
FRAMEWORK FINANCING AGREEMENT

(SOE Reform and Corporate Governance Facilitation Program)

between

SOCIALIST REPUBLIC OF VIET NAM

and

ASIAN DEVELOPMENT BANK

DATED:

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(SOE Reform and Corporate Governance Facilitation Program)

Parties This Framework Financing Agreement (“FFA”) dated [XXXX] is made between the Socialist Republic of Viet Nam (Viet Nam) and the Asian Development Bank (“ADB”).

MFF Investment Program Viet Nam is committed to and will implement the State Owned Enterprise (SOE) Reform and Corporate Governance Facilitation Project (SRCGFP) which is an integral part of the Investment Program for reforming the SOE sector. Both the SRCGFP and the Investment Program are described in Schedule 1 hereto.

The total cost of the SOE reform through restructuring and transforming GCs in Viet Nam is estimated to be \$1.77 billion equivalent during 2009-15. The SRCGFP over the period 2009 to 2015 is expected to be \$630 million equivalent.

Multitranche Financing Facility The Multitranche Financing Facility (the Facility) is intended to support the Government's agenda for SOE reform through equitization, restructuring and transformation of General Corporations (GCs). Participating GCs will be restructured under a comprehensive package involving corporate and financial restructuring, and enhancing of operational efficiency and corporate governance. Debt restructuring will enable the GCs to strengthen their balance sheet by swapping high-cost, short-term loans with cheaper, longer-term debt, thereby improving cash flow and the GC's debt servicing capacity, resulting in additional resources for productive activities. The process of corporate restructuring will enable the participating GCs to exploit both economies of scale and of scope by merging several small joint stock subsidiary companies in each GC into larger entities organized along same lines of business; combined with divestiture of disparate non-core business units. Additionally, operational efficiency will be enhanced by management restructuring to strengthen corporate management processes and improve governance. OCR resources will be used to support financial and corporate restructuring, while operational restructuring and improved corporate governance will be supported by the complementary loan component funded from ADF resources. The Facility will also provide support for institutions playing key roles in SOE reform, such as the Debt and Asset Trading Corporation (DATC) that addresses debt resolution in SOEs.

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by Viet Nam, cancel the uncommitted portion of the Facility, and withdraw Viet Nam's right to request any financing tranche under the Facility.

Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

This FFA does not constitute a legal obligation on the part of Viet Nam to request any financing. Viet Nam has the right not to request any financing under the Facility. Viet Nam also has the right at any

time to cancel any uncommitted portion of the Facility.

Viet Nam and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other party. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect.

Financing Plan

The financing plan for the SRCGFP is summarized below. Details are set out in Schedule 1.

Investment Program		
		(\$ million)
Investment Program Component	Sector Investment Plan	
A Debt restructuring ^a		1,090
B Management restructuring		130
C Institutional development ^b		550
Total Investment Program		1,770

^a Includes financial and corporate restructuring.

^b Includes .transfer of shares of equitized GCs from the Government to SCIC or its equivalent

Source: Asian Development Bank estimates

Financing Terms

ADB will provide loans and administer cofinancing as available to finance subprojects under the Investment Program, as and when they are ready for financing, provided that Viet Nam is in compliance with the understandings hereunder, and the component subprojects are in line with those same understandings. Each loan under the MFF will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the subprojects, capital market conditions, and ADB's financing policies that are prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

Commitment charges are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan. ADB rules on commitment charges which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is \$630 million.

It will be provided through individual tranches, for an amount up to \$600 million from ADB's Ordinary Capital Resources, and the remaining amount will be from Asian Development Funds (ADF). The allocation of ADF resources will be subject to (i) the general availability of ADF resources, (ii) Viet Nam's access to such resources pursuant to ADB's Graduation Policy and the requirements of the ADF donors, and (iii) the availability of such resources to Viet Nam pursuant to ADB's Policy on Performance

Based Allocation for Asian Development Fund Resources.

Availability Period

The utilization period for the Facility will be from December 2009 to 31 December 2015. No periodic financing requests (PFRs) will be accepted after this date, though disbursements of the PFRs approved for ADB lending would be allowed until the completion of the projects included for implementation in the last PFR. The implementation period of each tranche or loan is expected not to exceed 3 years.

Viet Nam has agreed (a) to execute the Loan Agreement for the first tranche, and (b) to cause the participating GCs and DATC to execute the Project Agreement for first tranche, both within twelve months from the date of approval of the Facility by ADB Board of Directors. Viet Nam has further agreed that the failure to achieve this, will cause the validity of the approval from ADB Board of Directors for the Facility to lapse unless the validity of such approval is extended by ADB.

Terms and Conditions

Viet Nam will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.

Execution

Ministry of Finance will be the Executing Agency for the Facility and responsible for the overall supervision and execution of the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche. The subprojects under the Investment Program will be implemented in accordance with the principles set forth in Schedule 1, the implementation framework set forth in Schedule 3 and the selection criteria set forth in Schedule 4 to this Agreement.

Periodic Financing Requests

Viet Nam may request, and ADB may agree, to provide loans under the Facility to finance the Investment Program and its related subprojects components upon the submission of a Periodic Financing Request (PFR). Each PFR will be submitted by Viet Nam. Viet Nam will make available to Ministry of Finance and through Ministry of Finance to Implementing Agencies as identified, the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche.

Each individual tranche will be for an amount of no less than (\$120 million), or its equivalent. ADB will review the PFRs and, if found satisfactory, prepare the related legal agreements.

The subprojects to be financed under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. ADB and Viet Nam will agree on a Facility Administration Memorandum and an indicative schedule to initiate these activities, as soon as possible after the date of this

Agreement, but prior to the effective date of the legal agreements for the first tranche.

Until notice is otherwise given by Viet Nam, the Governor of the State Bank of Vietnam will be Viet Nam's authorized representative for purposes of executing PFRs.

General Implementation Framework	The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto. Specific implementation details may be set out in the relevant loan and project agreements.
Procedures	<p>Tranches to be provided under the Facility will be subject to following procedures and undertakings:</p> <ul style="list-style-type: none">(a) Viet Nam will have notified ADB of a forthcoming PFR at least 15 days in advance of the submission of the PFR;(b) Viet Nam will have submitted a PFR in the format agreed with ADB;(c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche; and,(d) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.
PFR Information	<p>The PFR will substantially be in the form attached hereto, and will contain the following details:</p> <ul style="list-style-type: none">(i) Loan amount;(ii) Description of subprojects to be financed;(iii) Cost estimates and financing plan;(iv) Implementation arrangements specific to the subprojects ;(v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;(vi) Confirmation of compliance with the provisions under previous legal agreements as appropriate; and(vii) Other information as may be required under the Facility Administration Memorandum, or reasonably requested by ADB.
Safeguards	<p>Attached as Schedule 5 are references to the Safeguard Frameworks that will be complied with during the implementation of the Facility.</p> <p>ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the components financed under such financing tranche.</p>
Procurement	All goods and services to be financed under the Facility will be procured in accordance with ADB's <i>Procurement Guidelines</i> (2007, as amended from time to time).
Consulting Services	All consulting services to be financed under the Facility will be procured in accordance with ADB's <i>Guidelines on the Use of Consultants</i> (2007, as amended from time to time). Selection of

consulting firms will follow Quality- and Cost-Based Selection (80:20). Short term specialized tasks deemed necessary and arising during or following the implementation of restructuring might be undertaken by individual consultants.

Retroactive financing

Under each loan of the Facility, except as otherwise agreed with ADB, the expenditures incurred directly for the purpose of operational and corporate restructuring will qualify for retroactive financing of up to 20% of the proposed amount of the loans under the Facility, for eligible expenditures incurred before each loan takes effect but not earlier than 12 months before the loan agreement is signed. Viet Nam acknowledges that any approval of retroactive financing will not constitute a commitment by ADB to finance the related project.

Disbursements

Disbursements will be made in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time).

Monitoring, Evaluation, and Reporting Arrangements

Immediately following the approval of the Facility, MOF will establish a Facility Steering Committee (FSC) and a Program Management Unit to implement the Program. Each of the Implementing Agencies will establish its own program implementing unit. The FSC will consist of representatives of relevant government agencies and be headed by the Vice Minister in MOF. For each tranche of the Facility, project progress and performance will be monitored by the FSC which may also draw upon representatives of each of the participating implementing agencies, or their line ministries if appropriate. The FSC, with assistance of PMU, will use a comprehensive project performance monitoring system based on the performance indicators and milestones in the Design and Monitoring Framework (Schedule 2), against which the implementation effectiveness will be evaluated. Each implementing agency will submit bi-annual progress reports to the Committee. These reports will record (i) progress made, (ii) problems encountered during the review period, (iii) steps taken or proposed to remedy the problems, (iv) proposed program of activities, and (v) progress expected for the following six months. The Committee and the EA will ensure that these reports are submitted to ADB in a timely manner. Within 6 months of physical completion of a tranche, the executing/implementing agencies will submit to ADB a project completion report describing (i) progress of the tranche sub-projects in terms of corporate, management, and financial restructuring, (ii) results of capacity-building activities, (iii) preliminary assessment of achieved benefits, and (iv) other relevant project implementation matters requested by ADB.

ADB will field inception missions within 3 months of approval of the loan(s) for each tranche and at least two review missions a year. The Government and ADB will jointly undertake a midterm review of the Investment Program in 2012 that will focus on (i) program impact; (ii) outcomes of tranches implemented or under implementation; (iii) progress on policy framework; (iv) status of compliance with undertakings in the FFA and covenants in the individual loan agreements; and, (v) need for any midcourse changes in the scope or schedule of the Investment Program to ensure full achievement of impact.

Undertakings Attached as Schedule 6 are the undertakings provided by Viet Nam

SOCIALIST REPUBLIC OF VIET NAM

ASIAN DEVELOPMENT BANK

By _____
Name of Authorized Representative

By _____
Name of Authorized Representative

SCHEDULE 1

MULTITRANCHE FINANCING FACILITY (MFF) CONSTITUENTS

A. Road Map

1. In pursuit of its growth objectives, including transition from a centrally-planned economy to an increasingly market-oriented system, the Government of Viet Nam has sought to reform and transform the large SOE sector. The Government has articulated a clear vision for the SOE sector that seeks to reorganize, renew and restructure the state enterprises to increase their efficiency, adaptability to the market mechanism and competitiveness in the context of global economic integration. The objective of the State Owned Enterprise Reform and Corporate Governance Facilitation Program (SRCGFP) is to help realize the Government's vision and facilitate and accelerate the efforts of the Government in reforming the SOE sector. The program aims to improve the corporate and management structure and financial position of major GCs, and thus enhance their transparency, accountability, professionalism, profitability and operational efficiency. It is expected the transformation of the GCs will also support capital market development through creation of "iconic" or national blue-chip companies that are listed in local or regional capital markets. This will enable the transformed GCs to raise financing independently to implement projects, including those strategic to the State.

2. The Government has a road map for the transformation of the SOE sector consisting of conversion of SOEs through equitization, seeking to combine or follow equitization with listing, attracting new capital into the SOEs, increasing their efficiency and narrowing the role of state in management of the SOEs. The road map is supported by a policy framework and the necessary legal framework. As part of its road map, the Government initially focused on equitization of smaller SOEs to test and refine the equitization process. Subsequently, the Government aggregated large number of SOEs into General Corporations, and sought to define and develop a parent-subsidiary company model for the GCs. The Government has since then focused on equitizing and transforming the GCs, while also identifying with greater clarity areas or sectors that it intends to retain under full control (e.g., those deemed of strategic importance, such as defense and telecommunication). In others, while mostly retaining its stated objective of majority ownership even in listed entities, the Government has also relaxed the ceiling shares of other investors, including foreign investors. Equitization and transformation of the GCs is the next challenge in the Government's road map. A decision by the Prime Minister (263/2006/QD-TTg) provide a plan for 2007-2010 aligned with the broader Socio-Economic Development Plan (SEDP 2006-10) for equitization of the GCs in terms of the year specific GCs would be equitized. As already noted however, it is unlikely the target of even narrowly defined equitization of all GCs will be achieved by 2010; comprehensive transformation of the large GCs into efficient, competitive corporations maximizing value for shareholders is likely to take substantial more time and resources. The Prime Minister has now issued a directive (854/CT-TTg) dated 19 June 2009 asking NSCERD to initiate a review of SOE reforms to date and to prepare a plan aligned with the next SEDP until 2015. The broad elements of the plan are likely to remain consistent with the existing road map, comprising conversion of all remaining SOEs and GCs; seeking to combine equitization with listing; attracting new capital into the state enterprises; and to increase production and business efficiency.

3. Several factors have constrained the pace and quality of SOE reforms. One of these was the Government's initial encouragement for equitizing small, loss-making SOEs rather than large, profitable ones. Financial weakness of many GCs has also constrained their effective transformation. Most of the larger SOEs and GCs have very high levels of debt, with gearing, or the debt to equity ratio, frequently far in excess of 100%. The problem is exacerbated by the fact that much of the debt of the GCs is high cost and short term. High levels of indebtedness and poor cash flow imply that the GCs are ill-equipped to

deal with risks and will not have the financial capacity to fund capital investments.

4. Another constraint evident in the experience with SOE reforms to date is lack of comprehensive scope in SOE reform, with an unduly narrow focus on equitization. As the experience of equitized SOEs has reaffirmed, equitization is only one step of a successful transformation process for SOEs, and needs to be complemented, even preceded, with a host of other steps, including strategic and business planning, corporate and financial restructuring, attracting investment and corporate financing, forming value-adding business partnerships or alliances, and implementing more transparent governance. Enhancing market education of management and staff, modernizing management information systems and human resource development systems, and possibly listing on the stock exchange are additional steps and challenges that need to be addressed by an equitized enterprise for effective and comprehensive transformation. Clarifying the roles of owners and management, improving corporate governance, developing financing accountability, and developing a focused business strategy have been substantial challenges for SOE transformation in the country. The financial restructuring, necessary to reduce debt load and strengthen balance sheets of GCs, managerial, organization and corporate restructuring will require substantial investments.

5. Given the lack of progress on transformation of the GCs, it is unlikely the target of even narrowly defined equitization of all GCs will be achieved by 2010. Comprehensive transformation of the GCs into efficient, competitive corporations in a globalized economy is likely to take substantial more time and resources. It will also require successful demonstration of transformation models that work, and that can be replicated across other large SOEs. A successfully transformed SOE sector can promote inclusive growth in the country by eliminating the considerable static and dynamic inefficiencies in resource utilization in the economy, creating employment opportunities, and promoting capital market development.

B. Strategic Context

6. Transformation and reform of the State-Owned Enterprises (SOEs) sector is critical to reducing the dominance of inefficient state production, promoting private sector development and enhancing sustainable economic growth in Viet Nam. The Government's Socio-Economic Development Plan (SEDP) 2006-10 called for diversifying ownership to increase efficiency and competitiveness of SOEs. In addition to expanding the scale and scope of equitization of SOEs, the SEDP also envisaged narrowing and eliminating the role of ministries and other state entities in governance and management of SOEs. ADB's Country Strategy and Program 2007-11 (CSP) underlined SOE reforms as central to its strategy of business development and private-sector led employment growth. The CSP called for continued SOE reforms to reduce barriers to private-sector development, reduce corruption and misuse of public resources, increase transparency and enhance corporate governance.

7. ADB's strategy towards SOE sector in Viet Nam has two defining characteristics – long-term support and responsiveness. ADB has been engaged with SOE reform since early on, with approval of the SOE Reform and Corporate Governance Program in 1999, supported by an ADF loan for \$57 million equivalent and an OCR loan for \$40 million.¹ Two TAs were also provided to facilitate implementation of the program.² Following the completion of the program in December 2003, a new project preparatory TA was approved in 2006 for preparation of the present Facility.³ ADB has also been engaged in policy

¹ ADB. 1999. *Report and Recommendations of the President to Board of Directors on a Proposed Loan to Viet Nam for the State-Owned Enterprise Reform and Corporate Governance Program*. Manila.

² ADB. 1999. *Technical Assistance to Viet Nam for Corporatization and Corporate Governance*. Manila, and ADB. 1999. *Technical Assistance to Viet Nam for SOE Diagnostic Audit*. Manila.

³ ADB. 2006. *Technical Assistance to Viet Nam for Preparing the State-Owned Enterprise Reform and Corporate Governance Facilitation Project*. Manila. Due to delays in necessary approvals within the

dialogue on SOE reform through the annual Poverty Reduction and Support Credit Programs (PRSC)⁴. ADB's Country Strategy and Program 2007-11 (CSP) underlined SOE reforms as central to its strategy of business development and private-sector led employment growth. The CSP called for continued SOE reforms to reduce barriers to private-sector development, reduce corruption and misuse of public resources, increase transparency and enhance corporate governance.

8. ADB's approach to the SOE sector has also been responsive to the evolving contours of the long reform process, which has been both complex and sensitive in Viet Nam, often requiring consensus at the highest levels of decision making. ADB's first loan addressed prevailing constraints, including creation of a centralized government institution to formulate, coordinate and lead implementation of SOE reforms; adoption of a modern Law on Enterprises; divestiture of small enterprises and gradual reduction in shareholding of large and medium-sized SOEs; and, promotion of commercialization of operations. A decade later, the context of SOE reform has altered and new needs have emerged. While cumulatively thousands of SOEs have been equitized, representing almost two-thirds the number of SOEs existing in 2001, State capital in the already equitized SOEs represents only a modest fraction of total investments of the State. Qualitative results of the equitization process have also been disappointing, with the equitized entities in many cases remaining inefficient and dependent on state support for generating business. Remaining equitization is the more difficult part, concentrated primarily in the GCs. Most of the GCs have in fact completed the equitization of many of their subsidiaries, but equitization of the GC itself has proved a thorny problem. The SOE reform process is stymied due to lack of viable approaches to equitizing and transforming the large GCs. Through the SRCGFP, ADB is again introducing a timely catalytic element into the SOE reform process by proposing a comprehensive approach to successfully equitizing GCs and transforming them into globally competitive entities.

9. The MFF provides the Government with a sustained window for accessing resources to implement SOE reforms without binding itself to any commitment to borrow any further amounts. It also enables ADB to signal its sustained commitment to successful SOE reform without binding commitment to provide additional lending towards this objective. The MFF modality allows both the Government and ADB to review and assess the pilot for the proposed model for GC restructuring and transformation under SRCGFP, to modify if needed the approach to other GCs, and initiate implementation as when the successive GCs are project ready. Finally, the MFF modality allows the Government to avoid any commitment fees other than for loans disbursed under specific tranche, while allowing the terms of each tranche or loan to be customized to the specific needs for transformation of the GCs identified for participation in the tranche.

C. Policy Framework

10. The Government vision for the SOE sector has been clearly articulated as aiming to reorganize, renew and restructure the state enterprises to increase their efficiency, adaptability to the market mechanism and competitiveness in the context of global economic integration. The Government's policy framework envisages transformation of large SOEs into more efficient, market-compatible organizations albeit under Government ownership, at least in the short term. Equitization and the associated operations and corporate restructuring can promote eventual listing and sale of shares to investors as well as enhancing the attractiveness of the restructured enterprises to strategic investors. The

Government, the TA implementation started in July 2008.

⁴ The PRSC programs comprise several closely related activities jointly undertaken each year by participating development agencies to help the Government carry out policy reforms needed for the successful implementation of its poverty reduction strategy. The World Bank coordinates PRSC activities for the participating development agencies. ADB joined the PRSC process in 2003 and has taken part in all PRSC activities since then. See ADB. 2008. *Proposed Program Cluster and Loan for Subprogram 1 Socialist Republic of Viet Nam: Support for the Implementation of the Poverty Reduction Program V*. Manila.

Government's policy framework also endorses the principle of eliminating the role of line ministries in managing SOEs, separation of ownership and management of GCs; and, enhancing of transparency, accountability, professionalism and operational efficiency of the GCs.

11. The Government has also developed over time a legal framework for transformation of SOEs, which includes both a common legal framework governing all enterprises including SOEs, as well as a specific legal framework that applies to SOEs in the process of conversion and equitization. The current legal framework of SOE reform is generally adequate and comprises (i) Law on State Owned Enterprises, Enterprise Law and Law on Securities; (ii) Decrees, circulars and instructions on the equitization process; (iii) Decrees, circulars and instructions on other types of transformations (sales, assignments, business contracts and management contracts); (iv) Decrees, circulars and instructions on conversion process applicable to Parent Company – subsidiary model; and (v) Decrees circulars and instructions on Financial Management and Monitoring of SOEs.

12. For example, conversion of SOEs into parent company – subsidiaries model is addressed by Decree 111/2007/ND-CP (which repealed Decree 153/2004/ND-CP) along with Decision 1729/QD-TTg that approved a list of State owned groups, corporation subject to equitization for period 2007 – 2010; these are complemented by Circular 03/2005/TT-BKH on the content and the procedures for developing the charter of the parent company and Circular 72/2005 TT-BTC guiding the financial management of the parent Company. In addition to the decrees, circulars and instructions noted in the previous paragraph, the Government has also issued regulations articulating the policies and benefits towards labor identified as redundant in SOEs undergoing restructuring.

13. The Government is continuing to refine and strengthen the policy framework, particularly as related to the management of state's capital in restructured SOEs. The Government will need to review the framework for ownership of the State's interest in economic organizations to facilitate the necessary separation of ownership from management of large SOEs and GCs. There is a need to review and re-establish the role and structure of the State Capital Investment Corporation (SCIC). The Government established the SCIC in 2005 to manage state investments in enterprises and to invest and trade in state capital. The primary objectives of the SCIC are to facilitate SOE reforms and improve efficiency of utilization of state capital. The SCIC commenced operations from August 2006 and by December 2007 managed an investment portfolio comprising 829 enterprises with total book value of VND 7,710 billion. There is a need to review the role and structure of the State's investments in economic organizations to help enhance accountability, transparency, and implementation of governance processes.

14. Many of the GCs currently are structured as parent company of several subsidiary (equitized) SOEs that are operating in the same line of business. This creates for conflict of interest in the parent company when allocating business orders amongst the competing subsidiaries. While this problem will dissipate at the GC level following successful restructuring of the GCs, the same problem will then resurface at the level of SCIC following any eventual transfer of state ownership of GCs to the SCIC.

15. The Government will also need to review and refine the legal framework for improved resolution of debt relating to non-performing loans of SOEs. Lack of effective resolution of non-performing debts has also led to stalemate and prolonging of remaining SOE divestitures. The legal mechanisms, process, powers and financial facilities all need to be considered. The Government established the Debt and Asset Trading Corporation (DATC) in 2003 to acquire and resolve non-performing loans and non-collectible receivables owned by enterprises and to deal in and resolve interests received from SOEs upon equitization. The DATC was created with a Government pledge of VND 2,000 billion (about \$127 million) from state budget. The financial resources of DATC as well as limitations of capacity have also prevented it from effectively undertaking its tasks.

D. Investment Program

16. The Program will comprise support for different GCs under various Ministries at different stages of readiness. Their investment requirements will need to be assessed, including for the operational restructuring, and these needs will also depend on what the proposed new structures are. An Investment Program has been estimated based on assessment of available data, financing needs of GCs that may reasonably be expected to undergo transformation in the medium-term, until 2015.

17. Total SOE sector investment needs for equitizing GCs and large SOEs are estimated at \$1.77 billion equivalent over 2009-15 as shown in Table 1 below. The Government has proposed ADB provide financing for about 36% of the estimated investment program including \$600 million in OCR resources and \$30 million in ADF resources, while the financing for the remaining component will be sourced from strategic investors and GCs themselves through internal resources or capital market borrowing. Additional financing, if needed, may be identified from other donors.

Table 1: Cost Estimates for the Investment Program 2009-15
(\$ million)

	Investment Program Component	Sector Investment Plan
A	Debt restructuring ^a	1,090
B	Management restructuring	130
C	Institutional development ^b	550
	Total Investment Program	1,770

^a Includes financial and corporate restructuring.

^b Includes transfer of shares of equitized GCs from the Government to SCIC or its equivalent

Source: Asian Development Bank estimates

E. Financing Plan

18. The financing plan for the investment program as well as for the first tranche of the MFF is provided in table 2 below. ADB will finance the first tranche under the SRCGFP MFF for a proposed \$120 million in OCR and \$10 million in ADF. No new physical assets will be created from the OCR component of the Facility, which will be lent to GCs through MOF to restructure their existing debt to enhance cash flows and strengthen the balance sheet. The loan amounts will be a relatively small proportion of the total GC assets and liabilities. For example, Tranche 1 will support 2 GCs, Song Da and Sowatco, through OCR loans of \$117.5 million and \$ 2.5 million respectively. As of 31 December 2007, Song Da's total assets were \$1.35 billion and total liabilities were \$971.5 million, compared to the proposed OCR loan from ADB of \$117.5 million. Counterpart funding from the GCs therefore far exceeds the 90/10 requirement for project financing in Viet Nam.

Table 2: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
ADB Ordinary Capital Resources	600	33.9
ADB Asian Development Fund	30	1.7
Government ^a	550	31.1
General Corporations ^b	100	5.6
Strategic Investors/Others ^c	490	27.7
Total	1770.0	100.0
Project 1		
ADB Ordinary Capital Resources	120.0	92.3
ADB Asian Development Fund	10.0	7.7
Total	130.0	100.0

^a Includes transfer of government ownership in equitized GCs into SCIC or its equivalent

^b Includes internal resources and capital market and other borrowings

^c Given the demonstrative aspect of first tranche project, other donors may participate later. It is expected AFD may provide parallel financing from second-tranche onwards.

Source: Asian Development Bank estimates.

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Increased profitability and transparency of equitized and restructured SOEs, including large GCs and their subsidiaries</p>	<p>Number of GCs/large SOEs undergoing operational and financial restructuring during 2009-15 increases at least 50% over that in previous 4 years</p> <p>Profitability of restructured GCs and SOEs increases by 15% over average of 4 years preceding restructuring</p>	<p>MOF</p> <p>Externally audited, annual financial reports of GCs</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Continued commitment to transitioning to an increasingly market-driven economy • Macroeconomic stability • Sustained successful economic performance of equitized SOEs • Growth rate inadequate to absorb growing labor force <p>Risks</p> <ul style="list-style-type: none"> • Increased resistance from vested interests to SOE reforms • Government uses transformed GCs for achieving non-economic objectives, including use of inappropriate pricing policies
<p>Outcome Participating GCs are transformed into focused, efficient businesses with strong balance sheets and improved corporate governance</p>	<p>Debt-equity ratios reduced by at least 15% during first five years after GC restructuring</p> <p>Cash flows from operations are enhanced by at least 20% during first five years after GC restructuring.</p> <p>At least 4 GCs converted into pure holding company</p> <p>Lines of business of GCs reduced</p> <p>Number of principles of good corporate governance adopted by the GCs</p>	<p>NSCERD</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • The effect on GCs of global economic downturn is short term • Adequate financial resources to support continued SOE restructuring and transformation • Continued strengthening of debt resolution mechanisms and improvements in state management of capital <p>Risks</p> <ul style="list-style-type: none"> • Control of line ministries on GCs may get prolonged due to institutional inadequacies in effective management of state capital
<p>Outputs</p> <p>1. Debt restructuring implemented, combining financial and corporate restructuring.</p>	<p>Current ratio improves by at least 10% during the five years after restructuring</p> <p>Debt-Service Coverage Ratio improved by at</p>	<p>GC financial reports</p> <p>GC financial reports</p>	<p>Assumptions</p> <p>Continued commitment by GC management to restructuring</p> <p>No unexpected legal or regulatory impediments to restructuring</p>

<p>2. Increased operational efficiency and improved corporate governance of GCs and other SOEs</p>	<p>least 20% during first five years after GC restructuring;</p>		<p>Risks Operational restructuring of GCs may be too complex for the senior management to implement properly</p> <p>Capacity of the restructuring institutions to assimilate and absorb the changes may be low, particularly at levels below senior management.</p> <p>Middle management and workers oppose operational restructuring</p> <p>Capacity limitations constrain implementing of operational restructuring and improved corporate governance</p> <p>Implementation delays in corporate restructuring requiring share swaps and buybacks</p>
	<p>Number of subsidiaries directly below GC reduced</p>	<p>GC Annual Reports</p>	
	<p>At least 5 GCs create sub-holding companies and bring remaining subsidiaries under them</p>	<p>GC Annual Reports</p>	
	<p>At least 5 GCs refocus operations in core business lines</p>	<p>GC Annual Reports and externally audited financial reports</p>	
	<p>Management practices and business processes are rationalized in at least 5 GCs</p>	<p>GC Annual Reports and consultant reports</p>	
	<p>Budgetary controls and financial planning processes are improved</p>	<p>GC Annual Reports and consultant reports</p>	
	<p>Directors, managers and staff follow a code of ethics</p>	<p>GC Annual Reports and consultant reports</p>	
<p>3. Institutions supporting key aspects of SOE reform strengthened and governance improved, particularly those facilitating resolution of non-performing debts, and managing state capital in SOE sector</p>	<p>Surplus employees provided appropriate training for redeployment</p>	<p>GC Annual Reports and consultant reports</p>	
	<p>Improved management systems and processes at DATC</p>	<p>DATC Annual Reports and consultant reports</p>	
	<p>Improved internal audit system at DATC</p>	<p>DATC Annual Reports and consultant reports</p>	
	<p>Strengthened HR processes at DATC</p>	<p>DATC Annual Reports and consultant reports</p>	
	<p>Improved information management at DATC</p>	<p>DATC Annual Reports and consultant reports</p>	
<p>Improved legal framework of DATC</p>	<p>Regulations issued by the Government</p>		

<p>Activities with Milestones</p> <p>1.1 Strategic business plan and restructuring plan for each participating GC approved before each tranche approval</p> <p>1.2 Financial plan prepared and approved by tranche approval</p> <p>1.3 Financial restructuring initiated within six months of tranche loan becoming effective</p> <p>1.4 Corporate restructuring completed within 3 years of tranche loan becoming effective</p> <p>2.1 Management restructuring of GC initiated within three months of tranche</p>	<p>Inputs</p> <ul style="list-style-type: none"> • ADB \$630 million (\$600 million OCR, and \$30 million ADF) • Government (through transfer of owned shares) \$550 million • General Corporations \$100 million
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<p>loan becoming effective</p> <p>2.2 Sub-holding company identified or established by GC within six months of tranche loan becoming effective</p> <p>2.3 Business activities transferred from the mother company to subsidiaries operating in respective business segments within 1 year of tranche loan becoming effective</p> <p>2.4 Management of companies engaged in the same industry centralized at sub-holding company within 1 year of their establishment</p> <p>2.5 Associate enterprises in non-core areas divested within three years of tranche approval</p> <p>2.6 Standard procedures and processes established for each business segment within eighteen months of tranche loan becoming effective</p> <p>2.7 Standardized management and financial reporting package devised within eighteen months of tranche loan becoming effective</p> <p>2.8 Improved cash flow projections prepared within 1 year of tranche loan becoming effective to identify the expected cash inflows and the funding requirements for loan repayment and investment in on-going and new projects</p> <p>2.9 Charter of sub-holding companies aligned with the provision of Model Charter for listed companies issued by the Ministry of Finance within eighteen months of tranche loan becoming effective</p> <p>3.1 Development of an appropriate organization structure with job description for each management position by June 2011</p> <p>3.2 DATC restructured by Dec 2010; New departments created, if necessary, for Internal Audit, Investment Committee, Corporate Restructuring and IT</p> <p>3.3 Training program developed for DATC personnel and enterprises under DATC by Dec 2010</p> <p>3.4 Training organized on debt resolution and corporate restructuring, corporate governance, and investment analysis and management between Q1 2010 and Q4 2012</p> <p>3.5 Legal framework for DATC reviewed and revised by June 2011; MOF to review legal right of DATC to restructure and rehabilitate poorly performing SOEs in preparation for eventual equitization; preferential tax treatment for creditors transferring non-performing assets to DATC; role of strategic and special investors to participate in restructuring of debts by DATC</p>	<p>Strategic Investors/Others \$490 million</p>
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SCHEDULE 3

IMPLEMENTATION FRAMEWORK

1. Unless otherwise modified or amended in the related loan or project agreements, Viet Nam will ensure implementation of the Investment Program as described below.

1. Investment Program Management

2. Ministry of Finance will be the Executing Agency for the Facility and responsible for the overall supervision and execution of the SRCGFP including but not confined to preparation of the PFR; inter-ministry coordination as needed; program monitoring and evaluation; and quarterly and annual progress reports. Immediately following the approval of the Facility, MOF will establish a Facility Steering Committee (FSC) and a Program Management Unit to monitor implementation of the Program. The FSC will consist of representatives of relevant government agencies and be headed by the Vice Minister in MOF. For the first tranche, Song Da, Sowatco, and DATC will be the respective Implementing Agencies (IAs); implementing agencies in subsequent tranches will be participating SOEs/GCs and/or relevant Government agencies promoting SOE sector reforms. The first-tranche project involves comprehensive reform measures to be undertaken by both Song Da and Sowatco through: (i) corporate restructuring; (ii) management restructuring; and (iii) financial restructuring. The project also involves enhancing the operational efficiency of DATC in facilitating and supporting the reform process in the SOE sector. Operational restructuring at the three IAs will be facilitated by consultant services and supervised by respective Boards of Management.

2. Subproject Selection, Preparation and Approval Procedures

3. The preparation and appraisal of subprojects to be included in the first PFR has already been completed. For subprojects under the subsequent loans of the Investment Program, an approval procedure, as outlined in Appendix 5, has been agreed on. After ADB's approval and subject to any modification measures required by ADB, the Ministry of Finance will prepare PFRs for ADB's financing. The PFRs will be formally submitted by the Government to ADB for further processing. Each PFR will provide (i) required loan amount; (ii) subprojects and components to be finance under the loan; (iii) cost estimates and financing plan; (iv) implementation arrangements; (v) confirmation of continuing validity of and adherence to the provisions of the FFA; (vi) confirmation of compliance with the provisions under previous loan and project agreements, as appropriate; and (vii) other information required under the facility administration memorandum to be prepared and agreed on by ADB and the Government, to facilitate implementation and processing of the Facility.

3. Implementation Period

4. The utilization period for the Facility will be from September 2009 to 31 December 2015. No PFRs will be accepted after this date, though disbursements of the PFRs approved for ADB lending would be allowed until the completion of the projects included for implementation in the last PFR. The implementation period of each tranche or loan is expected to not exceed 3 years.

4. Procurement, Consulting Services and Disbursement

5. The Facility will involve two lending sources from ADB: (i) OCR loan proceeds that will be used solely for financial restructuring in the participating GCs; and (ii) the concessional

funding from ADB's ADF window for carrying out management restructuring and capacity building in participating GCs and other Government institutions related to SOE reforms, to enhance their respective operations efficiency or their role in supporting the reform process in the SOE sector. The use of ADF resources will be subject to availability based on changes arising from existing project cycles, annual performance-based allocation exercises and other considerations.

6. The ADF Loan will be used exclusively for meeting the expenses for operational restructuring, enhancing governance and building capacity in participating GCs and institutions. These expenses would primarily consist of consulting services to implement the operations restructuring and equipment for information management system. In the first stage, the ADF proceeds will be used solely for meeting the expenses to be incurred, or having been incurred within the provisions of retroactive financing of ADB, by the three implementing agencies i.e. Song Da and Sowatco, for undertaking their agreed management restructuring and corporate governance strengthening measures, and DATC for enhancing its operational efficiency, as agreed with ADB. Except as ADB may otherwise agree, the three Implementing Agencies shall each establish immediately after the Effective Date, an imprest account for the ADF funds, to be managed respectively by the three implementing agencies at a commercial bank acceptable to ADB and to be used solely for the purpose stated above. The respective imprest accounts shall be established, managed, replenished and liquidated in accordance with ADB's *Loan Disbursement Handbook* (2007, as amended from time to time), and detailed arrangements agreed upon between the Government as the Borrower and ADB. The currency of the imprest deposit account shall be in Dollar. For each Implementing Agency for each tranche of the Facility, the imprest amount should not exceed the lower of (i) the estimated expenditure to be financed through the imprest account for the next six (6) months of project implementation, or (ii) the equivalent of ten (10) percent of the respective Subsidiary Loan amounts to be financed from the ADF resources. For each tranche, claims under retroactive financing for expenditures incurred during the last 12 months before the loan signing will need to be certified by the auditors of the GC submitting the claim and endorsed by the Borrower.

7. All goods financed under the SRCGFP Facility will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time). Consultants will be selected in accordance with *Guidelines on Use of Consultants by ADB and Its Borrowers* (2007, as amended from time to time). Selection of consulting firms will follow Quality- and Cost-Based Selection (80:20). Short term specialized tasks deemed necessary and arising during or following the implementation of restructuring might be undertaken by individual consultants.

8. Disbursements will be according to ADB's *Loan Disbursement Handbook* (2007, as amended from time to time) and detailed arrangements agreed between the Government, executing agencies/implementing agencies, and ADB. Equipment purchased will be primarily for establishing or enhancing information management system, including software and hardware and its installation. The size of any single contract for IT system and its component will not exceed \$1 million equivalent. The disbursements for equipment and services procured will be made by direct payment and commitment procedures. The statement of expenditures procedure will be used to reimburse eligible expenditure and liquidate advances to the implemented agencies; records will be maintained to substantiate the payments made through statement of expenditures. Payments under statement of expenditures will be up to \$100,000 per payment. The implementing agencies will prepare withdrawal applications and submit them to MOF for endorsement.

9. For the first tranche, the OCR will be effective upon satisfaction of conditions precedent for initial disbursement, including development of plan for operational restructuring and improved corporate governance, and based on the debt restructuring schedule of both Song Da and Sowatco as agreed with ADB. The Government being the borrower, the loan proceeds will be used by the Government for relending to Song Da and Sowatco solely for the purpose of their financial and corporate restructuring. Except as ADB may otherwise agree, ADB will transfer the Loan proceeds to the creditor banks of the debts to be restructured in the books of Song Da and Sowatco against valid requests made for such purpose from the respective Implementing Agencies i.e. Song Da and Sowatco supported by resolutions from their respective boards of management and endorsed by the Executing Agency.

5. Retroactive Financing

10. Under each loan of the Facility, except as otherwise agreed with ADB, the expenditures incurred directly for the purpose of operational and corporate restructuring will qualify for retroactive financing of up to 20% of the proposed amount of the loans under the Facility, for eligible expenditures incurred before each loan takes effect but not earlier than 12 months before the loan agreement is signed. The Government has been advised that ADB's approval of retroactive financing does not commit ADB to finance relevant projects under the Facility.

6. Anticorruption Policy

11. ADB's *Anticorruption Policy* (1998, as amended to date) was explained to and discussed with the Government and the EA. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Program. To support these efforts, relevant provisions of ADB's *Anticorruption Policy* will be included in the loan agreements and bidding documents. In particular, all contracts financed by ADB in connection with the Program shall include provisions specifying the right of ADB to audit and examine the records and accounts of the Executing Agency and all consultants and other service providers as they relate to the Investment Program.

12. The disbursement arrangements in place ensure that proceeds of the OCR loans used for financial restructuring of debts would be paid directly to the creditors upon fulfillment of release procedures by the Implementing Agency and the Executing Agency. For the ADF loans to be used for operational restructuring by participating GCs, loan proceeds may also be disbursed directly to the consultants and other service providers under the direct payment procedure. A financial management assessment of the Implementing Agencies for Tranche 1 has been undertaken and their financial systems assessed as adequate.

7. Accounting, Auditing, and Reporting

13. The implementing agencies (IAs) will also (i) maintain accounting, management information, and financial control systems acceptable to ADB; (ii) engage independent auditors from auditing firms licensed to operate in Viet Nam and acceptable to ADB and authorize such auditors to submit financial statements to ADB at least annually; and (iii) permit ADB representatives access to all sites where its activities are conducted, as well as to its books, accounts, and records. The deadline for submitting audited accounts will be 6 months from the end of each fiscal year. A separate audit opinion will be issued on the use of the imprest account.

14. For each tranche of the Facility, project progress and performance will be monitored by the FSC which may also draw upon representatives of each of the participating implementing agencies, or their line ministries if appropriate. The FSC, with assistance of PMU, will use a comprehensive project performance monitoring system. Each implementing agency will submit bi-annual progress reports to the Committee. These reports will record (i) progress made, (ii) problems encountered during the review period, (iii) steps taken or proposed to remedy the problems, (iv) proposed program of activities, and (v) progress expected for the following six months. The Committee and the EA will ensure that these reports are submitted to ADB in a timely manner. Within 6 months of physical completion of a tranche, the executing/implementing agencies will submit to ADB a project completion report describing (i) progress of the tranche sub-projects in terms of the three main components i.e. corporate, management, and financial restructuring, (ii) results of capacity-building activities, (iii) preliminary assessment of achieved benefits, and (iv) other relevant project implementation matters requested by ADB.

8. Investment Program Reviews

15. ADB will field inception missions within 3 months of approval of the loan(s) for each tranche and at least two review missions a year. The Government and ADB will jointly undertake a midterm review of the Investment Program in 2012 that will focus on (i) program impact; (ii) outcomes of tranches implemented or under implementation; (iii) progress on policy framework; (iv) status of compliance with undertakings in the FFA and covenants in the individual loan agreements; and, (v) need for any midcourse changes in the scope or schedule of the Investment Program to ensure full achievement of impact.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR INVESTMENT PROGRAM SUBPROJECTS

A. Selection of the GCs

1. The basic principles guiding selection of the GCs for participation in the SRCGFP are: (i) commitment and willingness to reform, on part of the GCs themselves, their concerned line ministries or agencies, and the government; (ii) relevance of the GCs to ADB's country strategy and sector strategy, and to the Government's plans and strategy for the SOE sector; and, (iii) financial viability of the GCs after the restructuring measures under SRCGFP, including potential for listing. These selection criteria may be reviewed and agreed upon between ADB and the Government, as needed.

2. **Commitment to reform.** The core elements of the SRCGFP comprise financial restructuring, corporate restructuring and operational or management restructuring. While financial restructuring would always be useful to any enterprise if it enables strengthening of the balance sheet, both corporate and particularly operational restructuring comprise complex and intangible changes that depend on as much on "changing mindsets" as physical change for their success. A utility and success of these restructuring measures is thus critically dependent on an intrinsic, strong and evident commitment to the envisaged changes.

3. Prior to participation in the SRCGFP, therefore, the relevant GCs will need to undertake several measures, as follows:

- (i) Express general interest in participation in the Facility to MOF and Ministry of Planning and Investment;
- (ii) Undertake a comprehensive review of their financial and operational parameters, focusing on assessing and identifying core business areas; crystallizing strategic goals and objectives; analyzing strengths, weaknesses, opportunities and threats in core business areas; and develop a plan of proposed measures to strengthen the corporate balance sheets and business processes to enhance their value to strategic and other investors, including through equitization or eventual listing;
- (iii) Based on internal and external consultations, finalize restructuring plans and obtain firm commitment from the Board of Management and from the line ministry or agency for approval of the proposed restructuring measures;
- (iv) Review existing processes for corporate governance, identify gaps and develop comprehensive plans to restructure operations as necessary to strengthen corporate governance;
- (v) Include all senior and middle-level management in the consultative process to generate broader buy-in and enhance implementation of the envisaged restructuring and changes, including for strengthening corporate governance;
- (vi) Make transparent and available all necessary data for analyzing financial and operational performance, including plans and projections for investments into medium term; and
- (vii) Obtain endorsement from MOF for their participation.

4. **Strategic relevance.** The selection of GCs will be focused in sectors that are relevant to ADB's country operations as laid out in the Country Partnership Strategy. GC selection will also

have to be consistent with ADB's strategy for reforms of the SOE sector, as well as that of the Government. The Government is developing its plans for equitization of remaining SOEs and will also prepare a new, longer term plan for development to follow the Socio-Economic Development Plan 2006-10.

5. **Financial viability.** The end-result of any GCs participation in the SRCGFP is the unlocking of the full potential value of its assets through transformation into a globally competitive, efficient and profitable enterprise with good corporate governance; this will also maximize returns to the Government when the enterprise is listed in the exchange. Financial and operational viability of the enterprise is thus a prerequisite to the participation of the GC in the Facility. While it is possible the GC may not necessarily be highly profitable prior to restructuring under the Facility, it has to be structurally transformable into a profitable entity ex post. The GC should thus be in a position to be meaningfully and beneficially impacted by ADB debt restructuring, and operational restructuring to become profitable, maximize value for shareholders and access capital markets. The financial and operational analysis undertaken prior to participation in the Facility will be used to assess viability of the enterprise's operations. This would include elimination or divestiture of areas of operation that would otherwise preclude the financial viability of the enterprise. Similarly, GCs in areas where financial viability has lower emphasis, such as GCs catering to national defense, may not be appropriate for participation in the Facility.

B. Approval Procedures

6. The participation of GCs in subsequent tranches will follow the procedures below. Initial consultations will be held between MOF and GCs interested in participating. Based on the consultations, and consistency with Government plans and strategy, MOF will indicate to ADB the GCs that can potentially participate in the Facility. Subject to ADB's endorsement of potential participation, the identified GCs will need to fulfill the criteria for selection listed above. A comprehensive analysis of the GCs financial and operations parameters will be undertaken, as well as an assessment of their strengths and weaknesses in identified core business areas. The GCs will also develop a plan of proposed measures to strengthen their corporate balance sheet and business processes to enhance their value to strategic and other investors, including through equitization or eventual listing. Core areas of weaknesses and challenges in corporate governance will be identified and measures proposed for mitigating these. For GCs without adequate informational infrastructure and expertise to carry out these preparations, at Government request, ADB will provide technical assistance to the concerned GCs for undertaking such analyses and preparations of plans. The plans and restructuring measures identified will then be presented to the middle and other senior management of the GCs followed by presentation for endorsement to the Board of Management and the concerned line ministry or agency for the GC. The GC Board of Management will provide a formal letter to MOF endorsing implementation of the proposed plans and restructuring measures and participation of the GC in the Facility. In addition, the GC will also provide in a transparent and comprehensive manner all relevant financial information to MOF and ADB to undertake appropriate due diligence measures, and identify issues, if any, related to ADB's social and environment safeguards.

7. Based on the information prepared by the GCs, with possible facilitation by ADB consultants, the projects will be appraised by ADB and MOF, which will be providing sovereign guarantee to the ADB lending. After ADB's approval, and subject to any modifications and measures required by ADB, MOF will prepare Periodic Financing Request (PFRs) for ADB's financing. Each PFR will provide (i) required loan amount; (ii) subprojects and components to be

finance under the loan; (iii) cost estimates and financing plan; (iv) implementation arrangements; (v) confirmation of continuing validity of and adherence to the provisions of the FFA; (vi) confirmation of compliance with the provisions under previous loan and project agreements, as appropriate; and (vii) other information required under the facility administration memorandum to be prepared and agreed on by ADB and the Government, to facilitate implementation and processing of the Facility. These PFRs will be formally submitted to ADB for further processing through the Government of Viet Nam.

8. In addition to GCs, the Government may request participation of other institutions to access the Facility, such as those dealing with resolution of distressed assets and debts and with the management of the state's capital in the SOE sector. The Government is reviewing the role of these institutions and will undertake measures to improve them as well as consider alternative institutions. In either event, if the Government deems appropriate to seek support for such institutions under the Facility, MOF will undertake consultations with ADB to identify the scope and amount of support sought. Upon agreed understanding between ADB and the Government, MOF will prepare a PFR that may be combined with financing support for GCs as described above. The PFR will be formally submitted to ADB for further processing.

SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. The SRCGFP is classified as category C under ADB's environmental classification system, with no significant adverse impact identified. The Investment Program will not have any involuntary resettlement impact as it has no investment component for creation of new physical assets. None of the debt and operational restructuring measures in GCs associated with the Facility will trigger any activities related to indigenous people during the implementation period.
2. No significant direct impact on employment opportunities is expected; normal growth in the restructured companies will be adequate to facilitate mobilization and retraining of any surplus resources for redeployment, resulting in right sizing in the near term through growth and normal attrition. While the proposed restructuring measures are expected to be gender neutral, women workers are often more vulnerable to adverse employment opportunities. The Government will ensure that the participating GCs provide appropriate training for potential redeployment of affected SOE employees, and that the GCs address training and redeployment with gender neutrality.
3. Although no adverse impacts on environment, indigenous peoples and involuntary resettlement are foreseen under the Facility, its implementation shall be consistent with ADB's policies on social and environment safeguards, Prior to the preparation of each Periodic Financing Request (PFR), the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policies, as amended from time to time.

SCHEDULE 6

UNDERTAKINGS

Government will, and will cause all participating GCs, to undertake that they will:

- (i) ensure that ADB is kept informed on policies and programs related to the SOE sector and restructuring of GCs as well as policies and programs that will materially affect the financial viability of each subproject under the Investment Program;
- (ii) ensure that all subprojects are selected in accordance with the agreed criteria set out in Schedule 4 of the FFA and other applicable requirements and guidelines for subproject implementation and monitor together with the ADB the implementation of subprojects up through the completion of each subproject;
- (iii) monitor the subproject effects on women during implementation of each subproject, and ensure the appropriate training and redeployment of workers affected by the restructuring are gender neutral and do not have negative gender impacts. This also includes training women in 'non-traditional' skills to challenge any gender inequities resulting from gender divisions of labor in the workforce;
- (iv) undertake by the end of the implementation of Project 1 a comprehensive review of the existing Master Plan for SOE reform and develop a new Plan incorporating the lessons learnt from the experience so far. In developing the new Master Plan, the Government will review and incorporate relevant findings from the implementation of the pilot first tranche of the Facility;
- (v) assess by the end of the implementation of Project 1 the options to develop an enhanced framework for improved management of the state's capital invested in the SOE sector. The experience with management of state capital will be reviewed, including regulatory and legal obstacles to its effective performance, and attempts made to address them;
- (vi) adopt by the end of the implementation of Project 1 (or within 18 months of the loan effectiveness), the legal framework to (i) carry out effective debt resolution through DATC, and (ii) enhance DATC's operational effectiveness, in a manner satisfactory to ADB;
- (vii) ensure that the entire proceeds of the loans from the Facility will be solely used for relending to the participating GCs under the appropriate on-lending arrangement; and ensure that the GCs utilize the proceeds of the loans for the purposes agreed to with ADB;
- (viii) ensure participating GCs shall maintain maximum long-term debt to equity ratio, minimum debt service coverage ratio (DSCR), minimum self financing ratio (SFR), and other such financial ratios as deemed appropriate and satisfactory to ADB;
- (ix) comply with ADB's Anticorruption Policy and ADB's rules and procedures for procurement of goods and services as amended from time to time;
- (x) ensure that the participating GCs adhere to the agreed corporate and management restructuring measures bearing the following features within the agreed:

- that the GC shall transfer all business activities to its subsidiaries operating in the same business or new subsidiaries;
- that all subsidiaries operating the same business segment shall be grouped under an appropriate sub-holding company, if there is more than one segment;
- that the selected sub-holding shall preferably be a listed company;
- that identified non-core businesses shall be divested at appropriate time;
- that key executives of the group shall be centralized at the sub-holding company level; and
- that the recommended enhancements to the management and reporting.