

CONFORMED COPY

CREDIT NUMBER 4711-VN

Financing Agreement

(First Power Sector Reform Development Policy Operation)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 25, 2010

FINANCING AGREEMENT

AGREEMENT dated May 25, 2010, entered into between SOCIALIST REPUBLIC OF VIETNAM (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to seventy three million Special Drawing Rights (SDR 73,000,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Un-withdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Recipient shall pay interest on the Withdrawn Credit Balance at the rate of 3.52% per annum. The interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears. The interest shall be computed on the basis of a 360-day year of twelve (12) 30-day months.

- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.08. The Payment Currency is the Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
 - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consist of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

- (b) The Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Governor, or a Deputy Governor, of the State Bank of Vietnam.

6.02. The Recipient's Address is:

State Bank of Vietnam
49 Lý Thái Tổ
Hà Nội
Socialist Republic of Vietnam

Cable:	Telex:	Facsimile:
VIETBANK Hanoi	412248 NHTWVT	(84-4) 3825-0612

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	(1-202) 477-6391

AGREED at Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIETNAM

By: /s/ Nguyen Van Giau

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Victoria Kwakwa

Authorized Representative

SCHEDULE 1**Program Actions; Availability of Financing Proceeds****Section I. Actions Under the Program**

Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

Power Market Development

1. The Recipient has, through the MOIT, issued a Decision (No. 6713-QD-BCT dated December 31, 2009) establishing design principles for the implementation of the VCGM.
2. The Recipient has, through the MOIT, issued a Circular (No. 27/2009/TT-BCT dated September 25, 2009) establishing metering systems standards and procedures for generation plants participating in the VCGM.

Power Sector Restructuring

3. The Recipient has, through the OOG, issued a Notice (No. 232/TB-VPCP dated July 31, 2009) establishing a sector structure to allow for the introduction of the VCGM.

Electricity Tariff Reform

4. The Recipient has, through the Prime Minister, issued a Decision (No. 21/2009/QD-TTg dated February 12, 2009): (a) increasing the average tariff in 2009 to Vietnamese Dong 948 / kWh; and (b) implementing transparent annual tariff-setting from 2010-12 based on cost recovery principles, including the unbundling of the average retail tariff into power supply cost components and the delegation of tariff changes of less than five percent (5%) to the MOIT.
5. The Recipient has, through the Prime Minister, issued a Decision (No. 21/2009/QD-TTg dated February 12, 2009) restructuring the residential block tariff system to establish the principle of the subsidy to the consumer as a percentage of production cost and extend the subsidy mechanism and residential tariff structure to local distribution utilities.

Demand-Side Energy Efficiency Improvement

6. The Recipient has, through the MOST, issued Decisions (No. 2740/QD-BKHCHN dated December 9, 2008 and No. 632/QD-BKHCHN dated April 20, 2009)

establishing energy efficiency standards for consumer goods accounting for large quantities of electricity consumption.

7. The Recipient has, through the MOIT, issued a Circular (No. 05/2009/TT-BCT dated February 26, 2009) introducing time-of-use tariffs for industrial zones and commercial, industrial, and irrigation consumer categories.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Withdrawal Tranche	73,000,000
TOTAL AMOUNT	73,000,000

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the appropriateness of the Recipient's macroeconomic policy framework.

- D. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
 2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

- E. Audit.** Upon the Association's request, the Recipient shall:
1. have such account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
 2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and
 3. furnish to the Association such other information concerning such account and its audit as the Association shall reasonably request.
- F. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- G. Closing Date.** The Closing Date is August 31, 2011.

SCHEDULE 2**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing August 15, 2020 to and including February 15, 2030	1.25
commencing August 15, 2030 to and including February 15, 2045	2.5

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Circular” means a regulation issued by a minister or the head of a ministerial-level government agency and which is enforceable under the Recipient’s legal system.
2. “Decision” means a regulation issued by: (a) the Prime Minister and which is enforceable under the Recipient’s legal system; or (b) a minister or the head of a ministerial-level government agency on a specific issue under the legal mandate of the relevant ministry or agency and which is legally binding upon such ministry or agency.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, un-worked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements

		(cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
 5. "Loan Agreement" means the loan agreement between the Recipient and the Bank providing for a loan in support of the Program, as such agreement may be amended from time to time. "Loan Agreement" includes all appendices, schedules, and agreements supplemental to such agreement.
 6. "MOIT" means the Recipient's Ministry of Industry and Trade or any successor thereto.

7. “MOST” means the Recipient’s Ministry of Science and Technology or any successor thereto.
8. “Notice” means an operational document issued by the OOG (as hereinafter defined) providing instructions to the Recipient’s ministries and agencies and which is enforceable under the Recipient’s legal system.
9. “OOG” means the Recipient’s Office of Government or any successor thereto.
10. “Prime Minister” means the Recipient’s head of government or any successor thereto.
11. “Program” means the program of actions, objectives, and policies designed to support the development of a competitive power market, the restructuring of the power sector, the reform of electricity tariffs, and the improvement of demand-side energy efficiency, and set forth or referred to in the letter dated March 1, 2010 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
12. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Section II.B of Schedule 1 to this Agreement.
13. “VCGM” means the Vietnam Competitive Generation Market, the Recipient’s electricity generation market established and operating pursuant to the Recipient’s Decision No. 6713/QD-BCT dated December 31, 2009.
14. “Vietnamese Dong” means the official currency of the Recipient.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining un-withdrawn amount of the advance.”

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

(d) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”