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Tan Hoa – Lo Gom Canal Sanitation and Urban upgrading Project

MID-TERM REVIEW MISSION REPORT

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MID-TERM REVIEW: TAN HOA LO GOM CANAL SANITATION AND URBAN UPGRADE PROJECT EXTENSION PHASE: Review Mission Report

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Abbreviations:

ADB	Asian Development Bank
AFD	Agence Francaise de Developpement
BHH	Binh Hung Hoa (ward)
BOD	Biological Oxygen Demand
BTC	Belgian Technical Co-operation
CCCF	Central Credit Fund
CEP	Capital Aid Fund for Employment of the Poor
CITENCO	Solid Waste Management Enterprise of HCMC
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CVF	Counter Value Fund
DGDC	Directorate General for Development Co-operation (Ministry of Foreign Affairs), previously DGIC
DGIC	Directorate General for International Co-operation (Ministry of Foreign Affairs), now DGDC
DNRE	Department of Natural Resources and Environment
DoF	Department of Finance
DPI	Department of Planning and Investment
EUR	Euro
FS	Feasibility Study
GIS	Geographical Information System
HCMC	Ho Chi Minh City
MIS	Management Information System
ODA	Official Development Assistance
ODAP	Official Development Assistance Partnership
PAH	Project Affected Households
PC HCMC	People's Committee of Ho Chi Minh City
PC	People's Committee (PC) at all levels: PC HCMC for the City; DPC for the districts; WPC for the wards.
PCF	People's Credit Fund
PMU	Project Management Unit
PMU 415	Project Management Unit in charge of the projects 'Extension phase of Tan Hoa - Lo Gom canal sanitation and urban upgrading' , and the 'Feasibility Study on sanitation and urban upgrading of Tan Hoa - Lo Gom canal basin.
PSC	Public Services Company (of District 6)
S&S	Sites and Services (pilot project in Binh Hung Hoa ward)
STS	Small Transfer Station for Solid Waste
TFF	Technical and Financial File (project document)
THLG	Tan Hoa – Lo Gom (Canal or Basin)
ToR	Terms of Reference
UDC	Urban Drainage Company for HCM
UNDP	United Nations Development Programme
VND	Vietnamese Dong
VUUP	Vietnam Urban Upgrading Project
WB	The World Bank group
WU	Women's Union
WWTP	Wastewater treatment plant

Executive summary

Introduction

A mid-term review mission for the Tan Hoa Lo Gom (THLG) Canal Sanitation and Urban Upgrading Project Extension Phase (the Project) was carried out during 7-20 September 2003 in accordance with Terms of Reference provided by PMU 415. The present report contains the mission's findings and recommendations. It discusses the Project concept and design, implementation of Project components, links with other projects, anticipated results/outputs, and Project implementation and impact risks. It ends with a section of major recommendations for the remainder of the Project period. Minor suggestions for follow-up by PMU 415 are not repeated in that section, but are interspersed in the earlier sections.

Project concept and design

In terms of coherence the mission positively appreciates the integrated development concept underlying the Project design, but found it compromised by force of circumstances in several instances, the most serious instance being the shift in location of the Lagoon WWTP from the original (transition from 1st phase) location in Ward 11, District 6, to Binh Hung Hoa Ward, Binh Chanh District. The strategic/policy orientation of implementation of pilot projects to test strategies developed in the 1st phase of the project continues to be valid. The relevance of the Project is considerable, given continuing urbanisation and housing problems in HCMC, and the policy approaches in the May 2002 Comprehensive Poverty Reduction and Growth Strategy (CPRGS) of the Government of Vietnam.

Project Implementation

Most Project components are significantly behind schedule in their implementation. This is most serious for the Ward 11 upgrading and apartment resettlement pilot project, the implementation of which is on the critical path for the implementation of the Project as a whole, with physical completion now scheduled for October 2005, and hand over of the apartments, community facilities and infrastructure to the appropriate HCMC authorities in February 2006. Similar delays have occurred for the Sites and Services Resettlement pilot project and for the Lagoon WWTP pilot project. Delays have (predictably) primarily been caused by slow procedures of land acquisition and land compensation policy development and implementation, as well as by procedural difficulties in tendering in the Ward 11 package.

The solid waste collection/STS pilot project has not suffered from such delays to that extent – the main bottleneck at present is that the STS is still not operational some months after its handover to District 6 authorities. Work has not yet started on the design of the housing construction loan fund for the S&S pilot. This has become an urgent issue: it needs to be operational in early 2004, with the first household construction envisaged to start in April 2004. The socio economic support components have broadly proceeded as scheduled with minor exceptions: the environmental education support has proceeded well as has the social workers team support for community development and participation, and for the sustained operation of the savings and credit groups.

PMU 415, supported by the two long-term BTC advisors, has developed a cohesive internal project management capacity with good and enthusiastic technical staff capability to handle project complexities to date. With the imminent construction start of three major physical works packages, which will dominate Project implementation during most of the remaining lifetime of the Project, PMU's contract management capacity needs to be enhanced. Internal

project management information systems and external project support arrangements could have been better used to prevent or mitigate the above implementation delays.

Due to the delays encountered, disbursement of project funds has been slower than envisaged, with an overall disbursement of 23% for the BTC part of the budget, less than 1 % for the CVF part of the budget, and 26 % for the HCMC part of the budget, all at end-August 2003. Disbursement problems were predictably most pronounced in areas which had most delays.

The Lagoon WWTP site land acquisition costs at current estimate amounts to VND 114 billion, or about 2.5 times the original estimate in VND terms. The Ward 11 compensation costs increased to VND 55 billion from VND 50 billion as originally budgeted. The currently estimated lagoon WWTP construction costs suggests an overrun of EUR 390,000, or about 21% over the original estimate.

Links with other projects

Links with three related projects have been found positive and reinforcing the project's (potential) impact. These are the Feasibility Study on Sanitation and Urban Upgrading of the THLG Canal Basin, the Vietnam Urban Upgrading Project preparation and the Official Development Assistance Partnership projects.

Anticipated results/outputs

For most of the project components no definite pronouncements can be made on their results in a mid-term review and in the face of the delays encountered. The solid waste pilot project, for which most of the work has been completed has a very good potential outcome, but this can only be verified after the STS will have been in operation for some time. For the other physical pilot project outputs there are no major reasons to suggest that the expected results can no longer be achieved. The outcome of the environmental education work supported by the Project is considered to be satisfactory, and this activity has the potential to be sustainable with only transitional further project support. Where possible, the mission has suggested ways and means of how envisaged Project outcomes may be enhanced.

Project implementation and impact risks

The following major risks have been identified by the mission:

- Continuing compensation settlement and tendering delays;
- Possible further cost over-runs;
- Inadequate construction supervision of major physical works contracts by PMU;
- Possible inability to meet cost overruns due to financial constraints;
- Non-acceptability/affordability of relocation options by the Project Affected Households (PAH);
- Inadequate loan financing arrangements for S&S components;
- Operational delays in relocating Ward 11 PAHs to apartments and S&S scheme;
- Limited or no internalization of lessons learnt from pilot projects.

Where possible, the mission has suggested risk mitigation measures.

Summary of major recommendations

Overall Project issues:

Project closing date, staffing and management

Given the delays encountered and the revised implementation schedules, the mission recommends that PMU 415 be extended to mid-2006 (with a gradually declining staff complement in keeping with the envisaged workload over time), with a contingency provision up to the end of that year, to ensure that all implementation will be successfully achieved.

It is further recommended that the BTC long-term staff input to be extended to end-March 2006 for the same purpose, with the chief technical advisor remaining until that time. The municipal engineer envisaged to be recruited for an assignment start in November 2003 will be required until end-March 2005. The mission recommends that BTC recruitment for this position will be undertaken urgently.

As physical implementation will be dominant, consistent MIS utilisation and tight contract management will be necessary to prevent further delays. The mission recommends that more consistent and comprehensive reporting and feedback procedures are adopted.

Budget requirements

In view of the cost-overruns encountered and the required extension of long term BTC staff, the mission recommends that the total BTC budget will be increased by EUR 256,000 (on current estimates, as indicated in the revised financial projections, but subject to the outcome of the WWTP tender award). These projections include a scaling back of some expenditures consistent with achieving the Project's objectives during the proposed extension of the remaining Project period.

The mission recommends that the HCMC part of the budget will be augmented by VND 69 billion, primarily to meet compensation cost overruns, and to extend the operation of PMU 415 as suggested above. Of the total amount needed for land compensation (including funds already budgeted for and those newly requested), VND 110 billion will be required to be disbursed by October/November 2003 to enable all construction to start as scheduled.

Major recommendations for pilot project components:

Solid Waste Management in District 6

The mission recommends that the STS will be made operational by District 6 and PC HCMC immediately –at least not later than end September 2003

Ward 11, District 6 upgrading and relocation

The mission recommends that the contract package tender for apartments and infrastructure will be awarded as soon as possible, so that construction can start before end-2003. The mission further recommends that Ward 11 compensation awards to be finalized timely for phased relocation and construction as currently envisaged.

BHH Ward, District Binh Chanh Lagoon WWTP and Sites and Services

The mission suggests that the agreed waiver of approval by city departments of detailed designs for lagoon WWTP and S&S, as per TFF, will be urgently re-confirmed by PC HCMC to the relevant authorities (line departments), to facilitate smooth project implementation.

The mission recommends that the Binh Chanh District S&S and Lagoon WWTP sites land compensation awards to be finalized by October and November 2003 respectively. The mission further recommends that PC HCMC disburses the Binh Chanh lagoon WWTP and S&S land compensation awards immediately thereafter.

The mission recommends to PMU 415 to urgently prepare a proposal for the institutional and operational construction loan arrangements for S&S, which needs to be finalized by February 2004.

1 Introduction

The Tan Hoa Lo Gom (THLG) Canal Sanitation and Urban Upgrading Project Extension Phase (the Project) is the second phase of a Belgian Technical Co-operation (BTC) support project to Ho Chi Minh City (HCMC)'s People's Committee (PC). The earlier first phase of the project ran during 1998-2001, with the extension project starting retroactively on 1 October 2001 up to end 2004.

To implement the project, the PC HCMC established Project Management Unit (PMU) 415. The first phase of the project (defined as a study project in order to tackle problems in a comprehensive way through a participatory approach) developed seven major inter-related strategies for THLG canal sanitation and urban upgrading. PMU 415 collected and analysed a considerable amount of data on solid waste collection, wastewater treatment, canal maintenance, urban planning and the socio-economic situation in the canal basin. Capacity building has been a key issue from the start and a structure was set-up to assure the participatory process. The innovative approach involved all levels of city departments, local authorities and the population and led to the definition of pilot projects, including some investment projects.

However, it soon became obvious that the aims of the project had been over-ambitious, considering available means and time. No budget had been allocated for land acquisition, compensation and relocation of affected populations. Time required to implement the comprehensive and participatory approach, and time required to fulfil administrative procedures on the Belgian and on the Vietnamese side were underestimated. At the joint commission between Vietnam and Belgium on 25 July 2000, it was agreed in principle to extend the project with an additional budget, while limiting the scope of the pilot projects. The scale of approved pilot projects has been increased to make the investment more efficient and to be able to measure their impact.

The agreement for the project was signed accordingly on 13 June 2002 (with retroactive effect from 1 October 2001, as noted above). The BTC support through the Project comprises both technical assistance (through two long-term advisors and a range of short-term expert missions), as well as financial assistance for the implementation of pilot projects and for PMU support. Details of the agreed implementation arrangements, implementation schedules and budget commitments are described in the approved project document for the Project, entitled Technical and Financial File (TFF).

A mid-term review was envisaged in the TFF. The review was carried out during 7-20 September 2003 in accordance with the Terms of Reference provided by PMU 415 (attached as Annex A). The review mission¹ conducted a range of meetings with (potential and actual) stakeholders in the Project, PMU 415 staff and BTC advisers, as well as visits to the Project sites, and reviewed pertinent project documentation. A listing of persons met is attached as Annex B, and a list of documents consulted is attached as Annex C. The mission ended with a debriefing meeting with the Deputy-Chairman of the PC HCMC on 19 September 2003, in which the mission presented its provisional conclusions and recommendations.

The present report amplifies those findings and recommendations. It discusses the Project concept and design, implementation of Project components (for each major component, under sub-headings of achievements and bottlenecks encountered/issues to be resolved), links with other projects, anticipated results/outputs, and Project implementation and impact risks. It ends with a section of major recommendations for the remainder of the Project

¹ Consisting of Messrs. Emiel A. Wegelin, Urban Economist/Mission Leader, Rudolf Greulich, Environmental Engineer (participation in the first mission week only), and Nguyen Minh Hoa, Sociologist

period. Minor suggestions for follow-up by PMU 415 are not repeated in that section, but are interspersed in the earlier sections.

2 Project Concept and Design

2.1 Project objectives and scope

As outlined in the TFF, the general objective of the Project is:
'The quality of life related to environment and urban development issues for people living in urban areas has been improved.'

In the extension phase the first phase activities were reorganized to fit into 4 main specific objectives:

- Solid waste collection and dumping have been organized up to acceptable standards and evaluated in view of their replicability
- Canal infrastructure and housing facilities in THLG canal area have been improved and evaluated in view of their replicability
- The waste water of the Den canal has been treated through aerated lagoon technology and evaluated in view of its replicability
- Socio-economic support and capacity building have been enhanced

The PC HCMC has requested alternative and appropriate solutions for problems as urban upgrading, resettlement, pollution, solid waste collection, and poverty reduction. Through both project phases, the emphasis has been on an integrated approach with mutually supporting project components. From the beginning PMU 415 has encouraged a bottom up approach involving community participation in all aspects of the project. This involved the establishment of a group of social workers who are key to the results to be achieved in the Project.

Project activities to date in the extension phase have concentrated on the direct preparation for the following investment pilot projects:

- Solid waste collection: construction of a Small Transfer Station (STS)
- Ward 11 upgrading and apartment resettlement pilot project
- Sites and services resettlement pilot project
- Lagoon wastewater treatment plant pilot project
- Socio-economic activities supporting the above pilot projects.

The review mission focused on three elements of the Project concept and design, i.e. coherence, strategy/policy orientation and relevance, which are each briefly discussed in the following sections.

2.2 Coherence

The Project concept endeavoured to retain the comprehensive, integrated area development approach, but this was compromised by force of circumstances, particularly with regard to the lagoon WWTP. Already in the transition period from phase 1 to phase 2, it turned out to be impractical to demonstrate the merits of a wastewater treatment plant using the lagoon technology on a small-scale basis in Ward 11, District 6. The location for the pilot WWTP was therefore moved to Ward Binh Hung Hoa (BHH) in Binh Chanh District, where it could be built at a more appropriate scale. However, in that location, it will focus on treating the waste water of the Den canal, which is only very indirectly related to improving environmental conditions in the THLG canal basin. Relocation of those households from the Project area in

Ward 11, District 6, who cannot be accommodated in the *in-situ* apartment re-housing there (or who find the apartment option unattractive or unaffordable) was envisaged at the edge of the same site in BHH Ward, or about 10 km from their original place of residence in Ward 11, District 6.

Similarly, it is unfortunate that the Project's support to environmental education in 5 primary schools in District 6 has not been more closely spatially related to environmental improvement activities supported by the Project in Ward 11 and to the solid waste collection activities in Wards 3, 4, 7, 8 and 11, which would have made the potential impact larger.

However, with the above limitations, the mission has noted that all other components are inter-linked and mutually reinforcing, and that community participation is significant. The mission believes that project implementation to date has demonstrated the validity of the integrated concept, even where it has not been fully carried out, such as in the case of the environmental education: all involved recognise, that its effectiveness would be increased if closer linkages to actual environmental improvement in the pupils' communities could be forged. In the remainder of the Project period, renewed efforts in this direction may still be made.

The location of the implementation of the lagoon WWTP (and to a lesser extent that of the Sites and Services (S&S) relocation) at BHH Ward in Binh Chanh District is guided by considerations related to the space requirements of the technical solution to be piloted. Of all Project components, the lagoon WWTP is the only "free-standing" component, in the sense that its implementation has no direct added value to the implementation of the other components. As such, it does not fit logically in the framework of integrated area-based urban development.

2.3 Strategy/policy orientation

The strategy/policy orientation of the Project is to implement pilot projects to test the strategies developed in the 1st phase of the project. Apart from the above notion of integrated development, this comprises piloting with new/modified technological options (the solid waste STS and related equipment, and the lagoon WWTP), with modified, scaled down housing standards (unit sizes in the apartment re-housing and plot sizes in the S&S scheme) in the interest of affordability of relocation, as well as a strong emphasis on community participation in the Ward 11 area development and relocation process, as well as on socio-economic support to the process (through the social work team activities, including the savings-and-credit scheme, and through the intended housing loan scheme for the S&S relocates.

While the implementation of the pilot projects have suffered from considerable delays, the mission believes that the above orientations are as valid today as they were at the time of conceptualisation of the pilot projects. The pilot projects all tread new ground in various aspects of urban development policy in HCMC, and important lessons for urban development policy can be drawn from their implementation. The Project needs to ensure that adequate base-line data are in place and that adequate monitoring takes place as pilot project implementation proceeds (e.g. on household behaviour following relocation), so as to ensure capturing the lessons from these pilots.

2.4 Relevance

Since conceptualisation of the pilot projects, urbanisation in HCMC has continued at a rapid pace, while urban poverty and urban environmental degradation has not abated, but increased according to some indicators (and the visual observation of the mission). At the same time, both the HCMC local government, as well as the Government of Vietnam have

recognised these issues and have embarked on policy- and programme development to overcome these problems.

The PC HCMC has recently enunciated an urban upgrading strategy and – programme, a major (re-) housing programme up to 2010, and a wastewater treatment master plan. These plans and programmes attempt to address at a much larger scale some of the issues confronted by the pilot projects in the Project. The national development policy approaches in the May 2002 Comprehensive Poverty Reduction and Growth Strategy (CPRGS) of the Government of Vietnam place considerable emphasis on urban environmental upgrading and urban poverty reduction.

The mission therefore considers that the relevance of the Project continues to be considerable, with significant potential for replication in the above programmes in HCMC, as well as within the broader urban development policy context in the country (the mission was pleased to note a similar appreciation on the part of the PC HCMC in the debriefing wrap-up meeting). However, given the time frame of development of these programmes, significant further delays in implementation of the pilot projects will obviously reduce that potential.

3 Implementation

3.1 Solid Waste Collection/STS

This component addresses **Specific Objective 1**: Solid waste collection and dumping have been organized up to acceptable standards and evaluated in view of their replicability.

Achievements:

Progress of activities has been timely and appropriate, particularly with regard to the reorganization and provisions (carts and uniforms) for the private collectors. Collectors rerouting has been completed in Wards 3, 4, 7 and 8, District 6. Reorganized routes have been carefully and illustratively mapped (GIS) so the changes are easy to see and the time savings in the operation of the new routes stated clearly. Contact with the private collectors concerned has been quite effective, as the difficult task of redistribution of routes and compromises on the changes in incomes seems to have been successfully completed in general. The achievement of agreements with most of the affected households is a further indication of effective implementation.

A high quality STS has been designed and constructed with Project support, providing an effective tool for collecting and transporting the privately collected waste, which can now take place away from the streets in a protected way. STS staff capability to operate the facility has been adequately developed. The container transport vehicles to bring the waste from the STS to the landfill have been designed and procured, and are technically ready for operation at the STS. 40 collectors carts have also been procured and are stored at the STS overnight.

Bottlenecks encountered and issues to be resolved:

Progress in design and construction of the STS at Ward 7, District 6 has suffered from a delay in construction time of 7 months. The most important outstanding issue currently is that the STS is not yet operational several months after handover in July 2003 by PMU 415 to the District 6 authorities. The STS system, including the trucks, needs to be engaged as soon as possible to avoid further frustrations for all parties, especially the collectors and residents living around the STS. Inauguration is scheduled for mid-October 2003, or almost 9 months late (as compared to the original schedule).

The main bottleneck is that formal delegation of operating authority from CITENCO to PSC, District 6 has not yet been conferred. A formal application by District 6 to the Department of Natural Resources and Environment (DONRE) along with an operational plan is required for this approval.

Truck procurement has been slow, due to unusual specifications of the container - and hydraulic equipment, and related truck ownership transfer issues (presently ownership is still with the vehicle procurement company). Further delay is unnecessary, because PMU 415 should have enough encouragement/enforcement power to get the transfer of ownership of the vehicles settled quickly. The vehicles and containers appear effective tools for the waste transport, but this can only be evaluated when the trucks will have been commissioned.

A further issue requiring attention is fine-tuning the distribution of work between the private collectors and the PSC. While the basic distribution of having the private collectors handle the alleyways where PSC trucks cannot operate is fine, an issue remains in the larger roads where PSC and private collectors sometimes still operate side by side. The mission understands that in principle, PSC is open to employ and/or subcontract private collectors in cases where this is an issue, but this needs to be followed up.

In the remaining project period, the focus must be on the further reduction of the waste scattered in canal and streets, weight of waste in and out of STS, publication of evaluation and media spots, and records of readers of the report. Waste collection rerouting in Ward 11 cannot begin before relocation of households has taken place there.

3.2 Ward 11 upgrading and apartment resettlement pilot project

This component addresses **Specific Objective 2**: Canal infrastructure and housing facilities in THLG canal area have been improved and evaluated in view of their replicability.

Achievements:

Most of the physical infrastructure upgrading work in the Project area in Ward 11 comprising roads, elevated footpaths, water lines, electricity poles, and submerged drains cum sewers had been completed in phase 1 of the project (along the canal the elevated foot paths with drains-cum sewer pipes underneath also act as a flood protection embankment). In the extension phase the remaining upgrading therefore comprises relatively minor activities, primarily for individual households, such as provision of septic tanks, water and electricity connections. On-going support for these for deserving families from the Project budget is handled through the social workers team on a case-by-case basis (see section 3.5 below).

Area development plans, detailed designs and tender documents for infrastructure (roads and canal embankment, a small water treatment plant and other environmental micro-infrastructure), 253 resettlement apartments, a local market and community hall, green area and landscaping have been prepared roughly as scheduled.

A compensation and resettlement policy for the Ward 11 area upgrading and resettlement has been prepared with Project support and has been approved by the PC HCMC in December 2001. Individual compensation awards for the 218 households (of which 200 are to be relocated) are being processed (about half of this work was completed at the time of the review mission). The Project supported the development of a policy and schedule of apartment purchase prices, which was approved by the PC HCMC in July 2003.

The Project supported significant community involvement in design of infrastructure and housing components, in the development of the above policies, and in other preparation.

Bottlenecks encountered and issues to be resolved:

As compared to the original schedule as per TFF, construction has been delayed by 10 months (8 months as compared to the last report to the Steering Committee), mainly due to delays encountered in the preparation of compensation awards and resulting from repeated non-approval of the PMU 415 tender evaluation by the HCMC Department of Planning and Investment (DPI). Re-tender of physical works has been initiated under new and clearer tender regulations. Tender evaluation, its approval, award and construction start must be expedited, as the **implementation of this package is on the critical path of overall project implementation**, with physical completion now scheduled for October 2005², and hand over of the apartments, community facilities and infrastructure to the appropriate HCMC authorities in February 2006 (see revised implementation schedule at Annex D for details).

Important non-physical prerequisites to the attainment of this schedule are timely completion of the individual household relocation compensation awards and the allocation of specific apartment units at clearly defined purchase terms and conditions affordable to the individual Project affected households (PAH). This last issue needs to be handled with care and with significant social workers' intermediation to reach consensus, as the mission is under the impression that the approved price structure (which presumably cannot be changed) does not sufficiently recognise the market forces at work. While the most attractive ground floor apartments are priced significantly higher at VND 4.5 million/m² than higher floor apartments (the cheapest being a 4th floor apartment at VND 1.7 million/m²), feedback from the PAH community suggests that the demand for these ground floor units at the above price level is much higher than the number of units available, while the reverse is true for the higher floor apartments. In addition, there is the risk that the units are unaffordable for the poorest households. This is further discussed in section 6.4 below.

Responsibilities for O&M of the apartments, facilities and infrastructure need to be assigned to the different District or HCMC agencies in keeping with their regular line responsibilities. This is somewhat complicated for the apartments with regard to the common spaces and facilities, as well as with regard to unit management for PAH who will opt to rent or pay in instalments.

3.3 Sites and Services (S&S) resettlement pilot project

Although located in BHH Ward, Binh Chanh District, this component addresses **Specific Objective 2**: Canal infrastructure and housing facilities in THLG canal area have been improved and evaluated in view of their replicability. Essentially, in its origin the S&S resettlement pilot project was seen as a relocation option that would enhance relocation and re-housing choice within the Project for the Ward 11 PAHs to be relocated and would contribute to prevent temporary re-housing before final re-settlement.

Achievements:

The Sites-and-services plan and detailed designs have been prepared, and the infrastructure contract awarded in July 2003. The above noted approved (December 2001) compensation and resettlement policy for Ward 11 area upgrading and resettlement includes guidelines for utilisation of compensation proceeds in the S&S site at BHH Ward, Binh Chanh District. Similarly, the approved (July 2003) policy and schedule of apartment purchase prices in Ward 11, district 6, also regulates the purchase prices of plots in the S&S site at BHH Ward,

² Construction is now envisaged to proceed in three phases, with the first phase (comprising 72 apartments and the area market) scheduled to be completed by end-August 2004, after which 145 PAHs will be relocated to these apartments and to the S&S site at BHH Ward, Binh Chanh District to vacate land required for the second phase (comprising 181 apartments), expected to be completed by end-April 2005. This will enable the relocation of the second and last batch of PAHs (80 families) to be relocated. Their relocation will free up the land for the third phase of construction, comprising major area infrastructure, mainly roads and THLG canal embankment work, expected to be physically completed by end-October 2005 (see Annex D for details).

Binh Chanh District. The amount of land compensation due to farmers required to acquire the site has been estimated, and a compensation policy and budget has been submitted in early September 2003 to PC HCMC for approval.

Bottlenecks encountered and issues to be resolved:

Construction has been delayed (by about 10 months as per original schedule, and by about 7 months as compared to the last report to SC). It is now envisaged to start in November 2003, with completion expected by end-August 2004, relocation of the first group of PAHs from Ward 11, District 6 shortly thereafter, and hand over of the infrastructure to the appropriate HCMC authorities in December 2004 (for details see Annex D). This is largely due to as yet not fully resolved land compensation issues, which took much time because they are tied in with the larger and more complex land acquisition issues for the Lagoon WWTP site (see section 3.4 below).

Compensation policy and budget approval by PC HCMC is urgently required, as is the disbursement of agreed compensation payment to the affected farmers immediately thereafter – without having this resolved the contractor cannot legally take possession of the site.

The TFF provides for a construction loans scheme to support the PAHs to be relocated in the S&S area in building a minimum “starter” house. The operational arrangements for such a scheme have not yet been developed. As the infrastructure construction contract progress will enable PAHs to start building on their plots by April 2004, institutional arrangements and loans terms and conditions need to be finalized by end-February 2004. This is quite a complex issue, as the institutional arrangements embarked upon must be sustainable from the start, since repayment of loans (in a revolving fund arrangement) will continue long beyond the closing date of the Project³. Therefore, short-term technical assistance under the Project will need to be mobilized before the end of 2003 to assist PMU 415 in the preparation of a detailed proposal⁴.

For the above to happen in time, the allocation of specific sites with clearly defined purchase terms and conditions affordable to the individual PAHs will also need to be finalised by late February 2004, so that actual plot purchases will be made prior to house construction starts, and so that land titles, where required, can be timely pledged as collateral for the construction loan. In part this will, like in the case of the Ward 11, District 6 apartments purchase, depend on finalisation of detailed individual land compensation to the PAHs for the land they will give up in that Ward.

³ The mission, together with PMU 415 staff, met with representatives from three organisations which, prima facie, could qualify to be entrusted with the task to handle the housing construction loan fund, i.e. the Labour Confederation of HCMC's Capital Aid Fund for Employment of the Poor (CEP), HCMC Women's Union (which will soon have a fund conferred to it by PC HCMC similar to CEP), and the Central Credit Fund (the HCMC branch of the national CCF/PCF co-operative credit system). Each of these organisations has built up experience with small loans for poor people, but so far hardly for housing. CEP has a branch in Binh Chanh District, and according to CCF there are 4 functioning Peoples' Credit Funds (PCF) operating in the district, including the Can Cao PCF in BHH Ward. Each of the parties visited expressed cautious interest in handling the housing construction loan fund. Further follow up by PMU 415 staff on these initial discussions will be vital.

⁴ The assignment could be structured in two stages: 1), assessing the feasibility of various institutional options for fund management, and selecting one of the three above institutions as a partner agency for stage 2), the further development of the fund's operational modalities, including proposing specific terms and conditions for the loans to be issued by the partner agency, using the available Project resources for the purpose. The proposal should also recommend how the adequate introduction of incentives for increased savings generation by the Ward 11 savings and credit groups (for which Project support is available, see section 3.5 below) could contribute to bringing such loans within reach of the PAHs. The proposal should also consider if the fund could also be used for home upgrading loans in the Ward 11 upgrading area, as that prima facie makes sense in the context of the integrated development of the area (even though it was not originally envisaged in the TFF).

As to the logistics of the relocation of PAHs from Ward 11, District 6 to the S&S area at BHH Ward, Binh Chanh District, PMU 415 will have to co-ordinate closely with the local authorities of both districts to ensure smooth resettlement.

3.4 Lagoon wastewater treatment plant pilot project

This component addresses **Specific Objective 3**: The wastewater of the Den canal has been treated through aerated lagoon technology and evaluated in view of its replicability

Achievements:

The lagoon WWTP detailed design has been completed. Water quality in the Den Canal is periodically monitored. The tender for construction has been issued, with bids expected by mid-October 2003. Preparation for the construction of the wastewater treatment plant has technically been timely and effective, in the sense that the aerial photos have been used to allocate/identify the site, and in the sense that progress has been normal from preliminary to detailed design and tendering.

Land compensation amounts required to be paid to 108 farmers having users right to the WWTP land has been estimated, and a compensation policy and budget has been submitted for PC HCMC approval in early September 2003.

Bottlenecks encountered and issues to be resolved:

Construction of the WWTP has been delayed by 8 months (as compared to the last report to the Steering Committee). The major causes of delays in project preparation to date are:

- slow land compensation procedures;
- slow appropriation of the feasibility studies (FS) where the precise identification of the land for the waste water treatment site is dominant;
- lack of momentum in the assessments of the technical solution due to the disagreement between experts;
- lack of appreciation of the advantage of integrated environment planning and management, which may lead to un-conventional solutions.

Especially the land compensation and acquisition problems have been serious factors in the delays encountered, and still form a direct threat to completion in due time. Land compensation and acquisition problems (and resulting delays) have been strongly underestimated in the formulation and design stage (in spite of the prior experience with these issues in the first phase of the project).

In this context, the role of the Steering Committee (SC) and especially the chairman is important. It appears to the mission that this support force has not been utilized timely and effectively to achieve the needed momentum. The mission also notes that the concerned line departments of HCMC may not have been adequately involved, in spite of PMU 415 efforts, and in that regard, too, the support of the SC chairman could have been brought to bear more effectively.

Approval of the land compensation policy and budget by PC HCMC is most urgently required, to be followed by payment of the agreed compensation amounts to the farmers concerned as soon as possible.

The design process has suffered from technical disagreements between the design consultants for the Project and the technical auditors who reviewed the treatment process

applied at PMU 415 request⁵. Although the design process has been affected by these differences of view, the mission notes that the audit functioned effectively and ensured a proper result, while the delays encountered were serious but not prevailing on this account. The detailed design (after audit) has been properly prepared, but has been influenced in a few cases by land acquisition obstacles (i.a. the Den canal was proposed to be bent in an unrealistic way on this account by the design consultant).

Once the tender bids will have been received, tender evaluation and approval needs to be expedited, so that construction can technically still start on 1st January 2004 as indicated in the tender documentation.

3.5 Socio-economic activities supporting pilot projects

This component addresses **Specific Objective 4**: Socio-economic support and capacity building have been enhanced.

Achievements:

Environmental education

Environmental education has been successfully implemented as an extra-curricular activity for a selected group of 4th and 5th grade pupils in 5 District 6 primary schools, though using volunteer teachers in these schools. Educational tools, including syllabi and curricula have been prepared on the basis of these pilot efforts for distribution and use elsewhere.

Community building and participation

Community cohesiveness in Ward 11, District 6 has been substantially strengthened through social workers support to communities, both in the upgrading area and in the areas where residents will have to be relocated. Activities comprise environmental improvement campaigns, support for the installation of septic tanks in the upgrading area, and support for relocation preparation in the relocation area. With the Project's social workers support, the PAHs have actively participated in the preparation of projects in Ward 11.

Savings and credit groups development

A rotating savings and loans programme has been pioneered from phase 1 of the project and this has been sustainably in operation up to now with support from the Project's social workers. At end-August 2003 230 savings and loans group members were participating in 17 groups, with an outstanding savings balance on that date of VND 108 million. Support has also been provided to the Women's Union in BHH Ward, Binh Chanh District to embark on a similar programme in that ward.

Institutional capacity building

The Project has sponsored a study trip for HCMC officials to China to review solid waste collection practices and a local study tour in Vietnam, to review the operation of lagoon technology WWTP elsewhere in the country. A fellowship has been awarded to enable a

⁵ The removal rate constant (for a linear kinetic reaction) was found to deviate with a factor of the order of 10. Because of the consistency in the reference values, the mission considers that PMU 415 has correctly used the design criteria suggested by the auditor, rather than those of the designer (however, this may mean that PMU 415 has inadvertently released the design contractor from his responsibility, even though the contractor has signed off on minutes of a meeting in which the contractor accepted the auditor's criteria – the possible legal implications on account of professional design faults liability need to be verified by PMU 415). The auditor's main reference is well known (from the Danish Technical University) but it might also be valuable to gather experience from Florida University which has extensive lagoon experience from similar climate conditions. In any case, the value of the removal-rate constant must be evaluated in a bench or pilot-scale test. In this context, the influent value of 200 mg/l is found appropriate to use for the dry season, because the monitoring in April, May and June (worst case) has shown dissolved BOD of the order of 100 – 240 mg/l, basically. The total BOD which includes the particulate material (most algae etc) is recorded in the same period to be 150-340 mg/l. The latter could be important as seen in relation to the needed water levels in the ponds.

PMU 415 staff to participate in an international urban planning and management training course in Belgium. Several seminars and workshop have been conducted.

The Project has provided significant support to the Official Development Assistance Partnership (ODAP) in HCMC, both through general budgetary support and through support for specific ODAP workshops.

Bottlenecks encountered and issues to be resolved

Environmental education

Based on the pilot experience which has been perceived as successful, District 6 intends to institutionalise environmental education in primary schools, by using the teaching materials prepared under the Project's auspices. A problem to be overcome is to find financial resources for this from the HCMC education and/or environment budgets, for it to be sustainable. The Department of Natural Resources and the Environment (DONRE) requires a proposal from District 6 for this purpose, along with an assessment of achievements to date.

Given its successful initiating effort, PMU 415 needs to consider what the Project can realistically do during the remaining project period to support the quest for sustainability beyond the development and dissemination of teaching materials. In the mission's view it would be reasonable for the Project to support District 6 in the preparation of its proposal to DONRE, including an assessment of the degree of success of the efforts to date. The mission also endorses the intention to re-focus the Project's support effort on training the teachers, and continuing the effort to improve teaching materials prepared.

Job creation and vocational training

Only incidental support has been extended through the social workers team for job creation and no support has as yet been provided for vocational training. Job creation efforts in phase 1 of the project were not successful, according to the phase 1 final report, but this was used as an argument to shift support to vocational training. However, according to PMU 415 it is not likely that useful outcomes will be achieved in a significant way on both counts within the context of the Project. PMU 415 therefore proposes to discontinue these activities and to re-allocate the resources set aside for this in the BTC side of the Project budget.

The mission concurs with this suggestion, as it appears that the objectives these activities would serve (which are obviously very important in their own right, particularly for the PAHs to be relocated to the S&S area in Binh Chanh District, who will lose the socio-economic safety net they have in Ward 11, District 6 when they relocate), cannot realistically be addressed significantly within the present scope of the Project. To make a meaningful contribution to achieve these objectives would require a completely redefined project scope, which would not be advisable to introduce mid-way in the Project's implementation period. It is suggested, however, to formally raise this at the next Steering Committee meeting, as the deletion of these items amounts to a (minor) material change in the project scope as per TFF.

Savings and credit groups support

While the efforts made in sustaining the savings and loan groups have been commendable, the mission notes that the aggregate volume of savings and loans, as well as the number of groups and group members, has not grown since late 2001. The mission understands that this is so because the existing groups' rules provide little incentive to save first and then borrow, rather than withdrawing savings in times of need (typically major withdrawals occur every year in the month and a half running up to the annual Tet festival). The mission further notes that the BTC budget line to support these efforts has hardly been utilised to date.

There is clearly a need to design and introduce a set of incentives to save in the savings and loans scheme to ensure that the aggregate asset balance will grow, and to thus provide investible capital for the participating PAHs to use in case of emergency, for purpose of livelihood investment or for investment in shelter. This will be of particular importance for those PAHs who will need to mobilize significant resources to meet the balance costs of their apartment/plot purchase and for starter house construction (supported by construction loans as needed). BTC resources available are adequate for this purpose and their utilisation will help to bridge the gap between land compensation awards for the PAHs and the purchase prices of the apartments and S&S plots as noted in section 6.4 below. Consideration may be given to the design of a matching grant arrangement to be provided by Project (BTC) resources to the concerned PAHs, proportional to the amount of savings generated (at a particular point in time or over a pre-specified period), provided that the proceeds of this will be devoted to Ward 11 apartment or S&S plot purchase, or to house-building in the S&S location. There are various possible ways to implement this, depending on the balance between the objectives of stimulating PAH savings or helping the poorest PAHs to meet the balance costs of their apartment/plot purchase⁶.

Dissemination of project activities and institutional strengthening

Very little use has been made to date of the resources available to put the project's activities on the map through use of the media. In the mission's view, this needs to be stepped up in the interest of enhancing the appreciation of the Project's work by the public, by HCMC officials and by other interested parties. Similarly, limited use has been made of the resources available to strengthen institutional capacity through staff training, study tours and updating of maps. It will be useful to work out a programme of activities on this count for the remainder of the Project period.

3.6 Project management

Achievements:

In the mission's view PMU 415, supported by the two long-term BTC advisors, has managed to develop a cohesive internal project management capacity with good and enthusiastic technical staff capability to handle project complexities to date. Co-operation between the two sides generally appears smooth, in spite of occasional professional differences of view.

PMU's internal reporting is done frequently and timely on a component-by-component basis, using a narrative style. Management follow up on major outstanding issues has generally been done in a responsive way, but ad-hoc, reacting to problems as they emerge, rather than anticipating/controlling them and using the project's institutional resources, including the Steering Committee (SC), to full advantage (the above-noted land compensation problems and procedures, the STS transfer issues and the Ward 11 tender evaluation problems are examples).

The PMU has updated project implementation progress schedules and financial projections three times since the start of the Project, at the occasion of the progress reports for the SC meetings in September 2002 (in which these projections were formally approved) and in April 2003, as well as in conjunction with the September 2003 mid-term review mission (attached as Annexes D and E), to be approved by the next (3rd) SC meeting scheduled for November 2003. At the 1st SC meeting a modified logical framework for the Project was approved, which amplified and quantified performance indicators related to the intermediate results (see Annex F for logical frame with mission comments).

⁶ In the mission's view a proposal for the introduction of such incentives could be developed in detail in the context of the short-term technical assistance assignment proposed to assist PMU 415 in scoping the envisaged housing construction loan fund (see section 3.3 above).

Bottlenecks encountered and issues to be resolved:

Given the imminent construction start of three major physical works packages, which will dominate Project implementation during most of the remaining life time of the Project, there is a need to enhance PMU's contract management capacity, both on the Vietnamese and BTC side, as this capacity is not strongly present within the PMU at present.

Advantage may be taken of the need to replace the BTC engineering advisor (who is leaving the Project end-2003) by a municipal/environment engineer with strong contract management experience. This person should preferably be in place by November 2003 to ensure an overlap with the current incumbent, and, assuming that construction on all packages will start before the end of the year, to be able to support the contract management capacity of PMU from the start of these major construction packages.

In addition, the mission is concerned that due to the rather traditional sectoral division of sections in the PMU's organisation chart, its staff resources may currently not be used as effectively as possible. Consideration should be given to make use of inter-sectional working groups wherever an integrated approach demands close collaboration of the sections.

In support of contract management, and to strengthen project management more generally and comprehensively, there is a need to strengthen the PMU management information system (MIS) and its operation. More specifically, the introduction of project-wide quarterly management reports may be considered. Such reports should comprehensively update implementation progress status, planning schedules and financial projections on a regular quarterly basis for the purpose of comprehensively informing project management, rather than updating these ad-hoc in preparation for external interventions.

In addition, there is need to frequently obtain guidance from HCMC and BTC authorities on issues beyond the PMU's control, i.a. the recurring problems with HCMC line departments' co-operation, and inadequate compliance with SC decisions when this occurs. It is therefore important for project management to report back to the Chairman of the SC and BTC more frequently than in the SC meetings, which, as a matter of principle should be held every six months. If need be, the size of the SC may be reduced to facilitate timely SC meetings, if that does not compromise the SC's functionality.

3.7 Inputs

Staffing inputs from both sides are considered adequate up to now, but additional contract management capability is required as noted above.

Budget disbursement

Due to the delays encountered, disbursement of project funds has been slower than envisaged, with an overall disbursement of 23% for the BTC part of the budget, less than 1 % for the CVF part of the budget, and 26 % for the HCMC part of the budget, all at end-August 2003. Disbursement problems were predictably most pronounced in areas which had most delays (as shown in detail in Annex E), while funds for project management (general means), particularly for staff expenditure, have been utilized more or less as expected.

Cost deviations

The Lagoon WWTP site land acquisition costs at current estimate amounts to VND 114 billion, or about 2.5 times the original estimate in VND terms. In the mission's view this cost over-run could have been much smaller, if land acquisition procedures for the major core of the land had been initiated immediately after the site had been identified (instead of waiting for final demarcation of the site boundaries). The Ward 11 compensation costs increased to VND 55 billion from VND 50 billion as originally budgeted.

Tenders for the lagoon WWTP and for the Ward 11 construction package are currently in progress. Once the tender offers for both will have been received by PMU 415 by mid-October 2003 cost estimates for these major works will be refined.

The currently estimated lagoon WWTP construction costs suggests an overrun of EUR 390,000, or about 21% over the original estimate (in spite of the EUR/VND exchange rate gain of about 25% between the original financial file and current mid-term estimates), or slightly higher than **overall** BTC project contingencies (to be confirmed by the tender outcome). This is partly offset by savings on some other items in the BTC side of the budget.

In the CVF budget an estimated savings of about EUR 140,000 equivalent are likely to occur on Ward 11 construction package (to be confirmed by the tender outcome). These savings could possibly be reallocated to items with cost over-runs.

4 Links to other activities

4.1 Feasibility Study on Sanitation and Urban Upgrading of the THLG Canal Basin

The Feasibility Study (FS) on sanitation and urban upgrading of the THLG canal was initiated in partnership between the PC HCMC and Directorate General of International Cooperation (DGIC)/BTC in late 2001 to prepare a major project for capital investment in the THLG Canal catchment area with envisaged external support, such as World Bank. The intention was to augment and up-scale the experience of the phase 1 and extension project into a bankable project for external financial support, thus broadening the benefits primarily from the phase 1 experience. The FS project has been managed by PMU 415 concurrently with managing the implementation of the Project.

The work on the FS has helped to place the Project in the THLG Basin context and perspective, and in that sense it has helped Project implementation. Interaction with the Project has been significant (i.a. through joint Steering Committee meetings), which has led to useful cross-fertilisation. On the other hand, it is clear that the FS project implementation has led to an additional management burden for PMU 415, which had an adverse impact on Project implementation.

The output of the FS was used in the formulation of Vietnam Urban Upgrading Project (VUUP – section 4.3 below), in that VUUP includes the THLG canal drainage improvements, embankment roads, off-canal drainage and urban upgrading proposals developed by the FS in the financing package currently under preparation for HCMC.

4.2 ODAP

The Official Development Assistance Partnership (ODAP) in HCMC is a forum for exchange of information and capacity building on (urban development) projects assisted by ODA in the city. Its secretariat is vested in the ODA Project Management Division of the HCMC Department of Planning and Investment. ODAP was established in 1999 with support from UNDP, World Bank, ADB and several bilateral support agencies, including the Directorate General of International Cooperation (DGIC) of Belgium. Belgian support has been coursed through the project from phase 1, and, as noted in section 3.5 above, the Project has provided significant support to ODAP, both through general budgetary support and through support for specific ODAP workshops.

ODAP has fulfilled a very useful function for the Project, and particularly for project management, through its information-sharing activities, as articulated by its newsletter (of which 16 have been published since ODAP's establishment), its PMU forums (8 forum meetings held to date), and through its workshops (8 conducted to date) on a variety of subjects. Continued participation in ODAP events will be beneficial for the project in the mission's view. In addition, it may be considered to conduct the end-of-project evaluation for the Project under ODAP's auspices.

4.3 Vietnam Urban Upgrading Project (VUUP)

The Vietnam Urban Upgrading Project (VUUP) is a major urban development project to be supported by World Bank and Agence Francaise de Developpement (AFD), intended to operate in four cities in Vietnam, including HCMC. World Bank pre-appraisal of the project took place in April 2003, with project appraisal envisaged in October 2003, for a World Bank loan to be effective for VUUP by the end of 2004. In HCMC VUUP will comprise support for low-income area upgrading, urban infrastructure development, resettlement housing for the urban poor, land and housing management, and micro-finance for housing improvement. Costs of the HCMC part of the project (two phases will be about \$ 300 million, with 54% of total costs to be financed by World Bank and AFD and the balance from government resources.

The VUUP project design in HCMC builds significantly on the experience of the Project to date, on the ADB supported Housing Finance Project (with regard to the micro-finance for housing improvement) and on the BTC-supported Feasibility Study for the THLG Canal Basin (section 4.1 above). As displayed in the World Bank's pre-appraisal mission's Aide-memoire, there are a significant number of policy decisions to be taken for which the lessons from the Project's implementation will be vital, particularly as related to low-income area upgrading and resettlement housing for the urban poor (and to a lesser extent to urban infrastructure development).

VUUP's project principles are as follows:

Active community participation in all stages of preparation, design and implementation;

- Relocation and/or resettlement will be minimized;
- Infrastructure designed to appropriate functional technical standards that are affordable to the city and to communities;
- The project will improve the living conditions of all residents living in the project area

These principles are quite similar to the principles underlying the design of the Project.

Due to the delays encountered in the Project's implementation, there is an opportunity to utilise some of the VUUP preparatory inputs in further Project development. This particularly applies to the housing micro- finance component of VUUP, the preparation of which provides some important institutional assessments⁷ which will be useful for the development of the housing construction loan programme in the Project (see section 3.3. above).

5 (Anticipated) results/outputs

5.1 Solid Waste Collection/STS

Project activities to date have resulted in some reduction of solid waste in the THLG Canal, and in the improvement of solid waste collection organisation and tools used, with a focus on

⁷ See: Vietnam Urban Upgrading Project, House Improvement Micro Finance Component (3b): Design and Implementation Partners, by Judith Brandsma and Loan Duong, April 2003

improving conditions for the private collectors. The interface between the public and private operation has been addressed as well. Collection has been reorganized in due time with focus at facilitation of the handling in the alleys and other areas where the District 6 Public Services Company cannot make use of their vehicles and tools for collection.

Specific outputs already achieved comprise the following:

Private collectors in Wards 3, 4, 7 and 8 of District 6 have been organized and given license (or sub-contracted) to provide the collection services in their area. Their reorganized routes save time and ensure sustainable collection through collection shares allocated to the licensees as fairly as possible. About 85-90 % of the households along the routes in the above wards have signed contracts with the collectors (lowest in Ward 4 at about 70%). 10% of their licensed fee of around 2.000.000 VND /month will be handed over to the ward for the ward's support and management.

The private collectors have been given provisions in form of uniforms and access to credit to take over the ownership of the newly designed and constructed pushcarts provided by the project. These carts have been designed to improve the efficiency and occupational health conditions, and the design enables the collectors to dispose off their loads in an effective manner with pre-sorting at the new public service facility (below) instead of in the streets.

In Ward 7, the new public service reception point is a specially designed Small Transfer Station (STS), which has been constructed at an optimal location for the private collectors, i.e. within a radius of 1.5 km. It includes a building with container lift, container ponds where the collectors can tip their load of easily, and parking facilities for the carts, which the mission considers to be a good solution to the overnight storage and safekeeping problem. The STS appears of high international standard in the mechanical and hygienic sense. The STS system includes two container trucks and 4 containers for the waste transport to the disposal site. The STS delivers the waste un- compacted to the disposal site. The trucks of Hyundai are specially designed container trucks with a hydraulic tip to enable emptying the containers, which are designed for top loading and end un-loading.

The STS system is to be operated by District 6 Public Services Company (PSC), for which reason its staff has been trained in the mechanical operations. The PSC has demonstrated that it is prepared for sustaining the operation, but it has not yet fully resolved the spatial overlap between the public services (on the main roads) and private operators (in the alleys).

5.2 Ward 11 upgrading and apartment resettlement pilot project

Envisaged physical outputs:

The number of apartments to be built was originally envisaged to be 200-210 units. Current detailed design provides for 253 apartment units to be built, which will provide some 20 -25% more on-site relocation opportunities than originally foreseen. The detailed design also provides for a local area market and a community centre, and for significant additional connecting roads as compared to what was originally foreseen in the TFF.

Likely impact on HCMC financial position:

As the construction costs for the apartments and area infrastructure are 100% financed out of the counter value fund (CFV) part of the Project budget, while Ward 11 land compensation costs (at VND 55.5 billion) are 100% financed out of the HCMC side of the budget, the impact of this component on the city budget will be a net resource outflow of VND 20.0 billion, assuming that the proceeds of the apartments sales (estimated at VND 35.4 billion) will be deposited in the HCMC accounts.

Sanitation in the upgrading area:

The sewer and drainage system infrastructure in the upgrading area can form a base for a more comprehensive system in which sewerage is separated from drainage and flood protection. However, it is understood that the master planning for the drainage of the THLG water shed is likely to be a compromise, where only the lower part of the canal will have a separated collection system to cut of the sewage inflow from the canal, together with new urban areas having separate systems. The provision of septic tanks in the upgrading area under the Project's auspices fits well in that context, and deserves to be extended for maximum impact.

5.3 Sites and Services resettlement pilot project**Envisaged physical outputs:**

The number of sites to be provided was originally envisaged to be 150. The detailed design provided for 138 plots, while the current updated implementation schedule envisages only 119 plots, or 20% less S& S relocation opportunities than originally foreseen. This may be problematic, given the fact that 26 (mostly) farmer households currently living within the adjacent Lagoon WWTP site will need to be accommodated as well as PAHs from District 6. The detailed design also provides for a primary school building instead of the local market building originally foreseen in the TFF.

Likely impact on HCMC financial position:

As the construction costs for the S&S sites infrastructure and for the primary school building, as well as the housing construction loans are 100% financed out of the BTC part of the Project budget, while land compensation costs (at VND 6.9 billion) are 100% financed out of the HCMC side of the budget, the impact of this component on the city budget will be a net cash resource inflow of VND 4.9 billion, assuming that the proceeds of the S&S plot sales (estimated at VND 11.8 billion) will be deposited in the HCMC accounts. In addition, the PC HCMC/DPC authorities budgetarily save the capital outlays on the primary school that would otherwise have been funded out of HCMC resources.

5.4 Lagoon wastewater treatment plant pilot project

The watershed for the Den canal has a population in the order of 120,000 persons at present (estimated 200,000 population in 2020). It is a sub-urban area in which existing settlements are rapidly densifying, and which has significant pressure from new housing development. The treatment site is an area with wet land characteristics in most of the available 37 Ha. site. The canal flow in the dry season is approximately 30,000 m³/day, and in the wet season many times more. It drains the area, which until a few years had very little industrial activity, so the canal is assumed to be heavily polluted primarily by human waste water, but solid waste can be a pollution element. The mission was unable to verify if unforeseen industrial wastewater generation will impair the potential treatment capacity of the WWTP. The wastewater treatment plant is a pilot project in a sub-urban area, which in technical terms is understood as plant from which lessons can be learned and good results demonstrated/ copied. Its eventual impact will depend very much on extensive use of the plant for testing different treatment modes.

The detailed design has been completed for wastewater treatment of the Den canal through aerated lagoon technology, and tendering is ongoing, as noted in section 3.4 above. The DEN canal is basically an open sewer so the Project simulates a sewer main pipe to a treatment plant in a traditional wastewater system, but it also simulates a direct measure to

improve the water quality in a stream/river by lagoon technology. Output standards for these are not the same⁸.

With regard to conceptual design and related technical issues, potential impacts are as follows: the advantage of using lagoon technology should be to apply a more “natural method” with very little or no chemical inputs (and operational costs), but the land area available is insufficient for this process, so aerated lagoon technology has been chosen. This requires less space due to the higher “chemical input” (primarily oxygen). The possible impact of using the extended lagoon technology is that it keeps or improves the retention capacity for storm water (short rains) to reduce flooding (but this may not be significant in this case, as the WWTP has been designed to be built at higher level than the surrounding ground level), and that surrounding urban settlements will have more open area and a better micro-climate or breathing space. The water will affect the airflows by cooling evaporation, and the sight of the low buildings in the plant can be hidden by bushes and trees in a much narrower strip than around traditional wastewater plants. This will be achieved without bad environmental impacts, like noise and odour, if operated properly. The disadvantage of the aerated lagoon technology is the land requirement, which amounts to 5-6 times the land take for traditional plants. This is due to the limited process capacity per surface unit, and the sensitivity to overloading, if the flow is not stable enough inside the treatment plant. The land problem is particularly important in rapidly urbanising areas where land prices are rising quickly. Obviously, actual outcomes along the above dimensions and the potential for replicability cannot be assessed yet at this stage.

As currently foreseen, upon completion of the plant in 2004, the year 2005 will be used for test running in different modes for the treatment plant in order to generate lessons learnt about the effect and efficiency of the plant, as the plant is unusual in a suburban context without gravity flows available from the physical features in the area. The ultimate Project Impact will therefore depend on expert inputs to engage and coordinate research from the individual institutions and the investigations of effect, efficiency and reliability of the plant tools. In particular, an opportunity exist to find methods of manipulating the technical facilities in order to achieve maximum environment impact at lowest cost-benefit ratio. The mission also finds it important to combine the opportunity to have breathing space and a major and highly needed infrastructure element.

5.5 Socio-economic activities supporting pilot projects

Environmental education:

The outcome of the environmental education support activities in 5 primary schools in District 6 is widely perceived by the participating teachers as having a positive impact, and this perception is shared by the mission. Several hundreds of pupils have increased their environmental awareness. A cadre of teachers has been formed who have developed specific capability in this area. The teaching materials developed and disseminated comprise a major milestone to the sustainability of the effort.

While the positive results are thus considerable, a drawback is that the environmental education effort has not been coordinated/integrated with the environmental campaigns addressed at the PAHs in the Ward 11 project area. This limits the impact of the current effort, but its institutionalisation will obviously extend to include pupils presently living in the project area. An additional limitation has been the voluntary nature of the extra-curricular effort for selected grade 4 and 5 pupils. Ultimately the objective should be the immersion of environmental issues in the regular compulsory school curriculum. If retained as an extra-

⁸ The key parameter in this context is the Biological Oxygen Demand (BOD), which should be less than 50 mg/l in the outlet of the treatment plant, while the surface water quality standard specifies a BOD lower than 25 mg/l for Class B water (not to be used for drinking water and not for fishing).

curricular activity, efforts should be made to ensure that larger number of pupils participate and benefit, while teacher should also be appropriately compensated for their efforts – an issue of inadequate resources, which will hopefully be addressed by the District 6 institutionalisation proposal noted in section 3.5.

Community building and participation

As noted in section 3.5 community cohesiveness in Ward 11, District 6 has been substantially strengthened through social workers support to communities, both in the upgrading area and in the areas where residents will have to be relocated. Without this support it is unlikely that cohesion of project activities in Ward 11 could have been maintained, particularly in the face of the considerable delays encountered. The concept of community participation in project preparation and design has been successfully pioneered.

Given that successful development, there are clearly opportunities to apply the same approach equally successful to project implementation monitoring and support both in Ward 11 as well as in the S&S development. Consideration may be given to establishing a PAH monitoring group with formal responsibility of assisting PMU 415 in supervising the apartments and S&S infrastructure construction to enhance quality control. Allocation of the apartments and the S&S plots to the individual PAHs will benefit particularly from the approach, but this must be strongly supported by the social workers team in view of the vested interest of individual PAHs.

Savings and credit groups support

While the efforts made in sustaining the savings and loan groups have been commendable, the mission notes that the aggregate volume of savings and loans, as well as the number of groups and members, has not grown since late 2001, as noted in section 3.5.

The impact of the development of the savings and loans groups will be considerably enhanced if the BTC resources for this budget line will be used to design, introduce and financially support a set of incentives to save in the savings and loans scheme to ensure that the aggregate asset balance will grow, and will provide investible capital for those PAHs who will need to mobilize significant resources for investment, e.g. to meet the balance costs of their apartment/plot purchase and for starter house construction (supported by construction loans as needed). BTC resources available could i.a. be used as a matching capital grant as a reward for having achieved a certain level of savings, with the enhanced balance at the end of the savings period to be used to help to bridge the gap between land compensation awards for the PAHs and the purchase prices of the apartments and S&S plots, as noted in section 6.4 below. This should be seen as complementary to the construction loan facility for S&S development.

6 Project implementation risks

6.1 Continuing compensation settlement and tendering delays

The discussion in the above sections is based on the assumption that all three major construction contracts will start by end-2003. This is only possible, if the following conditions can be met:

- compensation policy and amount in BHH ward, BC District will be approved as soon as possible (PC HCMC undertaking received), and compensation amounts will have been paid to farmers by late November 2003 by the latest, so that the contractor can take vacant possession of the site;
- lagoon tender evaluation and its approval, and contract negotiations and its approval will have been completed by end-November 2003;

- re-tender of Ward 11 apartment housing/infra/embankment package evaluation will have been approved, and contract negotiations completed and approved by end-November 2003.

Some of these conditions are more difficult to fulfil than others, but it is clear that the overall risk of further delays is significant.

6.2 Further cost-overruns

As noted in section 3.7 above, tenders are in progress for the WWTP and the Ward 11 package of infrastructure, housing and community facilities, with contracts to be awarded later in 2003. The S&S construction contract has been awarded and construction will commence shortly. Additional cost-overruns beyond those currently foreseen may arise, so in revising the level of contingency funds provisions for these three major civil works packages this risk should be explicitly considered. Obviously this risk will have been reduced significantly after the tender award for the WWTP and the Ward 11 packages. For that reason it may make sense to await the outcome of those before finalising BTC and CVF budget revisions.

6.3 Inadequate construction supervision of major physical works contracts by PMU

As noted in section 3.6 above, the PMU is currently insufficiently equipped to adequately supervise the three major contracts of physical works envisaged to start by the end of 2003. Supervision deficiencies may lead to further delays, difficulties in resolving conflicts with the contractor and, if unchecked, potentially sub-standard construction. This risk can and should be addressed by reinforcing PMU's contract management capability, as suggested in section 3.6 as soon as possible.

6.4 Financial constraints

There are two potential financial constraints, which may also cause further implementation delays:

- HCMC financial constraints in timely meeting large compensation cost overruns, particularly that adequate financial provision is available in the HCMC budget for 2003 to meet all BHH site compensation payments in full, and if so, that these monies will be claimed in time by district authorities (BC district is on the critical path);
- That adequate financial provision may not be available in the 2003 CVF to enable a first payment on the Ward 11 construction package by the end of the year.

The risk under a) above is considered significant, even though the PC HCMC has indicated in the end-of-mission wrap-up meeting that it will make best efforts to meet these cost overruns timely. A fall-back position could be to meet and disburse land compensation costs required to start construction of the S&S infrastructure and of the re-channelling of the Den canal before the end of the year 2003, with a second disbursement for land compensation required to acquire the area for the first phase of the lagoon WWTP construction to take place early in 2004, and a final payment (to cover land acquisition required only during the second phase of the lagoon construction) to take place by the middle of 2004⁹.

The seriousness of the risk under b) is unknown to the mission. Given the fact that a first payment to the contractor will need to be made upon contract signing, hopefully before the end of the year 2003, it will be prudent to re-confirm at national level that these funds will be available timely.

⁹ The alternative of not proceeding with the Lagoon WWTP at all in view of the very significant cost increases was raised by the mission. The PC HCMC has indicated to the mission that it wishes to proceed with WWTP development in spite of these cost increases.

6.5 Non-acceptability/affordability of relocation options by PAHs

In the mission's understanding, the PAHs are quite familiar with and accept the technical features of the relocation options. A major source of uncertainty for the PAHs is the continuing uncertainty as to the award of specific units/plots to each of the PAHs, the affordability of the apartments and S&S options and the time of their availability. In consequence, some 30 PAH have decided not to wait for any further delays and rather take the cash compensation and re-settle on their own. Fortunately this is only a relatively small proportion to date, but further implementation delays will cause that behaviour to be emulated by others.

The approved policy on purchase prices for the apartments provides for both direct purchase with payment in full, as well as for leasing (rental) the units with fixed (interest-free) monthly payments during a 30 or 50 year's period. The basic intention in the approved compensation policy is that PAHs will generally use their compensation awards to buy an apartment (or an S&S site in BHH Ward, Binh Chanh District). Households with a compensation award of VND 50 million or less do not have the option to take this award in cash. The approved compensation policy provides for cash adjustment for the excess of the compensation amount over purchase price (resulting in a balance cash payment to the PAH, if any) or vice-versa (cash payment of the balance by the PAH required), and for interest-free payment in instalments over a maximum 10 year period.

A comparison of approved compensation awards to date and purchase prices of the apartments carried out by the mission based on data provided by PMU 415 suggests that, **on average**, purchase prices (in the aggregate set at construction cost recovery levels, including the ascribed land acquisition costs) can be met out of the compensation awards to the extent of 75% (i.e. the average amount of compensation to the PAHs as known at the time of the mission will cover 75% of the average purchase costs of the units by the PAHs). For the S&S plots a similar comparison suggests that compensation coverage of the purchase price is more than 100% **on average**, leaving some excess compensation funds to be utilised for starter house construction.

However, this will present problems for the poorest PAH, who generally receive relatively low compensation awards: given approved purchase prices of the apartments of VND 69 million upwards and of S&S plots of VND 81 million upwards, direct purchase will be impossible for those households whose compensation will significantly fall short of that amount (minimum compensation as per policy is VND 25 million). Even payment of the balance in monthly instalments over a 10 year period may be out of reach for the poorest, with only the above long term lease (preferably hire-purchase rather than rental) options in the apartments being affordable¹⁰. This underscores the importance of agreeing terms and conditions with each of the households concerned that fit within the approved policies, but match their ability and willingness to pay¹¹, as noted in sections 3.2 and 3.3 above.

In addition, the affordability of the S&S housing option will be even more problematic for those (poor) PAHs who undoubtedly will have to pay for their plots in instalments. Such

¹⁰ Of the 119 households for whom compensation had been awarded at the time of the mid-term review, 7 households in the upgrading area were awarded compensation for part-demolition of their house, but do not require relocation. Of the remaining 112 households (all to be relocated), 39 households are to receive compensation awards lower than VND 70 million. A quick survey of 34 out of these 39 households carried out by the social workers team of PMU 415 at the mission's request suggest that ability to set aside monthly household savings to meet payments towards a house is very limited, in the order of magnitude of VND 100-200,000 per month at most.

¹¹ Some households may prefer to relocate by themselves, even though it may be questionable if the compensation award will buy adequate housing in proximity of households' job opportunities.

PAHs very likely will also require a construction loan to build at least a starter home, but the combined monthly costs of plot instalment charges and repayment of (and interest on) the construction loan may not be within reasonable affordability limits for these household.

6.6 inadequate loan financing arrangements for S&S components

As noted in section 3.3 above, the TFF provides for a construction loans scheme to support the PAHs to be relocated in the S&S site in building a minimum “starter” house. The operational arrangements for such a scheme have not yet been developed. As the infrastructure construction contract progress will enable PAHs to start building on their plots by April 2004, institutional arrangements and loans terms and conditions need to be finalized by end-February 2004.

Given the complexities of the institutional arrangements required, the mission perceives that there is a risk that adequate arrangements will not be operational by the time the PAHs to be relocated will require these loans. This may adversely affect the willingness of PAHs to relocate to the S&S site and/or lead to makeshift, sub-standard temporary housing being constructed by the PAHs on their plot, as this may be the only option they can afford in the absence of adequate financing arrangements.

6.7 Operational delays in relocating Ward 11 PAHs to apartments and S&S scheme

The above construction delays and financial constraints may cause problems in relocation of the PAHs to the apartments and S&S scheme. In addition, there may be other logistical and administrative reasons, why further delays could occur. On the community side, the social workers team has prepared the PAHs for the relocation changes quite extensively, and it is envisaged that that support, as well as legal support (i.a. to finalize land titles and residential permits) to the PAHs will continue. The mission, however, is concerned that to date no operational step-by-step relocation plans have been prepared yet by PMU in co-operation with the District 6 and District Binh Chanh authorities.

7 Project impact risks

Limited or no internalization of lessons learnt from pilot projects:

The Project is implementing a range of pilot projects with the intention that lessons learnt from these will be considered by the PC HCMC and applied in subsequent similar schemes as appropriate. Given recent policy pronouncements by the PC HCMC in relation to VUUP (see section 4.3 above), the mission had expressed concern to the PC HCMC that the lessons learnt from Project implementation will be utilised in urban policy and programme development in HCMC. The PC HCMC re-confirmed its intention of doing so, if the outcomes of the pilot projects will justify that.

However, this pre-supposes that the Project has made adequate arrangements to identify and document these lessons learnt. While the Project has the express intent and financial resources to do so, the mission does not feel that all base line data required for this have been identified and established, and will be subject to careful monitoring as implementation proceeds.

The following impacts will be pertinent to document:

- the appropriateness of solid waste management arrangements (incl. STS) pioneered at District and Ward level;
- the appropriateness of poor community upgrading as pioneered in Ward 11, District 6 level of community participation in project decision making;

- the appropriateness of planning and design standards of apartment and S&S relocation;
- the financial sustainability of poor households relocation to apartment and S&S as pioneered in the project;
- the rate and impact of attrition (self-relocation, and apartment/plot resale) among PAHs to be relocated: where they will go, and what housing conditions they will end up in;
- the suitability of lagoon WWTP approach in densifying urban areas such as Binh Chanh district;
- the appropriateness of credit support as pioneered.

8 Principal mission recommendations for further Project implementation

8.1 Overall Project issues

8.1.1 Project closing date, staffing and management

Given the delays encountered and the revised implementation schedules (Annex D), the mission recommends that PMU 415 be extended to mid-2006 (with a gradually declining staff complement in keeping with the envisaged workload over time), with a contingency provision up to the end of that year, to ensure that all implementation will be successfully achieved.

It is further recommended that the BTC long-term staff input to be extended to end-March 2006 for the same purpose, with the chief technical advisor remaining until that time. The municipal engineer envisaged to be recruited for an assignment start in November 2003 will be required until end-March 2005. The mission recommends that BTC recruitment for this position will be undertaken urgently.

As physical implementation will be dominant, consistent MIS utilisation and tight contract management will be necessary to prevent further delays. The mission recommends that more consistent and comprehensive reporting and feedback procedures are adopted as suggested in section 3.6 above.

8.1.2 Budget requirements

In view of the cost-overruns encountered and the required extension of long term BTC staff, the mission recommends that the total BTC budget will be increased by **EUR 256,000** (as indicated in the revised financial projections in Annex E, but further increases may be required, if the award of the WWTP lagoon tender comes in significantly above current estimates). These projections include a scaling back of some expenditures consistent with achieving the Project's objectives during the proposed extension of the remaining Project period. The alternative of meeting the additional financial requirements by further cutting back other foreseen expenditure items has been considered, but is not recommended by the mission, as the mission is satisfied that these expenditures will all be required.

The mission recommends that the HCMC part of the budget will be augmented by VND 69 billion, primarily to meet compensation cost overruns, and to extend the operation of PMU 415 as suggested above. Of the total amount needed for land compensation (including funds already budgeted for and those newly requested), VND 110 billion will be required to be disbursed by October/November 2003 to enable all construction to start as scheduled (an acceptable slightly slower disbursement on account of the land acquisition in BHH Ward, Binh Chanh District is suggested as a fall-back option in section 6.4 above).

8.1.3 Impact studies

The mission recommends that PMU 415 prepares and implements a comprehensive impact evaluation plan to minimize the risk that lessons learnt will not be internalised.

Many of the sensitive issues revolve around the appropriateness of the relocation options offered in the Project. It will therefore be extremely important to factually assess the behaviour of relocated PAHs through a carefully designed periodic household survey, including a tracer study of households relocating on their own and of those selling out after relocation. Given the fact that 30 PAHs have already self-relocated, the mission recommends that project social workers' resources are allocated to this immediately.

8.2 Recommendations by components

8.2.1 Solid Waste Management in District 6

The mission strongly recommends that the STS will be made operational by District 6 and PC HCMC immediately – at least at least not later than end September 2003

8.2.2 Ward 11, District 6 upgrading and relocation

The mission recommends that the contract package tender for apartments and infrastructure will be awarded as soon as possible, so that construction can start before end-2003. The mission further recommends that Ward 11 compensation awards to be finalized timely for phased relocation and construction as currently envisaged (see section 3.2 above).

On present schedule the warranty period for the Ward 11 construction contract package will expire only in early 2007, i.e. beyond the currently proposed closing date of the project. It would be best if the hand-over of the assets created to the future owner (which will happen within the project period) would also comprise the right to claims against the contractor for failure, as well as the 5% retention fee, payable on expiry of the warranty period. The mission recommends that the legality of this option is verified on both the Belgian and the Vietnamese side (a similar issue will occur for the WWTP and the S&S contracts in the event of significant further delays for these packages).

8.2.3 BHH Ward, District Binh Chanh Lagoon WWTP and Sites and Services

The mission suggests that the agreed waiver of approval by city departments of detailed designs for lagoon WWTP and S&S, as per TFF, will be urgently re-confirmed by PC HCMC to the relevant authorities (line departments), to facilitate smooth project implementation.

The mission recommends that the Binh Chanh District S&S and Lagoon WWTP sites land compensation awards to be finalized by October and November 2003 respectively. The mission further recommends that PC HCMC disburses the Binh Chanh lagoon WWTP and S&S site land compensation awards immediately thereafter.

The mission strongly recommends to PMU 415 to urgently prepare a proposal for the institutional and operational construction loan arrangements for S&S, which needs to be finalized by February 2004. To expedite this, the mission has made some operational suggestions to PMU 415 staff for the purpose, and facilitated meetings of the PMU 415 staff with possible intermediary organizations (see footnotes 3 and 4 above). The mission further recommends that a short-term BTC expert mission is fielded for this purpose in November 2003 to assist PMU 415 to prepare the proposal, based on the direction already initiated during the mission.

Extensive Lagoon WTTTP testing is envisaged during 2005. The mission strongly supports PMU 415's intention to utilise external specialised services for this purpose. Three well planned short term inputs by an international expert of the order of 2½ months during the

year are suggested, i.a. to nurture and intensify the role of participating local institutions. It is further suggested to involve other donor agencies providing support to the urban sanitation sector in HCMC in this activity (through ODAP), creating a broader platform of international partners, which would potentially increase the relevance of the testing programme for sector policy development. The mission recommends that PMU 415 develops an initial outline for a testing programme by mid-2004, which could then be reviewed with national and international experts.

Annexes

- A Terms of Reference
- B Listing of persons met
- C List of documents consulted
- D Revised Implementation Bar charts
- E Revised Financial Projections
- F Commented Log-frame