

CONFORMED

CREDIT NUMBER 4361-VN

Financing Agreement

(Tax Administration Modernization Project)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 28, 2008

CREDIT NUMBER 4361-VN

FINANCING AGREEMENT

AGREEMENT dated March 28, 2008, entered into between SOCIALIST REPUBLIC OF VIETNAM (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association 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 fifty-two million three hundred thousand Special Drawing Rights (SDR 52,300,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are March 15 and September 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollar

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the General Department of Taxation within its Ministry of Finance, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Co-financing 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.
 - (b) The PMU has set up a computerized accounting system in accordance with the provisions of paragraph 3(c), Section I of Schedule 2 to this Agreement.
 - (c) (i) The GDT has adopted a Project Implementation Plan, including a Financial Management Manual, in accordance with the provisions of paragraph 3, Section I of Schedule 2 to this Agreement; and (ii) the managers and staff of the PMU have received training regarding said Financial Management Manual satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

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

5.02. The Recipient's Address is:

State Bank of Vietnam
49 Ly Thai To
Hanoi, Vietnam

Cable address:	Telex:	Facsimile:
VIETBANK Hanoi	412248 NHTWVT	(84-4) 825 0612

5.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI) or 64145(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/ Mr. Nguyen Van Giau

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ajay Chhibber

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to strengthen governance in tax administration in Vietnam, and to increase the level of voluntary compliance with the tax system through improvements in the effectiveness, efficiency, transparency and accountability of the tax administration.

The Project consists of the following parts:

Part I: Institutional Development

Carry out a program to strengthen governance in tax administration in Vietnam, consisting of:

- A. (i) Reviewing the experience in implementing the Tax Administration Law and developing proposals to strengthen the legal framework for tax administration; and (ii) building the capacity of the General Department of Taxation to carry out tax compliance analysis.
- B. (i) Strengthening the anti-corruption activities of GDT, including review of its integrity strategy, dissemination of its Code of Conduct, improvement of its internal audit function, and enhancement of corruption control and detection mechanisms; and (ii) implementing outreach activities, including regular consultation with taxpayers and taxpayer feedback surveys.
- C. Supporting human resources management reform at GDT through enhancement of its management information system.

Part II: Operational Development

Carry out a program to promote voluntary compliance with the tax system in Vietnam, consisting of:

- A. Developing taxpayer services at GDT, including: (i) strengthening its taxpayer services function through the implementation of new operational processes and manuals, and establishment of service standards and performance measures; (ii) developing mechanisms to inform and communicate with taxpayers; (iii) developing mechanisms to respond to taxpayers' queries; and (iv) supporting the development of private tax consultancy.
- B. Improving systems and processes for: (i) taxpayer registration; (ii) tax returns processing and tax payment accounting; and (iii) tax refunds.

C. (i) Strengthening the tax audit function of GDT, including improving audit planning, strengthening risk analysis capacity, improving procedures for audit selection and implementation, and developing audit manuals and training materials; and (ii) strengthening the tax inspection function of GDT, including through the establishment of a special tax inspection unit, and development of tax intelligence and inspection procedures.

D. Improving tax collection and enforcement, including developing procedures to monitor arrears, strengthening the tax arrears management system, and developing procedures and manuals for tax collection and arrears recovery.

E. Establishing an administrative dispute resolution system at GDT to handle taxpayers' disputes, including reviewing the mechanism for appeals by taxpayers, establishing a case management system, and disseminating information on taxpayers' rights and on the appeals process.

Part III: Information and Communication Technology Development

Carry out a program to deploy information and communication technology to enhance the efficiency of tax administration, consisting of:

A. Procuring and deploying a core ICT hardware and system software to support tax functions.

B. Designing, procuring and deploying an integrated tax administration information system.

C. Procuring and deploying E-tax applications.

D. Establishing a pilot tax data warehouse.

Part IV: Project Management

A. Strengthening the capacity of the GDT for Project management and coordination, and auditing Project accounts.

B. Strengthening the capacity of the GDT for organizational change management, including developing and implementing communication strategies.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements**

1. The Recipient shall maintain throughout the period of Project implementation its Tax Administration Reform Steering Committee, under the chairmanship of a vice-minister of the Ministry of Finance, with representation from, inter alia, the Ministries of Planning and Investment and of Home Affairs, State Bank of Vietnam, the Office of the National Assembly and the Office of Government, and charged with directing and supervising the Recipient's tax administration reform program; said Committee to be further responsible for providing direction and guidance to the PMU in the execution of the Project, and for ensuring coordination among the relevant agencies and institutions and with the private sector in support of the modernization of tax administration.
2.
 - (a) The Recipient shall, through GDT, establish and, throughout the period of implementation of the Project, maintain a Project Management Unit to coordinate and monitor Project activities; said Unit to be provided with adequate resources, under the direction of experienced managers and staffed with qualified personnel in sufficient numbers, including a Project Director, a Project coordinator, at least one procurement specialist, a financial specialist leading an accounting unit, and a cashier; in each case with qualifications, experience and terms of reference acceptable to the Association.
 - (b) The Recipient shall, through GDT, establish six (6) working groups, in the following functional areas of tax administration: (i) return processing and tax accounting; (ii) taxpayer services; (iii) debt collection; (iv) tax audit and inspection; (v) taxpayers information database; and (vi) ICT; each of said working groups to: (A) be under the direction of a working group leader reporting to the Project Director; (B) consist of staff drawn from the Tax Administration Reform Department and from the respective functional Departments of GDT or of its provincial offices; (C) be responsible for integrating Project activities into the operation of GDT and, in coordination with the ICT working group and working group leader, for ensuring a coordinated computerization of the reformed business processes; all in manner satisfactory to the Association.
3.
 - (a) To guide the implementation of the Project, the Recipient, through GDT: (i) shall prepare and put into effect a Project Implementation Plan acceptable to the Association; and (ii) shall not, and shall not permit to, amend, revise, abrogate or waive said Plan or any part thereof without the prior concurrence of the Association.

(b) Said Project Implementation Plan shall include: (i) detailed Project activities with appropriate sequencing; (ii) procurement responsibilities and procedures consistent with the provisions of Section III of this Schedule 2; and (iii) a Financial Management Manual setting forth detailed functions, responsibilities and reporting structures, financial management and control arrangements, guidelines for planning and budgeting, requirements and procedures for accounting, record keeping, reporting and auditing of Project records and accounts, consistent with the provisions of Section II.B of this Schedule 2.

(c) GDT shall, through the PMU, establish a computerized accounting system satisfactory to the Association, to enable it to meet the Project accounting and reporting requirements in accordance with the provisions of Section II.B of this Schedule 2.

4. The Recipient shall, by no later than December 31, 2008 or such later date as shall be agreed by the Association, establish at GDT, and thereafter maintain, an internal audit function in respect of the Project satisfactory to the Association; said audit function to be responsible for continuous monitoring and reporting on the internal control systems for the Project, progress in Project implementation, and the use of funds and assets allocated or procured for purposes of the Project.
5. The Recipient shall, through GDT, by no later than September 30, 2008 or such later date as shall be agreed by the Association, engage in accordance with the provisions of Section III of this Schedule 2 the services of an ICT procurement expert with qualifications, international experience, and terms of reference acceptable to the Association, to assist the PMU in critical steps in the procurement process and in contract management.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, commencing with the first semester of 2008, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than December 31, 2013.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association, not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement**A. General**

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Methods</u>
(a) Shopping
(b) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Methods</u>
(a) Least Cost Selection
(b) Selection Based on Consultants’ Qualifications
(c) Single-Source Selection
(d) Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods procured on the basis of International Competitive Bidding and estimated to cost the equivalent of \$100,000 or more, or procured on the basis of Direct Contracting; (b) each contract for consultants’ services provided by a firm estimated to cost the equivalent of \$100,000 or more, or provided by an individual estimated to cost the equivalent of \$50,000 or more; and (c) all single-source selection. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Financing Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (exclusive of Taxes)</u>
(1) Goods under Part III of the Project	44,500,000	100%
(2) Consultants’ services under Parts I, II, III.A, III.C, III.D and IV.B of the Project	4,600,000	100%
(3) Training and workshops under the Project	3,200,000	100%
TOTAL AMOUNT	<u>52,300,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$150,000 equivalent may

be made for payments made prior to this date but on or after August 1, 2007, for Eligible Expenditures.

2. The Closing Date is June 30, 2013.

Section V. Other Undertakings

1. The Recipient, through GDT, shall: (a) by no later than October 31 each year, commencing in 2008, provide to the Association for its review and comments an annual plan of Project activities for the following calendar year, together with the estimated budget therefor from all sources; and thereafter (b) implement such plan as shall have been agreed with the Association, in a manner satisfactory to the Association.
2. The Recipient, through GDT, shall: (a) by no later than June 30, 2010 provide to the Association for its review and comments a comprehensive anti-corruption strategy in tax administration; and thereafter (b) implement said strategy giving due consideration to the views of the Association thereon.
3. The Recipient, through GDT, shall: (a) by no later than September 30, 2009 provide to the Association for its review and comments a strategy for managing organizational changes; and thereafter (b) implement said strategy giving due consideration to the views of the Association thereon.
4. The Recipient, through GDT, shall by no later than December 1, 2010, put into effect throughout the Department such core business processes as shall have been revised and re-engineered under the Project, including but not limited to the business processes for taxpayer registration, tax return processing, tax audit, and taxpayer services.

SCHEDULE 3**Repayment Schedule**

<u>Date Payment Due</u>	Principal Amount of the Credit repayable <u>(expressed as a percentage)*</u>
On each March 15 and September 15:	
commencing March 15, 2018 to and including September 15, 2027	1%
commencing March 15, 2028 to and including September 2047	2%

* The percentages represent the percentages 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

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Co-financing Agreement” means the agreement to be entered into between the Recipient and the International Development Association acting as administrator of grant funds provided by Japan under the Policy and Human Resources Fund (PHRD) to assist in the financing of the Project.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “GDT” means the General Department of Taxation within the Ministry of Finance of the Recipient, and any successor thereto.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
6. “ICT” means information and communication technology.
7. “ITAIS” means integrated tax administration information system.
8. “MOF” means the Recipient’s Ministry of Finance, and any successor thereto.
9. “MOHA” means the Recipient’s Ministry of Home Affairs, and any successor thereto.
10. “MPI” means the Recipient’s Ministry of Planning and Investment, and any successor thereto.
11. “PMU” means the Project Management Unit to be established by the Recipient within the GDT, and referred to in paragraph 2, Section I of Schedule 2 to this Agreement.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated August 8, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

14. “TASC” and “Tax Administration Reform Steering Committee” mean the committee referred to in paragraph 1, Section I of Schedule 2 to this Agreement, established pursuant to Decision No. 1873/QĐ-BTC of May 2006 of the Ministry of Finance.

15. “Tax Administration Law” means the Law on Tax Administration 78/2006/QH11 enacted by the National Assembly on November 29, 2006, and entering into effect as of July 1, 2007.