans, which forms the basis for DLI 2 and which is subject to extensive definition of what constitutes an eligible and complete sub-project.²⁰ Additional measures required to support these outcomes include (i) guidelines to ensure the effective participation of and consultation with local people, and (ii) the establishment of a comprehensive complaints database that will record and allow easy reference to all complaints related to the Program including those relating to consultation, corruption, fiduciary matters, procurement and Program implementation. Both measures are included in the PAP. MOC will also be required to undertake various other actions or activities to support the achievement of Results Area 2. These include: (i) monitoring compliance with minimum staffing requirements for PMUs (see Results Area 1); (ii) undertaking quality assurance checks of sub-project design and cost estimates and ensuring high quality technical supervision of construction (the processes for which are outlined in the POM); (iii) introducing enhanced procurement methods and improved resettlement and compensation practices (both of which are included in the PAP); and (iv) providing

¹⁹ This approach is consistent with the World Bank's *Guidebook on Capital Investment Planning for Local Government*.

²⁰ The relative complexity of the definition of this DLI is necessary to incentivize improved sub-project selection, preparation, construction management, and monitoring and evaluation in the participating cities. This includes the use of enhanced procurement, resettlement, and compensation practices.

capacity support for cities to strengthen procurement, contract management, quality control and social and environmental risk management (see Results Area 3).

- (c) **Results Area 3 – Sustainable Infrastructure Investments:** The targeted outcome of this results area is the increased sustainability of urban infrastructure investments by CPCs. The achievement of this result is a long-term and difficult process, but it is dependent on two intermediate outcomes in the medium term, namely: (i) the development of improved mechanisms for operations and maintenance of infrastructure; and (ii) enhanced fiscal capacity to fund operations and maintenance, as well as to sustain ongoing levels of investment in infrastructure creation and replacement. These intermediate outcomes are associated with two sub-DLIs for DLI 3: (i) the implementation by the CPC of a policy and implementation framework for infrastructure operations and maintenance. Outputs leading to this outcome that will be measured in the DLI are: the completion of an Asset Condition Assessment (2015), and Asset Management Plan (2016); and that infrastructure-sub-projects are in full service (which will be introduced each year from 2017); and (ii) a 12 percent year-on-year increase in own-source revenues of CPCs, including taxes and fees, but excluding land transactions and rentals. Related outputs to support the achievement of these indicators include national guidance materials on asset management, and technical assistance and capacity building on asset management and revenue enhancement.
- (d) **Results Area 4 - National Policy, Support and Oversight:** The targeted outcome of this results area is the nationwide implementation of the NUDP. Intermediate outcomes to achieve this are: (i) the implementation of the NUDP in the seven Program cities; (ii) enhanced capacity of MOC to coordinate a results-based program; and (iii) preparation and implementation of a strategy for the national roll-out. Measurement of this results area thus focuses on key outputs necessary within the period of Program implementation, namely: (i) that a professionally staffed unit is in place in MOC to manage Program implementation and development, as measured in sub-DLI 4.2; (ii) capacity support for CPCs is provided in an Annual Capacity Development Plan, as measured in sub-DLI 4.2; (iii) the detailed implementation strategy and expenditure framework for the NUDP is approved and the Program is rolled-out to post-Program Phase 2 cities, as measured in sub-DLI 4.1; and (d) that a Program Report on oversight and monitoring is submitted, as measured in sub-DLI 4.3. The achievement of these indicators will be supported by technical assistance for policy formulation, procurement, contract management, internal audit, monitoring and evaluation, and external audit and verification of results (to State Audit Vietnam (SAV)). It is also supported by a requirement for the development and implementation of an effective internal audit function for the Program in the PAP.

43. The Disbursement-Linked Indicators have been selected to reflect critical elements of performance required to achieve the PDO, as reflected in the results areas above. The DLIs are summarized in Table 5 on the next page, and the complete DLI Matrix is contained in Annex 3.

Table 5: Disbursement-linked Indicators

Result	Disbursement-linked Indicator	Estimated disbursement amounts (US\$ millions)
<u>1. Institutional Strengthening at the City Level</u> Cities have increased capacity and accountability for effective infrastructure investment	DLI 1.1: Enhanced Annual City Plans approved and disclosed to the public	33.00
	DLI 1.2: Professionally-staffed management units in place within each Participating City People’s Committee	22.00
<u>2. Delivery of Infrastructure Services in Participating Cities</u> Cities undertake effective and timely implementation of prioritized infrastructure investments based on Enhanced Annual City Plan.	DLI 2: Local urban infrastructure investments delivered as per each Participating City’s approved Enhanced Annual City Plan	155.00
<u>3. Sustainable Infrastructure Investments</u> Cities have established infrastructure asset management practices and expanded own source revenues	DLI 3.1: Asset management plan adopted and local urban infrastructure sub-projects in full service after completion	10.00
	DLI 3.2: Increased annual own-sources revenue in Participating Cities	10.00
<u>4. National Policy, Support and Oversight</u> Enabling policy environment, technical assistance and oversight systems provided to develop capacity of target cities	DLI 4.1: Implementation Strategy for National Urban Development Program adopted with annual milestones	7.00
	DLI 4.2: Professionally-staffed unit in place in MOC, preparation of Annual Capacity Development Plans, and capacity building support provided to cities in accordance with such plans	10.00
	DLI 4.3: Completed Program Report	3.00

44. The Program Results Framework and DLIs represent a consistent results chain across all levels of government and create a complementary set of incentives necessary to achieve the PDO. At the Program level, each set of DLIs provides an essential complement to the others. For example, institutional strengthening is a critical requirement for both infrastructure delivery and sustainability, and must be supported by an enabling policy environment. The selection of specific DLIs reflects the assessment of critical challenges facing participating cities and national government that are considered to be essential to the achievement of Program results. Moreover, dedicated local management capacity is essential to effective local planning and sub-project execution, while national oversight is essential to strengthening local accountability as measured through the annual audit process.

45. The disbursement amounts associated with the DLIs are weighted to reflect these mutually reinforcing relationships between improved local institutional performance, increased

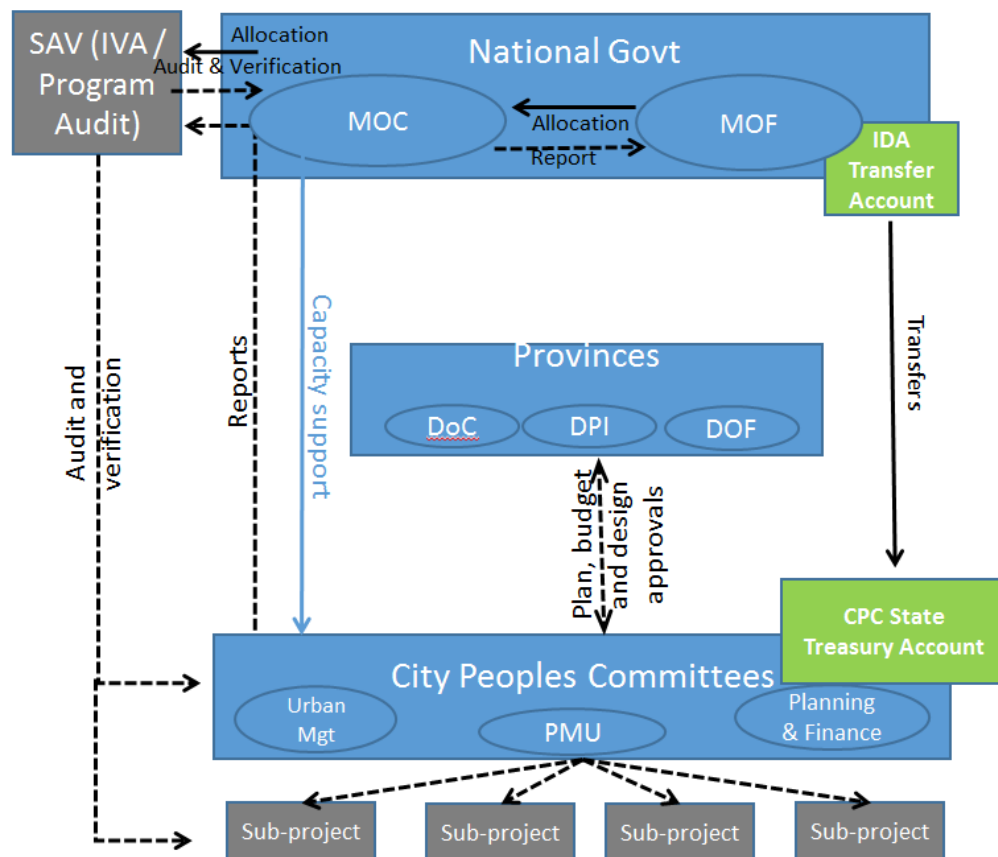
local infrastructure investment, and sustainable asset management. DLIs 1, 2 and 3 are focused on the performance of individual cities and are linked to the operation of the performance-based transfer system. All disbursements for DLI 2 require achievement of targets in DLI 1 (and clean audits), but DLI 3 operates independently, due to sequencing issues and the long-term, complex challenges associated with strengthening asset management practices. The performance of individual cities is, in turn, aggregated across the Program to calculate the value of disbursements from the World Bank to MOF. The amounts allocated to each of the individual cities for DLIs 1, 2, and 3 are in the same proportion as the amounts allocated to each of the cities in the Program as a whole (as set out in Table 3 on page 12).

46. The definition of the DLIs, the verification protocols and the basis for the calculation of disbursements are provided in Annex 3, and are further detailed in the POM.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements (see Annex 1)

Figure 1: Institutional Arrangements for Program Implementation



47. Institutional and Implementation Arrangements are described in Figure 1 above. The MOC, as the designated coordinator of the NUDP, will be the lead agency for the Program and

will act as the interlocutor with the Bank on behalf of the Government. The MOC will assign Program coordination responsibilities to its Urban Development Agency (UDA). The MOC is also directly responsible for activities contributing to Results Area 4 of the Program (National Policy, Support and Oversight). These responsibilities are detailed in Annex 1. The MOC will also develop the Implementation Strategy for the National Urban Development Program, which will draw upon the experience of implementing the Program in the Northern Mountains cities and will establish a framework for implementing the NUDP in other regions.

48. Other national ministries and agencies will play complementary roles in accordance with their current functions. The World Bank will disburse funds to the MOF based on the submission of consolidated, verified information on the performance of the DLIs. The MOF will then be responsible for the release of funds to cities following the agreed Program Fund Flow Guidelines.²¹ The SAV will be responsible for conducting the annual Program Audit and annual verification of results, which will consist of financial and technical audits, and will verify achievement measured by each of the DLIs. The SAV will report the results of the verification to MOF and the Bank.

49. The Provincial People's Committees (PPCs) will continue to perform a number of important oversight, approval and technical support roles in Program implementation through the Provincial Department of Planning and Investment which acts as a clearing house, bringing in other technical departments to review the proposals prepared by the cities, as required. Roles to be undertaken by the PPCs are detailed in Annex 1.

50. The City Peoples Committees (CPCs) will plan and implement sub-projects financed with performance-based transfers from the Program as well as with their own counterpart funds. As these cities are the project owners for individual sub-project investments, the funding from the Program will be reflected in the revenues and expenditures of the CPC annual budgets. The CPC will prepare the Enhanced Annual City Plan. The Plan is submitted for adoption by the City People's Council after approval by the PPC and will be disclosed after adoption. The CPC will be responsible for final adoption of feasibility studies and basic designs, detailed designs, cost estimates and procurement plans after these have been approved by the PPC and its technical departments.

51. The CPCs will assign sub-project implementation to Project Management Units reporting to the CPCs, and will ensure that these units are adequately staffed and resourced. Procurement and environmental and social management activities will be undertaken by the PMUs and in accordance with enhanced government rules and procedures. Implementation of sub-projects will be undertaken using a participatory approach with a particular emphasis on ensuring gender equality and participation of other vulnerable groups. The PMUs will be responsible for the preparation and submission to the CPC of: (a) the Enhanced Annual City Plan; (b) sub-project concept notes, work plans and consultant terms of reference; (c) sub-project feasibility studies, including necessary social and environmental impact assessments, and preparation of outline designs; (d) Project Investment Report (for larger sub-projects) or the Technical and Economic Report (for smaller sub-projects); (e) detailed designs and cost estimates; (f) tender documents;

²¹ Issued prior to Negotiations.

and (g) the annual procurement plan. The PMUs will also be responsible for: (a) all procurement actions including advertising, receiving and opening of bids and tender evaluations following proper rules and procedures, identification of the best available qualified consultant, contractor or supplier where sole source procurement procedures apply, and making recommendations to the CPC for award of contract; (b) contract administration; (c) technical supervision; (d) verification of contractor's claims for payment, and issuing payment instructions to the City Planning and Finance Division; (e) monitoring and proper reporting of physical progress of investments; and (f) ensuring assets are entered in the asset register of the CPC upon commissioning.

52. The CPC Planning and Finance Division will be responsible for assessing the annual financing available for the Program including Program funds and own-source revenues and inform the preparation of the annual work plan, including: (a) annual budget preparation; (b) entering spending limits for each sub-project into the State electronic accounting system, known as the Treasury and Budget Management Information System (TABMIS); (c) budget monitoring; (d) managing a dedicated line item in the CPC account at the Provincial State Treasury, against which Program funds will be deposited and from which payments will be made; (e) execution of payments; (f) monthly reconciliation of accounts with Treasury records; (g) preparation of annual Program financial statements, to be ready for audit by March 31 of the following year; and (h) entering assets in the asset register of the CPC on commissioning.

53. The Provincial branch of the State Treasury will combine the roles of banker and financial controller for Program funds as well as maintaining financial records of expenditures. Program funds will be managed through a special purpose account opened at the State Treasury by the CPC. The State Treasury is responsible for determining that payments can legitimately be made from the State Budget (which includes the city budget) by checking that the expenditures that are listed in the approved budget estimates are in line with State norms and standards, are approved by the authorized officer of the spending unit and are supported by adequate documentation. State Treasury enters payment information directly into the TABMIS system, thus ensuring the sharing of information with the Planning and Finance Division.

Independent Verification Agent (IVA)

54. The IVA role is to provide independent confirmation of the results reported by the cities and the MOC to the Bank and MOF. This includes an annual audit and verification of financial results and physical performance of participating cities relative to the Program DLIs, as well as the preparation of a Program Results Verification Report. The SAV was selected to verify Program results, which will be done in accordance with the verification protocol. This choice is based on SAV's role as a constitutional body with both the independence and the mandate to conduct audits of the CPCs.

B. Results Monitoring and Evaluation

55. The Results Framework (Annex 2) provides the basis on which the MOC will support the participating cities to appropriately measure and report on progress. This enhances monitoring and evaluation (M&E) for the NUDP and will enable the MOC to collate the results to assess Program performance, progress in achieving the DLIs, and implications for national urban policies and programs. Monitoring and evaluation capacity will be enhanced through the Program's capacity building component in order to strengthen the Government's ability to monitor indicators of Program progress through the Results Framework. In association with the submission of the annual financial statements, participating cities will report annually against individual DLIs and results indicators (City Results Report), and provide evidence of compliance with individual indicators as specified in the POM. In accordance with existing requirements, this City Results Report (including the unaudited annual financial statements²²) will be submitted to MOC after the close of each financial year (December 31) and no later than January 31 of the following year. Similarly, and over the same time period, the MOC will prepare a National Results Report (including unaudited annual financial statements²³ for national expenditures in the Program, evidence of results related to DLI 4 and the results framework, and evidence of compliance with requirements of the Program Action Plan). It will consolidate the seven City Results Reports with the National Results Report, into a single Program Report and submit this to SAV no later than March 31 of each year. The Program Report will include, among other information specified in the POM: (a) the National Results Report; (b) the seven City Results Reports; (c) the PAP progress report; and (d) the reporting on the indicators in the Results Framework.

56. During implementation, MOC will provide continuous supervision of Program implementation and will closely support the cities to meet their monitoring and reporting obligations under the Program. The World Bank will also provide implementation support to MOC and the cities on all aspects of implementation, monitoring, and reporting as outlined in the Implementation Support Plan (Annex 9), including supporting MOC in the verification aspects of its mandate and its relationship with SAV.

C. Disbursement Arrangements and Verification Protocols

57. Once satisfied with the accuracy of the reporting, the MOC will present annually by March 31, evidence of the DLI achievement (covering the period of January 1 to December 31 of the previous year) to the SAV, which will verify the results by no later than July 31 each year in the form of the Program Results Verification Report. In order to validate the disbursement request submitted by the MOC, the SAV will verify all DLI target indicators through both a desk review and physical inspection of all infrastructure sub-projects under the Program. These verified results will accompany any disbursement request to the World Bank by the MOF, expected to be submitted once a year (August of each year).

²² The annual financial statements will need to be audited and the audit opinion issued by SAV no later than July 31st of each year.

²³ The annual financial statements will need to be audited and the audit opinion issued by SAV no later than July 31st of each year.

58. The results achieved against DLIs 1, 2 and 3 are measured at the city level. Amounts that are undisbursed due to a failure of a city to achieve the requirements of DLI 1 and 3 will be re-allocated after the mid-term evaluation of the Program. Undisbursed amounts relating to DLI 2 will be retained until the completion of the associated sub-project has been verified, at which time it will be included in the next annual disbursement. Verification of DLI 2 will include a physical assessment of the quality of infrastructure sub-projects reported as completed against the provisions of Decree 15/2013/ND-CP. Any savings achieved by CPCs relative to budgeted expenditures in the course of actual sub-project execution will be retained by the city. These are unlikely to be significant due to the application of cost norms that mitigate this risk, and due to the relatively small size of sub-projects. At the margin this approach also creates an incentive for efficiency in line with Program objectives.

59. DLI 4 will be disbursed at a Program level against the verification of the achievement of milestones specified in the sub-DLIs. Sub-DLI 4.2 is disbursed against the establishment of a professionally-staffed unit and implementation of activities in each city contained in the Annual Capacity Development Plan. The calculation method for this DLI is defined in Annex 3.3.

Baseline and Verification

60. While the participating cities and the MOC already have provisional baseline data in their annual plans, an assessment will be undertaken by the SAV to validate the baseline information for DLIs 1 to 3 submitted by the cities and create a starting point for the results that they will later be required to evaluate. The verification process will be worked into SAV's annual auditing cycle.

61. Results will be verified through financial audit, procedural verification, and physical inspection that tests the accuracy and quality of results claimed. In accordance with good audit practice, physical verification will take place against a sampling framework and frequency. The level of calibration will be detailed in the Verification Protocol.

62. On this basis, the SAV will prepare a Program Results Verification Report that will be shared with MOC and the World Bank. A key use of the Program Results Verification Report will be to determine the amount of the eligible disbursement to be made based on the results achieved. If the World Bank finds that the disbursement request meets the terms of the Financing Agreement, the World Bank will disburse the corresponding funds to the MOF.

Advances

63. The Government has informed the World Bank that advances will be needed in order to provide the participating cities with sufficient liquidity to begin sub-project implementation. Advances up to 25 percent of the total IDA Credit can be made by the World Bank to MOF. After consulting the cities, MOC and MOF will jointly determine how much of an advance will be requested, within the 25 percent limit. When the DLI(s) are achieved, the amount of the advance will be recovered. The advance amount recovered by the World Bank is then available for additional advances ("revolving advance"). The World Bank requires that the Government

refund any advances (or portion of advances) if the DLIs have not been met (or have been only partially met) by the Closing Date, promptly upon notice thereof by the World Bank. The MOF has indicated that this arrangement will also be used to advance and reconcile disbursements to participating cities, based on agreed allocations and this has been confirmed in the fund flow guidelines issued prior to negotiations. No prior results financing is expected under the Program.

Program Reports and Financial Statement Audit

64. MOC shall prepare Program consolidated financial statements annually, as outlined in the Results Monitoring and Evaluation framework, above. The Program Report will include consolidated financial statements that will cover all Program activities, expenditures and sources of funds, in accordance with the applicable international public sector accounting standards (IPSAS). Each CPC will prepare the financial statements for the Program component implemented by the CPC and submit it to MOC for consolidation and audit. The annual financial statement of CPCs must be submitted to MOC by January 31 of each subsequent year of Program implementation, and MOC must submit consolidated Program financial statements to SAV by March 31. SAV will audit the consolidated Program financial statements. Program Audit Report and audited consolidated Program financial statements shall be submitted to the World Bank within seven (7) months after the end of the financial year.

Program Reconciliation

65. Although PforR operations do not link disbursements to individual expenditure transactions, the aggregate disbursements under such operations should not exceed the total expenditures by the Recipient under the Program over its implementation period. The World Bank will ensure that the amount of IDA financing disbursed does not exceed the total amount of expenditures under the Program, taking into account contributions from other financing sources (including any other IDA/IBRD credits/loans). If, by Program completion, IDA financing disbursed exceeds the total amount of Program expenditures, the Government is required to refund the difference to the World Bank with this amount subsequently being cancelled.

IV. ASSESSMENT SUMMARY

A. Technical, including program economic evaluation (see Annex 4)

66. A detailed technical assessment of the Program was undertaken during the preparation of the PforR operation. A summary of the findings of the assessment is included in Annex 4.

67. Improved urban infrastructure and strengthened city capacity to plan, manage and maintain infrastructure investments are expected to stimulate private investments leading to more effective management of urbanization and more inclusive economic growth. This will enhance the economic opportunities available to low income residents of the cities and the surrounding rural areas. Improved infrastructure will directly improve public health and the quality of life of poor and low-income urban residents.

Government expenditures

68. Government has been responding to rapid urban growth with both institutional reforms and financing. These efforts have resulted in significant progress in access to basic urban infrastructure services. However, intergovernmental arrangements in Vietnam result in a residual duplication of powers and functions between tiers that can delay or complicate investment coordination and reduce accountability for investment selection and timely results. Cities have only limited powers to expand own revenue generation, but the use of land lease arrangements raises governance concerns.

69. Inter-governmental fiscal analysis is complicated by limited information disclosure by national and provincial governments, and weak accounting and reporting formats at the city level. As such, it is difficult to quantify urban development expenditures in Vietnam. This challenge will be addressed through the Program, which establishes a dedicated resource envelope and implementation modalities for the NUDP. The Program clearly assigns implementation responsibilities particularly to PMUs reporting to CPCs, clarifies planning, financing, reporting and oversight arrangements (including timelines), requires mandatory public disclosure, and strengthens complaints handling mechanisms through DLIs and the Program Action Plan. Targeted capacity building and technical assistance activities support these requirements. These measures will strengthen the framework for public expenditure management in participating cities.

Capacity Assessment

70. The MOC has a clear mandate to coordinate Program activities, including the performance-based transfers, the provision of capacity support for and oversight of participating cities, and the ongoing development of national policies and programs for urban development. It has considerable experience in issuing guidelines for cities and supporting their infrastructure projects. However, the performance-based transfer instrument of the Program will be a new function for the MOC, but one that will prepare it to replicate the results-based approach nationwide in the future. It will require the MOC to institutionalize its capacity to manage the performance-based transfer mechanism, design and deliver results-based capacity support for cities, monitor progress and outcomes, and review and adapt relevant policy and regulatory frameworks. The Program design supports the programmatic strengthening of MOC through sub-DLIs in DLI 4 and required PAP actions. Activities necessary to strengthen the capacities of MOC in these functions will be included in the Annual Capacity Development Plan. This integrated approach is assessed as adequate to ensure effective Program implementation.

71. The PMUs are to implement Program activities on behalf of the CPCs. These PMUs are well established and in most cases have stable and experienced leadership and a good understanding of the regulatory framework for preparation, procurement and implementation of urban infrastructure investments. The larger investments handled by the PMU in the past are of similar size and complexity to the larger Program sub-projects, but will considerably increase their workload. Long-term capacity strengthening for CPCs in city planning, contract administration, asset management, revenue management and monitoring and evaluation systems is required for effective Program implementation. The PMUs will need to strengthen their overall capacity as well as strengthen procedures in quality assurance of technical designs,

environmental and social impact assessment and mitigation, procurement packaging and competitiveness, and efficient and effective contract administration. PMUs will also need to provide minor additional support to the CPC Planning and Finance Division and State Treasury offices. Program DLIs and the PAP encourage performance improvements by CPCs and their PMUs, who will also benefit from targeted capacity support activities and technical process improvements detailed in the POM. This integrated system of incentives and support to CPCs and their PMUs is assessed to provide a credible framework for ensuring effective and compliant expenditures in the Program.

72. While SAV will fulfil its traditional role of undertaking annual financial audits of Program activities, its capacity to perform technical verification will need to be strengthened with the support of a professional firm.

Expenditure Framework

73. Program expenditures are estimated to total US\$300 million. US\$280 million will finance infrastructure investments specified in the investment menu. This includes US\$50 million in counterpart contributions from the participating cities. US\$20 million will support MOC activities, including the provision of capacity support (training and technical assistance) to participating cities, the development of national policy and implementation frameworks, and the strengthening of oversight systems. City-level expenditures include direct recurrent costs associated with the implementation of sub-projects under the Program.

74. As a level of government, CPCs have a range of functions including those relating to urban development. The total expenditures of CPCs amounted to US\$154.8 million in 2012 (or US\$189 per capita), and have grown by an average of 25 percent per year since 2010. Expenditures on urban infrastructure investments (i.e., capital investments including direct project management costs) accounted for 24 percent of this expenditure (US\$38 million, or US\$46 per capita) and have grown at an average of only 15 percent per year since 2010. Personnel expenditures (in four cities for which data is available) accounted for an average of 52.1 percent of recurrent spending since 2010. City expenditures are financed through a mixture of local taxes and fees (34 percent) which are subject to revenue-sharing arrangements with provincial governments, transfers from provinces (30 percent), land sales and leases (21 percent) and accumulated savings (15 percent).

75. These existing CPC expenditures are expected to continue. On average, the Program will add an additional US\$5.5 million to the annual expenditures of each city, or US\$47 per capita. This constitutes about 24.8 percent of total CPC expenditures in 2012, and 101 percent of their capital spending baseline. However, this is anticipated to decline sharply due to ongoing growth in existing revenues and expenditures outside of the Program. If the current rate of growth and expenditure composition is sustained over the Program period (to 2020), CPC expenditures are projected to increase more than seven fold by FY2020, with capital expenditures more than doubling. They will then far outstrip annual Program expenditures. This provides a critical window for the Program to enhance the effectiveness of these future CPC expenditures, in line with NUDP objectives.

76. The Program design emphasizes the importance of strengthening the sustainability of investments, both through incrementally improved asset management regimes and securing additional local resources for maintenance and capital expenditure programs. The emphasis is captured in the sub-DLIs of DLI 3, and will be complemented by capacity support activities. These measures are assessed as adequate to enhance the sustainability of Program expenditures.

77. The provisional sub-project lists imply that substantial amounts of counterpart financing will be required in some cities. A projection of annual advances and disbursements of the performance-based transfers was conducted to identify potential liquidity shortfalls overall and at the city level. The projected disbursement schedule was adjusted for each city to minimize liquidity constraints. Any residual shortfall does not pose a significant risk to Program implementation and can be further reduced or eliminated by adjustments to implementation plans, effective cash-flow management at the city level and bridging finance where appropriate.

Technical soundness of investments

78. The technical assessment concluded that the proposed sub-projects are technically appropriate and are within the capacity of the CPC to implement, with the assistance of expert consultants for feasibility study, design and construction supervision. Key measures to ensure technical quality will include stronger procedures to recruit the best-qualified available consultants, thorough checking of designs and cost estimates and strengthened contract administration and technical supervision procedures. The PAP requires increased use of competitive selection procedures for consultants. The POM prescribes best practice contract administration procedures and MOC will provide associated training.

Economic Evaluation

79. The physical outputs of the Program are public goods that will stimulate economic growth and facilitate orderly management of urbanization. The tangible benefits of the sub-projects will consist mainly of reduced journey times and operating costs within the urban areas. Intangible benefits include improved living conditions for urban residents, particularly the residents of low-income areas. The integrated package of investments are expected to stimulate private investment by reducing costs of doing business, improving transport links, improving access to land for development, and increasing the attractiveness of the urban environment. Poor and low income residents of the cities will benefit directly from investments in social infrastructure and environmental improvements. Urban economic growth will create employment opportunities in the cities and the surrounding rural areas. Development of the cities will improve access to services for both urban and rural residents. Therefore, the Program investments are expected to contribute to poverty alleviation and inclusive economic growth. The Program is assessed to be economically viable.

B. Fiduciary (see Annex 5)

80. The Fiduciary Systems Assessment reviewed procurement, financial management and governance arrangements in the Program. A summary of the assessment is provided in Annex 5. While there are generally sound systems in place, a number of weaknesses were identified, and will be addressed through DLIs and the PAP to ensure that Program fiduciary systems provide

reasonable assurance that the Program expenditures will be used appropriately to achieve their intended purpose.

81. Procurement issues and practices that may affect the timeliness, cost-effectiveness, competitiveness and compliance with applicable rules of Program implementation include limited capacity of Program cities, fragmented procurement planning practices with excessive use of direct contracting, prevalent rejection of bids merely for bid prices exceeding cost estimates or for non-substantive deviations or omissions, award of contracts to dependent State-Owned Enterprises (SOEs), non-application of Bank debarment/suspension lists, and liquidity constraints in sub-project implementation.

82. Financial management risks were identified in planning, budgeting, internal controls, financial reporting and auditing arrangements. Systems will require further strengthening to: (a) enable cities to effectively absorb the significant additional funding for infrastructure injected by the Program; and (b) introduce the results-based financing mechanism. Governance issues were identified associated with complex organizational arrangements and authorities for oversight and complaints handling, the acceptance of anonymous complaints, inadequate staffing of inspection agencies and implementation of Bank sanctions and debarment requirements.

83. The Bank's experience in Vietnam's urban sector has revealed that international firms may use local Vietnamese agents to make payments to project and government officials in order to influence the award of contracts and to be paid for their works in Vietnam. In trying to hide the nature of their relationship with the Vietnamese agent in violation of the disclosure obligations under their contracts, these firms use purported "ghost" services to cover payments made to these local agents. More generally, the Bank's experiences in the sector have included situations where consulting firms have mis-represented the availability of key staff and their qualifications and then used payments to project officials in order to obtain tender and evaluation information and documents.

84. Prior to the mitigation measures being taken, Program risk is assessed as Substantial. During preparation the Bank assessed all available options – capacity building, DLIs and Program design adjustments – to help mitigate these risks. Specifically, the following measures are included:

Procurement

- Sub-DLI 1.2 requires that the PMUs are adequately staffed;
- PAP Action 2 stipulates that, "Procurement methods in participating cities will be enhanced by ensuring that: (a) all proposals for detailed designs, construction supervision and bids for civil works, whether below or above cost estimates, shall be evaluated; proposals and bids shall not be rejected only on the basis of minor, non-substantive deviations; (b) at least 30 percent of city consulting contracts for detailed designs, construction supervision will be competitively bid, progressively increased to 80 percent by the end of the Program period. At least 90 percent of city civil works contracts will be competitively bid, progressively increased to 100 percent by the end of the Program period; (c) State-Owned Enterprises dependent on Program provinces/cities/departments will be excluded from participating; and (d) firms and individuals on the local, national or

Bank debarment/suspension lists will not be allowed to participate.

Financial Management

- DLI 2 requires CPCs to have annual Program audited financial statements with audit opinion that is not “adverse” or with “disclaimer,” based on international standards of auditing; and
- PAP Action 3 stipulates that “MOC will build and implement an effective internal audit function for the Program”. MOC and the cities have provisionally agreed that the internal audit function will be implemented by the Government Inspectorates (GIs).

Governance

- Government agrees to apply the Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing to the Program, including an obligation on all parties to cooperate with Bank investigations;
- PAP Action 1 stipulates that “Participating cities will enhance transparency by maintaining databases on: (a) public consultation, corruption, fiduciary, procurement, and Program implementation complaints and responses to those complaints; and (b) beneficiary feedback to implementing agencies and responses to such feedback. The information will be aggregated at the national level by MOC and will be reported to the Bank on a periodic basis; and
- To address the risk of the use of local agents to funnel payments to project and government officials, Client and Bank teams will need to focus greater attention on ensuring that bidders and contractors more fully disclose any relationships they have with local agents. Use of false claims for “ghost” services by local sub-consultants highlights the need for stronger and more consistent due diligence of subcontractors and greater scrutiny of subcontractors’ invoices.

C. Environmental and Social Effects (see Annex 6)

85. The Environmental and Social Systems Assessment (ESSA) examined the scope, context and potential impacts of the Program from an environmental and social perspective. A summary of the assessment is provided in Annex 6. It involved the review of environmental and social management systems and implementing capacities of the respective government agencies participating in the Program and evaluated their consistency with the core principles and attributes specified in the Bank’s Operational Policy/Bank Procedures (OP/BP) 9.00 (Program-for Results Financing). Overall, the assessment concludes that the applicable systems are in many ways consistent with OP/BP 9.00. However, there are some areas that need further strengthening, as described in the following paragraphs.

86. Vietnam has an environmental assessment framework that is differentiated by potential impact. An Environmental Impact Assessment (EIA) is mandatory for projects with potential large scale adverse impacts and an Environmental Protection Commitment (EPC) is required for projects with more limited impacts. Projects requiring an EIA are further divided into those that require central agency review and approval, and those that are reviewed and approved by the provincial agency. All proposed sub-projects in the Program require either an EPC or an EIA with delegated review and approval at the provincial level.

87. Although Environmental Management Systems are present, capacity needs to be built at the city/province level, where weaknesses exist in environmental screening and assessment, post-EIA monitoring and supervision practices, as well as environmental compliance during the sub-project construction phase. Environmental considerations and mitigation measures are not adequately incorporated into technical proposals and contractor clauses. Environmental staff appointed at the city level often lack appropriate training and experience, and do not meet the requirements set out in Decree 81/2007/ND-CP dated 23 May 2007 (which requires that each environmental division is staffed with one to two officers). Environmental law enforcement is weak and the application of fines has been limited. In addition there is a lack of capacity to plan for, implement, operate and maintain climate resilient infrastructure projects

88. From a social perspective, gaps and weaknesses were identified in social screening and assessment, involuntary resettlement, as well as in the participation and social accountability practices. There are also no specific regulations to guide land acquisition procedures for cases of resettlement impacts among Ethnic Minority people. Despite the legal framework provided for community participation (including Ethnic Minority people) guidance on participation in development investments and activities as well as operational procedures for adequate implementation are often lacking.

89. The overall risk from both environmental and social perspectives is rated as *substantial*. To mitigate risks from an environmental perspective, the environmental management capacity for the participating cities/provinces needs to be strengthened, and the environmental screening and assessment process and EIA environmental monitoring and supervision needs to be improved. Community participation in sub-project design and construction monitoring should be promoted.

90. From a social perspective, attention needs to be paid to improving the transparency and accountability of implementing organizations. Importantly, provinces and cities will need to ensure that people affected by loss of land and assets are properly compensated for the loss of land, and that guidelines are developed for effective participation of and consultation with local people, including Ethnic Minorities and vulnerable groups. Provinces and cities participating in the Program will also need to strengthen their grievance and redress mechanisms.

91. These measures to improve the environmental and social management systems in line with the principles of OP/BP 9.00, which are summarized in Table A6.2 and A6.3 in Annex 6, will be implemented through a combination of Program DLIs, the Program Action Plan, and the POM and capacity support activities. For example, sub-DLI 1.2 requires fully staffed PMUs, including a qualified person to coordinate and review environmental impact assessments and who will also coordinate social impact studies and resettlement issues. Measures related to minimizing land acquisition impacts and ensuring compensation for resettlement, as well as the development of guidelines to ensure the effective participation of and consultation with local people, are included in the PAP.

D. Integrated Risk Assessment Summary (see Annex 7)

1. Integrated Risk Assessment Summary

Risk	Rating
Environmental and Social	Substantial
Fiduciary	Substantial
Technical	Moderate
Disbursement Linked Indicator	Moderate
Other ²⁴	Substantial
Overall Risk	Substantial

2. Risk Rating Explanation

92. While significant mitigation of identified risks is possible within the design of the Program, given the novelty of the results-based approach and capacity issues at different levels, the overall risk is rated as substantial. The main risks can be summarized as:

- (a) *Fiduciary*: the main risks relate to procurement practices and capacity and weak governance and anti-corruption systems. A relatively good legal framework on anti-corruption is in place (e.g., Law on Anti-Corruption, National Strategy on Anti-Corruption until 2020, Law on Procurement) but implementation is lagging. This risk is considered to be substantial and will be addressed through strengthening existing project management systems and agencies at the city level and enhanced transparency measures. Participating cities will also receive specific technical assistance support.
- (b) *Environment and Social*: The environmental policy is considered to be appropriate and the main concern relates to capacity for implementation of the policy and the availability of detailed operational guidelines, including grievance mechanisms. This environmental risk is still deemed to be substantial, and can be mitigated through technical assistance. Social issues related to resettlement and inadequate compensation policies are also significant and therefore this risk is also considered substantial. Measures to mitigate these social issues are included in a Program Action Plan.
- (c) *Technical*: capacity to appraise, monitor and supervise infrastructure projects is weak. Sustainability of infrastructure investments will be weak if technical designs are not optimized. This risk is considered to be moderate and will be managed through good technical assistance including intensive training and continuous support during Program implementation.

²⁴ Cities' failure to provide counterpart funds.

E. Program Action Plan (see Annex 8)

93. While built on a sound legal and regulatory foundation, the Program will benefit from additional actions to facilitate effective implementation and meet international good practices. The Program Action Plan contains the key actions that will be taken in the course of Program implementation. These actions are included in Annex 8 and summarized below:

- (a) Participating cities will enhance transparency by maintaining databases on: (i) public consultation/corruption/fiduciary/procurement/Program implementation complaints and responses to those complaints; and (ii) beneficiary feedback to implementing agencies and responses to such feedback. The information will be aggregated at the national level by Ministry of Construction (MOC) and will be reported to the Bank on a periodic basis.
- (b) Procurement performance will be enhanced by ensuring that:
 - All proposals for detailed designs, construction supervision and bids for civil works, whether below or above cost estimates, shall be evaluated. Proposals and bids shall not be rejected only on the basis of minor, non-substantive deviations;
 - At least 30 percent of city consulting contracts for detailed designs, construction supervision will be competitively bid, progressively increased to 80 percent by the end of the Program period. At least 90 percent of city civil works contracts will be competitively bid, progressively increased to 100 percent by the end of the Program period;
 - State-Owned Enterprises dependent on Program provinces/cities/departments will be excluded from participating; and
 - Firms and individuals on the local, national or Bank debarment/suspension lists will not be allowed to participate.
- (c) MOC will build and implement an effective internal audit function for the Program.
- (d) Participating cities will ensure that land acquisition and related adverse impacts are avoided or minimized and that people affected by loss of assets or land or income streams will be compensated so that they are no worse off than before that loss, and if possible better off. In addition, an efficient and independently verifiable mechanism will be developed to assess the market value of lost land, other assets and income streams to determine adequate means to restore livelihoods of affected people.
- (e) MOC and the participating cities will jointly develop guidelines to ensure the effective participation of and consultation with local people, including Ethnic Minorities and vulnerable groups, in the investment process. The guidelines, to be implemented by the participating cities, shall fully operationalize existing Vietnamese legislation with respect to Ethnic Minorities through a process of free, prior, and informed consultations.

94. The PAP actions will complement the World Bank's ongoing support to Government to mainstream governance through enhanced transparency and accountability. The Program will reinforce and strengthen the Government's own systems for urban governance and infrastructure delivery, building on sound fiduciary, environmental and social management practices.

95. Apart from including an action on ethnic minorities in the PAP, the operation will also promote gender equality. An analysis was conducted in Program cities as part of preparation and it was found that women's participation and their role in decision making was limited. In addition to using the promotion of gender equality as a prioritization criterion for sub-project selection, women's participation in Program activities will be encouraged through facilitation by the Women's Union. A gender specialist will also be placed in each of the city implementing agencies as well in the national agency overseeing the operation

Execution of the Program Action Plan and Program Operational Manual

96. The implementation of the PAP will require central government orders that direct and guide ministries, provinces, cities and their lower-level institutions in how to implement the actions. These actions are expected to be executed through instructions contained in the POM. The Prime Minister has approved the PAP and authorized the MOC to adopt the POM.

97. Government has agreed to follow the Bank's *Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing*. Key arrangements for the implementation of these guidelines, including at the city level, will be included in the Program Operational Manual. This will set out the steps that government will take to: (a) report on allegations of fraud and corruption in the Program and how they are handled; (b) apply the Bank's debarment list to the Program; and (c) assist any Bank investigation under the anti-corruption guidelines by ensuring cooperation from those involved in the Program, including ensuring that these participants will be obligated to cooperate with the Bank.

98. An Implementation Support Plan has been developed to guide World Bank support to Government's implementation activities and manage the key risks to achieving intended Program results. This is provided in Annex 9.

Annex 1: Detailed Program Description

1. The Program is a results-based approach to the NUDP in seven geographically-clustered cities in the Northern Mountains region (Dien Bien Phu, Bac Kan, Cao Bang, Thai Nguyen, Hoa Binh, Tuyen Quang and Yen Bai) that will strengthen the capacity of participating Northern Mountains cities to plan, implement, and sustain urban infrastructure.
2. The Program encompasses three primary activities, namely: (a) performance-based transfers for local infrastructure; (b) capacity support for participating cities; and (c) national policy development and oversight.
3. ***Performance-based transfers for local infrastructure:*** The Program will provide, through the MOF, a performance-based transfer to participating cities for investment in local infrastructure. The maximum IDA allocation that each city will be allocated is shown in Table 3 on page 12.
4. These total allocations were determined on the basis of a population-weighted formula, subject to a minimum annual amount that accounts for the lumpiness of capital expenditures in smaller cities. Cities will be provided with an indicative maximum allocation for each year of the Program for multi-year and annual planning purposes. These annual allocations have been agreed based on cash-flow estimates and liquidity requirements provided by cities and appraised during Program design. Allocations listed are for planning purposes only as the disbursement of funds will be made on the basis of each city's performance, relative to the Disbursement Linked Indicators outlined in Annex 3 and scaled relative to an agreed annual disbursement schedule that has been assessed and is contained in the Program Operational Manual (POM). This schedule constitutes the annual amount of the total allocation a city may receive in that year, and has been programmed to respond to the cash-flow projections of each city in order to ensure that they have sufficient liquidity to initiate sub-project implementation. Allocations will be reviewed at Program mid-term (planned for September 2017) in order to re-allocate resources within each city (in the case of savings) and across cities from low-performers to high-performers for the remainder of the Program based on past performance relative to the DLIs. This allocation will again be population weighted.
5. The provision of performance-based transfers to participating cities for infrastructure investment will provide an average annual allocation of US\$5.5 million per city, or US\$47 per capita. In aggregate, the performance-based transfer will double existing levels of capital expenditure, thereby reversing the trend of recurrent spending displacing capital expenditures to levels that are insufficient to support urban growth.
6. Advances to a maximum of 25 percent of the total performance-based transfer will be made available to provide cities with sufficient liquidity to begin sub-project implementation. Annual releases to CPCs will take the form of replenishments to the advance amount, based on the amount verified as eligible for disbursement against the specific performance targets established in DLIs 1, 2 and 3. Cities that are verified to have achieved all performance targets set out in DLIs 1, 2 and 3 and that have complied with the requirements of the PAP will receive up to their full allocation, but both partial and delayed releases will be possible for certain DLIs, as described in Annex 3, which provides details on linkages between DLIs, as well as the scaling

and/or delays in actual release relative to performance. The achievement of both indicators of institutional performance under DLI 1 will be mandatory for the disbursement of DLI 2 for each city in any year.

7. Cities will be supported by MOC to carry out a strategic planning process to formally select their priority investment sub-projects on an annual basis, within a multi-year plan aligned to the broader master plan and overall city development, and in accordance with their existing functional mandates as well as existing practices and procedures.

8. The performance-based transfer funds are to be used for capital investments and directly associated project management costs, and for expenditures from the approved menu of investments with a list of prioritization criteria that explicitly keep in mind the long term planning objectives of the city as well as opportunities to control and influence its future expansion and growth. The capital investments are also subject to a “negative list” of ineligible expenditures that has been agreed with the Bank. Infrastructure sub-projects provisionally identified by the participating cities for the Program include:

- (a) *Roads*: 40 proposed road sub-projects (estimated cost is US\$124 million), in addition to residential roads or paths included in LIA sub-project types. The proposed roads vary from 7m to 24m in width (carriageway width 5m to 15m). In most cases the proposed road is either an upgrade from an existing minor road or track or a repair, resurfacing and provision of adequate drainage for an existing sealed road. In a few cases, part of the road will be built to connect existing roads. None of the sub-projects appear to present any unusual technical complexity and, therefore, construction of the carriageways and pavements should not present any major difficulty in design or construction. Where there are existing buildings, temporary structures, boundary fences, etc. within the proposed road reserve area, appropriate clearing with resettlement arrangements will be made by the city, in coordination with relevant authorities.
- (b) *Bridges*: Five bridges are proposed (estimated cost is US\$46 million), including three new river crossings and two replacements of existing bridges in poor condition. The proposed bridges vary between 7m and 19.5m in width and serve mainly strategic urban roads. All the bridges will use simply supported span type construction and can therefore use standard specifications and design details. Although some technical complexity could arise from foundation requirements and from river hydraulics (which could be addressed with adequate ground investigations and appropriate measures to prevent scouring and/or damaging erosion of the river banks), none of the bridges are considered “special” under the Government’s technical classification. Minor land clearance and resettlement will be required for the bridge approach roads. Resettlement arrangements will be made by the city, in coordination with relevant authorities.
- (c) *Drainage and Environment Improvements*: 12 sub-projects (estimated cost is US\$41 million) for provision or improvement of storm water drainage channels;

construction of masonry embankments to natural streams; and other improvements including excavation, embankment improvements and construction of perimeter roads or tracks to natural lakes with a drainage function. The drainage works should not pose any major complexities in design or construction and the systems will be designed so that any flooding will dissipate quickly without causing physical damage and the system does not discharge foul water to the surface. The improvement of watercourse and lake schemes will create public amenity space within the urban areas in addition to serving the drainage function. These sub-projects do not present any major technical problems, although embankment constructions always entail some risk of local collapses, which can be effectively prevented by careful attention to conditions during design and construction.

- (d)** *Other types of sub-projects* include: (i) upgrading of Low Income Areas (18 sub-projects; estimated cost is US\$23 million) comprising provision of technically non-problematic Class III infrastructure works such as residential roads, water supply, drainage and street lighting; (ii) constructing small-scale, small-building social infrastructure such as kindergartens, schools, cultural centers and markets (five sub-projects; estimated cost is US\$6.2 million); (iii) preparing resettlement areas including roads, drainage and lighting (six sub-projects; estimated cost is US\$27.5 million) for households relocated due to infrastructure development under, but not limited to, Program sub-projects; and (iv) other categories, which currently consist of a sub-project for re-routing overhead electric cable through underground cable ducts in 8.8km of city streets (estimated cost is US\$10 million).

9. Cities will review sub-project progress and investment needs in 2017 in order to reflect then priorities. Proposed additions and modifications to sub-projects will be submitted to MOC for review in accordance with Program eligibility criteria, prior to being included in Enhanced Annual City Plans from 2018 onwards.

10. These asset classes are within the functional competence of city governments, and are areas where all cities have made investments in the past (albeit at a smaller scale due to resource limitations). Cities will continue to utilize other available resources to make complementary investments outside of the Program framework, but which will indirectly benefit from the governance and capacity improvements achieved in the Program. These other investments, while of lower priority and thus outside the Program expenditure framework, remain important to ongoing urban management and include incremental expansion and rehabilitation of existing assets.

11. The Program cities have prepared the sub-projects to be funded under the Program in a participatory manner, with involvement of the municipal divisions as well as the local communities. This approach will continue to be applied during sub-project selection and preparation. This is consistent with the legal requirement that provides for bottom-up participatory planning in Vietnam. Cities will also apply a screening and scoping process that ensures that the selected sub-projects are eligible for financing including meeting the necessary environmental and social requirements. The costing of selected sub-projects will be subject to prevailing government cost norms. To ensure transparency and accountability, the sub-projects

to be funded under the Program will be screened by the CPC using the screening (pass/fail) and prioritization criteria that explicitly keep in mind the long term planning objectives of the city as well as opportunities to control and influence its future expansion and growth. These criteria are summarized in Table A1.1, and are detailed in the POM. Project Preparation and Technical Advisory Facility (PPTAF) funds will be used to support proper planning of the proposed infrastructure investments through sub-project preparation of feasibility studies, detailed designs, bidding documents, Environmental Impact Assessments/Environmental Protection Commitments, and small goods contracts.

Table A1.1: Sub-project Screening and Prioritization Criteria

Mandatory Pass-Fail Criteria	Prioritization Criteria
<p>Sub-projects must:</p> <ul style="list-style-type: none"> • Conform to the menu of eligible investment sub-project types (as shown in Table 4 on page 13); • Fall within the functional expenditure mandate of the CPC, as assigned in law and clarified through executive decisions at central and provincial level; • Be included in the approved plans of the CPC, such as City Construction Master Plan and 5-year Social-Economic Development Plan; • Include a credible financing plan that will result in completion within the period of the Program; • Demonstrably contribute to the improvement of the living standards of urban populations and address their immediate needs, especially the urban poor; • Demonstrate that capacity is available for operational and maintenance, and that support instruments are in place to ensure this in future; • Be self-contained; if there are any complementary investments required (e.g., link roads for bridges) from other sources of funds, financing for those investments must be fully secured and presented; • Minimize land acquisition and resettlement to the largest extent possible, but where this is necessary include fair compensation and mitigation measures; 	<p>Sub-projects to be prioritized are those that:</p> <ul style="list-style-type: none"> • Provide positive economic impacts, including a significant impact on poverty reduction and local economic development; • Facilitate access to markets and economic development opportunities for poor households in peri-urban areas (i.e., strengthens the city’s role as a regional hub); • Support sustainable city development and brings positive environmental impacts; • Benefit a high proportion of poor and low-income households and promotes gender equality; and • Minimize negative social impacts on the community (e.g., sub-project requiring no or few households to be resettled).

<ul style="list-style-type: none"> • Not result in any significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; and • Not involve the procurement of: (a) works, estimated to cost US\$50 million equivalent or more per contract; (b) goods, estimated to cost US\$30 million equivalent or more per contract; (c) non-consulting services, estimated to cost US\$20 million equivalent or more per contract; or (d) consultants' services, estimated to cost US\$15 million equivalent or more per contract. 	
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12. Through a process of prioritization with close support from the Ministry of Construction, the participating cities have put together an initial list of proposed sub-projects for RBNUDP-NM funding, as summarized in Table A1.2.

Table A1.2: Proposed Sub-projects

Type	Sub-projects	Estimated Cost (US\$ million)	Average Cost (US\$ million)	% Cost
Roads	40	124.00	3.10	44.29
Bridges	5	46.00	9.20	16.43
Drainage	12	41.50	3.46	14.82
LIA	18	23.00	1.28	8.21
Resettlement Areas	6	28.00	4.67	10.00
Social Infrastructure	5	6.50	1.30	2.32
Other	2	11.00	5.50	3.93
TOTAL	88	280.00	3.18	100.00

13. The Program design emphasizes the importance of strengthening the sustainability of investments, both through incrementally improved asset management regimes and securing additional local resources for maintenance and capital expenditure programs. Sub-DLI 3.1 requires CPCs to undertake Asset Condition Assessments and develop basic Asset Management Plans before 2017. Cities are subsequently required to ensure that sub-project investments in the Program are in full service two years after completion. Sub-DLI 3.2 requires each city to achieve a 12 percent annual increase in own-source revenues (defined as taxes and fees, but excluding land and rental incomes due to the volatility of this income source and governance concerns). This annual target was assessed as a simple-but-appropriate level for all Program cities, given variations in current levels of revenue growth. Capacity support will be provided to cities to meet these requirements. This addresses the risk that increased revenue may displace the own-source revenue efforts of cities, reducing the sustainability of the investments financed via the Program and of their investment programs as a whole once this support is withdrawn. Ensuring

the long-term sustainability of investments is a complex, multi-faceted challenge for all local governments. However, the positive economic benefits of the sub-projects should establish the basic foundation for sustainability through contributing to local revenue growth.

14. *Capacity Support for Participating Cities*: Preparatory systems assessments of participating cities and the MOC were conducted during the preparation of this PforR operation. These assessments found that, while the institutional framework is in place to implement the Program at all levels of government, there is a need for a focused program of capacity building related to the Results Areas of the program, the achievement of the DLIs and to ensure compliance with acceptable standards of fiduciary, environmental and social management. Resources in the Program are available for these purposes, and activities to address these issues have been incorporated into the Program design, results framework, DLIs, and the Program Action Plan. Specific capacity building and system strengthening activities to improve Program performance at both the city and national levels have been agreed with the Government, alongside an approach to programming these activities and their delivery modalities.

15. A specific capacity needs assessment was carried out during Program preparation, and identified four broad areas for capacity building support at the city level: (a) infrastructure investment prioritization and planning; (b) management of infrastructure sub-projects; (c) technical quality, including procurement and environmental and social management; and (d) systems and mechanisms for operations and maintenance and own source revenue enhancement. The priority for capacity building within MOC is to institutionalize the capacity to manage the performance-based transfer mechanism and, more broadly, the capacity of MOC to assist the city administrations to improve the cost-effectiveness of planning and implementation of infrastructure investments using clearly defined, measurable, and achievable results as a reference framework. As part of the Program, the MOC will also need to develop an implementation strategy for the NUDP. This may require technical assistance in the form of advisory services from international experts. Finally, city and national level staff highlighted the importance of providing orientation training to key personnel who could have an impact on Program implementation, such as provincial level staff and officials in leadership positions. This would help to garner support for the Program objectives and minimize potential bottlenecks.

16. *Annual Capacity Development Plan*. While there are some topics for which a majority of the participating cities demand support (e.g., translating master plans into annual infrastructure development plans), the existing capacity and context of each of the cities is quite heterogeneous. It is also expected that the demand for capacity building activities will shift over time as initial needs are satisfied and new needs emerge. As such, to provide flexibility for adaptation to specific capacity building needs as the Program evolves, an Annual Capacity Development Plan will be developed by MOC each year. A template and detailed required contents for the annual plan are included in the POM (a Preliminary Capacity Development Plan is included in table A1.3 in page 41). At a minimum, it is anticipated that the plan will specify: (a) the topic for capacity building; (b) the objective of the support in relation to Program results areas and DLIs; (c) the intended outputs, such as a guidance note, completion of a training program, or technical assistance document; (d) the target audience for the activity, including projected enrolment levels or participants; (e) the delivery modality, such as class room-based training or orientation programs (workshops), distance learning, guidebooks, or “hands on”

technical assistance; (f) the timeline for the delivery of the activity (start and end dates); and (g) the financial resources assigned for the activity.

17. The Annual Capacity Development Plan will be submitted to the World Bank for review and clearance. Actual achievements verified against the output indicators associated with each activity will be used as the basis for disbursement against sub-DLI 4.2, as described in Annex 3.

Table A1.3: Preliminary Capacity Development Plan

Capacity Building Activity		Modality
City Level		
Infrastructure investment prioritization and planning	Best practices in master planning	Group classes
	Economic/feasibility analysis	Group classes
	Capital investment planning	Certificate Program
	Social and environmental considerations in infrastructure planning	Group classes
	Targeting urban poverty through infrastructure investment	Group classes
	Infrastructure prioritization mechanisms	Technical assistance
	Developing an annual infrastructure plan	Group classes
	Developing an annual infrastructure plan	Technical assistance
	Procurement planning and processes	Certificate Program
	Contract management	Group classes
	On-demand procurement assistance	Technical assistance
	Writing Terms of Reference (TORs)	Technical assistance
	Infrastructure quality management	Group classes by infrastructure type
	Social and environmental assessment	Certificate Program
	Livelihood recovery mechanisms	Technical assistance
	Best practices in community consultations	Group classes
Working with Ethnic Minorities	Group classes	
Systems and mechanisms for operations and maintenance, revenue management and revenue enhancement	Basics of asset management	Group classes
	Asset management practices for Vietnamese cities	Policy notes
	Asset management practices for Vietnamese cities	Certificate Program
	Asset Condition Assessments	Technical assistance
	Asset Management Planning	Technical assistance
	Revenue management strategy review and recommendations	Technical assistance
	City-specific review of options for capital finance enhancement and transaction advisory support	Technical assistance
National Level		
Program implementation	Program management	Technical assistance
	Monitoring and evaluation	Technical assistance
	Procurement and contract management	Technical assistance
	Internal audit	Technical assistance
	Fraud and Corruption	Technical assistance
Policy formulation	Infrastructure investment and finance modeling and review for NUDP	Policy notes
Annual performance assessment	Technical audit	Technical assistance
Orientation		
Program introduction	Engaging city and provincial leaders	Retreat
	Engaging national leaders	Retreat

18. *Modalities of capacity building at the city level.* Under the Program, the MOC is responsible for developing and implementing a plan to provide orientation, training and ‘hands-on’ specialist technical assistance to participating cities. To accomplish this, a small capacity building team will be formed within the PMU to lead the contracting and coordination of specialist firms and technical advisors. These firms and individuals will develop course materials and manuals, deliver training, and provide on-demand and issue-specific technical assistance to cities.

19. A key outcome of the capacity building activities for cities described above will be the strengthened ability of MOC to deliver a similar type of capacity building program to cities nationwide. All of the course materials, guidebooks, and lessons learned through the delivery of training and technical assistance will inform the next generation of the NUDP. For a select number of topics, a formal certification program will be established with the aim of developing a cadre of trained local staff. As described in the Implementation Support Plan (Annex 9), one of the goals of the first phase of the NUDP is to prepare the MOC to replicate the results-based approach nationwide in the future.

20. ***National policy development and oversight:*** This activity will support MOC to further develop national policies, strategies and implementation frameworks for the management of urban development, and strengthen their capacity for effective oversight of participating cities. This strongly complements other primary activities in the Program, though developing an enabling environment for effective local governance and ensuring local performance is effectively monitored. Under this scope, the MOC is responsible for undertaking a more detailed analysis of urban infrastructure investment needs and financing options, and capturing early lessons learned from the RBNUDP-NM experience. This will inform the development of an operational strategy to roll-out the National Urban Development Program countrywide.

21. The Program will also support the SAV. This is a discrete activity that will be undertaken with the support of contracted national or international expertise as needed. This will assist SAV to conduct an annual audit of city expenditures and Program expenditures and undertake the verification of DLIs in accordance with the verification protocol. Because the expertise of SAV is in financial auditing, they will initially hire a professional firm to carry out the technical audit function and, through Program implementation, develop such capacity in-house for the longer term.

Financing and Program Costs

22. Program expenditures are estimated to total US\$300 million. US\$280 million will constitute the performance-transfer system and finance infrastructure investments specified in the investment menu. This includes US\$50 million in counterpart contributions from the participating cities. US\$20 million will support MOC activities and results directly linked to the execution of the Program (see Table 2 in the main text of this document).

23. The performance-based transfers, along with contributions from the participating cities, will fund the construction of local infrastructure, social and environmental related studies, land compensation costs, and operation costs associated with management of the infrastructure

investments. At the national level, expenditures will include Program administration, capacity development activities implemented by MOC (primarily through specialized consultants), and verification audits undertaken by the SAV.

Beneficiaries

24. The current total population of the participating cities is 817,076, of which some 760,000 residents will directly benefit from improved infrastructure services and, indirectly over time, from improved local planning, implementation and financing capacity that will enable participating cities to scale-up the delivery of urban infrastructure. Women, men, children, poor people and ethnic minorities who are residents of these cities will all benefit from local infrastructure improvements. Specific investments in low-income areas will provide direct benefits to poor individuals, who are also likely to benefit from work opportunities that are created in the construction phase, and through the appreciation in property values resulting from improved servicing of their residential areas. Direct benefits will also accrue to residents of surrounding rural areas who will utilize improved infrastructure and services when accessing commercial, administrative and social services in these cities. Indirect benefits will accrue at a national level over time, as the implementation framework in the Program is scaled-up across all regions under the NUDP. Finally, beneficiaries of the Program include institutions at the city and national level whose capacity will be enhanced.

Institutional Arrangements

25. The Program requires a high degree of inter-agency coordination (particularly between MOC and MOF) as well as articulation between the central, provincial, and city levels of government.

Central level

26. The MOC, as the designated coordinator of the NUDP, will be the lead agency for the Program and act as the interlocutor with the Bank on behalf of the Government. The MOC will assign Program coordination responsibilities to its Urban Development Agency (UDA). It is responsible for guiding the participating cities on the planning and selection of infrastructure investments, and supervising the work of a qualified Independent Verification Agency (IVA) to verify results, consolidation of results statistics, balance of advances, and submission of these statistics to MOF for disbursement of Program funds.

27. The MOC is also directly responsible for activities contributing to Results Area 4 of the Program (National Policy, Support and Oversight). In this role, MOC will:

- (a) Review lists of sub-projects proposed by the cities to ensure that the sub-projects comply with the eligibility criteria and the prioritization criteria;
- (b) Ensure that adequate arrangements are in place for implementation of the Program at the provincial and city level before funds are released;

- (c) Finalize the amounts of annual advances and disbursements to the cities based on the annual allocations and achievement of results measured by the Disbursement-Linked Indicators;
- (d) Provide technical advice and support to the cities;
- (e) Conduct regular monitoring visits to the cities;
- (f) Monitor the implementation of the Program investments including physical and financial progress reports, and compile reports for submission to the SAV and the World Bank; and
- (g) Design and deliver capacity development activities to strengthen the capacity of the city administrations.

28. The MOC will develop an Implementation Strategy for the National Urban Development Program, which will draw upon the experience of implementing the Program in the Northern Mountains cities and will establish a framework for implementing the NUDP in other regions. The MOC will carry out the tasks described above using its own staff resources assisted by consultant services as needed.

29. The Ministry of Finance will be responsible for the release of funds to cities and the financing and fund flow mechanisms for the Program. The MOF will channel funds to the cities through the existing State Treasury system, as a dedicated line item and via the provinces according to the Fund Flow Guidelines issued prior to negotiations. The MOF is responsible for submission of withdrawal requests to the World Bank upon receiving statistics on verified results and advance requests from MOC, and for disbursement of fund to the cities.

30. Other national ministries and agencies will play complementary roles in accordance with their current functions.

Independent Verification Agent

31. The IVA's role is to provide independent confirmation of the results reported by the cities. The State Audit of Vietnam (an agency with demonstrated capacity and independence, as well as an institutional stature within Vietnam that guarantees it access without hindrance to any level of government) will undertake the verification role in a timely and efficient manner. SAV is well known to the Bank through involvement in auditing Bank-financed sub-projects and as the beneficiary of technical assistance in an on-going program of institutional strengthening. SAV serves primarily as a financial auditor, but in recent years is gaining experience in performance auditing through the Results-Based Rural Water Supply and Sanitation under the National Target Program in Vietnam.

32. SAV's role as the IVA will include carrying out the annual Program Audit and annual verification of results, which will consist of financial and technical audits and will verify achievement measured by each of the Disbursement-Linked Indicators. Recognizing that SAV will need to engage specialized technical skills in infrastructure to carry out the IVA role, funding will be provided for that purpose and directly transferred from MOF to SAV. The terms of reference and Memorandum of Understanding for the IVA engagement will be developed by

the Bank and MOF, to be reviewed, confirmed by SAV, and included in the POM. SAV will initially hire a professional firm to support the technical verification process and gradually build that function within SAV in order that the capacity to review infrastructure works for the national roll-out of the NUDP exists in-house. The SAV will report the results of the Verification Audits to MOF and the Bank.

Provincial Level

33. Under the decentralized arrangements of the GoV, the provincial authority - represented by the PPC - acts as the Executive Agency. The PPC is responsible for the assignment of the City People's Committee as the owner of the sub-projects, for the review and approval of the city annual plan, the city annual budget, sub-projects' feasibility study and procurement plan. In this process, the Department of Construction is responsible for the verification of detailed designs.

34. The PPC which has the role of approving the master plan and annual budget plan of the CPC must approve implementation of investments and receive and consolidate financial reports.

35. The PPCs of the relevant provinces have taken a leading role in preparation for implementation of the Program, in most cases by creating a Project Preparation Team (PPT) led by a senior member of the PPC administration. Close engagement of the CPC with the PPT in the preparation phase will be key to a smooth handover of responsibilities to the cities and their PMUs for implementation.

36. The PPCs will continue to perform a number of important oversight, approval and technical support roles in Program implementation. The key department for coordinating these roles will be the provincial Departments of Planning and Investment and of Finance which act as a clearing house, bringing in other technical departments (for example, Department of Transport and Department of Construction) as needed to review the proposals prepared by the cities. Roles to be undertaken by the PPCs will include the review and approval of the Enhanced Annual City Plan of the CPC, including financial provision for Program investments, outline planning approval for Program sub-projects, the review and approval of Project Investment Reports including basic designs (for larger sub-projects, in accordance with applicable thresholds) and review of Technical and Economic Reports including detailed designs (for smaller sub-projects), the review of detailed designs and cost estimates through the appropriate technical department, most often DOC, the review and approval of procurement plans, procurement monitoring, oversight and technical support during implementation; and ensuring the liquidation (final closing) of contracts in a timely manner.

37. Given the Program's nature of ODA investment and that its Program Action Plan may require actions under the purview of, among others, different provincial authorities, the engagement of the Chairman of the PPC and the provincial departments will be an important driver for success. In particular, Department of Finance (DOF), Department of Planning and Investment (DPI), and Department of Natural Resources and Environment (DONRE) are responsible for approval of the price for land compensation proposed by an independent land evaluator, as specified in the PAP.

City Level

38. The primary responsibility for infrastructure delivery rests at the city level. Coordination between the various actors at this level is particularly important to ensure the delivery of an effective and efficient Program with measurable results.

39. At the city level the executive body is the City People's Committee, headed by a Chairman who receives support from a number of line units and public service units. Among these, the Division of Planning and Finance (DPF) is in charge of developing the annual socio-economic development plan and budget, and a Project Management Unit for Basic Infrastructure Investment is tasked with managing infrastructure projects under the jurisdiction of the CPC.

40. As the owner of sub-projects, the CPC of each participating city is responsible for managing, planning, integrating and executing the Program. The CPC coordinates the city-wide annual plan and budget (through the DPF), oversees delivery of results (delegated to the PMU as the sub-projects' implementing agency), and makes any needed adjustments to city Program delivery. The CPC will be the key player in ensuring that outputs and outcomes are met, the DLIs for the city achieved, and disbursements requested. The CPC will provide access to all required information, allowing the IVA to rapidly assess results. The CPC will receive technical assistance support from MOC.

41. The Chairman of the CPC provides overall oversight on resources management, the establishment of any institutional structure required to deliver the Program, annual Program planning, effective results monitoring and reporting and coordination with the city's other investment programs.

42. Assessment of the CPCs, particularly their respective DPF and PMU, reveals that they are relatively experienced with implementing infrastructure investments similar to those in the Program. However, they still lack expertise in environment and social management, procurement, and certain technical areas needed to ensure the sustainability of service delivery. In anticipation of the investments under the Program, the PMU should look into filling these skill gaps through secondments or external recruitment.

Annex 2: Results Framework Matrix

Results-Based National Urban Development Program in the Northern Mountains Region: Results Framework													
Indicator	Core	DLI	Unit of Measure	Base-line	2015	2016	2017	2018	2019	2020	Frequency	Method	Responsibility for Data Collection
Program Development Objective: <i>to strengthen the capacity of participating Northern Mountains cities to plan, implement, and sustain urban infrastructure</i>													
PDO Level Results Indicators													
Enhanced Annual City Plans approved and disclosed to the public	<input type="checkbox"/>	<input checked="" type="checkbox"/>	# of Participating Cities	n/a	7	7	7	7	7	7	Annual	MIS & Verification Audit	MOC/SAV
Asset management plan adopted and local urban infrastructure sub-projects in full service after completion	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Yes/No	n/a	An asset condition assessment in each Participating City completed	An asset management plan for each Participating City is adopted	Minimum of 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed	Minimum of 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed	Minimum of 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed	Minimum of 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed	Annual	Verification Audit	SAV
Implementation Strategy for National Urban Development Program adopted with annual milestones	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Yes/No	n/a	Policy Note on urban infrastructure investment needs approved	NUDP implementation framework approved	NUDP expenditure framework approved	NUDP management capacity in place	NUDP national rollout strategy with selection of phase 2 cities	NUDP implementation in phase 2 cities commenced	Annual, as specified	Competent Authority	MOC
Total number of people benefiting from Program (disaggregated)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	#	0	0	23,820	141,700	178,000	240,700	759,300	Annual	MOC	CPC

by gender)														
Intermediate Results Indicators														
Result 1: Institutional Strengthening At City Level														
Professionally-staffed management units in place within each Participating City People's Committee	<input type="checkbox"/>	<input checked="" type="checkbox"/>	# of Participating Cities	-	7	7	7	7	7	7	Annual	MIS / Verification Audit	MOC/ SAV	
Result 2: Infrastructure Delivered														
People benefiting from city primary/ secondary infrastructure services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	#	0	0	13,370	80,000	104,400	151,300	651,500	Annual	MOC	CPC	
People benefiting from improved tertiary/ social infrastructure services (disaggregated by gender)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	#	0	0	10,450	61,700	73,600	89,400	107,800	Annual	MOC	CPC	
Ethnic Minority beneficiaries (disaggregated by gender)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	%	0	0	32	25	23	21	14	Annual	MOC	CPC	
New and upgraded roads completed	<input type="checkbox"/>	<input type="checkbox"/>	kilometers	0	1.5	37.3	42.5	72.7	98.9	101.9	Annual	Enhanced Annual City Plan	MOC/ CPC	
Resettlement areas completed	<input type="checkbox"/>	<input type="checkbox"/>	hectares	0	32	13	141	10	8	32	Annual	Enhanced Annual City Plan	MOC/ CPC	
LIAs upgraded	<input type="checkbox"/>	<input type="checkbox"/>	hectares	0	23	53	116	118	23	0	Annual	Enhanced Annual City Plan	MOC/ CPC	

Result 3: Sustainability of Infrastructure													
Increase in annual own-sources revenue by at least 12% over previous year	<input type="checkbox"/>	<input checked="" type="checkbox"/>	# of Participating Cities		7	7	7	7	7	7	Annual	Financial statement/ verification report	MOC/ SAV
Result 4: National Policy, Support and Oversight													
Professionally-staffed unit in place in MOC; and capacity support for cities provided as per Annual Capacity Development Plan	<input type="checkbox"/>	<input checked="" type="checkbox"/>	% of staff in place in MOC and capacity support is fully provided as per Annual Capacity Development Plan	-	100	100	100	100	100	100	Annual	MIS / Verification Audit	MOC/ SAV
Completed Program Report	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Yes/No		Yes	Yes	Yes	Yes	Yes	Yes	Annual	Verification report	SAV

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

VIETNAM: RESULTS-BASED NATIONAL URBAN DEVELOPMENT PROGRAM IN THE NORTHERN MOUNTAINS REGION

Table A3.1: Disbursement-Linked Indicator Matrix

DLI	Total DLI Allocation (US\$ million)	As % of Total Financing Amount	DLI Baseline	Timeline for DLI achievement					
				2015	2016	2017	2018	2019	2020
1. Institutional Strengthening At City Level									
DLI 1.1	33.00	13.2%							
Enhanced Annual City Plans approved and disclosed to the public				7	7	7	7	7	7
<i>Allocated amount for DLI 1.1:</i>				12.00	8.32	5.36	3.76	2.64	0.92
DLI 1.2	22.00	8.8%							
Professionally-staffed management units in place within each Participating City People's Committee				7	7	7	7	7	7
<i>Allocated amount for DLI 1.2:</i>				8.00	5.55	3.57	2.51	1.76	0.61

DLI	Total DLI Allocation (US\$ million)	As % of Total Financing Amount	DLI Baseline	Timeline for DLI achievement					
				2015	2016	2017	2018	2019	2020
Allocated amount DLI 1:	55.00	22%		20.00	13.87	8.93	6.27	4.40	1.53
2. Infrastructure Delivered									
DLI 2.									
Local urban infrastructure investments delivered as per each Participating City's approved Enhanced Annual City Plan	155.00	62%	0	Cost estimate of the completed sub-projects as per Enhanced Annual City Plan	Cost estimate of the completed sub-projects as per Enhanced Annual City Plan	Cost estimate of the completed sub-projects as per Enhanced Annual City Plan	Cost estimate of the completed sub-projects as per Enhanced Annual City Plan	Cost estimate of the completed sub-projects as per Enhanced Annual City Plan	Cost estimate of the completed sub-projects as per Enhanced Annual City Plan
Allocated amount DLI 2:	155.00	62%		7.00	32.65	19.90	37.97	48.26	9.22
3. Sustainable Infrastructure Investments									
DLI 3.1									
Asset management plan adopted and local urban infrastructure sub-projects in full service after completion	10.00	4%	N/A	Asset Condition Assessment completed by each of the CPCs (i.e., 7 Asset Condition Assessment Reports)	Asset Management Plan adopted by each of the CPCs (i.e., 7 Asset Management Plans adopted)	At least 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed	At least 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed	At least 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed	At least 80% of local urban infrastructure sub-projects completed are free from physical damage and fully provide the functions for which they were designed

DLI	Total DLI Allocation (US\$ million)	As % of Total Financing Amount	DLI Baseline	Timeline for DLI achievement					
				2015	2016	2017	2018	2019	2020
								designed	
<i>Allocated amount for DLI 3.1:</i>				1.10	1.10	1.83	1.97	1.97	2.03
DLI 3.2 Increased annual own-sources revenue in Participating Cities	10.00	4%		7	7	7	7	7	7
<i>Allocated amount for DLI 3.2:</i>				1.77	1.77	1.79	1.77	1.77	1.13
<i>Allocated amount DLI 3:</i>	20.00	8%		2.87	2.87	3.62	3.74	3.74	3.16
4. National Policy, Support and Oversight									
DLI 4.1: Implementation Strategy for National Urban Development Program adopted with annual milestones	7.00	3%	No National Urban Development Program Strategy	Policy Note on urban infrastructure investment needs approved	NUDP implementation framework approved	NUDP expenditure framework approved	NUDP management capacity in place	NUDP national rollout strategy approved with selection of Phase 2 cities	NUDP implementation in phase 2 cities commenced
<i>Allocated amount for DLI 4.1:</i>				1.00	1.00	1.00	1.00	1.00	2.00

DLI	Total DLI Allocation (US\$ million)	As % of Total Financing Amount	DLI Baseline	Timeline for DLI achievement					
				2015	2016	2017	2018	2019	2020
DLI 4.2 Professionally-staffed unit in place in MOC, preparation of Annual Capacity Development Plans, and capacity building support provided to cities in accordance with such plans	10.00	4%	No capacity support being provided to cities	Professionally staffed unit in place in MOC, Annual Capacity Development Plan completed, and capacity support provided as per plan	Professionally staffed unit in place in MOC, Annual Capacity Development Plan completed, and capacity support provided as per plan	Professionally staffed unit in place in MOC, Annual Capacity Development Plan completed, and capacity support provided as per plan	Professionally staffed unit in place in MOC, Annual Capacity Development Plan completed, and capacity support provided as per plan	Professionally staffed unit in place in MOC, Annual Capacity Development Plan completed, and capacity support provided as per plan	Professionally staffed unit in place in MOC, Annual Capacity Development Plan completed, and capacity support provided as per plan
<i>Allocated amount for DLI 4.2:</i>				2.00	2.00	2.00	2.00	1.00	1.00
DLI 4.3 Completed Program Report	3.00	1%	No program report produced	Completed Program Report	Completed Program Report	Completed Program Report	Completed Program Report	Completed Program Report	Completed Program Report
<i>Allocated amount for DLI 4.3:</i>				0.50	0.50	0.50	0.50	0.50	0.50
<i>Allocated amount DLI 4:</i>	20.00	8%		3.50	3.50	3.50	3.50	2.50	3.50
Total Financing Allocated:	250.00	100%		33.37	52.89	35.95	51.48	58.90	17.41

Table A3.2: DLI Verification Protocol Table²⁵

#	DLI	Definition/Description of achievement	Scalability of Disbursements at the Program level (Yes/No)	Scalability of Disbursements at the City level (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
					Data source / agency	Verification Entity	Procedure
1	DLI 1.1 Enhanced Annual City Plans approved and disclosed to the public	An annual plan of the participating CPC that includes: a full statement of the anticipated revenues and expenditures of the CPC for the following financial year; a detailed list of all the infrastructure sub-projects of the CPC with criteria for selection and status of implementation in accordance with guidelines provided in the POM; that is formally authorized in full by the CPC prior to the start of the financial year to which it applies; and which is made public.	Yes	No	CPC	SAV	Submission of Enhanced Annual City Plan in prescribed format. Detailed review of the Enhanced Annual City Plans by MOC. City discloses plan. Verification by SAV of both plan and its disclosure.
	DLI 1.2 Professionally-staffed management units in place within each Participating City People’s Committee	CPCs will need to have a PMU in place, reporting directly to the CPC and working full time on the implementation of the Program with qualified staff in the fields of engineering, environmental, social (including a gender officer), procurement, M&E and Information Technology (IT) and administration.	Yes	No	CPC	SAV	Technical assessment of the staff working full time in the Program, including physical visits to the work place and review of the staff work, tasks developed and outputs produced. Full operating expenditures of PMU reflected on the annual budget and financial statements of the CPC.
2	DLI 2 Local urban infrastructure investments delivered as per	Delivery of local urban infrastructure sub-projects must be according to the Enhanced Annual City Plan. Sub-projects must be appraised and implemented in compliance with the relevant PAP actions, and accompanied by an acceptable annual	Yes	Yes	CPC/SAV (for Financial Audit)	SAV	Each sub-project will be physically verified to ensure it is in full service after being commissioned. Verification processes for each sub-project

²⁵ For all DLIs, the detailed definitions, procedures and modalities for disbursement will be fully described in the POM.

#	DLI	Definition/Description of achievement	Scalability of Disbursements at the Program level (Yes/No)	Scalability of Disbursements at the City level (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
					Data source / agency	Verification Entity	Procedure
	each Participating City's approved Enhanced Annual City Plan	financial audit report for the Program financial statements of the city.			Report)		<p>may be different (i.e. sample surveys needed for LIAs or household connections to a sewerage system). The POM specifies the verification technique for each sub-project category.</p> <p>Appropriate review of sub-project documents to ensure the infrastructure has been delivered according to the definition.</p> <p>An external audit should be submitted to the Bank after the end of the disbursement period in order to validate the achievement of sub-DLIs 1.1 and 1.2</p>
3	DLI 3.1 Asset management plan adopted and local urban infrastructure sub-projects in full service after completion	In 2015, each city must prepare an Asset Condition Assessment in accordance with the POM. In 2016, each city must adopt an Asset Management Plan in accordance with the POM. From the 2017 onwards, sub-projects in operation will be verified to ensure that a minimum of 80% are free from physical damage and fully provide the functions for which they were designed.	Yes	No	CPC	SAV	For 2015 and 2016, documents submit for verification by CPCs will be evaluated for compliance against the content and status requirements outlined in the POM. From 2017, the same verification procedures will apply as for DLI 2.
	DLI 3.2 Increased annual own-sources revenue in Participating Cities	An increase in nominal revenues of 12% reported as collected in each year by the CPC through local taxes and fees, as defined in the POM, in the previous financial year, based on audit of actual data for both years.	Yes	No	CPC	SAV	Annual financial statements of CPC are submitted and audited by SAV to calculate percentage increase

#	DLI	Definition/Description of achievement	Scalability of Disbursements at the Program level (Yes/No)	Scalability of Disbursements at the City level (Yes/No)	Protocol to evaluate achievement of the DLI and data/result verification		
					Data source / agency	Verification Entity	Procedure
4	DLI 4.1: Implementation Strategy for National Urban Development Program adopted with annual milestones	Policy Note, Implementation Strategy for National Urban Development Program adopted; MOC develops strategy and related outcomes with annual milestones, including NUDP management capacity (i.e., organizational structure, expanded human resource capacity, etc.) as defined in the adopted Implementation Strategy.	No	N/A	MOC	SAV	Verification that policy has been approved and annual milestones achieved.
	DLI 4.2 Professionally-staffed unit in place in MOC, preparation of Annual Capacity Development Plans, and capacity building support provided to cities in accordance with such plans	MOC has professionally staffed unit in place for all years of the Program (including qualified staff in the fields of engineering, environment, social (including a gender officer), procurement, internal audit, M&E, IT, and administration), and technical assistance provided to cities. The Bank will review and approve an Annual Capacity Development Plan prepared by MOC each year. Cities will issue an assessment progress report every year evaluating the fulfillment of the capacity building needs identified in the Annual Capacity Development Plan. Disbursement will be made against verification of assigned staff in MOC relative to Program requirements (as outlined in the POM).	Yes	N/A	MOC	SAV	The first parts of the sub-DLI (professionally-staffed unit in place in MOC and Annual Capacity Development Plans) will be subject to a pass/fail review of (a) a formal notification of assigned staff and (b) Annual Capacity Development Plans. The second part of the sub-DLI (capacity building support provided to cities) will be verified through an assessment report produced by the Cities on the activities and quality of the training received.
	DLI 4.3 Completed Program Report	Program Report: To be produced by MOC annually following a template agreed with the World Bank, summarizing key implementation aspects, results, and fulfillment of the PAP.	No	N/A	MOC	SAV	Review of Program Report.

All DLIs will be verified by SAV who will produce a Program Results Verification Report detailing the results of the verification process that will be submitted to MOC, MOF and to the Bank. The verification process will include both technical verification and financial audit.

Table A3.3: Bank Disbursement Table

#	DLI	Bank financing allocated to the DLI (US\$ million)	Of which Financing available for		Deadline for DLI Achievement	Minimum DLI value to be achieved to trigger disbursements of Bank Financing	Maximum DLI value(s) expected to be achieved for Bank disbursements purposes	Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)
			Prior results	Advances				
1	DLI 1.1 Enhanced Annual City Plans approved and disclosed to the public	33		33	December 31 st of each year	N/A	7 Enhanced Annual City Plans approved and disclosed to the public each year	Pass/Fail for each participating city. Total Program disbursement amount equal to sum of performance transfer amounts due to each city that complies in that year as per Table A3.4.
	DLI 1.2 Professionally-staffed management units in place within each Participating City People’s Committee	22		22	December 31 st of each year		7 professionally staffed management units in place	
2	DLI 2. Local urban infrastructure investments delivered as per each Participating City’s approved Enhanced Annual City Plan	155		155	December 31 st of each year	> 0 ²⁶	Cost estimate of the completed sub-projects as per Enhanced Annual City Plans	Disbursement amount for each city will be equal to the cost estimate of each completed sub-project as per the Enhanced Annual City Plan (at a rate of SDR0.6472 for each US\$1). Total Program disbursement amount equal to the sum of disbursement amount due to each city, up to its maximum IDA allocation as per Table A3.4.

²⁶ Disbursements will be triggered for any value greater than zero because DLI 2 is scalable and proportional to the targets achieved

3	<p>DLI 3.1 Asset management plan adopted and local urban infrastructure sub-projects in full service after completion</p>	10		10	December 31 st of each year	NA	<p>7 Asset Condition Assessments</p> <p>7 Asset Management Plans</p> <p>Total number of sub-projects in full service after completion, as per sub-projects completed in the Enhanced Annual City Plan.</p>	<p>Prior to 2017: Pass/Fail for each participating city. Total Program disbursement amount equal to sum of performance transfer amounts due to each city that complies in that year as per Table A3.4.</p> <p>From 2017: Pass/Fail for each participating city based on a minimum of 80% of local urban infrastructure subprojects completed that are free from physical damage and fully provide the functions for which they were designed. Total Program disbursement amount equal to the sum of performance transfer amounts due to each city that complies in that year as per Table A3.4.</p>
	<p>DLI 3.2 Increased annual own-sources revenue in Participating Cities</p>	10		10	December 31 st of each year	> 12%	7 cities achieving annual increases in own source revenue	Pass/Fail for each participating city. Total Program disbursement amount equal to sum of performance transfer amounts due to each city that complies in that year as per Table A3.4.
4	<p>DLI 4.1 Implementation Strategy for National Urban Development Program adopted with annual milestones</p>	7		7	December 31 st of each year	NA	Implementation Strategy for National Urban Development Program milestones are achieved	<p>Pass/Fail. The sub-DLI for each year must be verified as being achieved in full for the disbursement to occur.</p> <p>Disbursement amount will be equal to the values set out in Table A.3.1- "Allocated amount for DLI 4.1".</p>

<p>DLI 4.2</p> <p>Professionally-staffed unit in place in MOC , preparation of Annual Capacity Development Plans, and capacity building support provided to cities in accordance with such plans</p>	<p>10</p>		<p>10</p>	<p>December 31st of each year</p>		<p>MOC unit is place for each year.</p> <p>6 Annual Capacity Development Plans</p> <p>All capacity support provided as per Annual Capacity Development Plan</p>	<p>The first part of the sub-DLI (MOC Staff Unit) is a pass/fail indicator that relates to all disbursements under the indicator in each year. It must be verified as being achieved in full for the disbursement under this DLI to occur.</p> <p>Disbursement amount will be equal to the cost estimate of each completed activity as per the Annual Capacity Development Plan (at a rate of 0.647 SDR for each 1 US\$)</p>
<p>DLI 4.3</p> <p>Completed Program Report</p>	<p>3</p>		<p>3</p>	<p>March 31 of each year</p>		<p>6 Program Reports</p>	<p>Pass/Fail. The sub-DLI for each year must be verified as being achieved in full for the disbursement to occur.</p> <p>Disbursement amount will be equal to the values set out in Table A.3.1-“Allocated amount for DLI 4.3”.</p>

Table A3.4: Performance Transfer Allocation by DLI and City (US\$ millions)

Participating City	2015				2016				2017				2018				2019				2020				DLI 2	Total
	DLI 1.1	DLI 1.2	DLI 3.1	DLI 3.2	DLI 1.1	DLI 1.2	DLI 3.1	DLI 3.2	DLI 1.1	DLI 1.2	DLI 3.1	DLI 3.2	DLI 1.1	DLI 1.2	DLI 3.1	DLI 3.2	DLI 1.1	DLI 1.2	DLI 3.1	DLI 3.2	DLI 1.1	DLI 1.2	DLI 3.1	DLI 3.2		
Thai Nguyen City	2.80	1.86	0.28	0.46	2.00	1.33	0.28	0.46	1.60	1.05	0.53	0.46	1.20	0.81	0.52	0.46	0.80	0.53	0.52	0.46	0.36	0.23	0.53	0.31	41.17	61.01
Cao Bang City	1.60	1.07	0.13	0.20	1.20	0.80	0.13	0.20	0.64	0.43	0.13	0.20	0.40	0.27	0.27	0.20	0.24	0.16	0.27	0.20	0.02	0.02	0.40	0.15	19.28	28.61
Bac Kan City	1.68	1.12	0.08	0.17	0.40	0.27	0.08	0.17	0.40	0.27	0.20	0.18	0.32	0.21	0.20	0.17	0.24	0.16	0.20	0.17	0.19	0.13	0.20	0.13	15.16	22.50
Dien Bien Phu City	1.44	0.96	0.12	0.20	1.12	0.75	0.12	0.20	0.64	0.43	0.23	0.20	0.32	0.21	0.23	0.20	0.24	0.16	0.23	0.20	0.06	0.04	0.23	0.17	17.95	26.65
Yen Bai City	1.44	0.96	0.13	0.24	1.20	0.80	0.13	0.24	0.64	0.43	0.24	0.25	0.40	0.27	0.25	0.24	0.40	0.27	0.25	0.24	0.15	0.10	0.25	0.08	19.86	29.46
Tuyen Quang City	1.60	1.07	0.13	0.27	1.20	0.80	0.13	0.27	0.80	0.53	0.27	0.27	0.56	0.37	0.27	0.27	0.32	0.21	0.27	0.27	0.11	0.07	0.27	0.11	21.55	31.99
Hoa Binh City	1.44	0.96	0.23	0.23	1.20	0.80	0.23	0.23	0.64	0.43	0.23	0.23	0.56	0.37	0.23	0.23	0.40	0.27	0.23	0.23	0.03	0.02	0.15	0.18	20.03	29.78
Total per DLI and CY	12.00	8.00	1.10	1.77	8.32	5.55	1.10	1.77	5.36	3.57	1.83	1.79	3.76	2.51	1.97	1.77	2.64	1.76	1.97	1.77	0.92	0.61	2.03	1.13	155.00	230.00

Disbursement Mechanism

1. DLIs and associated amounts of financing are described in Table A3.1. The Program has four DLIs, each of which measures the achievement of one or more Program results.

2. DLI 1 relates to institutional strengthening at the city level to ensure that cities have increased capacity and accountability for effective infrastructure investment (Results Area 1). DLI 2 measures infrastructure delivered as per the Enhanced Annual City Plan of each city (Results Area 2). This ensures that cities develop comprehensive and realistic investment plans and budgets that lead to the effective and timely implementation of desired infrastructure investments. DLI 3 measures the sustainability of infrastructure investments to ensure that cities have established effective O&M practices and expanded their overall resources to enable sustainable asset management (Results Area 3). DLI 4 relates to national policy, support and oversight, and measures the enabling policy environment, technical assistance and oversight systems provided to develop the capacity of participating cities (Results Area 4).

3. Table A3.1 shows the results that must be achieved to make the Recipient eligible for the corresponding amount of financing available for that period. Table A3.2 provides the detailed definition of the expected results and the protocols to verify if those results are achieved. And Table A3.3 details the guidelines for Bank disbursements against those achieved results.

4. DLI 1 measures the key aspects of institutional performance on an annual basis and includes the establishment of an improved participatory planning system and strengthened infrastructure and implementation capacity. At the city-level, the two sub-DLIs in DLI 1 are not linked (i.e., the sub-DLIs are disbursed independently of one another). A city that is verified to have achieved a sub-DLI will get a disbursement for that specific sub-DLI amount for that year. However, DLI 2 is linked to this DLI (both sub-DLIs 1.1 and 1.2), as no city will be eligible for a release from DLI 2 if DLI 1 has not been achieved in that year. Furthermore, the sub-DLIs 1.1 and 1.2 are non-scalable for individual cities and are not carried forward to subsequent years. This means that a city will need to meet the DLI requirements in full (both sub-DLIs 1.1 and 1.2) to receive a disbursement for that year, with no partial disbursements to an individual city being allowed. Moreover, undisbursed amounts in DLI 1 for any year will be lost to that city and will be reallocated at the Program mid-term. At the Program level, annual disbursements for DLI 1 will be calculated as the total of eligible releases to each city.

5. DLI 2 measures the progress made by participating cities in implementing planned infrastructure sub-projects in an effective and timely manner with acceptable fiduciary outcomes. The completion of sub-projects planned and approved in the Enhanced Annual City Plan will be verified retrospectively on an annual basis. In each year of the Program, only those cities that achieve an acceptable financial audit opinion for their Program financial statements are eligible for disbursement against DLI 2. For cities with an acceptable financial audit opinion, disbursement against DLI 2 is scalable equal to the cost estimate (according to the Enhanced Annual City Plan) of those sub-projects that are eligible for financing for each city (i.e., they are on the agreed menu of infrastructure investments and have complied with government procurement, financial management and environmental and social management procedures) and that are verified as completed during that year. Under DLI 2, disbursement for each city cannot

exceed the maximum amounts allocated to each city as per Table A3.4. Disbursement for a sub-project which has not been verified as completed as planned in a given year can be carried forward under DLI 2 to any future year within the Program period in which that sub-project is verified as completed. This arrangement will also apply to any larger, multi-year sub-projects that are selected by the cities. Disbursement against this DLI 2 is also linked to DLI 1, such that disbursement for DLI 2 will not occur for a city in the event that DLI 1 is not achieved for that city. At the Program level, annual disbursements for DLI 2 will be calculated as SDR0.6472 for each US\$1 worth of completed local urban infrastructure subprojects completed, set forth in the respective Enhanced Annual City Plan of each city.

6. DLI 3 measures whether cities have adequate capacity and funds to operate and maintain infrastructure, and to continue to finance future investment needs. Disbursement under DLI 3 is measured against two sub-DLIs that are not linked, are non-scalable and are not carried forward to subsequent years, with unused resources being reallocated at the Program mid-term. At the Program level, annual disbursements for DLI 3 will be calculated as the total of eligible releases to each city.

7. DLI 4 addresses the complementary role of national government in creating an enabling environment for improved local public expenditure management, namely: (a) the ongoing articulation of national urban policy, strategies and programs; (b) having a professionally staffed unit in place in MOC and provision of appropriate capacity support for cities; and (c) adequate monitoring and oversight of Program expenditures and results. Disbursements against each sub-DLI under DLI 4 are not linked. Two sub-DLIs (i.e., 4.1 and 4.3) are non-scalable and disbursements may not be carried forward to subsequent years with unused resources being reallocated at the Program mid-term. Disbursement of DLI 4.2 is scalable with annual disbursement of DLI 4.2 calculated as SDR 0.6472 for each USD 1 worth of the estimated cost of each completed activity, set forth in the respective Annual Capacity Development Plan of each city. Disbursement for an activity which has not been verified as completed as planned in a given year can be carried forward under DLI 4.2 to any future year within the Program period in which that activity is verified as completed.

Annex 4: Summary Technical Assessment

1. As part of the preparation of the PforR operation, the World Bank conducted a Technical Assessment of government systems and programs related to the implementation of the PforR operation. The assessment was based on the core principles outlined in OP/ BP 9.00 (Program-for-Result. Key aspects of the technical assessment, not already covered in the PAD, are summarized below.

Intergovernmental Context

2. Intergovernmental functional and fiscal assignments in Vietnam result in a residual duplication of powers and functions between tiers that can delay or complicate investment coordination and reduce accountability for investment selection and timely results. City budgets are subordinate to the budget of the province, which are in turn subordinate to the national budget. This can result in a lengthy budget planning process in which resource availability is only confirmed late in the preceding year. The functions of revenue administration and public expenditure management are often tightly intertwined. Cities have limited powers to set tax rates and tax revenues are remitted upwards then partially refunded on a shared basis. Revenues are primarily based on the assessed gap between own source revenues and authorized expenditures, subject to resource availability, and supplemented by tightly earmarked transfers. This framework is unpredictable and results in spending gaps and delays. Cities can raise non-tax revenues, in particular from the sale of land leases, but this raises governance concerns. Intergovernmental fiscal analysis is complicated by limited information disclosure and weak accounting and reporting formats.

3. These challenges are not unique to Vietnam, and they are subject to complex, long-term and non-linear public sector reform processes. The design of the Program contributes to the eventual resolution of these issues through: clearly assigning implementation responsibilities, particularly to PMUs reporting to CPCs; clarifying planning, financing, reporting and oversight arrangements (including timelines); requiring mandatory public disclosure; and strengthening complaints handling mechanisms through DLI's and the Program Action Plan. Targeted capacity building and technical assistance activities support these requirements. These measures will strengthen the framework for public expenditure management in participating cities.

Revenue and Expenditure Analysis

4. The seven Program cities reported total revenues amounted to US\$154.8 million in 2012 (or US\$189 per capita); these have grown by an average of 23 percent per year since 2010. Core²⁷ own-source revenues of cities account for 54.5 percent of total revenues and amounted to US\$103.48 per capita in 2012. Tax revenues -- drawn from a combination of Value-Added Tax (VAT), income, and property taxes -- account for the largest share of all revenues (28 percent or US\$53.10 per capita) and have grown at over 28 percent per year. Rapid revenue growth has also been reported in land-based revenues (rentals and leasing), which have grown at an average of over 21 percent per year and now account for 20 percent of all revenues. Transfers from

²⁷ This category excludes rollovers for which disaggregated information on original source is not available.

provinces provided similar nominal revenues to tax revenues (US\$57 per capita in 2012), and have grown at a similar average rate since 2010 (29 percent per year). The growth of own-source revenues, and of land-based revenues in particular, is especially significant in Tuyen Quang and Thai Nguyen (two of the larger participating cities).

5. The seven participating cities reported total expenditures of US\$154.8 million in 2012 (or \$189 per capita). Total spending has grown at an average of 25.2 percent per year since 2010, though annual growth slowed to 19.5 percent in 2012. Recurrent costs and outward transfers to other tiers of government absorb 76 percent of total spending and have grown most strongly since 2010. Personnel expenditures accounted for an average of 52.1 percent of recurrent spending since 2010. Specific data on operations and maintenance expenditures are not reported. Specifically, no dedicated financial or operational arrangements are in place to support effective asset management (planned asset maintenance, rehabilitation and replacement), although this is considered a budget priority. Immediate spending needs on salaries and day-to-day operations have thus increasingly squeezed out non-capital asset management expenditures (i.e., planned maintenance) and capital investments (including rehabilitation and replacement) since 2010. Capital investments have declined to 24 percent of total expenditures, despite an average growth rate of 14.8 percent per year. Capital spending growth has also been volatile, with a decline of 0.3 percent per year between 2011 and 2012. Total capital spending amounted to US\$38 million in 2012 (or US\$46 per capita).

6. The consolidated fiscal position of these cities presents both challenges and opportunities. Current levels of capital expenditures are insufficient to support current levels of urban growth, and operational expenditures appear to give limited priority to effective asset management practices. Few cities have in place adequate plans or financing for effective asset management to ensure the sustainability of investments. This has led to accumulated shortfalls in the provision of infrastructure that in turn may create constraints to local economic performance and is felt most directly by poor households. This situation is unlikely to be alleviated by either a reduction in recurrent expenditure pressures or increases in existing government transfers. Larger cities, which are experiencing more rapid population growth, typically receive lower levels of transfers per capita and thus already experience these challenges most directly. Most cities have begun to take measures to address this through securing increases in core own-source revenues to finance expanded maintenance and capital expenditures. Specific strategies have improved revenue administration on local taxes and fees, and the utilization of land-based financing mechanisms through land incorporation, servicing and leasing arrangements that have the capacity to both provide an immediate source of capital finance and grow the local tax base. However, the acquisition of land for these purposes raises governance concerns.

7. **Absorptive Capacity.** The analysis of city-level revenue and expenditures for the last few years highlighted that there are surpluses in revenues relative to expenditures, indicating that cities' funds are being carried over. This could be due to a number of reasons. First, it could be due to late receipt of transfers in the calendar year. Second, in any infrastructure sub-project involving land resettlement, the city is expected to finance the resettlement compensation. Because cities sometimes find it difficult to raise the resources for the compensation, the spending of the central share gets delayed. Finally, it could be due to accounting practices. This issue will be closely monitored during the course of the Program so that Program design can be adjusted if necessary.

Cost estimates and Cash Flow

8. Initial estimates of sub-project costs have been based on a unit cost norm system of MOC. Examination of these initial cost estimates reveals some discrepancies and possible over-estimation in some cases. Final cost estimates will be calculated using input-based cost norms which will be rigorously checked and this is expected to prove adequate for cost control purposes. Works contracts will be let by competitive tendering but current practices do not result in a high level of price competition; the Program will include actions to strengthen competition through improved bid evaluation procedures. MOC cost norms for consultant fees for preparation and construction supervision appear to be below market rates and this could be counter-productive for efficiency and technical quality.

9. Cash-flow projections based on the projected expenditures relative to annual advances and disbursements of the performance-based transfers were conducted to identify potential liquidity shortfalls overall and at the city level. The projected disbursement schedule was adjusted for each city to minimize liquidity constraints. This projection does indicate that cities will still need to mobilize significant amounts of counterpart financing. Because the transfer disbursements lag behind expenditures, the maximum cumulative financing gap (i.e., cumulative expenditures minus cumulative advances and disbursements) is likely to occur in 2019. The residual shortfalls do, however, pose a significant risk to Program implementation and can be further reduced or eliminated by adjustments to implementation plans, effective cash-flow management at the city level and bridging finance where appropriate. In particular, cities will need to closely manage and monitor compliance with the requirements of the Program that may influence disbursements, ensure effective project management arrangements remain in place throughout Program implementation, access capacity support as needed and prepare careful cash flow forecasts. Where necessary, cities should also identify counterpart funds sufficient to meet their final needs and if necessary, short-term loan financing.

Technical Soundness of Investments

10. Sub-projects eligible for Program funds are selected from the master plans and screened using a set of pass/fail conditions and prioritization criteria. Compliance with these conditions and criteria will be confirmed at the feasibility study phase and will form part of the DLI verification process. This system is considered adequate to ensure that the sub-projects represent high priority investments for the CPC and the city residents.

11. The largest and most technically complex sub-projects are bridges. The bridges will use simply-supported span constructions with standard specifications and design details. Proper geotechnical investigations will be important to ensure appropriate design of foundations and to avoid construction delays that can occur if unforeseen conditions are encountered. As with all hydraulic works, bridges must be carefully designed taking into account maximum flood conditions and considering the impacts of climate change. Hydraulic design should avoid or mitigate scour and erosion caused by changes to river flow at the bridge location.

12. The assessment concludes that the proposed sub-projects are technically appropriate and are within the capacity of the CPC to implement, with the assistance of expert consultants for feasibility study, design and construction supervision. Key measures to ensure technical quality

will include stronger procedures to recruit the best qualified available consultants, thorough checking of designs and cost estimates and strengthened contract administration and technical supervision procedures. The PAP requires increased use of competitive selection procedures for consultants. The POM will prescribe best practice contract administration procedures and MOC should provide training to the PMU in these procedures.

City-level Monitoring and Evaluation

13. City PMUs do not have specialist M&E capacity at present. M&E capacity, either within PMU or at CPC level, should be strengthened to focus on: (a) systematic tracking of results; (b) monitoring of key transparency indicators; and (c) later in the Program, development of a capacity for assessing the economic and social impacts of completed infrastructure investments. It is recommended that cities should carry out an impact assessment of completed infrastructure as an input to the Program Mid-term Review and to learn lessons for planning and implementation of future investments.

Economic Rationale

14. The physical outputs of the Program are public goods that will stimulate economic growth and facilitate orderly management of urbanization. Initial sub-projects selected from the master plans have been screened using a set of pass/fail conditions and prioritization criteria.²⁸ A cost-benefit analysis was conducted for a sample of 78 of the proposed sub-projects, accounting for about 85 percent of sub-projects by number and value, and using the Net Present Value (NPV) and the Internal Rate of Return (IRR) indicators to evaluate economic viability for the period up to 2039.

15. The tangible benefits of the sub-projects will consist mainly of reduced journey times and operating costs within the urban areas. Intangible benefits include improved living conditions for urban residents, particularly the residents of low-income areas. The integrated package of investments is expected to stimulate private investment by reducing costs of doing business, improving transport links, improving access to land for development, and increasing the attractiveness of the urban environment. Poor and low-income residents of the cities will benefit directly from investments in social infrastructure and environmental improvements. Urban economic growth will create employment opportunities in the cities and the surrounding rural areas. Development of the cities will improve access to services for both urban and rural residents. Therefore, the Program investments are expected to contribute to poverty reduction and inclusive economic growth.

16. The Program is assessed to be economically viable. Economic modeling has shown the road and bridge sub-projects (60.8 percent of the total) to have positive NPVs. Social infrastructure investments will deliver intangible benefits and selection of these sub-projects by the cities is considered as an indication that the implicit value of these investments is equivalent

²⁸ Compliance with these conditions and criteria will be confirmed at the feasibility study phase and will form part of the DLI verification process. This system is considered adequate to ensure that the sub-projects represent high priority investments for the CPC and the city residents.

to that of the transport sub-projects. The IRR of all appraised sub-projects is 22 percent. A sensitivity analysis accounted for decreases and increases of 20 percent in benefits and costs, given that all sub-projects are at the pre-feasibility study phase. The overall IRR of all sub-projects in seven cities remains satisfactory even in the worst case scenario, with the exception of one Low Income Area sub-project (Hoa Binh) and one road sub-project (Cao Bang) where “worst-case” IRRs fall below 12 percent.

Annex 5: Summary Fiduciary Systems Assessment

Purpose of Fiduciary Systems Assessment (FSA)

1. This Assessment follows the principles governing fiduciary assessment for Program-for-Results as set out in OP/BP 9.00 (Program for Results Financing). This notes that the Program fiduciary systems should provide “reasonable assurances that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.” The FSA of the Program integrates findings in three areas:

- (a) Procurement systems were assessed to determine the degree to which the planning, bidding, evaluation, contract award and contract administration arrangements and practices provide a reasonable assurance that the Program will achieve the intended results through its procurement processes and procedures;
- (b) The financial management systems were assessed to determine the degree to which the relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting and auditing arrangements provide a reasonable assurance on the appropriate use of Program funds and safeguarding of its assets; and
- (c) Governance systems were assessed to determine the extent to which they address risks of fraud and corruption, including the use of complaint mechanisms, and how such risks are managed and mitigated in light of the government’s commitments under the Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing (Anti-Corruption Guidelines or ACGs).

2. The FSA has been prepared based on interviews and analysis of procurement, financial and governance reports and other relevant documents at the national level -- the Ministry of Construction, the Ministry of Finance and the Ministry of Planning and Investment -- and the provincial and city levels. All seven participating cities²⁹ were visited in the course of the assessment.

Procurement

3. Procurement under the Program mostly includes civil works of small and medium size (upgrading of low income areas or LIAs, bridges, roads) and consulting services (detailed designs, construction supervision, etc.) for such works. There are no large contracts valued at or above Operations Procurement Review Committee (OPRC) thresholds (US\$50 million for works, US\$30 million for goods, US\$20 million for non-consulting services, and US\$15 million for consulting services) under the Program. Program procurement will be carried out in accordance with Vietnam’s procurement laws and regulations.³⁰ Specific procurement methods that may be applicable to the Program include open competitive bidding, direct contracting and shopping. It

²⁹In the case of the financial management assessment, the analysis was primarily conducted at city level focused on City People’s Committee (CPC) Planning and Finance Division and (Infrastructure) Project Management Unit.

³⁰ Except a number of major consulting services for preparation of feasibility studies, detailed designs, bidding documents, EIA/EPC, and small goods contracts financed by PPTAF (approx. US\$6 million). Those contracts are procured following the World Bank’s *Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers* dated January 2011 (the Consultant Guidelines) and *Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants by World Bank Borrowers* dated January 2011 (the Procurement Guidelines).

is envisaged that more than 90 percent of the Program's investment costs will be subject to mandatory open competitive bidding. The procurement rules and procedures applicable to the Program are found to promote transparency, economy and efficiency for the Program.

4. Program procurement will be mainly implemented by the seven participating cities, using established government procedures and arrangements. All participating cities have existing project implementing agencies (PMUs) with a certain level of procurement experience and capacity, which are expected to be partly mobilized for the implementation of the Program. However, at the time of the Assessment, not all Program cities had officially established or appointed a specific executing agency for their sub-projects. As the Program represents that first phase of implementation of the NUDP, which is unimplemented to date, no specific prior Program procurement performance experiences exist. Reviews of similar procurement and contract management practices being followed in the Program cities were thus used as a proxy for the purposes of this assessment.

5. Overall, the Program's procurement capacity is assessed to be weak and will require measures in the Program Action Plan and POM to improve fiduciary performance. The Program cities' existing capacity and practices have resulted in timely contract awards and satisfactory management of small-sized contracts. However, some of the practices being followed may substantially affect the timeliness, cost-effectiveness, competitiveness and compliance with applicable rules of the Program procurement. These include: (a) prevalent rejection of bids due to bid prices exceeding pre-bid cost estimates and minor, non-substantive deviations; (b) excessive use of direct contracting and single source selection; (c) award of contracts to dependent State-Owned Enterprises; and (d) non-application of Bank debarment/suspension lists which may result in inappropriate contract awards to Bank debarred/suspended firms or individuals. Corresponding actions to address those issues are proposed to be agreed with the Government prior to Credit negotiations. To strengthen the Program's procurement implementation capacity, several crucial measures should be adopted including additional staffing, intensive training and hiring of qualified procurement/contract management support consultants.

6. In addition to the above, there are a number of other issues that are assessed to possibly impact the timeliness, cost-effectiveness and competitiveness of Program procurement. These include: (a) a segregated and fragmented approach to procurement planning; (b) low cost estimates for consulting services; (c) subjective application of technical scoring criteria in bid evaluation; and (d) delayed construction due to shortage of funds or delayed allocation of budget or delayed payments. These issues should be addressed through: capacity support for participating cities in procurement activities; the development of a detailed, clear and practical Program Operational Manual by MOC; close support, monitoring and supervision by MOC and Program provinces; and strict inspection and audit by provincial inspectorates and SAV. The Bank will provide assistance and support to the Program procurement performance, and will also closely monitor defined indicators of Program procurement performance. The overall procurement risk is assessed as Substantial.

Financial Management

7. Government systems for financial management in the Program require strengthening, particularly to: (a) enable cities to effectively absorb the significant additional funding for infrastructure injected by the Program; (b) introduce the performance-based transfer system, which demands enhanced planning and management performance by participating cities; and (c) strengthen internal audit, especially at the city level.

8. These issues should be addressed through measures to strengthen government systems to enable the implementing agencies to record, control, and manage all Program resources and produce timely, understandable, relevant and reliable financial information. These measures include: (a) specific guidance on the performance-based transfer system and fund flow arrangements for the Program, issued by the Ministry of Finance; (b) the establishment and operation of an effective internal audit function for the Program; and (c) the submission of annual Program Report to the Bank, including an audit report, audited financial statements and verified results. The overall Financial Management risk after mitigation measures is assessed as Substantial.

Governance

9. The 2005 Anti-Corruption Law and the 2011 Laws on Complaints and on Denunciation entitle citizens to submit complaints on fraud and corruption (amongst others) to the government People's Committee at the appropriate level. A complaints handling system will receive, record, and provide necessary investigative actions where it is deemed legitimate. The assessment also identified a parallel complaints "system" in the Government Inspectorate (GI) offices under line ministries and departments at the central and provincial level. The GI's main functions are to investigate allegations of fraud and corruption in their respective sectors.

10. Under the Program, complaints of all kinds, which could include allegations of fraud or corruption, should mainly be submitted in writing to the City People's Committee as the owner of investment sub-projects. Where crimes are alleged, allegations will be passed to the local police and prosecutors for handling. In addition to the written complaints channel, any citizen may also attend Meeting Sessions with CPC leaders, held at least monthly, to raise issues of fraud and corruption. Although government offices are not required to handle anonymous complaints, all participating CPCs maintain the practice of accepting, recording, and giving these complaints some consideration when they contain credible evidence of fraud and corruption.

11. In addition to this system for handling complaints, citizens can also submit fraud and corruption allegations to the Inspectorate Office of National Ministry or Provincial Department of Construction under the RBNUDP-NM. The inspectors reserve the right to stop construction for investigation if they find evidence of fraud and corruption. Similar to the CPC's system, the Inspectorate will pass allegations on to the police and prosecutor once crimes are alleged. Both of these parallel complaints handling systems contain a reporting mechanism that can capture information on the number, type and handling of fraud and corruption allegations. Information on sanctions and debarment is reported through PPC, to the Provincial Department of Planning

and Investment and up to Ministry of Planning and Investment to prepare the National Debarment List.

12. While this multiple-entry complaints system provides a number of options for citizens, it can also be confusing and result in complaints being passed around agencies or lost in the transfer process making it difficult for citizens to follow up their complaints. No recent significant fraud and corruption cases were reported during the assessment. In recent years, participating cities have mostly received and recorded complaints regarding the slow and inefficient process of land compensation and resettlement.

13. The Government will improve reporting systems and establish a database in order to strengthen the framework for complaints handling and combat fraud and corruption under the Program. The Government has confirmed its commitment to the implementation of the Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing and will require the application of World Bank suspension and debarment lists that will be made readily available to participating cities. These actions will be reviewed during Program supervision. In addition, the Government has obliged all Program participants to cooperate with Bank investigations through an official letter to participating cities on the Bank's investigative rights and the Anti-Corruption Guidelines.

14. The Bank's experience in the same sector as the RBNUDP-NM has revealed that international firms may use local Vietnamese agents to make payments to project and government officials in order to influence the award of contracts and to be paid for their works in Vietnam. In trying to hide the nature of their relationship with the Vietnamese agent in violation of the disclosure obligations under their contracts, these firms use purported "ghost" services to cover payments made to these local agents. More generally, the Bank's experiences in the sector have included situations where consulting firms have misrepresented the availability of key staff and their qualifications and the used payments to project officials in order to obtain tender and evaluation information and documents.

15. The use of local agents to funnel payments to project and government officials has been identified as a risk in this sector. To address this risk, clients and Bank teams will need to focus greater attention on ensuring that bidders and contractors more fully disclose any relationships they have with local agents. Use of false claims for "ghost" services by local sub-consultants highlights the need for stronger and more consistent due diligence of subcontractors and greater scrutiny of subcontractors' invoices. This will be supported by the increased regularity and coverage of audit activities in participating cities.

Key Performance Indicators

16. Key indicators of fiduciary performance have been identified and compiled to form a reference framework to be monitored over the life of the Program. These specific indicators, for both financial management and procurement, are included in the POM and will be measured periodically and compared to an initial baseline to assess the extent of improvement in the Program's fiduciary performance.

Annex 6: Summary Environmental and Social Systems Assessment

1. To inform the preparation of the PforR operation, the World Bank conducted an Environmental and Social Systems Assessment (ESSA) of the Program and the sub-projects that will be financed by the results-based transfers. The ESSA examines the Program's systems for environmental and social management for consistency with the core principles outlined in OP/BP 9.00 (Program-for-Results Financing).

2. Based on the team's evaluation, the environmental risks of the Program investments are considered *Substantial* and the social risks are considered *Substantial*. The principal environmental risks stem from potential impacts and risks during the construction and operational phases of the program. These risks are typical of small to medium scale civil works projects and will not pose unprecedented or unusual operational challenges. All environmental impacts can be managed with known mitigation measures which are within the capacity of counterpart agencies to implement. Social risks stem primarily from the need for land acquisition and resettlement and the participation and consultation of local people. While individual sub-projects in the program will only have small or moderate land acquisition impacts – typically not more than 20 households to be relocated per sub-project – there are significant differences between national practice on land compensation rates and global best practices which, if not addressed, could lead to adverse consequences for impacted parties.

Environmental and Social Effects of the RBNUDP-NM Program

Environmental Benefits and Risks

3. An estimated 757,000 people living in the participating cities will benefit from improved infrastructure services and, indirectly over time, from improved local planning, implementation and financing capacity that will enable participating cities to scale-up the delivery of urban infrastructure. Direct benefits will also accrue to residents of surrounding rural areas who will utilize improved infrastructure and services when accessing commercial, administrative and social services in these cities.

4. The sub-project investments under the Program are anticipated to have positive socio-environmental impacts through reduced traffic congestion and associated air pollution risk, improved local hygiene conditions through improved storm water drainage, improved quality of life for the people in the participating cities, particularly in Low Income Areas, through access to new or improved public infrastructures such as local roads, lighting, schools etc. It is anticipated that the rehabilitation of roads and the construction of bridges will result in reduced travel time and less traffic congestion, as well as in more efficient vehicle operation which is closely related to reduced fuel consumption and emissions from vehicles exhausts. In combination, this will have a positive impact on air quality *vis-à-vis* a “do nothing” scenario. Drainage systems will channel storm water run-off to appropriate conduits, resulting in flood protection and reduced infiltration of pollutants into streams or groundwater. In the specific case of Thai Nguyen, the drainage systems will carry waste water and storm water, and discharge it to a wastewater

treatment plant. This will have a positive impact on the quality of water bodies to which treated waste water is being discharged.

5. Vietnam has environmental assessment requirements that differentiate investment projects by potential impacts. An Environmental Impact Assessment (EIA) is mandatory for sub-projects with potential large scale adverse impacts and an Environmental Protection Commitment (EPC) is required for sub-projects with more limited impacts. Sub-projects requiring an EIA are further divided into those that require central environmental agency review and approval (by the Ministry of Natural Resources and Environment (MONRE)), and those that are reviewed and approved at the provincial environmental agency (by DONRE). All proposed sub-projects in the Program will require either an EPC or an EIA with delegated review and approval required at the provincial level.

6. At sub-project level, potential adverse socio-environmental impacts and risks of Program activities are considered local in scope, time-bound and manageable. Construction of civil works and related activities may cause temporary impacts such as noise, dust, vibration, fumes from asphaltting and transportation of materials; disruption to traffic and access to roadside activities; interruption of local household businesses and utility services, and potential contamination of soil and water from disposal of waste materials and fuelling equipment. Construction activities including operation of vehicles and construction of plants may pose safety risks to workers and the community.

7. There are also potential impacts related to the sourcing of raw materials for construction. For example, raw materials such as soil, sand, gravel, rocks and stones will need to be used for road and bridge construction and will be extracted from borrow pits. The main socio-environmental concerns in borrow pits and quarries are safety for workers, increased erosion and landslide risks at slopes created by excavation/explosion activities, and visual impacts on the landscape.

8. In addition, as the sub-projects will be implemented in areas with a high percentage of ethnic minorities, ethnic groups may also be affected culturally by physical construction activities or mobilization of workers from other parts of the country to the sites.

9. At the Program level, there are potential risks related to inadequate environmental supervision stemming from insufficient human and financial resources in the cities, as well as poor environmental management by contractors.

10. The potential adverse effects are generally well known and understood by the implementing authorities. It is expected that sub-projects effects will be manageable with known and demonstrated mitigation measures.

11. A Program Operational Manual (POM) has been developed and includes guidance to cities on screening sub-projects to avoid impacts on physical cultural resources, inclusion of Environmental Codes of Practice (ECOP) and Worker's Codes of Conduct (WCC), as well as communication activities in construction contracts to manage Environment, Health, and Safety (EHS) issues at construction sites. Contractors will also be required to submit copies of their

quarry license as a means of controlling EHS issues. Construction supervisors will be contracted on behalf of Program owners to supervise the contractors on both engineering aspects and EHS issues related to construction activities. Program owners and their PMUs are the entities accountable to the Government to ensure that all aspects of the investments, including environmental management, follow Vietnamese legislation. While PMUs are subject to fines for violations, they can also punish construction supervisors/contractors for non-compliance of contractual requirements/conditions. Capacity building activities will also help improve contractor performance relating to compliance with environmental regulations.

Social Benefits and Risks

12. Women, children, low-income households, and Ethnic Minorities will all benefit from local infrastructure improvements. Specific investments in low-income areas will provide direct benefits to poor individuals, including ethnic minorities, who are also likely to benefit from work opportunities that are created in the construction phase, and in the appreciation in property values resulting from improved servicing of their residential areas. Direct benefits will also accrue to residents of surrounding rural areas who will utilize improved infrastructure and services when accessing commercial, administrative and social services in these cities. Finally, indirect benefits will accrue at a national level over a period of time, as the implementation framework in the Program is scaled-up across all regions under the RBNUDP-NM.

13. According to the community consultations, the Program would bring crucial benefits to the local people in each city in general and in some low income areas in particular. Implementing the Program would enable: (a) better access to basic infrastructure such as urban roads and drainage systems; (b) the steady growth of economic and commercial activities through an effective use of services and resources mobilization; and (c) more active participation of the local people in the social and cultural life of the participating cities.

14. A gender analysis was carried out as part of the ESSA. The findings of the analysis show that although the quality of women's participation and their role in decision making in the Program cities is limited, they generally actively participate in city life and take a central role in community activities. The Women's Union was found to play a crucial role in information dissemination, mobilization of people for participation and contribution to a project and can help communities minimize these potential adverse impacts.

15. Potential adverse social effects and risks under this Program are related to: (a) the need for land acquisition and compensation required for some sub-projects; and (b) the need to ensure an appropriate and inclusive approach to working with local communities, including Ethnic Minorities, whose participation in decision making processes is currently weak due to a lack of both operational procedures for adequate implementation of the legal framework for Ethnic Minorities and guidance on the participation of Ethnic Minorities in the project cycle. The potential impacts on Ethnic Minorities may be compounded by land acquisition and compensation issues.

16. A review of the relevant social systems, institutional arrangements, laws and decrees as well as in depth consultations with key stakeholders such as community groups in the cities participating in the Program was carried out by team to assess the adequacy of current

arrangements in meeting the core principles and attributes defined in the Program-for-Results Guidance Note on Environmental and Social Assessment.

17. Many sub-projects will require land acquisition with different impact levels. Vietnam's national legal framework for resettlement and compensation is quite robust. However, implementation practices vary by jurisdiction and regulations are inconsistently applied. The main risks associated with land acquisition and resettlement are: (a) the land valuation rate used for compensation is often below the replacement costs or market value; and (b) services to resettlement sites and other aspects of livelihood restoration are not consistently carried through and ensured. Over the six-year implementation period of the Program, about 403 households are estimated to be relocated under the proposed investments of the Program.

18. In general, the Government has a robust legal and regulatory framework governing land acquisition and local authorities have established the required institutional frameworks. Experience in handling of land acquisition issues is considerable. However, there are some specific weaknesses in the system, including ensuring that compensation meets the replacement cost for the lost land and other assets. Monitoring for livelihood restoration of affected people, especially vulnerable groups, also needs to be strengthened. Although there are no specific regulations related to Ethnic Minorities in the context of land acquisition, in practice they are consulted when locating an appropriate place for relocation, often inside their communities. There is a risk that Ethnic Minorities may, at least temporarily, lose traditional livelihood opportunities through resettlement. This is particularly relevant for those ethnic minorities who depend on agricultural and forestry land for their survival with limited education or commercial skills that would prevent them from engaging in alternative livelihood opportunities. The recently approved new Land Law that will come into effect in July 2014 includes a provision to ensure that Ethnic Minorities have sufficient land available for living and agricultural production (if needed) after land acquisition. However, lack of compensation budget often leads to delays in compensation and resettlement processes.

19. The Government has a good regulatory framework for people's participation especially in relation to engaging with Ethnic Minorities. However, there is a need to strengthen the implementation of the framework to ensure meaningful participation and consultation with local people, including Ethnic Minorities. There is a concern related to the non-physical environment of the Program cities, especially for cultural and traditional aspects of Ethnic Minorities. Meaningful consultation with Ethnic minorities at every step of the Program implementation, including city planning, sub-project design and implementation, compensation, resettlement and rehabilitation measures for land acquisition would help meet the specific demands of Ethnic Minorities to maintain their culture and lifestyle.

20. The Table A6.1 on the next page provides an assessment of five environmental and social systems risk criteria.

Table A6.1: Summary of Environmental and Social Risks

Risk Criteria	Risk Description	Risk Rating	Key Mitigation Measures
Social impacts	<p>Involuntary Resettlement results in affected households and communities being worse off due to inadequate compensation and lack of attention to resettlement issues beyond compensation payment.</p> <p>Ethnic minority communities are not included in decision making as the agreed participation procedures are not well implemented.</p>	<i>Substantial</i>	<ul style="list-style-type: none"> - Program Action Plan (PAP) action on land acquisition and compensation; and - PAP action on community participation and consultation (incl. Ethnic Minorities)
Environmental impacts and risks	<p>Works will have an adverse impact on the physical environment and communities, in particular construction sites, if mitigation measures are not applied.</p> <p>Inadequate environmental supervision stemming from insufficient human and financial resources in the cities may lead to incomplete implementation of environmental protection measures.</p> <p>Construction-related environmental and worker safety issues due to poor construction supervision and low compliance by contractors.</p>	<i>Substantial</i>	<ul style="list-style-type: none"> -Promote community participation in sub-project design and construction monitoring; -Build environmental management capacity for the participating cities/provinces; -Improve the environmental screening and assessment process; and -Improve post-EIA environmental monitoring and supervision through adequate staffing
Sustainability	<p>Improvements in environmental and social performance/ capacity need to be institutionalized in order to ensure sustainability after the Program ends.</p>	<i>Moderate</i>	<ul style="list-style-type: none"> -Build environmental and social capacity in the participating cities/provinces, including adequate staffing of agencies; and -Strengthen the implementation of national social and environmental regulations and guidelines.
Institutional capacities/ complexities	<p>For smaller investments, the DONRE and city authorities have jurisdiction; while for larger investments, it is the province. Unclear responsibilities and mandates may lead to delays in</p>	<i>Substantial</i>	<ul style="list-style-type: none"> - Clarify the roles and responsibilities of DONRE, the city authorities and the provinces for approval of sub-projects, including revising operational guidelines and procedures;

Risk Criteria	Risk Description	Risk Rating	Key Mitigation Measures
	<p>approval of sub-projects.</p> <p>Land acquisition activities are conducted by the city’s specialized organizations so inadequate coordination between these organizations and the PMU could cause delays and complexities in the land acquisition process.</p> <p>Weak capacity of the PMU would limit effective consultation with local people, including ethnic minorities.</p>		<ul style="list-style-type: none"> - Develop guidelines and procedures through the POM to strengthen the implementation of national regulations relating to land acquisition; and - Build capacity of PMUs and develop guidelines for consultation including with ethnic minorities.
Reputational risks	<p>There are differences in implementation practices of involuntary resettlement activities. In cases of land acquisition where compensation is delayed and/or not paid at market rates, complaints may be filed and lead to reputational risks.</p> <p>Support to “chunky” (larger) infrastructure may be perceived as atypical of PforR operations which have mainly supported low to moderate risk investments.</p>	<i>Moderate</i>	<ul style="list-style-type: none"> - PAP actions on community participation and consultation, land acquisition and compensation and grievance redress mechanisms (reflected in DLI verification protocol); and - Program should carefully consider the potential social and environment risks when appraising larger infrastructure sub-projects to mitigate reputational risks.

Main Conclusions and Recommendations

21. **Past program performance track-record:** The World Bank has partnered with Vietnam on several roads, transport and other urban infrastructure projects. Recent operations include the Vietnam Road Asset Management Project (VRAMP), Da Nang Sustainable City Development Project (SCDP), the Vietnam Urban Upgrading Project (VUUP) and the Mekong Delta Region – Urban Upgrading Project (MDR-UUP). Following a review of the relevant environmental records and site visits by task teams to these operations, no significant environmental issues were identified. Many roads and bridges in Vietnam have been constructed, rehabilitated and maintained during the implementation of these operations and no major environmental issue was reported or identified during field supervision.

22. Institutionally, the environmental management function is fully established from the central to the city level and is capable of managing the environmental aspects associated with the vast majority of investments identified for the RBNUDP-NM. However, shortcomings in the

performance of the environmental management system have been identified, including: (a) weaknesses in environmental screening and assessment; (b) weaknesses in post-EIA monitoring and supervision practices, and (c) challenges in ensuring environmental compliance during the construction phase. Given the proposed type and scale of investments under the Program, its geographic focus, and previous experience with similar sub-projects in the participating provinces and cities, the overall environmental management risk is considered *Substantial*.

23. From the environmental management perspective, the following measures are recommended:

- (a) In order to promote institutional sustainability, the environmental management capacity of the participating cities/provinces should be strengthened. A capacity building program including formal and on-the-job trainings should be developed and implemented. A qualified environmental specialist should be engaged at the central level to provide technical advisory services to the PMUs in the early stage of the Program and prepare an environmental training plan for the Program. The environmental training plan should cover all key stakeholders such as PMU Environmental Officers, construction supervisors, and contractor site engineers. The DONREs and the city Environmental Divisions should also be engaged in the Program's environmental capacity building.
- (b) The roles and responsibilities of DONRE, the city authorities and the provinces should be clarified in order to streamline the approval process for sub-projects. Operational guidelines and procedures should be reviewed and revised accordingly.
- (c) Improve the environmental screening and assessment process to address the identified weaknesses. Specific information on the environmental screening and assessment process to be used under the Program should be included in the POM in order to make it a condition for Program negotiations. Under the Program, the environmental specialist engaged at the central level by the Ministry of Construction should review the TORs for sub-project EIAs.
- (d) Improve post-EIA environmental monitoring and supervision. Each PMU should be staffed with at least one Environmental Officer with relevant background and/or experience to oversee the environmental process, particularly reviewing the draft environmental assessment reports, the mitigation measures incorporated into the engineering designs, construction bidding and contractual documents, and construction supervision contracts.
- (e) Promote community participation in sub-project design and construction monitoring. While community consultation is compulsory during the preparation of environmental assessment reports, continued consultation with local communities should be required under the engineering design contracts. The PMU should be instructed to coordinate with local authorities to arrange for community monitoring, which has proven to be effective in past projects.

- (f) The Program should carefully consider the potential environment related political and reputational risks when appraising larger infrastructure sub-projects under the Program.

Table A6.2: Summary of Key Environmental Recommendations

Recommendation	Time Frame	Responsibilities
Strengthen environmental management capacity	From March 2015	MOC, PPCs, PMUs, DONREs, environmental staff and consultants, contractors, design consultants, benefitted communities
Clarify roles and responsibilities of DONRE, city, provincial authorities	On-going	MOC, through POM
Improve environmental screening and assessment process	On-going	MOC, CPCs, environmental staff
Improve post-EIA environmental monitoring and supervision	From March 2015	PPCs, PMUs, environmental staff, construction supervision consultants
Promote community participation in sub-project design and construction monitoring.	On-going, as part of sub-project preparation	PMUs, design consultants, contractors, benefitted/affected communities
Consider carefully environment risks when appraising larger infrastructure sub-projects to mitigate potential reputational risks	On-going	WB, MOC, PPCs, PMUs

24. Gaps in the social management legal framework have been identified in regard to social screening and assessment, involuntary resettlement, participation and social accountability, including Ethnic Minorities, as well as weakness of existing capacity for effective management at the provincial and city levels, leading to a lack of institutional sustainability. From the social management perspective, the following measures are recommended:

- (a) Improve the transparency and accountability of implementing organizations through the maintenance of a data base on corruption/fiduciary/procurement and Program implementation feedback and complaints. This should be included as an action in the Program Action Plan.
- (b) Social screening should be conducted to maximize Program benefits and minimize adverse impact to local communities especially on land acquisition. Specific information on social screening processes to be used under the Program should be included in the POM in order to make it a condition for Program negotiations. If land acquisition is unavoidable, provinces and cities will ensure that people affected by loss of land and assets will be compensated so that they are no worse off than before that loss. An appropriate mechanism will be developed to assess the value of lost land and other assets so that they are reflective of market value, and to determine adequate

compensation (for legal users) and assistance (for illegal land users). This should be included as an action in the Program Action Plan.

- (c) Regarding 'voluntary donation' of land, detailed screening criteria and procedures should be agreed to and approved prior to commencement of civil works to ensure people are not worse off after the donation. Program funds may be used for land compensation in order to avoid delays and to facilitate the land acquisition process. Provinces will also ensure that relocated households will only move when the resettlement package is operational. Livelihood restoration will be incorporated as a principle in the design of resettlement packages and will be monitored.
- (d) The Women's Union and similar groups should be incorporated into the institutional structure of implementation in order to assist in promoting gender sensitive community mobilization, participation and grievance redress channels. A gender officer should be included in each PMU and in the UDA in MOC to mainstream gender equality across the Program.
- (e) The Program should enhance people's participation, especially for Ethnic Minorities to ensure their meaningful participation and consultation in every step of the Program implementation, including city planning, sub-project design and implementation, compensation, resettlement and rehabilitation measures in land acquisition. This should be included as an action in the Program Action Plan.
- (f) The Program should encourage the following social development measures:
 - (a) ensuring unskilled (and to the extent feasible, skilled) labor is sourced locally;
 - (b) women's organizations are tapped as resources to mobilize the community and get buy-in for the Program; and
 - (c) ensure access to the newly-developed infrastructure for people with disabilities.
- (g) The Program Operational Manual should include guidelines, which will:
 - (a) strengthen the application of national law at the provincial level in terms of: resettlement, compensation and support including developing a firm basis for land valuation and criteria for land/asset donation;
 - (b) strengthen implementation of national regulations on information disclosure, consultation and participation and claims and redress mechanisms including strengthening consultation and participation with special attention to Ethnic Minorities and vulnerable groups;
 - (c) boost gender equality and women's participation in Program activities; and
 - (d) enhance disabled access in infrastructure development.
- (h) The above-mentioned guidelines should be supplemented with capacity building measures. A suitable M&E system should be developed to track the implementation of the guidelines.
- (i) The provinces and cities should strengthen grievance redress mechanisms and their implementation and documentation for which they will require capacity building to improve conflict resolution and properly track and document all grievances.

- (j) The Program should carefully consider the potential social related political and reputational risks when appraising larger infrastructure sub-projects under the Program.

Table A6.3: Summary of Key Social Recommendations

Recommendation	Time Frame	Responsibilities
Improve the transparency and accountability of implementing organizations	On-going	MOC, CPCs, PMUs
Enhance social screening processes	On-going	MOC, PMUs, social staff/consultant
Approve detailed screening criteria regarding “voluntary donation” of land	Done	MOC, CPCs
Ensure meaningful participation and consultation, especially ethnic minorities	On-going	MOC, PMUs, social staff/consultant
Encourage social development measures	On-going	MOC, PMUs, CPCs
Include guidelines in POM to better apply law, implement regulations, boost gender equality and enable disabled access	Done	MOC, PMUs, CPCs
Supplement guidelines in POM with capacity building measures; M&E system	Done	MOC, PMUs, CPCs
Strengthen grievance redress mechanisms and their implementation	On-going	MOC, PMUs, CPCs
Consider carefully social risks when appraising larger infrastructure sub-projects to mitigate potential reputational risks	On-going	MOC, PMUs, CPCs

25. As part of the preparation of this ESSA, public consultation workshops were carried out to: (a) brief participants on the Environmental and Social Systems Assessment approach under the Program for Results operation; (b) solicit feedback on the key findings and recommendations of the ESSA; and (c) identify possible recommendations for the PAP. In general, stakeholders expressed their strong support for the implementation of the Program which they considered would help to address existing local socio-environmental challenges and improve quality of lives for local communities while bringing about longer term socio-environmental and economic benefits. Recommendations by participants included the adoption of independent land appraisal to ensure compensation prices reflect market prices or replacement cost, institutional capacity building activities, mitigation of environmental impacts and improved consultation especially with women. The feedback from the consultations will be addressed through the Program where appropriate.

Annex 7: Integrated Risk Assessment

PROGRAM RISKS				
2.1 Environmental and Social Risk	Rating:	Substantial (environment) / Substantial (social)		
<p>Description: Most sub-projects are anticipated to have limited, small-scale environmental and social impacts. City agencies have limited environmental training, management and monitoring capacity. Land acquisition, both temporary and permanent, would be a potential risk during Program implementation and resettlement is not carried out in a manner consistent with key basic principles included in the PforR policy. Environmental risk is considered to be substantial. Although the infrastructure is small scale and is expected to have limited environmental impact during the construction and operational phases of the sub-projects and despite an environmental policy framework that is adequate, the poor implementing capacity and lack of detailed guidelines in addressing specific issues may pose a risk.</p>	Risk Management: Capacity building program for the implementing agencies to focus on procedures for document preparation and implementation. Strengthening the capacity to monitor and evaluation following environmental performance indicators and to improve public consultation. Measures to mitigate social issues are included in the PAP.			
	Resp: Client	Stage: not yet due	Due Date : not yet due	Status: on going
2.2 Fiduciary Risk	Rating:	Substantial		
<p>Description: City governments and their project implementing agencies have only limited experience with FM and procurement and audit requirements. Urban infrastructure sub-projects in Vietnam have experienced problems with compliance with fiduciary requirements and are susceptible to both perceptions and actual occurrence of fraud and corruption.</p>	Risk Management: Ensure city governments and their existing PMUs have capable procurement staff and provide procurement training. The Fiduciary Systems Assessment identified specific measures to improve the fiduciary performance of the Program including (i) a Program Action Plan, which is legally binding and includes actions on strengthening of grievance handling, procurement, and internal audit functions; and (ii) application of the Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing to the Program, further strengthened by a Prime Minister-authorized order issued to the participating provinces and cities reinforcing the Bank’s investigative rights with respect to the above Guidelines.			

	Resp: Client and Bank	Stage: preparation	Due Date : not yet due	Status: on going
Description: Weak capacity to absorb additional significant funds and to introduce the performance-based transfer system.	Risk Management: Technical assistance is to be provided to improve standards and methodology.			
2.3 Technical Risk	Rating:	Moderate		
Description: Economic sustainability of infrastructure investments could be weak if sub-projects are not adequately appraised, designed and program implementation not well supervised.	Risk Management: Technical assistance during program preparation through the PPTAF fund will ensure a sound programmatic planning of the proposed infrastructure investments. Further TA will continue to build capacity in the existing city PMUs and to assist in program supervision.			
	Resp: Client and Bank	Stage: preparation	Due Date : not yet due	Status: on going
2.4 Disbursement linked indicator risks	Rating:	Moderate		
Description: The linkage of DLI 1 (institutional strengthening) to DLI 2 (delivery of infrastructure) will lead to disbursement delays.	Risk Management: DLI 1 is carefully defined to incentivize cities to improve institutional performance by requiring actions that are not currently done by the cities, but that are not so difficult as to be an obstacle to their participation.			
	Resp: Client and Bank	Stage: preparation	Due Date : not yet due	Status: ongoing
Other Risks	Rating:	Significant		
The failure of government to provide co-financing may undermine the sustainability of the programmatic approach. Although the Program is not dependent on other donors the ongoing financing activities may weaken the performance incentives embedded in the program approach.	Risk Management: Opportunities for government co-financing at central and local levels will be discussed during program preparation. Other donor agencies will be briefed on the program approach and opportunities for coordination will be identified and pursued.			
	Resp: Client	Stage: preparation	Due Date : not yet due	Status: on going
OVERALL RISK RATING: Substantial				

Legend: L – Low; M – Moderate; S – Substantial; H – High

Annex 8: Program Action Plan

<p>1. Participating cities will enhance transparency by maintaining databases on: (a) public consultation/corruption/fiduciary/procurement/Program implementation complaints and responses to those complaints; and (b) beneficiary feedback to implementing agencies and responses to such feedback. The information will be aggregated at the national level by Ministry of Construction and will be reported to the Bank on a periodic basis.</p>			
<i>Disbursement Linked Indicator (DLI) or Loan Covenant</i>	<i>Due date</i>	<i>Responsible party</i>	<i>Completion Measurement</i>
Covenant	First report for period from January 1 to December 31, 2015 submitted to the Bank on January 31 st 2016. Following reports will be submitted every year.	MOC and Participating Cities	Databases maintained and reports submitted
<p>2. Procurement methods in participating cities will be enhanced by ensuring that:</p> <p>(a) All proposals for detailed designs, construction supervision and bids for civil works, whether below or above cost estimates, shall be evaluated; proposals and bids shall not be rejected only on the basis of minor, non-substantive deviations;</p> <p>(b) At least 30 percent of city consulting contracts for detailed designs, construction supervision will be competitively bid, progressively increased to 80 percent by the end of the Program period. At least 90 percent of city civil works contracts will be competitively bid, progressively increased to 100 percent by the end of the Program period;</p> <p>(c) State-Owned Enterprises dependent on Program provinces/cities/departments will be excluded from participating; and</p> <p>(d) Firms and individuals on the local, national or Bank debarment/suspension lists will not be allowed to participate.</p>			
<i>DLI or Loan Covenant</i>	<i>Due date</i>	<i>Responsible party</i>	<i>Completion Measurement</i>
Covenant and DLI	(a) Ongoing; (b) Intermediate targets will be monitored every January 1 st ; and (c) and (d) Ongoing	Participating Cities	Progress reported upon in Program Report Supervision and audits to establish actual performance.

3. MOC will build and implement an effective internal audit function for the Program			
<i>DLI or Loan Covenant</i>	<i>Due date</i>	<i>Responsible party</i>	<i>Completion Measurement</i>
Covenant	First report for the period from January 1 to December 31, 2015 submitted to the Bank on March 31 st 2016. Following reports will be submitted every year.	MOC	Internal audit report sent annually to the Bank Supervision will review quality of the internal audit process.
4. Participating cities will ensure that land acquisition and related adverse impacts are avoided or minimized and that people affected by loss of assets or land, or income streams, will be compensated so that they are no worse off than before that loss, and if possible better off. In addition, an efficient and independently verifiable mechanism will be developed to assess the market value of lost land, other assets and income streams to determine adequate means to restore livelihoods of affected people.			
5. MOC and the participating cities will jointly develop guidelines to ensure the effective participation of and consultation with local people, including Ethnic Minorities and vulnerable groups, in the investment process. The guidelines, to be implemented by participating cities, shall fully operationalize existing Vietnamese Legislation with respect to Ethnic Minorities through a process of free, prior, and informed consultations.			
<i>DLI or Loan Covenant</i>	<i>Due date</i>	<i>Responsible party</i>	<i>Completion Measurement</i>
Covenant and DLI	Action 4: Resettlement: ongoing Land valuation mechanism: January 1 st 2015 Action 5: Guidelines January 1 st 2015	MOC and Participating Cities	Progress reported upon in Program Report Supervision will review implementation quality.

Annex 9: Implementation Support Plan

1. The Implementation Support Plan (ISP) for the RBNUDP-NM outlines the approach the Bank will take to support MOC's efforts to implement the Program activities and manage the key risks to achieving results.

2. Key focus areas: In addition to ensuring compliance with OP/BP 9.00 and the Program's financing agreement, and based on the main conclusions of the preparatory assessments, the following areas have been identified as most critical to concentrate the Bank's implementation support efforts:

- Introduction of the performance-based transfer system: While the MOC and its agencies have considerable experience in setting guidelines for cities and supporting them with infrastructure sub-projects, the performance-based transfer instrument and assessment mechanisms of the Program will be a new function. One of the goals of the first phase of the NUDP is to prepare the MOC to replicate the results-based approach nationwide in the future. The priority for strengthening within MOC should be to institutionalize the capacity to manage the performance-based transfer mechanism and, more broadly, the capacity of MOC to assist the city administrations to improve the cost-effectiveness of planning and implementation of infrastructure investments using clearly defined, measurable, and achievable results as a reference framework. The POM will serve as the guidelines for the Program and a key reference for participating cities. The Bank's support for the development of the POM will be a key area of technical assistance. It is also anticipated that the MOC will also require support to analyze and integrate lessons learned in the first phase of the NUDP into the national roll-out.
- Land acquisition and resettlement capacity in participating cities: Land acquisition and resettlement, both temporary and permanent, is a potential risk during Program implementation. Measures in the PAP are necessary to make current practices consistent with the core principles of the PforR policy. Monitoring social systems performance will be an important focus of the Bank's implementation support.
- Environmental management and monitoring capacity in participating cities: Environmental risk is considered to be moderately low given the small scale of the infrastructure and limited environmental impact during the construction and operational phases of the sub-projects. However, a capacity building program will be necessary for the implementing agencies to focus on procedures for document preparation and implementation. Strengthening the capacity to monitor and evaluate environmental performance indicators and to improve public consultation is also needed.
- Limited fiduciary capacity in participating cities: The Task Team will need to work with the MOC to ensure that city governments and their PMUs have capable procurement staff and receive necessary procurement training. The Fiduciary Systems Assessment identified specific measures to improve the fiduciary performance of the Program, and these have been included in the Program Action Plan.

3. During the first year of implementation, the Bank's support will focus on strengthening the Program systems, especially the MOC's ability to support participating cities with their environmental, social, and fiduciary performance as they prepare infrastructure sub-projects and

the institutional activities necessary to achieve the DLIs (Table A9.1). The Bank will also support the MOC with national level urban development policy formulation and establishment of an M&E system for the Program. It is anticipated that the first year will require significant implementation support from the Task Team and selected specialists.

4. After the initial year, the Bank will begin to support the MOC in the verification aspects of its mandate, including its relationship with the SAV. Monitoring of the systems performance will switch from the sub-project preparation phase to works implementation.

Table A9.1: Main focus of Implementation Support

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate (US\$)</i>	<i>Partner Role</i>
First twelve months	<ul style="list-style-type: none"> • Strengthening of Program environmental, social, and fiduciary systems • Building MOC capacity to manage a performance-based transfer mechanism • Support for local level institutional improvements • National level urban policy initiatives • Monitoring of compliance with legal covenants • Monitoring and reporting on the Results Framework indicators 	<ul style="list-style-type: none"> • Procurement and FM training • Resettlement training and awareness building • Urban policy expertise • Performance-based transfer systems expertise • M&E expertise • Civil engineering expertise for review of select sub-project design documents 	200,000 BB	
12-48 months	<ul style="list-style-type: none"> • Support MOC in verification mandate • Monitoring of key Program systems • Monitoring of compliance with legal covenants 	<ul style="list-style-type: none"> • Procurement and FM systems expertise • Environment and social systems expertise • Civil engineering expertise for review of select sub-project implementation 	120,000 per year	

5. A decentralized implementation support model is proposed for this operation, and it is envisioned that members of the Task Team will be primarily based in the country office (Table A9.2). This will facilitate selected monitoring of sub-project activities in the participating cities. Moreover, given that most city level staff do not speak English, it will be important that any training type of support provided by the Bank be delivered in Vietnamese. Specialized expertise related to establishing an M&E system for the Program, implementing the performance-based transfer system, and input on national urban policy will likely come from international staff or consultants.

Table A9.2: Task Team Skills Mix Requirements for Implementation Support

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Legal	6	0	
Fiduciary	8	3	Country office
Environmental	10	3	Country office
Social	8	3	Country office
M&E	12	2	International
Infrastructure	12	3	Country office
Urban Policy	4	2	International
Performance-based transfer	2	2	International