



Completion Report

Project Number: VIE 38392-01
Loan Number: 2123
September 2006

The Socialist Republic of Viet Nam: Support to Implementation of Poverty Reduction Program

CURRENCY EQUIVALENTS

Currency Unit – dong (D)

		At Appraisal	At Program Completion
		31 August 2004	31 August 2006
D1.00	=	\$0.000063424	\$0.00006246
\$1.00	=	D15,767	D16,011

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
CPRGS	–	Comprehensive Poverty Reduction and Growth Strategy
CSP	–	country strategy and program
CSPU	–	country strategy and program update
DAF	–	Development Assistance Fund
FSQL	–	fundamental school quality level
GDP	–	gross domestic product
GSO	–	General Statistics Office
HIV/AIDS	–	human immunodeficiency virus/acquired immunodeficiency syndrome
IAS	–	International Accounting Standards
IMF	–	International Monetary Fund
LUC	–	land-use right certificate
MDG	–	Millennium Development Goal
MOF	–	Ministry of Finance
MPI	–	Ministry of Planning and Investment
MRM	–	management review meeting
MTEF	–	medium-term expenditure framework
NPL	–	nonperforming loan
NSC	–	National Steering Committee
ODA	–	official development assistance
PCU	–	Program Coordination Unit
PGAE	–	partnership group of aid effectiveness
PPER	–	Program Performance Evaluation Report
PPTA	–	project preparatory technical assistance
PRGF	–	Poverty Reduction and Growth Facility
PRSC	–	Poverty Reduction Support Credit
SAV	–	State Audit of Viet Nam
SBV	–	State Bank of Viet Nam
SEDP	–	Socioeconomic Development Plan
SIPRP	–	Support to Implementation of Poverty Reduction Program
SOCB	–	state-owned commercial bank
SOE	–	state-owned enterprise
TA	–	technical assistance
TABMIS	–	Treasury and Budget Management Information System
VAS	–	Vietnamese Accounting Standards
VDG	–	Viet Nam Development Goals
VDR	–	Viet Nam Development Report

VRM – Viet Nam Resident Mission
WTO – World Trade Organization

NOTE

The fiscal year (FY) of the Government and

Vice President	C. L. Greenwood, Jr., Operations Group 2
Director General	R. Nag, Southeast Asia Department (SERD)
Director	A. Konishi, Viet Nam Resident Mission (VRM), SERD
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BASIC DATA

A. Loan Identification

1.	Country	Social Republic of Viet Nam
2.	Loan Number	2123
3.	Program Title	Support to Implementation of Poverty Reduction Program
4.	Borrower	Social Republic of Viet Nam
5.	Executing Agency	State Bank of Viet Nam
6.	Amount of Loan	4,346,000 SDR (\$6,592,000)
7.	Program Completion Report Number	963

B. Loan Data

1.	Appraisal	
	– Date Started	22 August 2004 (upgraded from fact-finding)
	– Date Completed	3 September 2004 (upgraded from fact-finding)
2.	Loan Negotiations	
	– Date Started	14 October 2004
	– Date Completed	15 October 2004
3.	Date of Board Approval	9 December 2004
4.	Date of Loan Agreement	20 December 2004
5.	Date of Loan Effectiveness	
	– In Loan Agreement	90 Days after Loan Agreement (5 March 2004)
	– Actual	14 March 2005
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	31 December 2005
	– Actual	31 December 2005
	– Number of Extensions	0
7.	Terms of Loan	
	– Interest Rate	1.0% during the grace period, 1.5% during the amortization period
	– Maturity (number of years)	24
	– Grace Period (number of years)	8

9. Disbursements

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
9 May 2005	9 May 2005	0
Effective Date	Original Closing Date	Time Interval
14 March 2005	31 December 2005	9 months

b. Amount (\$6,592,000 million)

Category or Subloan	Original Allocation (SDR)	Date Disbursed	Actual Disbursed (SDR)	Undisbursed Balance (SDR)
Single Tranche	4,346,000	9 May 2005	4,346,000	0
Total	4,346,000		4,346,000	0

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	6.40	6.59

2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	258.67	220.00
ADB Financed	6.40	6.59
Other External Financing	171.67	199.41
Total	436.67	426.00

ADB = Asian Development Bank, IDC = interest during construction.

3. Cost Breakdown by Program Component (\$million)

Component	Appraisal Estimate	Actual
Health Funds for the Poor	16.67	45.00
Increased spending on education	20.00	197.00
Resolution of nonperforming loans and related costs	400.00	101.00
Social safety net for retrenched SOE workers	0.00	83.00
Total	436.67	426.00

4. Program Schedule

Item	Appraisal Estimate	Actual
Date		
Tranche Release	February 2005	14 March 2005

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 30 Jun 2004 to 31 Dec 2005	S	HS

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members^b
Fact-finding (upgraded to Appraisal)	22 Aug–3 Sep 2004	6	60	Counsel, Environment specialist, Environmental management specialist, Principal programs economist, Program economist, Programs officer/Economist,
Review Mission 1 ^a	1–2 Dec 2004	2	4	Finance, governance, trade specialist; and Principal programs economist;
Review Mission 2 ^a	2–3 Jun 2005	2	4	Finance, governance, trade specialist; and Principal programs economist;
Review Mission 3 ^b	18–19 Aug 2005	1	1	Finance, governance, trade specialist
Review Mission 4 ^a	6–7 Dec 2005	1	2	Finance, governance, trade specialist
Program Completion Review ^c	6–15 Mar 2006	3	14	Finance, governance, trade specialist; and Programs officer; financial officer

^a Biennial consultative group (CG) meetings.

^b Review was made in parallel with the loan fact-finding mission of the subsequent program loan, SIPRP II.

^c Program Completion Review mission was combined with a review mission for SIPRP II loan.

I. PROGRAM DESCRIPTION

1. The program loan for the Support to Implementation of Poverty Reduction Program (SIPRP) was approved by the Asian Development Bank (ADB) on 9 December 2004.¹ The main goal of the SIPRP was to help reduce poverty and sustain high-level economic growth, as envisaged in the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) covering 2002–2006 and the Socioeconomic Development Plan (SEDP) 2001–2005. The purpose was to provide support for the ongoing implementation of the Government's Poverty Reduction program within the policy framework of the third Poverty Reduction Support Credit (PRSC 3), which was an annual multisector program collectively supported by many development partners. Through the SIPRP, ADB participated for the first time as a PRSC cofinancier in the third of a 5-year PRSC series, after the focus of the PRSCs had already been widened from structural adjustment to comprehensive reform. The SIPRP contributed to the PRSC process, and was the first of a series of ADB loans supporting a comprehensive reform agenda in the broader context of the Rome and Paris declarations.² Through the SIPRP, ADB participated as a cofinancier of PRSC operations in Viet Nam along with the World Bank and six other cofinanciers. The PRSC cofinanciers provided financial support in the form of grants and parallel loans or credits through a multidonor trust fund or on a bilateral basis.

2. PRSC operations comprised five consecutive annual policy-oriented programs that were initiated in 2002 by the World Bank. The PRSC process was guided by five principles: country ownership, results orientation, comprehensiveness, partnership, and a long-term perspective.³ PRSC operations proposed to reduce poverty and promote sustainable economic growth through economic policies and measures in several sectors, in the form of strategies, laws, regulations, and regulatory guidelines. These measures sought to reduce structural weaknesses and improve the business environment for private sector development, promote socially inclusive development, and modernize governance. Specific development outcomes in all PRSC reform areas were identified at inception and regularly and systematically monitored and assessed. The SIPRP supports PRSC 3, which was designed and processed jointly by development partners in close consultation with the Government. The program framework summarizing the goal, objectives, outputs, and performance targets is attached as Appendix 1.

3. SIPRP was the first program-based lending undertaken by ADB in Viet Nam, and took the form of a one-tranche program loan, which was part of a continuing PRSC process that is both results-based and performance-oriented. PRSC follows a multi-year cycle, with annual implementation process reviews; a decision to continue the program is based on outcomes assessment of the policy triggers identified prior to the approval of the previous PRSC. The policy triggers are selected based on the following criteria: they must be (i) based on a Government strategy, (ii) of strategic importance, and (iii) measurable. Following a decision to proceed with PRSC for a subsequent year (based on a satisfactory progress evaluation), a further program is jointly formulated, based on actual performance with respect to the policy matrix developed from the selected triggers. The tranche release of this type of program-based

¹ ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Socialist Republic of Viet Nam for Support to Implementation of Poverty Reduction Program*. Manila.

² The Rome Declaration refers to the February 2003 agreement—among major multilateral development banks and international and bilateral organizations—to take action to improve the management and effectiveness of aid and to take stock of concrete progress. The Paris Declaration, endorsed on 2 March 2005, is an international agreement—between 100 ministers, heads of agencies and other senior officials—that commits participating countries and organizations to continue to increase efforts with respect to aid harmonization, alignment and management, and to measure results with a set of monitorable actions and indicators.

³ Operations Evaluation Department. 2004. *The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank Support Through 2003*. Washington, DC: World Bank.

lending product is based on prior actions as opposed to planned or expected policy actions. Appendix 2 demonstrates this unique feature of the PRSC process.

4. The official development assistance (ODA) community in Viet Nam considered the PRSC to be an important instrument for supporting CPRGS implementation. The CPRGS is an action plan for attaining the Government's poverty reduction and economic growth targets, as envisaged in the SEDP 2001-2005. The CPRGS was prepared in parallel with the SEDP and is outcome-oriented, analytically based, monitorable, and involved wide consultation. As a multisector instrument covering a range of issues related to poverty reduction, the PRSC framework provides ADB with an opportunity to (i) advance and widen national policy dialogue in a well-coordinated and comprehensive manner; (ii) provide lending and non-lending assistance in coordination with other ODA partners; and (iii) ensure that key policy issues affecting ADB operations in Viet Nam are addressed in the policy dialogue between the Government and the ODA community, to help achieve the common goal of poverty reduction and growth.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

5. The SIPRP was consistent with ADB's reform agenda, namely the Long-Term Strategic Framework,⁴ and Medium-Term Strategy,⁵ and directly helped fulfill ADB's obligations to the Rome Declaration regarding harmonization of the procedures of multilateral development banks. The SIPRP is relevant to ADB's broader institutional objectives, namely the overarching goal of reducing poverty. The SIPRP supported the implementation of the CPRGS, which translated the Government's 5-year SEDP 2001-2005 into an outcomes-oriented strategy. In May 2002, Viet Nam embarked on CPRGS implementation. The CPRGS was prepared with support of the ODA community, including ADB, and in consultation with stakeholders and civil society. During the Country Programming Mission in April 2004, the Government formally requested ADB to assist in financing the multi-donor supported PRSC 3, led by the World Bank. In recognizing the importance of PRSC 3, ADB undertook a number of steps, in consultation with the agencies concerned, to expedite preparation of the financing proposed SIPRP. The proposed SIPRP was included in the Country Strategy and Program Update (CSPU) for 2005–2006 and endorsed by ADB's Board of Directors on 20 August 2004. The World Bank and other PRSC 1 and 2 cofinanciers encouraged and welcomed ADB's participation as a cofinancier, as wide participation in the PRSC process would serve to enhance the effectiveness and efficiency of development outcomes under multiple sectors, in which each development partner has strengths. ADB had played an important role as a major Government development partner.

6. The SIPRP supported the third year of PRSC operations. The design of SIPRP was initiated prior to ADB's decision to cofinance PRSC operations in Viet Nam. However, relevant ADB staffers had participated in formulation of the CPRGS, and the policy measures underlining PRSCs 1–5. Staffers from ADB's Viet Nam Resident Mission (VRM) participated in the preparation of the "Haiphong matrices" in October 2002, which was an important step in the PRSC process. The Haiphong workshop was a consultation involving hundreds of stakeholders, in which comprehensive lists of policy actions were discussed for each sector. In 2003, during PRSC 2, the CPRGS was expanded to appropriately address policies for the development of

⁴ ADB. 2001. *Moving the Poverty Reduction Agenda Forward in Asia and the Pacific: the Loan-Term Strategic Framework of the Asian Development Bank (2001–2005)*. Manila.

⁵ ADB. 2001. *Medium-Term Strategy (2001–2005)*. Manila.

large-scale infrastructure; this marked an important milestone in PRSC operations.⁶ The policy actions supported through the PRSC process are a distillation of the CPRGS, aimed at identifying a coherent sequence of key measures in multiple reform areas over the medium term. The CPRGS comprises the strategy for the Government's SEDP 2001–2005, and thus has the Government's full ownership. The CPRGS and the PRSC program were formulated in a participatory manner; all stakeholders—including government agencies, development agencies (including ADB), and civil society—were consulted through a series of workshops and meetings, following the abovementioned Haiphong workshop.

7. The CPRGS and the PRSC program were further developed through the identification of policy actions that were (i) consistent with nationally-owned development strategies and plans, (ii) economically sensible, (iii) capable of making a considerable difference in practice, and (iv) sufficiently concrete to enable them to be adopted and implemented within a relatively short time period. The actions supported by each PRSC operation are chosen based on an ongoing policy dialogue with the government. Identification of the policy actions needed to attain the development outcomes spelled out in the CPRGS has been strongly influenced by analytical work carried out by the PRSC cofinanciers. The PRSC process has also been supported by a series of comprehensive analytical reports covering the three pillars of the CPRGS; these include the annual Viet Nam Development Reports (VDRs). ADB and other development partners, including the World Bank and the International Monetary Fund (IMF),⁷ have been instrumental in providing factual information and analysis, contributing to both monitoring of reform implementation and sharing of international best practices. The annual VDRs provide crucial information and analyses on focal issues relevant to the Government's reform agenda, and serve to coordinate views on what the reform challenges are and how to address them; they have considerable impact on the national policy debate and research agenda. The VDR 2003, entitled *Viet Nam: Delivering on Its Promises*, was prepared jointly by the World Bank and ADB, and published shortly after the Haiphong consultation; it developed strategic directions for each of the policy areas covered by the PRSC process, based on the CPRGS. VDR 2004, entitled *Poverty*, examined social inclusion issues, while VDR 2005, entitled *Governance*, focused on building modern institutions. The forthcoming VDR 2006, entitled *Business*, addresses structural reforms. These VDRs were prepared in partnership by PRSC cofinanciers, including ADB, with substantive inputs from Vietnamese policymakers and academics.

B. Program Outputs

8. Program outputs specified in the SIPRP's Program Framework (Appendix 1) include three major reform pillars: (i) transition to a market economy, (ii) socially inclusive development, and (iii) modern governance. These interrelated pillars are connected through cross-cutting themes, such as employment generation for poverty reduction, and the link between public financial management and effective delivery of social services to the poor. The Government has adopted several policy measures envisioned under these pillars since inception of the first PRSC. Appendix 3 presents policy matrices for PRSCs 1 to 3.

⁶ National Graduate Institute for Policy Studies. 2003. *Linking Economic Growth and Poverty Reduction: Large-scale Infrastructure in the Context of Vietnam's CPRGS*. Tokyo.

⁷ The IMF's three-year loan arrangement with Viet Nam under the Poverty Reduction and Growth Facility expired in April 2004. However, the IMF remains fully committed to continuing a partnership with the Government of Viet Nam to support the implementation of the CPRGS. The IMF has contributed actively to the broader dialogue between the Government and its development partners. The IMF also provides the required letter of assessment for the PRSCs.

9. All policy actions under the SIPRP matrix were complied with before the end of June 2004. The listed items under program outputs specified in the Program Framework (Appendix 1) are development outcomes that are expected to be attained by the end of the PRSC cycle at end-2006. The attainment of those outcomes was envisaged as occurring subsequent to the adoption of strategic policy measures specified under the PRSC policy matrices; these include (i) issuance of regulations and policy conducive to reforms, (ii) amendment of regulations and policies, (iii) issuance of action plans, and (iv) completion of studies and assessments. All targeted development outcomes set forth under the PRSC were scheduled to be achieved by end-2006. Appendix 4 presents an assessment of progress in achieving development outcomes as of end-2003, which was carried out jointly by the World Bank and other PRSC cofinanciers. Because of Viet Nam's 5-year planning cycle, most of the targets under the CPRGS and the PRSC program were identified for achievement by end-2006. Progress against each outcome is given one of the following ratings: highly satisfactory, satisfactory, partially satisfactory or unsatisfactory. The rating utilizes the latest available data to assess progress to date. The latest available SIPRP appraisal data was compiled at the end of 2003; based on recent trends, it also included a judgment as to the outcome expected by end-2006. In cases where a quantitative target was specified, a rating of highly satisfactory reflects that the target was met or surpassed. conversely, static or deteriorating performance would have resulted in an unsatisfactory rating. The intermediate ratings of partially satisfactory and satisfactory reflect a level of judgment about associated policies, external constraints, and sustainability of the progress achieved.

1. Transition to a Market Economy

10. An ambitious structural reform agenda under Pillar I covered the following sectors: trade integration, state-owned enterprise (SOE) reform, financial sector reform, private sector development, and infrastructure. Several outputs achieved under Pillar I were considered critical and strategic during PRSC 3 operations. Various development outcomes under Pillar I were assessed as having progressed at a satisfactory to highly satisfactory rate. Progress in infrastructure was assessed as highly satisfactory, while SOE and financial sector reforms were assessed as slow and unsatisfactory. Many factors contributed to the slow progress of SOE reform, including the lack of detailed guidance on measures to value enterprises and deal with bad debts, resistance from numerous vested interests and potential retrenched workers, and uncertainties related to enterprise management after equitization. The progress of financial sector reform, primarily involving banking reform, was slowed by (i) a lack of capacity to identify nonperforming loans; (ii) conflicts between the State Bank of Viet Nam's dual functions as banking supervisor of state-owned commercial banks (SOCBs) and an SOCB shareholder; and (iii) caution, in seeking to ensure public financial sustainability in light of the fiscalization of financial sector restructuring. Progress in infrastructure reform was assessed as highly satisfactory because (i) the telecommunication sector was open to competition only one year after the inception of the PRSC process, (ii) significant improvements were achieved in provision and operation of infrastructure, and (iii) pricing policies for infrastructure services resulted in reduced prices and a gradual convergence to regional prices. Progress in achieving outcomes relating to developing a level playing field among all type of firms was rated as unsatisfactory as of the end of 2003.

11. The following policy outputs under Pillar I were achieved during SIPRP implementation. The detailed roadmaps for tariff changes, including an assessment of sectoral impacts and proposed implementation timing, were prepared as the key input for negotiation of World Trade Organization (WTO) accession terms. The SIPRP accelerated transformation of SOE ownership by following the 104 SOE reform plans. Unlike previous blueprints for SOE reform, these plans, which identified the SOEs to be divested by name and indicated a specific year for the

ownership transformation to be carried out, were put into the public domain. The Government broadened the SOE equitization process to include large SOEs. A series of measures were taken to reinvigorate implementation of the Government's financial sector reform program. A plan was issued for the international integration of the banking sector and reform of the State Bank of Viet Nam (SBV), in light of WTO accession. The plan sought to amend, supplement, revise, and eliminate legal documents and policies incompatible with international integration commitments. It envisaged actions to strengthen the supervisory capacity of the SBV and move the supervision of banks closer to international practices. A decree was issued to regulate the operation of the Development Assistance Fund (DAF), which is an important step towards providing a sound regulatory framework for policy lending. The Government also further developed security markets by easing listing requirements and creating a legal framework for securities investment funds as a new investment channel. SIPRP reforms relating to private sector development aimed at building the legal foundations of a market economy and securing a level playing field. A new legal framework for the organization, operation and management of business associations was also adopted. A new chapter on large-scale infrastructure was added to the CPRGS in 2003, which was intended to serve as the basis for a gradual strengthening of the institutional mechanisms supporting public investment. There have been encouraging signs of a move away from the monopoly model, especially in telecommunications. Internet and mobile telephone services were opened to competition, and staged price reductions were implemented for these services. As of January 2004, telecommunication prices in Viet Nam were in line with Association of Southeast Asian Nations (ASEAN) norms.

2. Socially Inclusive Development

12. Pillar II of the SIPRP covered education, health, land, water, and environment. Progress in achieving development outcomes in these sectors was generally satisfactory to highly satisfactory. At end-2004, the only Pillar II outcome (out of a total of 10) rated as unsatisfactory related to establishment of a public health approach to tackling the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) epidemic. The lack of progress in this area was a concern at the SIPRP appraisal, and may have impacted achievement of the outcome by the end of the current PRSC cycle. The detailed achievements under Pillar II include the following.

- (i) In education, progress was achieved in increasing overall spending, improving resource allocation and raising the quality of teaching. The budget allocation for education and training rose steadily during SIPRP implementation, from 13.8% in 2002 to 15.8% in 2003 and 17.1% in 2004, while minimum standards for primary schools were adopted nationwide.
- (ii) The SIPRP reform program focused on changing the financing of health care. Health care funds for the poor and fund management committees were established in all provinces and cities, and the central government's contribution to these funds was paid in full. The Government adopted a multi-sector action program to implement the HIV/AIDS strategy. A national steering committee for the Prevention of AIDS, Drugs and Prostitution was established by the Prime Minister. The committee issued a draft 10-year strategy for slowing and halting the spread of HIV/AIDS, approved by the Prime Minister in December 2003.
- (iii) In the area of land, a new Land Law was passed in late 2003, supporting access to land for all sectors, addressing land-tenure security, recognizing community land-use practices and developing a unified land administration system.
- (iv) In the water resources sector, an important policy action undertaken during the SIPRP period was the involvement of users in irrigation management. The management of small-scale, stand-alone irrigation systems and tertiary and

secondary canals was transferred from state-owned irrigation management companies to cooperatives or groups of water users.

- (v) Regarding environmental protection, the Government introduced environmental safeguards for public investments, and mechanisms to implement the "polluter pays" principle.

3. Modern Governance

13. Pillar III covered improving the planning process, public financial management, delivery of public administration services to people and businesses, and anticorruption initiatives. To improve the planning process, the Government issued guidelines to expand the CPRGS approach⁸ in provincial planning and launched the process in 20 provinces. Due to increased decentralization, with associated reliance on local fees and out-of-pocket payments, resource allocation became the key to improving service delivery. The Government enacted a plan to develop medium term expenditure frameworks in sectors with a direct role in poverty reduction and inclusive development, including education, health, agriculture and transport. With respect to public financial management, accounting systems of the State Budget and the State Treasury were unified, paving the way to a fully consolidated and integrated budget with extrabudgetary funds, on-lent ODA and commune-level spending. The Government also completed the design of an overall Treasury and Budget Management Information System (TABMIS) based on modern principles of public financial management, such as the World Bank-IMF Treasury Reference Model.

C. Program Costs

14. The SIPRP is policy oriented. Most of the program activities involve drafting laws and regulations and preparing roadmaps and action plans. However, the adoption of specific policy measures under the SIPRP resulted in higher financial burdens for the Government. At appraisal, the estimated total cost of over \$436.7 million included establishing and maintaining the health fund for the poor, increased spending on education (from 15.8% to 17.3% of the total budget allocation), and resolution of nonperforming loans and other related costs. The total financial support to PRSC 3 from all cofinanciers amounted to about \$178 million, of which \$6.4 million was cofinanced by ADB. Contributions from each PRSC 3 cofinancier are included as inputs in Appendix 1. The SIPRP loan proceeds were used to support the balance of payments and continuation of PRSC operations.

D. Disbursements

15. The loan became effective on 14 March 2005 and the single tranche was disbursed on 9 May 2005. At appraisal, it was expected that the loan would become effective 90 days after the loan agreement signing date of 20 December 2004 (i.e. on 5 March 2005). The actual loan effectiveness was 14 March 2005, after the Ministry of Justice's legal opinion on the loan agreement was received. The loan proceed was released on 9 May 2005 upon ADB's having received and examined the Government's withdrawal application.

⁸ The CPRGS approach incorporates the following qualities: (i) outcome-oriented and results-based by setting specific Viet Nam Development Goals to be achieved by the end of the 5-year cycle, (ii) based on good analysis and background to generate good analytical documents, (iii) includes monitoring and evaluation mechanisms, and (iv) involves wide consultation with all stakeholders.

E. Program Schedule

16. There was no delay in the program implementation schedule. All policy conditions for the single tranche release were met prior to the approval of the SIPRP. The planned program period was 18 months from 30 June 2004 to 31 December 2005, and the planned closing date was 31 December 2005. The financial account was closed on 31 December 2005 as scheduled.

F. Implementation Arrangements

17. The program was implemented as designed at appraisal without any major changes in the arrangements caused by program changes. The SBV was the Executing Agency (EA), and responsible for overall implementation of the SIPRP. The program is being implemented through 24 line ministries and other relevant government agencies in accordance with the Loan Agreement.

18. The National Steering Committee (NSC) for implementation of the CPRGS and PRSCs was established in 2002. It is chaired by the first Deputy Prime Minister Nguyen Tan Dung, and consists of heads of 20 relevant line ministries. SBV is assigned as the agency responsible, in close collaboration with the World Bank, for preparing and implementing the PRSCs. A deputy governor of SBV acts as NSC's standing vice chair. This quasi-advisory body has several representatives from key economic ministries, such as the ministries of agriculture and rural development; education and training; finance; justice; labor, invalids, and social affairs; and transport; as well as the Office of the Government, Party's Economic Commission, and SBV representing the policy reform areas under PRSC 3 and subsequent PRSCs.

19. An interministerial working group and a secretariat to implement and monitor the CPRGS have been established at the Ministry of Planning and Investment (MPI). The working group comprises representatives from key economic ministries, including those represented on the National Steering Committee representing the respective policy reform areas under the PRSC 3 and subsequent PRSCs. Among the goals of the interministerial working group is the implementation of the CPRGS at subnational levels. The CPRGS Secretariat at MPI supports provincial governments in adapting the CPRGS to their own context, and reformulating plans and budgets accordingly. The CPRGS Secretariat prepared the first annual progress report on CPRGS implementation under the guidance of the interministerial working group.

G. Conditions and Covenants

20. The SIPRP policy matrix consisted of 41 policy conditions, 21 of which were related to Pillar I (Transition to a Market Economy), 10 to Pillar II (Social Inclusive Development), and 10 to Pillar III (Modern Governance). All 41 policy conditions were considered to be tranche release conditions, and were documented in the World Bank's development credit agreement.

21. The SIPRP Loan Agreement included three sections of particular covenants. None of the covenants has been modified, suspended, or waived.

H. Related Technical Assistance

22. There was neither a preparatory technical assistance (PPTA) nor an advisory technical assistance (ADTA) accompanying the SIPRP.⁹

I. Consultant Recruitment and Procurement

23. No consultants were recruited under the SIPRP. Consultants under two TAs were engaged in accordance with the *ADB's Guidance on the Use of Consultants*. The loan proceeds were used prudently to support the balance of payments.

J. Performance of the Borrower and the Executing Agency

24. The performance of the borrower was satisfactory. PRSC operations in Viet Nam are complex as they involve many government agencies in as many as 18 reform sectors. The Government established a multi-layered organizational structure to ensure the effectiveness of policy implementation, which was in operation throughout the 5-year PRSC operations period.

25. Three main arrangements were made to implement the program. First, the NSC was established in May 2002 as an apex body to implement the CPRGS and PRSCs. Chaired by the Deputy Prime Minister in charge of economic reforms, it includes representatives from over 20 relevant line ministries and government agencies (see paragraph 18). Second, an inter-ministerial working group was established in the MPI, which includes representatives from key ministries responsible for the policy reform areas under PRSCs, with a goal of helping to implement the CPRGS at sub-national levels. Third, the MPI's CPRGS Secretariat supports provincial governments in adapting the CPRGS to their own context, and reformulating plans and budgets accordingly (see paragraph 19).

26. Three Annual Progress Reports on implementation of the CPRGS have been prepared by the CPRGS Secretariat to date, under the guidance of the inter-ministerial working group. Over the current PRSC cycle, the government has made efforts to improve the quality of data that can be used for monitoring PRSC outcomes. Key sources of monitoring information for poverty and program outcomes include the biennial Viet Nam Household Living Standards Surveys, periodic participatory poverty assessments and local consultations, enterprise surveys, public expenditure tracking surveys, as well as the progress reports from the relevant sector ministries and committees implementing the reform program. In addition, the strengthening of management information systems for SOEs and for all public spending, both led by the Ministry of Finance (MOF), is an integral part of the PRSC program. Efforts to implement CPRGS in the provinces rely on the development of appropriate monitoring indicators as well. Although the CPRGS includes many more indicators, about 40 have been selected for monitoring provincial PRSC outcomes. Many of the indicators in this narrower set will be generated using the household living standard surveys, conducted biennially from 2002 onwards. At present, work is underway to define a set of indicators needed to monitor progress in implementing the next SEDP.

27. SBV is EA for both PRSC operations and the SIPRP. The EA has played a key role in coordinating implementation as needed. PRSC operations became increasingly intensive and

⁹ The SIPRP implementation period overlapped that of the subsequent loan (SIPRP II), which was supported by a small-scale TA for Support to the Implementation of the Poverty Reduction Program II (TA 4593), which was approved on 9 June 2005.

complex towards the end of PRSC 3 and SIPRP, however, so that additional resources for establishing a program coordination unit were allocated. The performance of the EA is considered satisfactory.

K. Performance of the Asian Development Bank

28. The SIPRP was processed and administered by ADB's VRM, which facilitated the ongoing policy dialogue and communication among numerous stakeholders. The World Bank's PRSCs have also been processed and administered from the Viet Nam Office. Other PRSC cofinanciers have also processed their contributions from their field offices in Hanoi.

29. The performance of ADB is rated satisfactory. The SIPRP was the first of the three single-tranche program loans approved by ADB in support of the current PRSC cycle. The program loan approvals followed a fast-track processing schedule. The loan fact-finding mission was upgraded to appraisal at the first management review meeting (MRM 1). Since all of the 41 policy conditions in the program's policy matrix were complied with and there was no remaining issue to discuss with the Government, the second MRM and steering review committee meeting were waived by the Management at MRM 1. The loan proceeds were disbursed on 9 May 2004, compared to the original schedule (i.e. in March 2004 at loan effectiveness).

III. EVALUATION OF PERFORMANCE

A. Relevance

30. The SIPRP was relevant, particularly to the Government's strategy. From the Government's perspective, the SIPRP was highly consistent with the Government's development strategy at appraisal, as indicated in the development policy letter, and remains so at present. The SIPRP supported the implementation of the CRPGS—the Government's strategy to reduce poverty and ensure sustained economic growth—and although the CRPGS was implemented outside the official mechanism of the 5-year SEDP, systematic and official organizational arrangements were established to ensure program implementation (see details in section K). The Government has solid policy-making and implementation capacity. There is very strong country ownership of the development agenda, and a proven commitment to social equity, and the MDGs and VDGs. Though rapid economic growth has resulted in some increases in inequality, numerous effective programs have been put in place to address poverty in the most affected areas. In addition, the Government participated actively in designing the PRSCs, which were based on the CRPGS. Consequently, the Government had significant input into the PRSC 3, on which the SIPRP is based.

31. The scope and components of PRSC 3 and the SIPRP reflected an expansion from the previous two PRSCs, in which ADB did not participate financially. The expanded scope and components were the results of an analytical study conducted by the National Graduate Institute for Policy Studies and published in late 2003.¹⁰ Other analytical reports, including VDRs and sector-specific studies, also provided inputs to the design of the PRSCs, and helped increase the program design's relevance, and the likelihood that policy conditions would achieve the program purpose. The SIPRP first appeared on the country strategy and program for Viet Nam in the CSPU 2005–2006, which was approved shortly before the SIPRP fact-finding mission (which was later upgraded to an appraisal). The country strategy and program (CSP) 2004–2006 did not refer to a SIPRP-type lending program, or link to the PRSC. The analysis in the

¹⁰ Footnote 4.

2002–2004 CSP¹¹ did, however, appear to lead in the direction of funding a program such as the SIPRP. The final decision to cofinance the PRSC was possibly based on the ever-expanding PRSC reform agenda, as reflected by the first three annual operations. By PRSC 3, the areas covered included many within ADB's areas of specialization and interest, including public administration reform, anticorruption, the nonbank financial sector, and all social sectors (e.g. education, health, environment, and land).

B. Effectiveness in Achieving Outcome

32. The SIPRP is part of a 5-year cycle that includes PRSCs 1–5. The PRSC process is a comprehensive reform program that aims to achieve the goal, purposes and outputs specified under the program framework (Appendix 1) by the end of the PRSC cycle (in end-2006). The program has been assessed as highly efficacious for the following reasons.

- (i) The program goal of reduced poverty and sustained economic growth were achieved. Viet Nam has an impressive record of sustained pro-poor growth over the past 15 years, since it first began to introduce market reforms and reintegrate into the global economy. With average annual growth rates of 6–7%, the number of people living in extreme poverty has fallen from 58.1% in 1993 to 19.5% in 2004, an average decline of 3.5% per year. Viet Nam also has a very credible record of macroeconomic management.
- (ii) The purpose of the SIPRP, as indicated in the program framework, was achieved. The SIPRP fully supported the implementation of the Government's poverty reduction program within the PRSC 3 framework. ADB actively contributed, in the form of both intellectual and financial inputs, to CPRGS implementation under the PRSC 3 framework.
- (iii) The outputs indicated under the program framework were generally well attained by the end of 2003, prior to SIPRP appraisal. Some reform areas demonstrated better progress than the others. Sectors with the most impressive progress in attaining development outcomes included trade integration, health, and planning processes. Sectors demonstrating relatively high progress included private sector development, infrastructure, education, social protection, gender, public financial management, financial accountability, public administration reform, and information availability. Sectors with relatively low progress included SOE reform, land and forest, environment, and water. The least impressive sectors with little progress included financial sector reform, legal development, and anticorruption.

C. Efficiency in Achieving Outcome and Outputs

33. The SIPRP was highly efficient due to the unusually low transaction costs associated with this loan, which were the product of the short processing time, and the low cost of (i) loan processing, (ii) loan administration, and (iii) monitoring and evaluation of program implementation. The loan was processed in four months, without a PPTA. The fact-finding mission was upgraded to an appraisal mission and the steering review committee meeting was waived. The time for loan effectiveness and loan agreement signing was similarly short. The policy program is considered efficient because of the timeliness of compliance. In terms of the policy program, all policy conditions were complied with prior to loan approval. However, there was a delay in disbursing the loan proceeds after loan effectiveness, as the Government's verification and withdrawal application processes took longer than envisaged at appraisal.

¹¹ ADB. 2003. *Country Strategy and Program: Viet Nam 2004–2006*. Manila.

34. Although ADB did not participate as a cofinancier in the first two PRSCs, ADB actively participated with other development partners in the formulation of the CPRGS prior to the inception of the first PRSC. The policy dialogue during PRSC 3 was based in large part on the prior analytical studies and policy dialogue carried out during CPRGS formulation. However, ADB and other PRSC 3 cofinanciers did not participate as actively in refining and finalizing the PRSC 3 policy matrix. The efforts undertaken jointly with other development partners provided greater leverage to other ADB sectoral operations. The SIPRP reduced the operational costs for both the Government and development partners, in accordance with the principle of aid harmonization. Finally, in terms of program process, ADB demonstrated fairly adequate supervision and support to the PRSC process. As a first-time PRSC cofinancier, ADB provided sufficient intellectual support as required. However, the comprehensive nature of the SIPRP to some extent limited the quality of ADB support; relatively many more World Bank sectoral specialists were stationed in their field office than was the case for ADB. The SIPRP executing and implementing agencies demonstrated adequate efficiency in terms of program organization and management.

D. Preliminary Assessment of Sustainability

35. The SIPRP was highly likely to be sustainable. The latest available data (as of May 2005) on the progress of development outcomes support a continuing positive trend. There was negligible risk of reversal in the reform agenda, as the Government has full ownership of the reform program. The CPRGS principles adopted under the SIPRP were carried forward to be incorporated under the new SEDP 2006-2010, which is the Government's official medium-term development strategy. Those principles—promoting results-based, participatory, and monitorable reform, based on good analysis—were adopted, although the qualities of the execution of those principles could be improved. The trends of poverty reduction and high growth in Viet Nam are highly likely to continue. There is a risk that inequality among ethnic minorities and rural populations will increase, compared to the Kinh majority and urban population, and that corruption may increase as well. Nonetheless, results from credible macroeconomic analyses,¹² coupled with the Government's strong commitment to continuing its effective reform agenda, suggests that Viet Nam will continue the current trend of impressive poverty reduction and sustained high economic growth.

E. Impact

36. The SIPRP, as part of the PRSC operations, had a substantial impact on institutional development. It increased awareness of and the ability to make positive changes in favor of improved pro-poor policy-making processes. The coordination among many stakeholders and systematic mechanisms for the CPRGS implementation widened views and provided intellectual inputs resulting in positive changes. Through PRSC operations, the capacity to undertake policy analysis was indirectly enhanced. The SIPRP was not accompanied by technical assistance projects aimed at strengthening capacity of the executing and implementing agencies. However, the development partners' analytical studies, which supported PRSC policy action design refinements, were undertaken in close consultation with government agencies. The monitoring of policy implementation and evaluation of policy impact were carried out in a similar manner. PRSC operations have consciously avoided adverse social impacts through mitigation measures such as voluntary retirement schemes and social safety net programs for retrenched workers who become redundant as a result of SOE equitization and restructuring. These social safety net schemes and worker assistance programs have become more active over time, and

¹² Medium-term macroeconomic forecasts carried out by IMF, World Bank, and private research institutes.

have thus far provided reasonable compensation packages to more than 120,000 workers. The operation of the scheme was evaluated in 2004, and another tracer survey of retrenched workers fielded in 2005. The 2004 evaluation focused on the employment status, earnings and well-being of retrenched SOE workers assisted under this program. It confirmed that the package had been appropriately designed, as well-being had on average been preserved. The survey also revealed that female workers and older workers were the groups with the highest satisfaction levels.

37. PRSC operations are policy-oriented programs without investment components; hence, none trigger any of ADB's safeguard policies on environment, indigenous peoples, and involuntary resettlements. The expected PRSC outputs are new laws and regulations, roadmaps, action plans, guidelines and manuals. Inclusive social development and sustainable environment are included as one of three major reform pillars under the PRSC.

IV. OVERALL ASSESSMENT AND RECOMMENDATIONS

A. Overall Assessment

38. The SIPRP was implemented as conceived. The logical framework and the performance monitoring and evaluation system were well designed. The SIPRP supported CPRGS implementation under the PRSC 3 framework. Assessment of the development outcomes at SIPRP appraisal revealed that these were generally on track, and that the current cycle of PRSC operations would probably achieve the targeted outcomes by the end of 2006. The SIPRP was rated as successful.¹³

B. Lessons

39. The SIPRP is a practical example of harmonization and alignment among development partners, as per the Rome and Paris Declarations. However, ADB participated in the PRSC operations as a cofinancier for the first time after implementation of the first two PRSCs was complete. ADB's contribution through the multi-sector, comprehensive reform agenda under the PRSC process complements ADB's ongoing and future sector-specific lending and non-lending operations in Viet Nam. The lessons learned from ADB's participation in PRSC operations in Viet Nam are grouped into four categories: (i) harmonization, (ii) alignment, (iii) ADB-specific, and (iv) beyond-PRSC operations.

40. **Harmonization.** First, collaboration among development partners through harmonization of processes and utilization of comparative advantages helped develop a comprehensive, strategic, and attainable reform agenda. The identification and sequencing of a comprehensive reform agenda covering a medium-term period required strong analytical support. ADB actively participated in jointly conducting analysis with the World Bank and other development partners, with wide consultation with the Government and relevant stakeholders. An initial joint analysis to identify appropriate policy actions and implementation arrangements was carried out at the inception of the first 5-year PRSC cycle in 2002 in a widely participatory manner. The first annual VDR, covering the cross-cutting reform agenda, was prepared in partnership by ADB and the World Bank.¹⁴ However, the constant and rapid changes in economic and social structure required frequent reviews and analyses, so that the annual PRSC program could be adjusted to the ever-changing environment. The PRSC process has also been supported by a

¹³ This PCR is part of a sample of PCRs independently reviewed by the Operations Evaluation Department. The review has validated the methodology used in the rating given.

¹⁴ ADB and the World Bank. 2002. Viet Nam: Delivering on Its Promise. *Viet Nam Development Report 2003*. Hanoi.

series of comprehensive analytical reports covering the three pillars of the CPRGS. The annual VDRs provide crucial information and analyses on focal issues relevant to the Government's reform agenda. VDRs are prepared in partnership by PRSC cofinanciers, including ADB, with substantive inputs from Vietnamese policymakers and academics. Effective implementation of such a comprehensive program requires that the program demonstrate a clear link between the donor's individual sectoral technical assistance projects and/or loans and policy support.

41. Second, the comprehensive nature of the PRSC process led to a common realization among all stakeholders that progress in different sectors and among different measures within one reform sector would be uneven. Under the commonly agreed comprehensive PRSC framework, development partners and policymakers have to harmonize their project process to identify and address those development areas requiring special attention.

42. Third, the increasingly broad scope of the policy dialogue raises logistical challenges to the process. Effective coordination mechanisms have continuously evolved over time in order for operations to be delivered on an annual basis. A high level of coordination and communication were required at various levels: among development partners, among government agencies, and between development partners and government agencies. Given the comprehensive nature of the PRSC reform process and the ever-growing number of cofinanciers, it became necessary to establish a unit responsible for coordination activities, to deal with the program agenda, including monitoring and reporting, awareness raising, capacity building and reform outcome dissemination. A program coordination unit was established at the SBV in January 2004, during PRSC 3 operations, for this purpose. Government coordination mechanisms have expanded to lower levels of government due to greater decentralization. The relationship among PRSC cofinanciers has become more collegial in terms of finalizing the policy matrix, as well as the degree of strategic importance attached to the triggers for considering support to the subsequent year's PRSC. One of the greatest strengths of the PRSC process is that it is open to participation of all development partners, regardless of financial input. Some members of the donor community have contributed their knowledge to the formulation process before they committed themselves financially. ADB became involved in this way, contributing knowledge inputs in the Vietnam Development Report 2003 before providing a financial contribution in 2004 through the SIPRP.

43. **Alignment.** First, it is important to align the PRSCs, which outline the development partners' framework, with the Government's own broader, medium-term SEDP. The PRSC process requires close donor coordination and common dialogue with the Government. The sequencing and timing of policy measures, instead of the policy measures themselves, was the key subject of the policy dialogue and negotiations. By moving away from formal conditionality, PRSC operations have become a tool for supporting the Government in achieving its stated development goals and implementing its reform program. Donor coordination under the PRSC process embodied the tenets set forth in the Rome Declaration on harmonizing procedures of multilateral development banks and the Paris Declaration on aid effectiveness. The practical benefit of this coordinated approach is to reduce the transaction cost of both the Government and development partners. This approach enables each partner to focus its energy on its areas of expertise and comparative advantage, while coordinating with other donors to produce a truly comprehensive poverty reduction and growth program. Such a process is appropriate for a country such as Viet Nam with a strong development partnership.

44. Second, a lesson learned from the first cycle of PRSC operations is that program implementation would have been more efficient had the CPRGS and SEDP been unified, as this would have eliminated the need for a dual reporting and implementing systems for the CPRGS

and SEDP. The CPRGS was instead prepared in parallel to the SEDP 2001-2005, as the action plan to achieve development outcomes envisaged in the SEDP. The existence of CPRGS in parallel to the SEDP proved to be less efficient, as double reporting and monitoring tracks were unavoidable. With the CPRGS spearheading the effectiveness of a comprehensive, results-based, monitorable, and participatory reform agenda, the Government incorporated the CPRGS principles in formulating the new SEDP 2006-2010. The 5-year CPRGS has been consistently expanded, from 5 reform sectors in PRSC 1 to 18 sectors in PRSC 3, when ADB first cofinanced the PRSC process in Viet Nam. The monitoring and evaluation framework has therefore evolved to address the development outcomes corresponding to all 18 reform sectors (these remain the same beyond PRSC 3). In other words, during PRSC 3 operations the reform program has been substantially improved in terms of its development outcomes. While the reform program focuses on a set of strategic policy actions, its implementation should translate into improved economic and social indicators. Accordingly, the reform program can be summarized in terms of the development outcomes it aims to attain. Those outcomes are based on (i) the CPRGS, and (ii) a series of other policy papers, strategies and documents, including the VDGs and development partners' sector-specific assessments and reports. A precondition for effective alignment is a joint platform for coordination and dialogue, including the need for development partners to engage in intensive policy dialogue through their responsive field offices or resident missions (this links to the harmonization mentioned in paragraph 42).

45. **ADB-specific.** First, the SIPRP was processed using an innovative lending modality that departed from conventional conditionality-type program loans. The SIPRP followed a program-based approach that was designed to be disbursed in a single tranche. The loan was disbursed upon loan effectiveness, because the SIPRP was formulated based on actual performance or prior actions that were complied with before the conclusion of the World Bank's credit negotiations in May 2005. Although it was a single-tranche program, the SIPRP was in fact part of a continuum multiple-tranche program loan, with emphasis on the feasibility of policy measures. The SIPRP design faced unavoidable challenges as it had to be classified under the existing lending modalities. The program impact, outcome and outputs, which were based on the PRSC framework, were to be attained beyond the life of the SIPRP, as indicated in the SIPRP design and monitoring framework. The next PRSC cycle is being formulated and ADB has committed to contributing to future PRSCs; consequently, it may be worthwhile exploring a new lending modality more suited to the nature of the PRSC framework.

46. The cluster program loan modality is not currently compatible with operations of this type. Requiring that planned policy actions be achieved at a fixed point in the future would defeat the purpose of the performance-based modality utilized in PRSC operations. The future series of SIPRP loans are perhaps more compatible with the newly adopted multi-tranche financing facility. This facility is now restricted to project loans; if it is expanded to cover program loans, it may be advantageous for future SIPRPs to follow this lending modality. The impact of future SIPRPs would then remain the same over the life of the medium-term SIPRP series. The outcomes of the SIPRP should follow the development outcomes identified jointly by PRSC development partners, as the monitoring and evaluation mechanisms for these outcomes have been jointly determined by the PRSC development partners, while the development outcome framework was formulated in consultation with the Government. Hence, the outcomes under the SIPRPs should not depart from this agreed framework. In addition, in the spirit of harmonization and alignment, ADB will need to join with other development partners and the Government in monitoring and evaluating the outcomes in a comprehensive reform program such as PRSC. What differentiates individual SIPRPs is their outputs; namely, issuance of laws and regulations, amendments of laws and regulations, and completion of strategic sector roadmaps and action plans. Each SIPRP in the series should have specific outputs unique to the loan itself. However,

the design and monitoring framework should allow some flexibility, so that the future outputs can be adjusted based on actual performance, utilizing decision-making criteria to determine whether to proceed with the next SIPRP. This is similar to the trigger mechanism used by the World Bank, as demonstrated in Appendix 2.

47. Second, both the processing and implementation of this intensive policy dialogue and coordination are most appropriately undertaken by ADB's VRM. The coordination process cannot be achieved through occasional missions from headquarters. However, VRM should be adequately resourced, both in terms of both personnel and financial resources, to ensure the quality of the coordination, dialogue, and research. The internal coordination and communication among ADB staff of the headquarters and of VRM are also important. As PRSC operations are comprehensive in nature, the program officer will require input from all relevant sector specialists, and at times, consultants.

48. **Beyond-PRSC.** First, the PRSC process is comprehensive and policy-oriented, without explicit technical assistance projects attached to a series of program loans. The SIPRPs complement, rather than replace, other ADB initiatives, including sector-specific program loans, technical assistance projects, and sector-specific projects. Technical assistance from specialists based in ADB headquarters is important if ADB is to achieve maximum leverage in its sectoral operations in Viet Nam. The program officer for the upcoming SIPRP should keep specialists informed regarding PRSC technical details, in order to incorporate their expert opinion in the policy dialogue. In difficult areas of reform (e.g. banking and SOE reforms), however, there is a need to engage in analytical work beyond the conventional scope of the PRSC framework, and to engage influential local think-tanks or research institutions in in-depth studies, with the findings disseminated to decision makers. Additional efforts outside of PRSC process, such as policy dialogue with high-level policy decision makers, may be required to pursue difficult reform areas. In addition, the quality of the dialogue in specific sectors depends on the depth of engagement and dialogue in those areas outside the PRSC framework. Ensuring that the PRSC process is integrated with these other processes, such as projects, programs, and technical assistance undertakings supported by specific development partners, is therefore critical for achieving targeted development outcomes. The PRSC inputs to reform areas that are lagging therefore call for a concomitant involvement of sector or thematic specialists in such areas.

49. Second, there are overlapping aid harmonization groups in Viet Nam, with multiple coordination groups by sector. For example, there are more than 20 sector-specific partnership groups that monitor CPRGS implementation, one of which is the partnership group of aid effectiveness (PGAE). Under PGAE, sector-specific subgroups duplicate the sector work carried out by some of the 20 PGAE-level partnership groups. There are also separate sector-specific groups within PRSC operations. Streamlining partnership group coordination by sector would improve the efficiency and effectiveness of donor harmonization efforts.

C. Recommendations

1. Program Related

50. Recommendations should include the following:

51. **Future Monitoring.** Even though ADB has actively participated in the analytical work supporting the formulation and finalization of PRSC policy actions, ADB has not been actively involved with the World Bank in conducting annual performance assessments, in terms of attained development outcomes. The task of annual assessment of CPRGS implementation has

been dominated by the World Bank and IMF, whose staff produced annual joint staff advisory notes commenting on the CPRGS implementation reports. These notes were submitted to the World Bank Board of Directors for consideration when determining whether to support the following year's PRSC. ADB could have been more active in reviewing the annual Government-prepared CPRGS progress reports. This would, however, require coordination and collaboration from ADB sector specialists, as the PRSC program includes 18 sectors. Inputs from sector specialists, from both ADB headquarters and VRM, are critical to ensure the quality of ADB inputs to the review process. In addition, future monitoring by ADB could be improved through better recording and reporting of review reports, which were submitted to the ODA community at biennial consultative group meetings in Viet Nam. Responsible program officers have participated in the CG meetings as members of the ADB delegation to review the progress of the implementation of the CPRGS, but separate back-to-the-office reports were not submitted for the record.

52. **Covenants.** The SIPRP is a unique program loan whereby all covenants in the loan agreements were satisfactorily complied with prior to approval of PRSC 3 by the World Bank Board in June 2004. The loan was declared effective on 14 March 2005, a week after the agreed schedule. Compliance to the agreed policy action is presented in Appendix 5. The three sections of Article IV, Particular Covenants, were fully complied with (Appendix 6).

53. **Further Action or Follow-Up.** The SIPRP is one annual program loan, which is part of a cluster of program loans. The development outcomes cannot be realistically attained in one year during the SIPRP implementation period, but rather in a medium-term implementation of the 5-year cycle of PRSC operations. The comprehensiveness of the PRSC process and constantly expanding number of PRSC participants requires ongoing improvements in monitoring and evaluation mechanisms. The number of indicators for monitoring CPRGS, including monitoring development outcomes for VDGs, has been gradually narrowed to around 140, with 40 proposed to provinces to choose from. This narrower group of indicators was merged with 285 national statistical system indicators collected by the General Statistics Office (GSO), which are partly generated by the household living standard surveys. The recent survey in 2004 by GSO will provide a source of information for many of these indicators. However, despite efforts to refine the indicator system, about 47 indicators are not agreed to by line ministries, and 16 are considered unknown by GSO.¹⁵ It is still unclear which indicators will be used for monitoring the upcoming SEDP 2006-2010, which is the new national poverty reduction strategy that the next cycle of PRSCs will be based on. In that context ADB, the World Bank and UNDP are jointly working to strengthen the monitoring system for the new SEDP, which will enhance the ability to monitor outcomes of PRSCs 6–10.

54. It is important that ADB remain active in providing intellectual inputs, as well as financial assistance, to the PRSC process during program implementation. ADB has actively participated with the World Bank and other development partners in all of the joint annual analytical reports, beginning with first VDR; this occurred before ADB decided to financially contribute to the PRSC process in 2004, through the SIPRP. In fact, ADB has been the only development partner that has participated in the preparation of every annual VDR since that first issue in 2003. The ADB program officers for the SIPRP and its subsequent program loans were members of the steering committee for VDRs 2004, 2005 and 2006, respectively. ADB should continue its active participation in the upcoming VDR 2007 (*Aiming High*), which is a cross-cutting analysis that will

¹⁵ TA 4612-VIE (ADB, 2005. *Technical Assistance to the Socialist Republic of Viet Nam for Result Based Monitoring of Poverty Reduction and Growth*. Manila), UNDP has also been implementing a \$1.6-million project for strengthening the capacity of the statistical system.

formulate the policy matrix for PRSCs 6–10, which implement the next 5-year comprehensive poverty reduction program and growth strategy (i.e., SEDP 2006–2010). Such participation would allow ADB to synchronize all future operations in the new Country Strategy and Program 2007–2010 to the new SEDP 2006–2010 under the harmonized aid environment. In addition to participating in the annual analysis studies, ADB was also a co-sponsor with the World Bank in organizing a two-day workshop in Hanoi to assess the performance of PRSC in Viet Nam in October 2005, financed by an ongoing TA (TA 4593).¹⁶ ADB should continue playing a role as a major intellectual and financial contributor in follow-up workshops for assessing the performance of past PRSCs, as well as seeking a consensus on how to support implementation of the next 5-year SEDP through PRSCs 6–10. In addition, ADB should continue to be substantially involved, at an early stage, in the next cycle of PRSCs. Particularly, ADB should actively participate in the program design in terms of identifying policy matrices for PRSCs 6–10, the development outcomes, implementation arrangements and monitoring and evaluation indicators.

55. **Additional Assistance.** The National Assembly endorsed SEDP 2006–2010 in June 2006. The SEDP was formulated using the CPRGS's commendable principles of a results-based, participatory, monitorable strategy that is based on strong analytical work. The SEDP is, therefore, envisaged to be accepted by the ODA community as the national poverty reduction strategy on which the PRSC 6–10 cycle will be based. The new Viet Nam Country Strategy and Program 2007–2010, which is in the process of finalization, includes future program loans to be cofinanced with other development partners over the next (and last) PRSC cycle in Viet Nam. By 2010, Viet Nam is expected to no longer be eligible to receive concessional financial assistance from multilateral and bilateral development organizations, as the country's gross national income per capita is projected to exceed the threshold for a lower-income country.

56. **Timing of the Program Performance Evaluation Report.** The Program Performance Evaluation Report (PPER) for the SIPRP may be conducted together with those for the subsequent two SIPRPs, i.e., SIPRP II and SIPRP III. The PPER should be conducted after the closing of the supporting TA, namely TA 4953.¹⁷ The TA is scheduled to be closed by September 2007. It is also recommended that ADB should continue its contribution to the annual analytical report, VDR 2006, as well as the improvement of monitoring and evaluation mechanisms. It is envisaged that the remaining resources under the supporting TA be used for these purposes. In that case, the PPER should be undertaken in late 2007 to early 2008, after the closing dates of the supporting TA.

2. General

57. In terms of program appraisal, the following recommendations could be offered. The proposed Program Loan uses an innovative approach of a single-tranche program loan that is actually part of a continuum, multiple-tranche program loan. Since the SIPRP supported the CPRGS, which covers a medium term implementation period, it is reasonable that the logical framework of the SIPRP in terms of its goal (impact) and purposes (outcomes) follow the medium term framework, instead of the one-year implementation of the SIPRP. However, the achieved outputs under the SIPRP—such as action plans; strategies; new laws, regulations, and guiding circulars; and amended laws and regulations—should be included in the logical framework.

¹⁶ Footnote 7.

¹⁷ Footnote 7.

PROGRAM FRAMEWORK

Design Summary	Program Performance Targets (as of 2006)	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>Reduce poverty and sustain high economic growth.</p>	<ul style="list-style-type: none"> § Poverty incidence below 2002 level (i.e. 29% of population) § Gross domestic product (GDP) growth 7% or above annually. 	<ul style="list-style-type: none"> § Progress reports on the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) 	
<p>Purpose</p> <p>Support implementation of the Government's Poverty Reduction Program within the framework of the Poverty Reduction Support Credit (PRSC) III focusing on reducing structural weaknesses, improving the business environment; promoting socially inclusive development; and modernizing governance.</p>	<ul style="list-style-type: none"> § Greater trade openness (higher trade/GDP ratio) § Divestiture of more than 2,000 state-owned enterprises (SOEs) and state-owned commercial banks (SOCBs) § Low level of nonperforming loans (NPLs) § Increased private sector investment § Improved telecommunication services and lowered cost § Expanded budget appropriation for health and education (to 17% of public spending) § Improved administrative service delivery § Substantive measures taken to reduce corruption § Revamped planning processes, with proper alignment of policies and resources to the attainment of well-specified development goals 	<ul style="list-style-type: none"> § Asian Development Outlook report, the World Bank's Taking Stock report, and the International Monetary Fund's annual review (Article IV consultation) § Small business registration survey report § Public expenditure tracking survey report and annual public administration reform progress reports § Household living standard survey reports and periodic participatory poverty assessment reports § Participatory poverty assessment and report level surveys § Public investment program § Annual socioeconomic plan § Public administration reform progress reports § Asian Development Bank (ADB) participation in joint (government-development agency) assessments of PRSC III outcomes and PRSC IV triggers (i.e. measures and actions). 	<p>Assumptions</p> <ul style="list-style-type: none"> § Continued strong political commitments § Timely release of budget/counterpart funds § Social safety net for retrenched workers in place and functioning <p>Potential Risks:</p> <ul style="list-style-type: none"> § Improper sequencing of reforms § Incomplete policy and institutional reforms § Weak governance § Weak enforcement of anticorruption measures because of vested interests

Design Summary	Program Performance Targets (as of 2006)	Monitoring Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Transition to a market economy</p>	<p>Move to a market economy and integrate with the global economy</p> <ul style="list-style-type: none"> § Ratio of exports to GDP is 55% § Share of manufactured products in total exports is 70% § Share of private sector exports in total exports is 85 % § All quantitative restrictions on imports have been removed § Modern customs procedures are in place § Viet Nam becomes a member of the World Trade Organization <p>Promote competition in product markets by tightening the budget as incentives for SOEs to restructure</p> <ul style="list-style-type: none"> § Number down to 2,100 § Share of bank credit going to SOEs is less than 25% § Increased number of profitable SOEs § Most nonperforming inter-enterprise debts resolved <p>Strengthen the institutional and regulatory framework of the financial sector</p> <ul style="list-style-type: none"> § Delinquent joint-stock banks closed or merged; all banks compliant with regulations § Reduced NPL ratio and appropriate mechanisms in place to prevent NPL resurgence § SBV more focused on supervision and regulation, with progress on the divestiture of SOCBs § Reform of policy lending: transferred to the budget, with well-specified eligible sectors and terms of support 	<ul style="list-style-type: none"> § Quarterly progress reports of relevant ministries/ committees implementing the CPRGS. Six-monthly partnership and taking stock reports. § ADB's participation in joint (government-development agency) assessments of PRSC III outcomes and PRSC IV triggers § Annual CPRGS and PRSC progress reports § Annual budget report 	<p>Assumption</p> <ul style="list-style-type: none"> § Adequate capabilities to enforce measures <p>Potential Risks</p> <ul style="list-style-type: none"> § Poor coordination or inappropriate sequencing with related reforms. § Insufficient local-level resources and skills § Inadequate capital, maintenance, and operating budgets § Resistance of impacted agencies and officials

Design Summary	Program Performance Targets (as of 2006)	Monitoring Mechanisms	Assumptions and Risks
	<p>Foster private sector development by providing an equitable investment environment</p> <ul style="list-style-type: none"> § Private domestic investment (20% of GDP) § Job creation in formal private sector (5 million people) <p>Focus infrastructure development on the quality of investment</p> <ul style="list-style-type: none"> § Free entry in telecommunication and information technology services § Improved infrastructure provision and operations (i.e., telecoms) § Rational pricing policies for infrastructure services 	<ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports § Draft law discussed publicly § Laws amended and approved by the National Assembly <ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports § Laws amended and approved by the National Assembly § Annual budget reports 	
<p>2. Socially Inclusive Development</p>	<p>Provide satisfactory coverage of the poorest groups and the quality of the education imparted</p> <ul style="list-style-type: none"> § Net primary school enrollment rate attains 98% (from 88% in 1998). § School quality in terms of qualified teachers has improved, with a substantial catch up of poor areas § Net lower secondary school enrollment rate attains 80% (from 62% in 1998). <p>Change in the financing of health services and improve health indicators</p> <ul style="list-style-type: none"> § Infant mortality rate is 30/1,000 (from 37/1000 in 1998) § Under 5 mortality rate is 36/1,000 (from 48/1000 in 1998) § A public health approach is in place to tackle human immunodeficiency virus/ acquired immunodeficiency syndrome (HIV/AIDS) <p>Improve use of land and water resources</p> <ul style="list-style-type: none"> § All land has been titled, and land has been allocated to almost all households in upland areas § A legal framework exists for land use according to community practices 	<ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports <ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports <ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports § Laws amended and approved by National Assembly § Review of new Land Law implementation. 	

Design Summary	Program Performance Targets (as of 2006)	Monitoring Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> § Increased population access to water, sanitation, and waste services § Increased participation of users in irrigation management § Natural disaster management leads to more effective flood control <p>Upgrade the legal framework for environmental protection</p> <ul style="list-style-type: none"> § Forest cover expands to 38% from 35%. § No further degradation of highly biodiverse forests and wetlands § A framework is in place to assess environmental impact of projects § Mechanisms in place to handle waste discharge and pollution offenses (polluters pays). <p>Address gender issues</p> <ul style="list-style-type: none"> § 95% of land-use right certificates have been reissued in the name of both spouses 	<ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports § Review of the work on Gender Equality Law. § Review of New Land law implementation. 	
3. Modern Governance	<p>Improve planning processes</p> <ul style="list-style-type: none"> § At least one-third of provinces and sectors have pro-poor socioeconomic development plans § Criteria based on growth and poverty reduction impacts guide the selection of public investment projects <p>Improve public financial management</p> <ul style="list-style-type: none"> § A publicly-disclosed medium-term fiscal framework is used § Operation and maintenance costs are fully taken into account § Annual publication of detailed and accurate budget data at each level of government § Accounting norms in accordance with international practice and increased access to audits on use of public funds 	<ul style="list-style-type: none"> § Approved plan for implementation of working rules, etc. § Annual CPRGS and PRSC progress reports § Annual budget report <ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports § Laws amended and approved by the National Assembly 	

Design Summary	Program Performance Targets (as of 2006)	Monitoring Mechanisms	Assumptions and Risks
	<p>Provide legal and public administration reform</p> <ul style="list-style-type: none"> § Further legal and judicial reforms § Progress toward administrative simplification with a more transparent and accountable civil service <p>Address anticorruption</p> <ul style="list-style-type: none"> § Reduced corruption and perception of corruption as rated by independent monitors and the Government's own diagnostic study. <p>Provide information</p> <ul style="list-style-type: none"> § Reliable, publicly available economic and social data, allowing the evaluation of public policies § Poverty measurement and targeting on the poor more in line with common international practice 	<ul style="list-style-type: none"> § Annual CPRGS and PRSC progress reports § Public administration reform progress reports § Annual CPRGS and PRSC progress reports § Report state inspectorate § Diagnostic study findings § Annual CPRGS and PRSC progress reports 	
Activities	<ul style="list-style-type: none"> § Measures and actions as per policy matrix of PRSC III and measures and actions (triggers) for PRSC IV 	<ul style="list-style-type: none"> § Review missions reports 	
Inputs	<p>Policy dialogue and program loan proceeds</p> <ul style="list-style-type: none"> § The World Bank —US\$100 million equivalent § Asian Development Bank—US\$6.4 million equivalent § Japan Bank for International Cooperation — US\$18 million equivalent § The European Commission—€15 million § Canadian International Development Agency— Can\$6.3 million § Denmark—US\$10 million § The Netherlands—€4 million § The United Kingdom's Department for International Development—£20 million <p>Total official development assistance input = about US\$178 million</p>	<ul style="list-style-type: none"> § Review mission reports § Annual CG meeting 	

Can\$ = Canadian dollar, € = euro, £ = pound sterling, US\$ = United States dollar.

PRSC PROCESSING AND ASSESSMENT MECHANISMS

May 2004		June 2004	December 2004	March 2005	April 2005	May 2005	
World Bank's Credit Negotiations	Finalizing PRSC 3 Program Document	Approval of PRSC 3 by World Bank Board of Directors	Assessment of the triggers for PRSC 4	World Bank's Regional Operations Committee Meeting	World Bank's Credit Appraisal	World Bank's Credit Negotiations	Finalizing PRSC 4 Program Document
Prior Actions	Linkage to the next PRSC		Progress Assessment	Progress Reassessment	Policy Dialogue	Prior Actions	Linkage to the next PRSC
Finalize Policy Matrix: 41 actions In broad reform agenda	Identify triggers: 15 triggers Criteria: - Based on Government's own strategy - Strategic - Measurable		Rate the triggers: HS, S, PS, or U.	Rate the triggers: HS, S, PS, or U.	Discuss 50+ actions (including 15 triggers)	Finalize Policy Matrix: 44 actions: • 15 triggers as they evolved • 29 non-trigger actions	Identify triggers: 15 triggers Criteria: - Based on Government's own strategy - Strategic - Measurable
<ul style="list-style-type: none"> • To be and included in the PRSC 3 Program Document as the Policy Matrix • To be complied with by May 2004 	<ul style="list-style-type: none"> • To be identified and included in the PRSC 3 Program Document • To be monitored by December 2004 		<ul style="list-style-type: none"> • If enough progress, propose PRSC 4. Concept note is then prepared. • If not enough, delay the process 	<ul style="list-style-type: none"> • Decide the volume of lending according to case (high case, baseline, or low case) • Authorize appraisal 	<ul style="list-style-type: none"> • Prior actions selected must be complied by the conclusion of credit negotiations • Triggers cannot be dropped or postponed to the next operations. Otherwise, credit cannot be submitted to the Board. 	<ul style="list-style-type: none"> • To be and included in the PRSC 3 Program Document as the Policy Matrix • To be complied with by May 2004 	<ul style="list-style-type: none"> • To be identified and included in the PRSC 3 Program Document • To be monitored by December 2004

PRSC = Poverty Reduction Support Credit, HS = highly satisfactory, S = satisfactory, PS = partly satisfactory, U = unsatisfactory.
Source: World Bank staff.

POLICY MATRIX FOR THE PRSC PROGRAM

Sector	PRSC 1	PRSC 2	PRSC 3
Pillar I: Transition to a Market Economy			
Trade integration	<ul style="list-style-type: none"> • Adopt Association of Southeast Asian Nations (ASEAN) Free Trade Agreement (AFTA) roadmap to gradually reduce tariffs on ASEAN imports. • Liberalize trading rights for all domestic enterprises and expand to foreign ones. • Eliminate quantitative restrictions for liquid soda and plastic packaging 	<ul style="list-style-type: none"> • Transfer the last tranche of items to Inclusion List (IL), and lower IL tariffs. • Eliminate quantitative restrictions (QRs) for cement, clinker, steel, glass, paper, vegetable oil and tiles. • Issue regulations for Most-Favored Nation Treatment (MFNT) and National Treatment (NT). 	<ul style="list-style-type: none"> • Conduct detailed preparatory work for World Trade Organization (WTO) accession, including tariff scenarios. • Eliminate QRs on the imports of petroleum products. • Adopt the Early Harvest Program reducing tariffs for agricultural products • Direct the use of transaction value as the basis for customs valuation • Apply the Harmonized Classification and Coding System to all trading partners.
SOE reform	<ul style="list-style-type: none"> • Equitize 400 state-owned enterprises (SOEs), with final state share of capital of 35 percent or less in 2002. • Adopt comprehensive restructuring plans for three general corporations. • Design and activate fund to finance the social safety net for redundant SOE workers. • Streamline the equitization process and improve its transparency 	<ul style="list-style-type: none"> • Approve and publish 104 detailed SOE transformation plans for 2003–2005. • Establish a central Debts and Assets Trading Company and develop a pilot. • Instruct all SOEs to report timely financial information to authorized agencies. 	<ul style="list-style-type: none"> • Substantially accelerate the SOE ownership transformation process. • Broaden the equitization process to large SOEs and General Corporations (GCs). • Issue guidelines for the operation of the Debts and Assets Trading Company.
Financial sector reform	<ul style="list-style-type: none"> • Establish Development Assistance Fund (DAF) and VBSP to phase out policy lending from banking system • Complete IAS audits for 2000 of the four largest state-owned commercial banks (SOCBs). 	<ul style="list-style-type: none"> • Instruct four biggest SOCBs to develop detailed plans to resolve unsecured NPLs • Complete key periodical milestones of restructuring plans of four biggest SOCBs 	<ul style="list-style-type: none"> • Issue plan to strengthen State Bank of Viet Nam (SBV) supervision capacity and level playing field for banks • Adopt a new chart of accounts for banks to improve transparency

Sector	PRSC 1	PRSC 2	PRSC 3
Financial sector reform (cont'd)	<ul style="list-style-type: none"> • Close 12 joint stock banks (JSBs), merge 2 and ensure the regulatory compliance of all others. • Adopt restructuring plans for four SOCBs and achieve first year milestones. • Issue regulation to bring loan classification in line with international practice. • Initiate implementation of revised nonperforming loan (NPL) classification and provisioning 	<ul style="list-style-type: none"> • Plan to resolve unsecured loans of 20 heavily indebted SOEs by each large SOCB. 	<ul style="list-style-type: none"> • Instruct SOCBs to put into effect credit manuals for better risk management • Impose a 60-day limit for SOCBs to submit their IAS audits to the SBV • Adopt decision to equitize two SOCBs, with a strategic investor for one of them. • Issue regulations for DAF operations restricting policy lending • Further develop securities market through easier listing and investment funds
Private sector development	<ul style="list-style-type: none"> • Approve the Enterprise Law and remove 195 business licenses to facilitate entry. • Permit automatic registration of export-oriented investments 	<ul style="list-style-type: none"> • Adopt plan to implement Party resolution on private sector development • Issue regulations to further implement the Enterprise Law. 	<ul style="list-style-type: none"> • Unify the corporate income tax rate to 28% irrespective of ownership. • Strengthen administration of intellectual property rights through National Office of Intellectual Property. • Improve the legal framework for the operation of business associations
Infrastructure			<ul style="list-style-type: none"> • Expand the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) to address large-scale infrastructure issues • Open Internet and mobile telephone services to competition. • Reduce international telephone and leased line prices to regional levels

Sector	PRSC 1	PRSC 2	PRSC 3
Pillar II: Inclusive Social Development and Sustained Environment			
Education		<ul style="list-style-type: none"> • Adopt the Education For All framework to attain targets by 2015. 	<ul style="list-style-type: none"> • Raise the expenditure share of education and training to 17.1% of the budget • Adopt minimum quality standards for primary schools nationwide
Health		<ul style="list-style-type: none"> • Issue decision creating province-level Health Care Funds for the Poor (HCFPs). 	<ul style="list-style-type: none"> • Establish HCFPs in all provinces and pay central Government contribution • Action program for the HIV-AIDS strategy based on a public health approach
Land		<ul style="list-style-type: none"> • Issue land-use right certificates (LUCs) for 35% of urban land users and 60% of forest land users. 	<ul style="list-style-type: none"> • Support access to land for all sectors and community land-use practices
Water			<ul style="list-style-type: none"> • Irrigation management transferred to cooperatives or associations of water users.
Environment		<ul style="list-style-type: none"> • Approve the National Strategy for Environmental Protection 	<ul style="list-style-type: none"> • Issue the decree on wetlands conservation and sustainable development. • Decentralize responsibility for environmental impact assessment (EIA) of investment projects to local levels. • Establish the “polluter pays” principle irrespective of enterprise ownership. • Issue regulation to upgrade, move or close the worst pollution offenders.

Sector	PRSC 1	PRSC 2	PRSC 3
Pillar III: Modern Governance			
Planning processes		<ul style="list-style-type: none"> • Set up a steering committee for CPRGS and the Poverty Reduction Support Credit (PRSC)/ Poverty Reduction and Growth Facility processes. 	<ul style="list-style-type: none"> • Issue guidelines to roll out the CPRGS approach to provincial planning • Pilot a medium-term expenditure framework (MTEF) in the education sector.
Public financial management	<ul style="list-style-type: none"> • Public Expenditure Review with timetable to implement its recommendations. • State Treasury to manage information system for Government expenditures • Publish sectoral breakdowns of at least 75 percent of Government spending. 	<ul style="list-style-type: none"> • Adopt a Budget Law with progress on decentralization and transparency. 	<ul style="list-style-type: none"> • Unify the accounting systems of the State Budget and the State Treasury. • Design an overall Treasury and Budget Management Integrated System
Financial accountability			<ul style="list-style-type: none"> • Enact a revised Accounting Law in accordance with international practice. • Subject SOEs to auditing by independent auditors instead of State Audit of Viet Nam
Legal development		<ul style="list-style-type: none"> • Legal documents to be published in Official Gazette for their effectiveness. • Transfer the management of local courts from Ministry of Justice to the Supreme People's Court. 	
Public administration reform			<ul style="list-style-type: none"> • Promulgate the one-stop shop model as national policy • Pilot the report card approach to service delivery in four urban sites.

Sector	PRSC 1	PRSC 2	PRSC 3
Anticorruption			<ul style="list-style-type: none"> • Stronger public procurement through open bidding and use of a Procurement Bulletin. • Ban inspections of businesses by non-authorized Government agencies.
Information availability		<ul style="list-style-type: none"> • Issue Statistical Law, with emphasis on data quality and accessibility. 	

Source: World Bank. 2004. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Third Poverty Reduction Support Operation (25 May 2004)*. Washington, DC.

PROGRESS OF DEVELOPMENT OUTCOMES

Sector	Development Outcome				Latest Assessment
	Expected as of 2006	In 2001	In 2003	In 2005	
Pillar I: Transition to a Market Economy					
Trade integration	Ratio of exports to GDP is 55%	47%	49% (S)	61%	HS
	Share of private sector exports in total exports is 85%	56%	65% (HS)	77%	S
	All QRs have been removed	QRs on many products	QRs only on sugar and petroleum (HS)	All QRs have been removed	HS
	Modern customs procedures are in place	Customs procedures are burdensome	Modernization project in preparation (HS)	Modernization project is being implemented. E-customs piloted.	S
	Viet Nam becomes a member of the WTO	Slow progress in WTO negotiations	Serious preparation for WTO accession (HS)	All 28 bilateral agreements signed. Accession expected in 2006.	HS
SOE reform	There are about 2,100 SOEs	5,334 SOEs	4,361 SOEs (PS)	About 3,000 SOEs. Large SOEs being transformed. SOE shares sold through auctions.	S
	The share of bank credit going to SOEs is less than 25%	42%	36% (PS)	32%	S
	High proportion of profitable SOEs	High proportion of unprofitable SOEs	Progress is difficult to assess (--)	According to operational reviews and GSO surveys, most SOEs make low profits.	S
	Most non-performing inter-enterprise debts resolved	Large volume of non-performing inter-enterprise debts	Limited progress (U)	Analytical work needed to measure the extent of inter-enterprise debts.	PS
	Data on performance of SOEs available annually	Data about SOE sector is sketchy	Limited progress (U)	Financial disclosure requirements strengthened through Decision 192.	S

Sector	Development Outcome				Latest Assessment
	Expected as of 2006	In 2001	In 2003	In 2005	
Financial sector reform	Banks in full compliance with banking regulations	No commercial bank in full compliance	Consolidation of JSBs (PS)	Improved compliance on provisioning, capital adequacy, and disclosure. Prudential standards raised and are being complied with in a phased manner	PS
	High estimated NPL ratio in banking system	NPLs represent 15% of credit	Progress is difficult to assess (--)	Estimated NPLs is 8-10%(subject to revision)	PS
	SBV focused on supervision and regulation	Conflicting SBV responsibilities as owner and regulator	Limited progress (U)	Banking reform roadmap approved to remove conflicts and focus SBV on supervision.	PS
	Sound regulation of policy lending	Policy lending still done through SOCBs	Policy lending shifted to DAF and VBSP but growing rapidly (PS)	Policy lending largely shifted to DAF and VBSP under stricter regulations.	S
Private sector development	Private domestic investment is equal to 20% of GDP	8%	14%(HS)	18%	S
	Around 5 million people are employed in the formal private sector	0.5 million registered with social security and 1.3 million in formal wage employment	2 million (HS)	2.8 million registered with social security and 3.6 million in formal wage employment	S
	A level playing field has been secured with same regulations for all firms	Discrimination on access to land, taxes and public contracts	Limited progress (U)	2003 Land Law improves access to land, corporate tax unified, 2005 enterprise and investment laws create more level playing field	S
Infrastructure	Free entry in telecommunication and IT services	State monopoly in telecommunication and IT-services	Telecommunication sector open to competition (HS)	Further opening imminent under WTO	S
	Improved infrastructure provision and operations	Provision of infrastructure services often inefficient	Better infrastructure (HS)	Better access. 88% of rural households electrified. Rapid increase in road network, teledensity, and sanitation.	S
	Rational pricing policies for infrastructure services	Infrastructure services are expensive	Gradual convergence to regional prices (HS)	Gradual convergence to regional prices. Cost recovery in telecoms and electricity.	S

Sector	Development Outcome				Latest Assessment
	Expected as of 2006	In 2001	In 2003	In 2005	
Pillar II: Social Inclusion and Environmental Sustainability					
Education	Net primary school enrolment rate reaches 98%	88% (in 1998)	90% (in 2002) (PS)	94%	S
	School quality has improved, especially in poor areas	School quality is uneven and low in poor areas	Progress is difficult to assess (--)	FSQL standards under implementation, with poorer areas recording fast progress	S
	Net lower secondary school enrolment rate reaches 80%	62% (in 1998)	72% (in 2002) (HS)	80%	S
Health	Infant mortality rate per is 30/1000	37/1000 (in 1998)	31/1000 (in 2002) (H)	18/1000	HS
	Under five mortality rate is 36/1000	48/1000 (in 1998)	38/1000 (in 2002) (H)	24/1000	HS
	Effective mechanisms to reduce out-of-pocket payments by the poor	Out-of-pocket payments deter use of health services	Creation of the HCFPs (S)	Compulsory health insurance for the poor funded by government budget. Care Funds. Free healthcare for children under-6. Near-poor receive 30% subsidy for to buy voluntary insurance.	S
	A public health approach is in place to tackle the HIV-AIDS epidemic	No appropriate framework to prevent HIV-AIDS spreading	No progress (U)	HIV/AIDS strategy under implementation. New cases fell from 16,980 in 2003 to 13,731 in 2005	S
Land and forests	All land allocated with all upland land allocated to locals and ethnic communities	Not all land allocated especially in urban and upland areas	LUCs for 35 and 60% of urban and forest land users (S)	In 2004, 72% of households have LUCs for agricultural land; 68% for urban residential land; 64% for forestry land	S
	A functioning land market is in place and land tenure has been secured	10% of rural households with leased land (in 1998)	15% (in 2002) (S)	10.7 percent in 2004. Land tenure secured by a rapid rise in LUC allocation	PS
	Increased population access to water and sanitation services	41% with clean water and 17% with latrines (in 1998)	49% and 25% (in 2002) (HS)	Cover expanded to 37%, but water quality has not improved	S

Sector	Development Outcome				Latest Assessment
	Expected as of 2006	In 2001	In 2003	In 2005	
Water	Integrated river basin planning and participation of irrigation users	Inefficient irrigation and limited participation of users	No progress (U)	Greater participation of water users expected following new decree. Institutional conflicts impede integrated river basin planning	PS
Environment	No further degradation of highly bio-diverse forests and wetlands	Degradation	Pilot programs on wetlands (S)	Rich closed-canopy forest 4.6% (2004), although more fragmented. Protected area coverage 5.5% (2005). Stabilization of mangrove forest area. Degradation of wetlands and coral reefs continues	PS
	A framework in place to assess environmental impact of projects	Assessments are limited	Limited progress (U)	DONREs established in all provinces for environmental review of projects	S
	Mechanisms in place to handle waste discharge and pollution offenders	Urban pollution is unchecked and affects the poor	Limited progress (U)	Polluter pays principle introduced for waste water, with fees collected in 2005.	S
Gender	95% of LUCs have been re-issued in the name of both spouses	Low percentage of LUCs issued in the name of both spouses	Progress is difficult to assess (--)	Progress on newly issued LUCs but no re-issuance of old LUCs. Convergence in other development indicators by gender	S
Pillar III: Modern Governance					
Planning process	A number of provinces and sectors have pro-poor socio-economic plans	Planning is not well- geared towards development goals	Provincial CPRGS "roll-out" started (S)	Provincial CPRGS roll out piloted in 20 provinces and is to be scaled up to all provinces	HS
	Criteria based on growth and poverty reduction guide project appraisal	Appraisal of public investment projects is limited	Expansion of CPRGS to infrastructure issues under way (S)	Improved criteria to prepare, appraise and implement public investment projects leading to better selection and more transparent funding	S
Public financial management	A publicly-disclosed medium-term fiscal framework is used	Budget preparation is based on a short-term perspective	Public financial management reform program under way (S)	MTEF for 3 years prepared and disclosed in 2006. Budget for 2006 linked to 5-year plan.	S

Sector	Development Outcome				Latest Assessment
	Expected as of 2006	In 2001	In 2003	In 2006	
Public financial management	Operation and maintenance costs are fully taken into account	Little integration of capital and recurrent expenditures	Limited progress (U)	Ban on public investment projects without proper funding. MTEF better integrated capital and recurrent expenditure in four sectors.	S
	Annual publication of detailed and accurate budget data at all levels	Budget data available at central and commune levels only	Increased disclosure of the central budget (PS)	Full disclosure of the central budget aggregated categories	S
	Sustainable public debt ratios, with assessment of contingent liabilities	Limited knowledge of contingent liabilities	No progress but prudent fiscal stance (PS)	Assessment of contingent liabilities launched. Debt ratios at sustainable levels.	S
Financial accountability	Accounting norms in accordance with international practice	Accounting practices differ from international standards	Gradual convergence to international standards (S)	Convergence to international standards. Thirty seven auditing and 26 accounting standards issued.	S
Legal development	A legal system based on the rule of law and promoting development	Limited legal transparency	Increased publication of legal documents in Official Gazette (S)	Effectiveness of legal documents is conditional upon publication in Official Gazette. Legal and judiciary system strategies approved, but effective implementation measures needed.	PS
Public administration reform	Progress towards administrative simplification	Cumbersome procedures and murky payments	The one-stop shop model adopted in 35 provinces (S)	One-stop shop model adopted in 63 provinces, but quality needs attention. Action plans for simplification under implementation.	S
Anti-corruption	Reduced corruption as rated by independent monitors	Perception of widespread corruption	Comprehensive diagnostic study on corruption launched (PS)	Data from comprehensive diagnostic study and Investment Climate Assessment survey suggested that bribes as proportion of sales is low by international standard; no evidence of state capture; and petty corruption is widespread.	PS

Sector	Development Outcome				Latest Assessment
	Expected as of 2006	In 2001	In 2003	In 2006	
Information availability	Reliable, publicly available economic and social data	Limited statistical development and data difficult to access	Statistical Law for data quality and access adopted (S)	Poverty measurement is in line with international standards. Household and enterprise surveys regularly are conducted, and results are made publicly available.	S

Notes: 1. Assessments are by the World Bank and PRSC cofinanciers.

2. HS = highly satisfactory, S = satisfactory, PS = partially satisfactory, U = unsatisfactory.

Sources: World Bank. 2004. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Third Poverty Reduction Support Operation (25 May 2004)*. Washington, DC.; and World Bank. 2006. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fifth Poverty Reduction Support Operation (24 May 2006)*. Washington, DC.

STATUS OF THE POLICY MATRIX

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
Pillar I: Transition to a Market Economy		
Trade Integration		
1. Conducted detailed preparatory work for World Trade Organization (WTO) accession, including an assessment of the impact of various tariff scenarios on key sectors.	Complied with. The preparatory work and assessment were prepared and verified by World Bank sector specialists.	Continuing preparatory work was carried out under subsequent PRSCs, which were supported by ADB's SIPRP II and SIPRP III. It is envisaged that Viet Nam will have a successful WTO accession by end of 2006.
2. Eliminated quantitative restrictions (QRs) on the imports of petroleum products.	Complied with. Prime Minister's Decision 187/2003/QD-TTg dated 15 September 2003 eliminated QRs on the imports of petroleum products.	All QRs have been removed.
3. Adopted the Early Harvest Program to implement the Framework Agreement on Comprehensive Economic Cooperation between Association of Southeast Asian Nations (ASEAN) and the People's Republic of China (PRC).	Complied with. In accordance with Decree 99/2004/ND-CP dated 25 February 2004, tariffs on 484 items imported from the PRC, mostly agricultural and fishery products, were lowered as well. This move, known as the Early Harvest Program, is a step towards the implementation of the ASEAN-PRC free trade agreement.	Condition remains satisfied.
4. Issued regulations directing the use of transaction value as the basis for customs valuation.	Complied, in accordance with MOF Circular 118/2003/TT-BTC dated 8 December 2003.	Further progress. During PRSC 4 operations, the Government issued Customs Law for electronic environment, self-assessment, risk management and post audits.
5. Applied the harmonized classification and coding system to all trading partners.	Complied, in accordance with (i) Decree 06/2003/ND-CP dated 22 January; (ii) MOF Decision 82/QD-BTC dated 13 June 2003; and (iii) MOF Circular 85/2003/TT-BTC dated 29 August 2003.	Condition remains satisfied.
State-owned enterprise reform		
6. Substantially accelerated state-owned enterprise (SOE) ownership transformation by following the 104 SOE restructuring plans.	Complied with. The program supported from PRSC 2 onwards is based on a series of 104 SOE reform plans drawn up by line ministries, provincial Governments and GCs. Unlike previous blueprints for SOE reform, these plans, which identified the SOEs to be divested by name and indicated a specific year for the ownership transformation to be carried out, were put into the public domain. The overall aim is to equitize, sell or liquidate around 2400 SOEs, employing roughly 0.4 million workers, over a three-year period.	About 3,000 SOEs remain unchanged by 2006, compared to 5,334 SOEs in 2001. Large SOEs were transformed for the first time during PRSC 4 operations. SOE shares were sold through auctions and in the Ho Chi Minh City stock market.
7. Broadened the equitization process to include large SOEs and Government Corporations (GCs).	Complied, in accordance with Prime Minister's Directive 11/2004/CT-TTg dated 30 March 2004.	In March 2004, the Prime Minister signaled a policy change and directed legal revisions to permit the

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
		equitization of large SOEs. The new Decision 155 shortened the list of stipulated industries and sectors where SOEs operate with state share holding at 100%. In addition the list of activities where at least 50% state ownership is to be maintained has been shortened.
8. Issued operational guidelines for the central Debts and Assets Trading Company.	Complied with , in accordance with MOF Circular 39/TT-BTC of 11 May 2004.	Condition remains satisfied.
Financial sector reform		
9. Formulated a plan to strengthen the supervisory capacity of State Bank of Viet Nam (SBV) and to provide equitable working environments for banks	Complied with , in accordance with SBV Decision 663/2003/QD-NHNN dated 26 June 2003.	A comprehensive roadmap for banking sector reform was issued through Prime Minister's decision 112 of May 2006. The reform of the banking system entails fundamentally re-writing the Law on Credit Institutions and the Law on the SBV. The issuance of the revised laws, initially planned for 2010, has been brought forward to 2008 or earlier. The new laws will be designed to transform the SBV into a modern central bank charged with executing monetary policy and supervising the banking system. The supervision functions of SBV will be separated from its management functions in relation to SOCBs, and the operation of SOCBs on a commercial basis will be ensured. In October 2005, SBV initiated an assessment of its supervision practices against international standards, the Basel Core Principles.
10. Adopted a new chart of accounts for banks to improve banking transparency	Complied with. A new Chart of Accounts for Banks was adopted. This new chart, as well as new regulations on accounting and bank reporting policies, are close to the international accounting standards (IAS). A 60-day limit was imposed on the negotiation of IAS audit by SOCBs. The four largest SOCBs have been subjected to IAS since PRSC 1.	Condition remains satisfied. By 2006, at least five IAS audits have been conducted for each large SOCB. Audit quality, though initially weak, has improved considerably over time.
11. Instructed state-owned commercial banks (SOCBs) to put into effect new credit manuals to improve risk management in their operations	Complied with , in accordance with SBV Instructions 507/NHNN-CLPT dated 19 May 2004.	Condition remains satisfied.
12. Imposed a 60-day time limit for SOCBs to submit their international accounting standard (IAS)–audits to SBV	Complied with , in accordance with SBV Instructions 391/CV-CNH2 dated 21 May 2004.	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
13. Adopted a decision to allow the private sector to invest in two SOCBs, and took steps to identify a strategic investor for one of them	Complied with , in accordance with Prime Minister's Directive 11/2004/CT-TTg of 30 March 2004.	All five SOCBs are due to be equitized by 2010. As part of their equitization plans the SOCBs are taking steps to help market participants obtain a better picture of their worth. Vietcombank and Mekong Housing Bank are in the final stages of hiring external consultants to value the banks, while the Bank for Investment and Development of Vietnam has already obtained a rating from Moodys.
14. Issued regulations for Development Assistance Fund (DAF) operations, restricting its mechanisms for policy lending	Complied with , in accordance with Decree 106/2004/ND-CP date 1 April 2004.	Condition remains satisfied.
15. Further developed securities markets by easing listing requirements and creating a legal framework for securities investment funds as a new investment channel	Complied with , in accordance with Decree 144/2003/ND-CP date 28 November 2003.	Condition remains satisfied.
Private sector development		
16. Unified the corporate income tax rate at 28% irrespective of ownership	Complied with , in accordance with MOF Circular 128/2003/TT-BTC date 22 December 2003.	Condition remains satisfied.
17. Strengthened the administration of intellectual property rights through National Office for Intellectual Properties (NOIP)	Complied with , in accordance with Decree 28/2004/ND-CP date 16 January 2004.	The National Assembly issued a new Intellectual Property Law in accordance with WTO requirements in November 2005. It covers national treatment in copyright protection, compulsory licensing of inventions, border control measures, and geographical indications, in line with the Trade-Related Aspects of Intellectual Property (TRIPs) agreement.
18. Improved the legal framework for the organization, operation, and management of business associations	Complied with , in accordance with Decree 88/2003/ND-CP date 30 July 2003.	Stakeholders were consulted on the draft Law on Associations and it was discussed in the National Assembly (June 2006 session).
Infrastructure		
19. Expanded the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) to include a development policy for large-scale infrastructure	Complied with. The new chapter on large-scale infrastructure was added to the CPRGS in 2003. The expanded CPRGS is expected to serve as the basis for a gradual strengthening of the institutional mechanisms supporting public investment.	Condition remains satisfied.
20. Opened Internet and mobile telephone services to competition	Complied with , in accordance with MPT Decision 92/2003/QD-BBCTV dated 26 May 2003.	Condition remains satisfied.
21. Reduced international telephone and leased line prices to regional levels	Complied with. The Internet Service Provision (ISP) sector was opened by licensing new entrants. In mobile	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
	telephony, competitive entry by a new mobile operator was authorized. And staged price reductions were implemented for these services. As of January, 2004, telecommunication prices in Vietnam are in line with ASEAN norms.	
Pillar II: Social Inclusion and Environmental Sustainability		
Education		
22. Raised expenditure share of education and training to 17.1% of the 2004 national budget	Complied with. The budget allocation for 2004 indicated that the expenditure share of education and training was raised to 17.1% from 15.8% in 2003 and 13.8% in 2002.	The CPRGS target for the educational share in the budget is 18% for 2005. The allocated share for education in the 2005 and 2006 was 18% and 19% of the total budget expenditure, respectively.
23. Adopted minimum quality standards for primary schools nationwide	Complied, in accordance with MOET Decision 48/2003/QD-BGD-DT dated 24 October 2003.	Viet Nam continues to make impressive improvements in access to education at all levels, while improving the quality of its primary schools. Net enrolment rates reached 94% for primary in the school year ending in 2004. The gap between the rich and the poor continues to narrow. Between the school years finishing in 1993 and in 2004, the net primary enrollment rate for the poorest income quintile increased from 70.5% to 90.7%. Fundamental School Quality Level (FSQL) standards have been adopted as a key tool for monitor the performance of the education sector and link resources to needs. FSQL standards combine indicators related to the management of a school, the training of its teachers, the quality of its infrastructure and the availability of classroom material, etc. An annual audit of primary schools nationwide was launched in 2004 to assess progress in the quality of education. By 2005 the average FSQL index had increased substantially, especially in poorer districts.
Health		
24. Established health care funds for the poor (HCFPs) in all provinces and fully paid central Government contribution	Complied with. In line with the government's health sector strategy of ensuring equitable access to quality health care, the new policy was adopted for the establishment of province-level HCFPs. The health care funds for the poor and fund management committees were set up in all provinces and cities. The central government's contribution to the HCFPs was paid in full.	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
25. Adopted a multisector action program to implement the HIV/AIDS (human immunodeficiency virus/acquired immunodeficiency syndrome) strategy	Complied with. A policy framework for HIV/AIDS is being developed to identify critical needs, challenges and opportunities. It will be important that the future HIV/AIDS prevention agenda links HIV/AIDS to other social and economic development plans, increases Government's human resource capacity and financial commitment to HIV/AIDS, and scales-up successful pilot programs.	Condition remains satisfied.
Land		
26. Passed new Land Law supporting access to land for all sectors, and community land-use practices; and providing for a unified land administration system	Complied with. The National Assembly passed the Land Law in late 2003, supporting access to land for all sectors, addressing land-tenure security, recognizing community land-use practices and developing a unified land administration system. The new Land Law in itself represents an important step forward. The law specifies that all land use right certificates (LUCs) must bear the names of both spouses, thereby filling a gap of the older version. The law also expands into areas such as the re-renting of land, and the use of LUCs as capital contribution into joint ventures. It stipulates that the valuation of land for purposes such as taxation, registration or payment of compensation should be in line with market prices.	Condition remains satisfied.
Water		
27. Issued a decree to transfer to water user groups the management of small-scale, stand-alone irrigation and drainage systems, and secondary and tertiary irrigation systems	Complied in accordance with Decree 143/2003/ND-CP dated 28 November 2003.	Condition remains satisfied.
Environment		
28. Decentralized responsibility for environmental impact assessment to local levels according to the value of investment projects	Complied with. Environmental impact assessments (EIAs) of public investment projects were delegated to a large number of provincial governments, particularly in the regions that were driving economic growth, such as Ho Chi Minh City, Hanoi, Da Nang and Binh Duong. The EIA capacity of those local governments had been considerably strengthened, in parallel with their increased empowerment to make investment decisions. Amendments to the regulations guiding the	By mid-2006, Departments of Natural Resources and Environment (DONREs) were established in all provinces for environmental review of projects. Economic tools for environmental protection have been developed and strategic environmental assessments have been piloted. The Law on Environmental Protection (LEP) will take effect from July 1, 2006. The law includes provisions for adoption of "polluter pays" measures; for instance for waste discharge into

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
	implementation of the Law on Environment Protection were submitted to the Government for approval. These amendments, based on consultations held in 2003, aim at further decentralizing EIA responsibilities.	water bodies and the disposal of hazardous wastes. The law also foresees payments for natural resources use and rehabilitation, and reliance on environmental protection funds. The LEP also improves the requirements for EIA and introduces a requirement for Strategic Environmental Assessment (SEA) of sectoral and regional development plans.
29. Established polluter pays principle and mechanism for industrial and municipal wastewater discharges	Complied with , in accordance with Decree 67/2003/ND-CP dated 13 June 2003.	Condition remains satisfied.
30. Issued regulation requiring the worst pollution offenders to upgrade their technology, move to authorized zones or face closure	Complied with , in accordance with Prime Minister's Decision 64/2003/QD-TTg dated 22 April 2003.	Condition remains satisfied.
31. Issued a decree for the conservation and sustainable development of wetlands	Complied with , in accordance with MPT Decision 109/2003/ND-CP dated 23 September 2003.	Condition remains satisfied.
Pillar III: Modern Governance		
Planning Process		
32. Issued guidelines to rollout ^a the CPRGS approach in provincial planning and launched the process in 20 provinces	Substantially complied with. During the PRSC 3 implementation period, there was progress in incorporating the CPRGS approach in provincial planning. The process has involved three main activities: (i) regional workshops to discuss the approach and its implication for sector and local planning processes, (ii) regional poverty assessments focusing on specific dimensions of poverty in each region, and (iii) support by donors to 20 pilot provinces to integrate the CPRGS process into local and sector planning. Crucially, MPI issued guidelines to prepare provincial five-year plans and annual plans that incorporate the CPRGS approach.	Participatory processes were followed during the formulation of the CPGRS. It continued with the rollout of CPRGS in more than 20 provinces during PRSC 3-4. The CPRGS integration into SEDP has been taking place in many provinces as indicated in one of the PRSC 4 policy actions. During 2005, there are commitments from ODA partners and non-government organizations to conduct participatory community consultations, together with a series of regional workshops with local governments, workshops with ministries, and workshops with business groups and ODA communities on SEDP. Development agencies including ADB financed the rollout and the capacity building for local governments to conduct the studies, such as participatory poverty assessments and participatory planning, and strategic planning of key programs for the poor. ^b
33. Piloted a medium-term expenditure framework (MTEF) in the education sector	Complied with. The MOET was selected to pilot a MTEF, under improved accounting systems and control procedures by MOF.	To help strengthen medium-term expenditure planning, the government has piloted the development of MTEFs in four sectors and four provinces. The first MTEFs, covering the ministries of education, health, transport, and

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
		agriculture and rural development, were submitted and disclosed in 2006. These contain scenarios for sectoral spending and its allocation over a period of three years. Estimates for the capital and recurrent sides of the budget have been prepared in an integrated way, with reference to the development goals of the sectors.
Public financial management		
34. Unified the accounting systems of the State Budget and the State Treasury	Complied with , in accordance with MOF Decision 130/2003/QD-BTC dated 18 August 2003.	Condition remains satisfied.
35. Completed the overall design of an integrated treasury and budget management information system	Complied with. The design of an overall Treasury and Budget Management Information System (TABMIS) was completed. The TABMIS is based on modern principles of public financial management, such as the World Bank-IMF Treasury Reference Model. The TABMIS will replace the existing systems that were fragmented technologically and have overlapping and conflicting functionality.	A decree has also been submitted on the implementation of accounting standards set by the new Accounting Law in spending units that use state budget resources.
Financial accountability		
36. Enacted the new Accounting Law and issued new accounting and auditing standards in line with international standards	Complied with. A new Accounting Law was issued in late 2003 in accordance with international practice. Since then, 16 accounting standards and 27 auditing standards have been issued.	The Government issued all relevant accounting and auditing standards consistent with international practice. In May 2006, MOF issued the General Accounting System (GAS). GAS is a set of accounting regulations and not a set of accounting standards. It includes: general regulations, a standard chart of accounts and explanation on content, a method of recording the accounts, a system of accounting books and corporate accounting documents.
37. Subjected SOEs to independent audits unless exempted and subject to spell SAV audit	Complied with , in accordance with Decree 105/2004/ND-CP dated 30 March 2004.	The enactment of the 2005 Audit Law will help address the issues related to audit and accounting arrangements. The audit law has established the SAV as an independent institution reporting to the National Assembly (NA) with the Auditor General being appointed and dismissed by the NA. Audit reports will be made public. The SBV will also be subject to annual auditing and disclosure of the audit reports.

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
Public administration reform		
38. Promulgated the national policy of one-stop shop mechanism	Complied with , in accordance with Prime Minister's Decision 181/2003/QD-TTg dated 4 September 2003.	The one-stop shops have generally provided an accessible and recognizable entry point for people in need of administrative services. Procedures have been published and fees have been made more transparent. By now, 63 out of 64 provinces have established one-stop shops in the four compulsory departments, namely Labor and Social Affairs, Natural Resources and Environment, Planning and Investment, and Construction. Overall, 98% of all districts and 65% of all communes have set up their one-stop shops.
39. Piloted the report card approach to public services delivery in four cities	Complied with. To enhance delivery, the Ministry of Home Affairs (MOHA) supported a report card survey on a pilot basis in four urban localities (Ho Chi Minh City, Danang, Nam Dinh and Haiphong). This was the first ever opinion survey of this sort. It signaled a stronger focus on performance management and service delivery outcome.	A new regulation, Decree 43, was issued to strengthen the delivery of public services through improved monitoring, the introduction of user feedback, and limits on salary expenditure. Mechanisms to monitor service delivery by responsible line ministry or agency have been improved. User feedback includes the possibility of "report card surveys" in addition to mailboxes or websites. More details on the modalities of user feedback will be in the guideline circulars.
Anticorruption		
40. Strengthened the public procurement process by reinforcing open competitive bidding as the main method and mandating the establishment of a procurement bulletin	Complied with , in accordance with Decree 66/2003/ND-CP dated 12 June 2003.	A law on corruption prevention and control was passed by the National Assembly in November 2005, and will take effect in June 2006. In February 2006 the Prime Minister issued an action plan delineating the roles of various ministries and agencies in ensuring its effective implementation of the law. The law was drafted in parallel with the preparation of the first comprehensive diagnostic study on corruption in Viet Nam. It includes chapters on corruption prevention and detection, handling of corruption, organizations and mechanisms for investigation, prosecution and judicial agencies in anticorruption, role of society and media in anticorruption, international cooperation in anticorruption, and implementation provisions.

Actions/Conditions	Status at the Time of Tranche Release (March 2005)	Status at the Time of the Program Completion Report (August 2005)
41. Required Government agencies to adhere strictly to legal procedures, schedule, and scope of inspection of businesses	Complied with. The Government signaled its serious intent to tackle corruption through some actions, including the establishment of an Inspectorate to enforce laws and regulations related to public investment, under MPI. A decree to strengthen the public procurement process was also issued. This decree made open bidding the main method of procurement, mandates standard bidding documents and introduces the pass/fail system as an alternative to the merit points system. To enhance transparency in the public procurement process, the decree mandates a Procurement Bulletin, to be published on paper and electronically. The decree strengthened provisions related to inspections and handling of violations.	Condition remains satisfied.

^a “Rolling out” refers to expanding the activity to lower levels of government, i.e. in provinces, districts, and communes.

^b ADB. 2005. *Technical Assistance to the Socialist Republic of Viet Nam for CPRGS Integration into the Socioeconomic Development Planning in Central Highlands*. Manila (support under TA4163 and TA4252)

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
<p>In carrying out the Program, the Borrower shall perform all obligations set forth in Schedule 5 to the Loan Agreement.</p> <ul style="list-style-type: none"> The Borrower shall ensure that the counterpart funds shall be used to finance the structural adjustment costs and to finance the local currency costs related to the implementation of the Program and other activities consistent with the objectives of the program, as more fully described under paragraph 1 of Schedule 1 to the Loan Agreement and the Policy Letter and shall, in particular, provide necessary budget appropriations to primarily finance the structural adjustment costs relating to the implementation of the reform under the program. 	<p>Section 4.01, Schedule 5, para. 1</p>	<p>Complied with. The loan proceeds were not earmarked. The assurance that the Borrower complied with this covenant was reflected by the evidence that the Borrower adopted all the reform measures included under the program, some of which incurred high adjustment costs to the Borrower. MOF provided information on the budget appropriations to primarily finance the structural adjustment costs in each PRSC operation. Such information was reported in detail in the World Bank's PRSC 5 Program Document.^a</p>
<ul style="list-style-type: none"> SBV, as the Program Executing Agency, shall be responsible for overall program implementation, including administration and disbursement of Loan proceeds, maintenance of accounts, and preparation of semiannual progress reports on Program implementation. Ministries and agencies represented in the National Steering Committee shall be implementing agencies, responsible for such aspects of the Program as are within their respective mandate. 	<p>Section 4.01, Schedule 5, para. 2</p>	<p>Complied with. The implementation arrangements established at program appraisal have been carried out consistently during the SIPRP implementation period and beyond through the ongoing SIPRP III. The semiannual progress reports were prepared and distributed to the ODA community at the mid-year and end-year Consultative Group meetings between development partners and the Government.</p>
<ul style="list-style-type: none"> The Borrower shall ensure the proper coordination through a PCU at SBV. The PCU shall be a focal point to donors participating in the PRSC, and responsible for monitoring and reporting for awareness raising, capacity building and reform outcome dissemination under the Program. 	<p>Section 4.0, Schedule 5, para. 3</p>	<p>Complied with. The PCU was established in January 2005 to support the PRSC operations. The PCU's terms of references have been well observed.</p>
<ul style="list-style-type: none"> The Borrower shall ensure that the policies and actions as described in the Policy Letter and the Policy Matrix will continue in effect for the duration of the Program period and thereafter as appropriate. 	<p>Section 4.01, Schedule 5, para. 4</p>	<p>Complied with. See detailed compliance status of the policy actions in Appendix 5.</p>

Covenant	Reference in Loan Agreement	Status of Compliance
<ul style="list-style-type: none"> The Borrower shall keep ADB informed of issues related to structural adjustment, macroeconomic management, social inclusive development and governance and public administration reform and ensuing policy and institutional reforms, and additional reforms that may be considered necessary or desirable, including the progress made in carrying out the policies and actions set out in the Policy Letter and the Policy Matrix. 	Section 4.01, Schedule 5, para. 5	<p>Complied with. Intensive and frequent policy dialogue with the Government in all issues mentioned has been continuously carried out jointly with other PRSC cofinanciers as well as IMF, throughout ADB's participation in the PRSC process. The Borrower has also promptly provided such information to ADB separately as requested.</p>
<ul style="list-style-type: none"> The Borrower shall promptly discuss with ADB problems and constraints encountered during implementation of the Program and appropriate measures to overcome or mitigate such problems and constraints. 	Section 4.01, Schedule 5, para. 6	<p>Complied with. The Borrower has also promptly discussed with ADB the problems, particularly concerning ADB's specialized fields such as developing securities market, land registration, and rolling out the CPRGS approach to provincial planning.</p>
<ul style="list-style-type: none"> The Borrower shall keep ADB informed of policy discussions with other multilateral and bilateral agencies that have implications for implementation of the Program, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing and implementing any such proposals. 	Section 4.01, Schedule 5, para. 7	<p>Complied with. The Borrower has observed this agreement. ADB was given an opportunity to comment on policy proposals regarding developing the securities market and land law to support access to land for all sector.</p>
<ul style="list-style-type: none"> The Borrower shall monitor the implementation of the Program. The Borrower and ADB shall review the implementation of the policy reforms set out in the Policy Letter, and assess the impact of all relevant reforms in the sector. To facilitate such review, the Borrower shall assist ADB by providing relevant data and information in such detail as ADB may reasonably request. 	Section 4.01, Schedule 5, para. 8	<p>Complied with. The monitoring of program implementation was done by the Borrower through the organizational structures described in Section F of the main text. The joint review between the Borrower and ADB was done with other PRSC cofinanciers. The development outcomes were assessed every year by sector specialists of development partners.</p>

<ul style="list-style-type: none"> • The Borrower shall evaluate the benefits of the Program during and after implementation in accordance with a schedule and terms of reference to be mutually agreed upon by the Borrower and ADB. 	Section 4.01, Schedule 5, para. 9	Complied with. The evaluation has been carried out continuously as part of processing subsequent loans (PRSC 4 and PRSC 5 or SIPRP II and SIPRP III). A consultative workshop was organized jointly by ADB and the World Bank in Hanoi in October 2005 aiming at compiling the lessons learned from PRSC 1-4 and providing recommendations regarding the way forward in formulating and implementation PRSC 5 and beyond.
The Borrower shall maintain records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to record the progress of the Program.	Section 4.02, (a)	Complied with.
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph in para (a) of this Section.	Section 4.02, (b)	Complied with.
As part of the reports and information referred to in Section 6.5 of the Loan Regulations, the Borrower shall furnish to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the targets and carrying out the action set out in the Policy Letter.	Section 4.03, (a)	Complied with.
Without limiting the generality of the foregoing or Section 6.5 of the Loan Regulations, the Borrower shall furnish to ADB semiannual reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Section 4.02, (b)	Complied with. The semiannual reports were submitted to the ODA community at the mid-year and end-year Consultative Group Meetings between the Government and development partners.

^a World Bank. 2006. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Fifth Poverty Reduction Support Operation (24 May 2006)*. Washington, DC.

ADB = Asian Development Bank, MOF = Ministry of Finance, ODA = Official Development Assistance, PCU = Project Coordination Unit, PRSC = Poverty Reduction Support Credit, SIPRP = Support to Implementation of Poverty Reduction Program

Source: ADB staff and government officials from the Ministry of Finance, the Ministry of Planning and Investment, and the State Bank of Viet Nam.