VIB2424

CREDIT NUMBER 3804 VN

Development Credit Agreement

(Second Poverty Reduction Support Credit)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 15, 2003

CREDIT NUMBER 3804 VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 15, 2003, between SOCIALIST REPUBLIC OF VIETNAM (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated May 30, 2003, describing a program of actions, objectives and policies designed to achieve poverty reduction and structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through October 6, 1999) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

> "'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made."

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement."

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions."

(d) The last sentence of Section 5.03 is deleted.

(e) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meaning:

(a) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement.

(b) "BIDV" means Bank of Investment and Development of Vietnam, a state-owned commercial bank, and any successor thereto.

(c) "Dong" and "VND" mean the national currency of the Borrower.

(d) "ICB" means Industrial and Commercial Bank of Vietnam, a state-owned commercial bank, and any successor thereto.

(e) "SBV" means the State Bank of Vietnam, and any successor thereto.

(f) "SOCBs" means state-owned commercial banks, and "SOCB" means any state-owned commercial bank.

(g) "SOEs" means state-owned enterprises, and "SOE" means any state-owned enterprise.

(h) "VBARD" means Vietnam Bank for Agriculture and Rural Development, a state-owned commercial bank, and any successor thereto.

(i) "VCB" means Bank for Foreign Trade of Vietnam, a state-owned commercial bank, and any successor thereto.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventy-two million six hundred thousand Special Drawing Rights (SDR72,600,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2003 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing December 15, 2013 and ending June 15, 2043. Each installment to and including the installment payable on June 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower 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.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, 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 Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the macroeconomic policy framework of the Borrower is satisfactory to the Association;

(b) The Borrower has adopted a detailed restructuring plan for each of Seaprodex, Vinatex and Vinacafe General Corporations, satisfactory to the Association;

(c) The Borrower has issued a Common Effective Preferential Tariff Decree, satisfactory to the Association;

(d) The Borrower has issued a decision, satisfactory to the Association, establishing a Debts and Assets Trading Company under the Ministry of Finance;

(e) The Borrower, through its Ministry of Finance, has approved a pilot plan, satisfactory to the Association, for the resolution through the Debts and Assets Trading Company of the debts of selected large SOEs;

(f) The Borrower has issued a decision, satisfactory to the Association, on the monitoring and evaluation of SOE performance;

(g) Each of ICB, BIDV, VBARD and VCB has completed the re-evaluation of unsecured non-performing loans of five large indebted SOEs among its borrowers and submitted reports thereon to the State Bank of Vietnam and the Ministry of Finance;

(h) The Borrower has adopted a National Strategy for Environment Protection, satisfactory to the Association; and

(i) The Borrower has adopted and deployed an Education for All framework satisfactory to the Association.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Governor or any Deputy Governor of the Borrower's State Bank of Vietnam is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

State Bank of Vietnam
49 Ly Thai To
Hanoi
Socialist Republic of Vietnam

Cable address:	Telex:	Facsimile:
VIETBANK	412248	(84-4) 825 0612
Hanoi	NHTWVT	

For the Association:

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

Cable address	Telex:	Facsimile:
INDEVAS	248423 (MCI) or	(1-202) 477-6391
Washington, D.C.	64145 (MCI)	

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIETNAM

By Le Duc Thuy
Governor, State Bank of Vietnam
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By Klaus Rohland
Director, The World Bank in Vietnam
Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit or a loan;

3. expenditures for goods included in the following groups or subgroups 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 Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, 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

Group	Subgroup	Description of Items
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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

I. Transition to a Market Economy

A. International Trade:

1. Submission of a draft Common Effective Preferential Tariff Decree for approval which, inter alia, (a) provides for the transfer of the last tranche on the Temporary Exclusion List (TEL) to the Inclusion List (IL); (b) establishes the 2003-2006 tariff reduction schedule on the basis of the ASEAN Harmonized Tariff Nomenclature; and (c) decreases the maximum tariff on all IL items to twenty percent (20%).

2. Elimination of quantitative restrictions for all tariff lines for cement products, steel, construction glass, floor tiles, vegetable oil, paper and clinker.

3. Issuance of regulations on most favored nation treatment (MFN) and national treatment (NT), and of safeguard measures for imports.

B. Reform of State-owned Enterprises:

1. Approval by the Prime Minister and public dissemination of 94 detailed plans submitted by line ministries, provinces, cities and general corporations for the reform, during the period 2003-2005, of SOEs under their respective jurisdiction, said plans identifying the SOEs specifically and indicating a timetable for their ownership transformation; and submission for approval of 10 remaining plans.

2. (a) Issuance of Decision 167/2000/QD-BTC and Circular 89/2002/TT-BTC requiring all SOEs, on an annual basis, to report the financial results for their last completed accounting period, to the relevant authorities; and (b) issuance of a Ministry of Finance letter of instruction strengthening administrative penalties on SOEs for failure to comply with the provisions of said Decision and Circular.

3. Submission of a draft Decision on SOE Performance Monitoring and Evaluation for approval which: (a) includes compliance with financial and accounting regulations, including reporting requirements, among the performance indicators; (b) establishes SOE rating based on performance; and (c) leads to sanctions for poorly-performing SOEs.

C. Financial Sector:

1. Completion by each of ICB, BIDV, VBARD and VCB of the 2002 loan loss provisioning target indicated in the respective restructuring plan approved by SBV, such target established in accordance with the IAS audit completed for 2000.

2. Completion by each of ICB, BIDV, VBARD and VCB of the 2002 target for resolution of non-performing loans, in accordance with the provisions of Instruction 355/CV-CLPT.

3. Approval by State Bank of Vietnam of the timetable for BIDV, ICB, VBARD and VCB to prepare and adopt their respective credit manuals.

4. (a) Completion of the 2001 audit of BIDV and VBARD, carried out in accordance with international accounting standards;

(b) In regard to the qualifications to the reports of said audit, (i) both BIDV and VBARD have moved from cash-based accounting to accrual-based accounting; (ii) VBARD has implemented the use of consolidated financial statements covering its affiliated entities; and established an action plan to enable it within 2003 to monitor and accurately reflect off-balance sheet items; and (iii) both BIDV and VBARD have established action plans to strengthen within 2003 their respective management information systems.

5. (a) Issuance of Instruction 04/CV-CLPT directing BIDV, ICB, VBARD and VCB to undertake and complete the re-evaluation of unsecured non-performing loans to SOEs during 2003-2004; and (b) establishment of a list of 80 SOEs with large unsecured non-performing loans for debt re-evaluation in accordance with said Instruction.

6. Formulation of recommendations to: (a) revise Circular 74/2002/TT-BTC to strengthen the creditor's rights of BIDV, ICB, VBARD and VCB in the re-evaluation and resolution of SOE non-performing loans, and (b) coordinate the resolution of non-performing loans with the reform plans for SOEs.

D. Private Sector Development:

1. Issuance of the Government Decision 94/CP approving an action plan to promote the development of the private sector.

2. Issuance of the Prime Minister's Directive 17/TTg to strengthen the implementation of the Enterprise Law, including through the publication of a list of permits required.

II. Inclusive Development

A. Health: Issuance of the Prime Minister's Decision 139/2002/QD-TTg to establish provincial-level Health Care Funds for the Poor to finance out-of-pockets costs for eligible individuals using public health services.

B. Land: Issuance of land-use right certificates: (i) to about thirty-five percent (35%) of users of urban residential land; and (ii) in forest area, to about sixty percent (60%) of household and individual land users who have received or rented forest land directly from the State.

C. Environment: Completion of stakeholders consultation on a National Strategy for Environmental Protection.

III. Modern Governance

A. Comprehensive Poverty Reduction and Growth Strategy (CPRGS): Establishment of a national steering committee to guide the implementation of the CPRGS.

B. Public Finance: Enactment of the revised Budget Law to support decentralization and transparency in budget planning, formulation and execution.

C. Legal Development:

1. Enactment of Law 02/2002/QH11 on Amendments of and Additions to a Number of Articles of the Law on Promulgation of Legal Instruments, which, inter alia, requires the publication in the Official Gazette of legal documents issued by the Government, Prime Minister, line ministers, head of ministerial-level agencies, Supreme People's Court and Supreme People's Procuracy, as a condition of their effectiveness.

2. Enactment of Law 06/2002/L/CTN on the Organization of the People's Courts, which, inter alia, transfers the management of the local courts from the Ministry of Justice to the Supreme People's Court.

D. Information: Approval by the National Assembly of the Law on Statistics to ensure quality of data, transparency and public access to information.