CREDIT NUMBER 5211-VN

# Financing Agreement

**(First Economic Management and Competitiveness Credit Development Policy Operation)**

**between**

**SOCIALIST REPUBLIC OF VIETNAM**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated** May 19 **, 2013**

## FINANCING AGREEMENT

AGREEMENT dated May 19, 2013, entered into between SOCIALIST REPUBLIC OF VIETNAM ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient's maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

### ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred sixty two million and seven hundred thousand seven Special Drawing Rights (SDR 162,700,000) (variously, "Credit" and "Financing").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are March 15 and September 15 in each year.

2.07. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is Dollar.

## ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

## ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

## ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

## ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Governor, or a Deputy Governor, of State Bank of Vietnam.

6.02. The Recipient's Address is:

State Bank of Vietnam
49 Ly Thai To
Hanoi, Vietnam

| Cable address: | Telex: | Facsimile: |
|---|---|---|
| VIETBANK<br>Hanoi | 412248<br>NHTWVT | (84-4) 3825 0612 |

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

| Cable address: | Telex: | Facsimile: |
|---|---|---|
| INDEVAS<br>Washington, D.C. | 248423(MCI) | 1-202-477-6391 |

AGREED at Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

**SOCIALIST REPUBLIC OF VIETNAM**

By 

Authorized Representative

Name: Nguyen Van Binh

Title: Governor, State Bank of Vietnam

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

By 

Authorized Representative

Name: Victoria Kwakwa

Title: Country Director

## SCHEDULE 1

### Program Actions; Availability of Financing Proceeds

**Section I.** **Actions under the Program**

The actions taken by the Recipient under the Program include the following:

**A. Macroeconomic Stability**

1. The Recipient, through Prime Minister, has issued Decision Number 254/QD-TTg dated March 1, 2012 providing a comprehensive credit institutions restructuring plan and direction on related policy actions including enhancing role of foreign participation in domestic commercial banks, incentives for consolidation of banks - especially weak banks - and a plan to deal with non-performing loans.

2. The Recipient, through State Bank of Vietnam, has issued Circular Number 02/2013/TT-NHNN dated January 21, 2013 to improve banking supervision through strengthened regulations on asset classification, internal credit rating, and loan loss provisioning to better address credit risks.

3. The Recipient, through Prime Minister, has issued Decision Number 958/QD-TTg dated July 27, 2012 to strengthen the institutional framework for debt management and establish prudential debt thresholds for medium-term fiscal sustainability.

**B. Transparent, Efficient, and Accountable Public Sector**

1. The Recipient has issued Law Number 27/2012/QH13 dated November 23, 2012, amending Law Number 55/2005/QH11 dated November 29, 2005 on Anti-Corruption and including stricter transparency guidelines in areas and sectors most vulnerable to corruption.

2. The Recipient has issued Law Number 21/2012/QH13 dated November 20, 2012, amending Law Number 78/2006/QH11 dated November 29, 2006 on Tax Administration, to streamline procedures, introduce advance pricing arrangements, increase risk-based management, and improve transparency.

3. The Recipient, through Prime Minister, has issued Decision Number 929/QD-TTg dated July 17, 2012 to restructure state economic groups and general corporations, which includes a classification of these groups and corporations by level of government ownership, and time bound actions with responsibilities across government agencies.

4. The Recipient's Government has submitted to the National Assembly Report Number 283/BC-CP dated October 19, 2012, on the development investment status of 2012 and medium-term investment plan for the period 2013-2015 to set medium-term capital expenditure priorities in the state budget and including off-budget bond financing for 2013.

**C. Business Enabling Environment**

1. The Recipient, through Ministry of Planning and Investment, has issued Circular Number 01/2013/TT-BKHDT dated January 21, 2013 to enable adoption of e-signature and e-payment procedures to allow the roll out of e-business registration, and the public disclosure of business registration information.

2. The Recipient, through Prime Minister, has issued Decision Number 263/QD-TTg dated March 5, 2012 for ministries and provincial authorities to review the impact of administrative procedures on the business environment and recommend actions to streamline procedures, avoid duplication, and reduce regulatory burden on the private sector.

**Section II. Availability of Financing Proceeds**

**A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

**B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make multiple withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

| Allocations | Amount of the Financing Allocated (expressed in SDR) |
|---|---|
| Single Withdrawal Tranche | 162,700,000 |
| **TOTAL AMOUNT** | **162,700,000** |

**C. Withdrawal Tranche Release Conditions.**

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the appropriateness of the Recipient's macroeconomic policy framework.

**D. Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. the Recipient shall open, prior to presenting to the Association the first request for withdrawal from the Financing Account, and thereafter maintain a deposit account in Dollar ("Foreign Currency Deposit Account") on terms and conditions satisfactory to the Association. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Deposit Account; and

2. the Recipient shall ensure that upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, an equivalent amount in Vietnamese Dong is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

**E.** **Audit.** Upon the Association's request, the Recipient shall:

1. have the Foreign Currency Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and

3. furnish to the Association such other information concerning the Foreign Currency Deposit Account and its audit as the Association shall reasonably request.

**F.** **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

**G.** **Closing Date.** The Closing Date is January 30, 2014.

## SCHEDULE 2

### Repayment Schedule

| Date Payment Due | Principal Amount of the Credit repayable (expressed as a percentage)* |
|---|---|
| On each March 15 and September 15: | |
| commencing September 15, 2018 to and including March 15, 2028 | 1.65% |
| commencing September 15, 2028 to and including March 15, 2038 | 3.35% |

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

## APPENDIX

### Section I. Definitions

1. "Excluded Expenditure" means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

(b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

| Group | Sub-group | Description of Item |
|---|---|---|
| 112 | | Alcoholic beverages |
| 121 | | Tobacco, un-manufactured, tobacco refuse |
| 122 | | Tobacco, manufactured (whether or not containing tobacco substitutes) |
| 525 | | Radioactive and associated materials |
| 667 | | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors |
| 728 | 728.43 | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares |

| | | |
|---|---|---|
| | | (including set gems) |
| 971 | | Gold, non-monetary (excluding gold ores and concentrates) |

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

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

2. "Foreign Currency Deposit Account" means the account referred to in paragraph 1 of Section II.D of Schedule 1 to this Agreement.

3. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

4. "Ministry of Planning and Investment" means the Recipient's Ministry of Planning and Investment, or any successor thereto.

5. "National Assembly" means the highest ranking institution in the legislative branch of the Recipient, having the mandate and competence for enacting laws and passing amendments thereto.

6. "Office of Government" means Recipient's office of government or any successor thereto.

7. "Prime Minister" means the Prime Minister of the Socialist Republic of Vietnam, the highest ranking official in the executive branch of the Recipient's government.

8. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated January 30, 2013, from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

9. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

10. "State Bank of Vietnam" means the Recipient's central bank or any successor thereto.

11. "Vietnamese Dong" means the lawful currency of the Recipient.

**Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (*Designated Accounts)* and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. "Section 3.02. *Service Charge and Interest Charge*

   (a) *Service Charge.* The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

   (b) *Interest Charge.* The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   "Section 4.06. *Plans; Documents; Records*

   ... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association's representatives to examine such records."

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term "Eligible Expenditure" is modified to read as follows:

"'Eligible Expenditure' means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement."

(b) The term "Financial Statements" and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term "Financing Payment" is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

(d) A new term called "Interest Charge" is added to read as follows:

"'Interest Charge' means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

(e) The term "Payment Date" is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

(f) The term "Project" is modified to read "Program" and its definition is modified to read as follows:

"'Program' means the program referred to in the Financing Agreement in support of which the Financing is made." All references to "Project"

throughout these General Conditions are deemed to be references to "Program".

(g) The term "Service Charge" is modified by replacing the reference to Section 3.02 with Section 3.02 (a).