LOAN NUMBER 2680-VIE (SF)

LOAN AGREEMENT
(Special Operations)

(Second Small and Medium-Sized Enterprises Development Program Cluster – Subprogram I)

between

SOCIALIST REPUBLIC OF VIET NAM

and

ASIAN DEVELOPMENT BANK

DATED 24 DECEMBER 2010

LPS:VIE 41360

LOAN AGREEMENT
(Special Operations)

LOAN AGREEMENT dated 24 December 2010 between SOCIALIST REPUBLIC OF VIET NAM (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 30 August 2010 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's small and medium enterprise sector (the "Program Cluster"), which are described in Schedule 1 to this Loan Agreement and which are to be implemented under the first of two subprograms forming the Program Cluster ("Program" or "Subprogram I" as the case may be);

(B) the Borrower has applied to ADB for a loan from its Special Funds resources for the purposes of the Program; and

(C) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(24) is deleted and the following is substituted therefor:

> 24. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

(b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

(c) Section 2.01(26) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

(d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

(e) Section 6.05 (c) is deleted and the following is substituted therefor:

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than three (3) months thereafter or such later date as may be agreed for this purpose between the Borrower and ADB, the Borrower shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution of the Program, including its cost, the performance by the Borrower of its obligations under this Loan Agreement and the accomplishment of the purposes of the Loan.

Section 1.02. The terms defined in the Loan Regulations are incorporated into this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "Counterpart Funds" means the Dong proceeds accruing to the Borrower and generated from the Loan proceeds under the Program and referred to in paragraph 3 (b) of Schedule 1 and paragraph 1 of Schedule 5 to this Loan Agreement;

(b) "Deposit Account" means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(c) "Dong" or the sign "D" means dong, the lawful currency of the Borrower;

(d) "EDA" means the Borrower's Enterprise Development Agency within MPI or any successor thereto;

(e) "Eligible Items" means the goods imported under the Program (except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement), the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(f) "MOF" means the Borrower's Ministry of Finance or any successor thereto;

(g) "MOIT" means the Borrower's Ministry of Industry and Trade or any successor thereto;

(h) "MOJ" means the Borrower's Ministry of Justice or any successor thereto;

(i) "MOLISA" means the Borrower's Ministry of Labor, Invalids and Social Affairs or any successor thereto;

(j) "MPI" means the Borrower's Ministry of Planning and Investment or any successor thereto;

(k) "OoG" means the Borrower's Office of the Government or any successor thereto;

(l) "Policy Letter" means the development policy letter dated 30 August 2010 addressed by the Borrower to ADB and referred to in Recital (A) of this Loan Agreement;

(m) "Policy Matrix" means the policy matrix as agreed between the Borrower and ADB which sets forth the actions to be taken by the Borrower under the Program;

(n) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, MPI, which is responsible for coordinating the implementation of policy reform actions and measures, as specified in the Policy Matrix for Subprogram I;

(o) "Program Period" means the period from 1 August 2008 until 30 September 2010;

(p) "PSC" means the Program Steering Committee established under the Program Cluster, as more fully described in paragraph 3 of Schedule 5 to this Loan Agreement;

(q) "SBV" means the Borrower's State Bank of Vietnam or any successor thereto; and

(r) "SME" means a small or medium-sized enterprise incorporated and operating within the territory of the Borrower.

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to twenty six million five hundred thirty seven thousand Special Drawing Rights (SDR26,537,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment

date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 April and 15 October in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollars.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account shall be made only on account of expenditures relating to Eligible Items which:

(a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and

(b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. Except as ADB may otherwise agree, no withdrawals shall be made from the Loan Account in respect of expenditures for Eligible Items incurred more than one hundred eighty (180) days prior to the Effective Date.

Section 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 March 2011 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.

(b) The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. (a) As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB semiannual reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: all reform actions and measures, as specified in the Policy Matrix for Subprogram I, have been carried out.

Section 5.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Governor of SBV is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

State Bank of Vietnam
47 – 49 Ly Thai To
Hanoi, Viet Nam

Facsimile Numbers:

(84-4) 38250-612
(84-4) 38258-385.

For ADB

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2331.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIET NAM

By _____

NGUYEN VAN GIAU
Governor
State Bank of Viet Nam

ASIAN DEVELOPMENT BANK

By _____

AYUMI KONISHI
Country Director
Viet Nam Resident Mission

SCHEDULE 1

Description of the Program

1. The principal objective of the Program Cluster is to achieve sustainable high economic growth by improving the business environment to support more competitive SMEs and the private sector. The scope of Subprogram I includes:

(i) improving the policy and planning framework for promoting SME development initiatives;

(ii) strengthening the framework of competition policy by (a) reviewing the existing administrative procedures, (b) improving the quality of new legal documents and providing legal support and protection for businesses, (c) enhancing competition policy, (d) simplifying tax and customs policies and procedures, (e) simplifying business registration, and (f) improving labor market regulations, labor relation and labor market data collection systems; and

(iii) enhancing SME's access to finance by (a) improving SME's access to conventional commercial bank lending, (b) improving SME's access to alternative financial services, (c) establishing credit guarantee activities, and (d) improving SME's access to equity finance and larger SME's corporate governance.

2. The Program Cluster and its Subprogram I are described in more detail in the Policy Letter. The Subprogram I is to be implemented during the period 1 August 2008 and 30 September 2010.

3. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 1 of Schedule 5 to this Loan Agreement.

4. The proceeds of the Loan are expected to be utilized by 31 March 2011.

SCHEDULE 2

Amortization Schedule

(Second Small and Medium-Sized Enterprises Development Program Cluster – Subprogram I)

Date Payment Due	Payment of Principal (expressed in Special Drawing Rights)*
15-Apr-2019	829,281.00
15-Oct-2019	829,281.00
15-Apr-2020	829,281.00
15-Oct-2020	829,281.00
15-Apr-2021	829,281.00
15-Oct-2021	829,281.00
15-Apr-2022	829,281.00
15-Oct-2022	829,281.00
15-Apr-2023	829,281.00
15-Oct-2023	829,281.00
15-Apr-2024	829,281.00
15-Oct-2024	829,281.00
15-Apr-2025	829,281.00
15-Oct-2025	829,281.00
15-Apr-2026	829,281.00
15-Oct-2026	829,281.00
15-Apr-2027	829,281.00
15-Oct-2027	829,281.00
15-Apr-2028	829,281.00
15-Oct-2028	829,281.00
15-Apr-2029	829,281.00
15-Oct-2029	829,281.00
15-Apr-2030	829,281.00
15-Oct-2030	829,281.00
15-Apr-2031	829,281.00
15-Oct-2031	829,281.00
15-Apr-2032	829,281.00
15-Oct-2032	829,281.00
15-Apr-2033	829,281.00
15-Oct-2033	829,281.00
15-Apr-2034	829,281.00
15-Oct-2034	829,289.00
Total	26,537,000.00

*The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3

Withdrawal of Loan Proceeds

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

(i) imports from countries which are not members of ADB;

(ii) imports for ineligible items specified in the Attachment to this Schedule; and

(iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the application to ADB for withdrawal from the Loan Account, the Borrower shall nominate the Deposit Account at a commercial bank acceptable to ADB into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent

auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

Attachment to Schedule 3

Negative List

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Second Small and Medium Enterprise Development Program Cluster – Subprogram I.

2. No withdrawals will be made for the following:

(i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table A12: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute
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), nonirradiated 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, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

(ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;

(iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;

(iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

(v) expenditures for narcotics;

(vi) expenditures for environmentally hazardous 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; and

(vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraph of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in subparagraph (b) of this paragraph, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Counterpart Funds

1. The Borrower shall ensure that the Counterpart Funds shall be used to finance the structural adjustment costs and the local currency costs relating to the implementation of the Program and other activities consistent with the objectives of the Program Cluster, as more fully described in Schedule 1 to this Loan Agreement and the Policy Letter. In particular the Borrower shall provide necessary budget appropriations to primarily finance the structural adjustment costs relating to the implementation of the reforms under the Program.

Implementation and Coordination

2. MPI shall be the Program Executing Agency and be responsible for overall Program implementation, including administration and preparation of semiannual progress reports on Program implementation. MOF, MOJ, MOIT, MOLISA, OoG, and SBV shall be the implementing agencies.

3. The Borrower shall establish an inter-ministerial PSC. The PSC shall be headed by the Deputy Minister or an officer designated by the Deputy Minister of MPI, comprise representatives of MPI, MOF, MOJ, MOIT, MOLISA, OoG, and SBV, and be responsible for providing oversight of the Program and reviewing major Program outputs. It, shall meet semiannually to monitor progress of the Program implementation. EDA shall be responsible for (a) coordination among agencies involved in the Program, (b) day-to-day program administration, (c) maintaining records, and (d) reporting on implementation progress.

Implementation of the Policy Letter and Policy Matrix

4. The Borrower shall ensure that the policies and actions as described in the Policy Letter and the Policy Matrix, undertaken prior to this Loan Agreement shall continue in effect for the duration of the implementation of the Program Cluster and thereafter, as appropriate.

5. The reform agenda for any subsequent Subprogram will be jointly refined by the Borrower and ADB to reflect the progress made under the Program and the evolving circumstances in the Borrower's economic management and SME sector.

Policy Dialogue

6. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, issues related to SME sector reform and additional reforms that may be considered necessary or desirable, including the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix.

7. The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program Cluster and appropriate measures to overcome or mitigate such problems and constraints.

8. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program Cluster, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals.

Monitoring and Evaluation

9. The Borrower shall monitor the implementation of the Program Cluster. The Borrower and ADB shall review the implementation of the policy reforms set out in the Policy Letter, and assess the impact of all relevant reforms in the sector. The progress in policy reforms under the Program Cluster shall be assessed by the Borrower and ADB in conjunction with the processing of any subsequent subprogram. To facilitate such review, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request.

10. The Borrower shall evaluate the benefits of the Program Cluster during and after implementation in accordance with a schedule and terms of reference to be mutually agreed upon by the Borrower and ADB. The benefit monitoring and evaluations shall be conducted in accordance with ADB's *Project Performance Monitoring System* (as amended from time to time), a copy of which has been provided to the Borrower.

11. The Borrower shall ensure that: (a) reporting on the impact of the Program Cluster following the Program Period is made by the implementing agencies to the MPI which will in turn, report to ADB; and (b) the MPI and the Implementing Agencies will, as needed, hold consultative meetings with stakeholders and development partner community to solicit their feedback on proposed and existing relevant regulations and the impact of the Program Cluster.

12. Within six (6) months after Program completion, the Borrower and ADB shall jointly assess the impact and evaluate the benefits of the Program to identify lessons and to formulate detailed actions in preparation of a subsequent subprogram in accordance with the *Project Performance Monitoring System*. The Borrower shall cause MPI and implementing agencies to submit a Program completion report to ADB within six (6) months after the Effective Date that: (a) assesses compliance with, and impact of, the agreed actions under the Program; and (b) subject to the Borrower's readiness to continue with the Program Cluster, defines requirements for any necessary adjustments to activities to be undertaken under the proposed subsequent subprogram. The Borrower and ADB may use the findings of such assessment and evaluation to refine the proposed subsequent subprogram.