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WATER AND SANITATION PROGRAMME
FOR SMALL TOWNS IN VIETNAM

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Project Fact Sheet

Project Title:	Water and Sanitation Programme for Small Towns in Vietnam
Project Number:	
Sector:	Social development
Sub-sector:	Water supply and sanitation
Geographical Coverage:	Red River Delta and other relevant areas, Vietnam
Duration:	February 2004 – December 2007
Starting Date	February 2004 (mobilisation)
Overall Objective:	By 2010, the proportion of people living below the international poverty line will be reduced by 40%, and the proportion of people living under the international food poverty line by 75% in the Programme provinces.
Project Purpose:	Provision of safe potable water supply and hygienic environment to satisfy the needs of urban population and economic activities in the Programme towns.
Project Financing:	Total grant by Finnish Government EUR 19,000,000 Total contribution of the Government the Socialist Republic of Vietnam EUR 1,800,000
Competent Authorities:	Ministry of Planning and Investment, Vietnam Ministry for Foreign Affairs, Finland
Executing Agencies:	Ministry of Construction Thai Binh Provincial People's Committee Hung Yen Provincial People's Committee Bac Kan Provincial People's Committee Haiphong Provincial People's Committee

Abbreviations and Acronyms

ADB	Asian Development Bank
AusAID	Australian International Development Agency
BOD	Biological oxygen demand
CD	Component Director
CG	Consultative Group
COD	Chemical oxygen demand
CPC	Commune People's Committee
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CSO	Combined Sewer Overflow
DAF	Development Assistance Fund
Danida	Danish International Development Assistance
DARD	Department of Agriculture and Rural Development
DBL	Design-Build-Lease
DOC	Department of Construction
DOH	Department of Health
DOSTE	Department of Science, Technology and Environment
DTUPW	Department of Transportation and Urban Public Works
DPC	District People's Committee
EU	European Union
EUR	Euro
FS	Feasibility Study
GoV	Government of Vietnam
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH
HDPE	High density polyethylene
IEC	Information, Education and Communication
JBIC	Japan Bank for International Co-operation
KfW	Kreditanstalt für Wiederaufbau
lpcd	litres per capita per day
LWR	Law on Water Resources
MARD	Ministry of Agriculture and Rural Development
MC	Management Consultant
MDG	Millennium Development Goal(s)
MEUR	Million Euros
MFA	Ministry for Foreign Affairs (of Finland)
MNRE	Ministry of Natural Resources and Environment
MOC	Ministry of Construction
MOF	Ministry of Finance
MOH	Ministry of Health
MOLISA	Ministry of Labour, Invalids and Social Affairs
MOST	Ministry of Science and Technology
MPI	Ministry of Planning and Investment
MUSD	Million United States Dollars
MVND	Million Vietnam Dong
nano	part(s) per billion = 10 ⁻⁹
NDF	Nordic Development Fund
NGO	Non-governmental organisation
NWRC	National Water Resources Council

ODA	Official development assistance
OSS	One-Stop-Shop
O&M	Operation and maintenance
PCERWASS	Provincial Centre for Rural Water Supply and Sanitation
PD	Programme Director
p-m	person-month
PMU	Project Management Unit
PP	Polypropylene
PPA	Participatory Poverty Assessment
PPC	Provincial People's Committee
ppm	part(s) per million = 10 ⁻⁶
PVC	Polyvinyl chloride
PWC	Provincial Water Company
SADCO	Sewerage and Drainage Company
SC	Steering Committee
SDC	Swiss Agency for Development and Cooperation
TA	Technical assistance
TPC	Town People's Committee
UFW	Unaccounted for water
UNDP	United Nations Development Programme
URENCO	Urban Environmental Company
USD	United States Dollars
VIWASE	Vietnam Water, Sanitation and Environment Corporation
VND	Vietnam Dong
VWSA	Vietnam Water Supply and Sewerage Association
VWU	Vietnam Women's Union
WATERSPS	Water Sector Program Support
WB	World Bank
VDG	Vietnam Development Goal(s)
WSC	Water Supply Company
WSDC	Water Supply and Drainage Company
WSPST	Water and Sanitation Programme for Small Towns in Vietnam
WSS	Water supply and sanitation

Executive Summary

Development Goals

The average per capita income in Vietnam was USD 410 in 2001. Still almost 30 million people lived in poverty and there are pockets of poor people in each province. In 2002, the Government adopted the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). The access and quality of social services, physical infrastructure and governance institutions all contribute to the growth rates and thus to poverty reduction. Vietnam has localised the Millennium Development Goals (MDGs) as a part of the CPRGS. Its targets include that the proportion of people living below international poverty line would be reduced by 40 % by 2010. The GoV aims at ensuring pro-poor infrastructure development. Sustainable access to safe drinking water is one of the key elements. The Government has set targets for the access to safe drinking water for the urban areas it should reach 60 % by 2005 and 85% by 2010. The waste water in towns and cities should be treated by 2010 and air and water pollution must attain national standards by 2005.

Urban areas

Since 1998, the urban population increased by 54% until 2001. It is expected that the urban population will be 33% of the total population in 2010 and 45% in 2020. The fast urbanisation puts great pressure on the services, including water and sanitation. Small towns suffer from a shortage of infrastructure and do not provide the minimum quality of the urban living environment. The population of the district towns and other small towns totals 5,198,000 inhabitants (7% of the total population).

Urban water supply and sanitation (WSS) in Vietnam exhibits a vast variety of systems in different stages of development, depending on the region, province, and even on the individual city and town.

Main issues in urban water supply and sanitation

The biggest problem in urban water supply is the weak organisation and management from the central to the local level and the dependence of the utilities on the subsidy system. The delegation of responsibilities is not clear and the collaboration between stakeholders has not been smooth. Moreover, procedures in project implementation are very complicated; resulting in additional costs and delays in implementation.

The financial resources for the development of water supply and sanitation in small towns are inadequate and untimely. Even the limited resources available are often used wastefully; due to overly optimistic water demand and use projections and lack of concern for capital allocations staying idle years before they can generate meaningful return. There is also a serious neglect of quality control and quality management in design, construction supervision and in selection and purchase of equipment and materials.

In general, poor households have remained unserved by piped water supply systems even where they exist. The unserved are often the poor who have no resources to pay for the connection cost.

The limited knowledge of the water consumers and the lack of participatory approaches in the past have, e.g., lead to intentional and unintentional misuse of raw water installations and water distribution systems. On the other hand, the consumers are not aware of their rights and are not able to challenge the utilities for poor and inefficient service

Some provinces, e.g., in the Red River Delta, are located in the coastal area. The surface and groundwater resources in those areas are often affected by salinity. No overall study of raw

water resources management or a comprehensive water resources management plan has been prepared for the Red River Delta.

Beneficiaries

The key beneficiaries and stakeholders will be at different levels: (i) national; (ii) provincial; and (iii) local (towns).

The foremost and ultimate beneficiaries of the Water and Sanitation Programme for Small Towns (WSPST) are the present and future residents of the Programme towns, whose convenience and health will be improved and whose views are taken into account in utility management, and industries and other economic activities in the service area of the utilities. They will benefit from improved water supply and sanitation services, higher efficiency in the provision of these services, and more transparent and just allocation of public resources to small town water supply and sanitation. Since women and children are largely responsible for tasks related to water, it is expected that they will derive special benefit from improved water supply and sanitation.

The initial focus of WSPST will be in four provinces, three of them in the Red River Delta. These provinces are Thai Binh, Hung Yen, Haiphong and Bac Kan. At the town level, the stakeholders include new water and wastewater utilities, People's Committees, and possible consumers' associations.

At the provincial level, Provincial People's Committee is the main partner, responsible for the co-ordination of the activities within its respective area. Other stakeholders include Provincial companies and organisations responsible WSS, and Women's Union and possible consumers' associations.

At the **national level**, the main partners will be MPI co-ordinating the overall Programme; MOC in matters related to the operationalisation of policies and strategies, especially those for management models and cost recovery, MNRE for raw water management; MOST (particularly the Directorate for Standard and Quality) for consumer right matters.

Intervention

The overall objective of the Water and Sanitation Programme for Small Towns in Vietnam (WSPST) is that by 2010, the proportion of people living below the international poverty line will be reduced by 40%, and the proportion of people living under the international food poverty line by 75% in the Programme provinces. This overall objective has been adopted from the CPRGS. The set purpose of the Water and Sanitation Programme for Small Towns in Vietnam is to provide safe potable water supply and hygienic environment to satisfy the needs of urban population and economic activities in the Programme towns.

The WSPST will tentatively extend from 2004 until 2013. Its first phase is limited to a period of four years (2004-2007). The number of Programme towns is expected to increase substantially after the introductory first phase.

The results of the WSPST for Phase I will be:

- **Result 1:** New piped water supply schemes have been constructed and are properly operated and maintained in at least five Programme towns, and construction works are ongoing in at least four to six towns. In support of water supply schemes beyond 2006, a flexible, efficient, transparent, and demand-driven financing mechanism has been designed.

- Result 2: Management of water supply and sewerage/drainage systems in the Programme provinces has been improved to ensure sustainable, efficient and transparent water supply service.
- Result 3: Adequate supply of safe raw water for potable water production has been secured for the foreseeable needs of the Programme towns.
- Result 4: Pilot drainage and sewerage schemes and experimental treatment facilities have been constructed in at least two to three Programme towns.

The approach of the WSPST is based on five fundamental principles:

- flexibility and streamlined administration, and responsiveness to demand, leaving the selection of towns to be based on demand and eligibility, instead of determining where the Programme towns should geographically be located;
- sustainability and replicability of the pilot schemes (the intention is to test innovative ideas and gain hands-on experience for large-scale replication);
- a combination of concrete field activities (investments in WSS facilities) with supportive and capacity building technical assistance and research;
- a focus on involvement of consumers throughout the lifespan of WSS systems to express their expectations on service and service levels and to actively participate in the management of the systems; and
- attention for the specific problems of poor households¹.

An integral aspect of the Programme, implemented at the central and local levels, is parallel operationalisation of general policies and guidelines and development of utility management models involving substantial customer focus, and project preparation and implementation procedures. This approach aims at testing new innovation in the field and gain hands-on experience before large-scale replication.

The Programme design has taken into account the specific problems of poor households. Therefore, one condition associated with borrowing from the financing scheme is that the cost of house connections of poor households shall be included in the initial cost estimate (maximum 5% of the total investment) and will therefore become part of the loan amount for the investment. The detailed eligibility criteria for the poor to qualify for this arrangement will be developed during the Inception Phase. The Government of Finland will sign a framework agreement with the MPI about a financing scheme to finance WSS investments in small towns.

The efficiency and effectiveness of the WSPST are intended to be intensified by having a geographical focus in the beginning. The Programme provinces would be the focus of Results 1 (new piped water supply schemes), 2 (WSS management development) and 3 (pilot drainage and sewerage schemes). Moreover, the Programme provinces would be major beneficiaries of Result 4 (raw water study). However, the activities of the WSPST will not be limited to these initial Programme provinces; selected activities can be extended to other areas. The flexibility of the approach will allow, for instance, the extension of capacity building to any provinces or towns where WSS investments are financed with Finnish concessional credit. Moreover, the WSPST may later adopt additional Programme provinces.

Organisation

The organisation of the WSPST needs to accommodate for the required flexibility, the combination of physical investment components with capacity building and policy improvement activities, and the focus on consumer involvement in all phases.

¹ Therefore, one condition associated with obtaining the loans is that the cost of house connections of poor households shall be included in the initial cost estimate (maximum 5% of the total investment) and will therefore become part of the loan amount for the investment.

The Competent Authorities of the Programme are the Ministry of Planning and Investment, representing the Government of Vietnam and the Ministry for Foreign Affairs, representing the Government of Finland.

The Vietnamese ownership of the WSPST is being assured by the appointment of the following entities and positions with the authority to decide over the direction and implementation of the Programme:

- Steering Committee
- Component Directors

The Steering Committee (SC) can decide over the strategic direction of the Programme and its components within the boundaries of the objectives and purpose set in this Programme Document. The SC can decide over policy issues, it reviews and monitors the progress through the quarterly meetings and approves the annual reports for the past year and work plans and budgets for the following year. It is also authorised to decide on major budget revisions and reallocation, within the overall budget agreed in the country agreement and decide to delegate activities to be undertaken by parties unidentified in the Programme Document (pooling of resources). The SC is also responsible for approving the appointment of component TA teams.

The Management Consultant (MC) will have an important role in the execution of the Programme. It is extremely important that all stakeholders can be confident with the MC who has to be neutral and impartial, without any stake in downstream activities. Therefore, the MC will be ineligible for all other assignments under the WSPST.

Timetable

Phase I is scheduled to begin by the second quarter of 2004 with an Inception Phase of about four months. During the first year (2004), the raw water study and the provincial level TA are expected to be mobilised in the third quarter.

It is expected that the first three water supply schemes will proceed to implementation in 2005 and be completed well before the end of Phase I. The second two water supply schemes will be implemented since 2006 and the third batch of approximately six schemes will be launched in 2007.

The first three pilot drainage and sewerage schemes will start in 2006 and will be completed in 2007, and the next drainage and sewerage schemes are expected to be started in 2007.

The raw water study will be completed in 2005 but the support to the water quality and hydrogeological monitoring will be continued until 2006. The TA to MOC will be phased out towards the end of Phase I.

Budget

The estimated budget for Phase I is MEUR 20.8. The contribution of the Government of Finland is MEUR 19 (91%) and the contribution of the Government of Vietnam MEUR 1.8 (9%). The Finnish contribution will be on a grant basis. The tentative budget for Phase I is presented below.

Cost item	Finland	Vietnam	Total
Minh Duc pilot water supply	600 000	0	600,000
Capital for water supply investment	5 500 000	970 588	6,470,588
Capital for sewerage investment	2 400 000	282 353	2,682,353
Water laboratory	500 000	60 000	560,000
TA related costs	8 300 000	345 000	8,645,000
Total excluding contingency	17 300 000	1 657 941	18,957,941
Contingency	1 400 000	142 059	1,542,059
Total including contingency	18 700 000	1 800 000	20,500,000
Reviews and audits	300 000	0	300,000
GRAND TOTAL	19 000 000	1 800 000	20,800,000

Concerning investments, the Vietnamese budget includes the provision of 15% of water supply investments (except the pilot scheme of Minh Duc to be implemented in 2004), land acquisition and site clearance (estimated as 10% of the investment) of drainage and sewerage investments, and the laboratory premises. For TA, the Vietnamese budget includes office space (including furniture, heating, air conditioning, electricity, telephone lines, etc.), running costs of the laboratory, domestic telecommunication (except cellular phones), the costs (except the salary) of possible Programme Director/Task Force(s), miscellaneous expenses up to about EUR 195,000 and contingency of about eight per cent of the Vietnamese budget. Other items are covered from the Finnish budget.

The grand total of the Finnish contribution in the budget indicates the ultimate ceiling of the financing of the Ministry for Foreign Affairs. Any additional financing, if needed, has to be mobilised from other sources.

A review of Phase I of the WSPST will be undertaken in the third quarter of 2005. The main objective of this review will be to assess whether the Programme is attaining its purpose, assess the sustainability of its achievements, verify the establishment of the financing mechanism for investments, make recommendations for the remaining period of Phase I, and draw experience from Programme implementation for the preparation of Phase II (or the termination of the WSPST if deemed justified). The review will be mobilised jointly by MPI and MFA.

1. Present Situation

1.1 Government and Sectoral Policies

1.1.1 Government, Administration and Sector Organisation

The political and administrative system of Vietnam resembles a kind of a matrix organisation. The integral “columns” of this matrix comprise the Communist Party, the Government (GoV) and mass organisations, while the “lines” of the matrix consist of the Central (State), Provincial, District and Commune levels. Several ministries and numerous other water and environment research and consultancy institutes and centres, universities and other institutions operate in the water and environmental sectors.

The **Communist Party** has the central role in defining and determining the overall policy direction of the economic and social development strategy of the country. The legislative body is the **National Assembly** and the executive body is the central Government Administration. The latter implements the Constitution, directs central ministries and Provincial People’s Committees, drafts laws and decrees, and manages the duties of the State.

The institutional structure in Vietnam is characterised by democratic centralism and double subordination. The democratic centralism lays a strong role on the Central Government to direct the pattern of the development, including decisions on major investments, while relying on local participation to ensure that development responds to local needs. Double subordination means that local administrative bodies are accountable to the respective People’s Committee as well as to the higher level line organisational bodies.

The **Ministry of Planning and Investment (MPI)** is one of the most powerful ministries in Vietnam. It has a very wide mandate, which covers the establishment of strategies and master plans for the socio-economic development of the country, the orientation and structure of domestic and foreign investment. MPI is very important in balancing the finance, budget and coordinating foreign aid and investment. MPI has also the authority to draft laws and regulations to policies and mechanisms for economic management.

The mandate of the **Ministry of Finance (MOF)** covers the coordination of ministries in drafting of the annual State budget, management of the State budget and the State assets, management of loan and debt payment, and control of other ministries, State-owned enterprises and other institutions under the State management. MOF also overlooks the Development Assistance Fund (DAF), whose functions include the mobilisation of medium and long-term funds, receiving and managing capital sources of the State allocated in the form of development investment credit (domestic and foreign) to implement the State’s policy on development investment assistance.

The **Ministry of Construction (MOC)** is the lead ministry in urban water supply and sanitation, elaborating policies, planning, supervising, regulating, training, study of technology transfer and, until to date but probably not much longer, project management. The line of responsibility between MOC and MARD has been marked at Class V towns, which are included in MOC’s mandate. MOC focuses on its main four duties and functions:

- overall responsibility for construction and supervision of installations in urban areas and densely populated rural areas;
- responsibility for urban water supply and sanitation and ownership of a network of related design and construction companies;
- functions with respect to the issue of permit for construction and manufacture of building materials; and
- involvement in the preparation of annual, mid-term and long term plans for urban development.

The relevant functions of the **Ministry of Science and Technology (MOST)** to the water sector include regulation, planning and supervision of research, development and transfer of technology, co-ordination of the development of standards, organisation of a nation-wide network for measurement verification, and guidance in respect of quality control (e.g., approval of laboratories).

The **Ministry of Health (MOH)** undertakes regulatory functions, such as provision of hygienic standards for domestic water supply, disposal of industrial and domestic waste and hygiene in public places. MOH is also responsible for prevention of communicable diseases through a primary health care system, including water supply and sanitation.

The **National Water Resources Council (NWRC)**, established in 2000, has the mandate to advise the Government on important water resources issues and to co-ordinate national water resources planning and management across various line ministries. One initial key task of NWRC is to commission and oversee a national water resources strategy and action plan. The role of NWRC is advisory, not executive.

A new ministry, **Ministry of Natural Resources and Environment (MNRE)**, was established in November 2002. It will assume, inter alia, the state functions of the management of water resources and the environment. MNRE will gradually take over the key role in water resources, both in terms of resource allocation, management and monitoring and water protection. For example, MNRE will have the authority to allocate water resources through licensing, establish a water resources data base, and manage the national monitoring system for the environment. MNRE will take over these functions from the Ministry of Agriculture and Rural Development (MARD) and the Ministry of Science and Technology.

Provincial People's Committees (PPC) are in a position to promulgate decisions and directives under the general central level framework. The provincial level administration is a reflection of the national level structure. It comprises departments and committees representing national level ministries. Provincial departments are administratively responsible to the PPC and, simultaneously, in technical matters to their parent ministries at the national level.

In three biggest cities, Hanoi, Ho Chi Minh City and Haiphong, the **Department of Transportation and Urban Public Works (DTUPW)** is responsible for urban services such as water supply, sewerage and drainage, and solid waste management. DTUPW is "under the guidance" of the Ministry of Transportation. In all other provinces, urban water supply and sanitation are responsibilities of the **Department of Construction (DOC)**. DOC is usually also heavily involved in the provision of consulting services and contracting through a number of companies that it owns.

In practice, (Provincial) **Water Supply Companies (WSC)**, accountable to the respective DTUPW or DOC, are the executive bodies that provide water supply services, mainly in provincial capitals, in few cases also in district towns or other small towns. Only the three biggest cities have established a separate WSC, a Sewerage and Drainage Company (SADCO), and an Urban Environmental Company (URENCO) to be in charge of solid waste management. In most other cities and towns, there is a Water Supply and Drainage Company (WSDC) undertaking the responsibilities for potable water supply as well as for sewerage and drainage.

The **Provincial Centre for Rural Water Supply and Sanitation (PCERWASS)**, under the Department of Agriculture and Rural Development (DARD), is mandated to undertake the co-ordination of all operations in the rural water supply sector, preparation and implementation of plans, supervision of the quality of construction of rural water supply installations, and organisation of training courses on rural water supply. In many provinces PCERWASS has the lead role in the implementation of water supply schemes in district and other small towns.

The **Department of Health** (DOH) takes care of preventive and curative health services. Its role in the water and sanitation sector is to monitor drinking water quality, provide health education, and promote proper water supply and sanitation practices.

The **District People's Committee** (DPC) exercises powers similar to those of PPC within its administrative area. There is, however, a substantial restriction at the district level: unlike provinces and communes, districts are not budgetary entities. The line organisations are much weaker and also fewer at the district level. DPC's involvement in day-to-day activities is, therefore, more active than that of typical PPCs. The district level line or sector organisations are called (translated into English as) units, offices or divisions.

An executive **Town People's Committee** (TPC), in rural communes **Commune People's Committee** (CPC) as well as an elected **People's Council** are responsible for town or commune affairs. In most cases, the TPC and the DPC are located in the district capital. Some districts have a second small town, which then has its own TPC.

Most of the functions managed by a number of line organisations (departments and units) at the provincial and district levels are concentrated under the umbrella of the TPC or CPC. Water supply has been organised and piped water supply provided only in few places. As long as point sources have been developed, they have mainly been private initiatives of the users. Piped water supply systems, where they exist, are usually operated by maintenance units. They may report to various district or town level authorities, most commonly those responsible for agriculture and rural development or industry. In some cases, the operation of water supply has been incorporated into power supply companies.

Mass organisations in Vietnam are organised under the Fatherland Front. The Fatherland Front is a constitutional body composed of six mass organisations, which form part of the political system. These are: Communist Party; Vietnam Women's Union (VWU); Youth Association; National Federation of Trade Union; Farmers' Association; and Veterans' Association. The Women's Union is the most active organisation in the water supply and sanitation sector.

An important player in the water supply and sanitation sector is **Vietnam Water Supply and Sewerage Association** (VWSA). Its members consist of all PWCs as well as institutions and individuals from both the public and private sectors. VWSA has been involved in capacity building, policy development and development of water utility benchmarking data base.

A law on **Non-Governmental Organisations** (NGO) is presently being drafted. The proposed law is important for the dialogue between different partners outside of government.

The role of the **private sector** in water supply and sanitation has been very limited. All water supply and sanitation companies are currently state owned and report to the Provincial People's Committee. The private sector's involvement has mainly been limited to the provision of construction and other services to the water supply and sanitation companies. Even these competitive functions in the water sector have been dominated by the business arms of ministries and other government bodies.

A new initiative taken by the World Bank (WB) as part of its wider Water Supply Development Programme is called the Competition Route and has also a possible private participation component. In the Design-Build-Lease (DBL) model, the WSC would invite bids from companies to design, build and operate the constructed assets for a period of approximately 10 years. This approach would ensure that assets are optimally sized, properly and timely constructed and maintained. After construction is complete the contractor/operator connects customers to the network and, for the remainder of the contract period, collects the tariffs. Part of the tariff will be paid to the WSC as a lease fee to repay the loan for asset construction, and the remainder will be retained by the contractor to cover their operational costs and profit.

There have also been a number of other small-scale innovative examples of private initiative in the water sector. Examples include individuals who invest their own money to construct small-scale water supply installations and successfully collect revenue from the users, individuals and families who take over the responsibility of management and operation of a small town water scheme under a contract with TPC, and other individuals who start small credit programmes to allow people in their respective communities to improve their sanitation facilities.

1.1.2 Comprehensive Poverty Reduction and Growth Strategy

Even though Vietnam is considered by the international community to rank among the best-performing countries in poverty reduction, it still remains a poor country with high poverty rate. Vietnam's economy doubled during the 1990s, and – according to the official statistics – the rate of poverty was halved from around 70% to 35%. The average per capita income in 2001 was USD 410, but still almost 30 million people lived in poverty. The pattern of poverty decline has been uneven in different parts of Vietnam. The greatest reductions have occurred in the South East and in the Red River Delta. However, this positive development has not taken place evenly in any of the areas. There exist pockets of poor people in each province.

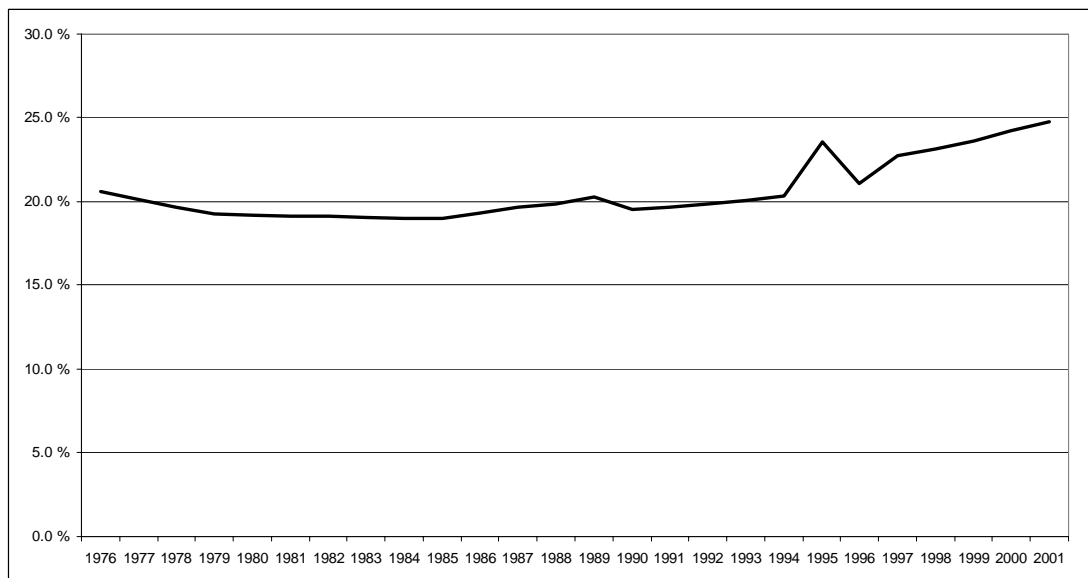
The GoV is committed to generate resources to raise welfare and living standards of its people, as well as reduce poverty and create social equality. In May 2002, the Government adopted a Comprehensive Poverty Reduction and Growth Strategy (CPRGS), in which the economic growth and measures to solve social problems are chosen to be the key objectives. Without growth the State cannot generate enough resources for poverty reduction. CPRGS translates Vietnam's Ten-Year Strategy into concrete public actions. It declares that Vietnam aims at full openness to the global economy and the creation of a level playing field between the State and the private sector. The transition should favour the poor and needs heavy investments in rural and more backward regions. To reach the targets the strategy's logic has to be followed at the provincial, district, and commune levels so that local priorities and expenditures can be aligned with the national level development goals. The access and quality of social services, physical infrastructure and governance institutions all contribute to the growth rates and thus to poverty reduction.

Thus far, a major contributor to the Vietnamese success has been improved agricultural production. According to GoV's land policy, every farmer must have a minimum area for the cultivation of rice or other crops. In areas where population density is very high – as in the rural areas of Red River Delta – no more land is available to be allocated to all farmers of the new generation. These provinces have to take the scarcity of agricultural land in consideration when they design their economic policies and plans. The further industrialisation is a positive mean to provide livelihood for landless rural population. Another way to provide livelihood for these people is to send them to live and work either in other, more scarcely populated provinces or in other countries. The Red River Delta provinces are under financial pressure to relocate their landless people to other provinces, since they are expected to contribute to the recipient province financially.

Some people are willing to take a risk and seek better livelihood by themselves in urban centres. Urbanisation in the developing world is five times faster than the industrial countries. For example, in some areas of Ho Chi Minh City the population density is even 24,000 people per square kilometre and the city's annual influx of migrants is 100,000. The urban population density increased in Vietnam from 1976 to 1992, reaching an average of 3,981 people/km². The urban population expands due to natural growth and migration. Formerly, the population increase in urban areas resulted from increased birth rate, but, in recent years the flow of migration from the countryside to urban areas has been a major contributor.

The urbanisation was delayed until the introduction of the *doi moi* policy in 1988 and until the lifting of restrictions that controlled movement and travelling from province to another and to urban areas in 1993. The control of migration is becoming increasingly difficult, in spite of the registration of citizens, as the unregistered urban population tends to increase, especially in the big cities. Since 1998, the urban population increased by 54% until 2001 whereas the rural population increased in the same period by 16%. The percentage of the urban population of the total population is presented in Figure 1.

Figure 1 Percentage of urban population in Vietnam in 1976-2001



It is expected that the urban population will be 33% of the total population in 2010, and 45% in 2020. The fast urbanisation puts great pressure on the services, road network and public transport, water and sanitation and for pollution control. There are large sections in cities where the urban poor have grossly inadequate water, sanitation and hygiene services. The biggest cities, which are pressured by population growth, have consumed most of the technical and social infrastructure projects for the living environment, particularly shelter and public services, transportation, sanitation waste and noise. Small towns suffer from a shortage of infrastructure and do not ensure the minimum quality of the urban living environment.

According to CPRGS, GoV aims to “solve the particular problems of urban poverty with regard to employment, income and housing”, to “ensure that urban poor have equal access to resources, public services and basic social services”, and to “improve the access of migrants, especially their children, to these resources and services”.

The Government’s urban development strategy avoids, as much as possible, the relocation of poor people. Thus the strategy will prioritise on-site renovation of infrastructure for the poor and will develop standards and procedures in urban planning and design. This will ensure that environmental sanitation requirements are met, taking into account demand and the poor’s ability to pay in urban areas. One important preventive measure to diminish slums in bigger cities is to improve living conditions in smaller towns for the rural poor so that they would remain in the smaller towns and cities rather than move to the crowded major cities.

Vietnam has localised the Millennium Development Goals (MDGs) as a part of the CPRGS. Its targets include that the proportion of people living below international poverty line would be reduced by 40 % by 2010 and the proportion of people living under the international food pov-

erty line by 75% by 2010. The provinces use in their poverty reporting the criteria set by the Ministry of Labour, Invalids and Social Affairs (MOLISA). MOLISA's relative poverty line is:

- ❑ VND 150,000 per month in urban areas (about USD 120 per year),
- ❑ VND 100,000 per month in rural areas (about USD 80 per year) and
- ❑ VND 80,000 per month in isolated and mountainous areas (about USD 64 per year).

As can be noted, these values are remarkably below the international poverty line (USD 365 per person per year). The poverty assessments in communes are conducted twice a year; those who are classified MOLISA poor receive benefits from the public sector. The poverty related expenses in a province have a clear link to the number of MOLISA classified poor in the province.

A comparison of the global and Vietnamese definition of water related MDGs is shown in Table 1.

Table 1 Comparison of Global and Vietnamese Millennium Goals for Water

Goal code	Definition of goal
MDG 7	Halve, by 2015, the proportion of people without sustainable access to safe drinking water.
VDG 7	Ensure environmental sustainability <ol style="list-style-type: none"> 1. Extend forest cover to 43% by 2010 2. Ensure that 60% of the rural population has access to clean and safe water by 2005 and 85% by 2010. This should be the case for 80% of urban people by 2005. 3. Ensure there are no slums and temporary houses in all towns and cities by 2010 4. Ensure that all waste-water in towns and cities is treated by 2010 5. Ensure that all solid waste is collected and disposed of safely in all towns and cities by 2010 6. Air and water pollution must attain national standard by 2005.

The GoV aims at ensuring pro-poor infrastructure development. Sustainable access to safe drinking water is one of the key elements. As listed above, the GoV has set targets for the access to safe drinking water both for the urban and rural population. For the urban areas it should reach 60 % by 2005 and 85% by 2010. The waste water in towns and cities should be treated by 2010 and air and water pollution must attain national standards by 2005.

The Poverty Task Force's report on *Achieving the Vietnam Development Goals* states that the urban poor in Vietnam live in areas with poor infrastructure and that the access to basic services (safe water, sanitation, water drainage, electricity, garbage collection) is limited. Furthermore, most slum dwellers have unstable jobs and unstable incomes and their difficulties in securing permanent registration makes things worse. According to the Vietnam Living Standard Survey data, the urban poverty rate is 9%. However, this figure is doubtful since many urban slum dwellers are not registered.

In the CPRGS the Government announces that it will develop a national urban development strategy. The Government acknowledges the problem of social exclusion in the urban areas

and the lack of access of unregistered urban migrants to basic services and that labour migration and household registration policies need to be reviewed.

1.1.3 Water Sector

Vietnam's Socio-Economic Development Strategy for 2001-2010 defines a national goal in regard to water resources management: "to continue developing and basically complete the water conservancy system for protection from salinisation, fresh water conservation and flood control, ensuring safe and proactive irrigation and drainage for agricultural production (including industrial crops and aquaculture) and livelihood of farmers. As for areas often struck by storms and floods, together with natural disaster damage mitigation measures, the production and population apportionment is to be restructured to adapt to natural conditions". The Law on Water Resources (LWR), passed in 1998, sets requirements and priorities for water resources allocation that has to be based on river basin plans and the real potential of the source, and has to ensure the principle of fairness, reasonability and priority for living. In case of shortage, priority must be given to living purpose (domestic use).

The urban water supply policy and strategy has been defined by Decision No 63/1998/QD-TTG of March 18, 1998: *Ratifying the Orientation for the Development of National Urban Water Supply System till the Year 2020*. This decision defines immediate (obviously mainly for 2005) and long-term (for 2020) objectives, and introduces a list of major solutions. The immediate objectives are to:

- ❑ expand the scope and raise the quality of urban water supply: 80% of the urban population will be supplied with clean water with an average of 80-100 litres per head per day while in the major cities (Hanoi, Haiphong and Ho Chi Minh City) to strive to supply clean water to 100% of the population with an average of 120-150 litres per head per day;
- ❑ ensure adequate supply of water for industrial, cultural and social activities in urban centres;
- ❑ renovate and update the water supply schemes that are too old or have not yet achieved their designed capacities;
- ❑ reduce the percentages of water losses and uncollected water revenue down to 40% in the existing urban areas and 30% in new urban centres by the year 2000;
- ❑ classify the water supply companies as public-utility enterprises; to step by step abolish the subsidy regime; to correctly and adequately calculate the water supply charges to cover the costs of construction and development investment; and
- ❑ restore the discipline in urban water supply in all aspects, from technological processes, production business, finance and services to the State management; to eliminate negative phenomena in the water supply sector; to step up the dissemination work and raise the people's intellectual level while imposing sanctions and fines according to law, and to promote the master role of the people in the construction, management and use of the urban water supply system.

The urban sewerage policy and strategy has been defined by Decision No 35/1999/QD-TTG of March 5, 1999: *Ratifying the Orientation for the Development of Urban Sewerage in Vietnam up to Year 2020*. The above decision, defines immediate and long-term objectives, and introduces a list of major solutions. The immediate objectives are to:

- ❑ give priority to storm-water drainage:
 - eliminate the permanent water logging in the rainy season in the urban centres of Categories I and II, first of all in Hanoi and Ho Chi Minh City;
 - improve storm-water drainage in the urban areas of Categories III to V; with regard to urban areas with favourable terrain conditions, study may be conducted to improve storm-water drainage at a high level; and

- broaden the servicing scope of the sewerage systems from 30-40% at present to 50-60% and to 80 % for Hanoi.
- improve and upgrade wastewater sewerage:
 - give priority to Hanoi, Ho Chi Minh City and other major towns and tourist centres such as Haiphong, Danang, Ha Long, Hue and Vung Tau;
 - develop local treatment of hospital and industrial effluents before discharging them into common sewers of the cities;
 - eliminate the system of nightsoil collection into pail in the towns before 2005 (before 2001 for Hanoi); to establish enough public latrines at the places of major use such as markets, train stations and bus stations;
 - preserve and act against degradation of the existing sewerage systems in the town; and to build the system of sewerage and treatment of waste water with standards of environmental hygiene at the industrial zones, export processing zones and new urban centres.
- build a public utility enterprise model for urban sewerage companies; to overcome step by step the mechanism of government subsidies, issuing sewerage fees so that the sewerage companies can have the source of income to defray the costs in management and operation;
- prepare priorities for long-term and sustainable development:
 - strengthen the organisations at all levels and at the grassroots;
 - develop the human resources, to train officials and workers;
 - strengthen the legal system in managing and using water sources;
 - carry out education and public campaigns in order to increase people's knowledge; and
 - produce equipment, accessories and materials in the country.

The GoV is in the course of developing new policies and strategies for the water sector. MOC as the lead sector ministry will be in charge of this development. MOC has been assigned to study policy reforms proposed by VWSA and make relevant recommendations, in collaboration with other relevant ministries and agencies, to the Prime Minister. The priority areas of interest are reorganisation of the sector at all levels and a road map to full cost recovery in water supply, including capital costs.

1.1.4 Other Policies and Strategies

In recent years Vietnam has tried to streamline its development co-operation policy environment and legislation. The GoV issued Decree No. 17/2001/ND-CP, dated 4th of May 2001, to regulate the activities relating to attraction, management and utilisation of official development assistance (ODA). The role of MPI has been defined as the focal point for ODA. MPI takes a lead in formulating strategies and plans for ODA attraction, utilisation, and providing further guidance on the Decree.

The Decree outlines principles to handle an ODA project from beginning stage such as mobilisation, negotiation to implementation and completion stage. The contents of this Decree, which will need to be followed by the proposed Programme, describe the steps to be followed by ODA programmes and projects. Shortly after the issuance of the Decree, MPI has issued Circular No. 06/2001/TT-BKH (20th of September 2001) to give further guidance on the implementation of the Decree. In accordance with the Circular, an ODA project must fulfil the following steps to set up a project management framework:

- set up a Project Management Unit (PMU) and define organisational structure, staffing and working regulations;
- decision on implementation of the project including identification of Line Agency and Project Implementing Agency;

- ❑ revision of ODA project during implementation (more than 10%) is subject to the approval of the Prime Minister; and
- ❑ monitoring and evaluation: PMU will submit monthly, quarterly, yearly and completion reports to the Line Agency, MPI, Ministry of Finance and relevant PPC and the sectoral Ministry.

Recently, as a part of the on-going OECD/DAC exercise on good practice among aid donors, a case study in Vietnam was conducted. The authors of this study state that Vietnam has become something of a laboratory for trying out innovations in aid management. The annual Consultative Group (CG) meetings together with bi-annual stock-taking CG meetings provide a valuable opportunity for Vietnamese authorities to discuss with the donor community. Various donors regard CG meetings as a useful platform where new initiatives can be announced.

The study concluded that the Government ownership and participation has been an important ingredient and those groups with government commitment have been the most successful. Another key to success has been a clear focus with willingness for members to be led by outcome goals and commit to working towards those goals. The donor community was active in the formulation and the preparation of the CPRGS.

The European Union (EU) was proactive in developing guidelines for the financing of local costs in Vietnam. The guidelines were compiled over several years and established a series of cost norms that provided pay scales and a maximum level of remuneration for local staff, consultants and other payroll related expenditure. The guidelines have proved to be very successful and have been adopted not only by the EU, but also by other donors in Vietnam.

The Like Minded Donor Group comprises six bilateral donors (Finland, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom). The objective of the group is to support improved ODA management and promote harmonisation among themselves. Now, the group has shifted away from this approach towards the identification of new aid mechanisms that can be harmonised more easily as they are not restricted by inflexible rules and procedures. Also international financing institutions – WB and Asian Development Bank (ADB) – and other donors, e.g., Japan, are actively formulating new proposals for harmonisation of aid procedures and practices.

1.2 Background studies

1.2.1 General Facts and Figures

Vietnam occupies the eastern and southern part of the Indochinese peninsula in Southeast Asia, with the South China Sea along its entire coast. It is bordered by China in the north and Laos and Cambodia in the west. Vietnam has a coastline of about 3,300 kilometres and the country's total length (as the crow flies) is 1,650 kilometres from the northernmost point to the southernmost. Its width at the widest point, stretching from the eastern coast to the western border, is 600 km and at its narrowest point only 50 km.

Vietnam's total land area is about 330,000 km² and the total population, as estimated in 2003, is about 82 million. Consequently, the average population density is around 250 people per square kilometre. The terrain of Vietnam has a low, flat delta in south and north; central highlands; hilly, mountainous in far north and northwest.

Vietnam's climate is highly varied; the average temperature is about 23 °C in the north (Hanoi) about 26 °C in the south (Ho Chi Minh City), and is generally humid. Two monsoons control the weather, one is considered to be a dry monsoon which occurs mainly in the north from about October/November to March. The other brings wet, warm weather to the entire

country, with the exception of the mountainous areas, from April/May to October. July and August are considered to be the hottest and most humid months.

The Vietnamese government defines small towns (thi tran) as urban administrative units and communes (xa) as rural administrative units. An executive People's Committee (Uy Ban Nhan Dan) and an elected People's Council (Hoi Dong Nhan Dan) are responsible for town and commune affairs. Small towns and communes operate in the jurisdiction of a district (huyen) with its own elected council and committee. In most cases, the town People's Committee (TPC) and the district People's Committee (DPC) are located in the same community. Some districts have a second small town with only a TPC. According to Decision No. 132 HDBT (1990), the criteria for a small town include:

- ❑ population between 4,000 and 30,000 persons (2,000 in mountainous areas);
- ❑ density averaging 60 persons/hectare (6,000/km²) or 30 persons/hectare in mountainous areas;
- ❑ over 60% of a town's population involved in non-agricultural activities; and
- ❑ significant public facilities and services.

The population of the district towns (thi tran huyen li) and other small towns (thi tran) totals 5,198,000 inhabitants (7% of the total population). Besides these small towns are areas of increasingly dense settlement called townlets (thi tu). Townlets are unincorporated settlements that may cross several commune boundaries. They often have a population higher than 2,000 inhabitants and may be bigger than district towns. Townlets have no central administrative unit and may be administered by one or more commune People's Committees (CPC).

MOC defines a townlet as an area with a population greater than 2,000 persons/hectare (1,000 per ha in mountainous areas) and a density greater than 30 persons/hectare (10 per ha in mountainous areas). A townlet must have at least 40% of the labour force engaged in non-agricultural activities. Some public services and facilities may exist. Townlets have no formal autonomy in decision-making about investment or management. Communes with the townlet in their boundaries are responsible for administration of that part of the townlet. As townlets are not an official administrative unit, no data is available on their exact number or population. A rough estimate would place the number of townlets at 3,000 with an estimated total population of more than 10 million persons (15% of the national population).

1.2.2 Urban Water Supply and Sanitation

The urban water sector of Vietnam is entirely publicly owned and highly decentralised. It comprises 67 Provincial Water Companies (PWC), with generally each PWC providing service to the urban areas of one province. The urban population of Vietnam currently amounts to 19 million. This number is projected to 30 million by the year 2010.

Urban water supply and sanitation (WSS) in Vietnam exhibits a vast variety of systems in different stages of development, depending on the region, province, and even on the individual city and town. Coarsely simplified and generalised it can be concluded that:

- ❑ All 61 provincial capitals have already launched or completed a water supply project, majority of them supported with external aid, in which basic water supply system rehabilitation and upgrading has been carried out. However, just a dozen or so of those projects have included sewerage and/or drainage elements.
- ❑ Only some of the approximately 600 small towns of category V (2,000-30,000 population) have had any noteworthy projects for construction or upgrading of their water supply in recent years, not to mention sewerage and drainage. Available data on water services in small towns is very limited. MOC has estimated that 30% of small towns have piped water supply systems providing at least some

level of service. According to the urban water sector benchmarking study, the service coverage in category V towns in 2000 was as low as 10.6%.

Virtually all functions in the water sector are currently managed and executed by public institutions. PPCs and their sub-ordinate services hold key position whenever either financial aspects (investments and recurrent budgets) or technical aspects (operations control and supervision of works) of urban WSS are concerned.

According to the benchmarking study, production capacities of the urban water supply utilities exceeded their sales in 2001 by 20-40%. Expectations concerning future water demand, however, are very high, anticipating 90-200% increase in water use by the year 2006. MOC is now emphasising the urgent need to improve the standard and condition of distribution networks in order to cut down high water losses and, at the same time, to improve the financial performance of the utilities. This MOC policy is strongly supported by the World Bank.

According to a recent policy decision by MOC, improvement of small town WSS is the responsibility of the respective PPCs and PWCs. However, as PWCs at the same time are constantly strained for ever-increasing business orientation and profitability and as there is still a lot of room for improvement in the water supplies in the provincial centres, the relatively weak response to the new policy of extending PWC services to small towns is understandable.

Most PWCs are still likely to be quite occupied by keeping up their present service coverage, which leaves small towns in a relatively difficult position: they are under jurisdiction of DPCs, who can approve projects costing less than VND three billion (almost EUR 200,000) but who have very limited financial resources. For bigger investments TPC has to submit project proposal to the PPC for approval and financial support. Approval tends to be time-consuming, as senior administrative levels again often have other priorities.

The World Bank has carried out indicative calculations showing the magnitude of investments needed for achieving the goals in "orientations" to be MUS\$ 6,000 (MUS\$ 300 per year). However, three to four years after approval of the orientations, little improvement has taken place outside provincial capitals. There have been several initiatives regarding small town WSS but, except for a small number of pilot (demonstration) projects, the initiatives have not materialised as projects. Progressive increase in the urban population with WSS service is certainly to be expected, but small town and townlet population, which stand for 7% and 15% respectively of the national population, can easily remain with quite little support due to industrialisation of and migration to provincial capitals.

1.2.3 Other Relevant Interventions

The main present and expected supporters of small town water supply and sanitation in Vietnam are the World Bank, Asian Development Bank, Danish International Development Assistance, Swiss Agency for Development and Cooperation, Japan Bank for International Cooperation, Australian International Development Agency, and Kreditanstalt für Wiederaufbau.

The **World Bank** is preparing the **Vietnam Water Sector Project**, expected to be approved by the Board in October 2004. The project will focus on currently unserved areas both in large urban centres and smaller district towns. The project will be implemented in two phases; the first phase will include sub-projects up to the value of about MUS\$ 20 and the second phase will comprise sub-projects with the total value up to MUS\$ 80. The project will provide funds to PWCs for expanding or enhancing service based on achievement of certain performance or institutional criteria. There are two ways to qualify for the project, called the Performance Route and the Competition Route.

Access to the funds under the Performance Route will require achievement of predetermined levels of performance by the PWC. The performance parameters are:

- technical performance: unaccounted for water;
- staff efficiency: staff per 1,000 connections; and
- financial sustainability: working ratio.

Access to the funds under the Competition Route will require that a competitive bidding process be undertaken to procure a service provider that will expand service to currently unserved or under-served areas. The selected service provider will operate as a subcontractor to the respective PWC. WB has introduced a Design-Build-Lease (DBL) model to be applied in the Competition Route. This approach will be tested in two pilot projects to be financed by SDC in Lim in Bac Ninh Province and by Finland in Minh Duc in Haiphong Province.

Asian Development Bank has financed many water related projects in Vietnam. The **Third Provincial Towns Water Supply and Sanitation Project** was approved in December 2001 and is estimated to be completed by the end of 2007. The loan amount is MUS\$ 60. The Project will improve water supply and sanitation systems in five provincial towns in central and southern Viet Nam: Tay Ninh, Binh Duong, Kien Giang, Ninh Thuan, and Phu Yen. The scope of the project includes the design, development and delivery of:

- community environmental sanitation improvement program in each project town;
- water supply systems to provide better quality water and greater coverage in the towns and adjoining districts;
- drainage and sanitation improvements; and
- project implementation assistance and capacity building.

The **Japan Bank for International Cooperation** (JBIC) has had until now two major involvements in the water supply sector: **Dong Nai and Ba Ria Vung Tau Water Supply Project**, and **Rural Infrastructure Development and Living Standard Improvement Project**. The latter project is being implemented through a series of sector loans (Loans I-III). A new loan (Loan IV) has been scheduled to be signed in 2003.

In the sector loans provided since 1995, Loan I, Loan II and Loan IV have a water component. Total loan amount provided over these three loans for the water component is 5.5 Billion Yen. The water supply component in Loan IV will be 1.43 billion Yen and will be used for the construction of 24 district water supply systems throughout the country. The investment cost per water supply system ranges from VND 1.1 billion to VND 18.7 billion. 85% of investment cost is funded by the loan. The selection criteria for the choice of provinces and towns are mainly based on the Vietnam's (MOLISA) poverty index and recommendations from MPI. JBIC provides limited technical assistance (TA) alongside this loan.

None of the 24 scheduled project towns is located in the Red River Delta. One project is scheduled in Bac Kan province, in Cho Don town with a loan amount of VND 3.4 billion. The construction is expected to start from January 2004 onwards.

JBIC has a hands-off approach in the implementation of the project town water schemes. JBIC provides the loan and contacts the central PMU of MPI to obtain follow-up financial information. Bidding, supervision of construction works and payments to contractors are performed by local PMUs under the supervision of the central PMU. The loans are untied; local bidding is applied for civil works whereas the purchase of equipment is intended to be grouped for a number of sub-projects and tendered following International Competitive Bidding. Project cost estimates are provided by local PMUs and checked by the central PMU.

Kreditanstalt für Wiederaufbau (KfW) is starting a new sanitation programme with projects in six provincial towns: Bac Ninh, Nam Dinh, Vinh, Ha Tinh, Can Tho and Soc Trang. The

first two projects in the South are currently at the appraisal stage and the construction is expected to start in mid 2004. MOF will be responsible for the repayment of the loans and provides the investment fund to the receiving People's Committees on a grant basis. Even so, KfW puts a lot of emphasis on obtaining long term tariff increase agreements from the receiving People's Committees to ensure that the full operation cost and part of the investment cost will be borne by the end-users. The parallel technical assistance and training to support the projects will be provided by **Deutsche Gesellschaft für Technische Zusammenarbeit GmbH** (GTZ) on a grant basis.

Nordic Development Fund (NDF) is a Nordic multilateral development financing institution, which is governed by the principles of the Nordic countries' international development co-operation. NDF funds primarily infrastructure projects including water supply and sanitation with focus on poverty reduction and environmental aspects. Credits for public sector projects are normally between EUR 1-10 million. The operational principle of NDF is that it has to have a leading partner in its projects. NDF could be a funding partner for the water sector programme in the investments, which would not be profitable in a short and medium period but are deemed essential for the programme's success. The waste water treatment plants would fall in this category. NDF is encouraging public-private co-operation in its operations.

The **Water Sector Program Support** (WATERSPS) is the umbrella of the operations in the water sector supported by Danish International Development Assistance (Danida). WATERSPS is a five-year programme and its total budget was initially 725 million Danish Kroner, equivalent to almost MEUR 100, but it has been scaled down. WATERSPS has four thematic components:

- national capacity building in water resources management and in water service delivery;
- rural water supply and sanitation;
- capacity building in water resources management at river basin and provincial levels; and
- urban water supply and sanitation.

The urban water supply and sanitation component supports rehabilitation and expansion of water supply systems and construction of sewers and wastewater treatment plants in three provincial centres: Buon Ma Thuot, Da Lat and Ha Long.

The **Swiss Agency for Development and Cooperation** (SDC) in Vietnam focuses on two sectors: forestry sector and urban governance including public administration reform, legal aid among others. The total grant programme per year for Indochina is Swiss Francs 22 million, about MEUR 15. SDC aims to undertake innovative approaches such as the One-Stop-Shop (OSS) for different urban cities and/or districts (Nam Dinh and Dong Hoi). SDC replicates the OSS strategy in other provinces. A grant of USD 7,000 is provided for one OSS.

SDC is also playing a coordinating role among donors, government organizations and civil society by initiating and supporting the establishment of the **Urban Forum** under its Urban Support Unit. The Urban Forum is a forum for urban policy development. A Trust Fund is being established. The United Nations Development Programme (UNDP) and the World Bank are two of the active partners of SDC in supporting the Urban Forum. The Ministry of Construction is the government host and key partner of the Urban Forum. SDC is also currently working with the World Bank in preparing a **small town pilot project** in Bac Ninh province and an urban development project in Nam Dinh. SDC is also working with KfW in Nam Dinh.

Australian International Development Agency (AusAID) supports urban and rural water supply and sanitation in the Mekong delta. **Three Delta Towns Water Supply Project** aims to improve the welfare of the residents of the townships of Bac Lieu (in Bac Lieu province), Ha Tien (in Kien Giang province) and Sa Dec (in Dong Thap province) by rehabilitating and ex-

tending water supply and sanitation systems and to develop the capacity of local institutions to manage these systems on a sustainable basis. **Cuu Long (Mekong) Delta Rural Water Supply and Sanitation Project** will assist provincial agencies and other organisations in developing a new demand management/investment approach for the delivery of WSS services to some 500,000 people in poor communes/villages and district towns in five provinces.

1.3 Problems to Be Addressed

The low service levels in urban and rural sanitation have been discussed in Section 1.2.2 above. Additional constraints and problems are discussed below.

It is widely agreed that the major problems related to water resources management are institutional by nature, but the reason that they have not found a suitable solution are also political. The problems relate to the establishment of a clear division of roles and responsibilities between the legislators, regulators and service providers of the sector. The most significant barriers in water resources management are related to:

- ❑ conflict between economic development and resource conservation;
- ❑ fragmented State management of water resources, making integrated water resources management difficult;
- ❑ water resources management being a new discipline, requiring new institutions and new skills among government staff;
- ❑ top-down approach at all levels combined with weak capacity at provincial and lower levels;
- ❑ focus on engineering rather than management solutions;
- ❑ tradition of water use as a social good, requiring strong political will to introduce adequate water fees and charges that would cover the full cost of service; and
- ❑ lack of inter-provincial co-operation on the basis of perceived needs in provinces and fair sharing of benefits.

The Law on Water Resources (LWR) is based on good principles but is a framework law by its nature and would need supporting legislation to be enforceable. In general, many present laws are quite weak and difficult to enforce. The executive mechanisms are also rather weak.

The biggest problem in urban water supply is the weak organisation and management from the central to the local level and the dependence of the utilities on the subsidy system. The delegation of responsibilities is not clear and the collaboration between stakeholders has not been smooth. Moreover, procedures in project implementation are very complicated; resulting in additional costs and delays in implementation.

The financial resources for the development of water supply and sanitation in small towns are inadequate and untimely. Even the limited resources available are often used wastefully; due to overly optimistic water demand and use projections and lack of concern for capital allocations staying idle years before they can generate meaningful return, investments are too often characterised by over-sized facilities and poor timing of investments. Investments are made too early and/or parts of systems completed (usually water treatment plants or transmission lines) without any decisions made to complement the system (with revenue generating distribution systems).

There is a serious neglect of quality control and quality management in design, construction supervision and in selection and purchase of equipment and materials. This is a general issue in Vietnam, not specific to water supply. It is not uncommon to hear complaints about "old" pipes that leak and burst frequently when, in fact, these pipes are just a few years old.

There is no comprehensive policy to mobilise financial resources from different stakeholders. Provincial authorities tend to expect the central government to finance and construct facilities, system extensions and rehabilitations in their cities and towns. However, the government is equally short of funds. In some provinces the responsible authorities have prepared feasibility studies for certain projects and then simply waited for external funding to become available. The resources for urban sewerage are very scarce, some 1/6 of those spent on water supply. Actually, the cost of proper sewerage would be higher than that of water supply.

Due to several reasons, PWCs normally limit their operations to the provincial capitals or even their central areas, not to the small towns. PWCs do not have the human, financial, technical and other resources to serve other towns, and they often see potential business risks associated with the provision of services in areas where population densities are lower and other individual water supply systems may seriously limit the volume of water sales. On the other hand, few PWCs have clearly instructed the companies to follow the MOC's guideline on PWCs taking care of the overall management of water sector in the provinces.

In general, poor households have remained unserved by piped water supply systems even where they exist. Water utilities are reluctant to supply water as a social good to non-paying customers, although virtually all domestic tariffs of public water utilities are subsidised. In few cases (mainly in donor financed schemes) public taps or water points have been installed and in most cases they have later been abandoned, due to lack of care and maintenance. The unserved are often the poor who have no resources to pay for the connection cost. Moreover, they often live further from the main trunk line, making the connection cost substantially higher than for those households living along the trunk lines. With some exceptions, there are no targeted subsidy mechanisms provided by local or provincial People's Committees that would facilitate the poor to connect at lower costs to water utilities. The access of the poor to piped systems is, in practice, higher than the number of connections suggest; there is a tradition of sharing connections by several households, especially in the Red River Delta.

The qualifications of the personnel of water supply and drainage companies do not meet the increasing requirements. The management and operation skills are weak, and PWCs lack trained workers. There are no vocational training and intermediate level training schools for the workers, and there is also a general lack of training in management and financial management skills.

The limited knowledge of the water consumers and the lack of participatory approaches in the past have, e.g., lead to intentional and unintentional misuse of raw water installations and water distribution systems. On the other hand, the consumers are not aware of their rights and are not able to challenge the utilities for poor and inefficient service.

Due to many reasons, water supply services are generally rather inefficient. For instance, high unaccounted for water (UFW) means that in order to cover the production cost plus the high losses, the tariffs need to be considerably increased. E.g., in case of UFW being 70% of the produced water (not unusual in Vietnam), the tariff has to be twice as high as if the unaccounted for water was 35%, an average level in South-East Asia.

Preventive maintenance has been neglected for decades, especially in the water distribution and drainage networks.

Some provinces, e.g., in the Red River Delta, are located in the coastal area (Haiphong, Thai Binh, Nam Dinh, Ha Nam, etc.). The surface and groundwater resources in those areas are often affected by salinity. No overall study of raw water resources management or a comprehensive water resources management plan has been prepared for the Red River Delta.

Many urban areas are affected by flooding in the rainy season. The issue becomes more serious and difficult to mitigate due to the fact that most urban areas are located in low-lying and flat deltas, where drainage tends to become technically demanding and expensive.

In urban sanitation combined sewerage and drainage systems have been the only applied technology until recent years. Most of the systems date back to the French regime and are nearly 100 years old. As there are few storm water pumping stations, systems of rivers and canals (sometimes equipped with tidal gates) and regulating ponds and lakes are needed to accommodate storm-water before it can be discharged further. Combined systems call for septic tanks to trap sediments from household effluents. Septic tanks are often old and overloaded. Septic tank sludge is not removed regularly nor disposed of properly.

Wastewaters from domestic properties, hospitals and industries are generally discharged into the environment without proper treatment. Even faeces and garbage are commonly thrown directly in the urban culverts, lakes, ponds, rivers and canals. These practices result in an unsatisfactory urban environment.

1.4 Stakeholders and Beneficiaries

The key beneficiaries and stakeholders will be at different levels: (i) national; (ii) provincial; and (iii) local (towns).

The foremost and ultimate beneficiaries of the Water and Sanitation Programme for Small Towns (WSPST) are the present and future residents of the Programme towns, whose convenience and health will be improved and whose views are taken into account in utility management, and industries and other economic activities in the service area of the utilities. They will benefit from improved water supply and sanitation services, higher efficiency in the provision of these services, and more transparent and just allocation of public resources to small town water supply and sanitation. Since women and children are largely responsible for tasks related to water, it is expected that they will derive special benefit from improved water supply and sanitation.

The initial focus of WSPST will be in four provinces, three of them in the Red River Delta. These provinces are Thai Binh, Hung Yen, Haiphong and Bac Kan. The rural areas in Thai Binh and Hung Yen provinces are among the most densely populated in Vietnam. As a result, an increasing number of rural people seek for employment in urban and industrialised areas. Bac Kan is a newly established province and among the poorest in Vietnam. Haiphong has been a partner in the Finnish-Vietnamese co-operation in the water and sanitation sector since 1990; the scope of WSPST in Haiphong is rather different from that in the other three provinces. The development of urban services – and consequent development of economic opportunities – in small towns in the Programme provinces will also benefit the rural poor, providing them with possibilities to make their living in their home provinces instead of being forced to move to bigger cities.

Involving users in the identification and planning process of water supply and sanitation project gives the people, who are the intended users or consumers of the product and services, the opportunity to express their needs and stake on the project intended for them.

Participation of users does not only take into account people's needs and their readiness to contribute financially and/or provide their time, but more importantly will:

- allow community groups develop their own identity, consciousness and collectiveness in the process of addressing their own needs and problems;
- put participatory planning into practice with a vision that goes beyond immediate issues, framing them in the context of broader themes such as community development, livelihood opportunities and ecological concerns;

- ❑ allow community groups to use their own forces and resources while demanding publicly supported projects related to land use, housing, water supply and sanitation, health, education and environmental issues;
- ❑ ensure accountability not only in decision-making but also in the implementation of plans, use of resources and the handling of power relationships among the members and with local authorities; and
- ❑ promote productive, cultural and ecological innovations that allow the process to confront multiple issues and create consistent and applicable options that are viable.

The participating organisations are the direct beneficiaries of the Programme. At the town level, the stakeholders include stakeholders include new water and wastewater utilities, TPC and/or DPC, local Women's Union and possible consumers' associations as soon as they become effective.

At the provincial level, PPC is the main partner, responsible for the co-ordination of the activities within its respective area. Other stakeholders include PWCs and SADCs (if they exist), DOC, and possible consumers' associations.

At the **national level**, the main partners will be MPI co-ordinating the overall Programme; MOC in matters related to the operationalisation of policies and strategies, especially those for management models and cost recovery, MNRE for raw water management; MOST (particularly the Directorate for Standard and Quality) for consumer right matters.

2. Definition of the Intervention

The proposed Programme, including its overall objective, purpose, results and activities, is described below. The intervention logic in a form of a logical framework is attached to this Programme Document in Annex 3.

2.1 Overall Objective

The proposed Programme has been initiated to contribute to the achievement of the objectives of the Vietnamese Comprehensive Poverty Reduction and Growth Strategy (CPRGS), especially in relation to reducing/preventing poverty by developing urban water, sanitation and sewerage services in district and other small towns.

The overall (long term) objective of the Water and Sanitation Programme for Small Towns in Vietnam (WSPST) is that by 2010, the proportion of people living below the international poverty line will be reduced by 40%, and the proportion of people living under the international food poverty line by 75% in the Programme provinces. This overall objective has been adopted from the CPRGS.

The achievement of the overall objective is beyond the scope of the Finnish supported Programme alone. However, the proposed Programme is expected to have substantial contribution, in parallel with other CPRGS undertakings, to the implementation of CPRGS objectives on water and sanitation in the geographical areas to be included in the Programme.

The key indicators for the verification of the achievement of the overall objective have also been adopted from the CPRGS:

- ❑ the percentage of poor households has been reduced by 40% in the period 2000-2010 in Programme provinces and the percentage of food-based poor households by 75% in the period 2000-2010 in the Programme provinces;
- ❑ the average income of the lowest income quintile in the Programme provinces has been increased from that in 2000 by 40% until 2005 and by 90% until 2010;

- ❑ basic infrastructure, especially water supply and environmental hygiene, has been provided to cities and towns in the Programme provinces; and
- ❑ slums and temporary housing have been eliminated in all towns and cities by 2010.

While the first three of the above indicators aim at improvement in the Programme provinces, the last one does not limit itself to these provinces. Through the provision of improved urban services the Programme intends to contribute to the prevention of massive migration into bigger cities.

2.2 Programme Purpose

In the framework of the overall objective described in Section 2.1 above, the purpose of the WSPST is to provide safe potable water supply and hygienic environment to satisfy the needs of urban population and economic activities in the Programme towns.

The WSPST will tentatively extend from 2004 until 2013. Its first phase is limited to a period of four years (2004-2007). The Programme purpose is consistently the same for the whole Programme as well as for Phase I but, naturally, the number of Programme towns is expected to increase substantially after the introductory first phase. The verifiable indicators for Programme purpose and the definition of results and activities in Sections 2.3 and 2.4 below are applicable for Phase I only. The objectively verifiable indicators for achievement of the Programme purpose are:

- ❑ water supply schemes in at least five Programme towns provide reliable 24 h/d supply of water meeting the Vietnamese drinking water quality standards and, pending only on the households' willingness to connect, the service coverage of the piped water schemes in the Programme towns is close to 100%, poorer population strata provided with equal opportunities to connect to WSS systems (possibly making use the provision to include their connection costs in the financing package);
- ❑ organisations responsible for water and wastewater facilities in the Programme towns are capable of managing their operation, maintenance and investments in a sustainable and financially viable manner, and are supported – as needed – by their respective PPCs and PWCs;
- ❑ a plan to ensure the availability of unpolluted raw water in small towns of the coastal Red River Delta has been completed; and
- ❑ plans to collect wastewater in Programme towns and to treat it to comply with the national environmental standards have been prepared and three pilot schemes have been implemented.

2.3 Results

The results of the WSPST have been defined only for Phase I in this Programme Document. The results for later phases and, consequently, for the entire Programme, will be defined during Phases I (for Phase II) and II. The results of Phase I will be:

- ❑ Result 1: New piped water supply schemes have been constructed and are properly operated and maintained in at least five Programme towns, and construction works are ongoing in at least four to six towns. In support of water supply schemes beyond 2006, a flexible, efficient, transparent, and demand-driven financing mechanism has been designed.

- ❑ Result 2: Management of water supply and sewerage/drainage systems in the Programme provinces has been improved to ensure sustainable, efficient and transparent water supply service.
- ❑ Result 3: Adequate supply of safe raw water for potable water production has been secured for the foreseeable needs of the Programme towns.
- ❑ Result 4: Pilot drainage and sewerage schemes and experimental treatment facilities have been constructed in at least two to three Programme towns.

The indicators for Result 1 (new piped water supply schemes) are:

- ❑ potable water production capacity of at least 100 lpcd, with treatment process applicable to the requirements set by the characteristics of its raw water, is available, operation and maintenance (O&M) guidelines have been prepared (in writing) to guide operations in each water treatment plant, and these guidelines are respected in daily operations;
- ❑ water distribution networks have been carefully constructed to fully cover the urban area of the Programme towns, and – as the networks are also properly maintained – the systems demonstrate UFW levels at or below 20%;
- ❑ the capability of local consultants has been strengthened in order to achieve a snowball effect, i.e., continuous, locally financed improvement of small town water supplies throughout Vietnam;
- ❑ the standard of water supply system design and construction has been upgraded in the Programme towns to meet Vietnamese standards and to facilitate long term sustainability of the constructed systems, and design and construction are based on realistic estimates of gradual development of the number of connections and water use; and
- ❑ financial sources have been made available at sub-commercial credit conditions to the water supply scheme, implementing agencies that are fulfilling all eligible demands in a timely manner (maximum three months between approved appraisal of feasibility study and signing of loan agreement with the implementing agency (“Client”). By mid 2005, before the Mid Term Review of Phase I, a flexible, efficient, transparent, and demand-driven financing mechanism has been designed and approved by the GoV and the MFA. The approval of the financing mechanism is a pre-condition for the release of the 2007 investment funds, which will follow this new mechanism. The financing mechanism encourages competition between eligible implementing agencies.

The indicators for Result 2 (management of WSS systems) are:

- ❑ The operation of the water schemes in Programme towns has been optimised, i.e., continuous supply of potable water up to the Vietnamese water quality standards is provided, with a supply pressure sufficient to bring the water to at least the 3rd floor, and thereafter with a minimum of cost;
- ❑ water supplied is safe (100% of analysed samples meeting hygienic water quality criteria) and reliable (service 24 hours per day and average consumer affected by interruptions of supply for less than 100 hours per year);
- ❑ water tariffs cover O&M and recover capital investment costs to a level which is acceptable and affordable for the water users;
- ❑ access for the poor to water supply services has been ensured by including the connection charges for the poorest in the initial investment cost;
- ❑ all the people in charge of various management, operation and maintenance functions of the water supply systems in Programme towns have a clear understanding of a well functioning water supply service, as well as their personal role in providing such service for their respective towns;
- ❑ a functioning management model has been developed for small water supply utilities in Programme towns by combining the best features of the PWC driven

model, the PCERWASS driven model the DOC driven model and other models already used, and then adding another feature of consumer representation in the decision making (board);

- ❑ customers are satisfied with WSS services in Programme towns and have adopted improved behaviour and practices on the use of water supply;
- ❑ organisations responsible for management and O&M of WSS facilities in Programme provinces receive adequate policy and technical support from PPC and PWC;
- ❑ guidelines have been developed and approved to instruct full coverage of costs, including capital costs, in water supply, yet providing mechanisms to ensure the provision of the WSS services to the urban poor;
- ❑ guidelines have been prepared, based on experience of best practices, for the organisation of small town WSS utility management in a sustainable, efficient and transparent manner; and
- ❑ guidelines and model documents have been prepared, based on experiments, for the protection of consumers/customers of urban WSS utilities;

The indicators for Result 3 (raw water study) are:

- ❑ groundwater resources in the eight provinces of (the southern) Thai Binh-Red River Delta have been screened for applicability (adequacy and quality) for water supply purposes;
- ❑ the potential for provincial/inter-provincial co-operation in the field of groundwater exploitation has been assessed;
- ❑ a survey on quality of surface water and pollution hot-spots in the vicinity (up-stream) of the Programme towns has been carried out, most applicable water sources for water supply selected, and source protection measures planned;
- ❑ a water quality monitoring system planned for Programme provinces in collaboration with MOC, MNRE and provincial DOSTEs; and
- ❑ adequate capacity to undertake water quality analyses, besides normally applied ppm level analyses even in nano concentrations, especially relevant when tracing pesticide and industrial residuals (hazardous substances) in natural water-courses, groundwater and potable water.

The indicators for Result 4 (pilot drainage and sewerage schemes) are:

- ❑ experience has been gained and analysed from pilot drainage and sewerage schemes – with Combined Sewer Overflow (CSO) or separate sewerage systems) designed and implemented with grant financing in one to two Programme towns;
- ❑ experimental treatment facilities have been designed and implemented for “hot spots”, e.g., hospitals or industrial effluent, in one to two Programme towns; and
- ❑ the capability of local consultants has been strengthened in basic drainage and sewerage design, so far relatively uncommon in Vietnam.

2.4 Activities

Planning of activities in project preparation is justified for drawing up a tentative timetable, calculating the necessary physical and non-physical resources, and for drawing up the budget. In the preparation of the Water and Sanitation Programme for Small Towns in Vietnam, the timetable, resources and budget have been estimated and drawn up on experience from relevant programmes and projects and on assumptions (see Section 3) on the pace of Programme mobilisation and implementation.

To maintain necessary flexibility in the implementation of the Programme and in order to encourage “result orientation” as opposed to “activity orientation”, the Programme activities shall only be defined by the decisions of the Steering Committee, assisted in this duty by the Management Consultant (see Section 5.3) on an annual basis together with annual Programme Budgets. During the inception phase (and later in annual planning), the Steering Committee, on the basis of proposals submitted by the Management Consultant (MC) shall consider establishing performance criteria for the delivery of TA packages, in addition to the performance indicators related to the results.

3. Assumptions and Risks

There are different types of external factors which might adversely affect the results of the Programme. In the below paragraphs the risks and corresponding assumptions have been organised under subject groups: socio-economic environment, institutional environment, technical and financial aspects and consumer aspects.

3.1 Socio-economic Environment

Information on socio-economic parameters has been collected from official statistical books and from national, provincial and district authorities through interviews. This information has been used to establish the baseline and result indicators for the Programme on economic development, poverty, and access to potable water and sanitation facilities. If the baseline information is incorrect, the Programme might be directed towards the wrong beneficiaries. If the information is not consistently available during the lifetime of the Programme, the evaluation of the results will become unreliable. The risks associated with the reliability of data and information have been addressed in Programme design by, e.g., proposing a phased start with an Inception Phase and emphasising flexibility throughout the Programme period. Moreover, it is assumed that it will be possible to collect reliable data and information throughout the life of the Programme for correct assessment of obtained results.

Economic development is a pre-requisite for the development of the industrial and commercial sector in the Programme towns ensuring that future water users have sufficient income to afford unrestricted volumes of potable water from piped water schemes. A downturn in economic development could negatively affect the industrial and business development in the Programme towns and decrease the available income of the water users. As the economic growth has been impressive in Vietnam and there are no major problems foreseen, it is assumed that this positive economic development continues throughout the lifespan of the WSPST. More particularly it is assumed that CPRGS targets related to the efficiency of resource utilisation, job creation, reduction of vulnerability, gender equality and good governance are achieved. These are areas that are beyond the scope of this Programme.

The Programme towns will be selected on the basis of requests and the Programme will respond to the demand on the basis of the compliance of the towns with a set of eligibility/prioritisation criteria (see Section 5.1). Yet, there is a risk that towns in the Programme provinces expand to unpredicted locations at an unexpected pace, and industrial establishments will be established in areas planned only for residential use. Moreover, there is a further risk that the development of infrastructure, for example roads, will not be implemented in compliance with land use planning and in co-ordination with other sectors, e.g., water supply and sanitation. The water supply investments will be financed by soft loans, emphasising the local ownership and responsibility for the investments. The WSPST will have to do its best to co-ordinate the development of water supply and sanitation with the overall planning and development of the Programme towns and to make sure that the forecasts used in the water scheme planning have been correctly presented by authorities and are adequately used in the future water use projections. Furthermore, it is assumed that the urban planning in the Programme towns is

based on realistic forecasts and estimates of the future population and is consistently applied and enforced by respective authorities.

3.2 Institutional Environment

The WSPST has been designed based on an assumption that the governments of Vietnam and Finland sign the framework agreement in 2003. This would facilitate the mobilisation of the Programme by the second quarter of 2004. A failure to sign the agreement on time might risk the schedule and the resources and, at worst, the entire Programme.

In a dynamic transition process in Vietnam, with sudden leaps forward and, sometimes, steps backward, there is a problem with the unpredictable regulatory framework. Unexpected regulations, e.g., concerning the private sector may be put in place and prohibit the private sector to play a role in the water sector. The Programme design with a component supporting policy development at the central level aims at facilitating consistent and predictable development of the operating environment for small town water supply and sanitation systems. It is further assumed that any substantial changes in the policy and regulatory framework are made in a transparent manner and in consultation with the Programme.

One of the key results of the Programme is related to the development of small town WSS utility management. If the establishment of a new public or a private water supply company is made administratively too cumbersome, it may delay effective investment decisions. It is, therefore, assumed that the PWCs in the Programme provinces are willing and prepared to expand their operations in smaller towns or provincial authorities allow the establishment of water supply companies at the district/town level without administrative difficulties.

Another key result – and a precondition for the release of the 2007 investment funds – is the establishment of a new financing mechanism. Failure to agree upon this mechanism would seriously affect the Phase I of WSPST and make the continuation of the Programme unfeasible.

One of the most obvious risks is that the provincial authorities impose low water tariffs, which make effective operation and necessary maintenance of the water supply system impossible for the operator. The Programme encourages continuous dialogue between the Provincial authorities and the Programme specialists but the decisions upon tariffs will definitely remain the responsibility of the authorities. It is assumed, then, that the relevant utilities, either existing PWCs or new Programme town water supply companies will be able to operate as commercial companies. The Provincial authorities would need to allow the companies to collect water tariffs that can sufficiently cover the necessary operation and maintenance costs and investment costs or are committed to subsidise these companies so that they can operate as financially viable enterprises.

In addition to sufficient revenues (or other sources of finance), sustainable O&M of the WSS facilities call for adequate human resources. If the utilities are allowed to operate as commercial companies, it is likely that they will be able to attract and retain reasonably qualified staff. The Programme will also extend capacity building to the management and staff of the WSS utilities in the Programme towns. It is assumed that sufficient and qualified staff can be ensured for WSS operation.

The WSPST is a flexible framework programme that will be directed on an annual basis, on the basis of the requests from candidate provinces /towns and building on the experience gained from the Inception Phase and annual Programme implementation. However, there may be a risk of misunderstanding of the Programme concept by stakeholders and this could lead to delayed and inefficient implementation of the WSPST and unsustainable operation of the schemes in the future. Another, related risk is that there is insufficient interest in or de-

mand for the support provided by the Programme, for example in the case of small town water supply and sewerage and inter-provincial co-operation in raw water supply. Especially the MC and MOC would have to promote the Programme concept and expand the Programme to be approached by a higher number of provinces/towns. It is assumed that all stakeholders understand and agree about the Programme concept and feel strong ownership for the Programme: both governments, the relevant PPC, DPC, WSC, the TA consultants and the water users.

The WSPST is a relatively complicated framework programme with several components and implementing agencies but without a clear lead implementing agency. The co-ordination of the Programme is a challenging task, calling for strong commitment and motivation of the SC members and high professional capability and credibility of the MC. Due to the lack of the lead Implementing Agency, the programme set-up is based on the lead role of the SC with assistance of the MC. If this set-up proves inefficient the SC may appoint a Programme Director or special task force(s) as deemed necessary.

The intended flexibility of the WSPST has been limited by slimming down the unallocated funds, especially Additional TA. There is a risk that unexpected needs and requests in the urban water supply and sanitation sector in Vietnam can not be acknowledged under the Programme umbrella. If such problems are encountered in the implementation of Phase I, lessons should be learned and corrective measures taken in the preparation of Phase II.

The Programme will have components both at the provincial (and town) level and the central level. These components are strongly interlinked, experience from new concepts and mechanisms to be tested in Programme towns should be utilised at the national level. The main responsibility for successful use and replication of the field experience will rest with MOC. It is assumed that MOC is committed to sharing and disseminating the small town WSS experience.

3.3 Technical and Financing Aspects

The result related to raw water assessment and planning is based on the present understanding about the availability of ground and surface water of adequate quality. The rationale of the proposed raw water study will depend on the findings of more thorough analysis of more comprehensive data. Information from Haiphong, Thai Binh and Hung Yen provinces suggests that groundwater in the area is largely polluted and/or saline and unusable. It is assumed that the Red River Basin Water Quality Monitoring Sub-project, supported by ADB (2001), will not provide adequate data base for raw water sources assessment. The results of the study are expected to be available in the first half of 2004. If this assumption proved to be wrong, the proposed raw water study would probably be excluded from the Programme.

The scope of the raw water study will be limited to studying and possible planning of inter-provincial co-operation. The Programme budget (for Phase I) does not include any reservation for the design and construction of raw water systems or facilities. It is assumed that financing will be made available for the implementation of the raw water plan, including source protection measures, from Vietnamese or international sources, if the plan confirms the feasibility of such undertaking.

The financing of water supply investments under the WSPST is based on a new financing scheme concept, whereby the Ministry for Foreign Affairs, Finland (MFA) provides seed capital as a grant. A crucial precondition for this arrangement is that the onward lending conditions are in harmony with other domestic infrastructure lending and that there will be an organisation capable of properly appraising feasibility studies and managing well the financing scheme.

It is also assumed that the Clients accept to assure the availability of at least 15% of the total investment cost for new piped water supply schemes.

It is imperative for the successful implementation of the WSPST that both Finnish and Vietnamese allocations and contributions are made available on time. Otherwise the WSPST could be delayed or cancelled. It is assumed that both Finnish and Vietnamese authorities will be able to assure their agreed contribution for TA and investment components in the WSPST.

3.4 Consumer Aspects

If consumers were not sufficiently consulted before the investment decisions, there would be a high business risk involved. Especially in small town people might prefer using their individual water supplies – especially if they do not perceive particular improvement needs. Similar problems could be encountered if the financial means of the customers were not properly assessed. As a result, the water supply scheme would not be financially viable in the long run. The WSPST emphasises the role of the customers in its approach and in the prioritisation of the towns for the Programme. One of the basic principles of the Programme is that the decision for water supply investments would not be imposed in the proposed Programme towns; instead the decision to go ahead with the investment would be based on the capability and willingness of the future water users to pay for the connection and the water tariff. It is necessary, therefore, to assume that sufficient towns, where future water users are willing to connect and pay for the water of the piped water scheme, can be identified within the proposed Programme provinces.

In addition to the risk of inadequate tariffs (see Section 3.2 above), there is another risk associated with tariffs that might be too high to attract a wide consumer base and adequate volumes of water to be consumed. In addition to the willingness to connect and pay for water, an additional assumption is that water tariffs will be high enough to cover the O&M costs and the whole or part of the investment cost and loan servicing cost up to a level that the future water users are able and willing to pay.

4. Compatibility and Sustainability

4.1 Compatibility with the Strategic Goals for Finnish Development Co-operation

The current policy objectives of the Finnish development co-operation are defined in three documents: *Decision-in-Principle on Finland's Development Co-operation* (1996); *Finland's Policy on Relations with Developing Countries* (1998); and *Operationalisation of Development Policy Objectives* (2001). According to these policies and strategies, the main goals of Finnish development co-operation are to:

- increase global security;
- reduce widespread poverty in the developing countries;
- promote respect for human rights and democracy;
- prevent global environmental problems; and
- increase economic interactions of developing countries.

The WSPST aims at securing clean water supply for densely populated small towns which may attract new inhabitants (migrants). The new piped water supply schemes as such do not assure poverty reduction. Therefore, in Programme planning, it has been crucial to ensure that as many poor households as possible benefit from the Programme. In the selection of Programme towns, poverty aspect will be addressed in the selection/prioritisation criteria. The investment financing has been planned in a manner, which will assure that also the poorest

households will have a fair opportunity to connect to the new water supply schemes at an early stage. Both at the global level and in Vietnam, the provision of water supply and sanitation is among the priority MDGs.

Easily accessible water of high quality will contribute to the economic efficiency of poor households, as much time will be saved from collecting water from a distance. This is also likely to result in improved public health in the Programme towns. Improved access to water will also increase the time available for economic activities or attending the school, which both have a straightforward positive impact on poverty reduction. Another positive factor for poverty reduction is that industrial and commercial development will take place in towns with good infrastructure.

As mentioned in Section 1.3, the poor often remain unserved by piped water supply schemes because they seldom have resources to pay for the connection cost. In the WSPST, the investment financing has been planned in a manner, which will assure that also the poorest households will have a fair opportunity to connect to the new water supply schemes at an early stage.

Well planned and executed water supply schemes contribute to better urban living. It is also expected that central level policies will assist the local authorities to conduct better, more transparent and more effective urban planning and resource allocation and management. The WSPST also addresses the consumers' right and emphasises increased consumer participation in WSS investment design and management that will contribute to more transparent decision making. Thus, the Programme has a clear link with the promotion and respect of human rights and democracy.

The WSPST addresses also environmental issues. It aims at mitigating the negative upstream impacts on water supply in the downstream provinces of the Red River delta and it also aims at developing wastewater reticulation and treatment in Programme towns. The environmental aspects are discussed in Section 4.8.

All above mentioned issues contribute to the increased security and peaceful, positive development of the Vietnamese society. One important indicator for the overall objective of the WSPST is the elimination of slums in bigger cities through diverting migration to Programme towns from the surrounding rural areas.

It has been left open where the Programme towns purchase the equipment or investment goods needed for building WSS schemes. They will have an open opportunity for local or regional instead of tied procurement from Finland or EU.

4.2 Policy Environment

The WSPST has been designed to respond to the policies and priorities of the GoV, particularly the Comprehensive Poverty Reduction and Growth Strategy and the sector strategies (*Orientation for the Development of National Urban Water Supply System till the Year 2020* and *Orientation for the Development of Urban Sewerage in Vietnam up to Year 2020*).

In CPRGS, the economic growth and measures to solve social problems are chosen to be the key objectives. Without growth the State cannot generate enough resources for poverty reduction. The design of the Programme is based on Vietnam's Millennium Development Goals. The GoV aims at ensuring pro-poor infrastructure development. Sustainable access to safe drinking water is one of the key elements. For the urban areas the access to safe drinking water should reach 60 % by 2005 and 85% by 2010. The wastewater in towns and cities should be treated by 2010 and water pollution must attain the national standards by 2005.

Due to the scheduled start of the WSPST in 2004 and the provincial level activities in its latter half, it is impossible to achieve the targets set for 2005 in the Programme towns. The Programme and Phase I will, however, contribute to the achievement of the 2010 targets. In the Programme towns (at least for in Phase I) where piped water supply schemes have been completed, the access to safe drinking water is expected to be close to 100%. The Programme will also pilot wastewater collection and treatment in small towns, much ahead of the vast majority of Vietnamese small towns.

While the “orientations” and other sector policy statements quite clearly show the policy directions, there is a highly perceived need for strategies and guidelines (road maps) to provide more concrete guidance with realistic approach and schedule how to attain the ultimate objectives. Phase I also aims to provide limited policy support to MOC, the lead sector ministry. The most urgent aspects, according to MOC; are sector reorganisation at all levels and a phased road map for tariff development towards full cost recovery. These needs have been addressed in the Programme design.

4.3 Economic and Financial Feasibility

The WSPST will focus on both investment support and on intangible support. The economic results of the intangible inputs (TA) can be assessed from the improved and more effective WSS practices and from the better-informed and educated consumers. The financial results from the intangible inputs have an effect on WSC operating environment, both on price setting and on consumers’ preparedness to pay for WSS services.

The investment support is targeted at infrastructure construction, essential for boosting the local level development that would otherwise lag behind its potential. The economic consequences of improved water and sanitation quality can more accurately be estimated only after the Programme towns are determined. However, the economic results in Programme towns can be expected to have an important catalytic role.

A developed urban infrastructure provides the Programme towns with better possibilities to host productive sector enterprises. The economic development will advance in the areas with suitable location, and provision of basic infrastructure services including electricity, water and sanitation, transport and telecommunication. Creation of job opportunities and improved living environment will help provincial and small towns provide a buffer for migrating rural population and, thus, avoid people flocking in the major cities and increasing the urban poverty there.

The financial feasibility is based on realistic cost estimates and on consumers’ willingness and ability to pay – not only for the water they use – but even for the collection and basic treatment of wastewater treatment, including capital as well as operation and maintenance costs. The WSC management and operating environment (PPC and DPC) have to have clear understanding about pricing practices and cost-benefit analysis.

Traditionally, Vietnamese water users have been provided with water supply at heavily subsidised prices. For the last 10 years this policy has changed towards cost recovery of operational costs in the first stage and both O&M and capital costs in the second stage. At present, the GoV is basing its infrastructure development plans on full cost recovery for water supply. For sanitation and sewerage, only the first stage – recovery of O&M costs – is gradually being introduced in a limited number of large cities. The strategy of the GoV is to proceed towards full cost recovery also in drainage and sewerage services in the course of this Programme’s lifetime. The above implies that, in the long run, the investment cost of water supply infrastructure investments will have to be borne by the end users. For sewerage and drainage, the investment cost will continue to be subsidised by the central Government budget, whereas the O&M costs would be paid by consumers.

4.4 Institutional Capacity

One of the risks identified in Section 3.2 is the ability of the WSS utilities in the Programme towns to attract and retain reasonably qualified staff. This is an issue that the Programme will have to address and encourage provincial, district and town authorities to facilitate the utilities to be able to compete for qualified staff.

The two initial Programme provinces were selected from a short list prepared by MPI on the basis of a multi criteria analysis. Also the anticipated capacity to implement the Programme was taken into account the selection.

The institutional capacity to implement Programme components may be a bottleneck but the capacity limitations are even more critical to the sustainability of the Programme results. Consequently, capacity building and development of transparent and participatory mechanisms are essential for sustainability. The development of the local capacity at the national (MOC), provincial (DOC and PWC) and town levels (WSS utility) is built in the Programme in the form of results and indicators.

4.5 Socio-cultural Aspects

The Red River Delta is one of the two of biggest rice-farming regions (the other is the Mekong Delta) in Vietnam. Even with rapid urbanisation and industrialisation, this area will remain an agricultural-based society, since a large share of the population is relying mostly on family-run self-subsistence farming. Many households will continue to be poor and most will remain vulnerable because of the agricultural productivity needs and shifting levels of needs over their life cycle. However, some of their vulnerability will be reduced with the WSPST because poor households will have the opportunity to have access to clean and safe drinking water.

Controlled mobility and lack of access to resources strengthens community and family solidarity. This social kinship system should be explored as an option of providing water supply to poor households and communities particularly those who reside near each other or are in one area. These poor households can be organised to contribute together money for a communal piped water network so that connection cost becomes more affordable

Another feature of Vietnamese societies is that most household members belong to local organisations or mass organisations that provide help or welfare to them and their family members. These socio-political community-based or mass organisations will be one of the networks the WSPST will work with particularly in information dissemination and improving health and hygiene practices to maximise the impact of clean and safe water supply. The Women's Union is one of the most notable among these mass organisations. Their network of women forms a powerful link for information flows from the central government to the most remote areas. They also have very strong influence in improving the households' health and hygiene thinking and behaviour through the women, particularly the wife. Having a strong women's network will ensure sustainability in terms of health and water demand.

The extended family remains highly important in the Vietnamese culture as the primary source of support system, particularly support for cash. Many families with relatives living abroad send money transfers to their Vietnamese families. Exchanging labour time among households, particularly to cope with seasonal or unexpected labour shortages, is a long-time honoured tradition in Vietnam.

4.6 Participation and Ownership

It is quite common in Vietnam that the consumers consider information on infrastructure very limited and not readily available to them. Most common information provided is on the financial payments and labour contributions they have to commit and contribute. Consumers are not satisfied with this type of limited participation and they express strong desire for greater involvement in planning and managing infrastructure and services, such as water supply system. Participation creates opportunities for poor people thereby reducing poverty by:

- ❑ making the poor to be part and parcel of the decision-making process;
- ❑ allocation of resources are distributed so that the burden of cost is not heavy on poor communities (e.g., connection cost);
- ❑ strengthening the role of local representatives, i.e., consumer representatives in the Management Board, on supervision and management of water supply management schemes;
- ❑ improving access of the poor households/consumers to basic utilities such as water supply;
- ❑ establishing a process for improving accountability of local authorities in planning and budgeting by allowing consumers to question and provide feedback; and
- ❑ addressing corruption by allowing consumers review O&M expenses and compensation packages of water supply management schemes.

The commitment of the proposed provinces and potential districts and towns in these provinces has not been thoroughly assessed in terms of the acceptance of and commitment to the Programme approach and conditions. This has to be ensured during the Inception Phase.

This Programme Document was prepared in close collaboration with representatives of MOC who contributed substantially in the formulation of the central level TA. MOC has shown strong ownership for the WSPST and has indicated that it would provide office space needed for the relevant TA team.

The WSPST emphasises participation and ownership at all levels. The Programme approach, while being flexible, invites provinces in the first place and small towns in these provinces to participate in the Programme. The towns will not be determined from outside; instead it is anticipated that they would compete for being included and selected on the basis of criteria that include poverty reduction, commitment, ownership, etc. It is believed that the views of the potential customers need to be surveyed prior to investment decisions (market surveys), in order to avoid mis-investments. A step-by step method for the assessment of the commitment is described in Annex 4. After the completion of construction, customer participation is expected to contribute to more sustainable system operation and facilitate realistic tariff setting.

4.7 Gender

In Vietnam, households are most often represented by men and it is them who are the registered heads of households. Men also attend meetings and make decisions for the family because it is perceived that there is no need to seek women's views separately from their husband. However, women complain that the responsibility of bringing water to the house and supervising how water is allocated and used by the members for different purposes remains their domain and problem. Similar issues in water supply and sanitation may be raised by both men and women, but the women would often put a different perspective on presenting the same issues based on their unique needs associated with her gender.

Having access to piped water supply clearly decreases the daily burden of fetching water for the whole family by women and children and gives them time for to engage in other activities and, to some extent, provides them some opportunity of opening small livelihood activities.

In terms of health, women and children are more vulnerable and at risk to diseases if the source of water supply is unsafe. Women get easily affected by gynaecological diseases and children with intestinal and skin diseases. Having a safe and reliable water supply system will help eliminate these health risks.

WSPST will ensure through a process of consumer consultation that women will be part and parcel of the decision-making for household or communal connections and water tariff price that are affordable. And most importantly, involving women ensures sustainability on issues of health of family members and financial viability of piped water supply schemes because they will make sure that demand in the household for drinking and using clean, safe and convenient piped water for all their daily needs.

4.8 Environment

Especially Thai Binh and Hung Yen suffer from environmental pollution. The water in the Red River is polluted in the upstream catchment area by industries and human settlements as well as pesticides and fertilisers. Along with ever improving analytical methods the understanding of long term impacts of very low (nano) concentrations of pollutants develops. The raw water study will build the capacity to monitor the Red River ecosystem more thoroughly and propose measures to mitigate the negative upstream environmental impacts on the downstream provinces. Bac Kan, as an upstream province, is in better situation in this respect.

At the town level, the Programme aims at introducing drainage, sewerage and wastewater treatment technologies and mechanisms that would be applicable and affordable. The urban environments would be improved at various levels, household, neighbourhood and town levels, due to wastewater collection systems and also in the surroundings, due to wastewater treatment. The positive environmental impact of this activity will not be limited to the Programme towns, as the experiments are expected to result in national guidelines and instructions, and larger scale replication.

4.9 Appropriate Technology

The water supply technology has developed rapidly in Vietnam for the past ten years. The technology to be applied in small town water supply is rather conventional in Vietnam. There is a tendency in Vietnam to economise in the construction of water supply systems by using cheap, often substandard, materials and equipment, at the expense of sustainability. However, substandard technology eventually turns out to be more costly than quality construction, due to higher operation and maintenance costs and shorter life time of the investment. The technology issues have to be addressed in detailed design and specification of materials and equipment. The availability of spare parts will have to be accordingly taken into account.

The separate sewerage and wastewater treatment technologies are rather uncommon in Vietnam. The development of appropriate applications is one of the key areas of the Programme. The applicability of technology alternatives will be tested under the Programme and lessons from the first implemented systems will be taken into account at later stages.

The development of appropriate technology will be one main challenge of the first phase of the Programme. The applied technology shall provide long-term reliable service at an affordable investment and O&M cost. Tentatively, the appropriate technologies for the new water supply and sewerage/drainage systems have been determined as follows:

- water intake: three drilled 40 m deep boreholes, with screens in plastic and submersible pumps and rising mains in stainless steel (groundwater scheme) or in-

- take chamber by bricks/concrete with robust submersible pumps (surface water scheme);
- ❑ water treatment process: aeration, pH adjustment, chemical coagulation, sedimentation, rapid filtration, disinfection and sludge thickening (groundwater scheme) or the same without aeration, with higher filtration capacity (surface water scheme);
 - ❑ plant: internal piping of steel with manually operated valves, tanks in steel or in reinforced concrete, housing of bricks, high quality electrification, minimum level of automation, and basic water quality control equipment;
 - ❑ water distribution network: main pipelines 100-300 mm in ductile iron or imported PVC, distribution pipelines 50-80 mm in high density polyethylene (HDPE) with imported fittings, and house connections 15-40 mm in HDPE with imported fittings or galvanised pipe, and good quality consumption meters;
 - ❑ drainage and sewerage network: septic tanks and sewers from each house connected to PVC/HDPE/PP block/lane sewers discharging to main sewers made of concrete pipes or brick culverts ("CSO", combined sewer overflow system), or polyvinyl chloride (PVC), HDPE or polypropylene (PP) sewers from each house connected to block/lane sewage pumping stations discharging to plastic main sewers installed under the main streets next to drainage culverts (separate sewerage system);
 - ❑ wastewater treatment: removal of biological oxygen demand (BOD) and chemical oxygen demand (COD) by an aerated lagoon, dimensioned to treat sewage flow and "first flush" (CSO system) or sewage flow only (separate system).

5. Implementation

5.1 Approach

The approach of the WSPST is based on five fundamental principles:

- ❑ flexibility and streamlined administration, and responsiveness to demand, leaving the selection of towns to be based on demand and eligibility, instead of determining where the Programme towns should geographically be located;
- ❑ sustainability and replicability of the pilot schemes (the intention is to test innovative ideas and gain hands-on experience for large-scale replication);
- ❑ a combination of concrete field activities (investments in WSS facilities) with supportive and capacity building technical assistance and research;
- ❑ a focus on involvement of consumers throughout the lifespan of WSS systems to express their expectations on service and service levels and to actively participate in the management of the systems; and
- ❑ attention for the specific problems of poor households².

An integral aspect of the Programme, implemented at the central and local levels, is parallel operationalisation of general policies and guidelines and development of utility management models involving substantial customer focus, and project preparation and implementation procedures. This approach aims at testing new innovation in the field and gain hands-on experience before large-scale replication.

This Programme Document for the first phase of the WSPST outlines the objectives and the structure of the Programme, leaving much of its fine tuning at a later stage, to be decided upon during the Inception Phase and in annual work planning. This establishes special re-

² Therefore, one condition associated with obtaining the loans is that the cost of house connections of poor households shall be included in the initial cost estimate (maximum 5% of the total investment) and will therefore become part of the loan amount for the investment.

quirements for the stakeholders and the Management Consultant (MC) who will assist the stakeholders in planning, budgeting, procurement, monitoring and reporting. The key stakeholders (MFA, MPI, MOC and provinces) should be signatories for the "rules and conditions" of the Programme, to be defined during the inception period. In order to maximise the efficiency and impacts of the WSPST, the MC should identify the possibilities for sharing training, management models, reporting models etc. with other relevant undertakings in Vietnam.

In general, the WSPST is based on grant financing. However, as the GoV is in the process of encouraging water utilities to collect revenues sufficient to cover also capital costs and loan servicing, the WSPST will not disturb this process by providing grants to water supply. Instead, the WSPST will include the establishment of a new financing mechanism. The grant funds from the Finnish budget will be further on-lent to the investors. For the pilot piped drainage and sewerage systems the aim is to charge tariffs that cover the O&M costs. It is estimated that during Phase I the tariffs may not be able to cover the capital costs. Consequently, the capital will be mainly on-grant to the investor for drainage and sewerage. The decision on on-granting the investment costs in part or in full, will be made in the appraisal of the corresponding FS.

The Programme design has taken into account the specific problems of poor households. Experience and studies carried out in Vietnam point out that the critical factor limiting the possibilities of poor households to connect to piped water supply systems is the cost of house connection. Therefore, one condition associated with borrowing from the financing scheme is that the cost of house connections of poor households shall be included in the initial cost estimate (maximum 5% of the total investment) and will therefore become part of the loan amount for the investment. An alternative to the free connections for the poor would be to allow the connection cost of the poor to be recovered over a longer period of time or subsidised up to a certain limit. The desired result is to avoid excluding poor households from connecting to the piped WSS systems because of lack of financial means. The exact modalities for achieving this will be agreed during the inception phase with the respective PPC and DPC.

The detailed eligibility criteria for the poor to qualify for this arrangement will be developed during the Inception Phase. It is anticipated that Participatory Poverty Assessment (PPA) workshops will be conducted to define *what is poverty*, based on the real situation in respective town and province, and identify *who and where are the poor* households in the town to be served by the proposed piped water scheme. The members of the communities intended to be covered by new schemes will participate in the PPAs. There should be a good and balanced representation, if not all community members of the different income levels, gender and economic groups in the communities. The end products may comprise a definition of poverty and a poverty map of the district town locating the poor households.

The Government of Finland will sign a framework agreement with the MPI about a financing scheme to finance WSS investments in small towns. The framework agreement will state the basic principles, including:

- the duration of the arrangement;
- the size of the financing scheme;
- sequencing of Finnish disbursements;
- on-lending rules;
- the revolving nature of the capital (availability of returned capital to other towns and provinces);
- use of interest revenues and capital reimbursements;
- the institutional arrangement of the financing scheme;
- management structure; and
- monitoring and reporting.

The borrowers (clients) will be provincial water supply companies, which, in turn, can subcontract district water supply companies or private investors. When applying for a loan the client would need to provide the following supporting documents (with help from TA):

- ❑ a FS/investment plan, which includes a PWC business plan with five-year investment projections;
- ❑ a ten-year cash flow calculation for the PWC with planned customer coverage by sub-regions;
- ❑ a consumer survey report confirming willingness to connect and pay the connection fees and tariffs; and
- ❑ a letter signed by the representative of the client guaranteeing that at least 15% of the total investment will be made available (and adding the proof of these available funds).

It is envisaged that an average size of a loan will be from EUR 300,000 to EUR 600,000. For budgeting, an average of EUR 500,000 has been used in calculations. It is likely that there will be loan applications/investment needs bigger or smaller than the envisaged average size.

The funds will be available to eligible towns/provinces. Initially, the Programme will build capacity and promote the concept in three Programme provinces – Thai Binh, Hung Yen and Bac Kan³ – and it is anticipated that the first loans will be extended to eligible towns in these provinces. However, if there are serious problems in terms of eligibility or pace of progress in the Programme provinces, other interested and eligible towns from other provinces may be given a higher priority. In later phases, it is expected that the financing concept can be replicated in higher numbers and with decreasing TA inputs.

The initial eligibility and preference criteria for the inclusion of towns in the Programme are:

- ❑ end beneficiaries must have been consulted and the tariffs accepted by at least a majority of 80 % (by the end of the day, it is the consumers who will pay and sustain the viability of piped WSS schemes);
- ❑ respective TPC/DPC/PPC ensure that poorer population strata will be provided with equal opportunities to connect to WSS systems (possibly making use the provision to include their connection costs in the financing package);
- ❑ beneficiaries must be willing to connect to WSS systems and to pay for the service according to tariffs set to cover full O&M costs of the said service and an additional amount for future re-investment, to be determined in the FS, reviewed and agreed by the MC in accordance with the relevant GoV policies;
- ❑ a tariff structure has been prepared and approved that clearly identifies possible cross subsidies to be applied;
- ❑ the mode of the beneficiaries' participation in the management of new WSS schemes to be constructed under the Programme has been agreed upon between relevant authorities;
- ❑ future O&M responsibilities have been clearly defined between WSC, TPC, and a possible third party, and agreed upon in writing;
- ❑ an expression of interest must be signed by the Heads of the Peoples' Committees in candidate communities and by the Director of the WSC, confirming the acceptance of the rules and regulations of the Programme;
- ❑ all participating towns must have one or more urban settlements with a design population of at least 4,000;
- ❑ clusters of eligible towns will be given preference, the target being set at having a minimum of three Programme communities in each Programme province;

³ The only small town water supply investment in Haiphong Province will be the pilot project in Minh Duc town. This will be grant financing under the administration of the World Bank.

- land use rights and site clearance needed for implementation of the Programme will be provided by the Provincial/Local Government; they can be regarded as equity contribution to the project and can account for part of the required 15% Vietnamese contribution to the investment budget of water supply scheme investments; and
- funding will only be used for the purposes laid out in the Programme overview.

As mentioned above, the Programme will be launched in the four Programme provinces⁴. The efficiency and effectiveness of the Programme are intended to be intensified by having a geographical focus in the beginning. The Programme provinces would be the focus of Results 1 (new piped water supply schemes), 2 (WSS management development) and 3 (pilot drainage and sewerage schemes). Moreover, the Programme provinces would be major beneficiaries of Result 4 (raw water study). However, the activities of the WSPST will not be limited to these initial Programme provinces; selected activities can be extended to other areas. The flexibility of the approach will allow, for instance, the extension of capacity building to any provinces or towns where WSS investments are financed with Finnish concessional credit. Moreover, the WSPST may later adopt additional Programme provinces.

As an example of the inclusive and flexible nature of the WSPST, the first investment to be financed under the Programme will be a pilot small town scheme in Minh Duc in Haiphong. This is a pilot project preceding the Vietnam Water Sector Project to be financed by WB (see Section 1.2.3).

Until now, not much attention has been given to the users' participation and protection in WSS. The development and management of WSS are conducted without or with negligible consumer participation. Consumers are often simply assumed to have the roles of a user and a payer. Because of very limited involvement in planning and decision making, the users fail to understand WSS management issues and tariff setting. Instead, the consumers' full co-operation in the operation and management of WSS would be crucial. Innovative small town WSS management models, where province level (supervisory role) and water consumers (controlling role) are represented in the decision making board together with the TPC, are proposed to be developed and fine-tuned in practice. Also Customer Service Units within the organisation of the water utilities are expected to be created.

Customer representation in the Management Board of the WSS utilities is considered important for ensuring the access to information and influence in decision-making. Customer representation in the Management Board will provide households, including the poor, the opportunity to express their own thinking and sentiments on issues of access to piped water supply, sanitation and other related basic infrastructure facilities; issues of cost and financing and more importantly, issues of transparency and accountability. The customers themselves must select their representatives to the Board.

The possibilities to extend water supply (and sanitation) services to poor households will have to be addressed at all stages of the Programme. Innovative solutions, suitable to the conditions in the Programme towns, will have to be sought. Possibilities include water kiosks, public, collective or shared water points and connections and cross-subsidies.

⁴ The scope in Haiphong is different from the other provinces. The Haiphong Component comprises three sub-components: Minh Duc pilot scheme, extension of Construction Management Consultancy (CMC) for the drainage and sewerage project financed by WB, and limited TA under the Provincial TA package.

5.2 Programme Components

The Programme is divided into eight components:

- Component A: Management Consulting;
- Component B: Utility Investment;
- Component C: Raw water study;
- Component D: Provincial TA – Thai Binh;
- Component E: Provincial TA – Hung Yen;
- Component F: Provincial TA – Bak Kan;
- Component G: Provincial TA – Haiphong; and
- Component H: Additional TA.

The relationships between the results and components are shown in the matrix below.

Table 2 Relationships between results and components

<u>Result 1</u> : New piped water supply schemes have been constructed and are properly operated and maintained in at least four Programme towns, and construction works are ongoing in at least two to four towns. In support of water supply schemes beyond 2006 a flexible, efficient, transparent, and demand-driven financing mechanism has been designed.	Component A Component B Component D Component E Component F Component G
<u>Result 2</u> : Management of water supply and sewerage/drainage systems in the Programme provinces has been improved to ensure sustainable, efficient and transparent water supply service. Customer participation ensured. Reliable system of providing connections to the poor made operational.	Component A Component D Component E Component F Component G
<u>Result 3</u> : Adequate supply of safe raw water for potable water production has been secured for the foreseeable needs of the Programme towns.	Component A Component C
<u>Result 4</u> : Pilot drainage and sewerage schemes have been constructed in at least two to three Programme towns, and master plans have been completed for the others.	Component A Component B Component D Component E Component F Component G
<u>Result 5</u> : Central level policy support for sustainable, efficient and transparent water supply and sewerage/drainage utility management in place.	Component A

5.2.1 Component A: Management Consulting

The rationale of the separation of the management consulting from the rest of the TA and investment support is to facilitate the flexibility of the Programme on the one hand and the credibility and impartiality of the Management Consultant on the other. The rapid and dynamic development of the Vietnamese society and the operating environment of the water sector will call for flexibility. This component includes among others, the following activities:

- ❑ assistance to the SC in the appointment of different Component contracts (help in the drafting of bidding documents, bidding process, evaluation and contract negotiation);
- ❑ assistance to the SC in the supervision of the execution of the different Component contracts;
- ❑ assistance in water sector policy formulation (water tariffs, sector organisation); and
- ❑ development of and assist in implementation of the new financing mechanism for WSS investments to be used from 2007 onwards.

5.2.2 Component B: Utility Investment

The investment support will be targeted at the construction of water supply, including raw water supply, treatment facilities, distribution systems and even house connections as well as the construction of pilot sewerage and drainage systems, inclusive of collection, treatment and discharge facilities.

The financing of investments in water – and later wastewater – utilities will emphasise the efficiency and transparency of financing of feasible projects, emphasising both financial sustainability of the projects and the affordability to the end consumers. This component will finance eligible WSS investments in Programme provinces on the basis of “first come – first served”. The first investments in WSS, with a total budget of MEUR 2.5 for water supply and MEUR 0.9 for sewerage, will be in the three pilot provinces: Thai Binh, Hung Yen and Bac Kan. From 2007 onwards, the investment funding (up to a total amount of MEUR 3.0 for water supply and MEUR 1.5 for sewerage) is expected to expand to other provinces following establishment of the financing mechanism.

There is one exceptional scheme under this component, namely the Minh Duc pilot water supply project. The World Bank has introduced a Design-Build-Lease (DBL) model to be applied in the Vietnam Water Sector Project. This approach will be tested in two pilot projects to be financed by SDC in Lim in Bac Ninh Province and by Finland in Minh Duc in Haiphong Province (for a maximum amount of MEUR 0.6). This is an example of the inclusive and flexible nature of the WSPST.

5.2.3 Component C: Raw Water Study

The Raw Water Study will be undertaken under the leadership of the MOC. Its main focus will be on the assessment of the needs and possibilities for inter-provincial co-operation, in order to ensure adequate supply of safe raw water for potable water production for the foreseeable needs of the Programme towns. The study will cover the Thai Binh and Hung Yen pilot provinces and other relevant provinces in the coastal area of the Red River Delta. This component also involves investment in a water laboratory. For the latter, the Finnish contribution is intended for upgrading a water laboratory under MOC through the procurement of laboratory equipment and instruments.

5.2.4 Components D, E, F and G: Provincial TA

Provincial TA will focus on four provinces: Thai Binh, Hung Yen, Bac Kan and Haiphong. In Thai Binh and Hung Yen, the TA will include a long-term consultant, while in Bac Kan and Haiphong only short-term consultants are scheduled. The TA activities will assist the PWC in the preparation and implementation of the WSS investments and provide capacity building. In Haiphong only capacity building TA activities will be provided as there are no further WSS investments scheduled during Phase 1. There are additional TA budgets available for Haiphong for an extension of the Construction Management Consultancy (CMC) activities in relation with the WB sanitation project. TA for CMC will be procured separately.

5.2.5 Component H: Additional TA

Additional TA will be provided on a responsive basis, based on the emerging needs. For example, experience suggests that concessional credit schemes will need to be accompanied with additional capacity building in order to ensure sustainability. This component facilitates Programme support to be extended to other provinces and their capitals, not strictly to small towns only. As such, this component is not directly linked with the results of Phase I. However, it will also contribute to the achievement of the overall objective of the Programme. The budget of this component also includes pre-investment studies for investments in small towns to be financed from 2007 budget. These pre-investment studies will, however, be integrated into Provincial TA according to the recommendations of the Mid-term Review.

5.3 Organisation

The Competent Authorities of the Programme are the Ministry of Planning and Investment, representing the Government of Vietnam and the Ministry for Foreign Affairs, representing the Government of Finland. There will be five Executing Agencies responsible for the implementation of the Programme during Phase I: MOC, Thai Binh Provincial People's Committee, Hung Yen Provincial People's Committee, Bac Kan Provincial People's Committee and Haiphong Provincial People's Committee.

Based on the five fundamental principles introduced in Section 5.1 above, the organisation of the WSPST needs to accommodate for the required flexibility, the combination of physical investment components with capacity building activities, and the focus on consumer involvement in all phases. The organisation structure showing a diagram with the entities involved with their roles and responsibilities is depicted in Annex 5.

The main characteristics of the Programme organisation are:

- The set-up includes a limited number of approval levels in order to speed up the implementation and make the components more cost effective. This involves a challenge to maintain sufficient guarantee that Programme funds are used for their designated purpose. This is achieved by this Programme Document, which identifies the Programme purpose and results. A good planning, monitoring, reporting and evaluation framework (see Sections 6 and 7) will further ensure that all stakeholders are correctly informed about the Programme's activities and use of funds. It is suggested to have an external audit to provide an independent certification for stakeholders that the Programme funds (both Finnish and Vietnamese) have been used for the designated purpose.
- The use of community participatory approaches in all stages of Programme preparation, implementation and evaluation ensures that the results of the WSPST meet the expectations of the beneficiaries.
- The Programme makes efficient use of international and national technical assistance in the implementation. Vietnamese consultants are used to the extent possible. The percentage of Vietnamese consultants versus international consultants will gradually increase over the Programme duration.
- The ownership of the Programme is proposed to be assumed by the Vietnamese stakeholders. The beneficiaries, through the Steering Committee (SC) and Component Directors (CD), are responsible for appointing the TA consultants to ensure that they will make optimal use of their knowledge. The evaluation of bids will include an interview of representatives of bidders. The appointment of TA consultants will need to be approved by the Steering Committee (SC). The MC will be selected jointly by the MPI and the MFA.

- The TA consultants are given an advisor role. The decision and control authority will remain with the beneficiaries (through the SC and CDs). The TA consultants' main task will be knowledge transfer: from international consultants to national consultants and from international and national consultants directly to the beneficiaries.

The Vietnamese ownership of the WSPST is being assured by the appointment of the following entities and positions with the authority to decide over the direction and implementation of the Programme:

- **Steering Committee**
 - The SC can decide over the strategic direction of the Programme and its components within the boundaries of the objectives and purpose set in this Programme Document. The SC can decide over policy issues, it reviews and monitors the progress through the quarterly meetings and approves the annual reports for the past year and work plans and budgets for the following year. It is also authorised to decide on major budget revisions and reallocation, within the overall budget agreed in the country agreement and decide to delegate activities to be undertaken by parties unidentified in the Programme Document (pooling of resources). The SC is also responsible for approving the appointment of component TA teams.
 - The SC Chairman is a senior officer from MPI or from one of the Executing Agencies. The SC members include representatives from MOC, PPCs and MFA (mainly represented by the Embassy of Finland). The Team Leader of the MC will participate in the SC meetings as a non-voting member.
 - SC is responsible for approving the selection of the contractors/consultants for any assignment above USD 10,000. The approval can be made in the SC meeting or by the exchange of letters in periods between the meetings.
 - If deemed necessary for smooth co-ordination of the Programme, SC may delegate some of its competence to a Programme Director (PD) or to special Task Force(s). SC will appoint the PD and Task Force members.
 - The SC aims at consensus in decision making. However, the Competent Authorities have a veto-right on any issues brought to the SC.
 - The SC will meet on a quarterly basis. The MC will assist in organising the SC meetings.
 - The SC is responsible for the audit of the programme regularly. Audit covers Vietnamese and Finnish contributions. The MFA may subject the programme for additional audits.
- **Component Directors**
 - Every component will have its own Component Director. The CD is responsible for making a work plan with detailed activities to achieve the expected results of his/her component; that plan and the accompanying budget will be reviewed by the MC and approved by the SC on an annual basis. The CD will participate in the evaluation for the TA team for his/her Component. S/he is responsible for the implementation of all activities and will make quarterly reports to be submitted to the MC.
 - The CD should be a senior official of the respective provincial authority for the Provincial Components (for example, the Director of DOC) or a senior official of MOC (for the raw water study). A CD should be able to dedicate adequate time to the component implementation or appoint his/her trustee to undertake the duties under his/her close supervision. The CD will establish a Project Management Unit (PMU) following the guidelines of Decree 17 and Circular 6 of the GoV.

The MC will have an important role in the execution of the Programme. It is extremely important that all stakeholders can be confident with the Management Consultant who has to be

neutral and impartial, without any stake in downstream activities. Therefore, the MC will be ineligible for all other assignments under the WSPST.

The MC will be accountable to the SC for all Programme expenditure in Vietnam (i.e., excluding the expenses of the component consultants' home office expenditure). The MC, being the only direct contracting party with the MFA, will prepare joint invoices and submit them to the MFA. The MC signs the subsidiary contracts with the TA consultants on behalf of the MFA. However, the TA consultants are not sub-consultants of the MC and their payments are made directly by the MFA.

The MC will make sure that the following issues are addressed in the implementation of the investment projects as well as the TA.

- ❑ quality of the pre-feasibility and feasibility studies;
- ❑ strict pre-qualification of contractors for bidding;
- ❑ high quality and transparency of the bidding process;
- ❑ efficient and transparent cost control;
- ❑ efficient construction supervision and quality assurance;
- ❑ quality, quantity and timeliness of the TA inputs;
- ❑ customer participation ensured; and

quality, quantity and timeliness of the financial management of the Programme resources.

The responsibilities of the TA teams have been defined in task requirements for the different TA components and they are attached as Annex 6. These task requirements replace the more common job descriptions for individual experts. TA teams can propose different combinations of experts to undertake the tasks. In bid evaluation, the individuals are not assessed but the capabilities of the proposed TA teams to carry out the tasks are compared.

The Minh Duc pilot water supply project is a special project under the WSPST. The MFA will sign an administration agreement with WB and allocate the necessary funds (EUR 600,000) directly to WB who will be responsible for their efficient use. A Draft Administration Agreement to be signed between the MFA and WB is attached as Annex 7.

5.4 Tentative Timetable

It is tentatively proposed to extend WSPST over a period of about ten years. For practical reasons, the Programme will be divided into phases. Phase I will cover the years from 2004 until 2007. Phase I is scheduled to begin by the second quarter of 2004 with an Inception Phase of about four months. The later phases will be prepared separately (with new Programme Documents), based on the review/evaluation findings of the previous phase(s). The consecutive phases will also undergo new tendering procedures.

During the first year (2004), the raw water study and the provincial level TA are expected to be mobilised in the third quarter.

It is expected that the first three water supply schemes will proceed to implementation in 2005 and be completed well before the end of Phase I. The second two water supply schemes will be implemented since 2006 and the third batch of approximately six schemes will be launched in 2007.

The first three pilot drainage and sewerage schemes will start in 2006 and will be completed in 2007, and the next drainage and sewerage schemes are expected to be started in 2007.

The raw water study will be completed in 2005 but the support to the water quality and hydrogeological monitoring will be continued until 2006. The TA to MOC will be phased out towards the end of Phase I.

5.5 Budget

The estimated budget for Phase I is MEUR 20.8. The contribution of the Government of Finland is MEUR 19 (91%) and the contribution of the Government of Vietnam MEUR 1.8 (9%). The Finnish contribution will be on a grant basis. The tentative budget for the entire Phase I is presented in Table 3 and in greater detail, on annual basis, in Annex 8.

It is estimated that the consulting packages include approximately 250 person-months (p-m) of international staff, approximately 230 p-m of Vietnamese consultants and 660 p-m of Vietnamese administrative and supporting staff in Phase I. The international consulting is tentatively estimated to be divided as follows:

- Management Consultant approximately 60 p-m;
- Raw water study approximately 30 p-m; and
- Provincial TA approximately 135 p-m

Moreover, additional TA has been budgeted to be extended on a flexible basis to other purposes, for instance for project preparation and management and associated capacity building in any provinces and towns where the investments are financed from Finnish concessional credits or by international financing institutions. The budgeted additional TA and contingencies will be also needed for ensuring customer participation, customer surveys and the mobilisation of local stakeholders.

Table 3 Tentative Phase I budget in EUR

Cost item	Finland	Vietnam	Total
Minh Duc pilot water supply	600 000	0	600,000
Capital for water supply investment	5 500 000	970 588	6,470,588
Capital for sewerage investment	2 400 000	282 353	2,682,353
Water laboratory	500 000	60 000	560,000
TA related costs	8 300 000	345 000	8,645,000
Total excluding contingency	17 300 000	1 657 941	18,957,941
Contingency	1 400 000	142 059	1,542,059
Total including contingency	18 700 000	1 800 000	20,500,000
Reviews and audits	300 000	0	300,000
GRAND TOTAL	19 000 000	1 800 000	20,800,000

Concerning investments, the Vietnamese budget includes the provision of 15% of water supply investments (except the pilot scheme of Minh Duc to be implemented in 2004), land acquisition and site clearance (estimated as 10% of the investment) of drainage and sewerage investments, and the laboratory premises. For TA, the Vietnamese budget includes office space (including furniture, heating, air conditioning, electricity, telephone lines, etc.), running costs of the laboratory, domestic telecommunication (except cellular phones), the costs (except the salary) of possible PD/Task Force(s), miscellaneous expenses up to about EUR 195,000 and contingency of about eight per cent of the Vietnamese budget. Other items are covered from the Finnish budget.

The grand total of the Finnish contribution in the budget indicates the ultimate ceiling of the financing of the Ministry for Foreign Affairs. Any additional financing, if needed, has to be mobilised from other sources.

5.6 Roles and Procurement of Technical Assistance

The technical assistance in association with the WSPST will have two main functions:

- ❑ Programme management – planning, component supervision and monitoring; and
- ❑ capacity building at the central, provincial and small town levels.

The management of a complicated and flexible programme requires highly competent and impartial professional management, to be undertaken by the SC in association with MC. Consequently, TA is not solely focused on capacity building.

The procurement of the consulting services is proposed to be divided into five packages:

- ❑ Management Consulting (Component A);
- ❑ Raw Water Study (Component C);
- ❑ Provincial TA (Components D, E, F and G excluding CMC in Haiphong);
- ❑ Haiphong CMC; and
- ❑ Additional TA

The Competent Authorities (MFA and MPI) will organise the tendering for the MC assignment, following the standard procedures of MFA or other generally accepted principles and good procurement practices. Guidelines will be determined during the inception phase and approved by the SC.

During the inception phase, the MC under the supervision of the SC, will prepare component programme documents for Provincial TA as well as the Terms of Reference for Raw water study.

The TA packages listed above (except Management Consulting) will be approved by the SC, who appoints the respective tender evaluation committees. It is important that the respective Executing Agencies (MOC for Raw water study and the four provinces for Provincial TA) are represented in the evaluation committees. The evaluation committees will submit their recommendations to the SC for approval.

As mentioned before, the MC will be ineligible for all other assignments under the WSPST. The other packages will be tendered separately but there is no reason for limiting the eligibility of any of the assignees to tender for other TA packages. Consequently, there may be one to six consulting companies or consortia undertaking these assignments.

The procurement of services related to Additional TA (Component G) will be determined and specified on the basis of the scope of the services to be provided. The SC will decide upon the procurement. One option for simplifying the tendering procedures, provided that there are at least two companies/consortia involved in the provision of TA, could be direct approach⁵ for the extension of their services to cover the relevant services under Component G. This would provide savings in administration and probably in the execution of the assignment through anticipated synergy benefits. Another option is to invite bids for a framework contract for a certain period of time, say for the duration of Phase I.

⁵ Direct approach has been defined in the Manual for the Procurement of Services within the International Development Cooperation of MFA as a procedure in which the potential tenderers are invited to submit a tender without the Ministry (MFA) publishing a procurement notice or without inviting expressions of interest.

The TA consultants will be accountable for the achievement of the respective results, the execution of the component(s) in a professional and effective manner and the use the resources provided by the Government of Finland efficiently and transparently.

5.7 Financial Procedures

The MC will be responsible for complying with and ensuring compliance with the rules and regulations set by the Finnish Government for its bilateral development funding and by the Vietnamese Government for its public funding.

The Annual budget will be compiled by the MC for SC's approval. The annual budget will be approved along with the annual work plan. The main thrust of the Programme's annual work plan as well as of the annual budget is that they summarise the respective information and plans of all the components together collected from each CD. If a well justified need arises to re-allocate funding between the budget lines during a budget year, MC have to propose such re-allocation for SC's approval.

The MC will monitor the component expenditures only at an aggregate level. The CDs together with their respective TA consultants will be responsible for managing the day-to-day expenditure control, including the detailed accounting and supporting documentation, and reporting on it on a quarterly basis to MC, who will then report to the SC. The CDs produce their own quarterly transfer needs for the SC.

For the investment budget the MC will prepare semi-annual disbursement requests based on the projected investment needs from all the participating provinces. During the first three years (2004-2006) of the Programme, the investment budgets have been identified for each of the three pilot provinces. From 2007 onwards the budgets will be allocated according to the received eligible applications from interested provincial authorities and following the new financing mechanism approved by the mid 2005.

During the first three years the investment amounts will be transferred through a central account managed by the MC. The MC will channel the money to a separate account in the pilot provinces according to the projected investment needs and the progress of the construction contracts. The conditions applied for the water supply scheme loans (loan period, grace period, interest rate) will be decided on a case-by-case basis, trying to achieve the dual objective of financial sustainability (as much as possible full cost recovery) and affordability for the end consumers (with special attention to making water affordable for the poorest part of the population). The relevant Vietnamese authorities, MPI/DPI, will be responsible to determine the loan conditions. During the loan repayment period, the PWC will pay interest and principal amounts to the separate provincial account. The Provincial Authorities will determine who will be responsible to manage this account (DOF, DAF or another competent provincial agency). The repaid loan amounts will be available for the PWC for future eligible WSS investments within the same province.

6. Planning, Monitoring and Reporting

The detailed planning of the provincial level activities will take place during the Inception Phase. The detailed scope of the raw water study will also be determined in the Inception Phase. The MC shall prepare an inception report, including Programme plans and budgets, after the second month in the field.

Although the Programme Document is flexible in providing only a framework for Phase I, it is a legal document, which forms part of the agreement between MPI and MFA on the one hand and of the contract between MFA and the consultant(s) on the other. It is therefore of utmost import-

ance that the work plans and their approval are well documented in detailed minutes of the Steering Committee meetings. Particularly, possible deviations of annual work plans from the Programme Document should be clearly pointed out so that the SC is fully aware of them when approving the plans. Moreover, the flexible Programme approach calls for substantially more active and professional supervision than rigid blueprint projects. A crucially important aspect in annual planning is to ensure that the local contribution of 15% to water supply investments has been budgeted and ensured.

At the component level, the respective component consultant will report on the progress, next steps and issues, if any, in component meetings to be held monthly or more frequently if found necessary. The Team Leader of the MC shall participate in these meetings.

The CDs jointly with component consultants shall prepare and submit quarterly reports to the MC. The MC shall prepare and submit quarterly reports to the SC. It is anticipated that the SC will meet quarterly to review the progress of the Programme and to resolve problems, if necessary.

The CDs jointly with component consultants shall prepare and submit annual work plans and annual reports to the MC. The MC shall aggregate and submit annual work plans and reports to the SC.

At the end of Phase I the MC shall prepare a Phase Completion Report and submit it to the SC. This report will be based on respective reports from the components and their reasonable verification by the MC.

The logical framework presented in Annex 3 shows the objectively verifiable indicators for the overall objective, Programme purpose, and the expected results of the WSPST. The monitoring of the expected results is a management tool to be promoted by the Programme to be actively used at all levels from MPI and MOC to Programme provinces and towns.

7. Evaluation

The division of the responsibilities between the management level (SC and the MC) and the activity level (components) facilitates continuous (at least annual) review of the WSPST. In addition to this semi-independent review process, a review of Phase I of the Programme will be undertaken in the third quarter of 2005. The main objective of the review will be to assess whether the Programme is attaining its purpose, assess the sustainability of its achievements, verify the establishment of the financing mechanism for investments, make recommendations for the remaining period of Phase I, and draw experience from Programme implementation for the preparation of Phase II (or the termination of the WSPST if deemed justified). The review will be mobilised jointly by MPI and MFA.

The governments of Vietnam and Finland shall assign an auditor to assess the conformity of the WSPST to the established procedures, norms and criteria. The audit shall focus on the use and management of the financial resources allocated to the WSPST. The scope and timing of the audits will be decided jointly or independently by the SC. It is proposed that initially audits will be undertaken on an annual basis.

The Programme aims at supporting the Vietnamese capacity to continue the implementation of small town water supply schemes on its own and to achieve sustainable results in the long term. The impacts of the WSPST and the sustainability of the impacts are not possible to be assessed during Phase I or soon after the completion of the whole Programme. It is anticipated that a post-programme evaluation will be undertaken 3-6 years after the completion of the last phase of the Programme.

Annex 3: Logical framework

	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
OVERALL OBJECTIVE	By 2010, the proportion of people living below the international poverty line will be reduced by 40%, and the proportion of people living under the international food poverty line by 75% in the Programme provinces	<p>Percentage of poor households reduced by 40% in the period 2000-2010 in Programme provinces and percentage of food-based poor households reduced by 75% in the period 2000-2010 in Programme provinces.</p> <p>Average income of the lowest income quintile in the Programme provinces has been increased from that in 2000 by 40% until 2005 and by 90% until 2010.</p> <p>Basic infrastructure, especially water supply and environmental hygiene, provided to cities and towns in Programme provinces.</p> <p>Slums and temporary housing eliminated in all towns and cities by 2010.</p>	<p>General Statistical Office</p> <p>Statistical offices in Programme provinces</p> <p>Baseline and mid-term surveys</p> <p>Programme Completion Report</p> <p>Post-programme evaluation</p>	Other CPRGS targets, in addition to improvement of water supply and sanitation and their governance that are covered by the Programme, will be achieved in Programme provinces. Particularly important are CPRGS targets related to the efficiency of resource utilisation, job creation, reduction of vulnerability (social safety net), gender equality and good governance.
PRO-GRAMME PURPOSE	Safe potable water supply to satisfy the needs of urban population and economic activities in Programme towns.	<p>Water supply schemes in at least five Programme towns provide reliable 24 h/d supply of water meeting the Vietnamese drinking water quality standards. Pending only on the households' willingness to connect, service coverage of the piped water schemes in Programme towns is close to 100 %. Poorer population strata provided with equal opportunities to connect to WSS systems (possibly making use the provision to include their connection costs in the financing package).</p> <p>Organisations responsible for water and wastewater facilities in Programme towns are capable of managing their operation, maintenance and investments in a sustainable and financially viable manner, and are supported - as needed - by their respective PPCs and PWSCs.</p> <p>A plan to ensure the availability of unpolluted raw water in small towns of the coastal Red River Delta has been completed.</p> <p>Plans to collect wastewater in Programme towns and to treat it to comply with National environmental standards prepared and three pilot schemes implemented.</p>	<p>Annual reports of utilities</p> <p>Interviews/surveys among WSS utility management and personnel and customers</p> <p>Sewerage/drainage master plans</p>	<p>Candidate Programme towns are willing to participate in the Programme with the rules and conditions to be agreed between the two governments.</p> <p>Prior to implementation of a WSS investment plan, surveys on willingness and capabilities to connect have been conducted in a reliable manner.</p>

	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
RESULTS	<p>Result 1: New piped water supply schemes have been constructed and are properly operated and maintained in at least 5 Programme towns, and construction works are ongoing in 4-6 others. In support of water supply schemes beyond 2006, a flexible, efficient, transparent, and demand-driven financing mechanism has been designed.</p>	<p>Potable water production capacity of at least 100 lpcd, with treatment process applicable to the characteristics of its raw water, is available. O&M guidelines have been prepared (in writing) to guide operations in each water treatment plant, and these guidelines are respected in daily operations.</p> <p>Water distribution networks have been carefully constructed to fully cover the urban area of the Programme towns. As the networks are also properly maintained, the systems demonstrate UFW levels at or below 20%.</p> <p>Capability of local consultants has been strengthened in order to achieve a snowball effect, i.e.; continuous, locally financed improvement of small town water supplies elsewhere in Vietnam.</p> <p>Standard of water supply system design and construction has been upgraded in the Programme towns to meet Vietnamese standards and to facilitate long term sustainability of the constructed systems, and design and construction are based on realistic estimates of gradual development of the number of connections and water use.</p> <p>Financial sources have been made available at sub-commercial credit conditions to the water supply scheme, implementing agencies who are fulfilling all eligible demands in a timely manner (maximum three months between approved appraisal of feasibility study and signing of loan agreement between the intermediary credit institution and the implementing agency ("Client"). By mid 2005, before the Mid Term Review of Phase 1, a flexible, efficient, transparent, and demand-driven financing mechanism has been designed and approved by the GoV and the MFA. The approval of the financing mechanism is a pre-condition for the release of the 2007 investment funds, which will follow this new mechanism. The financing mechanism encourages competition between eligible implementing agencies</p>	<p>Official statistics(town, province)</p> <p>Inspections</p> <p>Annual reports of utilities</p> <p>Feasibility Studies for water schemes</p> <p>NDA Bank reports on management of loans under Finnish Credit Line.</p> <p>Annual reports of Programme</p> <p>Mid-term review</p> <p>Phase completion report</p>	<p>Candidate Programme towns are willing to participate in the Programme with the rules and conditions to be agreed between the two governments.</p> <p>Programme provinces accept the rules and conditions to be agreed between the two governments.</p> <p>MOF agrees to onward lend/grant the credit amount to the implementing agency depending on the affordability/willingness in the future service area.</p> <p>The Client is responsible to assure the availability of at least 15% of the total investment cost for new piped water supply schemes.</p>

	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
	<p>Result 2: Management of WSS systems in Programme provinces improved to ensure sustainable, efficient and transparent service.</p>	<p>Operation of the Programme town water schemes has been optimised: continuous supply of potable water up to the Vietnamese water quality standards is provided, with a supply pressure sufficient to bring the water to at least the 3rd floor, and thereafter with a minimum of cost.</p> <p>Water supplied is safe with 100% of analysed samples meeting hygienic water quality criteria, and reliable with 24 h per day service and average consumer affected by interruptions of supply for less than 100 h per year.</p> <p>Tariffs cover O&M and recover capital investment costs to a level which is acceptable and affordable for the water users.</p> <p>Access of the poor to water supply services is ensured by including the connection charges for the poorest in the initial investment cost.</p> <p>All the people in charge of various management, operation and maintenance functions of the Programme towns' water supply systems have a clear understanding of a well functioning water supply service, as well as their personal role in providing such service for their respective towns.</p> <p>A functioning management model has been developed for small water supply utilities in Programme towns by combining the best features of the PWC driven model, the PCERWASS driven model the DOC driven model and other models already used, and then adding another feature of consumer representation in the decision making (board).</p> <p>Customers are satisfied with WSS services in Programme towns and have adopted improved behaviour and practices on the use of water supply.</p> <p>Organisations responsible for management and O&M of WSS facilities in Programme provinces receive adequate policy and technical support from PPC and PWSC.</p>	<p>O&M records</p> <p>Financial Statements of utilities</p> <p>Annual reports of utilities</p> <p>Inspections</p> <p>Interviews/surveys among WSS utility management and personnel and customers (consumer surveys)</p> <p>WSS utility benchmarking database</p> <p>Annual reports of Programme</p> <p>Mid-term review</p> <p>Phase completion report</p>	<p>Sufficient O&M funding and qualified staff can be ensured for WS operation.</p> <p>Positive economic development continues during the Programme period.</p> <p>Piloting on an innovative and transparent water scheme management model is approved by MOC and respective PPCs.</p>

	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
	Result 2: (continued)	<p>Guidelines have been developed and approved to instruct full coverage of costs, including capital costs, in water supply, yet providing mechanisms to ensure the provision of the WSS services to the urban poor.</p> <p>Guidelines have been prepared, based on experience of best practices, for the organisation of small town WSS utility management in a sustainable, efficient and transparent manner.</p> <p>Guidelines and model documents have been prepared, based on experiments, for the protection of consumers/customers of urban WSS utilities.</p>		
	Result 3: Adequate supply of safe raw water for potable water production secured for the foreseeable needs of the Programme towns.	<p>Groundwater resources in the 8 provinces of (the southern) Thai Binh-Red River Delta have been screened for applicability (adequacy and quality) for water supply purposes.</p> <p>Potential for provincial/inter-provincial co-operation in the field of groundwater exploitation has been assessed.</p> <p>Survey on quality of surface water and pollution hot-spots in the vicinity (upstream) of the Programme towns has been carried out, most applicable water sources for water supply selected, and source protection measures planned.</p> <p>Water quality monitoring system planned for Programme provinces in collaboration with MOC, MNRE and provincial DOSTEs.</p> <p>Adequate capacity to undertake water quality analyses, besides normally applied ppm level analyses even in nano concentrations, especially relevant when tracing pesticide and industrial residuals (hazardous substances) in natural watercourses, groundwater and potable water.</p>	<p>Groundwater data from Geological & Mineral Resources Survey of Vietnam</p> <p>Surface water data from MARD/MNRE/ADB</p> <p>Raw water study and plan report</p> <p>Annual reports of Programme</p> <p>Mid-term review</p> <p>Phase completion report</p>	<p>Information from Thai Binh and Hung Yen suggests that groundwater in the area would be polluted/saline and unusable.</p> <p>Red River Basin Water Quality Monitoring Sub-project planned by ADB (2001) will not provide adequate data base for raw water sources assessment.</p> <p>Relevant provinces are committed to co-operation.</p> <p>Financing will be available for the implementation of raw water plan, including source protection measures.</p>

	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS
	<p>Result 4: Pilot drainage and sewerage schemes and experimental treatment facilities have been constructed in at least 2-3 Programme towns.</p>	<p>Experience has been gained and analysed from pilot drainage and sewerage schemes (with CSO or separate sewerage systems) designed and implemented (ODA grant financing) in 1-2 Programme towns.</p> <p>Experimental treatment facilities have been designed and implemented for "hot spots", e.g., hospitals or industrial effluent, in one to two Programme towns.</p> <p>Capability of local consultants has been strengthened in basic drainage and sewerage design, so far relatively uncommon in Vietnam.</p>	<p>Inspections</p> <p>Mid-term review</p> <p>Phase completion report</p>	<p>Candidate Programme towns are willing to participate in drainage and sewerage piloting.</p> <p>Pilot projects are supported by MOC and respective PPCs.</p>

Task Descriptions

1. Management Consultancy

Compulsory education:	<ul style="list-style-type: none"> • University degrees representing administration, planning, economics, finance or relevant science, or a university degree in one of the main fields of expertise of the Programme.
Language:	<ul style="list-style-type: none"> • Fluency in both spoken and written English
Preferred experience:	<ul style="list-style-type: none"> • Professional experience in public administration, management or relevant consulting • Experience in co-ordination tasks (and aid management) • Experience in co-operating with various interest groups • Experience in project management, especially financial management • Experience in reporting • Experience in infrastructure development and water sector development • Experience in participation in policy making, preparation of legislation, or representation of interest group(s) • Experience in dealing with government representatives at the highest level • Relevant professional experience in development countries
Skills:	<ul style="list-style-type: none"> • Well-developed skills in mediation, presentation and project management • Capability of understanding different viewpoints and assessing them rationally • Clear understanding of economic consequences of investment decisions • Understanding of the concept of good governance, accountability and transparency • Understanding of the special conditions in Vietnam
Responsibilities:	<ul style="list-style-type: none"> • Setting of annual strategic and operational objectives, annual budgets and targets of the Programme • Participation in the preparation of quarterly and annual progress reports, annual work plans and budgets • Overall co-ordination and management, including periodical reconsideration of direction of the Programme for its relevance and efficiency • Reporting on the progress of the Programme and organisation of Steering Committee meetings and acting as a secretary in those • Preparation of the Terms of Reference for Raw Water Study, capacity building assignments for concessional credit projects (under Additional TA), and other possible assignments • Provision of TA to MOC to support the operationalisation of cost recovery policies and reorganisation of the water and sanitation sector • Organisation of procurement, including tendering documentation for components and evaluation of tenders • Preparation of the proposal for new financing mechanism • Assistance in loan application assessments and reporting and monitoring • Participation in the supervision missions of the Minh Duc project with WB • Other tasks requested by Steering Committee
Place and duration of assignment:	<ul style="list-style-type: none"> • Approximately 60 person-months in total, comprising one long-term (resident) and some short-term international consultants • Based in Hanoi
Reporting to:	<ul style="list-style-type: none"> • Steering Committee (and Embassy of Finland, Hanoi)

2.

Draft Administration Agreement

**Agreement between the Government of the Republic of Finland
and the International Bank for Reconstruction and Development
and the International Development Association concerning
Pilot Design Build and Lease Project in Minh Duc Town
(TF No. _____)**

Dear _____,

1. We are pleased to acknowledge on behalf of the International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”) (collectively, the “Bank”), the intention of the Government of the Republic of Finland (the “Donor”) to make available to the Bank the sum of US\$ 612,250 (six hundred and twelve thousand, two hundred and fifty United States dollars)¹ (the “Contribution”) as a grant for the purpose of financing the construction of water supply facilities in the town of Minh Duc in the Province of Haiphong. This will include a) the construction of water abstraction facilities, water treatment facilities, reservoirs, pump stations, transmission and distribution pipes, house connections and other ancillary items required for the delivery of drinking water to households in the town and b) the provision of design checking and construction management services to ensure the facilities proposed by the contractor meet the design and construction standards as set out in the contract documents.² (the “Project”).

2. The Contribution shall be used for the purposes described in the Attachment to this letter which forms an integral part of this Agreement. The Contribution shall be used

¹ If the Contribution is provided in a currency other than US\$, conforming changes will need to be made in this form.

² Insert description of the activities to be financed by the Contribution. This form may be used, *inter alia*, for Contributions made to finance the preparation of studies, training or technical assistance (executed by the Bank or by a recipient) activities or for the provision of grant co financing of Bank-supported projects.

for the following expenses (list correct categories from the following list of eight categories and the amount of Contribution allocated to each category³:

Consultant services (including all fees, overheads and expenses)	\$100,000
Grant for construction of water supply facilities	\$500,000
Bank deduction (see paragraph 7)	\$ 12,250

The Bank shall, as administrator on behalf of the Donor, enter into a grant agreement (the "Grant Agreement") with Socialist Republic of Vietnam (the "Recipient") regarding the provision of the Contribution funds to the Recipient for such purposes. The Donor authorizes the Bank to use the Contribution funds to pay the Recipient for eligible expenditures made (or, if the Bank shall so agree, to be made) under and in accordance with the Grant Agreement. The Bank shall furnish a copy of the Grant Agreement to the Donor.

3. The Donor shall deposit the Contribution into the International Bank for Reconstruction and Development's Cash Account "T" _____ (the "T-Account") [Bank and account will vary depending on currency of grant] promptly following confirmation of this agreement by the Donor.

When making payment, the Donor shall instruct the [insert name of Bank] Foreign Department, to advise the IBRD's Treasury Operations Department by SWIFT (IBRDUS33), telex (MCI 248423) or fax (202-522-1564) as to the amount received, that it is from the Donor for the Pilot Design Build and Lease Project in Minh Duc Town (TF No. _____), and the date of the deposit. In addition, the Donor shall send by fax a copy of the Donor's payment request to IBRD's Accounting Department, Trust Funds Division, (Fax: (202) 477-7163. Immediately upon receipt IBRD shall convert the Contribution funds into United States Dollars and shall transfer the converted funds to IBRD's Cash Account "T" at [state name of Bank for holding currency].⁴

4. The Contribution will be administered by the Bank on behalf of the Donor in accordance with the terms of this Agreement. The Contribution may be commingled with other trust funds assets maintained by the Bank, but shall be kept separate and apart from the funds of IBRD and IDA. The Contribution funds may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

³ It is understood that with regard to recipient executed activities the Bank may reallocate Contribution funds between categories of expenditures in accordance with the Bank's applicable policies and procedures without requesting approval by the donor.

⁴ Insert if holding currency is to be different from Contribution currency.

5. It is expected that the Contribution funds will be fully committed in accordance with the provisions of this Agreement by December 31st 2006⁵. The Bank shall only enter into commitments after that date for the expenditure of the Contribution funds with the prior approval of the Donor.

6. The Bank shall be responsible only for performing those functions specifically set forth in this Agreement and shall not be subject to any other duties or responsibilities to the Donor, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Agreement shall be considered a waiver of any privileges or immunities of the Bank under its Articles of Agreement or any applicable law, all of which are expressly reserved.

7. In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank under this agreement, the Bank may deduct from the Contribution and retain for the Bank's own account an amount equal to two percent (to be confirmed) of the Contribution.⁶

8. The Grant Agreement shall provide that the Contribution shall be used by the Recipient to finance expenditures for goods and services, as the case may be, in accordance with the Bank's Guidelines on "Procurement under IBRD Loans and IDA Credits" and the Bank's Guidelines on the "Selection and Employment of Consultants by World Bank Borrowers", as in effect at the date of the Grant Agreement. The Bank shall be solely responsible for the administration of the Grant Agreement and for the supervision of the Project and the activities financed by the Grant Agreement.

9. The Bank shall maintain separate records and ledger accounts in respect of the Contribution funds and disbursement thereof. Within 90 days of each March 31, June 30, September 30 and December 31, for as long as any Contribution funds remain in the T-Account, the Bank shall prepare, on a cash-basis, in United States Dollars an unaudited statement of receipts, disbursements and fund balance with respect to the Contribution funds and forward a copy to the Donor. The Bank shall also provide the Donor with copies of all financial statements and auditors' reports received by the Bank from the Recipient pursuant to the Grant Agreement.

10. The Bank shall provide the Donor annually a management assertion together with an attestation from the Bank's external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole. The costs of such

⁵ The practice of the Bank is to allow disbursement for eligible expenditures incurred before the Closing date to continue for 4 months following the closing date. The date to be inserted here should allow for at least that grace period

⁶ Insert appropriate fee based on Administrative Cost Recovery Schedule for Trust Funds under USD 30 Million and Graduated Administrative Cost Recovery Schedule for Trust Funds over USD 30 Million. To verify with TFO, but I believe that currently the fee is 2% for Bank-administered co-financing/investment TFs under \$30million

attestations shall be borne by the Bank. In addition, the Donor may request an external audit by the Bank's external auditors of the trust fund established under this Agreement. In such case, the Donor and the Bank shall agree on the most appropriate scope and terms of reference of such audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, shall be paid by the Donor.

11. The Bank and the Donor shall consult each other from time to time, at the request of either party, on all matters arising out of this agreement, and the Bank shall keep the Donor informed of the progress and results of the Project. Subject to the consent of the Recipient, representatives of the Donor shall be invited to participate in Bank missions related to the Project and/or the Grant Agreement. The Bank shall promptly inform the Donor of any significant modification to the terms of the Grant Agreement and of any contractual remedy that is exercised by the Bank under the Grant Agreement. To the extent practicable, the Bank shall afford the Donor the opportunity to exchange views before effecting any such modification or exercising any such remedy.

12. The Bank, may disclose this Agreement and information with respect to the trust fund under this Agreement in accordance with the Bank's policy on disclosure of information.

13. This Agreement may be terminated by either party with three months' prior notice in writing. Upon such termination, unless the parties hereto agree on another course of action:

- (a) [the Grant Agreement shall terminate at the same time/the rights and obligations of the Bank under the Grant Agreement shall be automatically transferred to the Donor]; and
- (b) the Bank shall return to the Donor the balance of Contribution funds in the T-Account. The Bank shall also furnish to the Donor a final report on the Project and a final cash-based statement of receipts, disbursements and fund balance in United States Dollars with respect to such funds. Upon the return of such funds and the provision of such report and unaudited statement, the Bank's functions pursuant hereto shall be considered terminated.

14. Upon completion of the disbursements required for the Project, the Bank shall return the balance of the Contribution funds to the T-Account of the Donor. The Bank shall also furnish to the Donor a final report on the Program and a final cash-based unaudited statement of receipts, disbursements and fund balance in United States Dollars with respect to such funds. Upon the return of such funds and the provision of such report and financial statement, the Bank's functions pursuant to this Agreement shall be considered terminated.

15. The offices responsible for coordination of all matters related to the implementation of this agreement are:

For the Bank

_____ Division
_____ Department
_____ Region

The World Bank
1818 H Street, NW
Washington, DC 20433
U.S.A.

Tel:
Fax:
Email:

For the Donor

Tel:
Fax:
Email:

16. This Agreement shall enter into force on the date of the confirmation written below.

17. This Agreement may be amended only by written agreement between the Bank and the Donor.

18. We propose that this letter shall, upon your confirmation in the manner indicated below, constitute an Agreement between the Donor and the Bank.

Sincerely,
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Authorized Representative

CONFIRMED AND AGREED:

[Name of Donor]

By: _____
[Name]
[Title]

Date _____