

CONFORMED COPY

CREDIT NUMBER 3934-VN

Development Credit Agreement

(Third Poverty Reduction Support Credit)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 8, 2004

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 8, 2004, between SOCIALIST REPUBLIC OF VIETNAM (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower: (i) its Comprehensive Poverty Reduction and Growth Strategy (CPRGS) adopted in May 2002 by Decision of the Borrower's Prime Minister; and (ii) its progress report on the CPRGS dated November 2003, which together described a program of actions, objectives and policies designed to achieve poverty reduction and structural adjustment of the Borrower's economy (hereinafter the Program);

(B) the Association has further received from the Borrower a letter dated May 24, 2004, declaring its continued commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(C) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(D) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

“‘Project’ means the Program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

- (b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

- (d) The last sentence of Section 5.03 is deleted;

- (e) Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

- (f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meaning:

- (a) “ASEAN” means the Association of Southeast Asian Nations.

(b) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement.

(c) “DPP” means the Department of Public Procurement within the Borrower’s Ministry of Planning and Investment.

- (d) “IAS” means international auditing standards.
- (e) “NOIP” means the National Office for Intellectual Properties.
- (f) “SBV” means the State Bank of Vietnam, and any successor thereto.
- (g) “SOCBs” means state-owned commercial banks, namely Bank of Investment and Development of Vietnam, Bank for Foreign Trade of Vietnam, Industrial and Commercial Bank of Vietnam, Vietnam Bank for Agriculture and Rural Development, and Mekong Housing Bank; and “SOCB” means any of the state-owned commercial banks.
- (h) “SOEs” means state-owned enterprises, and “SOE” means any state-owned enterprise.
- (i) “WTO” means the World Trade Organization.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixty-nine million Special Drawing Rights (SDR 69,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15 commencing November 15, 2014 and ending May 15, 2044. Each installment to and including the installment payable on May 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of

the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower 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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be

taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effectiveness Date; Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Governor or any Deputy Governor of State Bank of Vietnam is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

State Bank of Vietnam
49 Ly Thai To
Hanoi
Socialist Republic of Vietnam

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

For the Association:

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIETNAM

By /s/ Le Duc Thuy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Klaus Rohland

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups 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 Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Recital (C) of the Preamble to this Agreement

A. Transition to a Market Economy

1. Trade Integration

(a) Conduct of detailed preparatory work for WTO accession, including an assessment of the impact of various tariff scenarios on key sectors.

(b) Elimination of quantitative restrictions on the imports of petroleum products.

(c) Adoption of the Early Harvest Program to implement the Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China, leading to the lowering of import tariffs on a number of agricultural and fisheries products.

(d) Issuance of regulations directing the use of transaction value as the basis for customs valuation.

(e) Application of the Harmonized Classification and Coding System to all trading partners.

2. Reform of State-owned Enterprises

(a) Acceleration of SOE ownership transformation by following the 104 SOE restructuring plans adopted in 2003.

(b) Broadening of the equitization process to include large SOEs and General Corporations.

(c) Issuance of operational guidelines for the central Debt and Assets Trading Company.

3. Financial Sector Reform

(a) In preparation for WTO's accession, formulation of a plan to strengthen the supervisory capacity of the State Bank of Vietnam and to level the playing field for banks.

(b) Adoption of a new chart of accounts for banks to improve transparency of the banking sector.

(c) Issuance of instructions to the SOCBs to put into effect new credit manuals to improve risk management in their operations.

(d) Imposition of a sixty-day time limit for SOCBs to submit their IAS audits to State Bank of Vietnam.

(e) Issuance of a prime-ministerial Directive to equitize two SOCBs, namely Mekong Housing Bank and Bank for Foreign Trade of Vietnam, and initiation of steps to identify a strategic investor for Mekong Housing Bank.

(f) Issuance of regulations for the operation of the Development Assistance Fund restricting its mechanisms for policy lending.

(g) Further development of the securities market by easing listing requirements and creating the legal framework for securities investment funds as a new investment channel.

4. Private Sector Development:

(a) Leveling of the treatment of enterprises by unifying the corporate tax rate at 28% irrespective of the nature of their ownership.

(b) Strengthening of the administration of intellectual property rights by designating NOIP as the central point for treatment of trademarks and intellectual property rights.

(c) Issuance of a decree improving the legal framework for the organization, operation and management of business associations.

5. Infrastructure

(a) Expansion of the Comprehensive Poverty Reduction and Growth Strategy to include a development policy for large-scale infrastructure.

(b) Opening of internet and mobile telephone services to competition by licensing additional service providers.

(c) Reduction of prices for international telephone and leased line services to regional levels.

B. Inclusive Development and Environmental Sustainability

1. Education

(a) Increase of expenditure share for education and training to 17.1% of the 2004 national budget.

- (b) Adoption of minimum quality standards for primary schools nationwide.

2. Health

- (a) Establishment of Health Care Funds for the Poor in all provinces and full payment of the central government contribution to such Funds.

- (b) Adoption of a multi-sector action program to implement the HIV-AIDS Strategy, including de-stigmatization, information dissemination and provision of affordable care and treatment.

3. Land

Enactment of a new Land Law providing for a unified land administration system, and supporting access to land for all sectors and community land use practices.

4. Water

- (a) Issuance of a decree providing for the transfer to water users groups of the management of small-scale, stand-alone irrigation and drainage systems, and secondary and tertiary irrigation systems.

- (b) Issuance of a decree for the conservation and sustainable development of wetlands.

5. Environment

- (a) Decentralization of the responsibility for environmental impact assessments to local levels according to the value of investment projects.

- (b) Establishment of “polluter pays” principle and mechanism for industrial and municipal waste water discharges.

- (c) Issuance of regulations requiring the worst pollution offenders to upgrade their technology, move to authorized zones, or face closure.

C. Modern Governance

1. Planning Processes

- (a) Issuance of guidelines to roll-out the CPRGS approach to provincial planning and launching of the process in twenty provinces, to align policies, planning processes and allocation of resources with localized development targets.

- (b) Piloting of a medium-term expenditure framework in the Education sector to improve planning processes and service delivery capacity.

2. Public Financial Management

(a) Unification of the accounting systems of the State Budget and the State Treasury to enable better monitoring of revenues and expenditures and allocation of resources.

(b) Completion of the overall design of an integrated Treasury and Budget Management Information System to support the integrity of fiscal data, transparency and control of public finances.

3. Financial Accountability

(a) Enactment of a new Accounting Law and issuance of new accounting and auditing standards in line with international standards.

(b) Issuance of a decree on Independent Audit Practice subjecting SOEs to independent audits, unless specifically exempted and subject to audit by the State Auditor of Vietnam instead.

4. Public Administration Reform

(a) Promulgation of the national policy of the “One Stop-Shop” mechanism to simplify administrative procedures.

(b) Piloting of the report card approach to public services delivery in four cities to measure performance and service delivery outcome.

5. Anti-corruption

(a) Strengthening of the public procurement process by establishing DPP to perform the functions of a public procurement agency, prepare standard bidding documents, issue implementation guidelines and oversee compliance; reinforcing open competitive bidding as the main method of procurement; and mandating the establishment of a Procurement Bulletin.

(b) Strengthening of the requirement that government agencies adhere strictly to legal procedures, schedule and scope of inspection of businesses.