

**MINISTRY OF PLANNING AND
INVESTMENT (MPI)**

**ASIAN DEVELOPMENT BANK
(ADB)**

PROJECT DETAILED OUTLINE

**PROJECT PREPARATION AND START-UP SUPPORT FACILITY
(PPSSF)**

REVISED DRAFT

HA NOI, APRIL 2012

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
CPS	Country Partnership Strategy
FERD	Foreign Economic Relations Department
FS	Feasibility Study
GOV	Government of Vietnam
IA	Implementing Agency
LA	Line Agency
MOF	Ministry of Finance
MPI	Ministry of Planning and Investment
ODA	Official Development Assistance
PAM	Project Administration Manual
PCU	Project Coordination Unit
PDO	Project Detailed Outline
PIU	Project Implementation Unit
SBV	State Bank of Vietnam
USD	US Dollar
VND	Vietnamese Dong

PROJECT BASIC INFORMATION

1. **Project Name:** Project Preparation and Startup Support Facility (PPSSF)
2. **Sector Reference:**
3. **Financer (Donor):** Asian Development Bank (ADB)
4. **Line Agency:** Ministry of Planning and Investment
Address: No.6, Hoang Dieu Street – Hanoi
Telephone Number: 84 80 44402/84 80 43135
Fax Number: 84 4 382 3061
5. **Project Proposing Agency:**
Foreign Economic Relations Department, Ministry of Planning and Investment
Address: No.6, Hoang Dieu Street – Hanoi
Telephone Number:
Fax Number:
6. **Proposed Project Owner**
Ministry of Planning and Investment
Address: No.6, Hoang Dieu Street – Hanoi
Telephone Number: 84 80 44402/84 80 43135
Fax Number: 84 4 382 3061
7. **Project duration of implementation:** 10 years (tentatively 2012- 2022)
8. **Project location:** Line Ministries, provinces, and participated state owned enterprises to be financed by ADB.
9. **Project Financing:** USD 40.38 million, including:
 - ADB Financing (under Asian Development Fund –ADF): USD 37.88 million
 - Government Counterpart Fund: USD 2.5 million
10. **ODA financed project type:** Preferential loan

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I. BACKGROUND AND NECESSITY OF THE PROJECT

1.1 Country ODA Utilization

Viet Nam's rapid economic growth during has been impressive during the past decades. Although growth is not directly attributed to Official Development Assistance (ODA), it has nevertheless played an important role in catalysing investments. This is reflected in the Government's Socioeconomic Development Plan (SEDP) 2011-2015, which contains development targets in key economic sectors and the importance of ODA along with projected increases in the number, size and complexity of investments. ADB's indicative pipeline of investment projects foresees financing of about \$4 billion for the Viet Nam Country Operations and Business Plan for 2012-2014. From 2006-2010, signed ODA for Viet Nam was \$ 20.26 billion.¹

Increased investments have not been complemented by aid effectiveness, however. Currently the stock of undisbursed ODA is \$6.39 billion. As aid is channeled through ODA-funded programs and projects, its effectiveness is measured in terms of how well programs and projects are being implemented, required length of time for completion, and impacts on beneficiaries. The track record has been mixed; in many cases project performance is poor, which among others, is caused by delayed project preparation and start-up. On average it takes 12 to 18 months from fact-finding to loan effectiveness and an additional two years for project startup and contract award. These in turn cause unnecessary implementation difficulties, increased transaction costs, and delayed development benefits, which subsequently reduce aid effectiveness.

In 2004, the Government of Vietnam established the ODA Inter-Ministerial Task Force (IMTF) to coordinate with the six development Banks in its annual review of ODA utilization and in producing action plan for improvement of ODA effectiveness. There have been improvements in ODA effective utilization by efforts of both Government and Development Partners in recent years. However, Government assessments show that project implementation delays and low disbursement rates are main problems that need to be improved. Comparison across development partners show that portfolio performance indicators fare poorer than those of other regions in Asia. Implementation delays have led to the extension of many ODA projects leading to low investment efficiency.

ADB country portfolio reviews on Viet Nam² have also identified several underlying technical, institutional and financial constraints that hinder smooth project preparation and start-up, among others: (i) prolonged approval processes during project preparation and start-up arising from differences between Government and donor procedures and requirements (ii) lack of capacity of counterpart agencies and local governments to implement ODA-funded project due to limited technical skills and familiarity with ODA requirements, and (iii) difficulties in accessing

¹ According to the Ministry of Planning and Investment, during the 2006–2010 period, overall ODA commitment and signed were \$31.76 billion and \$20.26 billion, respectively, while actual disbursement was \$13.86 billion.

² Asian Development Bank. *2010 Viet Nam Country Portfolio Review Background Paper*.

financing for project preparation. For example, advance action³ has not been able to be carried out because of the lack of regulatory mechanism for its implementation. Furthermore, existing donor-funded project preparation mechanisms, due to their limited amount, do not allow for the preparation of a full-fledged feasibility study, detailed design and required bid documents. Government is therefore in need of facility that will adequately address the technical, institutional and financial shortcomings and allow the implementing agency to prepare and effectively start up projects and ensure effective aid utilization.

1.2 Project Rationale

ODA-funded projects, including those funded by ADB face project implementation delays due to the lack effective preparatory mechanisms for adequate project start-up. On average it takes eight (8) months from loan signing to loan effectiveness; over one (1) year to recruit consultants; and 18 months from loan effectiveness to the first disbursement. Late project start-up leads to implementation delays, increased transaction costs, reduced disbursement and delayed benefits to beneficiaries.

Currently ADB normally provides a project preparation technical assistance (PPTA) grant to assist in preparing projects that have been identified in the CPS/COBP pipeline. However, PPTA resources alone are insufficient in preparing full-fledged feasibility studies and detailed design and in reality, feasibility studies need to be updated during implementation. In many cases, project owners and executing agencies do not have adequate resources for proper project start-up and advance actions until a loan is declared effective. Furthermore as ADB will have less PPTA resources in the future, alternative options to enable good project preparation will need to be explored.

A project preparation and startup support facility (PPSSF) is therefore proposed to address bottlenecks in project implementation, and enable project executing / implementing agencies⁴ to better prepare investment projects and support quick project implementation startup, thereby improving project implementation performance, enhance the quality of investments, and speed up disbursement and the realization of economic benefits. The facility will also require flexibility in fund flows and disbursements to facilitate quick preparatory and startup activities.

PPSSF would assist in fast-tracking the preparation of project proposals for investment projects to be financed or partly financed by ADB in sectors defined under ADB Strategy 2020 and priority sectors defined under SEDP 2011–2015. The PPSSF will go beyond the conventional project preparation to (i) bridge the gap between the end of project preparation and loan effectiveness, (ii) promote advance action, (iii) finance feasibility studies⁵ and/or detailed technical designs, and (iv) build capacity of relevant executing and implementing agencies benefiting from the PPSSF.

The Foreign Economic Relations Department (FERD) of MPI, in its capacity as the responsible agency for overall ODA management at national level, will be responsible for management of

³ Advance actions are activities that are undertaken prior to loan effectiveness to enable quick project startup. Examples include initiating consultant recruitment, advanced procurement, preparing detailed designs, and establishing the project management unit.

⁴ Examples are, but not limited to, central or local governments agencies, state owned enterprises such as water and urban environmental companies, Electricity of Viet Nam or Viet Nam Expressway Corporation.

⁵ Feasibility studies will be prepared following the format indicated in Decision 48/2008 on Common Guidelines on Feasibility Study Preparation for ODA Projects.

the PPSSF project. PPSSF will support MPI in managing ADB-funded projects through its capacity building component.

1.3 Complementary Projects

In 2010, the World Bank (WB) developed the Project Preparation Technical Assistance Facility (PPTAF). Its objectives were to support WB-funded projects prepare detailed design, providing necessary fund resources in adequate and timely manner to speed up the WB-funded project preparation. The PPSSF will be designed along the same principles as PPTAF. In addition, ADB is currently processing a public-private support project loan that aims increase private sector investments in infrastructure through strengthened institutional capacity and financing support mechanism enabled through a project development facility.

1.4 Project Beneficiaries

The Project's expected beneficiaries are:

- ODA management agencies at national level such as MPI, MOF, and SBV, which are directly responsible for Government's ODA portfolio management.
- Line Agencies/Ministries at the central level and Provincial People's Committees at the provincial levels, which serve as project owners/executive agencies.
- Other beneficiaries that the loan will finance. The ADB loan will be channeled through the Ministry of Finance re-lend or on-grant in accordance with the terms and conditions set forth under Decree 78/2010 for re-lending in Viet Nam.

Eligibility will be projects included in the Country Partnership Strategy (CPS) or the Country Operations Business Plan (COBP) or projects confirmed for PPSSF financing at either the Country Programming Mission (CPM), the Country Programming Confirmation Mission (CPCM) or the Country Portfolio Review Mission (CPRM) and included in the final Memorandum of Understanding (MOU) between ADB and the Government of Viet Nam.

II. BASIS FOR PROPOSING ADB FINANCE

2.1 ADB Advantages

ADB is one of the largest development partners of the Government of Viet Nam. Since 1993, ADB has provided assistance of over \$10 billion in loans grants and technical assistance. As of March 2012, the ongoing portfolio is 70 loans and grants and 48 TAs in the amount of over \$7.3 billion, and it is expected that the level of assistance during the next few years will be over \$1.0 billion per year. Furthermore, ADB has been a main development partner in supporting socioeconomic development, poverty reduction, and sustainable development. Its Strategy 2020 focuses on five core operational areas, i.e., infrastructure development (including transport and communications, energy, water supply and sanitation and urban development), environment, regional cooperation and integration, finance sector development, and education

In recent years ADB has played an important role in the Aid Effectiveness Forum in line with the Paris Declaration and Hanoi Core Statement, partnership with Six Banks in working with the

Government to conduct joint portfolio performance reviews and implement joint action plans which cover thematic areas such as safeguard harmonization, procurement, advance actions, and in developing common feasibility guidelines and payment procedures. ADB is active in proposing initiatives such climate change, public-private partnerships, and in introducing international good practices.

2.2 Consistency between ADB Policy and Project Objectives

The PPSSF is included in ADB's Country Operation Business Plan 2012 – 2014 and in the draft Country Partnership Strategy 2011-2015 to ensure effective utilization of ADB assistance which is in line with the objectives of the project objectives indicated in Section 3.

2.3 Due Diligence Required by ADB

PPSSF will meet all ADB fiduciary requirements for project preparation, including safeguard compliance under Safeguard Policy Statement (2009) or its latest document. During loan fact-finding, an ADB PPSSF Team will conduct an evaluation of the procurement capacity of the executing agency / project owner to implement the project and a financial management assessment of the PPSSF. Safeguards categorization is proposed under Category "C" (no impact), considering that the output of the PPSSF is limited to consulting services to produce feasibility studies reports, including safeguard documents and some implementation reports, update project documents during implementation and build capacity of both executing and implementing agencies.

ADB PPSSF Project Team will process the PPSSF loan and monitor its implementation. ADB Subproject Team will consist in separate project teams, headed by an ADB Project Team Leader and sector specialist to (i) process the subproject financed by PPSSF, as it is done under PPTA; and / or (ii) implement a subproject financed by an ensuing loan, as it is done under a TA Loan or a project/sector or program loan.

The ensuing investment loan will be subject to safeguard categorization, including climate change and gender. The final Feasibility Study Report (FSR) for the ensuing loan will be appraised by the Government and the ADB Subproject Team, as it is customary during project preparation and loan processing. The FSR will be prepared based on Decision 48/2008/QD-TTg, or any subsequent legislation, including basic design and a draft Facility Administration Manual (FAM). The FAM will follow ADB guidelines for the preparation of project / facility administration manual and include (i) a procurement plan, (ii) an assessment of the procurement capacity of the IA to implement the sub-project, (iii) a financial management assessment, (iv) a disbursement schedule with contract awards, and (v) safeguard documents meeting the requirements of ADB's Safeguard Policy Statement (2009). The FAM will be updated during loan review mission, as required.

The PPSSF involves a large number of operations across a wide range of sectors managed by Government Agencies with varying capacities and implementation abilities. Many of subprojects may trigger environmental and social impacts that will require mitigation and substantial procurement activities which entail risks that need to be addressed during subproject preparation and implementation.

III. PROJECT OBJECTIVES

The expected long term objectives of the project will be improved aid effectiveness in Viet Nam by fast tracking project implementation and speeding up disbursement. The objectives of the PPSSF are to: (i) ensure adequate support for project preparation and startup through quality documents⁶ and advance actions, including access to funding; (ii) assist with project implementation; and, (iii) build capacity of executing and implementing agencies to better identify, review, appraise and prepare viable public investments.

IV. PROJECT OUTCOMES

The outcome will be improvement of Government capacity to fast-track the preparation and implementation of ODA-financed projects in Viet Nam, including capacity building for executing and implementing agencies and project management units, improved quality at entry and shortened project preparation and implementation start-up periods of ADB-financed projects in Viet Nam.

V. PROJECT DESCRIPTION

5.1 Project Duration

The Project is expected to be implemented in 10 years, from September 2012 to August 2021.

5.2 Key Project Components

PPSSF will have following two components, namely Component A: Project Preparation and Startup Support; Component B: Capacity Building and Project Implementation Support. Description of the components in detail are in the following paragraphs.

Component A: Project Preparation and Startup Support Facility.

PPSSF will finance the preparation, startup and implementation activities (comprising a “subproject”) needed to support investment projects of Line Agencies, so that implementation can commence as soon as the investment loan is declared effective, thereby avoiding unnecessary start-up delays. This component will only finance essential inputs, consisting of consulting services to (i) produce feasibility studies, detailed design, bid documents and other necessary documents as needed, (ii) enable advance action, and (iii) any other necessary activities to enable quick startup and project implementation. To be eligible, the investment project must be included in the list of ODA projects approved by the Government of Vietnam and ADB which are included in the pipeline projects listed in the CPS/COBP or which Government considers as high priority or agreed upon by the Government and ADB at the country programming mission, the country programming confirmation mission or the country portfolio review mission.

⁶ To include, but not limited to feasibility studies, detailed design, and bidding documents that meet Government and ADB requirements.

The Line Agency proposing the subproject will work closely with the ADB Subproject Team, as it is done during a PPTA and to determine the outputs, activities, and required budget required of the subproject.

Component B: Capacity Building and Project Management Support

This component will provide the necessary capacity building support MPI, Line Agencies as well other key government agencies such as the Ministry of Finance (MOF) and the State Bank of Vietnam (SBV) to improve organizational capacity and public investment procedures in Vietnam. In particular, it will enable: (i) MPI, as project owner, to better screen and appraise subproject applications, provide necessary guidance to project implementing units of Line Agencies to prepare documents; (ii) Line Agencies (Ministries/PPCs and other authorized agencies) to better prepare subproject proposals/applications, implement projects and ensure safeguard and fiduciary compliance, and (iii) stakeholders to engage in policy dialogue relating to the improvement of implementation of ODA-funded projects in Viet Nam, which include, but are not limited to, conducting workshops and preparing necessary guidelines,

This component also supports the Project Coordination Unit (PCU), under MPI, to effectively manage the day-to-day activities of the PPSSF. PCU will be equipped with a supporting team, consisting of international and national consultants, who specializes in project management. Project management support will also include incremental cost of the PCU, annual independent audits, procurement of necessary office equipment and facilities for project management activities; and, attendance to workshops and site visits during project preparation or project implementation.

5.3 Project Costs

The project is estimated to cost \$40.38 million, including contingencies.

VI. PROPOSED FINANCING MANAGEMENT MECHANISM

6.1 ODA Funds

The proposed loan from the Asian Development Fund (ADF) for the PPSSF is \$37.88 million with a 32 years term, including a grace period of 8 years and an interest rate of 1% during the grace period and 1.5% thereafter. The loan would finance international and national consultants recruited as individual consultants or through a firm, capacity building and incremental costs of the PCU.

6.2 Counterpart Funds

Government of Vietnam will allocate \$2.5 million as counterpart fund to cover project management expenses, taxes and duties, and contingencies. During loan application process, the implementing agency shall propose Government to assign counterpart fund for its organization to cover sub-project management expenses.

The loan will be channeled through the Ministry of Finance and relent or on-grant, according to the terms and conditions set forth under Decree 78/2010 for re-lending in Viet Nam. Table VI.2 provides the tentative financing plan by sources for PPSSF.

6.3. *Financing*

Based on the description above, the financing plan, by component, is provided in Table VI.1.

Table VI.1 Tentative Project Financing Plan by Component
(amount in USD million)

Item	PPSSF	Amount
I. Base Cost		
A. Project Preparation and Startup		32.50
B. Capacity Building and Project Management Support		5.38
Subtotal (I)		37.88
II. Contingencies, Taxes and Duties		2.50
Total (I+II)		40.38

Source: ADB Project Team

Table VI.2 provides a breakdown of the financing plan by funding source.

Table VI.2 Tentative Financing Plan by Source
(amount in USD million)

Source	Amount	Share (%)
Asian Development Bank	37.88	94
Government	2.50	6
Total	40.38	100

Source: ADB Project Team

Appendix 2 provides Cost-Estimate of the PPSSF.

VII. ORGANIZATION FOR PROJECT MANAGEMENT AND IMPLEMENTATION

7.1 *Organization and Responsibilities*

The Ministry of Planning and Investment (MPI), through its Foreign Economic Relations Department (FERD) in its role as multi-sector coordinating role for ODA-financed projects will be project owner (PO) that will be responsible for overall implementation of the PPSSF. It will monitor, coordinate, and manage the PPSSF. A Project Coordination Unit (PCU) will be established under FERD to implement PPSSF on a day-to-day basis and assisted by international and national consultants to assist in the processing and ensuring quality of subproject applications and proposals, conducting capacity building activities for executing and implementing agencies, and carrying out other administrative support, as required.

Line agencies (ministries and PPCs), will implement their respective subprojects through their Project Implementing Units (PIUs). PIUs will be responsible for timely submission of subproject applications to PPSSF, procure consulting services to implement sub-project preparation, manage contracts, and ultimately prepare subsequent investment loans. PIUs will liaise closely

with MPI and relevant agencies as well as the ADB Subproject Team. PIU will ensure that the outputs (feasibility studies, detailed design and bid doc) conform to GOV and ADB procedures and guidelines, which include, but are not limited to, environmental and social safeguard compliance, fiduciary compliance, procurement, and disbursement and quality assurance.

ADB will work closely with MPI and Line Agencies in the overall implementation of PPSSF and supervise and assist PCU and PIUs in ensuring that procedural as well as quality requirements are met. Responsibility for the overall implementation of PPSSF lies with the ADB PPSSF Project Team. It will coordinate with and supervise MPI's execution of PPSSF, including clearances for all consultant activities managed by MPI; ensure that the Project is in compliance with fiduciary and safeguard requirements; monitor and evaluate the portfolio of subprojects; and carry out supervision missions. The ADB Subproject Teams will collaborate with and provide guidance to line agencies and PIUs in preparing subproject applications, capacity assessments; assist PIUs in financial management, procurement, safeguard compliance, and quality assurance.

A summary of the roles and responsibilities of the key stakeholders are in Table VII. 1.

Table VII. 1 Summary of Roles and Responsibilities of Key Stakeholders

Stakeholder	Responsibilities
Ministry of Planning and Investment (MPI)	Serves as line agency and project owner of PPSSF. Responsible for overall execution of PPSSF, which include but are not limited to monitoring, coordination evaluation, budgeting and overall quality assurance.
Project Coordination Unit (PCU)	Manage implementation of PPSSF; screen and appraise subproject applications from LAs/PIUs; develop and implement capacity building programs; and coordinate with other relative agencies PIUs, relevant Government agencies, and ADB PPSSF and Subproject teams. PCU will be assisted by consultants financed under the loan on a day-to-day basis
Line Agency (Ministry or PPC)	Implement subprojects and ensure compliance with Government and ADB procedures, and oversee overall activities of its PIU.
Project Implementation Unit (PIU)	Prepare and timely submit subproject proposal applications, liaise with Government and ADB and ensure that the outputs conform to prevailing procedures and guidelines.
ADB PPSSF Project Team	Supervise execution of PPSSF, including clearances for all subproject applications and consultant activities; ensure that the Project is in compliance with fiduciary and safeguard requirements; monitor and evaluate portfolio of subprojects.
ADB Subproject Team	Collaborate with and provide guidance to line agencies and PIUs in preparing subproject applications, capacity assessments; assists PIUs in financial management, procurement, safeguard compliance, and quality assurance.

7.2 Implementation Arrangements

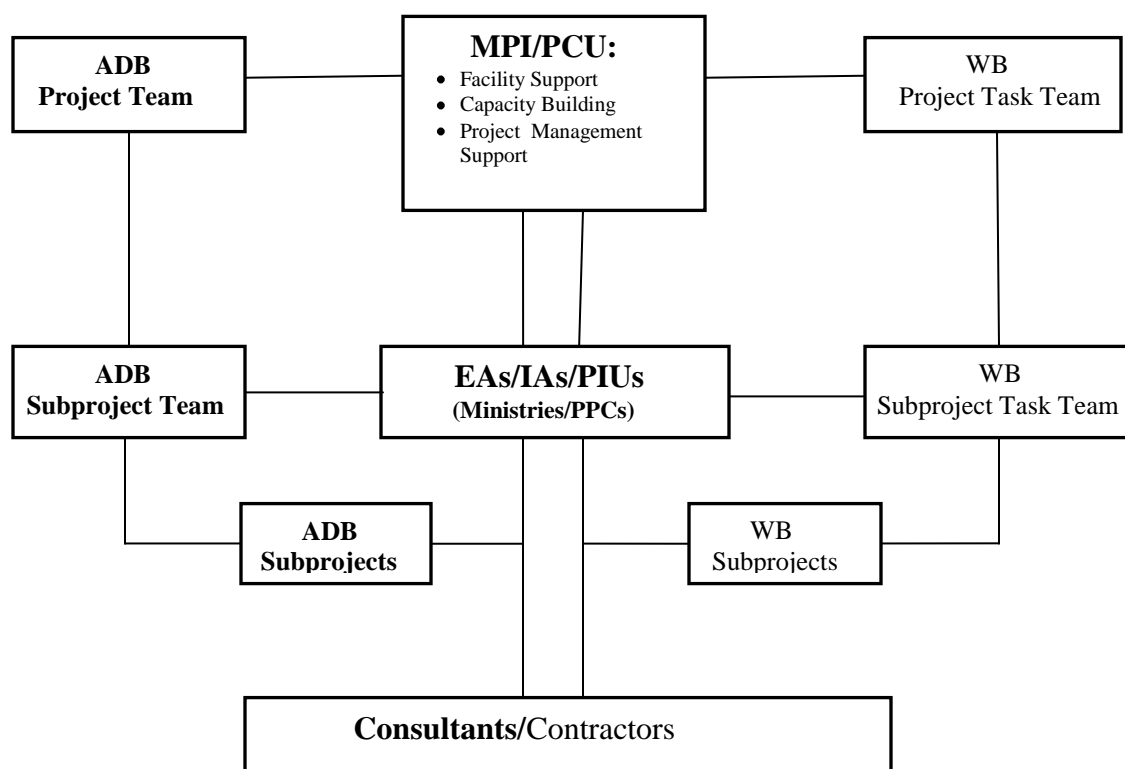
The Government (through its Line Agency) will agree with ADB (through its Subproject Team) on the subproject on the need to use the PPSSF for project preparation, advance action or project implementation. Reference will be made on the Subproject application, how PPSSF funding will enable better project preparation, fast tracking startup and quick implementation, speeding up disbursement.

The Line Agency then establishes a project implementation unit (PIU) which discusses the objectives and scope of the subproject with the ADB Subproject team. The Line Agency writes an application for the Subproject to be funded under PPSSF, which is submitted to the PCU at MPI. PCU screens the Subproject for eligibility.

Within 28 days, PCU informs both the Line Agency / PIU and the ADB PPSSF Project Team and ADB Subproject Team of the decision on eligibility. PCU may request additional information and Line Agency / PIU will resubmit the application. After endorsement of the application, MPI (PCU) then submits a request to ADB PPSSF Project Team for no objection. After receiving ADB's no objection, the PCU submit the application for PPSSF funding to the Standing Vice Minister of MPI or the Minister of MPI for approval. After approval, PCU notifies ADB PPSSF Project Team and the Line Agency / PIU for the funding of the Subproject.

Consultants recruited under the PPSSF according to ADB's *Consulting Guidelines* (2010, as amended from time to time) will assist the PCU in appraising the Subproject application and upon review MPI will endorse and seek a no objection from ADB PPSF Project Team (in consultation with the ADB Subproject Team). Upon receiving ADB's no-objection and approval by MPI, the PCU will issue a notice to proceed to the Line Agency / PIU.

Figure VII.1 Implementation Arrangements



7.3 Eligibility

To be eligible for PPSSF financing, subprojects must meet the following conditions:

- Applicants are identified as line agencies/ project owners under Decree 131/2006/ND-CP dated 9 September 2006 of the Government or its revision/replacement, if any.
- Applicants are identified as line agency/project owner under Decree 78/2010/ND-CP dated 14 July 2010 of the Government or its revision/replacement, if any.
- The investment project must be included in the CPS or COBP or CPM, CPCM or CPRM MOUs or the Government's Official Development Assistance list or any project authorized by Prime Minister or Minister of MPI.
- An application from the Line Agency to the MPI, specifying that PPSSF funding will be sought.

7.4 Processing and Approval of Subproject Applications

The processing and approval of subprojects is summarized in Table VII.2

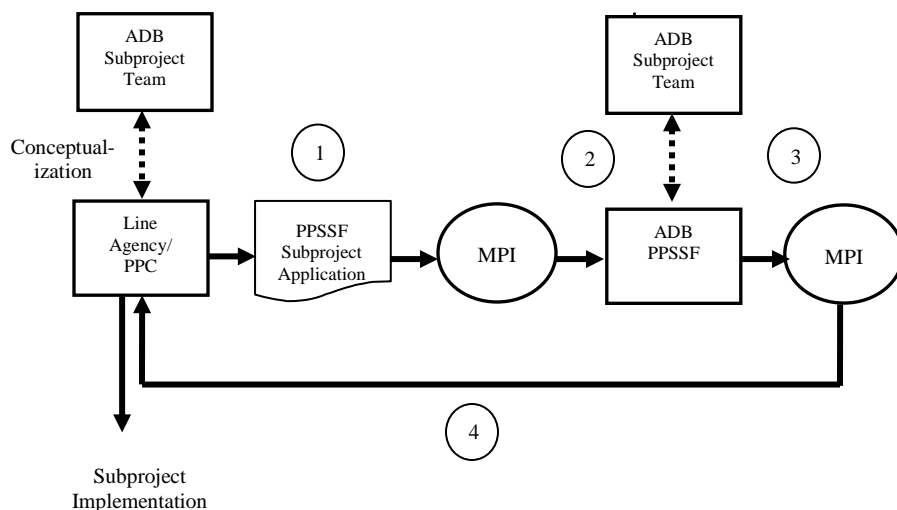
Table VII.2 Summary of Subproject Processing and Approval

Stage	Processing Details
1. Subproject application	Based on CPS/COBP pipeline, CPM, CPCM or CPRM, Line Agency discusses project objectives, scope and budget of investment project with ADB and determines the need for PPSSF financing. Line Agency prepares and submits an application funding to MPI/PCU. The Application Form (*) should indicate that PPSSF funding is proposed (hereinafter called "Subproject").
2. Review of application by MPI	MPI/PCU reviews request for PPSSF funding and determines whether the application meets criteria for eligibility and suitability and, if so, provides principal approval. PCU notifies the Line Agency, within 28 days of receiving the application, and submits a request to ADB to release the funds.
3. ADB review and no-objection	ADB PSSF Project Team reviews application from MPI/PCU and consults ADB Subproject Team on the scope and implementation of the Subproject, before issuing a No-Objection Letter.
4. MPI approval and issuance of notice to proceed of PPSSF funding	Upon receiving ADB no objection, the Subproject is approved by the Standing Vice Minister or the Minister of MPI. MPI signs a Subsidiary Financing Agreement with the Line Agency. PCU issues a notice to proceed to the Line Agency/PIU to start subproject implementation.

Notes (*): the Application Form will be detailed at FS stage.

The work flow is presented in Figure VII.1 below.

Figure VII.2 Sub-Project Application and Approval Process



7.5 Fund Flows

Disbursement Methods

Disbursement will be in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time) and detailed arrangements agreed upon between the Government and ADB.

The PPSSF project will use the following disbursement methods:

- *Reimbursement.* The Bank may reimburse the Borrower for expenditures eligible for financing pursuant to the Credit Agreement ("eligible expenditures") that the Borrower has pre-financed from its own resources;
- *Imprest Account.* The Bank may advance loan proceeds into a Designated Account (D.A) of the Borrower to finance eligible expenditures as they are incurred and for which supporting documents will be provided at a later date.
- *Direct Payment* - The Bank may make payments, at the borrower's request, directly to a third party (e.g., supplier, contractor, and consultant) for eligible expenditures.

Under Imprest Account procedure, Designated Accounts in US dollars will be maintained by the PCU (first generation account) and PIU (second generation account) at their commercial banks under terms and conditions acceptable to ADB and Government.

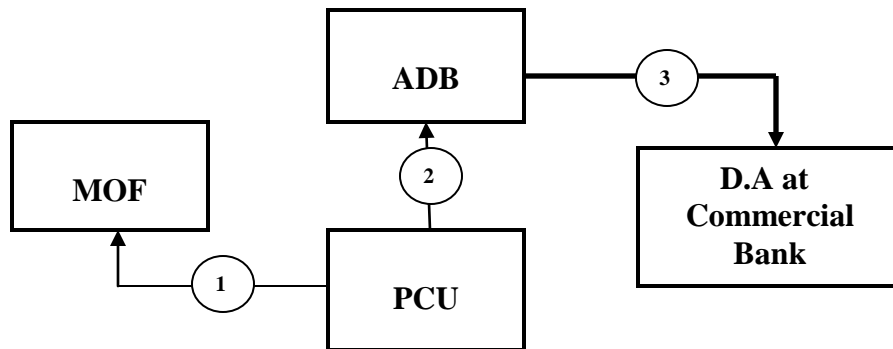
Initial deposit

PCU provides ADB with two authorized signatories from MPI/FERD and opens an imprest account at a commercial bank and prepares a work plan for the first six months. Upon submission of a withdrawal application, ADB will advance funds for the first 6 months or \$2

million of PPSSF funds, whichever is lower. The funds will be used for consulting activities for project preparation and startup support, project implementation, capacity building and project management incremental costs.

Fund application and transfer

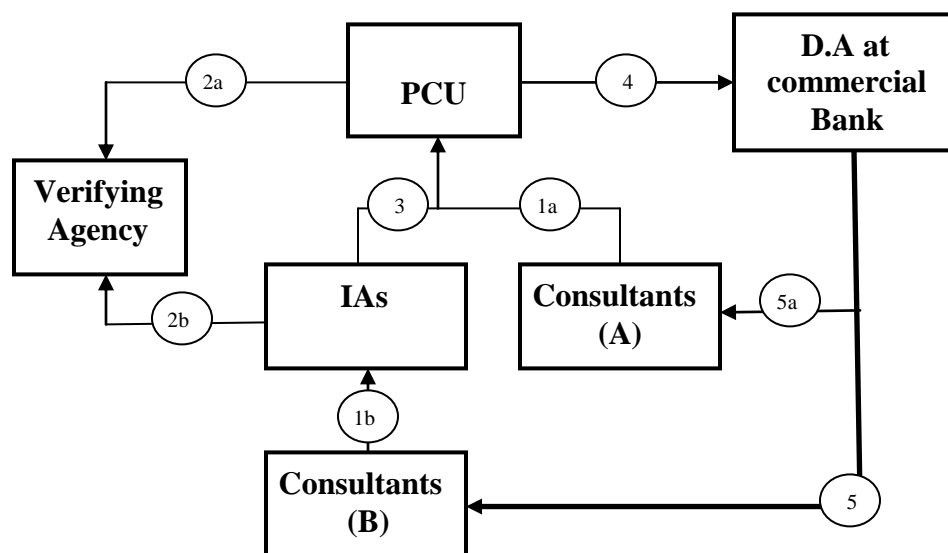
Figure VII.3. Fund flow diagram from the Bank to the PCU



1. PCU prepares the WA and send to MOF- Debt Management and External Finance Department for co-signature;
2. PCU submits WA to ADB; and
3. ADB disburses monies to the PCU's Designated Account at a commercial bank.

Figure VII.4. Fund flow diagram for payments made by PCU to consultants

Note: This diagram applied for payments made by PCU to its consultant and the consultants of IA. Payments to consultants of IAs will be made directly from PCU in cases (i) the IA has less than 3 contracts and/or (ii) the value of payment exceeding a Threshold Amount ().*

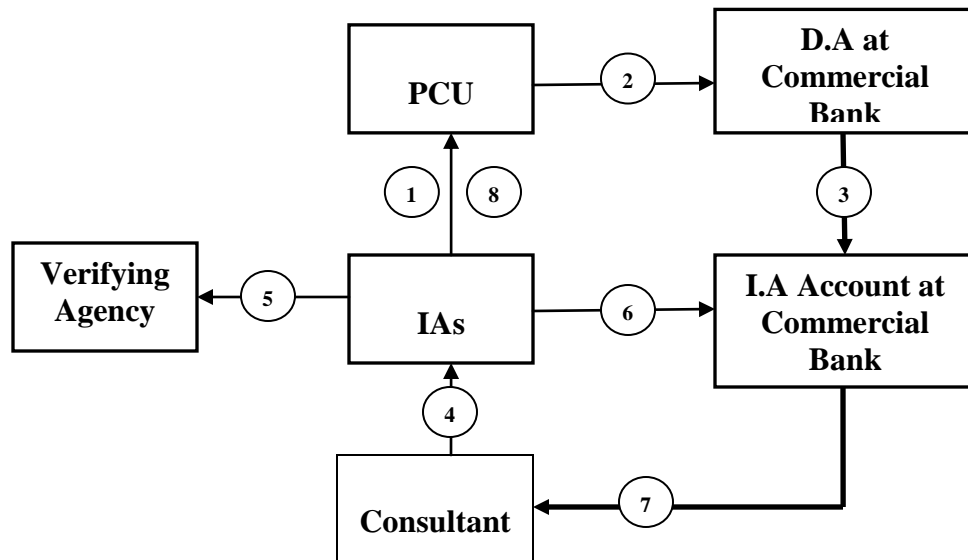


1. Consultants submit request for payments to PCU (1(a)) and to IA (1(b));
2. PCU submits request for payment and supporting documentation to its Verifying Agency (2(a)) and IAs submits request for payment and supporting documentation to their Verifying Agencies (2(b)) ;
3. IAs submit request for payment to PCU;
4. PCU instructs its commercial bank to make payments; and
5. Commercial bank makes payments to consultants of PCU in (5(a)) and consultants of IAs in (5(b)).

(*) A Threshold is defined in the Government FS and Facility Administration Manual.

Figure VII.5. Fund flow diagram for the payments made by IAs to their consultants using advance mechanism

Note: This diagram applied for payments made by IAs to their contractors. Payments to contractors of IAs will be made by IAs if (i) the IA has more than two contracts and (ii) the value of payment below a Threshold Amount().*



1. IAs submit request for advance to PCU;
2. PCU instructs Commercial Bank to transfer advances to IAs' accounts at Commercial Bank;
3. PCU's Commercial Bank transfer funds to IAs' account at Commercial Bank;
4. Consultants submit request for payments to IA;
5. IAs submits request for payment and supporting documentation to their Verifying Agencies;
6. IAs instruct its commercial bank to make payments;
7. Commercial bank make payments to consultants; and
8. IAs submit supporting documentation clearing the advances received from PCU.

7.6 *Onlending Mechanisms*

Projects eligible for onlending are those able to conduct full or partial cost recovery, including credit projects applying full or partial onlending mechanisms, depending on the extent for cost recovery of the project. In general, onlending to investment projects with ADF funding will be onlent using ADF; subsequently investment projects with OCR will be onlent using OCR. The specific onlending terms and conditions shall be determined during the preparation, appraisal, and approval of the project in accordance with Decree 78/2010/ND-CP, on re-lending of the Government's Foreign Loan.

7.7. *Schedule of Completion*

Approved subprojects availing of PPSSF funding will be required to complete all its activities within approved time duration defined in the Financial Agreement counting from the date of issuing a Notice To Proceed by PCU .

VIII. PRELIMINARY ASSESSMENT OF PROJECT FEASIBILITY

The proposed Project will provide capacity building support for Government agencies responsible for preparing public investment projects, and for funding for the preparation and startup support of such projects, and will not in itself present direct, quantifiable economic and financial benefits. However, the Project is expected to allow the investment projects it supports, subject to the economic and financial viability assessments during their preparation, to commence implementation earlier than would otherwise be the case and to speed up disbursement. The investment financing will be processed in parallel with the project preparatory work, rather than upon its completion. This could reduce the delay between investment financing approval and substantial disbursement for works and/or goods by up to two years, based on experience across the present portfolio.

For all projects the result will be earlier delivery of benefits, reduction of transaction costs as contract awarded will not substantially lag behind loan approval and effectiveness, and potentially improved project quality as the investment loan will be well-equipped with sound technical information, safeguard compliance and more precise costing during preparation..

The expectation is that PPSSF will reduce foregone economic and social benefits arising from accelerated project preparation and startup. Line Agencies to be strengthened during project preparation will benefit from suitable design and higher returns of Net Present Value. For projects funded through OCR loans, there will be the additional benefit of lower commitment charges, and potentially shorter implementation periods, both of which would substantially reduce total project costs. In addition, the enhanced capacity of the government agencies in preparing projects will result in better project design with higher economic rates of return.

IX. PRELIMINARY ANALYSIS OF PROJECT EFFICIENCY

9.1 *Efficiency*

PPSSF will assist authorized Government's Agencies, under Decree 131/2006/ND-CP and the Decree 78/2010, on re-lending of the Government's Foreign Loan to plan and prepare investment projects in a more efficient and timely manner. By fast tracking the preparation of project

proposals for investment projects to be financed or partly financed by ADB, PPSSF will greatly contribute to efficiency gains by bridging the gap between the end of the project preparation and loan effectiveness, which can usually take 6 months and up to two years, promoting advance action, accelerating detailed design and preparation of bidding documents, and building capacity of key stakeholders involved in the processing and implementation of ODA-funded projects.

9.2 *Social and Environment Impacts*

As PPSSF will finance subproject preparation studies and capacity building, it will therefore have no direct social and environmental impacts. However, there are possible negative social and environmental impacts associated with the construction and operation of investment projects wherein project preparation is financed by PPSSF. During processing and preparation, the investment project will thereby be required to assess all possible impacts, following required procedures and regulations of both Government and ADB.

9.3 *Sustainability*

Since PPSSF will specify funding mechanisms for subproject preparation and capacity building, no sustainability issues are foreseen. However it will require current practices of grant financing for project preparation, along with a sustainable model for preparing public investment operations. The capacity building component will also enable MPI and for line agencies ensure sustainability. It is anticipated PPSSF will bring substantial benefits which can be replicated and broadened.

Appendix 1
Indicative Subproject Costs and Time

Subproject	Costs	Time
Feasibility Studies Updating and upgrading Preliminary FS to full FS Full fledged, FS Complex FS	up to \$2.0 million up to \$2.0 million	up to 12 months up to 18 months
Preparation of TOR, Cost-Estimate, and RFP for recruitment of Detailed Design and/or Bidding Document Consultants	\$5,000- \$50,000	up to 3 months
Detailed Design and/or Bidding Document Small projects Medium-sized projects (normally 5% of contract) Large infrastructure projects Updated Resettlement Plan Small projects Medium-sized projects (normally 5% of contract) Large infrastructure projects (normally up to 5% of contract)	up to \$2.0 million up to \$5.0 million up to 5% of contract up to \$30,000 up to \$100,000 up to 300,000	up to 8 months up to 12 months up to 18 months up to 3 months up to 5 months up to 8 months
Cost norms National consultant (per month, excluding per diem and OPE) International consultant (per month, excluding per diem and OPE)	\$1,000-\$5,000 \$5,000 - \$25,000	

Appendix 2
Detailed Cost Estimates
(in \$ million)

	ADB	GOV
I. Base Costs:		
A. Project Preparation and Startup Support		
- Consulting services and related costs	32.50	0.00
B. Capacity Building and Project Management Support		
- Consulting services: needs assessment, system development, and appraisal of subprojects	3.38	0.00
- Trainings/ Workshops	0.70	0.00
- Equipment	0.02	0.00
- PCU incremental administration costs (including travel, Per Diem, Workshops etc.)	0.78	0.00
- Wages for GOV staff	0.00	0.50
II. Contingencies, Taxes and Duties		
- Taxes and duties	0.00	1.50
- Contingencies	0.50	0.50
Total	37.88	2.50