HB2617

LOAN NUMBER 2123-VIE(SF)

LOAN AGREEMENT
(Special Operations)

(Support to Implementation of Poverty Reduction Program)

between

SOCIALIST REPUBLIC OF VIET NAM

and

ASIAN DEVELOPMENT BANK

DATED 20 DECEMBER 2004

LPS: VIE 38392

LOAN AGREEMENT
(Special Operations)

LOAN AGREEMENT dated 20 December 2004 between the SOCIALIST REPUBLIC OF VIET NAM (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) ADB has received from the Borrower a development policy letter dated 12 October 2004 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, and which are to be implemented under this Loan Agreement (hereinafter called the Program);

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

(C) the Borrower has applied to the International Development Association (hereinafter called IDA) to finance a portion of the Program (hereinafter called the IDA Credit) under the Poverty Reduction Support Credit III (hereinafter called the PRSC III);

(D) the Borrower has carried out the measures and taken actions described in the Policy Matrix to the satisfaction of ADB and has maintained a macroeconomic policy framework satisfactory to ADB; and

(E) 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 hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 May 2004, 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 thereof (said Special Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(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 Loan Closing date, 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 definitions set forth in the Loan Regulations are applicable to 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 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) "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;

(d) "NSC" means the Borrower's National Steering Committee established in 2002 for the purpose of implementing the Borrower's Comprehensive Poverty Reduction and Growth Strategy adopted in 2002 (hereinafter called CPRGS), and any successor thereof;

(e) "PCU" means the Program Coordination Unit in SBV for the purpose of the PRSC coordination;

(f) "Policy Letter" means the development policy letter dated 12 October 2004 addressed by the Borrower to ADB and referred to in Recital (A) of this Loan Agreement;

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

(h) "Program Executing Agency" means, for the purposes and within the meaning of the Loan Regulations, SBV, which is responsible for the carrying out of the Program;

(i) "Program Period" means the period from 30 June 2004 until 31 December 2005; and

(j) "SBV" means the Borrower's State Bank of Viet Nam and any successor thereto.

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 Four million three hundred forty-six thousand Special Drawing Rights (SDR4,346,000).

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 1 May and 1 November 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.

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 and 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 December 2005 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

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: the IDA Credit shall have become liable for suspension or cancellation or shall have become repayable prior to its agreed maturity date.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. 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 VII

Miscellaneous

Section 7.01. The Governor of the State Bank of Viet Nam of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

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

Facsimile Number:

(84-4) 8250-612
(84-4) 8258-385

For ADB

Asian Development Bank
P.O. Box 789
0980 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 _____
LE DUC THUY
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____
BRADFORD R. PHILIPS
Country Director
Viet Nam Resident Mission

SCHEDULE 1

Description of the Program

1. The overall goal of the Program is to assist the Borrower in reducing poverty and sustaining high-level economic growth by supporting the Borrower's poverty reduction program under the policy framework of the PRSC III. The scope includes: (i) promoting growth and creating employment through greater internal and external competition, as well as accelerating the divestiture of state-owned enterprises and state-owned commercial banks, and improving transparency and accountability in state-owned enterprises and in the banking and financial sector; (ii) advancing human development through an expanded budget appropriation and higher quality standards for education, through (a) resources to cover the health care costs for the poor, (b) mechanisms to complete the transfer of land use rights, and (c) support measure to improving environmental and water resources management; and (iii) increasing transparency and accountability of public finances, and promoting simplified administrative procedures and steps towards curbing corruption, and revamping the planning processes by moving away from a command approach towards the alignment of policies and resources to well-specified development goals based on empirical analysis and wider consultations. The Program is described in more detail in the Policy Letter. The Program will be implemented during the period 30 June 2004 to 31 December 2005.

2. 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 the reforms consistent with the objectives of the Program, pursuant to the provisions of paragraph 1 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be utilized by 31 December 2005.

SCHEDULE 2

Amortization Schedule

(Support to Implementation of Poverty Reduction Program)

Date Payment Due		Payment of Principal (expressed in Special Drawing Rights)*
1-May-2013	SDR	135,812.00
1-Nov-2013		135,812.00
1-May-2014		135,812.00
1-Nov-2014		135,812.00
1-May-2015		135,812.00
1-Nov-2015		135,812.00
1-May-2016		135,812.00
1-Nov-2016		135,812.00
1-May-2017		135,812.00
1-Nov-2017		135,812.00
1-May-2018		135,812.00
1-Nov-2018		135,812.00
1-May-2019		135,812.00
1-Nov-2019		135,812.00
1-May-2020		135,812.00
1-Nov-2020		135,812.00
1-May-2021		135,812.00
1-Nov-2021		135,812.00
1-May-2022		135,812.00
1-Nov-2022		135,812.00
1-May-2023		135,812.00
1-Nov-2023		135,812.00
1-May-2024		135,812.00
1-Nov-2024		135,812.00
1-May-2025		135,812.00
1-Nov-2025		135,812.00
1-May-2026		135,812.00
1-Nov-2026		135,812.00
1-May-2027		135,812.00
1-Nov-2027		135,812.00
1-May-2028		135,812.00
1-Nov-2028		135,828.00
TOTAL		4,346,000.00

*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

Allocation and 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 foreign exchange cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of (i) any local expenditures; or (ii) any foreign exchange 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 Attachment 1 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 first application to ADB for withdrawal from the Loan Account, the Borrower shall open an account (the Deposit Account) at SBV into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established and managed 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.

Negative List

1. No withdrawals shall be made in respect of:

(a) expenditures for goods included in the following groups or sub-groups of the United Nations Standards International Trade Classification, Revision 3, or any successor groups or sub-groups under future revisions as shall be designated by ADB by notice to the Borrower:

Group	Sub-Group	Description of Items
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 semi-precious stones, unworked or worked
718	718.7	nuclear reactors and parts thereof, fuel elements (cartridges) non-irradiated, for nuclear reactors
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)

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

(c) payment made for expenditures incurred more than 180 days prior to the Effective Date;

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

(e) expenditures for goods intended for military or para-military purposes or for luxury consumption; or

(f) expenditures for pesticides categorized as extremely hazardous or highly hazardous in Class 1a and 1b, respectively, of the World Health Organization's Classification of Pesticides by Hazard and Guidelines to Classification.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs 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 to finance the local currency costs relating to the implementation of the Program and other activities consistent with the objectives of the program, as more fully described under paragraph 1 of Schedule 1 to this Loan Agreement and the Policy Letter and shall, in particular, 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. SBV, as the Program Executing Agency, shall be responsible for overall Program implementation, including administration and disbursement of Loan proceeds, maintenance of accounts, and preparation of semiannual progress reports on Program implementation. Ministries and agencies represented in the NSC shall be implementing agencies, responsible for such aspects of the Program as are within their respective mandate.

3. The Borrower shall ensure the proper coordination through a PCU at SBV. The PCU shall be a focal point to donors participating in the PRSC, and responsible for monitoring and reporting for awareness raising, capacity building and reform outcome dissemination under the Program.

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 will continue in effect for the duration of the Program period and thereafter as appropriate.

Policy Dialogue

5. The Borrower shall keep ADB informed of, and the Borrower and ADB shall from time to time exchange views on, issues related to structural adjustment, macroeconomic management, socially inclusive development, and governance and public administration reform and ensuing policy and institutional reforms, 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.

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

7. The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program, 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

8. The Borrower shall monitor the implementation of the Program. 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. To facilitate such review, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request.

9. The Borrower shall evaluate the benefits of the Program 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.*