

**CIRCULAR No.26/1999/TT-BTC OF MARCH 10, 1999 GUIDING THE FINANCIAL MANAGEMENT MECHANISM FOR THE "FORESTRY AND HEADWATER PROTECTION FOREST MANAGEMENT" PROJECT FINANCED BY ADB**

Pursuant to:

- Loan Agreement No.1515-VIE(SI) between the Socialist Republic of Vietnam and the Asian Development Bank (ADB) for the "Forestry and headwater preventive forest management" project, which was signed on June 11, 1997;

- Decree No.178/CP of October 28, 1994 of the Government defining the tasks, powers and organizational structure of the Finance Ministry;

- Decree No.87/CP of August 5, 1997 of the Government prescribing the Regulation on the management of the borrowing and use of the official development aid as well as the circulars guiding the implementation of the Decree;

- Decree No.42/CP of July 16, 1996 of the Government promulgating the Regulation on Investment and Construction Management and Decree No.92/CP of August 23, 1997 of the Government amending and supplementing a number of articles of the Regulation on Investment and Construction Management;

- Decree No.43/CP of July 16, 1996 of the Government promulgating the Regulation on Bidding and Decree No.93/CP of August 23, 1997 of the Government amending and supplementing a number of articles of the Regulation on Bidding;

- Decision No.22/TTg of January 11, 1997 of the Prime Minister ratifying the pre-feasibility project for forestry and headwater protection forest management in the provinces of Thanh Hoa, Quang Tri, Phu Yen and Gia Lai;

- Decision No.661/TTg of July 29, 1998 of the Prime Minister on the objectives, tasks, policy and implementation of the project for planting 5 million hectares of new forests;

- Joint Circular No.81/1998/TTLT/BTC-NHNN of June 17, 1998 of the Finance Ministry and the State Bank, guiding the procedures for, and management of, capital withdrawal for ODA projects;

- Decision No.1680A/1998/QĐ-BTC of December 16, 1998 of the Finance Minister, providing detailed guidance on the ODA capital-withdrawing procedures;

After consulting the Ministry of Agriculture and Rural Development, the Finance Ministry hereby guides the mechanism for management and use of the capital for the Forestry and Headwater Protection Forest Management project as follows:

## **I. GENERAL PROVISIONS:**

**1. Interpretation of terms:** The concepts and terms used in this circular have the same meanings as in the Loan Agreement and shall be construed as follows:

- Project: is the Project for Forestry and Headwater Protection Forest Management with loan capital from the Asian Development Bank, which is implemented in four provinces: Thanh Hoa, Quang Tri, Phu Yen and Gia Lai.

- Investor: is the Ministry of Agriculture and Rural Development, which is tasked to organize the implementation of the project and hand over the completed capital construction works to the local People's Committees.

- The Central Board for Management of the Project is a unit established by decision of the Minister of Agriculture and Rural Development to organize the management and execution of the project.

- The provincial boards for management of the project are units established by decisions of the People's Committees of the provinces covered by the project to organize the execution of the project in their respective localities.

- The district boards for management of the project are units established by decision of the People's Committee of Gia Lai province.

## **2. Management principles:**

- The sources of ADB loan capital and aid from the Netherlands Government (hereafter referred collectively to as the ADB capital source) for the project constitute a loan revenue and foreign aid of the Vietnamese Government, therefore the entire loans and aid must be reflected into the State Budget. The Finance Ministry shall manage and monitor the

implementation of the loans and the payment of debts to the ADB when they become due according to the terms prescribed by the Agreement and in accordance with Vietnam's current regulations.

- The Forestry and Headwater Protection Forest Management Project is a capital construction project of particular nature and is managed according to the current budget management regulations on capital construction investment and forestry-ecological investment.

- The Ministry of Agriculture and Rural Development shall have to direct the use of capital for the right purposes and the project contents already approved, in accordance with the terms stated in the Agreement and Vietnam's current regulations.

- The Central Board for Management of the Project shall have to uniformly manage the capital withdrawal and settle the expenditures on the project's activities from the central to grassroots levels.

- The provincial and district boards for management of the project shall have to manage, and settle expenses for the activities of the project according to the responsibility assignment or the authorization of the Central Board for Management of the Project, fully and promptly supply documents and vouchers related to the project's expenditure within their respective provinces and districts so that the Central Board for Management of the Project fills the procedures for capital withdrawal and settlement of expenditures for the entire project.

- For construction items having the capability to refund the capital, the Finance Ministry shall consult with the Ministry of Agriculture and Rural Development to define the specific mechanisms for re-loans and capital refunding.

- The Bank for Agriculture and Rural Development is the bank that services the project and carries out procedures for withdrawal of capital from ADB and payment at the project's request when it is so agreed by the Finance Ministry. During the course of implementation, the Bank for Agriculture and Rural Development may enjoy service charges for each arising operation according to the charge rates table of the Bank for Agriculture and Rural Development in conformity with the State Bank's regulations on collection of via-bank payment service charges. The charge amount mentioned above shall be accounted into the total investment amount of the project.

## II. DRAWING UP INVESTMENT CAPITAL PLANS OF THE PROJECT

The Ministry of Agriculture and Rural Development shall have to draw up and submit for approval the plan on investment capital for the project from ADB sources and the domestic reciprocal capital according to the current regulations.

- Annually, according to the regime of drawing up, submitting, considering and approving the State budget estimates, the provincial Boards for Management of the Project shall elaborate plans on investment capital for projects in their respective provinces, including the expenses on the activities of the provincial Boards for Management of the Project. Such plans must be elaborated strictly in accordance with the contents and forms set by the Central Boards for Management of the Project, approved by the provincial People's Committees and sent to the Central Boards for Management of the Project by the end of July every year before the plan year.

- The Central Boards for Management of the Project shall have to synthesize the investment capital plans of the project for the plan year and submit them to the Ministry of Agriculture and Rural Development for incorporation into the investment capital plan of the Ministry, send and defend such plan with the Ministry of Planning and Investment and the Finance Ministry so as to synthesize and submit them to the Government and the National Assembly for ratification.

- After being assigned the investment capital plan by the Government, the Ministry of Agriculture and Rural Development shall allocate such investment capital plan to the Project (including the investment capital plan of the project, the details of ADB loans, Netherlands aid capital, domestic reciprocal capital, the investment capital made by the Central Boards for Management of the Project and the investment capital made by the provincial Boards for Management of the Project). The notice on investment capital allocation to the project shall be sent to the Finance Ministry (the External Finance Department and the General Department for Development Investment).

- Basing itself on the project's annual investment capital plan already assigned, the Central Boards for Management of the Project shall have to make quarterly plan for capital withdrawal from the

advance payment account and submit it to the Finance Ministry (the General Department of Development Investment) for ratification. Such plan, after being ratified by the Finance Ministry, shall serve as basis for withdrawing capital from the advance payment account. In cases where at the beginning of the year the project is not yet given the plan, the Ministry of Agriculture and Rural Development shall send an official dispatch to the Finance Ministry requesting the advance assignment of the investment capital plan which shall serve as basis for the elaboration of quarterly plan on withdrawal of capital from the advance payment account. Such plan can be readjusted according to the implementation tempo. The request for readjustment of the plan on withdrawal of capital from the advance payment account shall be addressed to the General Department of Development Investment for ratification at least 15 days before the end of the quarter.

- The mechanism for carrying forwards to the following year the investment capital plan with regard to forestry-ecological investment:

+ If at the end of the plan year the project does not use up the forestry-ecological investment capital under the assigned plan, the unused part can be carried forward to the following year for further implementation (not subtracting from the following year's plan).

+ For capital allocated in advance to forestry-ecological investment project items which, by the end of the year, remain unable to be settled, they shall be recovered from the implementation volume of the following year (not subtracting from the following year's plan).

### III. ACCOUNT OPENING:

#### 1. The Central Board for Management of the Project shall open the following accounts:

- Two advance payment accounts at the Bank for Agriculture and Rural Development so as to receive the advance capital from ADB loan capital source and the source of aid from the Netherlands Government (hereafter referred collectively to as the advance payment account) for spending on the project's activities.

- The account at the General Department of Development Investment for the allocation of

reciprocal capital to the Central Board for Management of the Project and monitoring the ADB's capital allocated to the project.

#### 2. The provincial Boards for Management of the Project shall open the following accounts:

- The capital allocation account at the provincial Department of Development Investment to receive the reciprocal capital allocated to the project and monitor the ADB's capital allocated to the project.

- The transaction account at the Bank for Agriculture and Rural Development for payment transaction when necessary.

#### 3. Accounts and saving books:

The Bank for Agriculture and Rural Development (the district branches) shall open accounts or saving books for family households participating in the project in order to receive the payment money for family households.

### IV. WITHDRAWAL, ALLOCATION AND MANAGEMENT OF INVESTMENT CAPITAL FOR THE PROJECT:

#### A. MANAGEMENT AND ALLOCATION OF RECIPROCAL CAPITAL:

- Basing itself on the Ministry of Agriculture and Rural Development's division of responsibility for the execution of the project's tasks between the Central Board for Management of the Project and the provincial Boards for Management of the Project, on the annual reciprocal capital budget for the project which has been already specifically allocated to the Central Board for Management of the Project and the provincial Boards for Management of the Project by the Ministry of Agriculture and Rural Development and on the approved plan for capital withdrawal from the advance payment account, the General Department of Development Investment shall transfer the budget capital to the Development Investment Departments of the provinces under the project for the allocation of reciprocal capital and the advance payment of ADB aid capital according to the project implementation tempo. The reciprocal capital to be spent by the Central Board for Management of the Project shall be allocated directly by the General

Department of Development Investment. The payment by the reciprocal capital sources of the Provincial Boards for Management of the Project shall be effected by the Provincial Department of Development Investment.

- The reciprocal capital shall be allocated according to the proportion of aid granted to each work item of the project as agreed upon by the ADB in the Loan Agreement and the project's document.

### **1. Payment for the capital construction volume:**

The specific payment order and procedures shall comply with Circular No.63/TC/DTPT of November 2, 1996 of the Finance Ministry guiding the management and allocation of investment capital for capital construction in the State Budget capital source.

**2. Payment to the family households/contractors** for the implementation of project items on afforestation, natural forest protection, tree planting, agro-forestry works, pasture improvement and some small capital construction items:

The provincial Department of Development Investment shall pay the reciprocal capital for each payment item and at the same time be entitled to use the domestic capital source for the advance allocation of the ADB capital in one price invoice. Such advancedly allocated capital shall be recovered for repayment to the provincial Department of Development Investment from the project's advance payment account.

The provincial Boards for Management of the Project shall have to sum up the requests for advance payment/payment to the work volume performed by households or contractors, to inspect, calculate and determine the amount to be paid, including the amount paid by the reciprocal capital source and the amount paid from the ADB capital source, make and submit a list to the provincial Departments of Development Investment for certification.

After receiving the payment request of the provincial Boards for Management of the Project, the provincial Departments of Development Investment shall, within 5 working days, inspect and write the certification in the price invoice, clearly stating the amount to be paid by the reciprocal capital and the amount to be paid by the ADB capital and transfer the money (including the reciprocal capital

and the capital paid in advance for the ADB assistance) to the Bank for Agriculture and Rural Development (provincial or district branches) for via-bank account payment into the accounts or savings books of family households or contractors.

The Bank for Agriculture and Rural Development shall have to report to the provincial Departments of Development Investment, the Central Board for Management of the Project and the provincial Boards for Management of the Project on the allocation to family households or contractors.

The provincial Boards for Management of the Projects shall have to carry out procedures for the withdrawal of capital from the advance payment account to repay to the provincial Departments of Development Investment the sum of money allocated in advance for payment of the ADB assistance capital.

## **B. WITHDRAWAL, ALLOCATION AND MANAGEMENT OF ADB'S LOAN CAPITAL**

- The withdrawal of capital from the ADB loan capital source to pay for the activities of the project in the forms of direct payment, letter of commitment, the capital-refunding procedures and the advance payment account shall be effected by the Central Board for Management of the Project according to the order and procedures for the withdrawal of official development assistance capital, as stipulated in Joint Circular No.81/1998/TTLT/BTC- NHNN of June 17, 1998 of the Finance Ministry and the State Bank and Decision No.1860A/1998/QD-BTC of December 16, 1998 of the Minister Finance.

- Where the capital is withdrawn for payment in the form of direct payment, letter of commitment and capital-refunding procedures at the request of the provincial Boards for Management of the Project, the provincial Boards for Management of the Project shall have to promptly and fully supply documents and vouchers related to the project's expenditure within their respective provinces so that the Central Board for Management of the Project carries out the procedures for capital withdrawal and payment.

### **1. Where payment for expenditures is made from the advance payment account:**

*1. Withdrawal of capital from the advance payment account for payment*

The Central Board for Management of the Project shall withdrawal capital from the advance payment account for payment, based on the quarterly plan of spending from the advance payment account, already approved by the Finance Ministry (the General Department of Development Investment) and registered with the Bank for Agriculture and Rural Development.

In case of lumpsum or final payment for contracts, the Central Board for Management of the Project shall forward the dossiers and vouchers according to the current regulations to the General Department of Development Investment, requesting the certification of the work volume completed and eligible for payment. Within 5 working days, the General Department of Development Investment shall consider and certify the price invoice and pay the reciprocal capital to the contractors. Basing itself on the consent of the General Department of Development Investment, the Central Board for Management of the Project shall carry out the procedures with the Bank for Agriculture and Rural Development for payment from the advance payment account to the contractors.

Each item of payment from the advance payment account must strictly comply with the foreign capital/domestic capital ratio prescribed in Annex 2.

Each item of payment from the advance payment account at the request of the Central Board for Management of the Project must be sent to the General Department of Development Investment for subsequent inspection procedures (right after the payment is made).

*2. Payment at the request of the provincial Boards for Management of the Project:*

In order to withdraw capital from the advance payment account for payment to the contractors, the provincial Boards for Management of the Project shall send vouchers already certified by the provincial Departments of Development Investment to the Central Board for Management of the Project. After receiving the payment requests from the provincial Board for Management of the Project, the Central Board for Management of the Project shall, within five working days, examine the validity of the vouchers then request the Bank for Agriculture and Rural Development to transfer the payment money from the advance payment account to the contractors.

For items of payment from the advance payment account made at the request of the provincial Boards for Management of the Project and certified by the provincial Department of Development Investment, it is not necessary to send the dossiers to the General Department of Development Investment.

The capital withdrawing process shall follow Annex 3A.

*3. Withdrawal of capital from the advance payment account to refund items of advance payment made by the provincial Departments of Development Investment to family households or contractors for the implementation of such project items as afforestation, natural forest protection, tree planting, agro-forestry works, pasture improvement and some small capital construction items:*

After making payment to family households and contractors, the provincial Boards for Management of the Project shall have to gather all vouchers of expenditure paid in advance with their capital and the ADB assistance capital by the provincial Departments of Development Investment and transfer them to the Central Board for Management of the Project, requesting the withdrawal of capital from the advance payment account to refund the advance payment capital of the provincial Departments of Development Investment. Within 3 days after receiving the vouchers, the Central Board for Management of the Project shall have to check the validity of the vouchers and carry out the procedures with the Bank for Agriculture and Rural Development for the withdrawal of money from the advance payment account for repayment to the provincial Departments of Development Investment.

The capital withdrawing process shall follow Annex 3B.

*4. Payment for regular expenditures of the Central and provincial Boards for Management of the Project:*

Basing itself on the regular expenditure estimates of the Central and provincial Boards for Management of the Project, which have been approved by the Ministry of Agriculture and Rural Development, the Central Board for Management of the Project shall carry out procedures with the Bank for Agriculture and Rural Development for payment with the ADB capital according to the percentages prescribed in

## Annex 2.

*5. Expenses for training and seminar activities:*

The Central Board for Management of the Project shall draw up the detailed estimate and submit it to the Ministry of Agriculture and Development for consideration. Basing itself on the estimate approved by the Ministry of Agriculture and Rural Development, the Central Board for Management of the Project shall carry out the procedures with the Bank for Agriculture and Rural Development for the withdrawal of advance capital as estimated. The expenses for training and seminar activities shall be settled in strict accordance with the current process and procedures.

**V. THE REPORTING, INSPECTION,  
AUDITING AND SETTLEMENT  
REGIME:****1. The reporting regime:**

- The Central Board for Management of the Project shall have to sum up all expenditures of the project and report to the Ministry of Agriculture and Rural Development and the Finance Ministry (the General Department of Development Investment, the External Finance Department) on the implementation of the project, particularly the withdrawal and use of ADB capital and reciprocal capital every quarter, the yearly financial settlement and the sheet of balance upon the completion of the project.

- In order to synthesize reports and settlement, the Central Board for Management of the Project shall have to guide the component projects to strictly comply with the provisions of Circular No.66TC/DTPT of November 2, 1996 of the Finance Ministry guiding the settlement of capital construction investment capital and with the particular regulations on forestry-ecological investment.

- The provincial Boards for Management of the Project shall open accounting books on all expenditures of the projects in the provinces, make quarterly and annual reports on the implementation of sub-projects and on the use of the ADB capital as well as reciprocal capital, the annual accountancy reports and the report on the balance of sheets upon the completion of project, then submit them to the provincial People's Committees, the Ministry of Agriculture and Rural Development and the Central Board for Management of the Project.

**2. Inspection:**

- Periodically and unexpectedly, the Finance Ministry and the Ministry of Agriculture and Rural Development shall inspect the project implementation and the use of capital. Upon detection of any case where the capital has been used not in accordance with the regulations, the Finance Ministry shall suspend the capital transfer and handle the violations according to current regulations.

- Inspection of the use of the advance payment account: Periodically and unexpectedly, the Finance Ministry may inspect the use of advance payment account: upon the detection of any case where it has been used for the wrong purposes, the Finance Ministry shall suspend the capital withdrawal and propose to handle the case according to law.

**3. Auditing:**

- Annually, the advance payment account, the accounts of the provincial Boards for Management of the Project, books, vouchers and accountancy dossiers of the project must be audited by the independent auditing company, which is approved by the Finance Ministry and the ADB, in accordance with the regulations of Vietnam and ADB.

- The selection of auditing company shall be conducted by mode of bidding to select consultancy services according to current regulations. The selection results must be approved by the Finance Ministry and the ADB.

- The auditing report must be sent to the Finance Ministry (the External Finance Department and the General Department of Development Investment), the Ministry of Agriculture and Rural Development and the State Bank of Vietnam (the External Relations Department).

**VI. IMPLEMENTATION PROVISIONS**

This Circular takes effect 15 days after its signing. If any problems arise in the course of implementation, the concerned agencies should promptly report them to the Finance Ministry for study, amendments and/or supplements.

*For the Finance Minister*  
*Vice Minister*  
**LE THI BANG TAM**

## ANNEX 2A

## THE PROJECT'S FINANCIAL ASSISTANCE PLAN (EXCLUDING CONSULTANCY AND ADB BANKING FEES)

(Unit: USD)

Item	Distributed capital (USD)		ADB's assistance rate (%)	ADB capital	Budget's assistance rate (%)	Reciprocal capital (of Government)	Percentage of contribution by project beneficiaries (%)	Capital contributed by the beneficiaries
	Item	Sub-Item						
<b>1. Construction &amp; installation</b>	<b>41,513,889</b>		<b>71.60</b>	<b>29,890,000</b>	<b>9.30</b>	<b>3,884,000</b>	<b>19.10</b>	<b>7,980,000</b>
Afforestation		7,787,000	69.10	5,380,000	30.90	2,407,000		
Natural forest protection		1,080,000	83.10	897,000	16.90	183,000		
Tree-planting		11,633,000	71.90	8,369,000	3.69	429,000	24.40	2,835,000
Agro-forestrial works		12,552,000	71.40	8,967,000	3.53	443,000	25.00	3,142,000
Pasture improvement		1,680,000	71.20	1,196,000	9.3	156,000	19.50	328,000
Commune infrastructure		7,022,000	72.40	5,081,000	3.76	264,000	23.90	1,677,000
<b>2. Equipment</b>	<b>700,000</b>		<b>95</b>	<b>665,000</b>		<b>35,000</b>		
<b>3. Resources survey</b>	<b>816,667</b>		<b>90</b>	<b>735,000</b>		<b>81,667</b>		
Forest delineation		216,667	90	195,000		21,667		
Land allotment		355,556	90	320,000		35,556		
Headwater monitoring		244,444	90	220,000		24,444		
<b>4. Added regular expenditure</b>	<b>1,545,445</b>		<b>33</b>	<b>510,000</b>		<b>1,035,455</b>		
<b>Total</b>	<b>44,576,010</b>			<b>31,800,000</b>		<b>12,776,010</b>		