PERIODIC FINANCING REQUEST

Date:

To: Asian Development Bank
6 ADB Avenue
Mandaluyong City, Metro Manila

ATTENTION: Director General, Southeast Asia Department
Fax No. 63-2 636 2231

Sir:

RE: SOE Reform and Corporate Governance Facilitation Program:
Periodic Financing Request No. 1

Please refer to the Framework Financing Agreement (the FFA) for the SOE Reform and Corporate Governance Facilitation Program dated 27 Sep 2010 between Asian Development Bank (ADB) and Socialist Republic of Viet Nam. Expressions defined in the FFA shall have the same meanings herein.

Pursuant to the provisions of the FFA, Viet Nam requests ADB to process this PFR for a tranche, in the form of two loans from its (i) ordinary capital resources (OCR) and (ii) special funds resources. The proposed financing amounts, terms, conditions, and financing plan are specified in Attachment A hereto. Descriptions of the projects for which financing is hereby requested are set out in Attachments 1 to 3 of Attachment A hereto.

By: Viet Nam.

NGUYEN VAN GIAU
Governor
State Bank of Vietnam

Attachment A

Project Description The projects proposed for financing under the requested PFR are:

1. Financial, corporate and operational restructuring of 2 General Corporations – Song Da and Sowatco.

The 2 participating GCs will be restructured under a comprehensive package involving corporate and financial restructuring, and enhancing of operational efficiency and corporate governance. Debt restructuring will enable the GCs to strengthen their balance sheet by swapping high-cost, short-term loans with cheaper, longer-term debt, thereby improving cash flow and the GC's debt servicing capacity, resulting in additional resources for productive activities. The process of corporate restructuring will enable the participating GCs to exploit both economies of scale and of scope by merging several small joint stock subsidiary companies in each GC into larger entities organized along same lines of business; combined with divestiture of disparate non-core business units. Additionally, operational efficiency will be enhanced by management restructuring to strengthen corporate management processes and improve governance. OCR resources will be used to support financial and corporate restructuring, while operational restructuring and improved corporate governance will be supported by the complementary loan component funded from ADF resources.

2. Operational restructuring and strengthening of the DATC.

A part of ADF lending will be used under Tranche 1 to (i) develop a training program for DATC personnel and enterprises under DATC; (ii) organize training on debt resolution and corporate restructuring, corporate governance, and investment analysis and management; (iii) development of an appropriate organization structure with job description for each management position; (iv) establishment of internal audit function and development of best practices and guidelines; (v) development and implementation of enterprise risk management processes and, (vi) initiate a pilot initiative to address debt resolution at select SOEs.

Additional details are in Annex 1, 2 and 3.

Cost Estimates and Financing Plan

The total cost of the projects is estimated at $130 million. The detailed cost estimates and financing plan are provided below.

Table 1: Detailed Cost Estimate by Expenditure Category and Financing of Tranche 1 Projects

	OCR		ADF		GCs		Total
	Amount ($ million)	(%)	Amount ($ million)	(%)	Amount ($ million)	(%)	Amount ($ million)
A. Investment Costs							
1. Debt Restructuring							
- Song Da	109.59	100	-	100	-	0	109.59
- Sowatco	2.30	100	-	100	-	0	2.30
2. Consulting Services	-	0	5.97	0	-	0	5.97
3. Equipment	-	0	3.29	0	-	0	3.29
4. Taxes and Duties	-	0	-	0	0.93 [1]		0.93
B. Interest and Commitment Charges	8.11		0.74		-	100	8.85
Total	**120.00**		**10.00**		**0.93**		**130.93**

ADB = Asian Development Bank; OCR = Ordinary Capital Resources; ADF = Asian Development Fund

[1] Breakdown of taxes is as follows: $0.60 million for consulting services, and $0.33 million for equipment.

Source: Asian Development Bank estimates.

Table 2: Financing Plan

Source	Amount ($million)	Share of Total (%)
Project 1		
ADB Ordinary Capital Resources	120.00	92.3
ADB Asian Development Fund	10.00	7.7
Total	**130.00**	**100.00**

Loan Amount and Terms

The request is for two loans of the Asian Development Bank (ADB) as follows: (a) a loan of $120 million from the ordinary capital resources of ADB provided under London interbank offered rate (LIBOR)-based lending facility, with a 25 year term including a grace period of 5 years, an interest rate determined in accordance with ADB's LIBOR-based lending facility, a commitment charge of 0.15% per annum and such other terms and conditions as agreed in the FFA, and further supplemented under the Loan and Project Agreements; and, (b) $10 million equivalent from the Special Funds resources of ADB with a 32 year term, including a grace period of 8 years, and an interest charge of 1% during the grace period and 1.5% per annum thereafter, and such other terms and conditions as agreed in the FFA, and further supplemented under the Special Funds Loan and Project Agreements.

The Government will on-lend the full amount of ADB's OCR loan to Song Da ($117.5 million) and Sowatco ($2.5 million). The terms and conditions of the on-lending will be in accordance with the Government's applicable regulations and acceptable to ADB.

The Government will relend the full amount of the ADF loan to the participating entities in the borrowing currency or in Vietnamese dong, again with the terms of the lending in accordance with the Government's regulations and acceptable to ADB. The Government's relending of the ADF funds will be allocated as follows:-Song Da ($6.6million equivalent); Sowatco ($0.7 million equivalent); and DATC ($2.7 million equivalent).

Period of Loan/Guarantee Utilization

The projects are expected to be completed by 31 December 2012. No disbursements from the loan account will be requested or made later than 30 June 2013, or such date as may from time to time be agreed between Viet Nam and ADB.

Retroactive Financing

Retroactive financing is requested for expenditures incurred directly for the purpose of operational and corporate restructuring, not exceeding the amount of 20% of the proposed amount of the loan incurred before loan effectiveness, but not earlier than 12 months before the signing of the legal agreement.

Implementation Arrangements

The Executing Agency will be the Ministry of Finance (MOF), which will set up a Facility Steering Committee headed by a Vice Minister and comprising members from relevant agencies, and including implementing agencies as appropriate. MOF will also establish a Program Management Unit. Song Da, Sowatco, and DATC will be the respective Implementing Agencies (IAs). Each of the Implementing Agencies will establish its own program implementing unit.

Procurement and Consulting Services

The consultant services will be procured by the Implementing Agencies in accordance with ADB's *Guidelines on the Use of Consultants* (2007 as amended from time to time). Selection of consulting firms will be inviting full technical proposals and using quality and cost ratio for Quality- and Cost-Based Selection (QCBS) process (80:20). Consulting services through individual consultants may be used for undertaking short term specialized tasks deemed necessary and arising during or following the implementation of restructuring. Selection of individual consultants will be in accordance with ADB's *Guidelines on the Use of Consultants* (2007 as amended from time to time).

Confirmation of Continuing Validity of and Adherence to Provisions of FFA

Viet Nam confirms that the understandings set out in the FFA have been adhered, and remain true to date.

Readiness of the Project for Implementation	The two participating GCs, Song Da and Sowatco, have both had their corporate and operations restructuring plans approved by their respective Boards of Management. The loans that will be restructured have been identified and agreed. In both the GCs, as well as in DATC, specific measures to undertake operations restructuring and enhance corporate governance have been identified and agreed.
Safeguards	The SRCGFP is classified as category C under ADB's environmental classification system, with no significant adverse impact identified. The Investment Program, including projects in PFR1 here, will not have any involuntary resettlement impact as it has no investment component for creation of new physical assets. None of the debt and operational restructuring measures in GCs associated with PFR1 will trigger any activities related to indigenous people

ANNEX 1

DETAILED RESTRUCTURING MEASURES UNDER PFR1 - SONG DA

No.	Description
1	**Corporate Restructuring**
1.1	*Development of corporate restructuring plan including:*
	- establish strategic direction of various sub-holding companies
	- define the key business segments
	- identify of non - strategic holdings in associated companies for disposal
	- document the strategic plan
	- Considerations for development of corporate restructuring plan include:
	- elimination of duplication of assets and resources
	- elimination of conflict of interests
	- facilitate management and reporting
	- unlocking the value of assets of GC - tax implications of each restructuring steps
	- Valuation of assets of GC to be transferred to subsidiaries
1.2	*Technical assistance supporting the share swap exercise*
	- Valuation of shares of subsidiaries involved
	- Special audit of financial position of companies involved
	- Appointment of merchant bankers
2	**Management Restructuring**
2.1	*Strategic planning*
	Facilitation of strategic planning process - develop strategic plan for each of business segment - establishment of budget and forecast - establishment of KPIs
2.2	*Improvement of management structure*
	Review current management set-up and propose re-organisation options - centralisation key executives at holding company level
	Review current practice and enhance accountability and reporting structure
	Establishment of guidelines for change management process, provide training through workshop and propose solutions to issues identified by Change Management Task Force
	Development of an appropriate organization chart in line with the new corporate structure
	To review and develop "Job and responsibilities description" for each executive position in the GC/ subholding companies & its subsidiaries under new management structure

No.	Description
	Development of financial reporting package of subsidiaries to sub-holding companies and from sub-holding to holding companies
	Review and devise improvements to financial closing process with the view to address all audit qualifications, shortening period to prepare monthly management and financial reports and annual financial statements of the GC and all business segments
2.3	*Improvement of Corporate Governance Practices*
	Undertake a diagnostic report on current corporate governance processes and proposed improvement to governance processes
	Enhancement on budgetary control and financial planning (including forecasting) processes;
	Development of BOM's manual and procedures
	Development of corporate policies and procedures manual
	Establish Promulgate a Code of Ethics for directors, managers, and staff and set qualitative criteria for recruitment as well as performance evaluation
	Development of best practices and guidelines for internal audit
	Development of best practices and guidelines for enterprise risk management processes for the GC and all business segments
	Review and report on risk assessment of GC, sub-holding companies and subsidiaries under them and recommend improvements to mitigate risks
2.4	*Human Resource Development*
	Establishment of Performance review and evaluation system for all business segments
	- Establishment of staff competency model for each business segment
	- Establishment of learning map for staffs level at holding, sub-holding and subsidiaries.
	- Conduct various training for staffs, managers and executives of the GC and all sub-holding companies and subsidiaries
	- Corporate governance
	- Enterprise risk management
	- Project management technique
2.5	*Development of Song Da's Brandname*
2.6	*Information Management System*
	Establishment of an information system strategy for each sub-holding companies
	Installation of the new software and purchasing of equipments
	Project management
	- Selection of hardware and software
	- Testing of the installed system
2.7	*Buying equipment to improve the management capacity of GC*
2.8	*Buying other equipments to support the Project's implementation*

ANNEX 2

DETAILED RESTRUCTURING MEASURES UNDER PFR1 - SOWATCO

No.	Description
1	**Corporate Restructuring**
1.1	*Development of corporate restructuring plan including:*
	- establish strategic direction of various sub-holding companies
	- define the key business segments
	- identify of non - strategic holdings in associated companies for disposal
	- document the strategic plan
	- Consideration for development of corporate restructuring plan includes
	- elimination of duplication of assets and resources
	- elimination of conflict of interests
	- facilitate management and reporting
	- unlocking value in GC
1.2	*Merge business activities currently undertaken by the holding company to the wholly owned subsidiary operating the same businesses*
2	**Management Restructuring**
2.1	*Strategic planning*
	Facilitation of strategic planning process - develop strategic plan for each of business segment; - establishment of budget and forecast - establishment of KPIs
2.2	*Improvement of management structure*
	Review current management set-up and propose re-organisation options - centralisation key executives at holding company level
	- Review current practice and enhance accountability and reporting structure
	Establishment of guidelines for change management process, provide training through workshop and propose solutions to issues identified by Change Management Task Force
	Development of an appropriate organization chart in line with the new corporate structure
	To review and develop "Job and responsibilities description" for each executive position in the GC/ subholding companies & its subsidiaries under new management structure
	Development of financial reporting package of subsidiaries to sub-holding companies and from sub-holding to holding companies
	Review and devise improvements to financial closing process with the view to address all audit qualifications, shortening period to prepare monthly management and financial reports and annual financial statements of the GC and all business segments
2.3	*Improvement of Corporate Governance Practices*
	Undertake a diagnostic report on current corporate governance processes and proposed improvement to governance processes
	Enhancement on budgetary control and financial planning (including forecasting) processes;
	Development of BOM's manual and procedures
	Development of corporate policies and procedures manual
	Establish Promulgate a Code of Ethics for directors, managers, and staff and set qualitative criteria for recruitment as well as performance evaluation
	Development of best practices and guidelines for internal audit

No.	Description
	Development of best practices and guidelines for enterprise risk management processes for the GC and all business segments
	Review and report on risk assessment of GC, sub-holding companies and subsidiaries under them and recommend improvements to mitigate risks
2.4	*Human Resource Development*
	Establishment of Performance review and evaluation system for all business segments
	- Establishment of staff competency model for each business segment
	- Establishment of learning map for staffs level at holding, sub-holding and subsidiaries.
	- Conduct various training for staffs, managers and executives of the GC and all sub-holding companies and subsidiaries
	- Corporate governance
	- Enterprise risk management
	- Project management technique
2.5	*Information Management System*
	Establish an information system strategy for each sub-holding companies
	Installation of the new software and purchasing of equipments
	Project management
	- Selection of hardware and software
	- Testing of the installed system

ANNEX 3

DETAILED RESTRUCTURING MEASURES UNDER PFR1 – DATC

No.	Description
I	**Management capability enhancement**
1	**Legislation Matters**
	Review and build up the legal system applicable to debt resolution and propose changes to enhance the operational effectiveness of DATC
	Review and conduct processes, internal regulations in debt resolution activities to improve efficiency in this operation
	Perform analysis of NPLs in Viet Nam in combination with research on successful debt resolution practices in other countries so as to build up a complete legal system which is to be delivered to the government for authorization
2	**Management process**
	Build up an appropriate organization structure
	Assign and describe "job and responsibilities" to each manager together with all management levels
	Establish a financial reporting structure and auditing guideline (design a system of reporting and commenting on the representative who is responsible for delivering the government's capital to corporations of which DATC is a stakeholder in order to ensure procedures followed are proper and act as deterrent to fraud or mismanagement).
	Establish appropriate principles and procedure for internal auditing and enterprise risk management
3	**Information Management System**
	Facilitation and installation of all necessary equipment as well as computer for DATC's staff
	Establish an information centre and database system comprising of: a system of legal document relating to DATC's activities; a profile of all investments (either carried out or projected to be carried out)
	Build up an inter-related internal control system for DATC's network based on model adopted by international corporations
	Install internet lines and register for services to collect information from different Ministries, the Government office, Ministry of Finance, Ministry of Planning and Investment, Ministry of Justice, Financial Investment Union, WB, ADB, Central Bank and commercial banks in order to update information and diversify investments between DATC and banks
4	**Human resource development**
	Establish a training system for DATC's staff and dependent units
	Conduct various training for all staff levels on
	- Debt resolution and business re-structuring technique
	- Corporate governance technique and skills
	- Analytical and management technique for investment projects

No.	Description
	Establish Performance review and Evaluation system.
	Establish a Competency Model, evaluate staff's performance periodically
5	**Identify strategic orientation for DATC's activities**
II	**Deployment of debt resolution and funding at some business units for trial (select 3-4 sample enterprises for corporate restructuring)**

ANNEX 4

DESIGN AND MONITORING FRAMEWORK – PFR1

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Increased profitability and transparency of equitized and restructured SOEs, including large GCs and their subsidiaries	Profitability of restructured Song Da and Sowatco increases by 15% over average of 2006-09	Externally audited, annual financial reports of GCs	**Assumptions** • Continued commitment to transitioning to an increasingly market-driven economy • Macroeconomic stability • Sustained successful economic performance of equitized SOEs • Growth rate inadequate to absorb growing labor force **Risks** • Increased resistance from vested interests to SOE reforms • Government uses transformed GCs for achieving non-economic objectives, including use of inappropriate pricing policies
Outcome Song Da and Sowatco are transformed into focused, efficient businesses with strong balance sheets and improved corporate governance	Debt-equity ratios reduced by at least 15% during first five years after GC restructuring Cash flows from operations are enhanced by at least 20% during first five years after GC restructuring. Song Da and Sowatco are converted into pure holding company Lines of business of Song Da and Sowatco are reduced Number of principles of good corporate governance adopted by Song Da and Sowatco	Externally audited, annual financial reports of GCs Externally audited, annual financial reports of GCs	**Assumptions** • The effect on GCs of global economic downturn is short term • Adequate financial resources to support continued SOE restructuring and transformation • Continued strengthening of debt resolution mechanisms and improvements in state management of capital **Risks** • Control of line ministries on GCs may get prolonged due to institutional inadequacies in effective management of state capital

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
Outputs			**Assumptions**
1. **Debt restructuring implemented, combining financial and corporate restructuring.**	Current ratio improves in Song Da and Sowatco by at least 10% during the five years after restructuring	GC financial reports	Continued commitment by GC management to restructuring No unexpected legal or regulatory impediments to restructuring
	Debt-Service Coverage Ratio for Song Da and Sowatco improved by at least 20% during first five years after GC restructuring;	GC financial reports	**Risks** Operational restructuring of GCs may be too complex for the senior management to implement properly
	Number of subsidiaries directly below the GC reduced at Song Da and Sowatco	GC Annual Reports	Capacity of the restructuring institutions to assimilate and absorb the changes may be low, particularly at levels below senior management.
2. **Increased operational efficiency and improved corporate governance of GCs and other SOEs**	Song Da creates sub-holding companies and brings remaining subsidiaries under them	GC Annual Reports	Middle management and workers oppose operational restructuring
	Song Da and Sowatco refocus operations in core business lines	GC Annual Reports and externally audited financial reports	Capacity limitations constrain implementing of operational restructuring and improved corporate governance
	Management practices and business processes are rationalized in Song Da and Sowatco	GC Annual Reports and consultant reports	Implementation delays in corporate restructuring requiring share swaps and buybacks
	Budgetary controls and financial planning processes are improved at Song Da and Sowatco	GC Annual Reports and consultant reports	
	Directors, managers and staff follow a code of ethics at Song Da and Sowatco	GC Annual Reports and consultant reports	
	Surplus employees provided appropriate training for redeployment at Song Da and Sowatco	GC Annual Reports and consultant reports	

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
3. **Institutions supporting key aspects of SOE reform strengthened and governance improved, particularly those facilitating resolution of non-performing debts, and managing state capital in SOE sector**	Improved management systems and processes at DATC Improved internal audit system at DATC Strengthened HR processes at DATC Improved information management at DATC Improved legal framework of DATC	DATC Annual Reports and consultant reports DATC Annual Reports and consultant reports DATC Annual Reports and consultant reports DATC Annual Reports and consultant reports Regulations of the Government	

Activities with Milestones	**Inputs**
1.1 Strategic business plan and restructuring plan for Song Da and Sowatco approved before each tranche approval 1.2 Financial plan prepared and approved by tranche approval 1.3 Financial restructuring initiated within six months of tranche loan becoming effective 1.4 Corporate restructuring completed within 3 years of tranche loan becoming effective 2.1 Management restructuring of Song Da and Sowatco initiated within three months of tranche loan becoming effective 2.2 Sub-holding company identified or established by Song Da within six months of tranche loan becoming effective 2.3 Business activities transferred from the mother company to subsidiaries operating in respective business segments within 1 year of tranche loan becoming effective 2.4 Management of companies engaged in the same industry centralized at sub-holding company at Song Da within 1 year of their establishment 2.5 Associate enterprises in non-core areas divested within three years of tranche approval 2.6 Standard procedures and processes established for each business segment within eighteen months of tranche loan becoming effective 2.7 Standardized management and financial reporting package devised within eighteen months of tranche loan becoming effective 2.8 Improved cash flow projections prepared within 1 year of tranche loan becoming effective to identify the expected cash inflows and the funding requirements for loan repayment and investment in on–going and new projects 2.9 Charter of sub-holding companies aligned with the provision of Model Charter for listed companies issued by the Ministry of Finance within eighteen months of tranche loan becoming effective 3.1 Development of an appropriate organization structure with job description for each management position by June 2011 3.2 DATC restructured by Dec 2010; New departments created, if necessary,	• ADB $130 million ($120 million OCR, and $10 million ADF)

for Internal Audit, Investment Committee, Corporate Restructuring and IT 3.3 Training program developed for DATC personnel and enterprises under DATC by Dec 2010 3.4 Training organized on debt resolution and corporate restructuring, corporate governance, and investment analysis and management between Q1 2010 and Q4 2012 3.5 Legal framework for DATC reviewed and revised by June 2011; MOF to review legal right of DATC to restructure and rehabilitate poorly performing SOEs in preparation for eventual equitization; preferential tax treatment for creditors transferring non-performing assets to DATC; role of strategic and special investors to participate in restructuring of debts by DATC	

Note: ADF = Asian Development Fund; DATC = Debt and Asset Trading Corporation; GC = general corporation; HR = human resource; MOF = Ministry of Finance; NSCERD = National Steering Committee for Enterprise Reform and Development; OCR = ordinary capital resources; SOE= state-owned enterprises

ANNEX 5

PROCUREMENT PLAN – TRANCHE 1

Project Information

Country	Socialist Republic of Viet Nam
Name of Borrower	Government of Viet Nam (on-lend to Song Da, Sowatco, and DATC)
Project Name	SOE Reform and Corporate Governance Facilitation Program, Project 1
Loan or TA Reference	
Date of Effectiveness	Not decided
Amount	$10 million
Of which Committed	
Executing Agency	Ministry of Finance
Approval Date of Original Procurement Plan	
Approval of Most Recent Procurement Plan	
Publication for Local Advertisements	
Period Covered by this Plan	2009-2013

Procurement Thresholds, Goods, and Installation

Procurement Method	Threshold Value ($)
ICB Goods	>500,000
NCB Goods	<500,000
Shopping Goods	<100,000
Direct Contracting[a]	<10,000

ICB = international competitive bidding, NCB = national competitive bidding
[a] ADB should be satisfied that price is reasonable.

Procurement Thresholds, Consulting Services

Procurement Method	To be used above (value in $)
Quality- and Cost-Based Selection	>100,000
Fixed Budget Selection	<100,000

Table A5.1: List of Contract Packages and Mode of Procurement for ADB-Financed Items

Package Details	Approximate Value [a] ($ million)	Procurement Mode	Expected Date of Advertisement	Prior Review (Y/N)
A. Equipment				
Song Da				
IT Equipment and Software (including selection, installation, testing)	3.80	ICB	TBD	Y
Sowatco				
IT Equipment and Software (including selection, installation, testing)	0.25	NCB	TBD	Y
DATC				
IT Equipment and Software (including selection, installation, testing)	0.20	NCB	TBD	Y
Subtotal A	**4.25**			

Package Details	Approximate Value [a] ($ million)	Recruitment Method	Expected Date of Advertisement	Prior Review (Y/N)
B. Consulting Services				
Song Da				
Operational restricting –facilitation, implementation, & supervision	2.80	QCBS (80:20 /FTP)	TBD	Y
Sowatco				
Operational restricting –facilitation, implementation, & supervision	0.45	QCBS (80:20)	TBD	Y
DATC				
Operational restricting –facilitation, implementation, & supervision	2.50	QCBS (80:20 /FTP)	TBD	Y
Subtotal B	**5.75**			
TOTAL	**10.00**			

ADB = Asian Development Bank, ICB = international competitive bidding, NCB = national competitive bidding, QCBS = quality- and cost-based selection, FTP= full technical proposal; TBD = to be determined.

[a] excluding local taxes.

Source: ADB estimates.