ORIGINAL

Financing Agreement
N° ASIE/2005/17598

FINANCING AGREEMENT

between

THE EUROPEAN COMMUNITY

and

THE GOVERNMENT OF THE SOCIALIST REPUBLIC OF VIETNAM

"Sector Policy Support Programme (SPSP) to achieve Education For All (EFA) Fundamental School Quality Levels (FSQL)"



FINANCING AGREEMENT

Special Conditions

The European Community, hereinafter referred to as **"the Community"**, represented by the Commission of the European Communities, hereinafter referred to as **"the Commission"**,

of the one part, and

the Government of the Socialist Republic of Vietnam, represented by the Ministry of Finance, hereinafter referred to as **"the Beneficiary"**,

of the other part,

HAVE AGREED AS FOLLOWS:

ARTICLE 1 - NATURE AND PURPOSE OF THE OPERATION

1.1. The Community shall contribute to the financing of the following programme:

Sector Policy Support Programme (SPSP) to achieve Education For All (EFA) Fundamental School Quality Levels (FSQL)
ASIE/2005/17598

hereinafter referred to as "the programme" which is described in the Technical and Administrative Provisions in Annex II.

1.2 This programme will be implemented in accordance with the financing agreement and the annexes thereto: the General Conditions (Annex I) and the Technical and Administrative Provisions (Annex II).

ARTICLE 2 – THE COMMUNITY'S FINANCIAL CONTRIBUTION

2.1 The total cost of the programme is estimated at 16 000 000 Euro.

2.2 The Community undertakes to finance a maximum of 16 000 000 Euro. The breakdown of the Community's financial contribution into budget headings is shown in the budget included in the Technical and Administrative Provisions in Annex II.

ARTICLE 3 – THE BENEFICIARY'S CONTRIBUTION

3.1 The Beneficiary shall contribute zero euro to the programme.

3.2 Where there is a non-financial contribution by the Beneficiary the detailed arrangements shall be set out in the Technical and Administrative Provisions in Annex II to the financing agreement.

ARTICLE 4 - PERIOD OF EXECUTION

The period of execution of the financing agreement shall commence on the entry into force of the financing agreement and end at 31/12/2010. This period of execution shall comprise two phases: an operational implementation phase, which shall commence on the entry into force of the financing agreement and end at 31/12/2008. As from this date shall commence the closure phase, which shall end at the end of the period of execution.

ARTICLE 5 - DEADLINE FOR THE SIGNATURE OF THE CONTRACTS IMPLEMENTING THE FINANCING AGREEMENT

Contracts implementing the financing agreement shall be signed by 29/11/2008 at the latest. That deadline may not be extended. This provision shall not apply to audit and evaluation contracts, which may be signed later.

ARTICLE 6 - ADDRESSES

All communications concerning the implementation of the financing agreement shall be in writing, refer expressly to the programme and be sent to the following addresses:

a) **for the Commission**

Delegation of the European Commission to Vietnam
Metropole Centre, 56 Ly Thai To Street
Hanoi – Vietnam

b) **for the Beneficiary**

Ministry of Finance
28 Tran Hung Dao Street
Hanoi - Vietnam

ARTICLE 7 - ANNEXES

7.1 The following documents shall be annexed to this agreement and form an integral part thereof:

Annex I: General Conditions

Annex II: Technical and Administrative Provisions.

7.2 In the event of a conflict between the provisions of the Annexes and those of the Special Conditions of the financing agreement, the provisions of the Special Conditions shall take precedence. In the event of a conflict between the provisions of Annex I and those of Annex II, the provisions of Annex I shall take precedence.

ARTICLE 8 - CONDITIONS APPLYING TO A BUDGET SUPPORT OPERATION

8.1. Given the nature of a budget support operation, the following clauses of the General Conditions shall not be applicable in respect to the amount specified in Article 2.1.1 (Budget support) of these Special Conditions: Articles 2, 4.3 first sentence, 5, 6, 7, 8, 9, 11, 12.2 and 13.2.

8.2. In respect to the amount specified in Article 2.1.1 (Budget support) of these Special Conditions, the following clauses of the General Conditions shall be replaced by the following:

8.2.1 In respect to Article 3.1: The project/programme shall be implemented by the Commission. This consists of the verification of the compliance with the conditions for payment and the payment of the amounts due for each instalment, in conformity with this financing agreement.

8.2.2 In respect to Article 10: The State of the Beneficiary undertakes to apply its national foreign exchange regulations in a non-discriminatory manner to the payments made under this financing agreement. The foreign exchange transfers will be accounted for under the value date of the notification of credit to the account of the Ministry of Finance held at the State Bank of Vietnam (SBV) opened for this purpose. The exchange rate will be the buying rate of the Operations Centre of SBV on the date of conversion of funds into Vietnam Dong.

8.3 In respect to the amount specified in Article 2.1.1 (Budget support) of these Special Conditions, Article 4.2 of the General Conditions shall be supplemented by the following: All payment requests submitted by the Beneficiary in accordance with the provisions set out in the Technical and Administrative Provisions (Annex II) shall be eligible for community financing provided that such requests are submitted by the Beneficiary during the operational implementation phase.

8.4 Article 14.3 of the General Conditions shall mutatis mutandis be applicable in relation to any practices of active or passive corruption whatsoever in relation to the implementation of the operation.

ARTICLE 9 – ENTRY INTO FORCE OF THE FINANCING AGREEMENT

The financing agreement shall enter into force on the date on which it is signed by the last party.

Done at Brussels and Hanoi in four original copies in the English language, two copies being handed to the Commission and two to the Beneficiary.

FOR THE COMMISSION

Erich W.Muller
Director
Asia incl. Central Asia Directorate
EuropeAid Cooperation Office

Signature

Date: 01 SEP. 2006

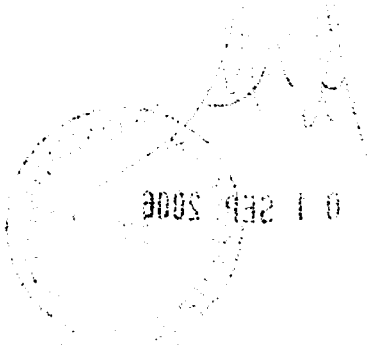
FOR THE BENEFICIARY

Tran Xuan Ha
Vice Minister
Ministry of Finance

Signature

Date:




01 SEP 2006

ANNEX I - GENERAL CONDITIONS

TITLE I - PROJECT/PROGRAMME FINANCING

ARTICLE 1 – GENERAL PRINCIPLE

1.1 The Community's financial contribution shall be limited to the amount specified in the financing agreement.

1.2 The provision of the Community financing shall be subject to fulfilment of the Beneficiary's obligations under this financing agreement.

ARTICLE 2 - COST OVERRUNS AND COVERING THEM

2.1 Individual overruns of the budget headings of the financing agreement shall be dealt with by reallocating funds within the overall budget, in accordance with Article 17 of these General Conditions.

2.2 Wherever there is a risk of overrunning the global amount set in the financing agreement, the Commission may either scale down the project/programme or draw on the Beneficiary's own ressources or other non-Community resources.

2.3 If the project/programme cannot be scaled down, or if the overrun cannot be covered either by the Beneficiary's own resources or other resources, the Commission may, exceptionally grant additional Community financing. Should it so agree, the excess costs shall be financed, without prejudice to the relevant Community rules and procedures, by the release of an additional financial contribution to be set by the Commission.

TITLE II - IMPLEMENTATION

ARTICLE 3 – GENERAL PRINCIPLE

3.1 The project/programme shall be implemented by the Commission acting for and on behalf of the Beneficiary.

3.2 The Commission shall be represented in the State of the Beneficiary by its Head of Delegation.

ARTICLE 4 - PERIOD OF EXECUTION

4.1 The financing agreement shall lay down a period of execution, which shall commence on the entry into force of the financing agreement and end on the date specified to this end in Article 4 of the Special Conditions.

4.2 This period of execution shall comprise two phases:

- an operational implementation phase, in which the principal activities are carried out. This phase shall commence on the entry into force of the financing agreement and end at the latest 24 months before the end of the period of execution;

- a closure phase, during which final audits and evaluation are carried out and contracts for the implementation of the financing agreement are technically and financially closed. This phase shall commence on the date of end of the operational implementation phase and end at the latest 24 months after this date.

4.3 Costs related to the principal activities shall be eligible for Community financing only if they have been incurred during the operational implementation phase. Costs related to final audits and evaluation and closure activities shall be eligible up to the end of the closure phase.

4.4 Any balance remaining from the Community contribution will be automatically cancelled six months after the end of the period of execution.

4.5 In exceptional and duly substantiated cases, a request may be made for the extension of the operational implementation phase and correlatively of the period of execution. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the operational implementation phase and approved by the Commission before that latter date.

4.6 In exceptional and duly substantiated cases, and after the end of the operational implementation phase, a request may be made for the extension of the closure phase and correlatively of the period of execution. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the closure phase and approved by the Commission before that latter date.

TITLE III - AWARD OF CONTRACTS AND GRANTS

ARTICLE 5 – GENERAL PRINCIPLE

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

ARTICLE 6 - DEADLINE FOR THE SIGNATURE OF THE CONTRACTS IMPLEMENTING THE FINANCING AGREEMENT

6.1 The contracts implementing the financing agreement shall be signed by both parties within three years of the adoption of the budgetary commitment by the Commission, namely at the latest on the date referred to in Article 5 of the Special Conditions. That deadline may not be extended.

6.2 The above provision shall not apply to audit and evaluation contracts, which may be signed later.

6.3 On the date referred to in Article 5 of the Special Conditions, any balance for which contracts have not been signed will be cancelled.

6.4 A contract which has not given rise to any payment within three years of its signature shall be automatically terminated and its funding cancelled.

ARTICLE 7 - ELIGIBILITY

7.1 Participation in invitations to tender for works, supply or service contracts shall be open on equal terms to all natural and legal persons of the Member States of the Community and, in accordance with the specific provisions in the basic acts governing the cooperation sector concerned, to all natural and legal persons of the beneficiary third countries or of any other third country expressly mentioned in those acts.

7.2 Participation in calls for proposals shall be open on equal terms to all legal persons of the Member States of the Community and, in accordance with the specific provisions in the basic acts governing the cooperation sector concerned, to all natural and legal persons of the beneficiary third countries or of any other third country expressly mentioned in those acts.

7.3 Exceptionally, in duly substantiated cases approved by the Commission, it may be decided, on the basis of the specific conditions laid down in the basic acts governing the cooperation sector concerned, to allow third-country nationals other than those referred to in paragraphs 1 and 2 to tender for contracts.

7.4 Goods and supplies financed by the Community and necessary for the performance of works, supply and service contracts and procurement procedures launched by the grant beneficiaries for the execution of the action financed must originate in countries eligible to participate on the terms laid down in the previous three paragraphs.

7.5 This nationality rule shall also apply to the experts proposed by service providers taking part in tender procedures or service contracts financed by the Community.

TITLE IV - RULES APPLICABLE TO THE PERFORMANCE OF CONTRACTS

ARTICLE 8 - ESTABLISHMENT AND RIGHT OF RESIDENCE

8.1 Where justified by the nature of the contract, natural and legal persons participating in invitations to tender for works, supply or service contracts shall enjoy a provisional right of establishment and residence in the Beneficiary's country. This right shall remain valid for one month after the contract is awarded.

8.2 Contractors (including the grant beneficiaries) and natural persons whose services are required for the performance of the contract and members of their family shall enjoy similar rights during the implementation of the project/programme.

ARTICLE 9 - TAX AND CUSTOMS PROVISIONS

9.1 Save where otherwise provided in the Special Conditions, taxes, duties or other charges (including value added tax - VAT - or equivalent taxes) shall be excluded from Community financing.

9.2 The State of the Beneficiary shall apply to procurement contracts and grants financed by the Community the most favoured tax and customs arrangements applied to States or international development organisations with which it has relations.

9.3 Where the Framework Agreement or exchange of letters applicable includes more detailed provisions on this subject, they shall apply as well.

ARTICLE 10 - FOREIGN EXCHANGE ARRANGEMENTS

10.1 The State of the Beneficiary undertakes to authorise the import or purchase of the foreign currency necessary for the implementation of the project. It also undertakes to apply its national foreign exchange regulations in a non-discriminatory manner to the contractors allowed to participate referred to in Article 7 of these General Conditions.

10.2 Where the Framework Agreement or exchange of letters applicable includes more detailed provisions on this subject, they shall apply as well.

ARTICLE 11 – USE OF DATA FROM STUDIES

Where the financing agreement involves the financing of a study, the contract related to this study, signed for the implementation of the financing agreement, shall govern the ownership of that study and the right for the Beneficiary and the Commission to use data in the study, to publish it or to disclose it to third parties.

ARTICLE 12 ALLOCATION OF AMOUNTS RECOVERED UNDER CONTRACTS

12.1 Amounts recovered from payments wrongly effected, from guarantees of pre-financing payments or from performance guarantees supplied on the basis of contracts financed under this financing agreement, shall be allocated to the project/programme.

12.2 The financial penalties imposed by the contracting authority on candidate or tenderer who is in a case of exclusion in the context of a procurement contract, the calling upon of tender guarantees, as well as the damages granted to the Commission shall be repaid to the general budget of the European Communities.

TITLE V - GENERAL AND FINAL PROVISIONS

ARTICLE 13 – VISIBILITY

13.1 Every project/programme financed by the Community shall be the subject of appropriate communication and information operations. These operations shall be defined with the approval of the Commission.

13.2 These communication and information operations must follow the rules laid down and published by the Commission for the visibility of external operations in force at the time of the operations.

ARTICLE 14 – PREVENTION OF IRREGULARITIES, FRAUD AND CORRUPTION

14.1 The Beneficiary shall take appropriate measures to prevent irregularities and fraud and, on request of the Commission, bring prosecutions to recover funds wrongly paid. The Beneficiary shall inform the Commission of any measure taken.

14.2 "Irregularity" shall mean any infringement of the financing agreement, implementing contracts or Community law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the European Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the European Communities, or by an unjustified item of expenditure.
"Fraud" shall mean any intentional act or omission concerning:
- the use or presentation of false, incorrect or incomplete, statements or documents which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by them, or on their behalf;
- non-disclosure of information in violation of a specific obligation, with the same effect;
- the misapplication of such funds for purposes other than those for which they are originally granted.

The Beneficiary shall immediately inform the Commission of any element brought to its attention which arouses suspicions of irregularities or fraud.

14.3 The Beneficiary undertakes to take every appropriate measure to remedy any practices of active or passive corruption whatsoever at any stage of the procedure for the award of contracts or grants or in the implementation of the related contracts. "Passive corruption" shall mean the deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the financial interests of the European Communities. "Active corruption" shall mean the deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official, for himself or for a third party, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the financial interests of the European Communities.

ARTICLE 15 - VERIFICATIONS AND CHECKS BY THE COMMISSION, THE EUROPEAN ANTI-FRAUD OFFICE (OLAF) AND THE COURT OF AUDITORS OF THE EUROPEAN COMMUNITIES

15.1 The Beneficiary agrees to the Commission, OLAF and the Court of Auditors of the European Communities conducting documentary and on-the-spot checks on the use made of Community funding under the financing agreement (including procedures for the award of contracts and grants) and carrying out a full audit, if necessary, on the basis of supporting documents of accounts and accounting documents and any other documents relating to the financing of the project/programme, throughout the duration of the agreement and for seven years after the date of the last payment.

15.2 The Beneficiary also agrees that OLAF may carry out on-the-spot checks and verifications in accordance with the procedures laid down by Community law for the protection of the financial interests of the European Communities against fraud and other irregularities.

15.3 To that end, the Beneficiary undertakes to grant officials of the Commission, OLAF and the Court of Auditors of the European Communities and their authorised agents access to sites and premises at which operations financed under the financing agreement are carried out, including their computer systems, and to any documents and computerised data concerning the technical and financial management of those operations, and to take every appropriate measure to facilitate their work. Access by authorised agents of the European Commission, OLAF and the Court of Auditors of the European Communities shall be granted on conditions of strict confidentiality with regard to third parties, without prejudice to public law obligations to which they are subject. Documents must be accessible and filed in a manner permitting easy inspection, the Beneficiary being bound to inform the Commission, OLAF or the Court of Auditors of the European Communities of the exact location at which they are kept.

15.4 The checks and audits described above shall also apply to contractors and subcontractors who have received Community funding.

15.5 The Beneficiary shall be notified of on-the-spot missions by agents appointed by the Commission, OLAF or the Court of Auditors.

ARTICLE 16 – CONSULTATION BETWEEN THE COMMISSION AND THE BENEFICIARY

16.1 The Beneficiary and the Commission shall consult each other before taking any dispute relating to the implementation or interpretation of this financing agreement further.

16.2 The consultation may lead to the amendment, suspension or termination of the financing agreement.

ARTICLE 17 – AMENDMENT OF THE FINANCING AGREEMENT

17.1 Any amendment to the Special Conditions and Annex II to the financing agreement shall be made in writing and be the subject of an addendum.

17.2 If the request for an amendment comes from the Beneficiary, the latter shall submit that request to the Commission at least three months before the amendment is intended to enter into force, except in cases which are duly substantiated by the Beneficiary and accepted by the Commission.

17.3 The specific cases of the extension of the operational implementation phase or closure phase are governed by Article 4(5) and (6) of these General Conditions.

ARTICLE 18 – SUSPENSION OF THE FINANCING AGREEMENT

18.1 The financing agreement may be suspended in the following cases:

(a) The Commission may suspend the implementation of the financing agreement if the Beneficiary breaches an obligation under the financing agreement.

(b) The Commission may suspend the financing agreement if the Beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption.

(c) The financing agreement may be suspended in cases of force majeure, as defined below. "Force majeure" shall mean any unforeseeable and exceptional situation or event beyond the partie's control which prevents either of them from fulfilling any of their obligations, not attributable to error or negligence on their part (or the part of their contractors, agents or employees) and proves insurmountable in spite of all due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial difficulties cannot be invoked as force majeure. A party shall not be held in breach of its obligations if it is prevented from fulfilling them by force majeure. A party faced with force majeure shall inform the other party without delay, stating the nature, probable duration and foreseeable effects of the problem, and take any measure to minimise possible damage.

18.2 No prior notice shall be given of the suspension decision.

18.3 When the suspension is notified, the consequences on the ongoing contracts or contracts to be signed will be indicated.

ARTICLE 19 – TERMINATION OF THE FINANCING AGREEMENT

19.1 If the issues which led to the suspension of the financing agreement have not been resolved within a maximum period of four months, either party may terminate the financing agreement at two months' notice.

19.2 Where a financing agreement has not given rise to any payment within three years of its signature or no implementing contract has been signed by the date referred to in Article 5 of the Special Conditions, that financing agreement will automatically be terminated.

19.3 When the termination is notified, the consequences on the ongoing contracts or contracts to be signed will be indicated.

ARTICLE 20 - DISPUTE-SETTLEMENT ARRANGEMENTS

20.1 Any dispute concerning the financing agreement which cannot be settled within a six-month period by the consultations between the parties provided for in Article 16 of these General Conditions may be settled by arbitration at one of the parties' request.

20.2 In this case the parties shall each designate an arbitrator within 30 days of the request for arbitration. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration (The Hague) to designate a second arbitrator. The two arbitrators shall in their turn designate a third arbitrator within 30 days. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration to designate the third arbitrator.

20.3 Unless the arbitrators decide otherwise, the procedure laid down in the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States shall apply. The arbitrators' decisions shall be taken by a majority within a period of three months.

20.4 Each party shall be bound to take the measures necessary for the application of the arbitrators' decision.

Annex 2

Technical and Administrative Provisions for centralised programmes

Beneficiary:	**SOCIALIST REPUBLIC OF VIETNAM**
Title:	SECTOR POLICY SUPPORT PROGRAMME (SPSP) TO ACHIEVE EDUCATION FOR ALL (EFA) FUNDAMENTAL SCHOOL QUALITY LEVELS (FSQL)
Project No:	**ASIE/2005/17598**

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1 OBJECTIVE

1.1 Overall Objective

The overall objective of the programme is to contribute towards the achievement of the National Education For All (EFA) Plan goals by improving both overall education outcomes as well as reducing existing inequities in education outcomes in primary education (key outcome indicators: gross intake in grade 1, net primary enrolment, dropout, repetition and completion rate, student achievement in grade 5 in mathematics and Vietnamese, student teacher ratio).

1.2 Programme Purpose

The purpose of the SPSP (Sector Policy Support Programme) is improved service delivery and educational outcomes in primary schools in line with the national Fundamental School Quality Level (FSQL) norm and standard, through provision of additional budget resources and strengthening of the pro-poor administration capacity of the education system.

1.3 Main Results

At least an additional 5,000 out of the current 15.000 FSQL deficient schools will have reached FSQL standards by the end of the programme and quality of and access to education in FSQL-deficient schools will have improved significantly as will the Education NTP management capacity of the GoV..

2. PROGRAMME DESCRIPTION

The SPSP programme is a multi-donor programme co-financed besides the European Commission by Belgium, Canada New Zealand, the United Kingdom, and International Development Association (IDA), together known as the SPSP partners.

There are two programme components:

Component 1 strives to accelerate implementation of FSQL standards by channelling sector budget support(SBS) to five priority spending areas in the Education NTP. The Commission will contribute up to 16 million Euro to this component. SBS priority spending areas in the Education NTP are:

a) Illiteracy elimination, consolidation of Universal Primary Education and achievement of Universal Lower Secondary Education;

b) Renovation of the curriculum and textbooks/teaching methods;

c) Upgrading infrastructure of Teacher Training Institutions and teacher qualifications;

d) Support for the education of ethnic minorities and disadvantaged regions;

e) Infrastructure development.

Component 2 jointly managed by all SPSP partners strives to strengthen the Ministry of Education and Training (MoET)'s institutional capacity to administer and implement the Education NTP. The Commission will not financially contribute to this component.

This component will be co-financed by DFID and CIDA from a parallel capacity building technical assistance fund. This fund will be predominantly reserved for support to the central, provincial and district levels on planning, procurement, financial management and institutional strengthening issues as well as for enhancing community consultation and empowerment. Funds will also be allocated to independent implementation progress reviews (including procurement and financial audits), local-level monitoring by social organisations and commissioning case studies on Education NTP administration, monitoring and impact evaluation.

Planning and implementation of activities will be closely coordinated with other donor-supported activities in this field, notably the EC Project "Support to the Renovation of Education Management" (SREM).

2.1 Activities

Component 1: Achievement of FSQL standards through SBS to the Education NTP

The allocation of resources will be based on an assessment of the financing gap needed to improve educational outcomes and satisfy minimum standards of access and quality in disadvantaged schools and districts, as defined by the Fundamental School Quality Level regulation. The FSQL standards establish minimum service delivery criteria in terms of physical infrastructure, instructional materials, teaching staff qualifications, in-service professional development, school organisation and management and school-community linkages. It includes a framework to enhance teacher capacity, school leadership and community participation while promoting inclusive education for traditionally disenfranchised communities.

Specific activities that are eligible for financing through SBS include:

a) Community advocacy to mobilise children to go to school;

b) Supporting very poor families to keep children in school, especially girls;

c) Training for parent-teacher associations activities to help retain children in school;

d) Training for head teachers and teachers on curriculum renovation and planning;

e) Training teachers in learner-centred approach or effective use of teaching aids and equipment;

f) Upgrading head teachers in pedagogy and management;

g) Teaching head teachers on satellite campus management;

h) Outreach activities to attract children out-of-school through training of head teachers and teachers on inclusive education;

i) Renovation and construction of classrooms, latrines and libraries;

j) Provision of teacher aids, equipment, instructional materials or free textbooks for schools serving disadvantaged children (due to poverty, ethnic background, disability);

k) Teacher upgrading and in-service training in areas such as Vietnamese as a second language, vernacular language instruction, multi-grade teaching, inclusive education and school readiness for grade 1;

l) Principal training in school management, planning and mobilising communities for Universal Primary Education.

Component 2: Institutional Strengthening for NTP Administration and Implementation

Component 2 will support capacity building activities across the entire education NTP. The focus will be on providing technical assistance to all levels of education management on planning (targeting of schools) and NTP management and reporting.

2.2 Time Schedule

The first six months of the programme will include an inception phase to pilot the implementation mechanisms in 6 provinces.

The last six months of the programme will be dedicated to phasing out activities and to preparing for the post-programme situation.

2.3 Location

During the inception phase,the programme will be implemented in six pilot provinces: Yen Bai and Hoa Binh in the North, Ha Tinh and Quang Binh in the Central Zone, and Dong Thap and Ben Tre in the South.

In the following three financial years 2006, 2007 and 2008 the programme will be implemented in all provinces where the Education NTP operates.

2.4 Results Framework & Monitoring

The initial Results Framework for the programme is annexed as Attachment 1. It may be refined and improved without necessitating an amendment to the Financing Agreement.

3. ADMINISTRATIVE PROVISIONS

3.1 Implementation Modalities

3.1.1 Institutional Organisation – Programme implementation

The programme will be managed by the European Commission (EC), through its Delegation in Vietnam.

Implementing agencies:

a) Planning and Finance Department MoET

The Planning and Finance Department (Budgeting Section – NTP Management Unit) within MoET is the management unit responsible for overseeing planning, implementation, monitoring and evaluation of the Education NTP and therefore this department will also be responsible for the SPSP programme. GoV will ensure that the programme is supported by adequate staffing and related resources within concerned ministries and departments.

b) Provincial Departments of Education and Training (DOET) and District Bureaus of Eucation and Training (BOET)

Provincial Departments of Education and Training (DoET) and District Bureaus of Education and Training (BoET) are the main programme executing agencies, following MoET standard procedures and ways of operation.

The provincial level will be responsible for overall programme implementation and reporting. The central level (MoET) will provide quality assurance and capacity building, as required.

SPSP Partners

The financial commitments of the SPSP Partners will be confirmed through financial agreements concluded between GoV and each individual SPSP Partner, in accordance with the policies and procedures of each SPSP Partner. The substantive content of the financial agreements will be identical with respect to the proposed SPSP programme.

In addition a Memorandum of Understanding (MOU) will be signed between the SPSP partners and the GoV to set down the implementation modalities of the SPSP programme and to define the role and responsabilities of the different parties involved.

All the SPSP Partners will be represented in an SPSP Partners Working Group and through such Working Group will designate one of the SPSP Partners as the Contact Point for communication and information sharing with GoV on matters concerning the implementation of the SPSP programme.

3.1.2. Programme Steering Committee

A National EFA Committee has been established by the Ministry of Education and Training in March 2004 to coordinate the implementation of the EFA Action Plan, while an Inter-Ministerial Working Group has been created to oversee Education NTP implementation and coordinate GoV inter-agency and donor relations. The working group consists of representatives of MOET, MOF, MPI, SBV, the Committee of the National Assembly on Culture, Education and Youth. These two bodies assume the role of SPSP Programme Steering Committee.

The committee and the working group, both chaired by MoET, have SPSP programme oversight responsibility and will ensure that close ties are maintained between the Education NTP and relevant EFA Action Plan initiatives,

a) At least once a year a meeting with the EFA Committee, the inter-Ministerial working group and the SPSP partners, including the EC will be organised and will serve as a

consultative meeting to discuss the overall progress and performance of the Education NTP and of the SPSP programme, based upon the agreed indicators for the previous fiscal year, and the findings of supervision missions.

b) The Committee and the inter-ministerial working group will also assist in facilitating overall SPSP programme implementation.

c) The Committee and the interministerial working group, together with the SPSP partners will conduct a mid-year supervision and an annual review meeting every year.

3.1.3 Tasks

The Commission will, in particular, undertake the following tasks:

a) ensure that the activities are executed in accordance with the financing agreement signed between the Commission and the GoV;

b) In coordination with other SPSP partners, the Commission will also contract and implement directly the EC monitoring, evaluation and audit services which it finances;

c) conduct, where appropriate, visibility activities for the programme.

3.2 Inputs

The Commission will provide financial resources to the Education NTP, in the form of SPSP, to carry out activities under component 1 of the programme aimed at achievement of FSQL standards.

Priority spending areas in the Education NTP will be:

a) Illiteracy elimination, consolidation of Universal Primary Education (UPE) and achievement of Universal Lower Secondary Education;

b) Renovation of the curriculum and textbooks/teaching methods;

c) Upgrading infrastructure of Teacher Training Institutions and teacher qualifications;

d) Support for the education of ethnic minorities and disadvantaged regions;

e) Infrastructure development.

3.3 Contribution Details

a) The beneficiary will ensure, for fiscal year 2006, the Threshold Level of Expenditure of approximately 108,16 million EUR[1] (approximately 129,8 million USD,) representing an increase of about 10 % in the amount of the central state budget allocated for the purpose of the Education NTP for the Fiscal Year 2005 (in 2005 118 million USD was allocated for the Education NTP). For the subsequent years 2007-2008, an amount established by the SPSP Partners in consultation with MoET, MOF

[1] Calculated with an exchange rate of 1.2 USD = 1 Euro (March 2006)

and MPI, and communicated to Vietnam will be confirmed by no later than September 15 of the preceding year.

b) The GoV will cover all salaries related to the participation of their officials in the programme activities;

c) MoET will provide suitable office space and facilities to temporally host short term national and/or international experts providing technical expertise to this programme, as well premises for the organisation of training courses and workshops as required;

d) The GoV will make available material, venue and logistics for training courses and workshops and other related activities;

e) The GoV will cover all costs related to the participation of officials in meetings, workshops and other events as part of the normal functioning of the public service, except for training events outside the country.

3.4 Programme Costs and Financing

The total cost of the overall multi-donor programme is estimated at € 391 800 000. The EC will contribute up to € 16 000 000 to the overall programme. Contributions from the other SPSP partners amount to € 83 300 000.

The table below summarises the estimated programme budget:

COSTS BREAKDOWN In EUROS	Contributor			TOTAL	Contracting Authority
	EC	Other SPSP partners	Vietnam		
Component 1: Sector Budget Support	15 800 000	79 700 000	292 300 000	387 800 000	EC
Component 2 : Institutional Strengthening	0	3 800 000	0	3 800 000	
Audit	80 000			80 000	EC
Monitoring and Evaluation	120 000			120 000	EC
Total	**16 000 000**	83 500 000	292 300 000	**391 800 000**	

The exchange rate used to calculate the other donors' commitments in Euro is: 1 Euro = 1.3 USD

The breakdown for the budget is indicative and may be adjusted according to the need, subject to written agreement between the Commission and the Beneficiary.

3.5 Mobilisation of the Project Budget

a) Contractual Modalities

All contracts and agreements necessary for the implementation of this Financing Agreement will be concluded by the Commission.

b) Financial Modalities

All payments from the EC contribution will be made by the Commission.

The EC will make payments in Euro into a dedicated Foreign Exchange Account of the Ministry of Finance held at the State Bank of Vietnam (SBV). The SBV will not charge a commission for maintaining this Foreign Exchange Account. Receipts will be converted into VND counter value within five working days of receipt. The exchange rate will be the average rate of the inter-bank foreign currency market on the value date of the notification of credit. After the funds are converted into Vietnam Dong they will be credited to the NTP budget accounts.

c) Disbursement arrangements

The SPSP programme mechanism will be to provide an advance and then review *ex post* on the basis of expenditure performance from all sources in participating provinces in the five concerned sub-components of the Education NTP, up to an agreed maximum and on the condition of demonstrating adequate progress in reducing FSQL-deficits.

Programme expenditure shall be defined as an agreed percentage of total expenditures through the agreed sub-components of the Education NTP for the benefit of primary schools and other agreed educational institutions (such as pre-primary schools or creches), less any notional SPSP contribution toward that expenditure in the previous year. These percentages may vary from year to year, and may be less than or equal to 40%. The percentages shall be agreed between donors and GoV during the annual review meetings for the year in question. The mechanism to calculate these percentages will be developed during the inception phase of the programme.

Disbursements of funds by the SPSP partners will be made annually in the third quarter of the fiscal year on the basis of submission and analysis of the supporting Financial Monitoring Reports (FMRs) and the progress reports and the decision taken during the annual PSC meeting in September.

The table below shows the indicative disbursement per year (in Euros) for each donor.

Category Breakdown	**EC**[2]	**WB**	**BE**	**CAN**	**N Z**	**UK**	**Totals**
Component 1 (Sector Budget Support)							
Year 0	0	2.0	0	0	0	0	2.0
Year 1	5.4	11.5	1.7	2.3	0.8	9.5	31.2
Year 2	5.4	13.5	1.8	2.3	0.8	9.5	33.3

[2] The 200.000 Euro EC contribution earmarked for Evaluation, Monitoring and Audit is not included in this table, since it is not part of the annual disbursements.

Year 3	5.0	11.5	1.5	2.0	0.7	8.3	29.0
Totals	**15.8**	**38.5**	**5.0**	**6.6**	**2.3**	**27.3**	**95.5**
Component 2 (Institutional Strengthening)							
Year 0				0.2		0.3	0.5
Year 1				0.5		0.6	1.1
Year 2				0.6		0.5	1.1
Year 3				0.6		0.5	1.1
Totals	**0**		**0**	**1.9**	**0**	**1.9**	**3.8**
Grand Total	**15.8**	**38.5**	**5.0**	**8.5**	**2.3**	**29.2**	**99.3**

EC will release 3 tranches subject to the following pre-conditions and benchmarks being met.

EC Tranches	Year	Amount (€ million)
1st Tranche	2006	5.4
2nd Tranche	2007	5.4
3rd Tranche	2008	5.0
Total		**15.8**

Pre-conditions to EC tranche release	Basis for assessment
➢ Macro-economic management: Continued satisfactory assessments by the IMF	- IMF Staff Report for Annual Article IV Consultation
➢ Pro-poor strategy: GOV maintains an open and constructive dialogue with donors, including the EC, in respect of CPRGS related policies and actions.	- GoV and Donors Annual Consultative Group Meeting
➢ EFA-driven sector development in education: The GOV remains committed to the effective and efficient implementation of its national EFA plan and the Education Development Strategic Plan for 2001 – 2010.	- Dialogue between the GoV and Donors in the Education Sector Working Group (ESG)
➢ Pro-poor action and reforms: Tranche release for the PRSC, supported by the EC, has taken place and the GOV actively pursues the commonly agreed	- PRSC joint review

objectives and benchmarks guiding implementation of education reforms.	

Tranche release benchmarks are common for all SPSP partners (harmonised benchmarks) and will be reviewed during the joint mid-year supervision and annual reviews.

EC Tranche Release Benchmarks
Process: ➢ Organize a mid-year supervision and an annual review meeting with IDA and other SPSP Partners to review NTP progress in achievement of programme objectives. ➢ For 2006 release to take place, issue a new Inter-Ministerial Circular for the Education NTP 2006-2010 cycle and implement a coding structure consistent with its provisions. ➢ Submission of an annual Education NTP work program for the forthcoming year no later than November 30 of every year. ➢ Submission of an Education NTP annual progress report by June 30 of each year. ➢ Submission of Financial Monitoring Reports (FMRs) semi-annually no later than 45 days after the end of each semester. ➢ Submission of audit reports no later than June 30 of each year, while the SPSP Partners reserve the option of conducting independent audits in consultation with GoV. ➢ Submission of annual procurement audits no later than June 30 of each year, while the SPSP Partners reserve the option of conducting post reviews in consultation with SRV. ➢ If conducted by independent firms, procurement and financial audits may be financed from capacity building technical assistance fund (Component 2).
Performance: ➢ Demonstrating adequate progress in reducing FSQL-deficits through the performance indicators outlined in Annex 3, commensurate with the overall level of expenditure. "Adequate progress" will be defined through yearly performance targets to be agreed upon with GoV.
Expenditure: ➢ The SPSP funding mechanism will be to provide an advance and then review *ex post* on the basis of expenditure performance from all sources in participating provinces in the five concerned sub-components, up to an agreed maximum. SPSP funds will be disbursed against agreed GoV NTP budget contribution thresholds for that year. GoV has made a commitment that yearly central state budget counterpart financing for the Education NTP will increase by approximately 10 percent, using the amounts of 2005 as a baseline level.

The EC will make payments in Euro into a dedicated Foreign Exchange Account of the Ministry of Finance held at the State Bank of Vietnam (SBV). There will be separate sub-

accounts to permit the receipt of SPSP funds in various currencies. The SBV will not charge a commission for maintaining this Foreign Exchange Account. After the funds are converted into Vietnam Dong they will be credited to the NTP budget accounts.

3.6 Planning and Reporting

The following set of implementation progress reports to be produced by MoET together with MOF and provided to the SPSP Partners will form the basis of disbursement to the Foreign Exchange Account by the SPSP Partners annually:

a) By no later than September 15 each year, commencing in 2005, a report on the budget allocated to the Education NTP disaggregated by Sub-components for the following Fiscal Year;

b) By no later than February 15 each year, commencing in 2006, a report certified by SBV on transfers to and from the Foreign Exchange Account for each Fiscal Year and on the equivalent amounts in Vietnam Dong credited to the Education NTP accounts used for budget expenditures, including the date and name/number of the government's bank account into which the local currency amounts have been deposited;

c) By no later than February 15 and August 15 of each year, financial monitoring reports indicating, both for the period covered and cumulatively for the current Fiscal Year: (i) the sources and uses of funds for each Selected Sub-component of the Education NTP, showing the actual and planned uses of funds, disaggregated by province; (ii) physical progress in the implementation of each Selected Sub-component, showing the actual and planned implementation, disaggregated by province and by district; and (iii) the sources and uses of funds for component 2 of the programme, explaining variances between the actual and planned uses of funds, and describing the progress in the implementation of said component 2 and explaining the variances between the planned and actual implementation;

d) By no later than June 30 of each Fiscal Year, the annual financial statements of the Education NTP and of the programme, together with *the report of the audit* thereof by independent auditors

e) By no later than November 30 of each year, commencing in 2005, an annual performance report showing the status for each district against baseline lists of FSQL-related shortfalls; and

f) by no later than February 15 and August 15 of each year, commencing in 2006, on the basis of performance indicators acceptable to the SPSP Partners a progress report on the implementation of the programme and the achievement of the objectives of the Education NTP.

3.7 Monitoring & Evaluation and Audit

The day-to day technical and financial monitoring will be the responsibility of the monitoring team from MoET as implementing agency, supplemented by additional

monitoring and spot-checks by consultants contracted through Component 2, and further supplemented by bi-annual supervisions by SPSP Partners.

GoV and the SPSP Partners will jointly conduct a mid-year supervision and an annual review meeting every year. The SPSP Partners may conduct a periodic evaluation of the Education NTP in consultation with the GOV and other SPSP Partners.

Each SPSP partner, including the EC, reserves the right to carry out independent Monitoring & Evaluation and Audit Activities.. The EC earmarked 200.000 Euro from its contribution for such activities which will be contracted by the Commission.

3.8 Visibility

Appropriate public relations and awareness raising will be integrated in the different Components of the programme. These will also serve to give European Commission co-operation visibility.

3.9 Donor Co-ordination

In order to preserve the necessary coherence between the activities of the present programme and those activities undertaken by other donors in the sector, regular meetings will take place with all interested parties to ensure an open exchange of information, to avoid overlapping of activities and/or financing and to incorporate the lessons learnt by these other actors into the work of the programme.

4. SPECIAL CONDITIONS

Effectiveness Conditions:

a) Introduce accounting sub-codes and develop Treasury expenditure reports by Education NTP sub-component by province.

b) Prepare and issue an Inter-Ministerial Instruction for the Education NTP 2006-2010 cycle to be applied to the six pilot provinces during the inception period.

Legal Covenants:

a) Maintain a Foreign Exchange Account, with sub-accounts to receive monies in the currencies of SPSP Partners.

b) MoET, DoETs and BoETs have the staff needed to handle the management, monitoring and reporting requirements of the Education NTP.

c) Issue a guidance on procurement best practices by October 31, 2005 aimed at guiding the responsible implementing entities at the provincial, district and school levels towards applying those procurement practices consistent with government procedures and regulations most conducive to economy, efficiency and transparency.

d) For 2006 release to take place, issue an Inter-Ministerial Circular for the Education NTP 2006-2010 cycle and implement a coding structure consistent with its provisions.

e) Provide a mid-term review of the Education NTP 2006-2010 implementation before the programme closing date.

Annex 1. : Results Framework and Monitoring

Programme Objective	Outcome Indicators	Use of Outcome Information
Contribute towards the achievement of the National EFA Action Plan goals through provision of sector budgetary support to the National Targeted Programme disbursement channel.	▪ gross intake in grade 1, net primary enrolment, dropout, repetition and completion ▪ student achievement in grade 5 in mathematics and Vietnamese language, student: teacher ratio (disaggregated by gender, ethnicity, location, grade, poverty level and disability as appropriate)	These indicators will track the effectiveness of the NTP channel in reducing existing inequities in education outcomes. The administration of the next round of the grade 5 test is expected to take place in April 2006. These results will not reflect the impact of the additional financing provided through SPSP; nonetheless, this indicator is included here to underscore the linkages of education quality outcomes and FSQL resource inputs in the policy dialogue process to be undertaken.
Intermediate Results	**Results Indicators**	**Use of Results Monitoring**
Improve educational outcomes for students in primary schools through a package of investments designed to enhance the quality of education as well as strengthen the administration of the education system	▪ Provincial/district FSQL index score ▪ Educational quality assessments through school effectiveness surveys and case studies (commissioned under Component 2) ▪ Province/district and NTP expenditure data trends	These indicators will track the effectiveness of the NTP channel in reducing existing inequities in education inputs and reaching minimum service delivery standards. No significant improvement in these indicators will trigger a review of the linkages between education inputs and available education financing.
Strengthen management of Education NTP disbursement mechanism through capacity building (component 2)	▪ Quality and timeliness of annual progress and financial reports ▪ Timeliness, transparency, accountability and pro-poor incidence analysis of resource allocation at all levels, including local-level monitoring by social organisations ▪ Compliance with Education NTP guidelines and procedures regarding financial management and procurement ▪ Policy matrix benchmarks	These instruments will assist in documenting existing opportunities and constraints for local level management and administration of targeted programs as well as the overall policy environment to improve education service delivery.

Annex 2: Arrangements for results monitoring*

		Values			Data Collection and Reporting		
Outcome Indicators	**Baseline**	**YR1 (2006)**	**YR2 (2007)**	**YR3 (2008)**	**Frequency and Reports**	**Data Collection Instruments**	**Responsibility for Data Collection**
• gross intake in grade 1 • net primary enrolment • dropout • repetition • completion • achievement in G5 maths (2001) ("independent learner" benchmark) • achievement in G5 language (2001) ("independent learner" benchmark) • student: teacher ratio • yearly per student spending on non-salary items (in VND, 2003)	90.1 83.0 3.2 2.7 92.3 79.9 51.3 23.1 66,000	n/a n/a	n/a n/a		Annual reporting, except for student achievement in Year 3 (disaggregated by gender, ethnicity, location, grade, poverty level, disability as appropriate)	EMIS/FSQL District Audits Grade 5 student achievement test	BoET, DoET, MoET
Results Indicators							
• Average district FSQL index score	62.1				Annual NTP progress report	EMIS/FSQL District Audits	BoET
• no. and % schools that score < 80 in FSQL index score	2443 16%				Annual NTP progress report	EMIS/FSQL District Audits	BoET
• no. and % of teachers (all sites) to have received 5 or more days of in-service training FSQL	228,849 64%				Annual NTP progress report	EMIS/FSQL District Audits	BoET
• no. and % of grades to have teaching aids for reading FSQL	123,228 75%				Annual NTP progress report	EMIS/FSQL District Audits	BoET
• no. and % of schools (all sites) to have potable water FSQL	9,216 23%				Annual NTP progress report	EMIS/FSQL District Audits	BoET
• no. and % of classrooms (all sites) to have a good blackboard FSQL	73,948 34%				Annual NTP progress report	EMIS/FSQL District Audits	BoET
• no. and % of classrooms (all sites) to have achieved school construction FSQL	138,796 65%				Annual NTP progress report	EMIS/FSQL District Audits	BoET
• disaggregated expenditure levels by NTP sub-project and educational level by province					Semiannual expenditure and disbursement reports	FMIS/EMIS	MoF, MoET (DoET, BoET)
• disaggregated funding sources by province					Semiannual expenditure and disbursement reports	FMIS/EMIS	MoF, MoET (DoET, BoET)

*The baseline figures, with the exception of the student achievement scores and per student spending, have been extracted from the 2004 FSQL District Audit. These figures are considered to be closer estimates of present educational outcomes.

Annex 3: Policy Matrix

	Issues Starting Year 2006	Issues Starting Year 2007	Issues Starting Year 2008
A. Education management			
Enhancing **decentralised planning and decision-making**	• Assess central, provincial and district level financial and performance reporting mechanisms, including the role of the inspectorate • Assessment of central, provincial and district level NTP management capacity	• Review of Provincial 5-Year Planning approach and differential trends in progress towards reducing FSQL-gaps	• Approaches to capacity assessment and enhancement in the sector
Monitoring **education participation, quality and student outcomes**	• Mainstreaming indicators of Fundamental School Quality Levels into EMIS		• Assessment of student achievement in grade 5
Promoting **community involvement and school accountability**	• Identification and application of options to strengthen bottom-up community-level accountability		
B. Education finance			
Strengthening **resource allocation***	• Education budget amounts to 18.1% of national budget • Proposals for formula funding and notional allocation of the Education NTP	• Education budget amounts to 18.6% of national budget • Review of trends in non-salary expenditure share in education	• Education budget amounts to 19.1% of national budget • Proposals for funding formula to ensure that a sufficient level of budget reaches schools to deliver an adequate and effective level of service
Enhancing **pro-poor budgeting and spending**	• Assessment of interventions to enhance educational outcomes of ethnic minority children	• Impact of private costs to education and local-level monitoring by social organizations of primary school fee exemptions for poor children	• Plans for expansion of full-day schooling for disadvantaged children • Mid-term review of Education NTP 2006-2010 implementation
Strengthening **financial management and auditing**	• Progress in the set up of an integrated Treasury and Budget Management Information System		
Inter-ministerial coordination between MoET, MPI and MoF		• Adoption of Education Medium Term Expenditure Framework	

*** Education budget targets are extracted from the *National EFA Plan 2003-2015***

Annex 4: Legal Entity Form

Annex 5:
Abbreviations and acronyms

BOET	Bureau of education and Training (District level)
BoF	Bureau of Finance
BPI	Bureau of Planning and Investment
CIDA	Canadian International Development Agency
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CSP	Country Strategy Paper
DOET	Department of education and Training (provincial level)
DoF	Department of Finance
EC	European Commission
EFA	Education For All
EMIS	Education Management Information System
ESG	Education Sector Group
FMR	Financial Monitoring Report
FSQL	Fundamental School Quality Level
GDP	Gross Domestic Product
GO(VN)	Government (of Vietnam)
IDA	International Development Association
IFA-PER	Integrated Fiduciary Assessment – Public Expenditure Review
ISTA	Institutional Strengthening Technical assistance (component 2)
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MPI	Ministry of Planning and Investment
MTEF	Medium Term Expenditure Framework
MoET	Ministry of Education and Training
MoF	Ministry of Finance
MS	Member States
MOU	Memorandum Of Understanding
NIP	National Indicative Programme
NGO	Non Governmental Organisation
NTP	National Targeted Program
ODA	Overseas Development Assistance
PAD	Project Appraisal Document (WB)
PAR	Public Administration reform
PEDC	Primary Education for Disadvantaged Children Project
PEM	Public Expenditure Management
PFM	Public Finance Management
PIP	Public Investment Programme
PMU	Project Management Unit
PPC	Provincial People's Committee
PREP	Provincial Education Planning project
PRSC	Poverty Reduction and Support Credit
PRSP	Poverty Reduction Strategy Paper
QSG	Quality Support Group
SAV	State Audit of Vietnam
SBV	State Bank of Vietnam
SEDS	Socio-Economic Development Strategy
SMOET	Support for the Ministry of Education and Training (Project)
SREM	Support to the Renovation of Education Management (project)
SPSP	Sector Policy Support Programme
TABMIS	Treasury and Budget Management Information System
TTC	Teacher Training College
TTS	Teacher Training School

TBS	Targeted Budget Support
UPE	Universal Primary Education
V(M)DG	Vietnam (Millennium) Development Goals
WB	World Bank