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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR

A PROPOSED CREDIT

IN THE AMOUNT OF SDR 92.1 MILLION

(US\$150.0 MILLION EQUIVALENT)

TO

THE SOCIALIST REPUBLIC OF VIETNAM

FOR A SEVENTH POVERTY REDUCTION SUPPORT OPERATION

May 27, 2008

**Poverty Reduction and Economic Management Unit
East Asia and Pacific Region**

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VIETNAM - GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

Currency unit = Dong

US\$1.00 = 16,000 Dong (May 2008)

ABBREVIATIONS AND ACRONYMS

ADB	- Asian Development Bank
CFAA	- Country Financial Accountability Assessment
CG	- Consultative Group
CPAR	- Country Procurement Assessment Review
CPIA	- Country Policy and Institutional Assessment
CPRGS	- Comprehensive Poverty Reduction and Growth Strategy
CPS	- Country Partnership Strategy
DA	- Deposit Account
DFID	- Department for International Development
DSA	- Debt Sustainability Analysis
FDI	- Foreign Direct Investment
GDP	- Gross Domestic Product
GSO	- General Statistics Office
HCS	- Hanoi Core Statement
ICR	- Implementation Completion Report
IDA	- International Development Association
IEG	- Independent Evaluation Group
IMF	- International Monetary Fund
JSAN	- Joint Staff Advisory Note
JSB	- Joint Stock Bank
MARD	- Ministry of Agriculture and Rural Development
MDG	- Millennium Development Goals
MOET	- Ministry of Education and Training
MOF	- Ministry of Finance
MOH	- Ministry of Health
MOHA	- Ministry of Home Affairs
MOJ	- Ministry of Justice
MOLISA	- Ministry of Labor, Invalids, and Social Affairs
MONRE	- Ministry of Natural Resources and the Environment
MOT	- Ministry of Trade
MPI	- Ministry of Planning and Investment
NGO	- Non-Governmental Organization
NSC	- National Steering Committee
ODA	- Official Development Assistance
OOG	- Office of Government
PCU	- Program Coordination Unit
PEC	- Party's Economic Commission
PEFA	- Public Expenditure and Financial Accountability
PER-IFA	- Public Expenditure Review-Integrated Fiduciary Assessment
PRGF	- Poverty Reduction and Growth Facility
PRSC	- Poverty Reduction Support Credit
PWD	- People Living with Disabilities
QEA	- Quality at Entry Assessment

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REDD	-	Reducing Emissions from Deforestation in Developing countries
SAV	-	State Audit of Vietnam
SBV	-	State Bank of Vietnam
SEDP	-	Socio-Economic Development Plan
SFE	-	State Forestry Enterprise
SOCB	-	State-Owned Commercial Bank
SOE	-	State-Owned Enterprise
SPS	-	Sanitary and Phytosanitary
TABMIS	-	Treasury and Budget Management Information System
TRIPs	-	Trade-Related aspects of Intellectual Property rights
VBF	-	Vietnam Business Forum
VDR	-	Vietnam Development Report
WTO	-	World Trade Organization

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SOCIALIST REPUBLIC OF VIETNAM
SEVENTH POVERTY REDUCTION SUPPORT OPERATION

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SOCIALIST REPUBLIC OF VIETNAM
SEVENTH POVERTY REDUCTION SUPPORT OPERATION
CREDIT AND PROGRAM SUMMARY

Borrower:	The Socialist Republic of Vietnam
Implementing Agency:	The State Bank of Vietnam (SBV)
Amount:	SDR 92.1 million (US\$150.0 million equivalent)
Terms:	Standard IDA terms: 40-year maturity with a 10-year grace period.
Description:	A seventh Poverty Reduction Support Credit (PRSC 7), as the second operation in a cycle aimed at implementing Vietnam's Socio-Economic Development Plan (SEDP) 2006-2010, approved in June 2006.
Benefits:	<p>The present operation provides further support to Vietnam's reform program. The current cycle of PRSCs is a vehicle for the World Bank, and the international partner community more broadly, to support a country that has a strong record of economic growth and poverty reduction. It also recognizes the government's continued efforts to pursue and deepen reforms.</p> <p>The proposed operation supports actions to restructure the state sector and promote business development. It also covers measures aimed at fostering social inclusion and better managing natural resources. And it supports governance reforms in areas such as public financial management, public administration and legal and judicial development. These fundamental reforms provide the foundation upon which the government can then effectively implement sectoral policy actions.</p> <p>The preparation of this operation provided an opportunity to improve the content of specific policy actions and to ensure the timeliness of their adoption. Its follow up will allow monitoring the impact of the overall program on broader development outcomes.</p> <p>This support is timely in light of the current global and regional environment, characterized by higher prices for food and fuel in international markets and an economic slowdown in industrial countries. The potential volatility of capital inflows makes it important for Vietnam to secure resources on a long-term basis and to signal the support of the international community to its reform program.</p>
Risks:	Vietnam's own success in integrating in the world economy and attracting investments from abroad has brought new challenges. Strong capital inflows and government interventions in the exchange rate market to prevent the appreciation of the dong resulted in higher inflation, a current account deficit and an asset price bubble in 2007. Bank lending and investments of state-owned enterprises (SOEs) in the stock market and in real estate amplified these trends. Market sentiment might have reversed

in 2008.

Sound macroeconomic management will be critical to sustain a strong economic performance and continued poverty reduction in this more turbulent environment. The government has recently announced that fighting inflation is its top priority in the short term, even at the cost of slower economic growth. The World Bank is engaged in a policy dialogue with the government on how to reign in inflationary pressure using a combination of credit contraction, fiscal prudence and increased exchange rate flexibility, among others. However, the capacity to conduct monetary and financial sector policy is still limited due to the still ongoing transition to a market economy.

To address this risk, the current credit supports measures aimed at enhancing the effectiveness of macroeconomic policies. They include the assessment of SOE investments in the financial and real estate sectors, the strengthening of banking supervision and corporate governance in banks, and the adoption of criteria to prioritize public sector investments.

Increased global integration is producing winners and losers, and testing the ability of Vietnam to preserve social inclusion. The economic hubs of the country are growing faster than rural and especially remote areas, whereas increased competition from abroad could adversely affect specific sectors or population groups.

The credit addresses this risk by supporting measures to gather feedback on potential social and environmental impacts, to improve the design of the health insurance program, to extend the old-age pension program to the informal sector of the economy, and to fund participation by the poor in mainstream programs.

Another risk is associated with land and has a governance dimension. Forest land which was used by ethnic minorities as a public good is increasingly being used for commercial forestry or agriculture. Rapid urbanization and infrastructure development are leading to massive land conversion and reclamation. Capital gains on land have become an important source of inequality. This credit supports measures for participatory land-planning in forestry, for better management of local infrastructure funds, and to monitor the assets of relevant civil servants.

Disbursement: Single-tranche operation, with credit disbursed upon declaration of effectiveness.

Co-financing: Numerous bilateral and multilateral donors have expressed their support to the PRSC process in Vietnam. Nineteen of them have participated in the preparation of PRSC operations in Vietnam, including this credit, and have been actively involved in the policy dialogue. Subject to confirmation, the following donors expressed their intention to contribute resources to this operation, either through grant finance or through parallel lending: the Asian Development Bank (ADB), Australia, Canada, Denmark, the European Commission, France, Germany, Ireland, Japan, the Netherlands, Spain, and the United Kingdom.

Project ID number: P105287

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROPOSED CREDIT

TO THE SOCIALIST REPUBLIC OF VIETNAM FOR

A SEVENTH POVERTY REDUCTION SUPPORT OPERATION

I. INTRODUCTION

1. **Emerging from massive poverty at the launching of *Doi Moi*, in 1986, Vietnam seeks to become a middle-income country by 2010.** Over these years, comprehensive economic reforms have led to rapid economic growth and remarkable progress on development outcomes. On current trends, Gross Domestic Product (GDP) per capita will have crossed the US\$ 1000 benchmark earlier than 2010. This in itself would be an impressive accomplishment. However, attaining middle-income status is seen as more than a quantitative goal. Referring to such status, rather than to any specific growth rate or threshold for GDP per capita, is a way to emphasize the need for a different, more sophisticated set of economic institutions. Reaching middle-income status requires further financial deepening to support capital mobilization, the regulation of access to and pricing of infrastructure services, the gradual development of modern social insurance, more effective tools for environmental protection, legal and judiciary reforms, and the effective containment of corruption, among others.

2. **The Socio-Economic Development Plan (SEDP) 2006-2010, approved in June 2006, articulates this vision.** Unlike previous five-year plans, which focused on quantitative targets as if the state was still in charge of producing most goods and services, the SEDP emphasizes development outcomes and the policy reforms needed to attain them. It relies on data analysis, rather than administrative reporting, to substantiate its diagnostics and recommendations. It has also led to the adoption of a framework to monitor progress towards attaining development outcomes. The process through which the SEDP was prepared was more encompassing than in the past. Extensive consultations were held, going beyond the boundaries of government, and involving businesses, grassroots communities, overseas Vietnamese and donors.

3. **In the SEDP, the government sets out intended actions that fall broadly into four main pillars:** (a) the promotion of growth and transition to a market economy; (b) reducing poverty and ensuring social inclusion; (c) managing the environment and natural resources in a sustainable manner; and, (d) building institutions that can support the strategy. The first three pillars are explicitly listed in the SEDP, whereas the fourth one is introduced in the monitoring and evaluation framework as the foundation to make progress on the other three.

4. **The donor community has chosen to align its efforts behind the SEDP, while acknowledging that other key documents will shape reforms in the coming years.** Such alignment is a testimony to the strong ownership of the reform program by the government of Vietnam. It also reflects satisfaction with the process through which the SEDP was prepared. In the case of the World Bank, the Joint Staff Advisory Note (JSAN) submitted to the Board in December 2006, and the Country Partnership Strategy (CPS) submitted in January 2007 concluded that the SEDP had incorporated the necessary Poverty Reduction Strategy principles, was broadly sound and was a plan that could both deliver growth and reduce poverty.

5. **At the same time, donors recognize that some of the reforms needed will be challenging, requiring attention to their content and timeliness.** The SEDP represents a sustainable development strategy only provided that macroeconomic management remains prudent and state sector reform is not delayed. Moreover, the list of policy reforms considered by the SEDP is remarkably broad, which makes prioritization and sequencing a necessity. There is consensus that supporting the reform agenda of Vietnam does not entail favoring one of the SEDP pillars over the others. But it requires being selective within each of the pillars, and paying attention to the content of the most important measures. This is seen as a critically important time for engagement by the international community. Vietnam's ability to sustain its remarkable growth trajectory over several more decades, and eventually become an industrial country, may be determined during the next few years. The reforms associated with attaining middle-income status are more complex than those needed to move away from central planning. Active engagement should contribute to improving the content and coherence of such reforms.

6. **The issuance of the SEDP supported the preparation of a new series of operations, from PRSC 6 to 10.** PRSCs are well-suited to address the challenges mentioned above. The cross-cutting nature of the policy dialogue they support strengthens coordination among line ministries and government agencies. Their emphasis on a selected number of policy actions facilitates an in-depth discussion of their content. Their otherwise demanding annual sequence, combined with the forward-looking nature of the triggers used to launch the preparation of the next operation in the cycle, helps keeping the pace of reform. Progress made on public financial management over the last decade mitigates the risks associated with direct budget support.

7. **The proposed credit is the second in a five-year cycle aimed at supporting the implementation of the SEDP.** The Program Document for PRSC 6, submitted to the Board in June 2007, charts the current series of operations. The CPS foresaw the allocation of US\$ 150 million to each of the PRSCs in this second cycle. Even at this level, the allocation would entail a decline in the share of policy lending in annual commitments to Vietnam compared to the early stages of the PRSC process. It would also entail a decline in the share of the World Bank contribution to PRSCs relative to other donors, and a decline in the share of policy lending compared to the budget expenditures of Vietnam. The amount was increased to US\$ 175 million for PRSC 6, but will remain at the level foreseen by the CPS for this credit.

8. **The volume of resources mobilized through PRSC operations is significant.** About US\$ 1.5 billion were committed in budget support over the first six operations. Of this amount, some US\$ 1.3 billion were disbursed by end-2007, with the rest to follow by June 2008 (Table 1). Over the ten PRSC operations, some US\$ 3 billion could be channeled to a very successful reformer. In addition to providing resources to the budget, PRSC operations served as an effective coordination device, supported by an increasingly large number of donors. PRSCs have been co-financed by bilateral and multilateral agencies, either through grants or through parallel lending. More importantly, the process saw a transition in the role of co-financiers, from providers of finance to partners substantially engaged in the preparation of the operations and the policy dialogue with government. This dialogue is organized by policy areas, in which donors engage selectively, based on their interests and technical capacity on the ground.

9. **However, unlike other developing countries with an ongoing PRSC process, Vietnam is not dependent on donor resources.** Overall, and in spite of their large number of co-financiers, PRSC operations in Vietnam amount to less than 2 percent of public expenditures and about a third of the additional cost of economic reforms. That PRSC resources are not essential makes it all the more important that the policy dialogue supports the government's priorities and builds on solid analytical underpinnings.

TABLE 1: RESOURCES MOBILIZED THROUGH PRSC OPERATIONS

Operation	Committed (US\$ million)			Year	Disbursed (US\$ million)		
	World Bank	Co-financiers	Total		World Bank	Co-financiers	Total
PRSC1 (I)	100	22	122	2001	100	0	100
PRSC1 (II)	150	23	173	2002	150	30	180
PRSC2	100	31	131	2003	100	17	117
PRSC3	100	116	216	2004	100	69	169
PRSC4	100	120	220	2005	100	78	178
PRSC5	100	156	256	2006	100	112	212
PRSC6	175	190	365	2007	175	168	343
PRSC7 (e)	150	212	362	2008 (e)	150	190	340
Total	975	870	1,845	Total	975	664	1,639

II. COUNTRY CONTEXT

A. MEDIUM-TERM OUTLOOK AND DEBT SUSTAINABILITY

10. **Growth accelerated slightly in 2007.** Economic growth accelerated slightly, to 8.5 percent, making 2007 the third consecutive year above the 8-percent benchmark. Some of the potentially adverse shocks that were feared from WTO accession, especially in relation to agriculture and retail trade, did not materialize. The business climate continued to improve: business sentiment surveys consistently show an upbeat mood among enterprises, with a large majority of them foreseeing an expansion in 2008. The investment rate attained 40.4 percent of GDP in 2007. Growth was increasingly driven by the private sector, with 59,000 new enterprises registering during the year, an increase of 26 percent with respect to the previous year. Foreign Direct Investment (FDI) commitments almost doubled, to \$20.3 billion, whereas stock market capitalization reached 43 percent of GDP by end 2007, compared to 1.5 percent two years earlier.

11. **Some deceleration in economic growth can be expected in the short term, however, although medium-term prospects remain strong.** High inflation and a large current account deficit have affected investor sentiment, resulting in a slowdown in capital inflows. The stabilization package adopted by the government in March 2008 also resulted in a decline in stock prices and dampened the real estate market. Although the government is using a growth target for 2008 of 7 percent, the growth rate for the entire year can be expected to be higher (Table 2). Over the medium-term, a high investment-GDP ratio is expected to support continued strong economic growth.

12. **The fiscal stance of the government remains prudent.** The overall fiscal balance including was around 6 percent of GDP, with the “official deficit” at around 1 percent of GDP, and “off-budget” investment expenditures at about 5 percent, similar to that of previous years. Off-budget investments include the issuance of government bonds for education, infrastructure and the recapitalization of state-owned commercial banks (SOCBs). However, they are off-budget only in name. The choice of these investments reflects the priorities spelled out in the SEDP, and issuance of such bonds is subject to approval by the National Assembly. The stabilization program being implemented by the government includes a reduction of recurrent expenditures by 10 percent and a discontinuation of public investment projects which are not essential or lack appropriate funding.

TABLE 2: SELECTED ECONOMIC INDICATORS

	2006	2007 (e)	2008 (f)	2009 (f)
GDP growth (percent per year)	8.2	8.5	7.5	8.0
Exports growth (percent per year)	22.8	21.9	28.0	30.0
Fixed investment growth (percent per year)	8.6	10.1	10.0	10.8
BOP current account (percent of GDP)	-0.4	-9.8	-13.5	-9.5
BOP capital account (percent of GDP)	5.1	24.7	17.6	12.0
Foreign reserves (US\$ billion)	11.5	21.0	24.5	27.0
Central government bal. (percent of GDP)	-0.3	-2.2	-2.2	-2.0
Public debt (percent of GDP)	41.6	42.2	39.0	39.0

Source: General Statistics Office (GSO) and SBV for 2006 and 2007; World Bank forecasts (base case scenario) for 2008 and 2009.

13. **The level of public debt, at 42 percent of GDP, is moderate and is considered to be sustainable.** The debt burden is similar to that in other ASEAN countries. The baseline scenario of the most recent Debt Sustainability Analysis (DSA) by the World Bank and the International Monetary Fund (IMF) is broadly in line with the investment and growth outlook of the SEDP. It estimates public and publicly-guaranteed debt to increase from 44 percent of the GDP in 2007 to around 51 percent by 2016, and decline slightly thereafter. This increase, though significant, is still considered within manageable limits, especially since more than half of it will remain on highly concessional terms. The concessional component of Vietnam's debt, embodied in long repayment periods and low interest rates, is reflected in the gap between the nominal level of public debt and its net present value (about 35 percent of GDP). External debt, both public and private, is projected to decline somewhat: from a little over 30 percent of GDP to just under 26 percent in 2017. The ratio of external debt service payments to exports is estimated to remain about 4 percent during 2007 to 2017. Vietnam should thus remain at low risk of external debt distress.

B. DEVELOPMENT OUTCOMES

14. **The experience under the previous PRSC cycle shows that reforms have resulted in substantive progress towards development outcomes.** This experience was reviewed when completing the fifth PRSC, which was the last operation in the first cycle. Given the comprehensive nature of Vietnam's reform agenda some areas were bound to register faster progress than others. However, substantive improvements can be identified across the structural, the social, the natural resources and the governance pillars of the reform agenda, making it difficult to pinpoint any of them as a systematic laggard. Progress has been more uneven within each of the pillars. For instance, much more has been accomplished in terms of global integration than in relation to SOE or SOCB reform.

15. **Progress under the current PRSC cycle can be measured against the specific development objectives spelled out in the SEDP and other plans and strategies of the government.** A comprehensive system of indicators introduced alongside the adoption of the SEDP, at the beginning of this PRSC cycle, should facilitate the monitoring of progress towards attaining development outcomes. The monitoring framework of the SEDP is broad in some areas, especially in relation to economic developments, and parsimonious in others, such as governance and accountability. Therefore, as part of the preparation of this PRSC cycle a revised set of indicators was developed. Because reliable data need to be collected from surveys and other sources with

demanding implementation requirements, a thorough assessment of progress towards development outcomes will be conducted twice during the PRSC cycle. However, more succinct assessments are conducted for each operation (Annex 3). These more succinct assessments build on the annual report of the government to the National Assembly on the implementation of SEDP. The more thorough assessments will be aligned its mid- and end-cycle reviews.

TABLE 3: PROGRESS TOWARDS THE MILLENNIUM DEVELOPMENT GOALS

Goal 1	Eradicate extreme poverty and hunger	Progress	Status
Target 1	Halve between 1990 and 2015 the proportion of people living in poverty	Poverty reduced by more two thirds between 1993 and 2006.	Already achieved
Target 2	Halve between 1990 and 2015, the proportion who suffer from hunger	Proportion reduced by more than two thirds between 1993 and 2006	Already achieved
Goal 2	Achieve universal primary education	Progress	Status
Target 3	By 2015 boys and girls to complete a full course of primary schooling	Grade 5 completion rate (gross) is 104 percent for boys and 98 percent for girls.	Likely to be achieved
Goal 3	Promote gender equality	Progress	Status
Target 4	Eliminate gender gaps in primary and secondary education no later than 2015	Gender equality at all school levels, except for ethnic minorities	Already achieved
Goal 4	Reduce child mortality	Progress	Status
Target 5	Reduce by two thirds between 1990 and 2015, the under-five mortality rate	Reduced by 65 percent between 1990 and 2005 (down from 53 to 19 per 1000)	Likely to be achieved
Goal 5	Improve maternal health	Progress	Status
Target 6	Reduce maternal mortality by three quarters, between 1990 and 2015	Fell by two thirds, from 250 per 100,000 births in 1990 to 85 in 2007	Likely to be achieved
Goal 6	Combat HIV/AIDS and other diseases	Progress	Status
Target 7	By 2015 have halted and begun to reverse the spread of HIV/AIDS	Infection rate went up from 0.34 percent in 2001 to 0.44 in 2005	Likely to be achieved
Target 8	By 2015 halted and reverse the incidence of malaria and other diseases	Malaria cases severely reduced; with only 35 malaria-related deaths in 2007	Already achieved
Goal 7	Ensure environmental sustainability	Progress	Status
Target 9	Embrace sustainability and reverse the loss of environmental resources	Forest cover up but loss in closed-canopy forest and biodiversity	Uncertain to be achieved
Target 10	Halve, by 2015 the share of people without drinking water and sanitation	Rapid progress on drinking water; much slower on hygienic sanitation.	Uncertain to be achieved

Source: United Nations Development Program, GSO and World Bank.

16. **Vietnam has outperformed many other countries in terms of progress towards achieving the Millennium Development Goals (MDGs).** Five of the ten main MDG targets set for 2015 have already been attained, and another three could be reached ahead of time (Table 3). However, Vietnam might only partially achieve the target on reversing the loss of environmental resources and could miss the target on halving the share of the population without drinking water and sanitation. Also, it should be noted that alongside a remarkable performance on nearly all of the MDGs, important disparities in achievement remain between the Kinh majority and ethnic minority groups. For example, fewer ethnic minority children are enrolled in school, especially girls. Maternal mortality and child mortality rates are much higher in mountainous areas where many ethnic minorities live than in the rest of Vietnam.

C. RECENT ECONOMIC DEVELOPMENTS

17. **There were clear signs of overheating towards the end of 2007, including a substantial acceleration of inflation.** The growth of consumer prices reached 12.6 percent year-on-year in December 2007, and accelerated further to 21.4 percent in April 2008. Part of the acceleration was due to the rapid increase in world prices for food, especially rice. Food accounts for a large share of Vietnam's consumer basket. The implicit peg of the Vietnamese dong to the US dollar transmitted international inflation to the domestic market to a larger extent than in other countries in the region. But non-food inflation also accelerated, from 4.9 percent by December 2006 to 7.7 percent by December 2007 and further to 11.3 percent in April 2008.

18. **As Vietnam is a net exporter of agricultural commodities such as rice, coffee, and pepper, it should benefit from higher international prices.** But the effects of higher prices are unevenly distributed across the population. Provided farm-gate prices increase as fast as border prices, rice farmers in the large deltas, who are close to the poverty line, should be among the beneficiaries. On the other hand, migrants to large cities, who are also barely out of poverty, have suffered considerably, and some of the poorest people in the highlands, including ethnic minorities, are also net consumers of food. All farmers, including those growing rice in the deltas, have faced adverse impacts from more expensive imported inputs including fertilizer, insecticides, and petroleum products.

19. **Asset prices also increased rapidly over 2007, but declined in the first half of 2008.** Stock market prices surged during the first half of the year, followed by real estate prices in the second half and in the early months of 2008. The VN Index of the stock market went from 752 in December 2006 to 1,171 in March 2007. Rough estimates suggest that the average Price-to-Earnings (P/E) ratio had reached 37.5 at that point. Most of the surge was driven by local investors. As the SBV took measures to cap lending to finance the purchase of securities, stock market prices receded but speculative action moved to the real estate market. Caps on lending for real estate and the broader adjustment package adopted in March effectively stopped the asset price frenzy. By May 2008, the VN Index was down to 420 while the real estate market had cooled.

20. **The country's current account deficit reached an unprecedented 9.8 percent of GDP, but capital inflows were more than adequate to finance this as well as contribute to a substantial increase in foreign reserves.** Although information on the exact nature of these inflows is scarce, a large fraction seemed aimed at long-term construction activities. Whether some inflows were used for speculative purposes is not known with certainty. In 2007, overall exports grew by 23 percent, reaching 68 percent of GDP by the year end. So far, export performance has not been affected by the global slowdown, in part because Vietnam's export products and markets are diversified. The main export items are crude oil, agricultural products, and labor-intensive goods such as garments and textile, footwear, seafood, and wooden furniture. But imports grew even more rapidly than exports, almost by 40 percent in 2007 and even faster in early 2008. Imports of capital goods and intermediate inputs surged and imports of consumer goods grew even faster although from a low base (they represented less than 6 percent of total imports in 2007). The trade deficit is bound to increase in 2008.

21. **During 2007 authorities intervened heavily in the exchange market to resist currency appreciation.** The Vietnamese dong remained unofficially pegged to the US dollar (within a band), depreciating by only 0.14 percent during 2007, and starting to appreciate in the first months of 2008. But this was at a time when the US dollar was losing value against other international currencies, thus implying a substantial depreciation of the nominal effective exchange rate. As a result of SBV interventions, Vietnam's foreign reserves increased by US\$ 10.1 billion in one year, to reach a record high of US\$ 21.6 billion by the end of 2007, equivalent to 3.3 months of imports. The slowdown in

short-term capital inflows and the high inflation rate have reduced the pressure for nominal appreciation.

22. **Credit growth accelerated from 25.4 percent in 2006 to a peak of 63.2 percent in March 2008.** It is difficult to discern any major differences by type of borrower. For instance, in 2007 credit to SOEs grew by 52.9 percent, compared to 54.3 percent for credit to other sectors. As of March 2008, outstanding credit to SOEs accounted for 31.1 of total credit. But there are important differences by type of credit institution and by type of loan. Lending by SOCBs increased by only 25 percent during 2007; this was due to their efforts to improve the overall quality of their portfolio in preparation for equitization. Lending by Joint Stock Banks (JSBs), on the other hand, grew by 95 percent. Such a rapid pace of growth raises concerns about the quality of loans, and makes some of the JSBs vulnerable if liquidity is cut too drastically. As for loan types, the share funding real estate investments increased from 3 percent of total lending in early 2007 to about 10 percent in early 2008.

23. **The growth in base money underlying credit growth was in part the result of the rapid build-up in foreign reserves.** Large capital inflows complicated the implementation of monetary policy, confronting Vietnam with the “impossible trinity” of simultaneously maintaining a nearly fixed exchange rate, an independent monetary policy and an open capital account. Massive purchases of foreign exchange to prevent the appreciation of the dong had the unwanted side effect of increasing liquidity. Until the last quarter of 2007, SBV was relatively successful at mopping up some of this additional liquidity through the sale of securities. However, the interest rate offered resulted increasingly unattractive, especially compared to the returns expected in the real estate market. Selling securities became difficult, which led to a ballooning of credit towards the end of the year.

24. **In response to the over-heating of the economy the central bank took contractionary measures resulting in a sudden shortage in liquidity.** Among other things, the SBV stopped purchases of foreign currency which suddenly stopped injections of liquidity into the financial system; the SBV also forced placement of central bank securities with commercial banks. By March 2008, year-on-year growth for broad money came down to 35 percent, from a peak of 47 percent in October 2007. Since then, interest rates have eased. The abrupt policy response also led to a temporary increase in interest rates, peaking at 40 percent in early March. Since then interest rates have moved closer to the inflation rate, becoming exceedingly high in US dollar terms. International reserves continued growing, but at a much more modest pace.

25. **In March 2008 that the government decided to adopt a more comprehensive approach to address the overheating of the economy.** This reflected a switch in policy priorities, from rapid growth to economic stability. This broader package included a reduction in recurrent government expenditures by 10 percent, and an announced discontinuation of public investment projects which are not essential or lack appropriate funding. The package also includes a reduction in the growth rate of credit to 30 percent and a broadening of the exchange rate flotation band to ± 2 percent (up from ± 0.5 percent in January 2007, ± 0.75 percent in December and ± 1 percent in March 2008). The target for the 2008 GDP growth rate was lowered from 8.5 to 7.0 percent.

26. **Looking forward, the authorities’ ability to ensure macroeconomic stability will be tested.** The surge in international rice prices may recede, at least partially, when the new harvest comes in, towards the middle of the year. But the growing trade deficit is a concern, and there is considerable uncertainty regarding capital flows to Vietnam during the rest of 2008. A change in their composition, towards long-term direct investments, would facilitate the conduct of macroeconomic policy. On the other hand, a sudden stop or a capital reversal would complicate it seriously. Further developing a sound banking and financial system and strengthening supervisory capacity and prudential regulations will be important to weather these challenges.

III. THE REFORM PROGRAM

27. **There was a considerable acceleration of reforms around 2001, justifying the first series of PRSCs, and then again in 2006, at the beginning of the current series.** The former involved the passing of an enterprise law that greatly facilitated business registration and operation, the signing of a bilateral trade agreement with the United States that strengthened global integration and resulted in important legal improvements, the adoption of the first serious steps towards SOE divestiture and the strengthening of public financial management. The latter was crowned by the accession to the World Trade Organization (WTO), the adoption of an ambitious banking reform roadmap, a new resolve to equitize large SOEs, the transfer of the exercise of state ownership rights out of line ministries and provincial governments, the drive towards introducing universal programs for social protection, and the adoption of a determined anti-corruption drive.

28. **The Socio-Economic Development Plan 2006-2010 is a milestone in the modernization of planning in Vietnam, justifying the alignment of donor support to its implementation.** During its preparation, there was a serious effort to collect inputs from different groups in Vietnamese society. In addition to internal discussions within government, consultation workshops were held with local officials, groups of academics, the domestic business sector, international and local non-governmental organizations (NGOs), people living with disabilities (PLWD), overseas Vietnamese, women and women's groups, and donors. The draft SEDP was declassified for the first time ever, and it was discussed by the National Assembly in November 2005, a departure from previous practice which scheduled National Assembly discussion after the Party Congress.

29. **There is also considerable progress in relation to the use of data and the set up of a credible monitoring and evaluation framework.** Following an established practice, the SEDP sets the framework for government action and resource allocation including, for the first time, resources from Official Development Assistance (ODA). But this framework is much more focused on attaining development outcomes than in the past. Data from representative household surveys are used to present a comprehensive analysis of poverty in Vietnam. The text includes candid discussions about disadvantaged groups and regions and the challenges presented by the emergence of a growing gap between socioeconomic groups. A results framework was recently completed by the Ministry of Planning and Investment (MPI). This framework is structured logically around a results chain from inputs to outcomes. It includes a substantial pillar that refers to measuring progress in the promotion of good governance, committing the government to measuring progress in improving transparency and participation, strengthening decentralization, managing public resources better and reducing corruption. The framework also recognizes that much of the information on results will need to be provided or verified through independent surveys.

30. **The main challenge lies in implementation.** Substantive progress requires prioritizing the many policy actions identified in the SEDP, clarifying their sequence and timing and assessing their possible cost. There is agreement that prioritization should involve selecting the key reforms within each of the SEDP pillars, rather than choosing across pillars. It is also clear that protecting the prudence that has characterized macroeconomic policy over the last few years and delivering on state sector reform will be essential to contain the growth of explicit and implicit government liabilities and keep the overall approach to development financially sustainable. Besides, effective implementation will also require sound reporting systems that can identify and acknowledge shortcomings, supported by processes for adjusting policies accordingly.

31. **The SEDP is bound to be complemented by other strategic documents and policy developments over time.** While acknowledging the mainstreaming of SEDP, it is also understood that other key documents will also shape reforms in the coming years. Some of the most important decisions over the last cycle, from the acceleration of negotiations to accede to the WTO to the

adoption of the banking reform roadmap to the approval of the Anti-Corruption Law, were not foreseen as such in the previous five-year plan or in the Comprehensive Poverty Reduction and Growth Strategy (CPRGS). Also, the plan at times scales up provincial innovations. In approaching the proposed series of operations, it is therefore important to keep in mind that there will be departures from the SEDP 2006-2010, especially in the outer years of the program. One of the reasons for active engagement is precisely to encourage and support departures that could further deepen the reform process.

IV. BANK SUPPORT TO THE GOVERNMENT PROGRAM

A. LINK TO CPS AND RELATIONSHIP TO OTHER BANK OPERATIONS

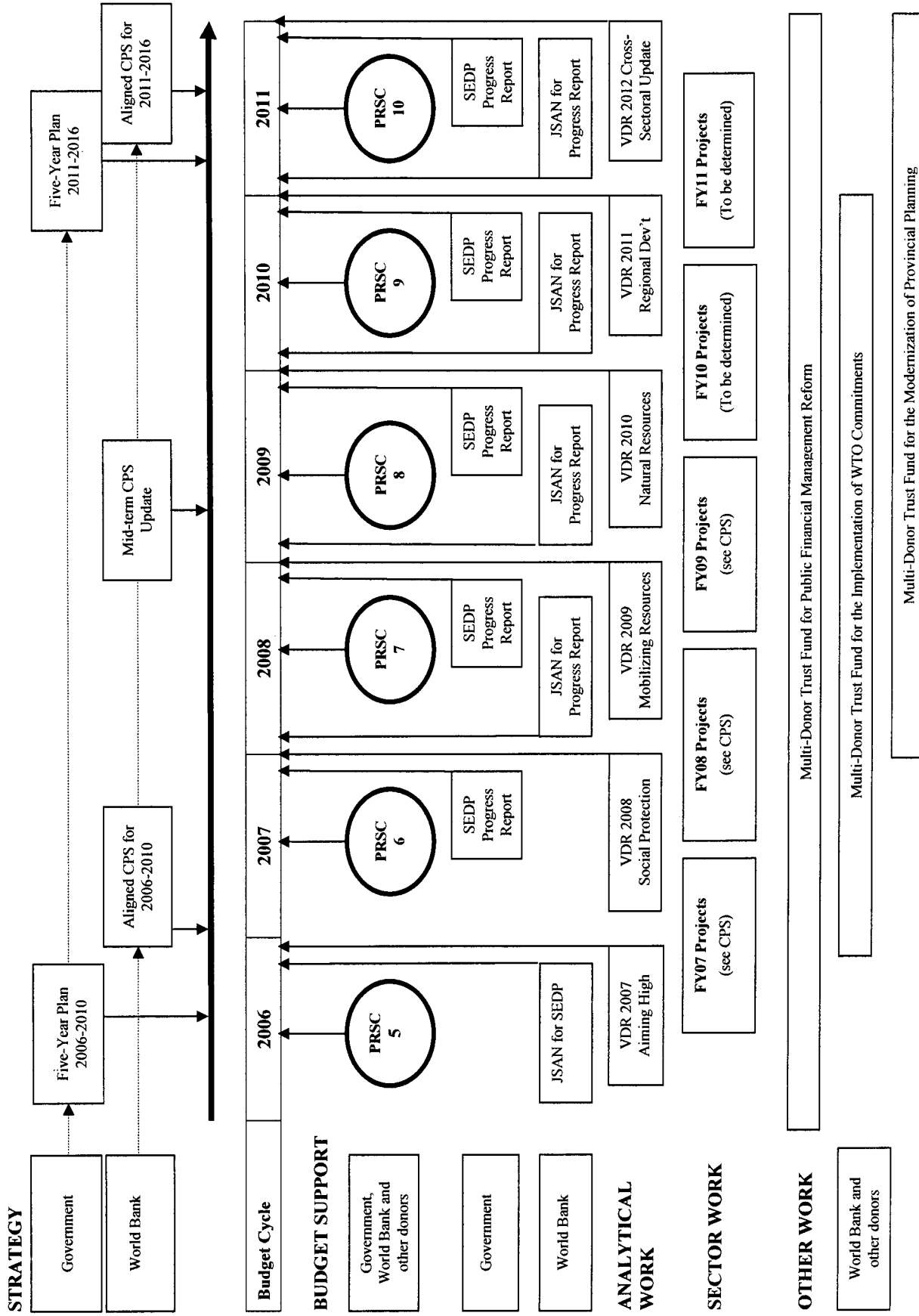
32. **The Bank's CPS is organized around the four pillars of the SEDP, with PRSCs as the focal point of the Bank's policy dialogue on the Vietnamese reform program.** A program comprising investment analytical work, lending credits and technical assistance grants supports implementation at the sectoral level. (Figure 1). There is a strong complementarity between the different components of this program. The overall direction of the policy dialogue is informed by the analytical work. Concrete policy measures are often made possible by preparatory technical assistance work, supported by grants. Investment credits also provide an opportunity to pilot new initiatives and approaches, which are then scaled up through the policy dialogue. The reforms supported by the latter, in turn, enhance the effectiveness of sectoral investments.

33. **The lending program is being complemented with IBRD resources starting in FY09.** IDA and IBRD investment financing priorities include the energy, transport, tertiary education, financial, water, urban, agriculture, and health sectors. These operations support the government's sectoral frameworks and, as with PRSCs, will be carried out in partnership with other donors. A Development Policy Lending (DPL) was jointly prepared with interested donors to strengthen a national targeted program for poverty reduction. Additional sector-level DPL Operations, such as one currently planned to support higher education reform, will be introduced selectively, as and when policy reforms, program improvement, and macroeconomic framework warrant.

B. COLLABORATION WITH IMF AND OTHER DONORS

34. **The International Monetary Fund.** The IMF has not had a program in Vietnam since the expiry of its Poverty Reduction and Growth Facility (PRGF) in April 2004. However, the IMF remains fully committed to continuing an effective partnership with the government of Vietnam. It maintains a regular policy dialogue through Article IV consultations, interim staff visits, and its resident representative office in Hanoi, and seeks to build capacity through training activities in Vietnam and abroad. It supplements this dialogue with technical assistance in areas of core Fund expertise, including tax policy and administration, budget management, monetary and financial sector policy, and macroeconomic statistics. The IMF continues to cooperate closely with the World Bank

FIGURE 1: SUPPORTING THE IMPLEMENTATION OF SEDP 2006-2010



in Vietnam, and to contribute actively to the broader dialogue between the government and its development partners. A joint Bank-Fund DSA was completed in October 2006. The IMF has provided a Letter of Assessment in relation to the proposed credit.

35. Under the framework of enhanced collaboration, the staffs of the two institutions have consulted closely with one another across a broad range of issues, and have sought to maintain appropriately-aligned positions in their areas of policy engagement. While the World Bank has taken the lead in supporting the government's structural and institutional reforms in a number of sectors, the IMF has taken the lead in the policy dialogue on macroeconomic policies. It has also assumed responsibility for advising on the monetary policy functions of the SBV.

36. **Other multilateral and bilateral donors.** A total of 11 bilateral and multilateral donors co-financed operations in the previous PRSC cycle, and more are expected to contribute to this and subsequent credits (Table 4 and Annex 4 for details). Apart from co-financing PRSC operations, bilateral and multilateral donors have played an important role through their involvement in the policy dialogue with the government. Donors participating in the process contributed human and financial resources to assess the policy challenges, coordinate their approaches, and discuss the options with government, across a range of policy areas. The areas in which donors are involved are chosen in accordance with their priorities and comparative strengths.

TABLE 4: DONOR CO-FINANCING OF PRSC OPERATIONS

Donor	PRSC 1	PRSC2	PRSC 3	PRSC 4	PRSC 5	PRSC 6	PRSC 7(e)
ADB			6.4	15.0	15.0	15.0	20.0
AECI (Spain)				2.6	3.9	7.3	8.0
AFD (France)							15.9
AusAID					7.7	12.3	14.1
CIDA (Canada)			5.8	7.0	3.4	7.1	10.1
DANIDA (Denmark)	9.7	3.3	13.5	10.0	10.6	12.0	14.3
DfID (UK)	19.7	17.3	36.0	34.9	39.3	39.6	39.6
EC			19.9	10.3	12.4	28.9	23.9
KFW (Germany)					7.8	8.8	9.6
Irish Aid (Ireland)				1.7	3.9	11.0	11.9
JBIC (Japan)			18.6	20.8	21.5	30.0	Tbd
DGIS (Netherlands)	13.4	10.0	16.0	17.6	31.0	17.6	9.6
SIDA (Sweden)	1.9						

Note: Figures are in million US dollars. Amounts for PRSC 7 are subject to confirmation as the co-financing support is processed.

37. The preparation of this credit was conducted jointly with donors since its inception, with regular meetings taking place to reach consensus on how to proceed, to discuss with government and to assess progress on economic reforms. Building on the effective way donors have worked together in the preparation of PRSCs in Vietnam, and on their analytical underpinnings, a consensus has emerged on the steps to prepare subsequent operations in the series. This consensus includes an early start of the policy dialogue, with a roadmap being drawn up at the end of the summer to set up the various stages and requirements from the initial formulation of the policy matrix to the assessment of triggers to the policy dialogue on specific actions to the negotiation of the credit.

38. Preparations for PRSC 7 have built on the foundations of the existing strong donor commitment to support Vietnam's reform agenda in a coordinated manner. This commitment was re-asserted in the Hanoi Core Statement on Aid Effectiveness (HCS). It is reflected in the intense meeting frequency of the different working groups that were established to coordinate the views of co-financiers and share information pertaining to the PRSC process. Joint working groups of donors, government and international NGOs that meet on a regular basis have helped carry the discussions on government's plans for reforms to a wide group of stakeholders. With the formation of working groups organized by policy area, donors have had the opportunity to engage in discussions on reform with government counterparts on an ongoing basis.

39. **Civil Society.** With the support of the NGO Resource Center, civil society organizations participated actively in the organization of consultations for the preparation of SEDP. NGOs were also actively involved in the analytical work underlying this series of credits, with their contribution focusing on infrastructure (especially in the relation to the needs of PWD), the social sectors and legal development. Substantive inputs were provided on the interpretation of the key development issues in each area, the identification of the main strengths and weaknesses of the government's strategy to address those issues, the prioritization of policy actions within the SEDP framework, and the selection of the most appropriate outcome indicators to measure progress in each area.

40. A well-functioning mechanism is in place in Vietnam to conduct consultations with business associations. Prior to both the year-end CG meeting between government and donors and the informal mid-year CG meeting, the Vietnam Business Forum (VBF) gathers to discuss the issues of concern to a range of chambers and associations representing the interests of enterprises. The discussion is organized around topics such as investment promotion, transparency, tax, labor, and land. In each of these areas, a list of main concerns is assembled, and the focus is on assessing progress towards solving them. Many of those concerns are addressed through policy actions supported by the PRSC process. At the last VBF, in December 2007, the current cycle of PRSC operations was discussed, and feedback from the participating chambers and associations was sought.

C. ANALYTICAL UNDERPINNINGS

41. **While the SEDP articulates a compelling vision, it is a comprehensive and ambitious document, dealing with almost every aspect of economic reform.** Because of its strong focus on social inclusion and poverty reduction, the SEDP thus offers an opportunity for upstream harmonization whereby government and the international community share a common view of what needs to be done, in the spirit of the HCS. However, over its more than 300 pages (without counting the monitoring framework) it discusses development orientations for all sectors and fields, with varying degrees of analytical depth and detail. As a result, aligning to a nationally-owned strategy is not as simple in practice as it may sound. A careful "reading" of the SEDP is critical to translate it into a concrete set of policy actions to be implemented during the new PRSC cycle. Prioritization, sequencing and monitoring are part of such "reading".

42. **The Vietnam Development Report (VDR) 2007 provides the main underpinnings for the new PRSC series.** This report, entitled *Aiming High*, was presented at the Consultative Group (CG) Meeting of December 2006. Its main objective was to "translate" the SEDP into a workable set of policy actions, with proper prioritization and sequencing. It also led to the identification of a set of indicators to monitor progress towards development outcomes across all pillars of the reform agenda. The preparation of the VDR was launched shortly after the approval of PRSC 5, in June 2006.

43. While the process was led by the World Bank, several donors contributed think pieces and background notes all over the process. Such an arrangement helps to ensure coherence across donors' programs of support, and to mobilize funding for high priority tasks in each policy area. Participants

included the co-financiers of the first PRSC series but also other donors not formally involved in direct budget support, including the United Nations agencies and international NGOs. A Reviewing Committee of recognized Vietnamese experts and policy makers advised on each of the policy areas and on the overall thrust of the report.

44. **The joint analytical work conducted in the preparation of the VDR 2007 also led to the development of a well defined set of monitoring indicators.** Those indicators are based on the monitoring framework for the SEDP but they are fewer in number. In some areas, the set of indicators proposed in *Aiming High* actually goes beyond the SEDP monitoring framework. This is the case in relation to governance, where the monitoring experience is more limited and there is a more limited experience in the use of enterprise and household surveys, as opposed to administrative self-reporting. This is still work in progress, and important differences remain in the quality and frequency of the available indicators. Some of those indicators are built on surveys which are undertaken only every other year, or on administrative data that is not publicly available. In other cases, small studies are needed to make sense of the available data. These difficulties justify the decision to conduct a comprehensive assessment of progress towards development outcomes only twice over the PRSC cycle.

45. **The preparation of the VDR 2007 was a milestone in an otherwise broader analytical program to support the implementation of the reform program.** The VDR 2007 built on the analytical work conducted over the first PRSC cycle, on structural reforms (as summarized in the VDR 2006, on *Business*), social inclusion (VDR 2004, on *Poverty*) and institutional modernization (VDR 2005, on *Governance*). A new series of VDRs delves into the four pillars of the SEDP in greater depth, starting with the VDR 2008, on *Social Protection*, presented at CG meeting of December 2007. The following report in the series will be the VDR 2009, on *Resource Mobilization*. This report is already under preparation.

46. The VDR 2008 on *Social Protection* delves further into social inclusion pillar of the SEDP. The report covers three main areas of socially inclusive growth strategy: opportunity to thrive, support for those left behind, and insurance to cope with shocks. Based on the analyses conducted in the study, the report derives important policy recommendations on how to extend the coverage of social protection, how to strengthen the incentives faced by participants and service providers, how to improve information systems and enhance the portability of benefits, and how to manage resources. Although the general direction of the proposed operation was already determined in the previous PRSC (in the form of triggers), the findings of the report informed the policy dialogue.

D. LESSONS LEARNED

47. **The main contribution of PRSCs has been their ability to serve as a platform for a continued policy dialogue on a broad range of issues with key government counterparts.** However, given the encompassing nature of Vietnam's reform program was not even across and within pillars. Identifying strong and weak areas in policy making is essential to ensure the sustainability of this success over time. Starting with PRSC 3, a set of indicators covering a broad range of policy areas was used to assess progress. Because previous planning documents lacked an appropriate monitoring framework, outcome indicators had to be inferred from the text of those documents and from other relevant sectoral strategies and policy statements.

48. **Overall, progress was slower in policy areas characterized by limited political will, conflicting institutional responsibilities or insufficient analytical work.** The speed at which progress was made across policy areas within each of these pillars depended on the political will to implement the reforms. The contrast between rapid progress in the integration with the world economy and slow reform in the banking sector is revealing in this respect. To some extent, this

contrast may reflect a deliberate choice, whereby rapidly moving towards WTO accession would be a way to “lock-in” the need for subsequent reforms in the banking sector. In other cases, as in water, limited progress reflects institutional overlap and unclear delimitation of competencies across several ministries or agencies. In the case of corruption, the commitment to fight it is undeniable but is more recent. This is one area where progress on inputs (such as laws, or coordinating bodies) may take quite some time to translate into progress on outputs and outcomes. Beyond the specifics, the classification of policy areas depending on the progress made is consistent with the ratings prepared for the Country Policy and Institutional Assessment (CPIA). Those ratings are above the regional average in relation to macro-economic management and social inclusion. They are below in relation to the financial sector, labor and social protection, and transparency and anti-corruption.

49. **Several independent evaluations of the PRSC process in Vietnam have been conducted so far and they have all been positive.** A Quality at Entry Assessment (QEA) for the first PRSC cycle was done shortly after the approval of PRSC 2, which was the first operation with a broad scope, covering all the pillars of the reform process. The QEA rated the proposed series as highly satisfactory in relation to its strategic relevance and approach and to its poverty and social aspects. All other dimensions were considered satisfactory, and such was also the overall assessment by the QEA exercise. A review of Implementation Completion Reports (ICRs) by the Independent Evaluation Group (IEG) reached similar conclusions. Based on relevance and achievements under most objectives, the overall outcome of the first PRSC cycle was rated satisfactory. So were the performance by the World Bank and the government. The risk to development outcomes was considered negligible to low, and the quality of monitoring and evaluation was rated substantial.

50. Another assessment was conducted after PRSC 4, as part of a broader evaluation of general budget support commissioned by 24 donors and conducted by the University of Birmingham in 7 countries. This assessment showcased Vietnam as a successful example of government-donor collaboration, with a strong impact on policies. The main strengths of the process were its poverty focus, the extent of aid coordination, the regularity of the operations, and the low transaction cost for government. Identified weaknesses included slow disbursement by co-financiers, the insufficiency of impact analyses, and poor coordination with technical assistance programs.

51. The assessment for Vietnam was updated after PRSC 5 by the same research team, by then working in a consulting firm. This update was financed by the World Bank as an input for the preparation of the new PRSC cycle. The updated assessment concluded that PRSCs were effective at supporting policy reforms, at linking policy and budgets, at strengthening financial management and at helping harmonization. The inclusiveness of the process was highly valued. At the same time, PRSC operations were judged less effective at supporting policy breakthroughs and at helping policy implementation. They were seen as unable to overcome donor fragmentation in areas like public administration reform. The recommendations included maintaining the broad scope of the operations, focusing on policy bottlenecks, and to coordinate more with partnership groups with leading donors.

52. **One of the key lessons learned from the previous series of operations is the need to have a comprehensive approach to economic reform.** There are important linkages between policy actions across sectors, so that a piecemeal approach or an excessive selectivity would end up being less effective. For instance, improving the delivery of social services requires a better balancing of recurrent and capital expenditures on the supply side as well as a gradual move towards demand-side financing, especially for the poor. Public financial management reform is thus crucial to deliver better outcomes in education or health. There are also differences in the readiness of leadership to embrace change in different areas, with the time of openings and accelerations being difficult to predict. This calls for readiness across the entire policy spectrum, accumulating the various technical building blocks necessary to support more ambitious change whenever the government endorses it. Finally, the fact that PRSCs are the only vehicle for high-level policy dialogue in Vietnam puts a

higher burden on the contents of these operations, which need to serve as a one-stop shop for the interaction between the government and the donor community.

Box 1. Feedback on Approaches to Conditionality in Vietnam

Ownership. There was a striking consistency across the four consultation sessions in the assertion that ownership was the most important of the five principles and a prerequisite to making progress in the other four principles. There was also considerable support for the way in which approaches to conditionality had evolved in Vietnam. There was general agreement across the stakeholder groups that the series of PRSCs had been firmly rooted in the Government's own reform agenda, as expressed first through the CPRGS and then the SEDP. In both the donor and NGO consultations, participants mentioned that this was "best practice".

Harmonization. Recent alignment to the CPRGS and the SEDP had helped development partners work more coherently in support of government outcomes. There was general acknowledgement that the PRSC operation was a complex one, bringing relatively well together multiple ministries and donors. Government participants were particularly appreciative of donor efforts to coordinate assistance around the SEDP and PRSC. There was still concern over the current framework for accountability, i.e. the PRSC framework being similar, but not identical, to the SEDP monitoring framework. There were some strong views that donors should resist the temptation to use independent monitoring mechanisms. Inputs from NGOs emphasized how accountability works in practice, outlining the need to engage alternative and independent viewpoints. Donors also emphasized how harmonization could be improved, suggesting a more structured approach to engagement in the PRSC process. This would enable "newcomers" to the process (which grows annually in terms of number of participants) to understand better their roles and obligations.

Customization. The general sense was of a process that had become increasingly tailored to country priorities. The need to balance the desire to promote desirable reforms and the importance of keeping to country priorities, perhaps described as "the art of the possible", recognized. A repetitive theme refers to building the analytical capacity on the part of government, so that Government, rather than development partners, can better lead the process of determining which actions from the wider SEDP agenda should be prioritized in the agreements. Currently the prioritization and sequencing of actions and triggers was undertaken more by donors than by Government. While the Government owns the broad agenda from which the PRSC operations are derived, the customization of the PRSC operations was initiated and led largely by donors.

Criticality. The size of the policy matrices was kept minimum compatible with an active policy dialogue across the reform agenda. A multi-sector, multi-agency, multi-donor operation is likely to need a spread of "benchmarks" in order to keep the operation inclusive and motivating for all participants. While this number is higher than in other countries, this is justified in Vietnam, given the breadth of its reform program and the maturity reached by the PRSC process. With two dozen line ministries and government agencies and a dozen co-financiers, drastically narrowing the focus of the policy dialogue, concentrating on just a few policy actions would amount to demobilizing a large portion of the constituency for economic reform. The Bank and all co-financiers use the same policy matrix to decide on their level of support, thereby providing a single harmonized platform for the policy dialogue and disbursements.

Transparency and predictability. Both predictability and transparency had increased over recent years. The PRSC process has led to disbursements to the budget on an annual basis, thus meeting the objective of aligning aid to domestic budget cycles. Since PRSC 2, commitments were made in June of each year, which is the time when the preparation of the budget starts. The budget is approved by the National Assembly towards November, for the following calendar year. The submission to the National Assembly already factors in the amount of resources expected from PRSCs. Although the World Bank inputs were predictable, there was less predictability over the timing and level of co-financier resources that would be available. Not all donors were able to commit to financing beyond the current years and as levels of co-financing increase, this adds an element of uncertainty into the operation.

53. **In September 2007, there was a series of consultations held in Hanoi to seek feedback on World Bank approaches to conditionality in Vietnam, especially in relation to PRSC operations.** Four separate consultations took place with government officials and elected representatives, civil society, private sector and with other development partners. All the consultation sessions followed a similar format of presentations by the World Bank on the evolution of approaches to conditionality and on the use of policy-based lending in Vietnam. The discussions hinged on each of the five “good practice principles” outlined by the World Bank. Outcomes of consultations were incorporated by the Bank team in the preparation of this operation (Box 1).

V. THE PROPOSED CREDIT

A. ASSESSMENT OF TRIGGERS FOR PRSC 7

54. **The 14 triggers chosen for the preparation of PRSC 7 were evenly distributed across the four pillars of the reform program.** These triggers, inspired in the SEDP and other key documents and strategies, were spelled out in the PRSC 6 Program Document. They stand out by their strategic importance to attain the SEDP objectives towards the end of the five-year cycle. Triggers should not be interpreted as conditions but rather as a framework to guide the policy dialogue towards the next operation. Substantive progress towards meeting the triggers launches the formal preparation of the next operation in the series. The assessment involves an element of judgment, as some triggers may not be fully met while others may be exceeded.

55. Triggers were discussed over several rounds of technical meetings with 20 line ministries and government agencies. The process was coordinated by the PRSC Secretariat at the SBV. The secretariat reports to the Steering Committee for the PRSC process, which is chaired by the first Deputy Prime Minister. The secretariat identifies the relevant line ministry or government agency for each of the policy actions. The technical meetings with those ministries and agencies provide an opportunity to go in detail into the specifics of each action, to comment on draft policy documents and to agree on a time schedule for their completion

56. Eight of the 14 triggers for this operation have been fully met or will be fully met by Board date, five were partially met and one was not met. The five triggers partially met were: to complete the equitization of two SOCBs, with participation of strategic investors; to establish affordable health insurance premiums based on user-group demand and address adverse selection problem; to adopt guidelines for Gender Equality Law identifying responsibilities, resources and monitoring mechanisms; to enact a legal and institutional framework for integrated river basin management; and establish clear criteria for selecting public investment projects and mechanisms for their financing and monitoring. The unmet trigger was to develop a unified national sanitation strategy and encourage greater commune and private participation in sanitation.

57. The fact that not all triggers were met reflects a relatively weak policy performance. It is difficult to make comparisons with the previous operation, which was the first one in the cycle and therefore involved no triggers. But performance under this operation was weaker than under PRSC 5, when all 15 triggers had been met. It was somewhat weaker than that under PRSC 4, when three out of 15 triggers partially met, and similar to that under PRSC 3, when one out of 14 triggers was not met and two were partially met. There were no explicit triggers for PRSC 2.

58. There is general agreement that some of the slippages in relation to the triggers reflect circumstantial or institutional obstacles to implementation. On the circumstantial side, the macroeconomic turbulence of end-2007 led to the adoption of a stabilization package including measures to contain credit growth. As a result of this package, there was a stock market slump that made the government reluctant to sell a strategic share of the capital of SOCBs to private investors.

On the institutional side, an unclear allocation of responsibilities between ministries prevented any substantial progress on the sanitation strategy, whereas the more assertive stance of the National Assembly resulted in delays to approve the health insurance law. An extensive consultation process on the guidelines for the Gender Equality and the decree on river basin management also led to the postponement of their issuance.

59. The view of the Task Team is that weaker policy performance under this operation does not reflect a weaker commitment of the government to reform. While the “bottom line” assessment of the triggers varies across co-financiers, and various interpretations can be offered for the overall slowdown in policy performance, there is a determination of the donor community to remain engaged in the dialogue with government over economic reforms. There is also a commitment to improve performance over the next operation in the series.

60. **In addition to assessing the triggers, the rounds of technical meetings with government provide the platform to engage in a broader dialogue.** Progress in the implementation of the reform agenda is assessed on an annual basis through the adoption of a series of benchmarks, reflected in the policy matrix of each of the PRSC operations. For a measure to be considered a benchmark, it needs to meet four criteria. First, it needs to be explicitly mentioned in the SEDP 2006-2010 or be part of some other strategic policy document of the government. Second, the measure has to be considered in the VDR series or in other analytical documents as conducive to the attainment of development outcomes. Third, the measure has to be strategic in importance. And fourth, it has to be monitorable, in the sense that its completion can be documented.

61. **Over the year elapsed since the last operation in the series, the government of Vietnam made progress in its reform agenda, across all policy areas.** Some of the actions undertaken during this period are deemed to be more strategic, because of their potential impact on development outcomes over time (Table 5). Those actions build on the triggers identified in the previous operation and are reported in the Financing Agreement. However, as in the previous cycle, each operation highlights through a comprehensive policy matrix all of the actions that were part of the PRSC policy dialogue over the preceding year and were completed by the time the negotiation of the credit took place (Annex 5 for the list and Annex 6 for the supporting documentation). This broader set of actions does not reflect the use of conditionality. Its reporting is rather intended to convey the breadth and scope of the reforms being undertaken by the government of Vietnam, year after year. By providing a more comprehensive picture of developments in each policy area, this matrix allows a better understanding of the progress being made in each of the four pillars of the reform program.

B. BUSINESS DEVELOPMENT

62. **Establishment of consultation and information gathering mechanisms to identify the social and environmental impacts of accession to the WTO.** The goal is to set up effective ways to communicate with stakeholders, to adjust the implementation of policies and to gather feedback on actual impacts. This is in the understanding that it is difficult to predict ex-ante where adverse impacts may materialize. Three measures are counted as contributions to this key action during the period covered by PRSC 7. On June 11, the Prime Minister mandated the posting in the Government website of all drafts of government legal documents for at least 60 days before sending them for appraisal by the Ministry of Justice (MOJ) and approval by the Office of Government (OOG). On May 13, 2008, technical guidelines were issued by the Ministry of Natural Resources and the Environment (MONRE) on the preparation of Strategic Environmental Assessments, applicable to all sectors. In November 2007, the Ministry of Labor, Invalids and Social Affairs (MOLISA) and GSO agreed that the latter will conduct a representative labor force survey to gather data on activity, employment and earnings, based on international practice. This survey fills an important statistical gap. For now, priority has been given to detailed spatial coverage, so that the survey will be

conducted annually. It is understood that progress on assessing potential adverse impacts will continue under the next operation, with emphasis on the action plan for the implementation of commitments, to be finalized in 2008

63. Several policy actions recognized as benchmarks in this operation have aimed at actually implementing the most important commitments made to accede to the WTO. Under this operation, progress has been made in harmonizing agricultural health and food safety regulatory tools with international standards, in line with the Sanitary and Phytosanitary (SPS) agreement. An inter-ministerial circular has also been adopted to tackle the infringement of copyrights and trademarks on a commercial scale in line with Trade-Related aspects of Intellectual Property rights (TRIPs) Agreement. This circular was critical from a legal point of view, as intellectual property rights were covered by the criminal code in vague terms only.

64. **Assess scope and nature of lending and other transactions among affiliated parties within Economic Groups and General Corporations.** There is a concern that the involvement of large SOEs in the financial sector, through their control of commercial banks and other financial institutions, could undermine the efficient allocation of capital and be a source of instability in the medium run. In the short run, investments by large SOEs in real estate and the stock market probably fuelled the asset market bubble of end-2007. As a first step towards regulating these activities, MOF conducted a first assessment of the scope of related lending and related party transactions and of their implications for economic stability and overall efficiency. The assessment reviews outside investments by 71 Economic Groups and General Corporations, assesses the conditions under which they borrow from the banks they have invested in, and evaluates the extent and pricing of sales among affiliates. This study will serve as the basis for a concrete set of policy recommendations.

65. **Approve equitization plans allowing participation of strategic investors for two SOCBs and complete the equitization of one of them.** Several SOCBs have made progress in their equitization plans. The most advanced is Vietcombank, which already completed its IPO and held its first shareholders' general meeting. As part of its approved equitization plan, Vietcombank is authorized to sell up to 20 percent of its capital to strategic investors in the second quarter of 2008. However, strategic investors are not allowed to buy shares below the IPO price, at a time when the stock market slump associated with macroeconomic stabilization has brought share prices to a third of their IPO level. A waiver of the minimum share price can be obtained from the Prime Minister can be obtained if the technical and financial assistance offered by the potential investor is considered valuable. The second most advanced SOCB is Mekong Housing Bank, whose equitization plan was approved in March, 2008. The plan includes the sale of 15 percent of the capital to strategic investors.

TABLE 5: KEY PRIOR ACTIONS UNDER PRSC 7

Pillar I: Business development	
Area	Policy Action
Global integration	<ul style="list-style-type: none"> Establish consultation and information gathering mechanisms to identify the social and environmental impacts of WTO accession
State sector reform	<ul style="list-style-type: none"> Assess scope and nature of lending and other transactions among affiliated parties within Economic Groups and General Corporations
Financial sector reform	<ul style="list-style-type: none"> Approve equitization plans allowing participation of strategic investors for two SOCBs and complete the equitization of one of them
Infrastructure	<ul style="list-style-type: none"> Adopt market-based pricing systems to estimate the costs of state-funded civil engineering investments
Pillar II: Social Inclusion	
Area	Policy Action
Education	<ul style="list-style-type: none"> Revise tuition fees at secondary and tertiary levels, better reflecting market conditions, and enhance policies to protect the poor
Health	<ul style="list-style-type: none"> Submit health insurance law which better pools risks and allows improved incentives in payment to service providers
Social protection	<ul style="list-style-type: none"> Introduce voluntary pension program for farmers and informal sector, allowing for support for the poor to participate in the program
Gender	<ul style="list-style-type: none"> Determine institutional responsibilities for the implementation of the Gender Equality Law and monitoring of gender equality
Pillar III: Natural Resources	
Area	Policy Action
Land and forests	<ul style="list-style-type: none"> Issue guidelines for forest development based on participatory land-use planning and independent monitoring
Water	<ul style="list-style-type: none"> Allocate institutional responsibilities for integrated river basin management
Pillar IV: Modern Governance	
Area	Policy Action
Planning processes	<ul style="list-style-type: none"> Establish criteria for selecting public investment projects and mechanisms to monitor their financing and implementation
Public financial management	<ul style="list-style-type: none"> Issue regulations on content and timing of disclosure of SAV reports, including audit reports of individual entities
Fighting corruption	<ul style="list-style-type: none"> Implement asset declaration requirement in regard to senior officials and their immediate families, with penalties for non-compliance

Note: The prior actions listed in this table are those included in the Financing Agreement for the current operation. The complete set of prior actions agreed upon between government and donors for PRSC 7 can be found in Annex 5.

66. Other benchmarks related to financial sector reform have aimed at enhancing financial sector stability. A road map to enhance bank supervision, including off-site supervision and risk-management tools, was issued in July 2007. It was followed by instructions for its implementation by various departments of SBV in February 2008. A decree on the corporate governance of commercial banks was revised so as to enhance the role of boards of directors. The revised decree introduces fit-and-proper rules for significant shareholders, board members and managers.

67. Several policy measures recognized as benchmarks in this credit are expected to contribute to further private sector development. The time needed to start a business was further shortened by unifying tax and business identification numbers. Seal-carving procedures, identified as one of the main sources of delays in registration, were considerably streamlined. A number of incentives related to Enterprise Income Tax were abolished in November, 2007, whereas the new law on Personal Income Tax simplified tax procedures for household businesses. In November 139, a decree guiding the implementation of the Enterprise Law specified that all organizations (including foreign-invested enterprises) and all individuals (including foreigners) have the right to contribute capital and to acquire states in unlisted companies. In practice, this means that the previous 30 percent cap on foreign ownership was raised to 100 percent.

68. **Adopt market-based pricing systems to estimate the costs of state-funded civil engineering investments.** Cost norms inherited from the period under central planning had resulted in limited competition in public procurement. Such norms tended to be established below market-level costs thus frequently requiring exceptions for winning bidders. The granting of such exemptions was a potential source of corruption. A decree issued in June, 2007 stipulated that estimates of construction costs had to be based on market prices, prompting the revision of a large number of cost norms. Four major components concern material costs, labor costs, price escalation and engineering costs. In a context where surging construction costs is pushing contractors to default on their obligations, it has been agreed that price escalation can be based on an index produced by GSO.

69. Coping with a rapidly growing demand for electricity and addressing bottlenecks in transport are among the most pressing infrastructure challenges faced by the government of Vietnam. In the case of electricity a market needs to be created in order to ensure affordable prices while attracting private investment. A crucial step in the organization of such market was undertaken under this credit, as power transmission and generation assets were separated and transmission assets were under a single National Power Transmission Corporation. This will in turn allow the consolidation of generation assets for their equitization.

70. As regards transport, modern principles of transparency and corporate governance were adopted for provincial infrastructure funds. These funds are agile at leveraging non-government resources and rapidly implementing local infrastructure projects. Meanwhile, a strengthened enforcement of traffic safety regulations, including the mandatory use of helmets when riding motorbikes, has resulted in a decline in the number of traffic-related fatalities. However, some of those regulations could affect the livelihood of PLWD, as they raise the technical standards for three-wheeled motorbikes and specialized vehicles. Such vehicles are essential for PLWD to access markets and generate income. Under this operation, measures were adopted to provide financial support for PLWD to purchase special vehicles.

C. SOCIAL INCLUSION

71. **Revise tuition fees at secondary and tertiary levels, better reflecting market conditions, and enhance policies to protect the poor.** As part of the drive towards socialization, MOET has been actively working on a revision of tuition fees for secondary and tertiary levels. Greater reliance on tuition fees is to be supplemented by measures to support access to education by the poor. The

period under this operation saw the discussion of this policy reform at the National Assembly, followed by extensive consultations in all provinces. The process was completed with two major forums to discuss the new policy and gather feedback, one in the North and one in the South, each led by a highly respected national leader. Agreement was reached on a differentiation of fee levels between urban, rural and remote areas. New fee levels still have to be adopted, among other reasons because of the current fight against inflation. But measures were already adopted to protect the poor. Among them is the broadening of the scope of the scholarship program which now covers students from poor, ethnic and merit households. The scholarship was set at 80 percent of the minimum wage. A related measure was the establishment of concessional credit for students, to be implemented by VBSP. As of April, 2008 around 600,000 students had received credit, for a total of 4.5 trillion dong.

72. The fragmentation and duplication of data on education has been one of the main obstacles to an effective management of the system. The allocation of resources and the assessment of performance have been hindered by this shortcoming. Under this operation, a roadmap was issued for the development of an education information system, with the IT department of MOET in the lead.

73. **Submit health insurance law which better pools risks and allows improved incentives in payment to service providers.** The main action towards meeting this trigger was the preparation of the draft Health Insurance Law, discussed by the National Assembly in its May-June session. The draft law sets the contribution rate for the compulsory as a percentage of the total salary, at a level ensuring the balance of the health insurance fund under VSS but not exceeding 6 percent. The draft Law pools risk among participants in the voluntary program by forcing enrollment of all household members. Previous attempts to pool risk relied on group insurance at the community level, but this conflicted with the enforcement of household participation and resulted in serious adverse selection. The draft Health Insurance Law also makes it possible for provider payments to gradually shift from fee-for-service to case-base refunds. The latter should provide stronger incentives to contain the escalation of health care costs.

74. Other important measures related to health were also approved during the year covered by this operation. As part of the drive to extend the coverage of mainstream programs, the health insurance premium paid by the budget on behalf of the poor was substantially increased. In parallel, a 50 percent subsidy was introduced for the near-poor. On the supply side, the treatment of solid waste discharge by hospitals was regulated in line with international practices. A Prime Minister decision issued in April, 2008 specifies the budget sources to be used in order to upgrade hospitals to the new standards.

75. **Introduce voluntary pension program for farmers and informal sector, allowing for support for the poor to participate in the program.** A decree issued in December, 2007 guides the implementation of the articles of the Social Insurance Law related to the voluntary pension programs. Benefit formulas are the same in both cases, with people processing their pension benefits through the fund they are contributing too at the time of retirement. Reliance on the same benefit formulas allows the full portability of pension entitlements between the formal and the informal sectors. The voluntary program also allows to continue contributing for five more years after the legal retirement age. Because of the portability of benefits, this feature actually raises the maximum retirement age for all workers except civil servants. The Decree also opens the possibility for provincial governments or donors to pay contributions towards pension on behalf of the poor. Several donors are currently exploring the possibility to do so in selected provinces.

76. Generous assistance for SOE workers displaced as a result of equitization and restructuring has been instrumental in ensuring social stability and overcoming resistance to reform. A safety net program established in 2001, under PRSC 1, has by now assisted close to 250,000 redundant workers move out of the state sector without major frictions. Under this operation, the compensation formula used by the safety net was revised. More importantly, its scope was extended so as to cover redundant workers in state-owned plantations and farms.

77. **Determine institutional responsibilities for the implementation of the Gender Equality Law and monitoring of gender equality.** MOJ has taken the lead in drafting the three implementing decrees. A major consultation on the draft decrees will take place in early June, 2008. While the Law on Gender Equality is perceived as an important milestone, there is also a consensus that its actual impact will depend on its implementation and in particular on the adequate monitoring of gender equality. A first important step in this direction was taken in December, 2007, when a focal agency was appointed to be in charge of state management in relation to gender equality. To this effect, a new Department for Gender Equality was established under MOLISA. It is clearly recognized that this department will need to work with other government agencies in the disaggregation of existing statistics by gender and the generation of new indicators to appropriately monitor gender equality.

78. In a related development, a Law on the Prevention and Control of Domestic Violence was passed in November 2007. The two guiding decrees for this law were drafted in a process involving wide consultation. A National Target Program against Domestic Violence is under preparation and will be launched in the second half of 2008.

D. NATURAL RESOURCES

79. **Issue guidelines for forest development based on participatory land-use planning and independent monitoring.** A Prime Minister Decision issued in July, 2007 amended the five-million hectare program, aiming at 1 million extra hectares, of which three quarters for protection. Together with a related circular, this decision opens the possibility for people from ethnic minorities to get hired for the protection of the forests. Another decision 147, issued in September, 2007, charted the policies for the development of production forest in 2007–2015. Effective implementation will require close collaboration between several ministries, with a focus on the benefits to local populations. The inter-ministerial circular for the implementation of this decision is critical to ensure such collaboration.

80. **Allocate institutional responsibilities for integrated river basin management.** Under this operation all responsibilities related to river basin management were transferred to MONRE. This was made clear by the functional reorganization of the Ministry of Agriculture and Rural Development (MARD), approved in January, 2008, which does not retain any mandate in this connection. Shortly after, in March 2008, MONRE was put in charge of Vietnam's representation at the Mekong River Council. In parallel, wide consultations were held on a draft decree on river basin management which will establish a Committee for River Basin Management. However, the decree was not issued in time for this operation, as had been originally envisioned.

81. Two other measures are recognized by this credit in relation to natural resources and the environment. A strategy for natural disaster mitigation was adopted in November, 2007. One of its salient features is to recognize the role of non-structural measures. The adoption of the strategy was followed by instructions to ministries and provinces to prepare related action plans. The other relevant measure is the strengthening of incentives for pollution control, under the form of environmental protection charges for solid waste disposal, also in November, 2007.

E. MODERN GOVERNANCE

82. **Establish criteria for selecting public investment projects and mechanisms to monitor their financing and implementation.** Some progress was made on the monitoring of public investment projects. Building on a Prime Minister Decision on the implementation of state investment capital, a circular issued in August, 2007, introduced a series of templates for standard reporting on investment by ministries, agencies, provinces and General Corporations. Reporting

refers to sector, project type, sources of funding and progress on implementation. The criteria to select public investment projects were tightened as part of the recent policy package to address economic over-heating. A letter was issued to this effect by the Prime Minister in April, 2008, as part of the adjustment package to contain inflation. This letter instructs MPI to review all public investment projects and suspend those considered ineffective or inefficient. Based on this letter, MPI in turn requested all ministries, agencies, and provinces to stop projects without adequate funding or with outdated objectives. General Corporations were also requested to take costs and benefits into consideration when reassessing their investment projects.

83. As part of the modernization of planning processes in Vietnam, further progress was made under this operation to develop a monitoring framework for the SEDP. A decision issued by MPI in May, 2007, established the list of indicators, data sources and reporting mechanisms to be used. The decision was followed by a resolution guiding the annual progress report by MPI.

84. **Issue regulations on content and timing of disclosure of SAV reports, including audit reports of individual entities.** A decision issued in July, 2007 mandates the disclosure of SAV audit findings and recommendations. Three types of SAV documents are subject to publicity: annual audit reports, reports on the implementation of audit conclusions and recommendations, and audits of individual entities. This regulation adequately defines responsibilities for publicity, reports to be disclosed, timing and means of disclosure. Audit reports have been distributed to members of the National Assembly, press conferences have been held on the conclusions and recommendations of several of them, and various individual audits have been posted in the SAV website.

85. In the area of legal reform, measures adopted under this operation have aimed at opening up more space for civil society organizations and enhancing the rights of consumers. While not much progress has been made in establishing a general legal framework for associations, several measures have been adopted, or are under preparation, to recognize such associations through their ability to enter in contracts. In this spirit, measures were passed in September and October 2007 to regulate the establishment and operation of economic collaborative groups and of social and charity funds respectively. Meanwhile, a Law on the Quality of Products and Commodities and a decree on the Protection of Consumer rights were passed in November 2007 and April 2008. These two measures enhance the responsibility of enterprises vis-à-vis consumers.

86. Progress was made on public administration reform under this operation. Administrative procedures were further simplified in June, 2007, with the extension of the OSS model to all ministries and agencies and the introduction of inter-linked OSS. Previously, the OSS model only applied to four departments at provincial level, seven procedures at district level and four at commune level. A resolution passed in November, 2007, mandates its piloting in seven ministries at central level. The inter-linked OSS model has already been introduced by several provinces. The dealings of citizens and enterprises with government should also be facilitated through the use of electronic interfaces. Under this operation, common standards were set for IT applications and e-government interfaces at central and provincial levels

87. Pay reform is another integral part of the public administration reform agenda. An important measure in this respect was related to the setting of minimum wages. Until end-2007, a single minimum wage was used as the reference point for all salaries in government administration and as the floor for earnings in the domestic business sector (including SOEs). This amounted to using one instrument for two objectives. Moreover, the national treatment principle of WTO will require a rapid increase in the national minimum wage, to eventually reach the level of that applying to foreign-invested companies. This rapid increase could have unintended consequences on the government wage bill. In November, 2007, the national minimum wage was broken down in three levels, by region. The minimum wage used as the reference point for government salaries was set separately. It

remains equal to the lowest minimum wage applying to the domestic business sector. But this separation, and the multiplication in the number of instruments, are steps in the right direction.

88. Implement asset declaration requirement in regard to senior officials and their immediate families, with penalties for non-compliance. Asset declaration was introduced by the Anti-Corruption Law and regulated through a decree issued in March, 2007. Under this operation, subsequent measures were adopted to actually implement the asset declaration mechanisms. A circular issued in November, 2007, provided practical guidelines to this effect. Extensive training was conducted at the end of 2007. Government employees were requested to submit their asset declarations by February, 2008. An official letter issued in April, 2008, introduced a standard template for reporting by ministries, agencies and provinces. Compliance is high, with civil servants subject to disciplinary measures if they do not declare. Verification will be based on denunciations. So far, a visible episode concerned the head of the Supreme People's Procuracy in Ca Mao province.

89. Other anti-corruption measures adopted under this operation focused on human resource management. In October, 2007, time limits for the rotation of civil servants in sensitive positions were introduced. The corresponding decree explicitly listed the tasks and occupations considered sensitive. Line ministries and government agencies are now in the process of submitting their lists of sensitive positions and their rotation plans. In August, 2007, payments of salaries in cash abolished and replaced by payment through bank accounts.

F. TRIGGERS FOR PRSC 8

90. The negotiation of the proposed credit included reaching an agreement on a list of measures that will in principle be supported by PRSC 8 (Table 6). These measures are inspired in the SEDP and other key documents and strategies. The list also builds on the progress made in the policy dialogue with government over the current PRSC cycle. The set of measures chosen as triggers because of their strategic importance to attain the development objectives of the SEDP towards the end of the five-year cycle. They should not be interpreted as conditions. They rather serve as a guide to focus the policy dialogue during the next annual cycle. Progress towards meeting the triggers will be assessed towards the end of 2008 in order to launch the formal preparation of the next operation in the series. It is understood that the assessment will be holistic, recognizing that some triggers may not be fully met while other may be exceeded.

91. Strengthen financial management of SOEs and their investments in other entities, defining the level of such investments. The venturing of Economic Groups and General Corporations into asset markets, on a large scale, might have fueled the asset bubbles of end-2007 and contributed to macroeconomic instability in the short term. Their investments in banks and other financial institutions raise the prospect of related party transactions which could increase the vulnerability of the economy in the medium run. To address these risks, the government will revise the most important regulations on the financial management of SOEs. The revisions, to be proposed by MOF, will be based on the assessment of the scope and nature of lending and other transactions among affiliated parties within Economic Groups and General Corporations, conducted under this operation.

92. Prepare revised Law on central bank focusing its mandate on and enhancing its autonomy in regard to monetary policy and financial sector stability. The main building blocks of the comprehensive roadmap for the reform of the banking sector, approved under PRSC 5, are the transformation of SBV into a modern central bank and the introduction of a strong commercial orientation in SOCBs. The latter is to be reached through the participation of strategic investors in their capital; the former through the adoption of a revised SBV Law. The timing for the submission of this Law to the National Assembly is still unclear, and the policy dialogue will emphasize the

importance of issuing it as soon as possible. But regardless of the formal date of submission, agreement has been reached on the need to prepare a draft law specializing SBV on the conduct of monetary policy and the supervision of the banking sector, with as much technical autonomy and initiative as possible.

93. **Adopt a pricing system for electricity from renewable energy and provide incentives for government procurement of energy-efficient equipment.** Coping with rapid growth in the demand for electricity is one of the main infrastructure challenges currently faced by Vietnam. The organization of a market for electricity and the implementation of large investments in generation, by both the public and the private sector, will be critical to increase the supply of electricity. However, it is also clear that electricity could be used more efficiently and the increase in generation capacity should not come at the expense of the environment. MOIT is the leading agency in this respect. Under the next operation, appropriate pricing should allow expanding the market for electricity in the direction of renewable energy. Other steps towards energy savings include the labeling of appliances and other equipments based on their consumption of electricity, and the introduction of financial incentives for the public sector to favor energy-efficient equipment when processing procurement contracts.

TABLE 6: TRIGGERS FOR PRSC 8

Pillar I: Business development	
Area	Policy Action
State sector reform	<ul style="list-style-type: none"> Strengthen financial management of SOEs and their investments in other entities, defining the level of such investments
Financial sector reform	<ul style="list-style-type: none"> Prepare revised Law on Central Bank focusing its mandate on and enhancing its autonomy in regard to monetary policy and financial sector stability
Infrastructure	<ul style="list-style-type: none"> Adopt a pricing system for electricity from renewable energy and provide incentives for government procurement of energy-efficient equipment
Pillar II: Social Inclusion	
Area	Policy Action
Education	<ul style="list-style-type: none"> Formulate education development strategy to 2020 focusing on equity of learning outcomes and relevance of contents
Health	<ul style="list-style-type: none"> Adopt standards for certification of health care practitioners and classification of private health facilities
Social protection	<ul style="list-style-type: none"> Approve a strategic plan to ensure prudential and effective investment of social security funds
Pillar III: Natural Resources	
Area	Policy Action
Land and forests	<ul style="list-style-type: none"> Establish criteria and time bound plan to assess the quality of forest resources nationwide.
The environment	<ul style="list-style-type: none"> Approve national target program on adaption to climate change and allocate institutional responsibilities for its implementation
Pillar IV: Modern Governance	
Area	Policy Action
Public financial management	<ul style="list-style-type: none"> Formulate public debt management law consolidating the management of domestic and external debt
Legal development	<ul style="list-style-type: none"> Establish the National Bar Association, with governing documents and structures approved by the community of lawyers
Fighting corruption	<ul style="list-style-type: none"> Prepare a revised Press Law to encourage accurate, objective and responsible reporting on corruption

94. **Formulate education development strategy to 2020 focusing on equity of learning outcomes and relevance of contents.** Given the progress accomplished in extending the coverage of primary and lower secondary education in Vietnam, the focus of reforms is gradually shifting towards improved learning and the fostering of skills. These priorities should be reflected in the education strategy, currently being prepared by MOET. At primary level, learning assessments reveal important inequalities, with children from disadvantaged backgrounds doing less well than those from wealthier families. At higher levels, the main issue is the relevance of the education imparted, especially in the case of vocational education and universities. The strategy is expected to include concrete recommendations, from the allocation of budgetary resources to the revision of education curricula to the governance of tertiary-level institutions, to address these challenges.

95. **Approve a strategic plan to ensure prudential and effective investment of social security funds.** Due to the youth and rapid formalization of the labor force, the old-age pension program of Vietnam is quickly accumulating reserves. The expansion of the old-age pension program to the informal sector, implemented under this operation, should accelerate this trend. But the viability of the program in the long run depends critically on the soundness of the investments made with contributions from workers and employers. The record so far is not reassuring, as VSS has invested in low-return assets, in accordance with the Social Insurance Law. During the next operation, VSS will develop a strategic plan to identify potential investments, develop an investment portfolio, choose forms of investment and decide on the share of different asset classes. The process will include the identification of appropriate benchmarks, with priority given to security over profitability. Based on the plan, recommendations will be made to expand the list of asset classes considered in the Social Insurance Law.

96. **Approve a strategic plan to ensure prudential and effective investment of social security funds.** Due to the youth and rapid formalization of the labor force, the old-age pension program of Vietnam is rapidly accumulating reserves. The expansion of the old-age pension program to the informal sector, implemented under this operation, should accelerate the trend. But the viability of the program in the long run critically depends on the soundness of the investments made with contributions from workers and employers. The record so far is not reassuring, as VSS has invested in low-return assets, in accordance with the Social Insurance Law. During the next operation, VSS will develop a strategic plan to identify potential investments, develop an investment portfolio, choose forms of investment and decide on the share of different asset classes. The process will include the identification of appropriate benchmarks, with priority given to security over profitability. Based on the plan, recommendations will be made to expand the list of asset classes considered in the Social Insurance Law.

97. **Establish criteria and time bound plan to assess the quality of forest resources nationwide.** There is recognition that Vietnam has made progress in expanding forest coverage, but forest quality remains a concern. The ongoing restructuring of state-owned forestry enterprises and the associated transfer of forest land to households and businesses makes it urgent to have a reliable assessment of forest quality. The conversion of forests of allegedly low quality into agriculture may also have social implications, as ethnic minority groups tend to use such forests as a public good whereas farmers from the majority group are more likely to use it as farmers. The assessment of forest quality could also be important for Vietnam to access global financing mechanisms related to climate change, such as Reducing Emissions from Deforestation in Developing Countries (REDD). Under the next operation, MARD will establish criteria to classify forests based on their quality, develop a plan to apply this classification throughout the country, and start its implementation in selected provinces. It is expected that the resulting classification will provide a useful baseline to support monitoring and guide policy decisions in this area.

98. **Approve national target program on adaption to climate change and allocate institutional responsibilities for its implementation.** Vietnam is one of the countries that would be most severely affected by the rise in the sea level as a result of climate change. Because of its long coastal line and heavy population density, it is also particularly vulnerable to floods and typhoons, which can also be expected to become more common. Realizing these challenges, the government decided to embark early on in the preparation of a plan for adaptation to climate change. Led by MONRE, this plan will take the form of a National Target Program, to be approved under the next operation in the cycle. It is expected that this plan will clearly assign responsibilities to line ministries, government agencies and provincial authorities, so as to avoid duplication and overlaps. Special importance is given to the coherence between this target program and the natural disaster mitigation strategy adopted under this operation.

99. **Formulate public debt management law consolidating the management of domestic and external debt.** Much progress has been accomplished in public financial management reform. The Law on the State Budget, passed in 2002, fundamentally transformed the expenditure side, whereas the tax reform strategy currently under implementation is modernizing both tax instruments and tax administration. Less progress has been accomplished in relation to the management of public assets and liabilities. An important milestone in this direction will be the preparation of the Law on Public Debt, by MOF. This law will unify the management of domestic and external debt. Such unification is all the more important at a time when the Vietnamese economy is fully integrating into the world economy, and the buying and selling of government bonds becomes a critical ingredient in the conduct of macroeconomic policy.

100. **Establish the National Bar Association, with governing documents and structures approved by the community of lawyers.** This trigger is based on Resolution 49 of the Politburo, on the Judicial Reform Strategy to 2020, which refers to the need of creating favorable legal conditions to promote the self-management status of lawyers' organizations, while enhancing their responsibility towards their members. The trigger is considered important to build institutional momentum for further legal and judicial reform. It is expected that self-management by the National Bar Association will bring new dynamics for the profession by building competencies and providing training, by establishing standards for quality of legal services, and by demanding stronger administration of justice and overall respect of rule of law. A first National Congress is planned for the summer of 2008.

101. **Prepare a revised Press Law to encourage accurate, objective and responsible reporting on corruption.** The fight against corruption encompasses measures across a range of policy areas, from simplifying administrative procedures and reducing red tape to monitoring the assets and income of civil servants. Several such measures are supported by the current operation. However, investigation and reporting by the media are also called to play a crucial role in uncovering corruption cases. The revision of the Press Law, in the next year, offers an opportunity to better protect the journalists and media outlets which report on corruption, while at the same time dissuading libel and defamation. Ideally, such dissuasion should rely on civil measures rather than criminal prosecution. But it is recognized that progress in this direction may be gradual, and assessing the progress towards meeting this trigger could be difficult.

VI. OPERATION IMPLEMENTATION

A. POVERTY AND SOCIAL IMPACTS

102. **Some of the policy actions supported by this operation could affect specific population groups but most of the social impacts are bound to be broad.** The ongoing restructuring of state

sector falls in the first group, as does the increase in tuition fees for secondary and tertiary education. With a reform program as comprehensive as that of Vietnam, however, social impacts are bound to be felt across the entire society, possibly over a long period of time. PRSCs support a fundamental transformation of the Vietnamese economy, including an increasing reliance in market mechanisms and a growing integration in the world economy. Rapid economic growth is a testimony to the soundness of this reform program. The rapid reduction in poverty associated with this success suggests that adverse social impacts are limited. However, global integration (especially since the accession of Vietnam to the WTO) is bringing unprecedented dynamism to the economic hubs of the country, which could result in growing regional disparities. The scarcity of qualified personnel associated with this dynamism may also lead to a higher skill premium, and growing disparities between households. Perhaps the biggest impacts are happening in connection to land. In urban areas, agglomeration effects are leading to a surge in the price of prime land, resulting in massive gains for landlords and growing costs for the rest. Meanwhile, forests that were traditionally used by ethnic minority people as a public good are increasingly being converted into commercial forests or agricultural land.

103. **In cases where the reform program affects identifiable population groups, the credit also supports measures to offset the adverse impacts.** For instance, under this operation the social safety net to assist redundant workers from SOEs is extended so as to also cover workers from state-owned farms, plantations and forests undergoing equitization or restructuring. Similarly, the revision of tuition fees for secondary and tertiary education, aimed at better aligning them with market conditions, is complemented by the adoption of two large-scale programs, one on scholarships and the other on concessional credit for students.

104. **Addressing the more widespread social impacts of rapid growth, agglomeration effects and land appreciation is more difficult.** Attempts to identify beforehand who wins and loses from WTO accession have proven inconclusive. A review of a dozen studies based on computable general equilibrium models and almost as many sectoral studies, reported in the VDR 2006- *Business*, shows that few results are robust across studies, suggesting their high sensitivity to the methodology and assumptions used. In a similar spirit, a retrospective assessment of a previous phase in the trade liberalization program of Vietnam concludes that the studies of the time were not able to foresee its actual consequences. Because of these uncertainties, addressing the social impacts of the reform program supported by PRSCs requires complementary policies that are flexible enough to provide support to those who lose, even when it is not possible to tell beforehand who they are.

105. **The analytical work underpinning this operation has paid special attention to risks and vulnerabilities, and the most effective ways to address them.** The VDR 2008 – *Social Protection*, updates the poverty assessment of Vietnam, analyzes in detail the situation of ethnic minorities, and identifies the main shifts and shocks of the current stage of economic development, from the epidemiological transition to growing traffic fatalities, to anti-dumping measures by trade partners. Its findings provide credence to the strategy chosen by the government of Vietnam to address these risks and vulnerabilities. Such strategy includes a series of targeted programs. However, its two main components are the redistribution of budgetary resources from richer to poorer provinces and the adoption of universal social protection programs in which participation by the poor is subsidized.

106. **The current credit includes several policy actions clearly aimed at offsetting trends towards growing inequality.** Among them is the strengthened enforcement of regulations and improved education programs in relation to traffic safety, the increase in the health insurance premium paid on behalf of the poor and for the first time the partial subsidization of the near-poor, the introduction of a voluntary pension program for farmers and informal sector allowing for budget support for the poor, and the issuance of guidelines for forest development based on participatory land-use planning and independent monitoring. Importantly, the credit supports the establishment of consultation and information gathering mechanisms to identify the social impacts of accession to the

WTO. The goal is to establish effective mechanisms to communicate with stakeholders, to adjust the implementation of policies and to gather feedback on actual impacts.

B. ENVIRONMENTAL ASPECTS

107. **The proposed PRSC operation explicitly supports an important number of policy actions with environmental objectives.** Nine actions are grouped in the Pillar III actions targeted to natural resources. They focus on land and forests (forest development guidelines and land auction policies, water (river basin management, sanitation strategy, and a natural disaster mitigation strategy), and the environment (performance contracts for sewerage and drainage, cleaner production incentives, strategic environmental assessment guidelines, and adoption of a climate change action plan). Other policy actions have important positive implications for the environment, such as inclusion of social and environmental impacts of WTO accession and safe treatment of waste and water discharge from hospitals. More complete information on these policy actions is included in other sections of this document.

108. **There are no direct investments supported by the PRSC with measurable environmental impacts** but to the extent that the PRSC can be considered responsible for triggering new development patterns or accelerated growth, it could potentially generate unintended indirect negative impacts. These could involve private sector development, SOE reform, trade integration, and planning processes.

109. **Some policy actions promoted under the PRSC itself mitigate or counter possible impacts.** The strategic environmental assessment (SEA) guidelines policy action of this PRSC is particularly important as good SEAs can adequately assess economy-wide or sector-wide developments potentially triggered by PRSC-supported reforms. Additionally, support by the Swedish-funded SEMLA program has been important in providing support for the strengthening and implementation of SEA policies. Other SEA work is underway by a range of donors, including the World Bank.

110. **In addition, the World Bank and many other donors participate actively in a program to support harmonization of environmental assessment procedures between themselves and the Government as well as to build capacity at various levels.** A Technical Working Group of the Partnership Group on Aid Effectiveness (PGAE), co-chaired by the ADB and MONRE, is currently undertaking a variety of actions in this area. Funding is provided by various sources, including a World Bank-managed trust fund managed by the Ministry of Planning.

111. **Supporting analytical World Bank work is being carried out on a number of environmental topics in Vietnam.** A *Poverty-Environment Nexus* analysis will be completed this year and raise awareness on the interaction between environmental issues and poverty. A major study on the pollution caused by the manufacturing sectors will also shortly be distributed giving decision-makers additional tools to address environmental pollution. Other recent publications have tackled issues of solid waste, biodiversity, climate change, fisheries and aquaculture, and water quality in river basins. A great range of analytical work supported by other PRSC donors has helped fill the gap between SEDP objectives and policy actions supported by the PRSC process.

112. **Despite progress in the environmental assessment policy environment and good analytical and project work in a range of sectors, Vietnam faces significant environmental challenges.** Although not caused by or related to this PRSC operation, challenges are mounting in terms of the environmental and health costs of water and air pollution; worrisome trends in the loss or poor management of natural resources such as forests, biodiversity, and fisheries; and finally the still unknown but potentially significant impacts of climate change. The forthcoming PRSC operation intends to strengthen its handling of climate change by making this a trigger. Most of the major

challenges Vietnam faces in the environmental arena are going to require multi-pronged and long-term solutions outside of the PRSC framework.

C. IMPLEMENTATION, MONITORING AND EVALUATION

113. **Steering and Monitoring.** The National Steering Committee (NSC) for the implementation of PRSC operations was established in 2002. It is chaired by the first Deputy Prime Minister, Nguyen Sinh Hung, and brings together representatives from key economic ministries and agencies, such as the Ministry of Finance (MOF), the Ministry of Trade (MOT), the SBV, MOLISA, the MOJ, MARD, the Ministry of Education and Training (MOET) and the Ministry of Health (MOH), among others. Members of the NSC thus have authority over the entire range of policy areas covered by the PRSC process. The participation of the OOG and the Party's Economic Commission (PEC) in the NSC also allow for a better coordination of policy decisions, and to elicit sufficient support for the most critical reforms. SBV is assigned as the agency responsible, in close collaboration with the World Bank, for preparation and implementation of PRSCs. A Deputy Governor of SBV acts as Standing Vice Chairman of the NSC. Representatives from a total of more than 20 line ministries and government agencies participated in the preparation of the proposed credit.

114. Given the intensive and complex coordination that is required to manage this very comprehensive reform program, SBV has created a Program Coordination Unit (PCU) with dedicated staff from SBV. The PCU has helped facilitate the policy dialogue of the World Bank and donors with line ministries. The Department for International Development of the United Kingdom (DFID), Switzerland (SECO), Australia (AusAid) and the World Bank have provided financial support for the PCU during the preparation of PRSCs 4 to 7.

115. **Administration.** Strengthening the management of public expenditures has been a priority of the Government over the last decade and significant progress has been made in this respect. A first Country Financial Accountability Assessment (CFAA) was undertaken in 2000-01. A Public Expenditure Review-Integrated Fiduciary Assessment (PER-IFA) carried out in 2004 and published in 2005, provided an update and review of the implementation of the recommendations of the 2001-CFAA and also suggested reforms in other areas. The government has made steady progress in implementing the 2004 PER-IFA recommendations. Major developments in public financial management include empowering the National Assembly with increased government accountability for the use of public resources; increasing transparency for all agencies using budget resources, including SOEs, public investment projects and statutory funds; establishing the State Audit of Vietnam (SAV) as a technically independent unit under the National Assembly; and gradual integration of capital and recurrent expenditures through forward-looking budgets and resource allocation norms. Twenty-six national private sector accounting and 37 auditing standards, consistent with international practice have been issued. The government is currently undertaking a major investment in a new and integrated Treasury and Budget Management Information System (TABMIS). Progress is being made in developing new business processes for TABMIS, including a unified Chart of Accounts, further integration of recurrent and capital budget execution processes, clarifying issues related to reporting ODA on budget, and developing standard reports to strengthen budget execution.

116. A CFAA Update has been commenced and will be available later in 2007. The Update will provide an assessment of the public financial management through examining budget development, budget execution - accounting, internal and external reporting, internal controls, internal and external auditing, monitoring and legislative oversight and scrutiny, financial management capacity and financial accountability risks.

D. FIDUCIARY ASPECTS

117. **Fiduciary arrangements.** The fiduciary risks of the current public financial management systems, (budgeting, accounting, reporting and auditing) are assessed as moderate. Since the IMF does not currently have a program in Vietnam, it is not possible to rely on its assessment of the control environment of the SBV. However, the enactment of the Audit Law in 2005 helps address the issues related to audit and accounting arrangements. The Audit Law has established the SAV as an independent institution reporting the National Assembly with the Auditor General being appointed and dismissed by the National Assembly. Audit reports were made public for the first time in 2006. The SBV will be subject to auditing by SAV on an annual basis.

118. **Deposit account.** To address fiduciary risks in the foreign exchange control environment, the Borrower will open and maintain a dedicated deposit account (DA) in US dollars for the Borrower's use once the Credit is approved by the Board. The DA will form part of the country's official foreign reserves. An equivalent amount will be credited to an account of the government available to finance budgeted expenditures. If after deposit in the DA the proceeds of the Credit or any part thereof are used for ineligible purposes, as defined in the Financing Agreement, the Bank will require the Borrower to either return that amount to the DA to be used for eligible purposes, or refund the amount directly to the International Development Association (IDA).

119. Through SBV, the Borrower will report the exact sum received into the DA, ensure that all withdrawals are for "eligible" expenditures, indicate to IDA details of the Treasury account to which the Vietnamese dong equivalent of the Credit proceeds will be credited, and submit a report on receipts and disbursements for the DA. The Government will, if considered necessary by IDA, allow an independent external audit of the dedicated foreign currency DA. These processes and controls are intended to provide assurance that IDA funds have arrived at their intended destination to be used for their intended purposes, and are subject to the Borrower's rules and regulations.

E. DISBURSEMENT AND AUDITING

120. **Disbursement, reporting and auditing arrangements.** The Credit will follow IDA disbursement procedures for development policy lending operations, and the Credit proceeds will be disbursed in compliance with the stipulated release conditions. Various measures have been taken to ensure that the overall fiduciary policies and institutions are adequate to proceed with support from IDA and other development partners. Analytical underpinnings for the operation include the 2002 Country Procurement Assessment Review (CPAR), the 2005 PER-IFA and the CFAA under preparation. Disbursement will not be linked to any specific purchases and no procurement requirements will have to be satisfied.

F. RISKS AND RISK MITIGATION

121. **The present operation is a vehicle for the World Bank, and the donor community more broadly, to stay engaged with a client that has delivered an outstanding performance in terms of economic growth and poverty reduction.** It also recognizes the commitment of the government to pursue and deepen its reform strategy, as reflected over the last few months in major milestones, including the entry into the WTO, the approval of an ambitious banking reform roadmap and the adoption of a determined stance in the fight against corruption. Active engagement should strengthen the coherence of the program, especially because the effectiveness of sectoral policy actions hinges on the success of more fundamental governance reforms in areas such public financial management, public administration reform and legal and judiciary development. Engagement should also help

improve the content of specific policy actions, to ensure the timeliness of their adoption, and to monitor the impact of the overall program on broader development outcomes. The value of this engagement is all the more important given that this would be the last cycle of general budget support operations in concessional terms, hence providing an exceptional window for high-level policy access in a country that is not aid dependent.

122. **At the same time, its own success confronts Vietnam with new challenges.** The reform agenda has not progressed at the same pace across all fronts, and private sector response has been much stronger in some areas than in others. As a result, the country is facing potentially dangerous imbalances. The biggest risks faced by Vietnam are related to the sustainability of its remarkable performance, economically, socially and institutionally.

123. **Three different risks of a diverse nature need to be considered.** In the short term, the largest vulnerability stems from possible turbulence in the financial sector. The development of capital markets has vastly outpaced that of the supervisory and regulatory capacity of monetary authorities. This situation calls for a rapid upgrading of policies related to the financial sector, capital markets and the monitoring of capital inflows. The government at the highest level is committed to addressing this risk.

124. **The second risk stems from global integration,** resulting in massive inflows of FDI to the growth poles of the country and increased competition in formally protected sectors, may also test the ability of Vietnam to preserve social inclusion. There is a risk that some groups could lose in the short term, and a clear prospect of a widening urban-rural gap. Rapid feedback channels from affected stakeholders, inclusive policies in the social sectors, and transparent mechanisms to transfer resources to the poorer regions are among the mitigating measures supported by the proposed series of operations.

125. **The third group of risk is governance reforms not keeping pace with rapid developments, in particular in the areas of urbanization and infrastructure development.** Cases of corruption and social strife are increasingly related to land zoning and land compensation. Tackling this risk requires rapid progress in transparency at various levels, from regional planning to infrastructure master plans to land use to appropriate taxation to the monitoring of assets of the relevant civil servants. This area receives special attention in the proposed series of operations, including the recommendation to use public auctions when the state leases or allocates land, and several actions to improve transparency in public administration.

ANNEX 1: IMF LETTER OF ASSESSMENT
[To be provided as an Addendum]

The IMF Letter of Assessment has been requested from the IMF at the time of negotiation and will be provided as an addendum before the Board Date.

**ANNEX 2: LETTER OF DEVELOPMENT POLICY
(LETTER FROM THE GOVERNMENT ON THE REFORM PROGRAM)**



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May 27, 2008

Mr. Robert B. Zoellick
President
The World Bank
Washington, DC

Dear Mr. Zoellick:

Starting in 2001, the World Bank and the donor community more broadly have supported the economic renovation program of Vietnam through a series of six Poverty Reduction Support Credits (PRSCs).

During this period, our economy grew at an annual rate close to 8 percent per year in real terms. The fraction of the population living below the international poverty line, which stood at 38 percent in 1998, had declined to less than 16 percent by 2006. This period has also seen considerable progress in social indicators, with Vietnam now being on a solid track to attain or exceed most Millennium Development Goals. Considerable progress was made in relation to business development, public financial management, public administration reform and the strengthening of governance more broadly. Last year, Vietnam's process of global integration was crowned with its accession to the WTO.

Building on the successes of economic reforms since the beginning of *Doi Moi*, Vietnam's Socio-Economic Development Plan (SEDP) for 2006-2010 was approved by the National Assembly on June 29, 2006. In December 2006, the SEDP was presented to the Board of Executive Directors of the World Bank.

A key goal of the SEDP is to sustain rapid economic growth so that Vietnam can move out of low income status by 2010 and lay the foundations to become an industrial country by 2020. The SEDP affirms that rapid growth should go hand in hand with improved sustainability, and improved quality and competitiveness of the economy. Importance is attached to in-depth development while wider development should not be forgotten. Economic growth should be linked with poverty reduction, cultural development, comprehensive human development, exercise of democracy and social equity. The SEDP also aims to narrow the development gaps among regions, step by step, while preserving and improving the environment. We would like to draw your attention to the Chapter IV of the SEDP which provides the Development Orientation of various sectors over the period 2006-2010.

Overall, the objectives, tasks and solutions of the SEDP can be mapped on to three pillars (a) business development, (b) natural resources and the environment and (c) social equity. Chapter IV highlights the goals, tasks, and solutions for achieving agricultural development, industrial modernization, and service sector growth. Chapter VII of the SEDP identifies the roles of various sectors in business development, including the role of the private sector as a driving force. We aim to create favorable conditions for the development

of the private sector without limiting its scales, fields or regions. Chapter IV.B details the goals, tasks, and solutions for the social sectors, while Chapter IV.C identifies goals and policies for the sustainable development of natural resources and protection of the environment


In order to achieve the objectives of economic growth, business development, environmental sustainability and social equity, we need to improve the institutional framework of the socialist oriented market economy in a comprehensive manner. The measures to this effect are especially highlighted in Chapter IX. The chapter emphasizes legal reforms for supporting a market economy, the importance of improving the quality of public administration, and strengthening the fight against corruption.

The government's resolution No. 3/2007/NQ-CP identifies the tasks of various ministries and agencies for implementing the SEDP and the state budget during this year. This resolution affirms our commitment to successfully achieving the targets identified in the SEDP.

The tasks listed in this resolution bear a close resemblance with the policy actions and triggers identified in the previous operation in the series (PRSC 6) and in the proposed credit. Jointly with the following operations in the series, the proposed credit effectively supports the implementation of the reform agenda outlined in the SEDP. The proposed credit also contributes to harmonization, in the spirit of the Hanoi Core Statement on Aid Effectiveness. Our government appreciates the technical inputs provided through this process, as well as the resources to implement policy reforms and the reduced transaction costs in conducting the policy dialogue with the donor community.

Our government therefore requests the Association's assistance through this seventh PRSC, in recognition for the progress made in the implementation of our development strategy. We recognize that many difficult challenges lie ahead, but we are confident that we will be able to overcome them. We also recognize that the international environment is more uncertain at present and priority needs to be given to economic stability. We hope that we can count on the support of the Association to address these challenges and difficulties and make progress in the implementation of our reform program, with the ambition of becoming a middle-income country by the end of the decade.

We look forward to your continued support.

Yours sincerely, 

Nguyen Van Giau
Governor

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES

Pillar I: Business development					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Global integration	1. Export orientation	Merchandise exports as a proportion of GDP	61 percent (2005)	68 percent (2007)	65 percent
	2. International alignment of standards	Proportion of technical product standards that are in line with international ones	25 percent (2005)	29 percent (2008)	35 percent
	3. Client satisfaction with customs	Proportion of importers and exporters claiming they are satisfied with Custom services	30 percent (2005)	Not available	To be determined
State sector reform	1. Number of SOEs	Number of enterprises with 100 percent state ownership	2100 (2006)	1706 (2007)	500
	2. State capital in SOEs transferred to SCIC	Fraction of state capital in SOEs transferred to SCIC by line ministries, provinces and general corporations	None (2006)	47 percent (2008)	50 percent
	3. SOEs with poor performance	Percentage of SOEs classified in the bottom "C" tier of performance according to Decision 224/06.	15.6 percent (2005)		8 percent
Financial sector reform	1. Quality of loan portfolio	Required provisioning for possible non performance in all outstanding credit	6-9 percent	1.6 percent (2007)	Less than 5 percent
	2. Stock market capitalization	Ratio of stock market capital to GDP	22.8 percent (2006)	43 percent (2007)	30 percent
	3. Share of strategic investors' ownership in SOCBs	Total equity held by strategic, non-government shareholders in SOCBs, in percent of total SOCB capital	None	0 percent (May 2008)	20 percent

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar I: Business development					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Private sector development	1. Employment in private enterprises	Number of paid employees in non-state enterprises, excluding collective enterprises	4.04 million (2005)	4.8 million (2006)	7 million
	2. Private enterprises away from the growth centers	Number of registered private enterprises in operation outside the South East Region, Danang, and Red River Delta	38.9 thousand (2005)	37.4 thousand (2007)	70 thousand
	3. Private domestic investment	As a proportion of total investment	30 percent (2001-2005)	32.4 percent (2007)	35.3 percent
Infrastructure	1. Enterprises' satisfaction with infrastructure	Proportion of enterprises citing infrastructure as either a major or severe constraint for conducting business	Transport: 11.9 percent Electricity: 8.3 percent (2006)		5 percent
	2. Poor communes with basic infrastructure	Fraction of 1,700 poorest communes in Program 135-2 with schools, clinics and electricity	Schools: 86 percent Clinics: 82 percent Electricity: 67 percent		Schools: 100 percent Clinics : 100 percent Electricity: 80 percent
	3. People living in urban slums	Fraction of the population living in houses not meeting government standards	25 percent		10 percent

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar II: Social inclusion					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Education	1. Children with disabilities attending school	Proportion of children with a functional disability attending primary or secondary school	Work in progress	56.5 percent (2006 VHLSS, based on 62 observations)	To be determined
	2. Learning outcomes in primary school	Proportion of Grade 5 students below functional reading level	11 percent (2001)	9.7 percent (2007)	
	3. Universities meeting international quality standards	Proportion of universities that has been independently accredited	None	15% (20/140 universities have been independently evaluated by end of 2007)	100
Health	1. Child malnutrition rate	Proportion of children stunted (low height for age) or underweight (low weight for age).	Stunting: 29 percent Underweight: 25 percent (2005)	Stunting: (new metric) Underweight: 21.2 percent (2007)	Stunting: Below 25 percent Underweight: Below 20 percent
	2. Poor people with free health insurance	Proportion of people below the new national poverty line who have been provided with free health insurance	42 percent (2004)	49 percent (Kinh/Chinese) 78 percent (ethnic minorities) (2006)	100 percent
	3. Use of modern health care facilities by the poor	Average annualized contacts with hospitals for the poorest quintile	0.15 (2004)	0.18 (2006)	0.30

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar II: Social inclusion					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Social protection	1. Poverty among the population at large	Proportion of people below the new Vietnam poverty line	20 percent (2004)	16 percent (2006)	10 percent
	2. Poverty among ethnic minorities	Proportion of ethnic minorities below the new Vietnam poverty line	61 percent (2004)	52 percent (2006)	40 percent
	3. Contributors towards old-age pensions	Includes both the compulsory and the voluntary schemes. In percent of the labor force	15 percent (2006)		30 percent
Gender	1. Leadership positions held by women	Leadership positions at the National Assembly. In percent of total	27 percent (2006)	25.8 percent (2007)	To be determined
	2. Asset ownership among women	Proportion of land use certificates held in the name of both spouses or a female person	30 percent (2004)	No update	45 percent
	3. Wage employment among women	Fraction of the female labor force having a wage either as primary or as secondary occupation	17.9 percent (2004)	20 percent (2006)	25 percent

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar III: Natural resources					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Land and forests	1. Client satisfaction with land administration offices	Percentage of users highly satisfied with the services provided by land administrative offices	22 percent (2004)	25	30 percent
	2. Forest land allocated to local communities	Proportion of forest land allocated to local people and communities, for all of Vietnam and the Central Highlands	All of Vietnam: 25 percent Central Highlands: 2 percent (2005)	27	All of Vietnam: 30 percent Central Highlands: 15 percent
	3. Forest quality	Proportion of land area under forest with a closed canopy, multi-story-age profile and species diversity, abundance and distribution	4.2 percent	5	10 percent
Water	1. Population with access to improved or clean water	Includes urban and rural population. Includes all improved water sources excluding all hand dug wells	Urban: 82 percent Rural: 48 percent (2004)	Urban: 83 percent Rural: 52 percent (2006)	Urban: 95 percent Rural: 75 percent
	2. Population with hygienic sanitation.	Population with access to properly designed and installed sanitation.	32 percent (2004)	38 percent (2006)	75 percent
	3. River basins with inter-provincial management	Number of river basins with inter-provincial water allocation procedures established and operational	3 (2006)	4	4

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar III: Natural resources					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Environment	1. Quality of surface water	Quality of surface water in key areas as measured by MONRE/ Vietnam Environmental Protection Agency (VEPA) monitoring systems	Work in progress	Work in progress	To be determined
	2. Quality of air	Quality of air in key areas as measured by MONRE/ VEPA monitoring systems	Work in progress	Work in progress	To be determined
	3. Protection of bio-diverse wetlands	Number of wetlands of international importance (26 by Ramsar criteria) included in the protected area system	2 (2006)	2 (2007)	7

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar IV: Modern governance					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Planning processes	1. Provincial screening of public investment	Number of provinces that have issued guidelines for screening public investment projects at the pre-appraisal stage, including sound cost benefit analysis	None	None	30
	2. Adoption of integrated regional planning	Number of regions with a cross-sectoral master plan, integrating urbanization, large-scale infrastructure and environmental concerns	None	None	2
	3. Provinces adopting modern planning principles	Proportion of provinces using a participatory approach to planning in the preparation of their annual plans and adopt a results-based monitoring approach	3	10	30
Public financial management	1. Extent of unreported public expenditure	Proportion of public expenditure that is off-budget, i.e. not reported in the budget, budget execution reports and annual financial statements. This includes own source revenues, expenditures, statutory funds, proprietary funds.	Work in progress	Not available	To be determined
	2. Public agencies with internal auditing functions	Number of sector ministries and provinces that have established an internal audit function and started to publish auditing reports	None (2006)	None (2007)	4

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar IV: Modern governance					
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)
Public financial management (continued)	3. Public debt and public guarantees	Ratio of public debt to GDP, inclusive of publicly guaranteed debt at all levels of government	43.5 percent (2006)	44 percent (2007)	55 percent
	1. Consultation in the law-making process	Percentage of draft laws and ordinances posted in the National Assembly website for comments.	0 (2006)	92 percent of laws and 20 percent of ordinances (2007)	100 percent
Legal development	2. Number of civil society organizations legally registered	Number of civil society organizations registered under Decree 88 and the Law on Associations at national and provincial levels	350 national and 2500 provincial (2006)	400 national and 6000 provincial (2008)	700 national and 5000 provincial
	3. Fraction of civil judgments enforced	Number of civil judgments enforced in percentage of all those subject to enforcement	35.7 percent (2006)	45 percent (2007)	50 percent
	1. Provinces with e-government interfaces	Percentage of provinces with an online guidance and services for businesses	72 and 2 percent (2006)	80 and 11 percent	100 and 30 percent
Public administration reform	2. User satisfaction with government services	Percentage of users highly satisfied with government services, as evaluated through independent and representative household and business surveys.	38 percent (2004)	No update	50 percent

ANNEX 3: MONITORING PROGRESS TOWARDS DEVELOPMENT OUTCOMES (CONTINUED)

Pillar IV: Modern governance						
Area	Indicator	Definition	Baseline (year)	Most recent (year)	Expected (2011)	
Public administration reform (continued)	3. Provincial departments with one stop shop model	Proportion of provincial departments that have adopted the one stop shop model	67 percent (2006)	73 percent (2007)	80 percent	
	Fighting corruption	1. Households having suffered from corruption	Fraction of households who say they pay bribes when dealing with vulnerable government agencies as specified in the diagnostic study on corruption	50.8 percent (2005)	No update	35 percent
		2. Enterprises having suffered from corruption	Fraction of enterprises who say they pay bribes when dealing with tax administration officers or in relation to government regulations	67.9 percent (2006)	No update	45 percent
	3. Proportion of entrepreneurs that see corruption as a binding constraint to business	Proportion of entrepreneurs that see corruption is either a severe or major constraint to business	9.9 percent (2006)	No update	5 percent	

ANNEX 4: DONOR SUPPORT TO PRSC 7

Donor	Co-financing amount	Main areas of involvement in PRSC 7
Asian Development Bank (ADB)	US\$20,000,000	Global integration, state sector reform, financial sector reform, private sector development, infrastructure, education, health, water, the environment, planning processes, public administration reform and fighting corruption.
Agencia Española de Cooperación Internacional (AECI)	€5,000,000	Education, social protection, gender, land and forests and planning processes.
Agence Francaise de Developpement (AFD)	€10,000,000	State sector reform, financial sector reform, private sector development, infrastructure, water, environment, and public financial management.
Australian Agency for International Development (AusAID)	TBD	Global integration, health, gender, water and fighting corruption.
Canadian International Development Agency (CIDA)	CDN10,000,000	Financial sector reform, private sector development, education, gender, environment, legal development and fighting corruption.
Danish International Development Agency (DANIDA)	DKr61,000,000	Global integration, state sector reform, financial sector reform, gender, land and forests, water, environment, public financial management, legal development, public administration reform and fighting corruption.
UK Department for International Development (DFID)	£20,000,000	Global integration, private sector development, education, health, gender, social protection, water, environment, public financial management, legal development and fighting corruption.
European Commission (EC)	€15,000,000	Global integration, education, health, legal development, public administration reform and fighting corruption.
Germany (GDC)	€6,000,000	Infrastructure, land and forests, water and the environment.
Ireland (Irish Aid)	€7,500,000	Education, health, gender, financial sector reform, private sector development, public financial management and fighting corruption.
Japan Bank for International Cooperation (JBIC); and the Japan's ODA Task Force	TBD	Global integration, state sector reform, financial sector reform, private sector development, infrastructure, education, health, social protection, gender, land and forests, water, the environment, planning processes, public financial management, legal development, public administration reform and fighting corruption.
Netherlands Directorate General for International Cooperation (DGIS)	€6,000,000	Health, gender, land and forests, water, environment, public financial management, public administration reform and fighting corruption.

Note: All amounts are subject to confirmation as the co-financing support is processed.

ANNEX 4: DONOR SUPPORT TO PRSC 7 (CONTINUED)

Donor/NGO	Main areas of involvement in PRSC 7
Belgium	Education, health, water and public financial management.
Finland	Global integration, land and forests and water.
NGO Community	Global integration, education, social protection, gender, land and forests and planning processes.
Swedish International Development Agency (SIDA)	State sector reform, private sector development, legal development, public administration reform and fighting corruption.
United Nations Development Program (UNDP)	Gender, legal development, public administration reform and fighting corruption.
US Agency for International Development (USAID)	State sector reform, financial sector reform, education, health, social protection and the environment.

ANNEX 5: POLICY ACTIONS OVER THIS PRSC CYCLE

Pillar I: Business development	
Area	PRSCs 8 to 10
<p>Global integration</p> <ul style="list-style-type: none"> • Grant trading and distribution rights to all foreign firms in line with international commitments • Issue regulations to guide the intellectual property law with adequate enforcement mechanisms 	<p>PRSC 6</p> <ul style="list-style-type: none"> • Establish consultation and information gathering mechanisms to identify the social and environmental impacts of WTO accession • Harmonize agricultural health and food safety regulatory tools with international standards in line with the SPS agreement • Tackle the infringement of copyrights and trademarks on a commercial scale in line with TRIP Agreement
<p>State sector reform</p> <ul style="list-style-type: none"> • Further restrict list of sectors where 100-percent state ownership is to be retained • Use share auctions as the main mechanism for equitization, and allow foreign strategic investors • Classify all SOEs according to performance and publish the results • SCIC to begin receiving state ownership rights in equitized SOEs from ministries and provinces. 	<p>PRSC 7</p> <ul style="list-style-type: none"> • Issue time-bound action plan for the implementation of WTO commitments • Incorporate the monitoring of social and environmental impacts of integration into policy processes for the implementation of WTO commitments • Complete legal framework for enabling improved provision of logistics services including multi-modal transport • Tackle the infringement of patent, trademark rights and rights of design on a commercial scale <p>PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Strengthen financial management of SOEs and their investments in other entities, defining the level of such investments • Transfer state ownership rights in equitized SOCBs and selected General Corporations to SCIC • SCIC to disclose report on financial operations including those of companies in its portfolio • Transfer state forestry enterprise (SFE) land to local authorities for reallocation to households, ethnic minority groups and private enterprises

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar 1: Business development		
Area	PRSC 6	PRSCs 8 to 10
<p>Financial sector reform</p>	<p>PRSC 6</p> <ul style="list-style-type: none"> • Require public disclosure of financial statements of SOCBs in line with internationally accepted standards • Increase equity stake allowed to foreign strategic investors in commercial banks 	<p>PRSC 7</p> <ul style="list-style-type: none"> • Approve equitization plans allowing participation of strategic investors for two SOCBs and complete the equitization of one of them • Issue a road map to enhance bank supervision, including off-site supervision and risk-management tools • Enhance the role of the banks' boards of directors and introduce fit-and-proper tests in line with international best practices <p>PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Prepare revised Law on Central Bank focusing its mandate on and enhancing its autonomy in regard to monetary policy and financial sector stability • Certify internal credit rating system of all banks and approve inspection manuals • Introduce mechanism for refinancing and consolidating existing government bonds • Conduct portfolio review of Vietnam Development Bank with view to assessing and better managing risks • Strengthen regulatory framework for Vietnam Development Bank for assessment of asset quality and require disclosure of financial statements • Issue a mid-term operational strategy for Policy-based lending institutions to ensure financial sustainability and social equity • Revise law on credit institutions to provide profit orientation and full autonomy to SOCBs • Strengthen the prudential rules and supervision for banks and securities companies serving as a local custodian or broker for foreign portfolio investors investing in short-term or liquid assets with a view to deal with possible reversal of the investments • Disclose the level of NPLs of all SOCBs based on internationally acceptable standards • Complete equitization of remaining SOCBs, with participation of strategic investors • Strengthen SBV's credit information center and facilitate development of private credit bureau • Fully implement a central securities depository • Transform HCMC securities trading center into a stock exchange in line with IOSCO principles • Revise legal framework to make the SSC an operationally independent body

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar I: Business development		
Area	PRSC 6	PRSC 7
<p>Private sector development</p>	<ul style="list-style-type: none"> • Introduce investment climate monitoring tool as part of annual enterprise survey • Reduce processing times and rationalize fee structure for business registration • Clarify authority on investment certificates and conditional sectors, and standardize related documentation • Issue guidelines and options to foreign investors transitioning to new Investment and Enterprise laws • Establish consultative mechanism to streamline licenses and oversee implementation of new investment-enterprise regime • Establish single-window mechanism for businesses to cover registration, tax, and seal formalities in selected provinces 	<ul style="list-style-type: none"> • Simplify enterprise registration including by unifying tax and business identification numbers and streamlining seal carving procedures • Rationalize incentives related to Enterprise Income Tax and simplify tax procedures for household businesses • Raise the cap on shareholdings by single foreign investors in unlisted companies
		<p style="text-align: center;">PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Link agricultural extension system with research and markets, allow competition and ensure service delivery to ethnic minorities and the poor • Develop vehicle interoperability across borders and speed up customs clearance procedures • Revise legal framework for promotion of SMEs and enable better linkages with large scale industries • Revise accounting standards and financial disclosure requirements to reveal exposure to exchange rate risk in enterprises and banks • Strengthen regulatory framework for non-bank credit activities such as factoring and leasing services • Adopt guidelines to govern the operations of the Vietnam Competition Council • Establish national business registry with unique number for business, tax, statistics, and seal agencies • Enhance access of PWD to micro credit and training in operating small businesses • Strengthen regulatory framework for non-bank credit, such as factoring and leasing services

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar I: Business development		
Area	PRSC 6	PRSC 7
<p>Infrastructure</p>	<p>PRSC 6</p> <ul style="list-style-type: none"> • Decentralize investment capital and recurrent budgets in the road transport sector • Clarify contract specifications, investor qualifications and treatment of unsolicited proposals for BOT projects • Adopt wastewater charges based on cost recovery, with provisions to protect the poor 	<p>PRSC 7</p> <ul style="list-style-type: none"> • Adopt market-based pricing systems to estimate the costs of state-funded civil engineering investments • Separate power transmission and generation assets and regroup transmission assets under a single National Power transmission Corporation • Introduce modern principles of transparency and corporate governance in provincial infrastructure funds • Reduce traffic fatalities through strengthened enforcement and improved education programs • Facilitate access to driver training and testing and provide financial support to purchase special vehicles for people living with disabilities
		<p>PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Adopt a pricing system for electricity from renewable energy and provide incentives for government procurement of energy-efficient equipment • Strengthen legal framework to promote economical and efficient use of energy and promotion of renewable energy • Revise the road law and traffic safety action plan to reduce traffic fatalities • Adopt user charges designed to better manage demand for infrastructure services • Revise law on petroleum to create favorable condition for investors for both exploration and exploitation activities • Approve rural transport strategy designed to better coordinate planning and budgets to meet sustainable access targets • Adopt market based pricing for fuels including petroleum products • Submit plan for the operation of the Single Buyer for electricity ensuring competition in generation, includes: Implement roadmaps for unbundling electricity and telecommunication services • Adopt user charges designed to better manage demand for infrastructure services • Improve targeting of subsidies to enable better access of the poor to infrastructure services

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar II: Social inclusion	
Area	PRSCs 8 to 10
<p>Education</p>	<p style="text-align: center;">PRSC 6</p> <ul style="list-style-type: none"> • Extend performance standards for primary teachers nationwide, including evidence-based assessments • Adopt transparent criteria to decide on university admission quotas on a pilot basis
<p>Health</p>	<p style="text-align: center;">PRSC 7</p> <ul style="list-style-type: none"> • Revise tuition fees at secondary and tertiary levels, better reflecting market conditions, and enhance policies to protect the poor • Issue roadmap for education information system to strengthen education management
<p>Health</p>	<p style="text-align: center;">PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Formulate education development strategy to 2020 focusing on equity of learning outcomes and relevance of contents • Issue roadmap for full-day schooling at primary level, with a focus on most disadvantaged groups • Finalize and start implementing roadmap for Education Management Information System • Issue roadmap for full-day schooling at primary level to increase teaching hours, with a focus on most disadvantaged groups • Introduce standards for learning, outcomes and enhance institutional capacity for outcome assessment • Implement roadmap for education information system to strengthen education management • Support greater involvement of parents and communities in educational system assessments • Reprioritize budgetary resources towards non-salary expenditures including school construction • Clarify ministerial responsibilities and enhance private sector participation in public vocational training programs • Facilitate establishment of empowered Boards with academic and business participation to increase autonomy of universities
<p>Health</p>	<ul style="list-style-type: none"> • Adopt standards for certification of health care practitioners and classification of private health facilities • Strengthen regulation of pharmaceutical industry and marketing of medicines • Increased health insurance's utilization rate by the poor as xx percent of the poor • Increase public expenditure on recurrent costs of HIV prevention and treatment program • Increased proportion of deliveries at commune health stations • Develop policy and framework for monitoring the performance of healthcare providers

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar II: Social inclusion	
Area	PRSCs 8 to 10
Health (continued)	PRSC 7
Social Protection	PRSC 6
Gender	PRSC 7

PRSC 6

- Adopt Social Insurance Law making the system financially viable and extending its coverage

PRSC 7

- Introduce voluntary pension program for farmers and informal sector, allowing for support for the poor to participate in the program
- Adjust safety net for redundant SOE workers to cover state-owned plantations and farms

PRSCs 8 to 10

- Allocate resources to conduct early disability detection tests and improve availability of disability aids
- Operate VSS as wholesale purchaser of health care packages and foster competition between providers
- Implement Safe Motherhood and New-born care Master Plan with adequate budget

PRSC 6

- Approve a strategic plan to ensure prudential and effective investment of social security funds
- Increase participation of the poor in voluntary pension program, with provisions for subsidies funded from the national budget or other sources
- Establish strategic allocation, performance benchmarks and reporting mechanisms for the reserves of the old-age pension fund
- Conduct nationally representative survey for reliable data on economic activity, work conditions, earnings, labor relations
- Bring pensions closer to actuarial benchmark, and narrow gaps between men and women, and public and private sectors
- Pilot index-based flood insurance to address risks associated with natural disasters
- Introduce single social insurance number for all targeted benefits and social insurance programs

PRSC 7

- Determine institutional responsibilities for the implementation of the Gender Equality Law and monitoring gender quality
- Create legal framework for domestic violence prevention and control

PRSCs 8 to 10

- Establish indicators, data sources and a functioning monitoring system for the Gender Equality Law
- Strengthen re-titling process to speed up issuance of all LUCs in the name of both spouses
- Adopt measures to promote women to senior decision making positions
- Improve monitoring of family planning facilities to assess the prevalence of sex-selective abortions

PRSC 6

- Unify legal framework to address gender disparities and increase women's participation in decision making

PRSC 7

- Determine institutional responsibilities for the implementation of the Gender Equality Law and monitoring gender quality
- Create legal framework for domestic violence prevention and control

PRSCs 8 to 10

- Establish indicators, data sources and a functioning monitoring system for the Gender Equality Law
- Strengthen re-titling process to speed up issuance of all LUCs in the name of both spouses
- Adopt measures to promote women to senior decision making positions
- Improve monitoring of family planning facilities to assess the prevalence of sex-selective abortions

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar III: Natural Resources			
Area	PRSC 6	PRSC 7	PRSCs 8 to 10
Land and forests	<ul style="list-style-type: none"> • Issue strategy to strengthen linkages between protective and economic functions of forests, and promote local ownership • Clarify resettlement and compensation process in cases without LUCs, and mechanisms for handling complaints 	<ul style="list-style-type: none"> • Issue guidelines for forest development based on participatory land-use planning and independent monitoring 	<ul style="list-style-type: none"> • Establish criteria and time bound plan to assess the quality of forest resources nationwide. • Use public auctions when the state leases or allocate land, except for agricultural land to poor farmers • Fulfill the preconditions for participation in climate-related financing mechanisms such as REDD • Issue guidelines on bottom-up land use planning and zoning with proactive roles for local communities and the private sector • Adopt a rural development strategy for improved competitiveness, higher living standards and the sustainable management of natural resources • Increase transparency of land conversion, acquisition, resettlement, valuation and compensation • Identify tracts of land for which customary titling is to be applied
Water		<ul style="list-style-type: none"> • Allocate institutional responsibilities for integrated river basin management • Adopt natural disaster mitigation strategy with attention to non-structural measures and guidelines for provincial and ministerial action plans 	<ul style="list-style-type: none"> • Develop unified national sanitation strategy and encourage greater commune and private participation in sanitation • Adopt a differentiated approach to irrigation fees depending on cropping season, region and ability to pay • Restructure irrigation management companies with improved service orientation and financially viability • Revise Water Resources Law covering all activities that exploit water or impact on its quality • Establish river basin organizations and sharing plans for nine priority basins with competing interests and water conflicts • Adopt national strategy for Integrated Coastal Zones with links to river basin management plans • Develop economic tools for water resources management

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar III: Natural Resources		
Area	PRSC 6	PRSC 7
The environment	<ul style="list-style-type: none"> Mandate public consultation on environmental impact assessments commune level with public feedback incorporated in report to relevant authorities 	<ul style="list-style-type: none"> Strengthen incentives for solid waste management using economic instruments
		<p align="center">PRSCs 8 to 10</p> <ul style="list-style-type: none"> Approve national target program on adaptation to climate change and allocate institutional responsibilities for its implementation. Strengthen legal framework for biodiversity protection, on boundaries, community involvement and buffer zones Implement performance contracts for sewerage and drainage at local levels Adopt action plan and allocate funds for adjustment to climate change including sea level rise and extreme weather conditions Strengthen legal framework for biodiversity protection, on boundaries, community involvement and buffer zones Establish national and regional pollution monitoring systems to enable results-based environmental planning Reduce transaction costs to facilitate access to carbon finance under clean development mechanism of the Kyoto Protocol
Pillar IV: Modern governance		
Area	PRSC 6	PRSC 7
Planning processes	<ul style="list-style-type: none"> Allocate state capital expenditure transparently, using criteria like population, poverty and ethnicity Adopt regulations for master and regional plans specifying issues, process, agency responsibility, and require disclosure 	<ul style="list-style-type: none"> Establish criteria for selecting public investment projects and mechanisms to monitor their financing and implementation Establish list of indicators, data sources and reporting mechanism for monitoring of SEDP
		<p align="center">PRSCs 8 to 10</p> <ul style="list-style-type: none"> Focus planning on public goods and regulation, with consultation, results orientation and costing Establish legal framework to strengthen urban planning and urban infrastructure management Law to focus Planning on public goods and regulation, with consultation, results orientation and costing Integrate sectoral policies and national target programs at the commune level emphasizing participation at all stages

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar IV: Modern governance		
Area	PRSC 6	PRSC 7
<p>Public financial management</p>	<ul style="list-style-type: none"> • Disclose results of audits conducted by the State Audit of Vietnam (SAV) and its annual audit plan • Publish report on budget execution for current year and budget plan for forthcoming year, on an annual basis • Issue regulations for periodic disclosure of external public debt and its composition • Implement regulation to guide the establishment and issuance of benchmark government bonds • Consolidate administration procedures for all taxes into a single law, modernizing assessment and enforcement methods 	<ul style="list-style-type: none"> • Issue regulations on content and timing of disclosure of SAV reports, including audit reports of individual entities
		<p align="center">PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Formulate public debt management law consolidating the management of domestic and external debt • Increase the number of entities covered by SAV audits by adopting a rolling basis for selection • Strengthen monitoring and evaluation system of local governments, so that the decentralization process does not lead to chaos • Promulgate internal audit standards and methodologies for state agencies and state enterprises • Issue clear basis for internal audit development and implementation, clearly defining organizational responsibilities for leading, guiding and developing internal audit • Establish legal and institutional framework for consolidated domestic and external debt management • Conduct internal self-assessment to establish a baseline of public financial management performance employing the Public Expenditure and Financial Accountability (PEFA) framework • Extend publication of disaggregated within-year budget execution to agencies and by province • Issue regulations on content and publication schedule of end-year financial statements for the state budget • Issue public sector financial reporting standards in line with international standards • Implement full PEFA assessment and disclose results to public • Implement the Treasury and Budget Management Information System (TABMIS) nation-wide

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar IV: Modern governance		
Area	PRSC 6	PRSC 7
<p>Legal development</p>	<ul style="list-style-type: none"> • Establish separate legal, judicial, economic, and budget committees to strengthen NA's supervisory role • Simplify and broaden access to legal aid for marginalized and vulnerable groups • Adopt policies to encourage the participation of non-state establishments in the delivery of public services 	<ul style="list-style-type: none"> • Create a facilitating legal framework for the establishment and operation of economic collaborative groups and social and charity funds • Enhance the responsibility of enterprises vis-à-vis consumers and strengthen the handling of consumer complaints
<p>Public Administration Reform</p>	<ul style="list-style-type: none"> • 	<p align="center">PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Establish the National Bar Association, with governing documents and structures approved by the community of lawyers • Simplify the legal framework and procedures for the enforcement of judgments • Strengthen mechanisms for policy analysis and consultation before drafting legal documents • Strengthen the management, supervision and complaint-settlement for civil judgment execution • Unify the management and legal framework for the execution of judgments to strengthen their enforcement • Budget allocations for courts to be decided by National Assembly and Peoples Councils rather than by higher courts • Transform Supreme Peoples Procuracy into an institution with public prosecution functions only • Permit appointment of specialized judges or experts to assist tribunals to more promptly resolve complex legal issues • Mainstream the practice of publishing court decisions to allow a more predictable and uniform application of laws • Permit greater access to media to cover court proceedings
	<ul style="list-style-type: none"> • Extend OSS to all ministries and agencies and introduce inter-linked OSS to further simplify administrative procedures • Dissociate civil service pay structure from minimum wage setting widening the range of minimum wages • Formulate common standards for IT applications and e-government interfaces at central and provincial levels 	<ul style="list-style-type: none"> • Conduct user feedback surveys to assess quality of public service delivery • Expand the scope of judicially reviewable decisions on administrative cases, including land • Request all administrative procedures to be simple, transparent and accountable • Extend adoption of ISO standards to simplify procedures and improve quality of administrative agencies • Continue to align civil service pay to market alternatives, accounting for better pensions in the state sector

ANNEX 5: POLICY ACTIONS OVER THE NEXT OPERATIONS (CONTINUED)

Pillar IV: Modern governance		
Area	PRSC 6	PRSC 7
<p>Fighting corruption</p>	<p>PRSCs 8 to 10</p> <ul style="list-style-type: none"> • Prepare a revised Press Law to encourage accurate, objective and responsible reporting on corruption • Draw up a comprehensive anti-corruption strategy including punitive, preventive, technical and demand-side solutions. • Introduce the fight against corruption as a subject in schools, universities and civil servants' training courses • Issue guiding document to detail coordination of various anti-corruption agencies as stipulated under the Law on Anti-Corruption • Revise regulatory framework for the media to encourage responsible investigation and reporting on corruption • Draw up a comprehensive anti-corruption strategy with punitive, preventive, technical and demand-side solutions • Disclose report on mechanisms to increase public awareness and involvement in the fight against corruption • Disclose report on review of laws in areas considered vulnerable to corruption, highlighting loopholes • Issue law on access to information specifying a shortened list of official documents regarded confidential 	<ul style="list-style-type: none"> • Implement asset declaration requirement in regard to senior officials and their immediate families, with penalties for non-compliance • Introduce mandatory rotation for sensitive government positions and payment of government salaries through bank accounts
	<ul style="list-style-type: none"> • Operationalize Steering Committee against corruption with power to suspend high level officials if suspected • Disclose results of investigations against corruption for cases overseen by the Government Inspectorate • Establish legal framework to protect and reward whistle blowing on corrupt activities 	

ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7

Pillar I: Business development		
Area	Prior Action	Supporting Documentation
Global integration	<ul style="list-style-type: none"> • Establish consultation and information gathering mechanisms to identify the social and environmental impacts of WTO accession 	<ul style="list-style-type: none"> • Prime Minister Letter 732/TTg-TCCB of June 11, 2007 mandating the posting on the Government website of all drafts of government legal documents for at least 60 days before sending them for appraisal by MOJ and approval by OOG. • MONRE's technical guidelines issued on May 13, 2008 on the preparation of Strategic Environmental Assessments, applicable to all sectors. • MOLISA Letter 4010/LDTBXH-LDVL and GSO Letter 904/TCTK-DSLD of November 2007, agreeing that from 2008, GSO will take the lead in conducting a representative and integrated labor force survey to gather data on activity, employment and earnings.
	<ul style="list-style-type: none"> • Harmonize agricultural health and food safety regulatory tools with international standards in line with the SPS agreement 	<ul style="list-style-type: none"> • Government Decree 02/2007/ND-CP of January 05, 2007 on plant quarantine; • MARD Decision 34/QD-BNN of April 23, 2007 publicizing the list of plant quarantine objects which must undergo epidemic potential analysis before being imported to Vietnam; • MARD Decision 35/QD-BNN April 23, 2007 publicizing the HS code table of the list of objects subject to plant quarantine in Viet Nam; • MARD Decision 48/QD-BNN May 29, 2007 issuing regulations of granting plant quarantine licenses for objects subject to PRA (pest risk analysis) before being imported to Viet Nam; • MARD Decision 54/QD-BNN June 15, 2007 regulating plant quarantine uniforms, badges, insignia, nameplates and cards as well as allocation and utilization of these for officials; • MARD Circular 88/TT-BNN of November 1, 2007 guiding the implementation of local plant quarantine; • MARD Decision 89/QD-BNN November 1, 2007 regulating the state management of fumigation for objects subject to plant quarantine; • MARD Decision 23/QD-BNN March 28, 2007 specifying the list of plant protection drugs permitted, restricted or banned in Vietnam; • MARD Decision 63/QD-BNN July 27, 2007 on revising the Regulation on plant protection drug management; • MARD Decision 94/QD-BNN November 26, 2007 adding a number of plant protection drugs to the list of plant protection drugs in Vietnam;

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ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

Pillar I: Business development		
Area	Prior Action	Supporting Documentation
Global integration (continued)	<ul style="list-style-type: none"> Tackle the infringement of copyrights and trademarks on a commercial scale in line with TRIPs Agreement 	<ul style="list-style-type: none"> Inter-ministerial Circular 01/2008/TTLT-TANDTC-VKSNDTC-BCA-BTP of February 29, 2008 of MPS, SPC, MOST and MOJ on criminal indictments of breaching copyrights and trademarks.
State sector reform	<ul style="list-style-type: none"> Assess scope and nature of lending and other transactions among affiliated parties within Economic Groups and General Corporations 	<ul style="list-style-type: none"> MOF Report to be provided to the Bank and co-financiers prior to Board date.
Financial sector reform	<ul style="list-style-type: none"> Approve equitization plans allowing strategic investors for two SOCBs and complete the equitization of one of them 	<ul style="list-style-type: none"> Prime Minister Decision 1289/QD-TTg of September 26, 2007 on the equitization plans for Vietcombank, authorizing the sale of up to 20 percent of the capital to strategic investors in its first phase. Prime Minister Decision 313/QD-TTg of March 24, 2008 on approval of the equitization plan for Mekong Housing Bank, including the sale of 15 percent of the capital to strategic investors.
	<ul style="list-style-type: none"> Issue a road map to enhance bank supervision, including off-site supervision and risk-management tools 	<ul style="list-style-type: none"> SBV Governor Decision 1976/QD-NHNN of August 24, 2007 approving the plan for organizational and operational reform of banking supervision. SBV Instruction 1094/KH-NHNN on January 3, 2008 to all departments guiding the implementation of the plan.
	<ul style="list-style-type: none"> Enhance the role of the banks' boards of directors in line with international best practices 	<ul style="list-style-type: none"> The revised Government Decree 49 expected to be approved before Board date
Private sector development	<ul style="list-style-type: none"> Simplify enterprise registration including by unifying tax and business identification numbers and streamlining seal carving procedures 	<ul style="list-style-type: none"> Government Resolution 59/2007/NQ-CP of November 30, 2007 on measures related to administrative procedure reforms.
	<ul style="list-style-type: none"> Rationalize incentives related to Enterprise Income Tax and simplify tax procedures for household businesses 	<ul style="list-style-type: none"> Circular 134/2007/TT-BTC of November 23, 2007, abolishing a series of incentives under the law on Enterprise Income Tax. Law on Personal Income Tax No. 04/2007/QH12 dated November 21, 2007, and effective from January 1, 2009.
	<ul style="list-style-type: none"> Raise the cap on shareholdings by single foreign investors in unlisted companies 	<ul style="list-style-type: none"> Government Decree 139/ND-CP of September 5, 2007 guiding the Enterprise Law which allows 100 percent in unlisted companies.

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ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

Pillar I: Business development		
Area	Prior Action	Supporting Documentation
Infrastructure	<ul style="list-style-type: none"> • Adopt market-based pricing systems to estimate costs of state-funded civil engineering investments 	<ul style="list-style-type: none"> • Government Decree 99/2007/ND-CP of June 13, 2007 on the management of construction costs, stipulating that the costs need to be based on market prices. • MOC Circular 05/2007/TT-BXD of July 25, 2007 on guidelines for cost planning and management of work construction investment. • MOC Circular 06/2007/TT-BXD of July 25, 2007 on guidelines for construction contracts. • MOC Circular 07/2007/TT-BXD of July 25, 2007 on guidelines for methodology of pricing construction machinery and equipment operating in a shift. • MOC Letter 1599/BXD-VP of July 25, 2007 on methodology for determination of construction price index 2007 • MOC Letter 1600/BXD-VP of July 25, 2007 on publication of investment norms in work construction. • MOC Letter 1601/ BXD-VP of July 25, 2007 on publication of construction price index. • MOC Letter 1751/BXD-VP of August 14, 2007 on publication of cost norms of project management and investment consultancy in construction. • MOC Letter 2800/BXD-VP of December 31, 2007 on publication of construction price index (2007). • Prime Minister Decision 131/QD-TTg of August 9, 2007 promulgating the regulations on hiring foreign consultants in construction activities in Vietnam. • MOC Circular 09/2007/TT-BXD of November 2, 2007 on guidelines for determining and managing the costs of hiring foreign consultants in construction, removing caps for engineering consultant costs. • MOC Circular 09/2008/TT-BXD of April 17, 2008 providing guidelines for the adjustment of construction price and contract due to material price fluctuation.
	<ul style="list-style-type: none"> • Separate power transmission and generation assets and regroup transmission assets under a single National Power Transmission Corporation 	<ul style="list-style-type: none"> • Prime Minister Decision 110, dated July 18, 2007, on the National Power Development Master Plan Period 2006-2015 with orientation to 2025. • Letter 1339/VPCP-DMDN of the Office of the Government dated March 3, 2008 approving the establishment of National Power Transmission Corporation to operate under the holding company model.

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ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

Pillar I: Business development		
Area	Prior Action	Supporting Documentation
Infrastructure (continued)		<ul style="list-style-type: none"> Decision 2223/QD-EVN-HĐQT of Electricity of Vietnam dated April 11, 2008 on the establishment of National Power Transmission Corporation.
	<ul style="list-style-type: none"> Introduce modern principles of transparency and corporate governance in provincial infrastructure funds 	<ul style="list-style-type: none"> Government Decree 138/ND-CP of August 28, 2007 on the organization and operation of local development investment funds (LDIFs). MOF Circular 139/2007/TT-BTC of November 29, 2007 guiding Decree 138. MOF Decision 07 on January 29, 2008 adopting the standard charter for LDIFs.
	<ul style="list-style-type: none"> Reduce traffic fatalities through strengthened enforcement and improved education programs 	<ul style="list-style-type: none"> Government Resolution 32/NQ-CP of June 29, 2007, including strongly enhanced awareness, and the set up of a traffic monitoring system and compulsory wearing of helmets. Government Decree 51/2008/ND-CP of April 22, 2008 regulating functions, tasks, powers and organizational structure of MoT which includes the newly established Traffic Safety Department.
	<ul style="list-style-type: none"> Facilitate access to driver training and testing and provide financial support to purchase special vehicles for people living with disabilities 	<ul style="list-style-type: none"> Prime Minister Decision 1491/QD-TTg of November 8, 2007, adopting supporting measures including financial support for PLWDs in the Northern Mountains and Central Highlands to replace motorized carts and trucks. Prime Minister Letter 1992/TTg-CN of December 21, 2007 on regulations for production, assembling, importing and operating of three-wheeled motorbikes and specialized vehicles for PLWD. MoT Decision 62/QD-BGTVT of December 28, 2008 and Decision 03/QD-BGTVT of February 22, 2008 regulating quality control in terms of technical safety and environmental protection for producing, assembling and importing three-wheeled motorized vehicles for PLWD. Decision 05/QD-BGTVT of March 20, 2008 guiding the driver training, testing and licensing for PLWD.

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ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

Pillar II: Social Inclusion		
Area	Prior Action	Documentation
Education	<ul style="list-style-type: none"> • Revise tuition fees at secondary and tertiary levels, better reflecting market conditions and enhance policies to protect the poor 	<ul style="list-style-type: none"> • Prime Minister Directive 21/2007CT-TTg of September 4, 2007, and Decision 157/2007/QD-TTg of September 27, 2007, establishing concessional credit for students, to be implemented by VBSP. • MOLISA Circular 27/TT-BLDTBXH of November 30, 2007, guiding Decision 157 on how to identify the poor. • Prime Minister Decision 152/2007/QD-TTg of September 14, 2007, increasing scholarships for students from poor, ethnic and merit households to 80 percent of the minimum wage.
	<ul style="list-style-type: none"> • Issue roadmap for education information system to strengthen education management 	<ul style="list-style-type: none"> • MOET Letter 93/TT-BGDDT of May 5, 2008 requesting relevant departments and agencies to report to MOET's IT Department.
Health	<ul style="list-style-type: none"> • Submit health insurance law which better pools risks and allows improved incentives in payment to service providers 	<ul style="list-style-type: none"> • Draft Health Insurance Law, discussed by the National Assembly in May-June 2008 session.
	<ul style="list-style-type: none"> • Increase the health insurance premium paid on behalf of the poor and partially subsidize the near-poor 	<ul style="list-style-type: none"> • Decision 289/QD-TTg of March 18, 2008 on policies supporting ethnic minority, poor, near-poor, and fishery households and households under socially targeted policies.
	<ul style="list-style-type: none"> • Regulate safe treatment of solid waste discharge by hospitals in line with international practices 	<ul style="list-style-type: none"> • MOH Decision 43/QD-BYT of November 30, 2007 on the management regulations for solid waste of all health care facilities, allowing environmental protection staff to inspect medical facilities. • Prime Minister Decision 58 of April 29, 2008 on targeted public entities including health care units to reduce pollution and environmental degradation, specifying the sources for the support.
Social protection	<ul style="list-style-type: none"> • Introduce voluntary pension program for farmers and informal sector, allowing for support for the poor to participate in the program 	<ul style="list-style-type: none"> • Government Decree 190/2007/ND-CP of December 28, 2007, providing guidelines for the implementation of several articles of the Law on Voluntary Social Insurance. • MOLISA Circular 02/TT-BLDTBXH of January 31, 2008, guiding Decree 190 and allowing for support from budget and other sources for the poor.
	<ul style="list-style-type: none"> • Adjust safety net for redundant SOE workers to cover state-owned plantations and farms 	<ul style="list-style-type: none"> • Government Decree 110/2007/ND-CP of June 26, 2007 on policies for redundant SOEs workers after equitization. • MOLISA Circular 18/2007/TT-BLDTBXH of September 10, 2007 guiding Decree 110.

(Continued)

ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

Pillar II: Social Inclusion		
Area	Prior Action	Documentation
Gender	<ul style="list-style-type: none"> Determine institutional responsibilities for the implementation of the Gender Equality Law and monitoring of gender equality 	<ul style="list-style-type: none"> Government Decree 186/ND-CP of December 25, 2007, assigning MOLISA to be in charge of state management in relation to gender equality. MOLISA Decision 363/QD-BLDTBXH of March, 18, 2008 regulating function, tasks and organizational structure of the new Department for Gender Equality. Government Letter 4825/VPCP-VX of August 8, 2007, assigning MOJ to take the lead in drafting three guiding decrees for the Gender Equality Law on state management, administrative penalties for gender violation and gender equality promotion.
	<ul style="list-style-type: none"> Create legal framework for domestic violence prevention and control 	<ul style="list-style-type: none"> Law on Prevention and Control of Domestic Violence, 02/2007/QH12, dated November 21, 2007, effective from July 1, 2008.
Pillar III: Natural Resources		
Area	Prior Action	Documentation
Land and forests	<ul style="list-style-type: none"> Issue guidelines for forest development based on participatory land-use planning and independent monitoring 	<ul style="list-style-type: none"> Prime Minister Decision 100/2007/QD-TTg of July 5, 2007, amending the five-million hectare program, aiming at one million extra hectares, of which three quarters for protection. Inter-ministerial Circular 58/2008 of May 2, 2008 of MPI, MARD, MONRE and MOF guiding Decision 100 for the payment of forest protection services Decision 147 of September 10, 2007, on policies for development of production forests in 2007–2015. Circular 05/2008/TT-BNN of January 14, 2008, guidelines on planning for forest protection and development. Inter-ministerial Circular guiding Decision 147, to be issued by MARD-MOF-MPI before Board date.
Water	<ul style="list-style-type: none"> Allocate institutional responsibilities for integrated river basin management 	<ul style="list-style-type: none"> Government Decree 01/2008/ND-CP of January 3, 2008 on the functions and tasks of MARD, which does not include any responsibility in relation to river basin management. Government Decree 25/2008/ND-CP of March 4, 2008, assigning MONRE as Vietnam’s representative at the Mekong River Council.

(Continued)

ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

Pillar III: Natural Resources		
Area	Prior Action	Documentation
Water (continued)	<ul style="list-style-type: none"> Adopt natural disaster mitigation strategy with attention to non-structural measures and guidelines for provincial and ministerial action plans 	<ul style="list-style-type: none"> Prime Minister Decision 172/2007/QD-TTg of November 16, 2007 on the approval of the national strategy for natural disaster mitigation. Instruction 45/PCLBTW of the NSC for Flood Prevention and Control dated March 31, 2008 providing guidelines for ministries and provinces to prepare their action plans.
The environment	<ul style="list-style-type: none"> Strengthen incentives for solid waste management using economic instruments 	<ul style="list-style-type: none"> Government Decree 174 of November 29, 2007 stipulating environmental protection charges for solid waste.
Pillar IV: Modern Governance		
Area	Prior Action	Documentation
Planning processes	<ul style="list-style-type: none"> Establish criteria for selecting public investment projects and mechanisms to monitor their financing and implementation 	<ul style="list-style-type: none"> MPI Circular 05/2007/TT-BKH of August 9, 2007, guiding Prime Minister Decision 52/2007/QD-TTg introducing standard reporting on investment by ministries, agencies, provinces and General Corporations. Prime Minister Decision 390/QD-TTg of April 17, 2008 on the administration of capital investment and public expenditures for 2008 to curb inflation, instructing MPI to review all public investment projects and suspend those considered ineffective or inefficient. MPI Letter 3119/BKH-TH of May 2, 2008 instructing all ministries, agencies, and provinces to stop projects without adequate funding or with outdated objectives. SOEs are also requested to take costs and benefits into investment consideration.
	<ul style="list-style-type: none"> Establish list of indicators, data sources and reporting mechanism for monitoring of SEDP 	<ul style="list-style-type: none"> MPI Decision 555/2007/QD-BKH of May 30, 2007 on the monitoring and evaluation framework based on the performance of the implementation of the SEDP for the 2006-2010 period. Government Resolution 02/2008/NQ-CP of January 9, 2008 assigning MPI to draft a decree for annual reporting on criteria of the SEDP M&E framework.

(Continued)

ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

Pillar IV: Modern Governance		
Area	Prior Action	Documentation
Public financial management	<ul style="list-style-type: none"> • Issue disclosure regulations on content and timing of SAV report, including audits reports of individual entities 	<ul style="list-style-type: none"> • SAV Decision 03/QD-KTNN of July 26, 2007, regulating the disclosure of audit results and reports on the implementation of SAV's audit conclusions and recommendations, defining responsibilities for disclosure, reports to be disclosed, timing and means of disclosure. • Published summaries of the SAV audit reports on its website on 2004 and 2005 state budget finalization annual accounts and extracts from reports of individual audits are being published in the SAV audit magazine.
Legal development	<ul style="list-style-type: none"> • Create a facilitating legal framework for the establishment and operation of economic collaborative groups and social and charity funds 	<ul style="list-style-type: none"> • Government Decree 151 of October 10, 2007 on organization and operation of economic collaborative groups. • Government Decree 148 of September 25, 2007 on organization and operation of social and charity funds. • MOF Decision 10 of May 2008 guiding Decree 148 providing regulation on financial management of social and charity funds.
	<ul style="list-style-type: none"> • Enhance the responsibility of enterprises vis-à-vis consumers and strengthen the handling of consumer complaints 	<ul style="list-style-type: none"> • Government Decree 55/2008/ND-CP of April 24, 2008 guiding the 1999 Ordinance on the Protection of Consumer Rights and replacing Decree 69 of 2001. • Law on the Quality of Products and Commodities, No 05/2007/QH12 passed on November 11, 2007, effective on July 1, 2008.
Public administration reform	<ul style="list-style-type: none"> • Extend OSS to all ministries and agencies and introduce inter-linked OSS to further simplify administrative procedures 	<ul style="list-style-type: none"> • Prime Minister Decision 93/2007/QD-TTg of June 22, 2007 on the “one-stop shop” and inter-agency “one-stop shop” mechanisms in local state administrative agencies.
	<ul style="list-style-type: none"> • Dissociate civil service pay structure from minimum wage setting by widening the range of minimum wages 	<ul style="list-style-type: none"> • Government Decrees 166, 167 and 168 of November 16, 2007 separately setting the minimum wage schemes to be applied by state units, domestic private businesses and FDI sector. • MOHA-MOF Circular 05/TTLT of December 10, 2007 regulating the minimum wage applying to government agencies, political and socio-political entities, and public utility organizations. • MOLISA Circular 31/TT-BLDTBXH of December 28, 2007, to adjust pensions and social insurance allowances according to Circular 05.

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ANNEX 6: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS UNDER PRSC 7 (CONTINUED)

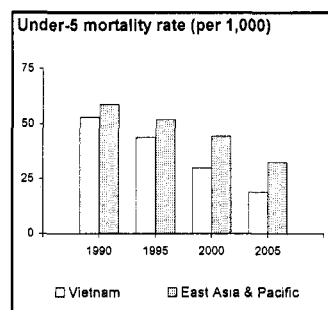
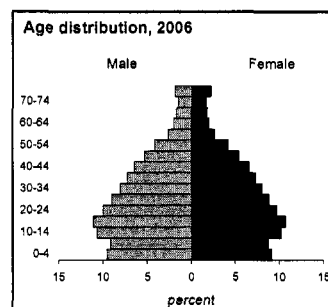
Pillar IV: Modern Governance		
Area	Prior Action	Documentation
Public administration reform (continued)	<ul style="list-style-type: none"> Formulate common standards for IT applications and e-government interfaces at central and provincial levels 	<ul style="list-style-type: none"> MIC Decision 19/2008/QD-BTTTT of April 9, 2008 regulating the standards for IT applications in state agencies. MIC Decision 20/2008/QD-BTTTT of April 9, 2008 adopting the list of standards for IT applications in state agencies. Prime Minister Decision 43/2008/QD-TTg of March 24, 2008 on the approval of the Plan for IT applications in the operation of government agencies in 2008. Office of the Government Notice 248 of November 26, 2007 on the Conclusions of the Deputy Prime Minister Nguyen Thien Nhan at the meeting with MIC leadership on Nov 12, 2007 on the Plan for IT applications in state agencies for 2007-2010 period.
Fighting corruption	<ul style="list-style-type: none"> Implement asset declaration requirement in regard to senior officials and their immediate families, with penalties for non-compliance 	<ul style="list-style-type: none"> GI Circular 2442/TT-TTCP of November 13, 2007, guiding the implementation of Decree 37/2007/ND-CP of March 9, 2007 on asset declaration. GI Letter 533/TTCP-CCTN of April 2, 2008, guiding the contents of and formats for assets declaration.
	<ul style="list-style-type: none"> Introduce mandatory rotation for sensitive government positions and payment of government salaries through bank accounts 	<ul style="list-style-type: none"> Government Decree 158/2007/ND-CP of October 27, 2007 on time limits for the rotation of civil servants in sensitive positions, providing the list of positions to be rotated on a regular basis; the frequency of rotations in each case is to be decided by heads of agency. Prime Minister Directive 20/2007/CT-TTg of August 24, 2007, on the payment of all salaries through bank accounts. SBV Instruction 05/2007/CT-NHNN on October 11, 2007 on formulating bank accounts to pay salaries in the civil service.

Note: Actions in bold are included in the Financing Agreement for the operation.

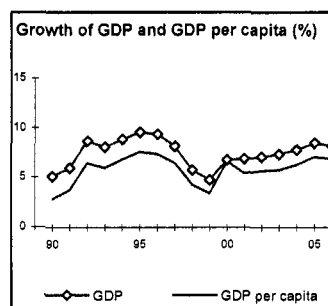
ANNEX 7: VIETNAM AT A GLANCE (INCLUDES COUNTRY MAP)

9/28/07

Key Development Indicators (2006)	Vietnam	East	Low
		Asia & Pacific	income
Population, mid-year (millions)	84.1	1,900	2,403
Surface area (thousand sq. km)	329	16,300	29,215
Population growth (%)	1.2	0.8	1.8
Urban population (% of total population)	27	42	30
GNI (Atlas method, US\$ billions)	57.7	3,539	1,562
GNI per capita (Atlas method, US\$)	690	1,863	650
GNI per capita (PPP, international \$)	3,300	6,821	2,698
GDP growth (%)	8.2	9.4	8.0
GDP per capita growth (%)	6.9	8.6	6.1
(most recent estimate, 2000–2006)			
Poverty headcount ratio at \$1 a day (PPP, %)	..	9	..
Poverty headcount ratio at \$2 a day (PPP, %)	..	37	..
Life expectancy at birth (years)	71	71	59
Infant mortality (per 1,000 live births)	16	28	75
Child malnutrition (% of children under 5)	28	15	..
Adult literacy, male (% of ages 15 and older)	..	95	72
Adult literacy, female (% of ages 15 and older)	..	87	50
Gross primary enrollment, male (% of age group)	98	115	108
Gross primary enrollment, female (% of age group)	91	113	96
Access to an improved water source (% of population)	85	79	75
Access to improved sanitation facilities (% of population)	61	51	38



Net Aid Flows	1980	1990	2000	2006 ^a
<i>(US\$ millions)</i>				
Net ODA and official aid	277	181	1,681	1,905
<i>Top 3 donors (in 2005):</i>				
Japan	4	1	924	603
France	15	12	53	97
United Kingdom	3	0	8	97
Aid (% of GNI)	..	3.0	5.5	3.7
Aid per capita (US\$)	5	3	22	23
Long-Term Economic Trends				
Consumer prices (annual % change)	..	36.4	-1.7	7.5
GDP implicit deflator (annual % change)	..	42.1	3.4	7.3
Exchange rate (annual average, local per US\$)	0.6	6,482.8	14,167.8	16,409.5
Terms of trade index (2000 = 100)	..	..	100	97
Population, mid-year (millions)	53.7	66.2	77.6	84.1
GDP (US\$ millions)	..	6,472	31,173	59,343
<i>(% of GDP)</i>				
Agriculture	..	38.7	24.5	20.4
Industry	..	22.7	36.7	41.6
Manufacturing	..	12.3	18.6	21.3
Services	..	38.6	38.7	38.1
Household final consumption expenditure	..	84.3	66.4	61.8
General gov't final consumption expenditure	..	12.3	6.4	5.9
Gross capital formation	..	12.6	29.6	35.7
Exports of goods and services	..	36.0	55.0	73.5
Imports of goods and services	..	45.3	57.5	76.8
Gross savings	..	-2.3	30.5	36.9



1980–90 1990–2000 2000–06
(average annual growth %)

Population, mid-year (millions)	2.1	1.6	1.3
GDP (US\$ millions)	4.6	7.9	7.6
<i>(% of GDP)</i>			
Agriculture	2.8	4.3	3.9
Industry	4.4	11.9	9.1
Manufacturing	1.9	11.2	11.7
Services	7.1	7.5	7.2
Household final consumption expenditure	..	9.8	5.9
General gov't final consumption expenditure	..	3.2	7.2
Gross capital formation	..	19.8	11.3
Exports of goods and services	..	24.1	18.8
Imports of goods and services	..	28.2	20.2

Note: Figures in italics are for years other than those specified. 2006 data are preliminary. .. indicates data are not available.
a. Aid data are for 2005.

Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade

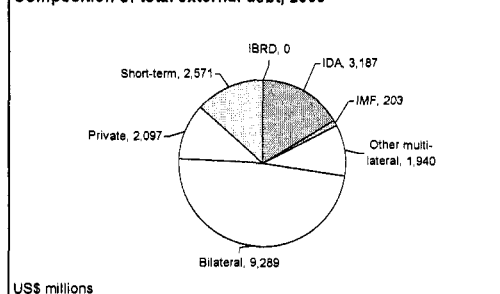
	2000	2006
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	14,483	39,826
Total merchandise imports (cif)	15,637	44,891
Net trade in goods and services	-238	-2,784
Workers' remittances and compensation of employees (receipts)	2,000	4,000
Current account balance as a % of GDP	642 2.1	-165 -0.3
Reserves, including gold	3,030	11,485

Central Government Finance

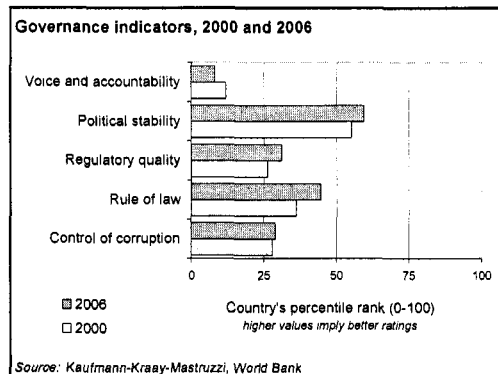
	2000	2006
<i>(% of GDP)</i>		
Current revenue (including grants)	20.4	27.1
Tax revenue	..	..
Current expenditure	15.9	18.6
Overall surplus/deficit	-2.0	-0.3
Highest marginal tax rate (%)		
Individual	50	40
Corporate	32	28

External Debt and Resource Flows

	2000	2006
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	12,825	19,287
Total debt service	1,310	954
Debt relief (HIPC, MDRI)	-	-
Total debt (% of GDP)	41.1	36.7
Total debt service (% of exports)	7.6	2.6
Foreign direct investment (net inflows)	1,298	1,954
Portfolio equity (net inflows)	0	0

Composition of total external debt, 2005**Private Sector Development**

	2000	2006
Time required to start a business (days)	-	50
Cost to start a business (% of GNI per capita)	-	24.3
Time required to register property (days)	-	67
Ranked as a major constraint to business (% of managers surveyed who agreed)		
Access to/cost of financing	..	40.5
Access to land	..	25.9
Stock market capitalization (% of GDP)
Bank capital to asset ratio (%)

**Technology and Infrastructure**

	2000	2005
Paved roads (% of total)	25.1	..
Fixed line and mobile phone subscribers (per 1,000 people)	43	306
High technology exports (% of manufactured exports)	11.0	5.6

Environment

	2000	2006
Agricultural land (% of land area)	28	31
Forest area (% of land area)	37.7	41.7
Nationally protected areas (% of land area)	..	4.4
Freshwater resources per capita (cu. meters)	..	4,410
Freshwater withdrawal (% of internal resources)	19.5	..
CO2 emissions per capita (mt)	0.69	0.94
GDP per unit of energy use (2000 PPP \$ per kg of oil equivalent)	4.2	4.2
Energy use per capita (kg of oil equivalent)	482	612

World Bank Group portfolio

	2000	2006
<i>(US\$ millions)</i>		
IBRD		
Total debt outstanding and disbursed	0	0
Disbursements	0	0
Principal repayments	0	0
Interest payments	0	0
IDA		
Total debt outstanding and disbursed	1,113	3,663
Disbursements	174	341
Total debt service	9	56
IFC (fiscal year)		
Total disbursed and outstanding portfolio of which IFC own account	223	77
Disbursements for IFC own account	107	75
Portfolio sales, prepayments and repayments for IFC own account	25	13
	18	13
MIGA		
Gross exposure	46	126
New guarantees	10	0

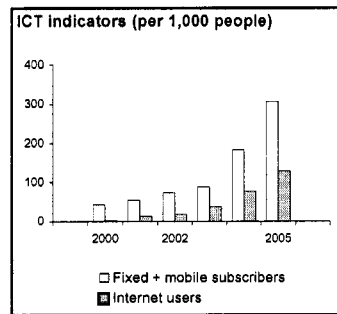
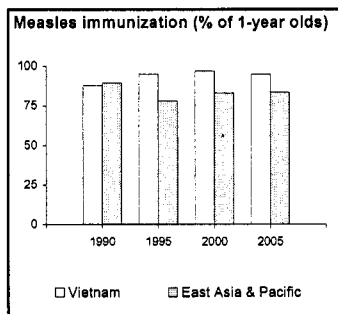
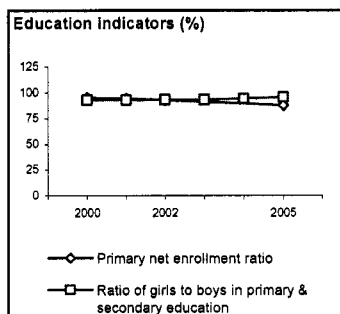
Note: Figures in italics are for years other than those specified. 2006 data are preliminary.
 .. indicates data are not available. - indicates observation is not applicable.

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Development Economics, Development Data Group (DECDG).

With selected targets to achieve between 1990 and 2015
(estimate closest to date shown, +/- 2 years)

	Vietnam			
	1990	1995	2000	2005
Goal 1: halve the rates for \$1 a day poverty and malnutrition				
Poverty headcount ratio at \$1 a day (PPP, % of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	..	..	28.9	..
Share of income or consumption to the poorest quintile (%)	..	7.7	7.2	7.0
Prevalence of malnutrition (% of children under 5)	45.0	44.9	33.8	28.4
Goal 2: ensure that children are able to complete primary schooling				
Primary school enrollment (net, %)	90	..	95	88
Primary completion rate (% of relevant age group)	..	..	96	94
Secondary school enrollment (gross, %)	32	..	65	76
Youth literacy rate (% of people ages 15-24)	94	..	94	..
Goal 3: eliminate gender disparity in education and empower women				
Ratio of girls to boys in primary and secondary education (%)	..	..	93	96
Women employed in the nonagricultural sector (% of nonagricultural employment)	52	51	50	49
Proportion of seats held by women in national parliament (%)	18	19	26	27
Goal 4: reduce under-5 mortality by two-thirds				
Under-5 mortality rate (per 1,000)	53	44	30	19
Infant mortality rate (per 1,000 live births)	38	32	23	16
Measles immunization (proportion of one-year olds immunized, %)	88	95	97	95
Goal 5: reduce maternal mortality by three-fourths				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	130	..
Births attended by skilled health staff (% of total)	..	77	70	90
Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases				
Prevalence of HIV (% of population ages 15-49)	..	..	..	0.5
Contraceptive prevalence (% of women ages 15-49)	..	75	..	77
Incidence of tuberculosis (per 100,000 people)	202	192	184	175
Tuberculosis cases detected under DOTS (%)	..	30	82	84
Goal 7: halve the proportion of people without sustainable access to basic needs				
Access to an improved water source (% of population)	65	68	78	85
Access to improved sanitation facilities (% of population)	36	43	53	61
Forest area (% of total land area)	28.8	..	37.7	41.7
Nationally protected areas (% of total land area)	..	..	..	4.4
CO2 emissions (metric tons per capita)	0.3	0.4	0.7	0.9
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	3.1	3.8	4.2	4.2
Goal 8: develop a global partnership for development				
Fixed line and mobile phone subscribers (per 1,000 people)	1	11	43	306
Internet users (per 1,000 people)	0	0	3	129
Personal computers (per 1,000 people)	0	1	8	13
Youth unemployment (% of total labor force ages 15-24)	..	3.2	4.8	4.6



Note: Figures in italics are for years other than those specified. .. indicates data are not available.

9/28/07

Development Economics, Development Data Group (DECDG).

VIETNAM

- ⊙ PROVINCE CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- INTERNATIONAL BOUNDARIES

PROVINCES:

- | | |
|----------------|---------------------|
| 1 Lai Chau | 32 Thua Thien Hue |
| 2 Dien Bien | 33 Da Nang |
| 3 Lao Cai | 34 Quang Nam |
| 4 Ha Giang | 35 Quang Ngai |
| 5 Cao Bang | 36 Kon Tum |
| 6 Son La | 37 Gia Lai |
| 7 Yen Bai | 38 Binh Dinh |
| 8 Tu Yen Quang | 39 Phu Yen |
| 9 Bac Can | 40 Dac Lac |
| 10 Lang Son | 41 Dac Nong |
| 11 Phu Tho | 42 Khanh Hoa |
| 12 Vinh Phuc | 43 Binh Phuoc |
| 13 Thai Nguyen | 44 Lam Dong |
| 14 Bac Giang | 45 Ninh Thuan |
| 15 Quang Ninh | 46 Tay Ninh |
| 16 Ha Noi | 47 Binh Duong |
| 17 Bac Ninh | 48 Dong Nai |
| 18 Ha Tay | 49 Binh Thuan |
| 19 Hung Yen | 50 T.P. Ho Chi Minh |
| 20 Hai Duong | 51 Ba Ria-Vung Tau |
| 21 Hai Phong | 52 Long An |
| 22 Hoa Binh | 53 Tien Giang |
| 23 Ha Nam | 54 Dong Thap |
| 24 Thai Binh | 55 Ben Tre |
| 25 Ninh Binh | 56 An Giang |
| 26 Nam Dinh | 57 Vinh Long |
| 27 Thanh Hoa | 58 Tra Vinh |
| 28 Nghe An | 59 Kien Giang |
| 29 Ha Tinh | 60 Can Tho |
| 30 Quang Binh | 61 Hau Giang |
| 31 Quang Tri | 62 Soc Trang |
| | 63 Bac Lieu |
| | 64 Ca Mau |



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