Development Credit Agreement

(Fourth Poverty Reduction Support Credit)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 15, 2005
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 15, 2005, between SOCIALIST REPUBLIC OF VIETNAM (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower (i) its Comprehensive Poverty Reduction and Growth Strategy (CPRGS) adopted in May 2002 by Decision of the Borrower’s Prime Minister, and (ii) its progress report on the CPRGS dated November 2004, which together described a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty (hereinafter called the Program);

(B) the Association has further received from the Borrower a letter dated May, 2005 reporting on the progress in the implementation of the Program, confirming the Borrower’s continued commitment to its execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(C) 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

(D) 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 in one single tranche 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 May 1, 2004), 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 specified in Section 2.02 (b) of the Development Credit Agreement; provided, however, that withdrawals in the currency of the Borrower shall be made in such currency or currencies as the Association shall from time to time reasonably select.”;

(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 in its entirety 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 meanings:

(a) “EVN” means Electricity of Vietnam, a state-owned enterprise established pursuant to Decision No. 562/TTg of the Prime Minister of the Socialist Republic of Vietnam, dated October 10, 1994, operating under the EVN Charter, responsible for developing, operating and maintaining, directly or indirectly, facilities for the generation, transmission and distribution of electricity throughout the Borrower’s territory, and any successor thereto.
“DAF” means the Development Assistance Fund, a state-owned financial institution established and operating pursuant to the Borrower’s Decree 50/1999/ND-CP of July 8, 1999 and Decree 106/2004/ND-CP of April 1, 2004, to receive and manage state resources allocated to development investments.

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

“Primary Teacher Profile” means a set of criteria for evaluating professional levels of primary teachers on the basis of competencies.

“SBV” means State Bank of Vietnam, the Borrower’s central bank, and any successor thereto.

“SEDPM” means the Borrower’s Socio-Economic Development Plan.


“SOEs” means state-owned enterprises, and “SOE” means any state-owned enterprise.

“WTO” means the World Trade Organization.

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 sixty-six million two hundred thousand Special Drawing Rights (SDR 66,200,000).

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) Except as the Association may otherwise agree: (i) all withdrawals from the Credit Account shall be deposited by the Association into an account in Dollars designated by the Borrower and acceptable to the Association; and (ii) the Borrower shall ensure that upon each deposit of an amount of the Credit into said account, an equivalent
amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Association.

(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 determines at any time that an amount of the Credit was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be December 31, 2005 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 May 15 and November 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 May 15 and November 15 commencing November 15, 2015 and ending May 15, 2045. Each
installment to and including the installment payable on May 15, 2025 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. (a) Without limitation upon the provisions of Section 9.01(a) of the General Conditions, the Borrower shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request.

(b) Upon the Association’s request, the Borrower shall:

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

(ii) furnish to the Association as soon as available, but in any case not later than six 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

(iii) 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; Termination

Section 5.01. 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 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: VIETBANK
Telex: 412248
Facsimile: (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 /s/ Le Duc Thuy

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Klaus Rohland

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 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, loan, or grant;

2. 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:

<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td>-</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td>-</td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and associated materials</td>
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<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
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<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>Group</td>
<td>Subgroup</td>
<td>Description of Items</td>
</tr>
<tr>
<td>-------</td>
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</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
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<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

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

4. 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);

5. expenditures 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

6. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive, or coercive 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 (C) of the Preamble to this Agreement

A. Transition to a Market Economy

1. Trade Integration:
   The Borrower has made strong progress in multilateral and bilateral negotiations towards its WTO accession by reaching the stage for a full draft Working Party Report and completing bilateral negotiations with six partners.

2. State-owned Enterprise Reform:
   (a) The Borrower, through Prime Minister’s Decision 155/2004/QD-Ttg of August 24, 2004, has narrowed the list of sectors in which exclusive state ownership is to be maintained.

   (b) The Borrower, through Decree 187/2004/ND-CP of November 16, 2004, has strengthened the mechanisms for equitization of SOEs, including by auctioning shares and requiring that valuations be carried out by outside agencies.

3. Financial Sector Reform:
   (a) SBV has confirmed the principle of separation of its SOCBs management functions from its supervisory functions.

   (b) SBV has issued regulations applicable to all SOCBs requiring them to classify loans on the basis of international accounting standards.

4. Infrastructure:
   The Electricity Law has been enacted which (a) allows the equitization of EVN subsidiaries, and (b) establishes an electricity regulatory agency.

B. Inclusive and Sustainable Development

5. Education:
   The Borrower, through the Ministry of Education and Training, has completed the evaluation of seven percent (7%) of all teachers based on the new Primary Teacher Profile for career development.

6. Land and Forests:
   The Law on Forest Protection and Development has been enacted.

7. Environment:
   The draft Amended Law on Environmental Protection has been submitted to the National Assembly for approval, and the draft implementing decree has been submitted to Government.
C. Modern Governance

8. Planning Processes:
The Borrower is integrating the CPRGS approach into the preparation of the Socio-Economic Development Plan 2006-2010, namely the principles of strategic planning, consultation, outcome orientation and monitoring.

9. Public Financial Management:
   (a) The Borrower, through the Ministry of Finance, has issued regulations to improve financial disclosure of all state budget entities, including SOEs, requiring among other information, disclosure of their annual budget allocations, budget plans and final accounts.

   (b) The Borrower has launched an assessment of the fiscal risks associated with SOEs, SOCBs and DAF.

10. Financial Accountability:
The Law on State Audit has been enacted stipulating that the State Audit of Vietnam is an independent specialized agency established by the National Assembly.

11. Anti-corruption:
The Borrower has established a framework to increase the effectiveness of anti-corruption actions by formulating a program of organizational and operational reforms, institutional capacity building and human resources development for the State Inspectorate, designed to increase its effectiveness and efficiency in preventing and combating corruption.

12. Information Availability:
The Borrower has strengthened the criteria for measuring poverty and targeting the poor by bringing them more into line with international standards.