CREDIT NUMBER 4274-VN

Financing Agreement

(First Program 135 Phase II Support Development Policy Financing)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 17, 2007

CREDIT NUMBER 4274-VN

FINANCING AGREEMENT

Agreement dated May 17, 2007, 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) certain 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 macro-economic 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 the Financing 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 thirty-three million six hundred thousand Special Drawing Rights (SDR 33,600,000) ("Credit").

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 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is 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 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 exchange views with the Association on any proposed action to be taken after the disbursement of the Financing 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 Section I of Schedule 1 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists 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 - TERMINATION

5.01. 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 any Deputy Governor, of State Bank of Vietnam.

6.02. The Recipient's Address is:

State Bank of Vietnam
49 Ly Thai To
Hanoi, Vietnam

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

6.03. 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 _____

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By _____

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. **Actions under the Program**

The actions taken by the Recipient under the Program include the following:

A. Poverty Targeting and Pro-Poor Orientation in Support Services.

1. In accordance with CEM's Decision No. 393/2005/QD-UBDT of August 29, 2005 pursuant to Prime Minister's Authorization No. 1062/TTg-DP of August 1, 2005, and Inter-ministerial Circular 676/2006/TTLT-UBDT-KHDT-TC-XD-NNPTNT of August 8, 2006, the Recipient has required provinces to use transparent and verifiable criteria which include poverty-based measurements in, respectively: (a) the selection of communes and villages for inclusion into P 135-2; and (b) the allocation of P 135-2 resources to said participating communes and villages.

2. MARD has issued Circular 01/2007/TT-BNN of January 15, 2007, setting forth a revised strategy for providing production- and livelihood-support services in upland communities on the basis of decentralization, farmer demand and market orientation.

B. Decentralization, Participation and Empowerment.

3. CEM has formulated a communications strategy to guide the planning and implementation of communication activities under P 135-2 by CEM and by implementing entities at the province, district and commune levels.

4. CEM has drafted and circulated to relevant ministries, agencies and provinces for their comments, guidelines on criteria to be used by provinces to determine the readiness of communes to assume ownership responsibility for investments.

5. Pursuant to Prime Minister's Approval No. 206/TTg-QHQT of February 8, 2007, the Recipient has committed to allocate not less than seven percent (7%) of the total costs of P 135-2 to institutional capacity building at all levels, including at the commune and village levels.

C. Fiduciary Transparency and Accountability.

6. MOF has issued Guidance No. 2849/KBNN-KHTH of December 29, 2006, giving instructions for MOF to prepare processes and procedures for fund-flow reflecting the provision of funds from the state budget to each spending agency at central, provincial, district and commune levels; and quarterly financial reports and reconciliation of expenditures under P 135-2 between spending units and state treasury.

7. SAV has adopted a multi-year audit plan in respect of P 135-2 which: (a) establishes the scope of the annual audit; (b) provides for at least a twenty percent (20%) increase annually in the sample of provinces covered by such audit; (c) provides for completion of the audit and public disclosure of the audit report within six (6) months of the fiscal year end; and (d) provides for the engagement of independent external auditors, as may be necessary.

8. Pursuant to Inter-ministerial Circular 676/2006/TTLT-UBDT-KHDT-TC-XD-NNPTNT of August 8, 2006, the Recipient has required that: (a) compulsory contributions by local communities to investments under P 135-2 be established at an affordable level; (b) the poorest households be exempted from compulsory cash contributions; and (c) mechanisms to promote employment and payment of local labor for civil works under P 135-2 be developed, with priority given to poor households in wage-earning opportunities.

D. Monitoring and Evaluation.

9. For the purposes of monitoring the implementation of P 135-2 and evaluating its impact, the Recipient has: (a) established an action plan to develop a management information system consistent with its portfolio-wide monitoring tools; and (b) formulated outcome indicators, established an overall monitoring and evaluation framework and designed a baseline survey.

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 shall be withdrawn in a single tranche. 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 Tranche	33,600,000
TOTAL AMOUNT	33,600,000

C. Deposits of Financing Amounts.

1. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain a deposit account in Dollars ("Foreign Currency Deposit Account") on terms and conditions satisfactory to the Association.

2. All withdrawals from the Financing Account shall be deposited by the Association into said Foreign Currency Deposit Account. Upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, the Recipient shall deposit an equivalent amount in local currency into an account of the Recipient within its budget management system to finance budgeted expenditures.

D. **Audit.** Upon the Association's request, the Recipient shall:

1. have the Foreign Currency Deposit 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 the Foreign Currency Deposit Account and its audit as the Association shall reasonably request.

E. **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.

F. **Closing Date.** The Closing Date is December 31, 2007.

SCHEDULE 2

Repayment Schedule

Date Payment Due	**Principal Amount of the Credit repayable (expressed as a percentage)***
On each March 15 and September 15:	
commencing September 15, 2017 to and including March 15, 2027	1%
commencing September 15, 2027 to and including March 15, 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

Section I. Definitions

1. "CEM" means the Recipient's Committee for Ethnic Minorities, the Recipient's central agency charged with managing and supervising the implementation of Program 135 Phase II with the support from and in coordination with the Ministries of Planning and Investment, of Finance, of Agriculture and Rural Development and of Construction.

2. "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 Financing, 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, unworked 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) under a contract 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 during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.

3. "Foreign Currency Deposit Account" means the account referred to in paragraph C.1, Section II of Schedule 1 to this Agreement.

4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 with the modifications set forth in Section II of this Appendix.

5. "MARD" means the Recipient's Ministry of Agriculture and Rural Development, and any successor thereto.

6. "MOC" means the Recipient's Ministry of Construction, and any successor thereto.

7. "MOF" means the Recipient's Ministry of Finance, and any successor thereto.

8. "MPI" means the Recipient's Ministry of Planning and Investment, and any successor thereto.

9. "Program" means the program of actions, objectives and policies designed to strengthen the poverty alleviation results of the Recipient's Program 135, Phase 2 (as defined below), as set forth or referred to in the letter dated February 2, 2007 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.

10. "Program 135, Phase 2" and "P 135-2" mean the Recipient's Program for Socio-economic Development in Communes Facing Extreme Hardship in Ethnic Minority and Mountainous Areas (2006-2010), as approved by the Recipient's Prime Minister under Decision No. 7/2006/QD-TTg of January 10, 2006.

11. "SAV" means the State Audit of Vietnam, and any successor thereto.

Section II. Modifications to the General Conditions

The modifications to the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 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. 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.

4. 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.

5. 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."

6. 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.

7. 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".