LOAN NUMBER 2269-VIE(SF)

LOAN AGREEMENT
(Special Operations)

(Forests for Livelihood Improvement in the Central Highlands Sector Project)

between

SOCIALIST REPUBLIC OF VIET NAM

and

ASIAN DEVELOPMENT BANK

DATED 7 DECEMBER 2006

LOAN AGREEMENT
(Special Operations)

LOAN AGREEMENT dated 7 December 2006 between SOCIALIST REPUBLIC OF VIET NAM (the "Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Borrower has also applied to the Trust Fund for Forests (hereinafter called TFF), for a grant in an amount equivalent to eight million dollars ($8,000,000) (hereinafter called TFF Grant) to assist in financing a part of the Project (as described in Schedule 1 to this Loan Agreement), on a joint basis to be administered by ADB;

(C) the Government of the Borrower (hereinafter called the Government) has also applied to ADB for technical assistance to support the implementation of the Project, and ADB has agreed to provide a technical assistance to the Government for this purpose in an aggregate amount equivalent to seven million eight hundred twenty thousand dollars ($7,820,000), seven million five hundred seventy thousand dollars ($7,570,000) of which are to be financed from TFF and administered by ADB and two hundred fifty thousand dollars ($250,000) of which are to be financed by ADB; and

(D) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

LOAN REGULATIONS; DEFINITIONS

Section 1.01. All 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.

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) "CPMU" means, for the purpose of the Project, a central project management unit to be established within MARD;

(b) "DARD" means the department of agriculture and rural development under the Project province;

(c) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(d) "MARD" means the Borrower's Ministry of Agriculture and Rural Development;

(e) "PPMU" means, for the purpose of the Project, provincial project management unit to be established in the Project province;

(f) "Procurement Guidelines" means the "Procurement Guidelines" dated April 2006, as amended from time to time;

(g) "Procurement Plan" means the procurement plan for the Project dated and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, and other arrangements agreed with ADB;

(h) "Project facilities" means the facilities to be constructed, provided or maintained under the Project;

(i) "Project provinces" means the Provinces of Dak Lak, Dak Nong, Gia Lai, Kon Tum, Lam Dong, and Phu Yen within the territory of the Borrower;

(j) "SFE" means the Borrower's state forestry enterprise;

(k) "SME" means a small and medium enterprise established and operating within the territory of the Borrower; and

(l) "Works" means construction or civil works to be financed out of the proceeds of the Loan, excluding consulting services.

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 thirty million four hundred eighty-six thousand Special Drawing Rights (SDR 30,486,000).

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 February and 15 August 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 on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The allocation of amounts of the Loan towards different components of the Loan shall be 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 Goods and Works 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 in respect of Goods and Works shall be made only on account of expenditures relating to

(a) Goods which are produced in and supplied from and Works which 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) Goods and Works which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2015 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 Project and operation of the Project facilities, 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 (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Borrower pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan, and any relevant records and documents.

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 TFF Grant shall have become liable for suspension or cancellation.

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. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) the Borrower shall have issued decisions providing clear guidelines for Project implementation and financial allocations;

(b) the Borrower shall have established the CPMU and PPMUs in a manner satisfactory to ADB, with necessary staffing including full time qualified accountants; and

(c) the Borrower shall have received the confirmation of the Trust Fund for Forests that the TFF Grant will be made available for the purpose of the Project.

Section 6.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE 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 Numbers:

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

For the Bank

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2305.

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 PROJECT

1. The Project aims to contribute to Viet Nam Development Goals of poverty reduction and environmental protection by accelerating market orientation of the Borrower's forestry sector. The specific outcomes of the Project are (i) improving the condition and value of Central Highlands forests, (ii) eliminating hunger and halving poverty among the country's poorest households living in or near these forests, (iii) improving protection of globally significant biodiversity, (iv) enhancing protection and performance of critical watersheds, and (v) attracting investors to invest in the sector.

2. The Project will be carried out in the Project provinces and the selected communes, the selection criteria of which are fully described in paragraph 6, Schedule 5 to this Loan Agreement, and consists of the following parts:

Part 1: Sustainable Forest Resource Management and Development

Part 1.a: Forest Land Management Planning: Supporting upgrading provincial land and forestland use strategies in accordance with the new land and forest protection laws, and preparing sustainable forest management plans for the Project provinces. These include (i) forest zoning and identification of production clusters through GIS-based forest resource management planning and zoning at provincial, district, and commune level; (ii) forest delineation, surveying, and demarcation for having a clear and permanent definition of forest boundaries, irrespective of land ownership and/or management regimes; and (iii) forest inventory and management planning through preparing, in consultation with participating stakeholders, detailed forest management plans.

Part 1.b: Forest Resources Development: (i) Improving the management of existing commune and village forests, and bringing under-utilized bare land under high yielding productive plantations of native and/or exotic species; (ii) supporting forest management improvement activities such as enrichment planting, improved protection of forest resources under village and/or community ownership in the selected communes; and (ii) facilitating conservation of high global priority biodiversity areas through participatory biodiversity assessments and monitoring.

Part 1.c: Business Development: Assisting in developing business development opportunities of SMEs, and reforming and restructuring SFEs through (i) providing support to at least 3 SFEs' ongoing restructuring; (ii) supporting market diversification by assisting the establishment of new SMEs, and providing marketing support to community groups and SMEs; (iii) piloting modern efficient woody biomass conservation technologies for increasing fuelwood use efficiencies among the selected communes; and (iv) supporting pilot measures promoting clean development mechanism and technologies contributing to innovative financing for forest ecosystem conservation and services.

Part 2: Livelihood Improvement

Establishing commune development funds to support forestry related income generating and livelihood improvement activities, and to provide small scale infrastructure including construction and upgrading of health posts, classrooms, drinking wells, small irrigation, commune cultural houses and inter-village and commune access roads, in accordance with the community investment plans which will be developed in the selected communes.

Part 3: Capacity Development

Strengthening (i) forest planning and management decision support systems, (ii) collaborative and community-based forest resources development and management; (iii) decentralized financial and administrative decision-making and project implementation; (iv) effective extension delivery; and (v) institutional capacity at the commune and district levels. These include (i) staff training, provision of equipment to provide extension and support services to communities, households and SMEs; (ii) upgrading of teaching staff at selected forestry institutions; and (iii) training and upgrading of the skills of professional staff and technicians.

Part 4: Project Management and Implementation

Strengthening MARD's Project management and implementation capacity at the central and provincial level by (i) financing necessary office equipment and supplies to support Project implementation, and (ii) contracting administrative and support staff for efficient and effective Project implementation and monitoring.

3. The Project is expected to be completed by 31 December 2014.

SCHEDULE 2

AMORTIZATION SCHEDULE

(Forests for Livelihood Improvement in the Central Highlands Sector Project)

Period	Date Payment Due	Payment of Principal (expressed in SDR)*
1	15-Feb-2015	635,125.00
2	15-Aug-2015	635,125.00
3	15-Feb-2016	635,125.00
4	15-Aug-2016	635,125.00
5	15-Feb-2017	635,125.00
6	15-Aug-2017	635,125.00
7	15-Feb-2018	635,125.00
8	15-Aug-2018	635,125.00
9	15-Feb-2019	635,125.00
10	15-Aug-2019	635,125.00
11	15-Feb-2020	635,125.00
12	15-Aug-2020	635,125.00
13	15-Feb-2021	635,125.00
14	15-Aug-2021	635,125.00
15	15-Feb-2022	635,125.00
16	15-Aug-2022	635,125.00
17	15-Feb-2023	635,125.00
18	15-Aug-2023	635,125.00
19	15-Feb-2024	635,125.00
20	15-Aug-2024	635,125.00
21	15-Feb-2025	635,125.00
22	15-Aug-2025	635,125.00
23	15-Feb-2026	635,125.00
24	15-Aug-2026	635,125.00
25	15-Feb-2027	635,125.00
26	15-Aug-2027	635,125.00
27	15-Feb-2028	635,125.00
28	15-Aug-2028	635,125.00
29	15-Feb-2029	635,125.00
30	15-Aug-2029	635,125.00
31	15-Feb-2030	635,125.00
32	15-Aug-2030	635,125.00
33	15-Feb-2031	635,125.00
34	15-Aug-2031	635,125.00
35	15-Feb-2032	635,125.00
36	15-Aug-2032	635,125.00
37	15-Feb-2033	635,125.00
38	15-Aug-2033	635,125.00
39	15-Feb-2034	635,125.00

* 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.

40	15-Aug-2034	635,125.00
41	15-Feb-2035	635,125.00
42	15-Aug-2035	635,125.00
43	15-Feb-2036	635,125.00
44	15-Aug-2036	635,125.00
45	15-Feb-2037	635,125.00
46	15-Aug-2037	635,125.00
47	15-Feb-2038	635,125.00
48	15-Aug-2038	635,125.00
	Total	**30,486,000.00**

SCHEDULE 3

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS

General

1. The table attached to this Schedule (hereinafter called the Table) sets forth the Loan Components and the allocation of amounts of the Loan to each such Loan Component. (Reference to "Loan Component" in this Schedule is to a Loan Component listed in the Table.)

Interest Charge

2. The amount allocated to Loan Component (vi) is for financing interest charge on the Loan during the implementation period of the Project.

Reallocation

3. Notwithstanding the allocation of Loan proceeds set forth in the Table and subject to paragraph 3 of this Schedule,

(a) if the amount of the Loan allocated to any Loan Component appears to be insufficient to finance all agreed expenditures for that Loan Component, ADB may, by notice to the Borrower, reallocate to such Loan Component, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Loan Component but, in the opinion of ADB, are not needed to meet other expenditures; and

(b) if the amount of the Loan then allocated to any Loan Component appears to exceed all agreed expenditures for that Loan Component, ADB may, by notice to the Borrower, reallocate such excess amount to any other Loan Component.

Imprest Accounts; Statement of Expenditures

4. (a) Except as ADB may otherwise agree, the Borrower shall (i) establish immediately after the Effective Date, an imprest account at a commercial bank acceptable to ADB; and (ii) cause each of the Project provinces to establish, if deemed necessary, a Second Generation Imprest Account (SGIA) at the commercial bank, or branch thereof, where the imprest account is to be established, or the provincial treasury of the Project provinces, if appropriate. The imprest account and each of the SGIAs shall be established, managed, replenished and liquidated in accordance with ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. The initial amount to be deposited into the imprest account shall not exceed the estimated expenditure for the first 6 months of Project implementation or $2,500,000, whichever is lower. The initial amount to be deposited into each of the SGIAs shall be equivalent to six months' estimated expenditure, but in any event not exceeding the equivalent of $250,000.

(b) The statement of expenditures (SOE) procedure may be used to liquidate advances provided into the imprest accounts, in accordance with the ADB's "Loan Disbursement Handbook" dated January 2001, as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of $100,000.

Attachment to Schedule 3

TABLE

ALLOCATION OF LOAN PROCEEDS (Forests for Livelihood Improvement in the Central Highlands Sector Project)		
Number	**Loan Component**	**Amount Allocated (SDR)**
(i)	Forest Land Management Planning	2,554,000
(ii)	Forest Resources Development	15,988,000
(iii)	Livelihood Improvement	6,531,000
(iv)	Capacity Development	447,000
(v)	Project Management and Implementation	3,401,000
(vi)	Interest Charge	1,565,000
	TOTAL	**30,486,000**

SCHEDULE 4

PROCUREMENT OF GOODS AND WORKS

A. General

1. All Goods and Works to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines.

2. All terms used and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping
Direct Contracting

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. Domestic Preference. The Borrower may grant a margin of preference in the evaluation of bids under international competitive bidding in accordance with paragraphs 2.55(a) and 2.56 of the Procurement Guidelines for domestically manufactured Goods and paragraphs 2.55(b) and 2.56 of the Procurement Guidelines for domestic Works.

5. National Competitive Bidding. The Borrower's standard procurement procedures are subject to the modifications set out in the Procurement Plan.

E. Industrial or Intellectual Property Rights

6. (a) The Borrower shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

Schedule 4

F. ADB's Review of Procurement Decisions

7. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

EXECUTION OF PROJECT AND OTHER MATTERS

Project Management

1. MARD shall be the Project Executing Agency.

2. The central Project Steering Committee (CPSC) shall be established by MARD. The CPSC shall be headed by a Vice-Minister of MARD and shall have representatives from concerned agencies from concerned agencies and provinces. The CPSC shall be responsible for providing guidance and Project oversight to ensure objectives of the Project as outlined in this Loan Agreement are achieved.

3. Provincial steering committee (PPSC) headed by the leader of the relevant people's provincial committee shall be established to oversee Project implementation at the provincial level.

4. Project implementation and management shall be carried out at four levels i.e. central, provincial, district and commune. The CPMU shall be responsible for overall coordination of Project implementation. At provincial level, the PPMUs shall be established under DARD under management of the provincial people's committee and the CPMU. Within three months of the Effective Date, MARD and provincial people's committees under the Project provinces shall develop the detailed implementation arrangements for the district and commune levels' Project implementation.

5. Within 3 months of the Effective Date, MARD shall have approved a detailed project implementation manual which contains (i) clear definition of roles and responsibilities of different line agencies and stakeholders, and (ii) guidelines on technical, operational, and financial administration and management of the Project.

Selection Criteria of Communes

6. Communes where the Project activities will be carried out shall be selected based on the following criteria:

(i) Communes are forest rich with significant but under-utilized forestry potential;

(ii) Communes are home to some of the poorest people and communities in the country, particularly socio-economically disadvantaged ethnic minorities; and

(iii) Communes have an under-utilized work force with forestry relevant knowledge and skills.

Schedule 5

Forestry Regulatory Reform

7. By 30 June 2008, harvesting and transit rules governing wood and wood products as stipulated in Decision No. 40/2005/QD-BNN dated 7 July 2005 shall be reviewed, and, if necessary, revised to ensure unhindered access to markets for wood and wood products harvested by villages and communes in accordance with the approved management plans developed under the Project.

8. By 31 December 2008, the Borrower shall ensure that provincial timber harvesting quotas and harvesting plans will be based on the results of the forestry inventory and growth and yield assessments carried out under the Project.

9. The Borrower shall ensure that forest land tenure rights are consistent with forest and plantation harvesting cycles to protect the Project's primary stakeholders' rights to harvest wood and non-wood forest products at maturity.

SFEs Restructuring

10. By 31 December 2008, SFEs' role and functions in the Project provinces shall have been brought in line with the sustainable forest management administrative and management regimes to be developed by the Project.

11. By 30 June 2009, MARD and the Project provinces shall have approved the sustainable forest management plans, and submitted to the Government respective proposals to implement such plans.

Counterpart Fund and Operation and Maintenance

12. MARD and the Project provinces shall make timely requests for counterpart funds to be appropriated in the central and provincial budget respectively for activities to be carried out in the 1st and subsequent Project years.

13. The Borrower shall ensure that adequate budget will be made available on an annual basis to the Project provinces for (i) the operations and maintenance of the Project facilities, and (ii) government-employed staff at province, district, and commune level.

Environment

14. The Borrower, through MARD, shall ensure that Project activities will comply with (i) applicable laws and regulations of Viet Nam; (ii) ADB environment policies and regulations, specifically ADB's Environment Policy, 2002; (iii) environment assessment and review procedures, as described in the summary initial environmental examination; and (iv) the environmental monitoring plan as set out in the summary initial environmental examination, including preparing Initial Environmental Examination for the remaining Project provinces.

Schedule 5

Indigenous People

15. The Borrower shall ensure that the livelihood improvement and ethnic minority development plan prepared for the Project will be implemented in accordance with applicable government policies and procedures and ADB policies, specifically ADB's Policy on Indigenous Peoples, 1998. The Borrower shall further ensure that the Project will maintain equal opportunities for ethnic minority communities and staff in training, and integrating cultural sensitivities in Project implementation.

Involuntary Resettlement

16. The Borrower shall ensure that any involuntary resettlement, as defined in ADB's Policy on Involuntary Resettlement, will be avoided under the Project. If, due to an unforeseeable circumstance, such involuntary resettlement is unavoidable, the Borrower shall prepare a resettlement plan in accordance with ADB's Policy on Involuntary Resettlement and submit it to ADB for approval prior to commencing land acquisition activities.

Gender

17. The Borrower shall ensure that (i) the Project's gender action plan is implemented, and equal access to project and training opportunities are provided for men and women, (ii) women will make up at least 25 percent of commune-level Project staff, and (iii) forest land allocation certificates will be for women and men with joint titles as stipulated in the Land law of 2003.