

**Asian Development Bank (ADB)**  
**Memorandum of Understanding (MoU)**  
**Loan Handover Mission, 26 - 30 January 2015**  
**for**  
**ADB Loan 2968-VIE: Low Carbon Agriculture Support Project (Project)**

**I. INTRODUCTION**

1. On 12 December 2012, ADB approved the provision of a loan in the amount equivalent to SDR48,170,000 (\$74 million equivalent) to the Socialist Republic of Viet Nam for the Low Carbon Agriculture Support Project. The Loan Agreements were signed on 7 March 2013 and became effective on 5 June 2013 with the closing date of 30 June 2019. ADB fielded a loan inception mission during 16 – 20 September 2013 and the first loan review mission during 3 – 7 November 2014.

2. A loan handover mission (the Mission)<sup>1</sup> from the ADB visited Viet Nam from 26 to 30 January 2015. The purpose of the Mission was to introduce the new ADB officer who will henceforth be responsible for the administration of the Project to MARD and the Central Project Management Unit (CPMU).<sup>2</sup> During the Mission discussions were held on issues pertaining to project implementation progress.

3. The Mission met with the representatives of the CPMU within MARD's Agriculture Projects Management Board (APMB), MARD's International Cooperation Department (ICD), and the Provincial Project Management Unit of Nam Dinh Province. In addition the Mission met with the participating financial intermediaries (PFIs) — Co-operative Bank of Viet Nam (Co-opBank) and the Viet Nam Bank for Agriculture and Rural Development (VBARD). A wrap-up meeting, chaired by ICD's Deputy Director General Mr. Chu Van Chuong, was held on 30 January 2015. A list of persons met and attendees at the wrap-up meeting is given in Annex 1.

4. The Mission and the Government discussed the progress of the Project components, and the status of ongoing procurement and consultant recruitment packages. This MoU summarizes the Mission's findings and agreed actions to be taken. It is understood that the agreements recorded in this MoU are subject to the approval of higher authorities of the Government and ADB.

**II. MISSION DISCUSSIONS AND FINDINGS**

**A. Overall Progress**

5. Per ADB records based on submitted withdrawal applications, as of 23 January 2015 (more than 18 months since Loan Effectiveness), the Project has awarded approximately \$2 million worth of contracts and disbursed a total of approximately \$5.4 million<sup>3</sup> representing 2.9% and 7.9% of the loan net amount,<sup>4</sup> respectively.

6. Output 2 of the Project provides credit lines through PFIs to small-scale farmer households (HH) as well as medium- and large-scale livestock enterprises to facilitate

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<sup>1</sup> The Mission comprised David Salter, Senior Natural Resources and Agriculture Specialist, Environment, Natural Resources and Agriculture Division (SEER), ADB/Mission Leader; Nao Ikemoto, Senior Environment Specialist, SEER; and Oscar Amiel A. Badiola, Project Analyst, SEER.

<sup>2</sup> Nao Ikemoto handed over the responsibility of project administration to David Salter. She will continue to back stop the project from the Viet Nam Resident Mission. Oscar Badiola will continue as project analyst.

<sup>3</sup> The funds disbursed to the Project include the advance made by ADB to the CPMU's imprest account amounting to US\$3.5 million.

<sup>4</sup> As of 23 January 2015, the US dollar value of the loan amount is US\$68,714,145.



access to medium- and long-term financing to expand and improve biogas value chain (BVC) infrastructure.<sup>5</sup> Advances cumulatively valued at US\$3.4 million (i.e., US\$1.7 million for each financial intermediary) are expected to be disbursed by the end of January 2015. Initial efforts to make these financing instruments available to the intended beneficiaries have commenced.

7. When the loan was approved, the exchange rate was one USD to 0.65 SDR. As of 23 January 2015 the rate has changed to one USD to 0.70 SDR. At approval the approved loan was SDR48.17 million or \$74 million equivalent. With the change in exchange rate, as of 23 January 2015 the USD equivalent is \$68.7 million.

8. The Mission met with the SNV biogas project (BGP) team. SNV has demonstrated MBVC in Viet Nam. SNV confirmed the demand for MBVC has a way of managing livestock wastes. They are looking for additional financing to continue the development of MBVC. At this time the farmers are not interested in purchasing biogas generators, which are relatively expensive and prefer to flare off the gas. Awareness raising of the full potential benefits is still needed. For example there is great potential for the production of fertilizer.

9. SNV is financing the Biogas project and the CPMU would like to work closely with the BGP. The Mission appreciated the CPMUs wish to develop synergies with the BGP. The following issues were identified and will be in the strategy for output 3: (i) carbon credit system; (ii) database system for tracking biogas development; (iii) survey of commercial market potential for gas uses and by-products of biogas plants, such as fertilizer; (iv) development of technical standards for medium and large scale plants, technologies for using gas and by products of biogas plants, for eventual adaptation by the government and private sectors; and (v) preparation of a workplan for cooperation.

10. The status of the follow-up actions agreed upon during the last review mission are presented in Table 1.

**Table 1: Status of Agreed Follow-up Actions from the November 2014 Review Mission**

No	Issue	Agreed Action	Time-frame	Responsibility	Status
1	Implementation arrangements for Output 1	Submit ADB a request with justification for the proposed change in the implementation arrangement	By 30 Nov. 2014	CPMU	In process
2	Mobilizing Output 2 activities	Work with the PPMUs to assess the demand	As soon as possible	CPMU & PPMUs	Done
		Submit a letter requesting the increase in the subloans ceiling for small-scale BVC	As soon as possible	PFI	Done
		Submit the 6-month projection and the first WAs to request for an advance	By 30 Nov. 2014	PFI/ADB	Done
3	Design of Output 3	Submit the proposed detailed design of the entire Output 3.  Submit proposed changes related to Output 3 to the procurement plan.	By Q1/2015	CPMU	Not due yet
4	Consulting firm engagements	Submit ADB the Submission 1 EOI evaluation and shortlisting, and draft RFP.	By 30 Nov. 2014	CPMU	Done for LIC. Submission 0 completed for

<sup>5</sup> Biogas value chain infrastructure refers to biogas plants, improvements to farm sanitation, and the production of bio-slurry which can be further processed for fertilizer.



					baseline.
5	Disbursement	Prepare and submit ADB the WA A0004 by 15 November 2014 and WA A0005 by 5 December 2014	As soon as possible	CPMU	Done
6	Progress reporting	Submit a progress report according to a template	By Q1/2015	CPMU	Done.

## B. Project Implementation Progress by Component

### Output 1: Expanded Use of Livestock Waste Management Infrastructure

11. As of Q4/2014, the Project has organized: (i) 519 training courses on small biogas plant value chain (SBVC) operation<sup>6</sup> for 15,338 farmer households; (ii) 10 study tours to study and exchange experience of biogas technology for 175 staff; (iii) 88 workshops on disseminating policies, institutions and standards of biogas technology and comprehensive livestock management for more than 3,283 HHs; and (iv) 10 training courses for 321 masons and 13 technical training course for 512 participants to construct SBVCs. Through these trainings, a total of 11,764 SBVCs have been constructed by livestock farming HH. 9,861 of these HHs have received the financial incentive from the project, after their SBVCs were certified by the PPMUs as meeting the criteria for technical construction and environmental improvements.

12. To date, the Project has only supported the construction of SBVCs. It has not yet supported the construction of medium and large scale value chains (M&LVC). The Project has now completed a survey of the potential demand for SBVCs and M&LVCs. The Project found that in the Project provinces more than 262,000 HH farming operations with more than 10 pigs, or equivalent in cattle, must obtain SBVCs.<sup>7</sup>

13. The Project has advertised for private companies to register and be assessed for their capacity to construct medium and large biogas and environment packages. Private companies who meet the criteria will be eligible for training and capacity building from the Project. Those who successfully complete the training and meet the criteria will be recognized by the Project as qualifying to participate in project activities. The CPMU will share the list of recognized companies with the provincial governments and the PFIs. Only plants constructed by recognized companies will be able to access the financial incentive, technical assistance and biogas credit. The recognition process will be completed by Q2 2015.

14. The CPMU confirmed that the Prime Minister has issued a decision, recommending the increase in value of financial incentives for the construction of a SBVC to VND5 million. The Project is not bound by this decision and does not intend to propose a change to the loan agreement to implement it. This will be reassessed during the MTR.

15. Currently the project allocation for the financial subsidy of the construction of SBVCs is divided equally among the provinces. This means there is not a clear link between the demand for the financial subsidy and the allocation per province. The CPMU will propose a better system to link the allocation of financial resources to the individual provincial demand. In 2015, CPMU shall propose ADB and MARD to increase the financial resources for the provinces which completed the initially allocated 3,600 SBVCs.

16. The Mission visited Nam Dinh province and met the PPMU, district staff and beneficiaries for Output 1 - SBVC. Nam Dinh is one of the leading livestock producing provinces. The PPMU noted that the objectives of the Project are very important. The PPMU

<sup>6</sup> SBVC refers to the small biogas plants and surrounding environment.

<sup>7</sup> SBVC are of digester size 1 – 50 m<sup>3</sup>, MBVC are of digester size 51 – 499 m<sup>3</sup>, LBVC are of digester size 500m<sup>3</sup> and larger.



expressed concern about the slow progress of the Project. The PPMU highlighted the need for a diverse scope for the subloans that would make the subloans more attractive and effective. The PPMU also requested the Project to support improving livestock waste management skills.

17. There are approximately 445,000 HH involved in agriculture of which 76,000 raise livestock. More than 10,000 are medium or large scale operations (>50 animals). Nam Dinh reported that 1,313 SBVC have been constructed to date with 1,059 HH receiving the incentive. Of significant importance, these HH did not wait for a subloan but arranged the financing of the SBVC independently. On the subject of BVC training, 22 training courses to 1,172 HH have been completed. The Mission visited three HHs who have invested in SBVCs and were pleased to see their good use.

18. The demand for BVC is very high due to the market demand for better (clean) quality meat. Most of the meat produced is provided to the local wet markets. However, some of the meat is sent to other provinces in Viet Nam or even abroad. There is a privately owned meat processing plant with a capacity of 20,000 tons/year. It is developing supply chains to local HH producers through contract farming arrangements. The factory has a waste management facility (Korean) and will gather the bio wastes from the HHs to process into clean fertilizer. However, in general livestock waste management is still at an early stage of development.

19. The monitoring environment of livestock production and biogas plant construction of all sizes is a growing concern for MARD. MARD has assigned the monitoring responsibility to the Viet Nam Academy for Agriculture Sciences (VAAS) and National Institute for Animal Sciences (NIAS).

20. The CPMU sent to ADB a request to include these institutes as project implementing agencies (IA). On 28 November 2014, ADB responded by requesting the EA to fully specify the arrangements by which these organizations would function as IAs. The CPMU replied to ADB's request on 8 December 2014. However, ADB requested additional information and the CPMU agreed to provide detailed clarification and proposed arrangements by 28 February 2015. The Mission explained that it will be very difficult to justify the change in implementation arrangements. Given the limited physical progress of the project and the large number of IAs already established, it is more important at this moment to accelerate implementation.

## **Output 2: Credit Lines for Biogas Value Chains**

21. On 22 January 2015, ADB confirmed to the PFIs that all the necessary documentation for the fulfillment of the conditions for withdrawal from the Loan Account are complied with. The disbursement of the initial advance to each of the PFIs' imprest accounts is expected by 15 February 2015. The Mission reminded the PFIs of the requirements of the project agreement in article 2 section 2.04.

22. The Co-op Bank submitted a letter to ADB requesting that the ceiling of subloans for SBVCs be increased from \$2,500 to \$5,000.<sup>8</sup> In subsequent discussions ADB requested the Co-op Bank to further clarify the justifications for the increase; citing the specific factors that would compel potential HHs to require a higher amount to borrow. In preparing these justifications, the Mission reminded both PFIs to include only anticipated HH expenditures within the project scope; i.e., livestock waste management investments.

23. Co-opBank, VBARD and the CPMU explained that it is necessary to increase the loan ceiling for the following reasons: increased construction cost; continuous increase in average size (number of animals) in HH farming operations; inflation making small loans inefficient instruments for finance construction; demand to increase size of plants to meet

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<sup>8</sup> VBARD will also submit a similar request to raise the borrowing ceiling.



future needs; and demand for additional environmental and sanitation measures such as the purchase of generators to produce electricity.

24. The Mission had no objection to the increasing the loan ceiling for SBVC from \$2,500 to \$5,000. CPMU will prepare a change to the PAM to reflect the increase in the SBVC loan ceiling by 15 February 2015.

25. Co-opBank, VBARD and the CPMU explained that regulations require farmers to improve livestock waste management. It was further explained that there is a need to link production levels now, and in the future, to the waste management capacity. In their view HHs need larger and diversified loans as they normally have one collateral (land use certificate) deposited in the bank. HHs are interested in investing in larger biogas plants and environmental facilities if they could also invest in expanded production through the purchase of additional livestock. Indeed livestock waste is biogas feedstock. In this regard including the possibility of using loan proceeds for the purpose of expanding production in direct proportion to the investment in BVC would make the loans more attractive and enable the PFIs to accelerate disbursement to meet targets. It would lead to the construction of larger BVCs. A diversified loan would have more benefits, and be more convenient to farmers and PFIs, and would be more likely to be repaid. Moreover, the financial resources and system available for livestock production would be strengthened.

26. The Mission recognizes the logic presented in para 21 and will consult with the concerned ADB units to determine if the scope of the loan can include non-infrastructure, but related and critical investments. The Mission will confirm this possibility by 6 February 2015.

### **Output 3: Enhanced Climate Smart Agricultural Waste Management Practices Technology Transfer**

27. **Investment Scope.** The CPMU is currently drafting a research strategy and detailed implementation plan for Output 3. The draft strategy will be reviewed by MARD and thereafter submitted to ADB by Q1 2015. ADB will provide comment and return to MARD for endorsement.

28. **NDF Grant.** During the MARD – ADB country program confirmation mission ICD requested ADB to pursue the possibility of obtaining a grant for the project from NDF. ADB responded that additional financing could be better obtained and more effective once the Project produces a clear strategy and demonstrates progress for which additional financing is justified and if the amount was significant to make the transaction costs worthwhile.

### **Output 4: Effective Project Management**

29. Three key consultancy engagements are currently being recruited by the CPMU: (i) Project Management Consulting Services. ADB approved the shortlist and the draft RFP. APMB is reviewing with clearance expected by 15 February 2015; (ii) Baseline Surveys. ADB offered no objection for the advertisement of the consultancy. APMB is reviewing with clearance expected Q1 2015; and (iii) Audit. CPMU submitted to ADB the proposed shortlist and draft RFP for approval, which is expected by 1<sup>st</sup> week of February 2015. An updated schedule of specific recruitment milestones for each of the consulting packages is presented in Annex 2. Close monitoring of these milestones will be critical within the next 6 months. Regular communication between the CPMU, MARD and ADB on consultant recruitment progress is requested to allow all parties to plan for anticipated delays and explore alternative courses of action should problems arise.

30. **Procurement Plan.** ADB's Loan Consulting Unit is reviewing the procurement plan submitted by the CPMU last November 2014. An updated project procurement plan is expected to be posted in ADB's website by 28 February 2015.

31. **Project Reporting.** The Mission received the annual report from the CPMU. The Mission requested the CPMU to include in future progress reports an assessment of the physical progress made in each of the outputs.



### C. Projected Contract Awards and Disbursements

32. **Quarterly Projections.** The CPMU will submit revised projections of the anticipated contract awards and disbursements once the draft research strategy for Output 3 has been agreed.

### D. Compliance with Loan Covenants

33. The loan covenants were not updated from what was assessed during the November 2014 review.

## IV. CONCLUSIONS

34. The Mission reminded the PFIs of the requirements of the project agreement in article 2 section 2.04.

35. The Mission and the CPMU agree the following issues are critical: (i) acceleration of consultant recruitment; (ii) completion of research strategy; (iii) increase in subloan ceiling; and (iv) diversification of subloans.

36. The Mission appreciated the determination of the Project to cooperate closely with the BGP.

37. The follow table presents the agreed upon actions that will be carried out before the next review mission.

**Table 2: Agreed Follow-up Actions**



No	Issue	Agreed Action	Time frame (2015)	Responsibility
1	Output 1: Expanded Use of Livestock Waste Management Infrastructure	Submit ADB a request with justification for the proposed change in the implementation arrangements.	28 Feb.	EA
		Elaborate a system for provincial allocation of financial incentives based upon measured demand for SBVCs	30 Jun.	CPMU / EA
		Complete recognition of medium and large BVC construction companies	30 Jun.	CPMU
		Clarify justifications for the institutes sited in para 19 to be IAs	28 Feb.	CPMU / EA
2	Output 2: Credit Lines for Biogas Value Chains	The disbursement of the initial advance to each of the PFIs' imprest accounts	15 Feb.	ADB
		PFI VBARD to provide a letter requesting an increase in the loan ceiling.	15 Feb.	VBARD
		The CPMU will update the PAM for the increased subloan ceiling and the definition of bio-digester size.	15 Feb.	CPMU
		Confirm increase subloan ceiling and diversified subloan scope	6 Feb.	ADB
3	Output 3: Enhanced Climate Smart Agricultural Waste Management Practices Technology Transfer	Draft the research strategy and detailed implementation plan for Output 3 and related changes in procurement plan.	31 Mar.	CPMU / EA
4	Output 4: Effective Project Management	Clearance of Project Management Consulting Services shortlist and the draft RFP.	15 Feb.	EA / APMB
		Clearance of Baseline Survey consultants	31 Mar.	EA / APMB
		Clearance of proposed shortlist and	6 Feb.	ADB

		draft RFP for audit consultants		
		Updated project procurement plan posted in ADB's website	28 Feb.	ADB
5	Cooperation with other programs	Workplan for 2015 cooperation with BGP.	15 Mar.	CPMU
6	Review mission	Next	May	ADB

## V ACKNOWLEDGMENT

38. The Mission wishes to express its sincere appreciation for the cooperation and assistance extended by MARD, APMB, the PFIs, and the Nam Dinh DARD during the Mission.

Signed in Ha Noi, 30 January 2015 by:

 Mr. Chu Van Chuong Deputy Director General International Cooperation Department Ministry of Agriculture and Rural Development	 Mr. David Salter Sr. Natural Resources and Agriculture Specialist Environment, Natural Resources and Agriculture Division Southeast Asia Department Asian Development Bank
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