ORIGINAL

DCI-ASIE/ 2007/018-849

FINANCING AGREEMENT

between

THE SOCIALIST REPUBLIC OF VIETNAM

and

THE COMMISSION OF THE EUROPEAN COMMUNITIES

"Poverty Reduction Support Credit VI (PRSC VI)"



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 Planning and Investment, 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:

Poverty Reduction Support Credit VI (PRSC VI)

DCI-ASIE 2007/18849

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 20 000 000 euro.

2.2 The Community undertakes to finance a maximum of 20 000 000 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.

ARTICLE 4 - PERIOD OF EXECUTION

The period of execution of the financing agreement as defined in Article 4 of the General Conditions shall commence on the entry into force of the financing agreement and end at 48 months after this date.

ARTICLE 5 - 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**

The Delegation of the European Commission to Vietnam
Pacific Place Office Building
17th-18th floor
83B Ly Thuong Kiet Street
Hanoi, Vietnam

b) **for the Beneficiary**

Ministry of Planning and Investment
2 Hoang Van Thu street
Hanoi, Vietnam

ARTICLE 6 - ANNEXES

6.1 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.

6.2 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 – 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 in three original copies in the English language, two copies being handed to the Commission and one to the Beneficiary.

FOR THE COMMISSION

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

Signature

Date

EUROPEAN COMMUNITIES COMMISSION 21. 01. 2008

p.p.

FOR THE BENEFICIARY

Cao Viet Sinh
Vice Minister for Planning and Investment
Ministry of Planning and Investment

Signature

Date

19 June 2008 Cao Viet Sinh

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 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 period of execution of the financing agreement 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 day after the date of end of the operational implementation phase and end at the latest 24 months after this date.

4.2 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.

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

4.4 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.

4.5 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 entry into force of the financing agreement, which means

within three years of the date on which the financing agreement was signed by the last party. That deadline may not be extended.

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

6.3 At the end of the three years of the entry into force of the financing agreement, any balance for which contracts have not been signed will be cancelled.

6.4 The above provision shall not apply to any balance of the contingency reserve.

6.5 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 and in calls for proposals 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 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 paragraph 1 to tender for contracts.

7.3 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 two paragraphs, except when it is provided otherwise in the basic act.

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 EUROPEAN COURT OF AUDITORS

15.1 The Beneficiary agrees to the Commission, OLAF and the European Court of Auditors 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 European Court of Auditors 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 European Court of Auditors 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 European Court of Auditors 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 European 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 (4) and (5) of these General Conditions.

ARTICLE 18 – SUSPENSION OF THE FINANCING AGREEMENT

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

- The Commission may suspend the implementation of the financing agreement if the Beneficiary breaches an obligation under the financing agreement.
- 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.
- 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 within this period, 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 projects

Beneficiary:	**Socialist Republic of Vietnam**
Title:	**Poverty Reduction Support Credit VI (PRSC VI)**
Project no:	**DCI-ASIE/2007/18849**

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1 OBJECTIVE

1.1 Overall Objective

The **overall objective** of the programme is to reduce poverty and promote sustainable and equitable growth in Vietnam through support to the state budget of the Government of Vietnam (GoV) and the implementation of cross-cutting and sectoral reforms defined in its Socio-Economic Development Plan 2006-2010 (SEDP 2006-10).

1.2 Project Purpose

The **purpose** of the programme is to improve public service delivery for the poor, to maintain macro-economic stability, and to strengthen government institutions, policy making and management systems for greater efficiency and accountability.

1.3 Main Results

Key **results** expected related to poverty-reduction in general and in particular are among others, Health, Education, Public Financial Management, Trade and Environment as outlined in the annual PRSC policy and outcome matrices comprising the four pillars Business Development, Social Inclusion, Natural Resources and Modern Governance. In addition, the operation will result in greater aid effectiveness as outlined in the Paris Declaration. This will be achieved by aligning the EC's Country Strategy with the SEDP 2006-10, harmonising aid delivery systems through participation in the PRSC Common Performance Assessment Framework (CPAF); and coordinating the high-level policy dialogue between donors and government through the PRSC's unique platform.

The 2008 budget is being prepared in the context of the Medium Term Fiscal and Expenditure Framework (MTFEF) 2006-2008 for key sectors, thereby providing a sound basis for the identification of public resources and expenditure needs.

The envisaged results of the project are:

a) Strengthened donor/Government dialogue and strengthened policy formulation based on the SEDP reform agenda in particular in the following sectors: Education, Health, Global Integration and Public Finance Management;
b) Adequate economic reforms are introduced for further integration of Vietnam into the world economy
c) Broadened and deepened financial sector able to provide more efficiently capital and services for private enterprises;
d) Improved framework to accelerate private sector development and private sector investment;
e) Improved governance and public financial management capacity of the Ministry of Finance, the Ministry of Planning and Investment and State Bank of Vietnam to better manage the Vietnam State Budget including

transparency of the budget execution by enhancing the capacity of the State Audit of Vietnam;

f) Improved capacity of public administration regarding the delivery of basic social services in particular regarding education and health, and enhanced environmental sustainability.

2. PROJECT DESCRIPTION

Approved in June 2006, the SEDP 2006-2010 sets out the development objectives for Vietnam for the next five years and outlines the measures to meet these. The intended actions fall broadly into four pillars: (a) the promotion of growth and transition to a market economy; (b) reducing poverty and ensuring social inclusion; (c) managing the environment and natural resources in a sustainable manner; and, (d) building institutions that can support the strategy.

Pillar I: Business development

- Global integration
- State sector reform
- Financial sector reform
- Private sector development
- Infrastructure

Pillar II: Social Inclusion

- Education
- Health
- Social Protection
- Gender

Pillar III: Natural Resources

- Land and Forest
- Water
- Environment

Pillar IV: Modern Governance

- Planning process
- Public financial management
- Legal development
- Public administration reform
- Fighting corruption

The donor community has decided to align its efforts behind the SEDP. A new cycle to support the SEDP has started with the PRSC 6 provided by the World Bank, and complemented by other donors' funds which are either through grants or parallel lending. A common approach is taken by all grant co-financiers, including the EC and EU Member States, who channel their PRSC contributions through a Single Donor Trust Fund (annual or multi-annual) created with the World Bank. Exceptionally, co-financiers providing PRSC loans (Japan, Germany

and the Asian Development Bank) sign direct agreements with the government of Vietnam, thereby channelling their funds outside the Trust Fund and applying individual management procedures.

The EC, through its grant to be provided under the programme, will join other donors' efforts aimed at strengthening and better co-ordinating the policy dialogue with the Government of Vietnam under the SEDP process, with a view to delivering on the Paris Declaration and Hanoi Core Statement on Aid Effectiveness. EC's contribution is 20 million EUR in grant to Vietnam's National Budget via the World Bank.

2.1 Activities

EC financial support to the State Budget of Vietnam via a World Bank Trust Fund to advance the implementation of a number of Prior Actions and Policy Actions agreed between the Government of Vietnam and PRSC financiers. These actions are outlined in attachments 1 and 2 to these provisions and broadly follow the structure of the SEDP.

Selected key activities in PRSC 6, chosen according to their more strategic nature compared to other prior actions and impact on outcomes, are:

Pillar I – Business Development

- Further restrict list of sectors where 100-percent state ownership is to be retained
- Require public disclosure of financial statements of SOCBs in line with internationally accepted standards
- Decentralize investment ownership to strengthen integration of capital and recurrent budgets in the road transport sector
- Clarify contract specifications, investor qualifications and treatment of unsolicited proposals for BOT projects

Pillar II – Social Inclusion

- Extend performance standards for primary teachers nationwide, including evidence-based assessments
- Adopt HIV/AIDS law and prepare action plans to scale up harm reduction, fight stigma and discrimination
- Unify legal framework to address gender disparities and increase women's participation in decision making

Pillar III – Natural Resources

- Issue strategy to strengthen linkages between protective and economic functions of forests, and promote local ownership

Pillar IV - Modern Governance

- Allocate state capital expenditure transparently, using criteria like population, poverty and ethnicity
- Disclose results of audits concluded by the State Audit of Vietnam as well as the annual audit plan
- Establish separate legal, judicial, economic, and budget committees to strengthen National Assembly's supervisory role
- Operationalize Steering Committee against corruption with power to suspend high level officials if suspected

2.2 Time Schedule

The operational implementation period is 24 months as from the signature of the Financing Agreement.

2.3 Location

The programme is nation-wide and will be implemented throughout Vietnam.

2.4 Prior Actions / Logical Framework

Prior Actions agreed in the dialogue between the Government of Vietnam and the development partners, are reported in Attachment 1 to these Technical and Administrative Provisions. They have been the subject of extensive joint evaluation and analysis by the EC and EU member states as well as other development partners and the World Bank Board, which agreed in June 2007 to approve the World Bank PRSC 6 credit for immediate release.

Since the modality for this program is Grant Support to the Vietnamese National Budget, the traditional logframe has been substituted by a Monitoring Framework towards Development Outcomes in Attachment 2.

3. ADMINISTRATIVE PROVISIONS

3.1 Implementation Modalities

3.1.1 Institutional Organisation

The programme will be implemented by the European Commission through its Delegation in Vietnam.

The Programme Coordination Unit at the State Bank of Vietnam is responsible to closely coordinate with the World Bank and other co-financiers for preparation

The Programme Coordination Unit at the State Bank of Vietnam is responsible to closely coordinate with the World Bank and other co-financiers for preparation and implementation of PRSCs. The MPI's Secretariat for the SEDP will be responsible for the overall oversight of all donors' related activities in support of the implementation of the SEDP.

3.1.2 Tasks

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

- Monitor that the activities are executed in accordance with the Administration Agreements signed between the Commission and the World Bank;
- Contribute to and co-ordinate the dialogue among EU and other donors and Government around the PRSC reform agenda;
- Pursue joint donor evaluations and statements on prior actions;
- Retain the responsibility for the monitoring, evaluation and audit of the programme

3.2 Inputs

Financial Resources to support the GoV in the implementation of reforms as set down in the SEDP.

3.3 Programme Costs and Financing

The total cost of the project is estimated at 260 million EUR, of which the EC contribution is 20 million EUR. Other donors contribute with a tentative 70 million EUR in grants and approximately 170 million EUR in loans.

Indicative Financing Plan (Estimates in million EUR):

Category Breakdown		**EC**	**Others**[1]	**TOTAL**	**Contracting and paying authority**
1	**Joint Management**	**19.8**	**70.0**	**89.8**	**EC**
1.1	Admin Agreement with World Bank for budget aid	19.8		19.8	EC
2	**Services**	**0.2**		**0.2**	**EC**
2.1	Monitoring & Evaluation	0.1		0.1	EC
2.2	Audit	0.1		0.1	EC
	TOTAL	**20.0**	**70.0**	**90.0**	**EC**

[1] Grants (Million EUR): Canada (2), Denmark (8.7), UK (29), Ireland (3), Netherlands (24), Spain (3).

3.4 Mobilisation of the Programme 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 disbursement of the Single Donor Trust Fund signed with the World Bank for support to PRSC 6 will be provided according to the payment modalities defined in the Administration Agreement signed with the World Bank.

3.5 Planning and Reporting

The Government of Vietnam` and the World Bank will provide all the reporting on progress undertaken by Vietnam's Government under the SEDP and PRSC processes, including the annual report to be submitted by the Government to the CG meeting by the end of each calendar year and the Joint Staff Assessment by the World Bank and the IMF.

3.6 Monitoring and Evaluation

During the VDR 2007 process , the EC participated substantially in the definition of outcomes matrix for the SEDP 2006-10, notably pushing for more qualitative indicators in the social sectors, and health in particular. The result is a comprehensive PRSC Outcome Matrix, including objectively verifiable indicators, which is drawn from the GoV's own Monitoring and Evaluation Framework for the SEDP 2006-10. Based on the EC's CSP 2007-13 focus areas and progress on EU division of labour, the EC will focus on the Outcome Matrix in the areas of health, education, governance and global integration. The World Bank has scheduled a Mid Term assessment of PRSC Development Outcomes. Independent consultants recruited directly by the Commission on specifically established terms of reference will carry out external monitoring and evaluation of the activities directly executed by the Commission.

3.7 Visibility

Opportunities to ensure visibility will be pursued in accordance with the Interpretative Letter of June 6, 2006 signed by Commissioner Benita Ferrero-Waldner and Mr. Paul D. Wolfowitz. In particular, the EC will maintain a high level of participation in the PRSC policy dialogue.

3.8 Donor Co-ordination

The GoV has taken the lead in improving donor coordination in the context of the Hanoi Core Statement on Aid effectiveness, though the level of coordination provided varies across sectors. The donor community as a whole is increasingly gathering around the SEDP/PRSC process as a guiding framework for all assistance to Vietnam. In order to preserve the necessary coherence between the activities of the present project 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 project.

Pillar I: Business development	
Sector	**Prior Action**
Global integration	Grant trading and distribution rights to all foreign firms in line with international commitments
	Issue regulations to guide the intellectual property law with adequate enforcement mechanisms
State sector reform	Further restrict list of sectors where 100-percent state ownership is to be retained
	Use share auctions as the main mechanism for equitization, and allow foreign strategic investors
	Classify all SOEs according to performance and publish the results
	SCIC to begin receiving state ownership rights in equitized SOEs from ministries and provinces
·ancial sector ıcıorm	Require public disclosure of financial statements of SOCBs in line with internationally accepted standards
	Increase equity stake allowed to foreign strategic investors in commercial banks
Private sector development	Introduce investment climate monitoring tool as part of annual enterprise survey
	Reduce processing times and rationalize fee structure for business registration
	Clarify authority on investment certificates and definition of onditional sectors, and standardize related documentation
	Issue guidelines and options to foreign investors transitioning to new Investment and Enterprise laws
	Establish consultative mechanism to streamline licenses and oversee implementation of new investment-enterprise regime
	Establish single-window mechanism for businesses to cover registration, tax, and seal formalities in selected provinces
:astructure	Decentralize investment ownership to better integrate capital and recurrent budgets in the road transport sector
	Clarify contract specifications, investor qualifications and treatment of unsolicited proposals for BOT projects
	Adopt wastewater charges based on cost recovery, with provisions to protect the poor

Pillar II: Social inclusion	
Sector	**Prior Action**
Education	Extend performance standards for primary teachers nationwide, including evidence-based assessments
	Adopt transparent criteria to decide on university admission quotas on a pilot basis
Health	Adopt HIV/AIDS law and prepare action plans to scale up harm reduction, fight stigma and discrimination.

Pillar II: Social inclusion	
Sector	**Prior Action**
Heath (continued)	Improve budgetary balance between health infrastructure, human resources, subsidies and preventive care
Gender	Unify legal framework to address gender disparities and increase women's participation in decision making.
Pillar III: Natural resources	
Sector	**Prior Action**
Land and forests	Issue strategy to strengthen linkages between protective and economic functions of forests, and promote local ownership
	Clarify resettlement and compensation process in cases without LUCs, and mechanisms for handling complaints
Environment	Mandate public consultation on EIAs at commune level with public feedback incorporated in report to relevant authorities
Pillar IV: Modern governance	
Sector	**Prior Action**
nning processes	Allocate state capital expenditure transparently, using criteria like population, poverty and ethnicity
	Adopt regulations for master and regional plans specifying issues, process, agency responsibility, and require disclosure
Public financial management	Disclose results of audits conducted by the State Audit of Vietnam (SAV) and its annual audit plan
	Publish report on budget execution for current year and budget plan for forthcoming year, on an annual basis
	Issue regulations for periodic disclosure of external public debt and its composition Implement regulation to guide the establishment and issuance of benchmark government bonds
	Consolidate administration procedures for all taxes into a single law, modernizing assessment and enforcement methods
Legal development	Establish separate legal, judicial, economic, and budget committees to strengthen NA's supervisory role
	Simplify and broaden access to legal aid for marginalized and vulnerable groups
	Adopt policies to encourage the participation of non-state establishments in the delivery of public services
	Strengthen information disclosure, public participation, and accountability of officials for commune level policies
Anti-corruption	Operationalize Steering Committee against corruption with power to suspend high level officials if suspected
	Disclose results of inspections against corruption for cases overseen by the Government Inspectorate
	Establish legal framework to protect and reward whistle blowing on corrupt activities

Attachment 2 – Monitoring Progress towards Development Outcomes

Pillar I: Business development					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Global integration	1. Export orientation	Merchandise exports as a proportion of GDP	GSO	61 percent (2005)	65 percent
	2. International alignment of standards	Proportion of technical product standards that are in line with international ones	STAMEQ (MOST)	25 percent (2005)	35 percent
	3. Client satisfaction with customs	Proportion of importers and exporters claiming they are satisfied with Custom services	Client survey by Customs Department	Expected in 2007	To be determined
State sector reform	1. Number of SOEs	Number of enterprises with 100 percent state ownership	NSCERD	2100	500
	2. State capital in SOEs transferred to SCIC	Fraction of state capital in SOEs transferred to SCIC by line ministries, provinces and general corporations	NSCERD and SCIC	None	50 percent
	3. SOEs with poor performance	Percentage of SOEs classified in the bottom "C" tier of performance according to Decision 224/06.	MOF	15.6 percent (Based on criteria of decision 271)	8 percent
Financial sector reform	1. Non-performing loans	Required provisioning for possible non performance in all outstanding credit	SBV	6-9 percent	Less than 5 percent
	2. Stock market capitalization	Ratio of stock market capital to GDP	SSC	22.8 percent (2006)	50 percent
	3. Share of strategic investors' ownership in SOCBs	Total equity held by the biggest non-government shareholder in each SOCB in percent of total SOCB capital	SBV	None	20 percent

(Continued)

Pillar I: Business development					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Private sector development	1. Employment in private enterprises	Number of paid employees in non-state enterprises, excluding collective enterprises	GSO (Annual Enterprise Census)	4.04 million (December 2005)	7 million
	2. Private enterprises away from the growth centers	Number of registered private enterprises in operation outside the South East Region, Danang, and Red River Delta	GSO (Annual Enterprise Census)	38.9 thousand (December 2005)	70 thousand
	3. Private domestic investment	As a proportion of total investment	MPI	30 percent (2001-2005)	35 percent
Infrastructure	1. Enterprises' satisfaction with infrastructure	Proportion of enterprises citing infrastructure as either a major or severe constraint for conducting business	GSO (investment climate survey 2006, 2008 and 2010)	Transport: 11.9 percent Electricity: 8.3 percent (2006)	5 percent
	2. Poor communes with basic infrastructure	This includes small irrigational works, schools, communal health stations, roads, electric lighting, water for domestic use, markets, communal cultural post offices, meeting houses, etc. Figures in proportion of all communes	Program 135 monitoring system (CEM)	Expected in 2007	Classrooms: 100 percent Electricity: 80 percent Clinics : 100 percent Roads: to be determined
	3. People living in urban slums	Fraction of the population living in houses not meeting government standards	GSO (VHLSS 2006, 2008, Population and Housing Census 2009)	25 percent	10 percent

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Pillar II: Social inclusion					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Education	1. Children with disabilities attending school	Proportion of children with a functional disability attending primary or secondary school	GSO (VHLSS)	Expected in 2007	To be determined
	2. Learning outcomes in primary school	Proportion of Grade 5 students below functional reading level	Learning outcome surveys done in 2001, 2007 and 2010	11 percent (2001)	5 percent
	3. Universities meeting international quality standards	Proportion of universities that has been independently accredited	MOET	None	100
Health	1. Child malnutrition rate	Proportion of children stunted (low height for age) or underweight (low weight for age).	National Institute of Nutrition –NIN (Nutrition Survey)	Stunting: 29 percent Underweight: 25 percent (2005)	Stunting: Below 25 percent Underweight: Below 20 percent
	2. Poor people with free health insurance	Proportion of people below the new national poverty line who have been provided with free health insurance	GSO (VHLSS 2004, 2006, 2008, 2010)	42 percent (includes free health card) (2004)	100 percent
	3. Use of modern health care facilities by the poor	Average annualised contacts with hospitals for the poorest quintile (as compared to richest quintile)	GSO (VHLSS 2004, 2006, 2008, 2010)	0.15 poorest (0.70 richest) (2004)	0.30 poorest

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Pillar II: Social inclusion					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Social protection	1. Poverty among the population at large	Proportion of people below the new Vietnam poverty line	GSO (VHLSS 2004, 2006, 2008, 2010)	20 percent (2004)	10 percent
	2. Poverty among ethnic minorities	Proportion of ethnic minorities below the new Vietnam poverty line	GSO (VHLSS 2004, 2006, 2008, 2010)	61 percent (2004)	40 percent
	3. Contributors towards old-age pensions	Includes both the compulsory and the voluntary schemes. In percent of the labor force	VSS, GSO and MOLISA	15 percent (2006)	30 percent
Gender	1. Leadership positions held by women	Leadership positions to be defined. In percent of total	MOHA	27 percent (National Assembly)	To be determined
	2. Asset ownership among women	Proportion of land use certificates held in the name of both spouses or a female person	GSO (VHLSS)	30 percent (2004)	45 percent
	3. Wage employment among women	Fraction of the female labor force having a wage either as primary or as secondary occupation	GSO (VHLSS) GSO/ MoLISA (Labour force survey)	17.9 percent (men: 25.5) (2004)	25 percent

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Pillar III: Natural resources					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Land and forests	1. Client satisfaction with land administration offices	Percentage of users highly satisfied with the services provided by land administrative offices	MoHA/ GSO Pilot Report Card Survey (2004) MoNRE (baseline survey 2007 and later surveys) GSO (VHLSS 2008)	22 percent (2004)	30 percent
	2. Forest land allocated to local communities	Proportion of forest land allocated to local people and communities, for all of Vietnam and the Central Highlands	MONRE	All of Vietnam: 25 percent Central Highlands: 2 percent (2005)	All of Vietnam: 30 percent Central Highlands: 15 percent
	3. Forest quality	Proportion of land area under forest with a closed canopy, multi-story-age profile and species diversity, abundance and distribution	FIPI of MARD (possible with additional remote sensing data)	4.2 percent	10 percent
Water	1. Population with access to improved or clean water	Includes urban and rural population. Includes all improved water sources excluding all hand dug wells	GSO (VHLSS)	Urban: 82 percent Rural: 48 percent	Urban: 95 percent Rural: 75 percent
	2. Population with hygienic sanitation.	Population with access to properly designed and installed sanitation.	GSO (VHLSS)	32 percent (2004)	75 percent
	3. River basins with inter-provincial management	Number of river basins with inter-provincial water allocation procedures established and operational	MoNRE	None	5

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Pillar III: Natural resources					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Environment	1.Quality of surface water	Quality of surface water in key areas as measured by MoNRE/ Vietnam Environmental Protection Agency (VEPA) monitoring systems	MoNRE/ VEPA Standards are being defined and monitoring systems put in place	Expected in 2007	To be determined
	2. Quality of air	Quality of air in key areas as measured by MoNRE/ VEPA monitoring systems	MoNRE/ VEPA Standards are being defined and monitoring systems put in place	Expected in 2007	To be determined
	3. Protection of bio-diverse wetlands	Number of wetlands of international importance included in the protected area system as designated Ramsar sites. (Wetlands of international importance are those that meet the Ramsar criteria. There are about 26.)	MARD	2 out of 26 (2006)	7

(Continued)

Pillar IV: Modern governance					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Planning processes	1. Provincial screening of public investment	Number of provinces that have issued guidelines for screening public investment projects at the pre-appraisal stage, including sound cost benefit analysis	MPI	None	30
	2. Adoption of integrated regional planning	Number of regions with a cross-sectoral master plan, integrating urbanization, large-scale infrastructure and environmental concerns	MPI	None	2
	3. Provinces adopting modern planning principles	Proportion of provinces using a participatory approach to planning in the preparation of their annual plans and adopt a results-based monitoring approach	MPI	3	30
Public financial management	1. Extent of unreported public expenditure	Proportion of public expenditure that is off-budget, i.e. not reported in the budget, budget execution reports and annual financial statements. This includes own source revenues, expenditures, statutory funds, proprietary funds.	MOF; based on PEFA assessment	Expected in 2008	To be determined
	2. Public agencies with internal auditing functions	Number of sector ministries and provinces that have established an internal audit function and started to publish auditing reports	MOF	X	To be determined

(Continued)

Pillar IV: Modern governance					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Public financial management (continued)	3. Public debt and public guarantees	Ratio of public debt to GDP, inclusive of publicly guaranteed debt at all levels of government	MOF	43.5 percent (inclusive of provincial publicly guaranteed debt)	55 percent
Legal development	1. Consultation in the law-making process	Percentage of draft laws and ordinances posted in the National Assembly website for comments.	Office of National Assembly	0	100 percent
	2. Number of civil society organizations legally registered	Number of civil society organizations registered under Decree 88 and the Law on Associations at national and provincial levels	MOHA and Provincial People's Committees	350 national and 2500 provincial (2006)	700 national and 5000 provincial
	3. Fraction of civil judgments enforced	Number of civil judgments enforced in percentage of all those subject to enforcement	MOJ (Department of Civil Judgment Enforcement)	35.7 percent (2006)	50 percent
Public administration reform	1. Districts with e-government interfaces	Percentage of districts with an operational online services for businesses	OOG (State Administrative Management Computerization)	15 percent (2006)	45 percent
	2. User satisfaction with government services	Percentage of users highly satisfied with government services, as evaluated through independent and representative household and business surveys.	MOHA/GSO Pilot Report Card Survey (2004) GSO (Governance module attached to VHLSS 2008, investment climate survey 2006, 2008, 2010)	38 percent (2004)	50 percent

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Pillar IV: Modern governance					
Area	**Indicator**	**Definition**	**Production**	**Most recent (year)**	**Expected (2011)**
Public administration reform (continued)	3. Provincial departments with one stop shop model	Proportion of provincial departments that have adopted the one stop shop model	MOHA	59 percent (2006)	80 percent
Fighting corruption	1. Households having suffered from corruption	Fraction of households who say they pay bribes when dealing with vulnerable government agencies as specified in the diagnostic study on corruption	Diagnostic study on corruption Table 2.4 (2005) GSO (Governance module attached to VHLSS 2008)	50.8 percent (2005)	35 percent
	2. Enterprises having suffered from corruption	Fraction of enterprises who say they pay bribes when dealing with tax administration officers or in relation to government regulations	GSO (Investment climate survey 2006, 2008, 2010)	67.9 percent (2006)	45 percent
	3. Proportion of entrepreneurs that see corruption as a binding constraint to business	Proportion of entrepreneurs that see corruption is either a severe or major constraint to business	GSO (Investment climate survey 2006, 2008 and 2010)	9.9 percent (2006)	5 percent