LOAN NUMBER 2262-VIE(SF)

LOAN AGREEMENT
(Special Operations)

(Support the Implementation of the Poverty Reduction Program III)

between

SOCIALIST REPUBLIC OF VIET NAM

and

ASIAN DEVELOPMENT BANK

DATED 7 DECEMBER 2006

LPS:VIE 38392

LOAN AGREEMENT
(Special Operations)

LOAN AGREEMENT dated 7 December 2006 between the 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 24 August 2006 (hereinafter called the Policy Letter), setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to implement the Borrower's poverty reduction program (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 also applied to the International Development Association (hereinafter called IDA) to finance a portion of the Program (hereinafter called the IDA Credit) under the IDA's Fifth Poverty Reduction Support Credit (hereinafter called the PRSC 5);

(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 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. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional 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 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 Poverty Reduction Support Credit coordination;

(f) "Policy Letter" means the development policy letter dated 24 August 2006 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 2006 until 31 December 2007;

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

(k) "SOE" means the Borrower's state-owned enterprise established 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 ten million sixty-two thousand Special Drawing Rights (SDR 10,062,000).

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 March and 15 September 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 Dollar.

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 for 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 December 2007 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 indicate 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 Vietnam 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 Vietnam
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 _____
Ayumi Konishi
Country Director
Viet Nam Resident Mission

SCHEDULE 1

DESCRIPTION OF THE PROGRAM

1. The principal objective of the Program is to support the Borrower in its policy and institutional reforms to maintain high growth and poverty reduction through supporting the Borrower's Poverty Reduction Program under the policy framework of PRSC 5. The scope includes:

(i) To promote growth and create employment by (a) increasing internal and external competition, (b) improving efficiency and resource allocation in the Borrower's economy, (c) strengthening its regulatory framework for the private sector development, and (d) enhancing transparency and accountability in SOE operations and in the financial sector;

(ii) To advance human development by (a) upgrading the quality of education (especially in poor zones), (b) promoting inclusive education for children with disabilities, (c) improving access of the poor to the Borrower's health services, (d) helping secure asset ownership through the implementation of the new Land Law, (e) addressing inequalities in health and education outcomes across regions and population groups, and (f) encouraging important policy measures leading to more sustainable management of natural resources; and

(iii) To increase transparency and accountability of public finances as well as improve the Borrower's legal transparency and accessibility by (a) promoting greater accountability in public finance and public administration as part of a broader effort to build modern governance, (b) improving coordination between five-year plans and budget formulation, and (c) supporting the government's comprehensive and ambitious agenda of its Legal System Development Strategy.

2. The Program is described in more detail in the Policy Letter. The Program will be implemented during the period of 30 June 2006 to 31 December 2007.

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 provision of paragraph 1 of Schedule 5 to this Loan Agreement.

4. The proceeds of the Loan are expected to be utilized by 31 December 2007.

SCHEDULE 2

AMORTIZATION SCHEDULE

(Support the Implementation of the Poverty Reduction Program III)

Date Payment Due	Payment of Principal (expressed in SDR)*
15-Mar-2015	314,438.00
15-Sep-2015	314,438.00
15-Mar-2016	314,438.00
15-Sep-2016	314,438.00
15-Mar-2017	314,438.00
15-Sep-2017	314,438.00
15-Mar-2018	314,438.00
15-Sep-2018	314,438.00
15-Mar-2019	314,438.00
15-Sep-2019	314,438.00
15-Mar-2020	314,438.00
15-Sep-2020	314,438.00
15-Mar-2021	314,438.00
15-Sep-2021	314,438.00
15-Mar-2022	314,438.00
15-Sep-2022	314,438.00
15-Mar-2023	314,438.00
15-Sep-2023	314,438.00
15-Mar-2024	314,438.00
15-Sep-2024	314,438.00
15-Mar-2025	314,438.00
15-Sep-2025	314,438.00
15-Mar-2026	314,438.00
15-Sep-2026	314,438.00
15-Mar-2027	314,438.00
15-Sep-2027	314,438.00
15-Mar-2028	314,438.00
15-Sep-2028	314,438.00
15-Mar-2029	314,438.00
15-Sep-2029	314,438.00
15-Mar-2030	314,438.00
15-Sep-2030	314,422.00
TOTAL	**10,062,000.00**

* 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 relevant provisions of the Special Operations 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 first application to ADB for withdrawal from the Loan Account, the Borrower shall open a 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

No withdrawals shall be made in respect of:

(a) expenditures for goods included in the following United Nations Standard International Trade Classification (SITC) groups or sub-groups, or any successor groups or sub-groups under future revisions of the SITC, 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, manufacture (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		pearls, previous 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 7to 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 paragraph 2(b) below, 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 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 Program will properly be coordinated through a PCU at SBV. The PCU shall be a focal point to donors participating in the PRSC 5, and responsible for monitoring, reporting, 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*.