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PROPOSED RESTRUCTURING PAPER

ON

DFID TRUST FUND GRANT AGREEMENT (TF092068)
DATED DECEMBER 3, 2008, AS AMENDED

BETWEEN SOCIALIST REPUBLIC OF VIETNAM
AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

UNDER

THE THIRD RURAL TRANSPORT PROJECT (P075407)

November 14, 2012

ABBREVIATIONS AND ACRONYMS

DCA	Development Credit Agreement
GA	Grant Agreement
DFID	Department for International Development
FA	Financing Agreement
IDA	International Development Association
RTP3 AF	Third Rural Transport Additional Financing
OP	Operation Policy
TF	Trust Fund
VPRoMMs	Vietnam Provincial Road Maintenance and Management System

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VIETNAM
THIRD RURAL TRANSPORT PROJECT

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VIETNAM — THIRD RURAL TRANSPORT PROJECT (P075407)

PROPOSED AMENDMENTS TO DFID GRANT AGREEMENT (TF092068)

A. SUMMARY

1. The purpose of this Restructuring Paper is to request an approval for the amendment to the DFID Trust Fund Grant Agreement for the Third Rural Transport Project (RTP3) (TF092068) (the “Grant Agreement”), which is the only child fund of TF071023, for an increase in the Grant amount as well as associated changes. The additional amount of the Grant to the Government will be £3,562,500, which will increase the total amount of the Grant from £10,620,000 to £14,182,500. The - additional funds will be applied to the deployment of the Vietnam Provincial Roads Maintenance Management system (VPRoMMs) and maintenance programs under Component B of the Project.

B. PROJECT STATUS

2. Progress towards achievement of the Project Development Objective and overall implementation progress for RTP3 are considered Satisfactory. In August 2012 an Additional Financing (AF) in form of an IDA Credit with the amount of SDR62.2 million was declared effective.

3. As noted in the Board Paper for RTP3 AF (Report No: 65596-VN, dated November 15, 2011), under Component B of the Project, the United Kingdom Department of International Development (“DFID”) had committed to providing an additional grant amount of £3,750,000 to the contribution of DIFD to RTP3 at the trustee level, which shall be applied to the development of VPRoMMs and maintenance programs. A Memorandum of Understanding dated December 30, 2011 between DFID and the Association (“MoU”) reflected the same increase, and also an extension of the end of disbursement date of the parent trust fund TF071023 until June 30, 2014. Therefore, the changes which should have been made to the Grant Agreement (governing the child trust fund) included the increase of the Grant amount by £3,562,000 after deducting five percent for covering the Association’s administrative costs, and extension of the Closing Date to be no later than six months before the new end of disbursement date.

4. Following the increase in DFID’s contribution to the parent trust fund and the extension of end of disbursement date, on December 30, 2011, the Association sent to the State Bank of Vietnam (“SBV”) a notice of extension of the Closing Date for the Grant under the Grant Agreement to December 31, 2013. However at that time the Government did not complete its internal processing in time for approvals of the changes to the Grant in connection with the approvals of the AF. Therefore the amendments to the Grant Agreement have not been introduced until now, after the Association received the official request dated April 26, 2012 from SBV for accommodating such amendments.

5. Generally speaking, the RTP3 Project is in compliance with all legal covenants and there are no overdue audits. Financial management and procurement performance by the implementing agencies have been generally satisfactory.

C. PROPOSED CHANGES

6. The SBV letter dated April 26, 2012 requests necessary amendments to the Grant Agreement to accommodate the increase of DFID's contribution to the Grant as introduced in paragraph 3 above. Accordingly, there will be the following changes to the Grant Agreement, which are consistent with the above-mentioned Board Paper and MoU:

(a) Increase of the Grant amount from £10,620,000 to £14,182,500 (in the Recital (B) of the Preamble and Section 2.01);

(b) Revising the Preamble to present the connection of the Grant Agreement to the AF Financing Agreement;

(c) Revising Sections 3.01 and 3.02 on the requirements on the execution of the Project to present the connection to the requirements stipulated in the AF Financing Agreement;

(d) Revising the disbursement table in paragraph 1 of Section A of Schedule 1 to accommodate the new total amount of the Grant; and

(e) Adding the definition of the term "Training" as one of the eligible expenditures, to clarify the meaning of such term.

7. Procurement will be carried out in accordance with the "World Bank's Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" published by the Association in January 2011; and "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" published by the Association in January 2011; as well as other provisions stipulated in the Grant Agreement, as amended.

8. In terms of disbursement, the original Grant (which was fully disbursed in September 2011) was pooled with the original IDA Credit (Credit 4150). Thus a joint Designated Account was opened for the respective implementing agency at the State Treasury. However, for the AF (Credit 5032), the disbursement design accommodated a separate Designated Account for IDA funds only. Therefore, for this additional amount of the Grant, another separate Designated Account will be opened for the respective implementing agency at the State Treasury. This arrangement is made to accommodate an accelerated disbursement of the Grant which will close by December 31, 2013, six months earlier than the AF.

9. This proposed Restructuring is assessed as a Level Two Restructuring, since it does not include modifications in the Project's Development Objective, changes in the safeguards category, nor the triggering of a new safeguards policy. This proposed Restructuring will have no impact on the technical, institutional, financial management, procurement, or governance aspects of the Project.