



Completion Report

Project Number: VIE 38392-01
Loan Number: 2194
November 2007

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

CURRENCY EQUIVALENTS

Currency Unit – dong (D)

		At Appraisal	At Program Completion
		15 August 2005	15 November 2007
D1.00	=	\$0.000063004	\$0.000062251
\$1.00	=	D15,872	D16,064

ABBREVIATIONS

ADB	–	Asian Development Bank
ASEAN	–	Association of Southeast Asian Nations
CPRGS	–	Comprehensive Poverty Reduction and Growth Strategy
GDP	–	gross domestic product
IAS	–	international accounting standards
IMF	–	International Monetary Fund
MOF	–	Ministry of Finance
MPI	–	Ministry of Planning and Investment
MRM	–	management review meeting
MTEF	–	medium-term expenditure framework
NGO	–	nongovernment organization
NPL	–	nonperforming loan
NSC	–	National Steering Committee
ODA	–	official development assistance
PCR	–	project completion report
PCU	–	program coordination unit
PGAE	–	partnership group of aid effectiveness
PPER	–	Program Performance Evaluation Report
PPTA	–	project preparatory technical assistance
PRSC	–	Poverty Reduction Support Credit
SAV	–	State Audit of Viet Nam
SBV	–	State Bank of Viet Nam
SDR	–	special drawing rights
SEDP	–	Socioeconomic Development Plan
SIPRP	–	Support the Implementation of the Poverty Reduction Program
SOCB	–	state-owned commercial bank
SOE	–	state-owned enterprise
TA	–	technical assistance
VDR	–	Viet Nam Development Report
WTO	–	World Trade Organization

NOTE

The fiscal year (FY) of the Government and its agencies ends on 31 December.

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BASIC DATA

A. Loan Identification

1.	Country	Socialist Republic of Viet Nam
2.	Loan Number	2194
3.	Program Title	Support the Implementation of the Poverty Reduction Program II
4.	Borrower	Socialist Republic of Viet Nam
5.	Executing Agency	State Bank of Viet Nam
6.	Amount of Loan	10,349,000 SDR (\$15,457,473.38)
7.	Program Completion Report Number	986

B. Loan Data

1.	Appraisal	
	– Date Started	18 August 2005 (upgraded from fact-finding)
	– Date Completed	19 August 2005 (upgraded from fact-finding)
2.	Loan Negotiations	
	– Date Started	3 October 2005
	– Date Completed	4 October 2005
3.	Date of Board Approval	3 November 2005
4.	Date of Loan Agreement	30 November 2005
5.	Date of Loan Effectiveness	
	– In Loan Agreement	90 Days after Loan Agreement (28 February 2006)
	– Actual	10 May 2006
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	31 December 2006
	– Actual	5 July 2006
	– 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
2 June 2006	2 June 2006	0 months
Effective Date	Original Closing Date	Time Interval
10 May 2006	31 December 2006	7.6 months

b. Amount (\$)

Category or Subloan	Original Allocation	Date Disbursed	Actual Disbursed	Undisbursed Balance
Single Tranche	15,000,000	2 June 2006	15,457,473	0
Total	15,000,000		15,457,473	0

C. Program Data

1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	15.00	15.46

2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower-Financed	545.00	369.00
ADB-Financed	15.00	15.46
Other External Financing	210.00	202.54
Total	770.00	587.00

ADB = Asian Development Bank

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

Component	Appraisal Estimate	Actual
Health Funds for the Poor	90.00	48.00
Increased spending on education	400.00	362.00
Resolution of nonperforming loans and related costs	200.00	0.00
Social safety net for retrenched state-owned enterprise workers	80.00	178.00
Total	770.00	587.00

4. Program Schedule

Item	Appraisal Estimate	Actual
Date		
Tranche Release	March 2006	2 June 2006

5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 10 May 2006 to 5 July 2006	Satisfactory	Highly Satisfactory

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)	18–19 Aug 2005	5	10	Finance, governance, and trade specialist; programs economist; financial sector officer; governance/public sector reform officer; poverty reduction specialist consultant
Review Mission 1 ^a	6–7 Dec 2005	1	2	Finance, governance, trade specialist
Review Mission 2 ^b	17–22 May 2006	3	12	Finance, governance, trade specialist; counsel; financial sector officer
Review Mission 3 ^a	9–10 Jun 2006	2	4	Finance, governance, trade specialist; principal programs economist;
Program Completion Review ^c	7–11 May 2007	3	9	Finance, governance, trade specialist; financial sector officer; assistant project analyst

^a Biennial consultative group meetings.

^b Review was made in parallel with the loan fact-finding mission of the subsequent program loan, SIPRP III, that coincided with the World Bank's appraisal and credit negotiations.

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

I. PROGRAM DESCRIPTION

1. On 3 November 2005, the Asian Development Bank (ADB) approved the second program loan to Viet Nam for the Support the Implementation of the Poverty Reduction Program II (SIPRP II), financed in conjunction with the fourth Poverty Reduction Support Credit (PRSC 4).¹ As part of a series of five consecutive annual PRSC operations, the main goal of SIPRP II remained the same as the first SIPRP (SIPRP I)—i.e. to reduce poverty and sustain high-level economic growth, as envisaged in the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) 2002–2006 and the Socioeconomic Development Plan (SEDP) 2001–2005. The purpose was to support the Government's ongoing poverty reduction program within the policy framework of PRSC 4, which was an annual multisector program collectively supported by many development partners in the broader context of the Rome and Paris declarations.² SIPRP II was designed and processed jointly by development partners in close consultation with the Government of Viet Nam. The program framework summarizing the goal, objectives, outputs, and performance targets is attached as Appendix 1.

2. Through SIPRP II, ADB participated for the second time as a PRSC financing partner in the fourth of the 5-year PRSC series. SIPRP II was a one-tranche program loan that was part of the continuing results-based, performance-oriented PRSC process. Since PRSC 3, the PRSC framework has been broadened from its original focus, which was to reform state-owned commercial banks and state-owned enterprises. The framework has been expanded to cover a comprehensive agenda in three main pillars: (i) transition to a market economy, (ii) socially inclusive development, and (iii) modern governance. ADB participated as one of 10 financing partners of PRSC 4.³ The PRSC financing partners provided financial support in the form of grants and parallel loans or credits through a multidonor trust fund or on a bilateral basis.

3. 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.⁴ 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.

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 The other financing partners include the World Bank, Japan Bank for International Cooperation (JBIC), European Commission, Canadian International Development Agency, Denmark, Ireland, the Netherlands, Spain, and the United Kingdom's Department for International Development (DFID). The Agence Francaise de Developpement proposed at the World Bank's appraisal mission in May 2005 to be a financing partner but the proposal did not materialize.

⁴ Operations Evaluation Department. 2004. *The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank Support Through 2003*. Washington, DC: World Bank.

4. The official development assistance (ODA) community in Viet Nam considered the PRSC 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 economic growth.

II. EVALUATION OF DESIGN AND IMPLEMENTATION

A. Relevance of Design and Formulation

5. Like SIPRP I, SIPRP II was consistent with ADB's reform agenda—namely the Long-Term Strategic Framework⁵ and the Medium-Term Strategy⁶—and directly helped fulfill ADB's obligations to the Rome Declaration regarding harmonization of the procedures of multilateral development banks. SIPRP II is relevant to ADB's broader institutional objectives, namely the overarching goal of reducing poverty. SIPRP II supported the implementation of the CPRGS, which translated the Government's 5-year SEDP 2001–2005 into an outcomes-oriented strategy. The Government of Viet Nam embarked on CPRGS implementation in May 2002. CPRGS was prepared with support from the ODA community, including ADB, and in consultation with stakeholders and civil society.⁷ During the Country Programming Mission (15 April–4 May 2005), the Government confirmed its desire with ADB to receive SIPRP II loan in the amount of \$15 million equivalent.

6. SIPRP II supported the 4th year of PRSC operations. The policy actions identified under the policy matrix of the Program are identical to those of PRSC 4. The policy actions under the PRSC operations were in turn a distillation of the CPRGS, aimed at identifying key measures in multiple reform areas over the medium term. The CPRGS comprises the strategy for the Government's SEDP 2001–2005. 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.

7. The PRSC programs were developed through the identification of policy actions that were (i) consistent with national development strategies and plans, (ii) economically sensible, (iii) capable of making a considerable difference in practice, and (iv) sufficiently concrete to enable their adoption and implementation within a relatively short time period. The actions

⁵ 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.

⁶ ADB. 2001. *Medium-Term Strategy (2001–2005)*. Manila.

⁷ An important step in this process was the preparation of the so-called Haiphong matrices in October 2002. In a consultation involving hundreds of stakeholders, comprehensive lists of policy actions were discussed for each sector. Further steps in the process focused on policy actions that were consistent with national development strategies and plans, sensible from an economic point of view, capable of making a considerable difference in practice, and concrete enough to be adopted and implemented within a relatively short period of time. The process leading to the set of actions supported by the current series of PRSC operations is based on continued policy dialogue with the Government. The identification of the policy actions to be supported through the PRSC process has also involved consultations with nongovernment organizations (NGOs) and other donors.

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 financing partners. The PRSC process has also been supported by a series of comprehensive analytical reports covering the three pillars of the CPRGS; these reports include the annual Viet Nam Development Reports (VDRs). ADB and other development partners, including the World Bank and the International Monetary Fund (IMF),⁸ have been instrumental in providing factual information and analysis, contributing to both monitoring reform implementation and sharing 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.

B. Program Outputs

8. Program outputs specified in the 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 1–4.

9. All policy actions under the SIPRP II matrix were successfully complied with before the World Bank Board of Directors approved PRSC 4 in June 2005. It was expected that the items listed under program outputs in the Program Framework (Appendix 1) would be attained by the end of the PRSC cycle at end-2006 (and the program outputs were well attained as presented in Appendix 3). It was envisaged that those outcomes would be attained subsequent to the adoption of strategic policy measures specified under the PRSC, including: (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. Appendix 4 specifies in detail these program outputs, which are the material evidence supporting the status of compliance with the policy actions.

10. In terms of outcomes, the World Bank and other PRSC financing partners carried out annual assessments of progress in achieving development outcomes. 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. Appendix 5 presents the assessment of such progress as of 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. 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 satisfactory judgment about associated policies, external constraints, and sustainability of the progress achieved.

⁸ The IMF's 3-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.

11. Given the broad nature of the CPRGS and PRSC reform agenda, progress in achieving development outcomes was not even across all policy areas. The annual assessment of progress in achieving development outcomes has helped identify strong and weak areas of policy-making. Such frequent assessments helped realign the overall reform strategy to ensure the sustainability of the medium-term PRSC reform program. In addition, the lessons learned from the first 5-year PRSC cycle of identifying and monitoring development outcomes have helped improve the design of the ongoing second 5-year PRSC program.

12. Overall, policy reform progress was slower in areas where there was limited political will, conflicting institutional responsibilities, or insufficient analytical work. The speed at which progress was made across policy areas within each of the three pillars depended on the political will to implement the underline reforms. The policy areas that demonstrated stronger progress over the 5-year implementation period of PRSCs 1–5 included international trade, state-owned enterprise reform, private sector development, infrastructure, health, education, land, water, planning process, and public-finance management. The areas that demonstrated weaker progress include banking reform, water, environment, legal development, and anticorruption. The slow progress in banking reform can be explained by (i) a lack of capacity to identify nonperforming loans, (ii) conflicts between the dual functions of the State Bank of Viet Nam in supervising state-owned commercial banks and being a shareholder in such banks, and (iii) caution in seeking to ensure public financial sustainability in embarking on fiscalization of the financial sector. In other cases, as in water policy, limited progress reflects institutional overlap and unclear delimitation of roles across ministries or agencies. In the case of anticorruption, the commitment to fight corruption is strong but has only developed recently. This is also an area where progress on inputs such as laws or coordinating bodies may take some time to translate into progress on outputs and outcomes.⁹

C. Program Costs

13. SIPRP II was policy oriented. Most of the program activities involved drafting laws and regulations and preparing road maps and action plans. However, the adoption of specific policy measures under the Program resulted in higher financial burdens for the Government. At appraisal, the estimated total cost of more than \$770 million included establishment and maintenance of a health fund for the poor, increased spending on education, and resolution of nonperforming loans and other related costs. The total financial support to PRSC 4 from all financing partners amounted to about \$225 million, of which \$15 million was financed by ADB. Contributions from each PRSC 4 financing partner are included in Appendix 1. The SIPRP II loan proceeds were used to support the balance of payments and continuation of PRSC operations.

D. Disbursements

14. The loan became effective on 10 May 2006 and the single tranche was disbursed on 2 June 2006. At appraisal, it was expected that the loan would become effective 90 days after the signing of the Loan Agreement on 30 November 2005 (i.e., on 28 February 2006). The actual loan effectiveness date was 10 May 2006, after the Ministry of Justice's legal opinion on the Loan Agreement was received. The loan proceeds were released on 2 June 2006, upon ADB having received and examined the Government's withdrawal application.

⁹ World Bank. 2007. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Sixth Poverty Reduction Support Operation*. Washington, DC (23 May).

E. Program Schedule

15. There was no delay in the program implementation schedule. All policy conditions for the single-tranche release were met prior to the approval of SIPRP II. The planned program period was 18 months, from 30 June 2005 to 31 December 2006, with a planned closing date of 31 December 2006. However, after the loan proceeds were disbursed, the financial account was actually closed on 5 July 2006. Note that there was very little overlap between the implementation periods of SIPRP II and the subsequent loan, SIPRP III that was financed in conjunction with PRSC 5. The implementation of SIPRP III commenced on 30 June 2006.

F. Implementation Arrangements

16. 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, and responsible for overall implementation of the SIPRP II. The program is being implemented through 24 line ministries and other relevant government agencies in accordance with the Loan Agreement.

17. The National Steering Committee (NSC) for implementation of the CPRGS and PRSCs was established in 2002. It is chaired by first Deputy Prime Minister Nguyen Tan Dung, and consists of the heads of 24 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 4 and subsequent PRSCs.

18. An interministerial working group and a secretariat to implement and monitor the CPRGS have been established at the Ministry of Planning and Investment. 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 4 and subsequent PRSCs. Among the goals of the interministerial working group is implementation of the CPRGS at subnational levels. The CPRGS Secretariat at the Ministry of Planning and Investment 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

19. The SIPRP II policy matrix consisted of 44 policy conditions, 20 of which were related to Pillar I (transition to a market economy), 10 to Pillar II (social inclusive development), and 14 to Pillar III (modern governance). Fifteen of the policy conditions were considered to be tranche-release conditions, and were documented in the World Bank's financing agreement.

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

H. Related Technical Assistance

21. The SIPRP II was supported by TA 4593, a small-scale project preparatory technical assistance (PPTA) project. The TA was approved on 9 June 2005 and was aimed at enhancing (i) the program's compliance with safeguard policies and (ii) the consultation process of designing the program to ensure wide participation of all relevant stakeholders in Viet Nam's poverty reduction strategy, including the private sector, civil society, vulnerable groups, and nongovernment organizations (NGOs). Originally, the TA was envisaged to cover the preparatory work for only SIPRP II, but later the scope of the TA was expanded to cover the preparatory work for SIPRP III and SIPRP IV.¹⁰ The TA project has successfully delivered the outputs indicated at TA appraisal, namely consulting services for preparing the social and environmental impact assessments, which included recommendations for mitigating measures. Together with the Government and the World Bank, the TA has allowed ADB to play a critical role as a joint organizer of two important consultative workshops held in Hanoi: the PRSC Stocktaking Workshop of 23–25 October 2005, which focused on the PRSC process in Viet Nam; and the VDR 2007 Preparation Workshop of 3–5 October 2006. There was no advisory technical assistance accompanying SIPRP II.

I. Consultant Recruitment and Procurement

22. No consultants were recruited under SIPRP II. Consultants under the PPTA project for Support to the Implementation of the Poverty Reduction Program were engaged in accordance with the ADB's *Guidelines 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

23. 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 multilayered organizational structure to ensure the effectiveness of policy implementation, which was in operation throughout the 5-year PRSC operations period.

24. The government's strong ownership of the PRSC reform program has been backed up with an empowered implementing mechanism. The NSC for the implementation of the CPRGS and PRSCs was established in 2002 for this purpose. Chaired by the deputy prime minister in charge of economic reforms, it brings together the heads of all relevant line ministries and government agencies. A deputy governor of SBV acted as standing vice chairman of the NSC. This quasi-advisory body has several representatives from key economic ministries and agencies. Members of the NSC thus have authority over the entire range of policy areas covered by the PRSC process. The preparation of the Office of the Government and the Party's Economic Commission in the NSC also allowed for better coordination of policy decisions, and made it possible to elicit sufficient support for the most critical reforms. Representatives from 24 line ministries and government agencies participated in the preparation of the PRSC program.

25. SBV is the Executing Agency for both PRSC operations and SIPRP II. The Executing Agency has played a key role in coordinating implementation as needed. PRSC operations became increasingly intense and complex as the reform agenda expanded and the number of

¹⁰ SIPRP IV is an annual ADB loan to support the Government of Viet Nam's poverty reduction program based on the national poverty reduction program based on the SEDP 2006-2010. SIPRP IV loan provided financial assistance to the Government in conjunction with PRSC 6.

financing partners increased. The performance of the Executing Agency is considered satisfactory.

K. Performance of the Asian Development Bank

26. SIPRP II was processed and administered by ADB's Viet Nam Resident Mission, 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 financing partners have also processed their contributions from their field offices in Hanoi.

27. The performance of ADB is rated satisfactory. SIPRP II was the second of the three single-tranche program loans approved by ADB in support of the current 5-year PRSC cycle. The program loan approvals followed a fast-track processing schedule but required full discussion by the Board of Directors prior to approval.¹¹ The loan Fact-Finding Mission was upgraded to Appraisal Mission at the first management review meeting (MRM). Since all of the 44 policy conditions in the program's policy matrix were complied with and there were no remaining issues to discuss with the Government, the second MRM and steering review committee meeting were waived by the ADB Management at the second MRM. The loan proceeds were disbursed on 2 June 2006, a few months after originally scheduled (i.e., 28 February 2006).

III. EVALUATION OF PERFORMANCE

A. Relevance

28. SIPRP II was highly relevant and consistent with ADB's development strategy for Viet Nam both at the time of appraisal and now. SIPRP II adheres to ADB's recent efforts to adopt program-based and sector approaches in its lending operations, so as to reduce transaction costs both for developing member countries and for its own operations. The approach was consistent with ADB's reform agenda, long-term strategic framework, and medium-term strategies I and II, and directly helped fulfill ADB's obligations to the Rome Declaration on harmonizing procedures of multilateral development banks (2003) and the Paris Declaration on Aid Effectiveness (2005).

29. From the Government's perspective, SIPRP II was highly consistent with the Government's 5-year development strategy at appraisal, as indicated in the development policy letter, and remains so at present. SIPRP II supported the implementation of the CPRGS—the Government's strategy to reduce poverty and ensure sustained economic growth. However, as the CPRGS and the Government's 5-year SEDP are different programs,¹² the CPRGS was implemented outside the official mechanism of the 5-year SEDP. Despite that, systematic organizational arrangements were established to ensure program implementation (see details in sections F and J). 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 to the Millennium Development Goals and Viet Nam Development Goals.

¹¹ SIPRP II did not meet criterion number (ii) for summary procedure by the Board of Directors, namely, the proposed loan should not be for a program. SIPRP II supported a comprehensive poverty reduction program comprising a number of key policy reforms including—among others—financial sector reform, state-owned enterprise reform, reforms in social sectors, and public administration reform.

¹² The CPRGS was developed subsequent to the issuance of the SEDP 2001–2005. The latter was output-oriented rather than outcome-oriented. The CPRGS, prepared in wide consultation with all stakeholders, translated the Government's 5-year SEDP 2001–2005 into an outcome-oriented strategy

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 CPRGS. Consequently, the Government had significant input into PRSC 4, on which SIPRP II was based.

30. The scope and components of PRSC 4 and hence SIPRP II are considered relevant to the development outcomes set forth at appraisal by the Government and development partners. The relevance of the program design—to increase the likelihood that policy actions would achieve the program purpose—was underlined by strong and frequently updated analytical reports, including VDRs and sector-specific studies. Following the approval of SIPRP I by the ADB Board of Directors in 2004, the Government confirmed its desire to receive the SIPRP II lending during the Country Programming Mission (15 April to 4 May 2005) with an understanding that the ADB Board of Directors' approval of SIPRP II would be in November 2005. The Program was included in the Country Strategy and Program Update 2006–2008, which was approved by the ADB Board of Directors in August 2005.¹³

B. Effectiveness in Achieving Outcome

31. The SIPRP II was part of a 5-year cycle that included PRSCs 1–5. The medium-term PRSC program aimed 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 had been assessed as highly effective 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 fell 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 SIPRP II, as indicated in the program framework, was achieved. SIPRP II fully supported the implementation of the Government's poverty reduction program within the PRSC 4 framework. ADB actively contributed, in the form of both intellectual and financial inputs, to CPRGS implementation under the PRSC 4 framework.
- (iii) The outputs indicated under the program framework were generally well attained by the end of 2006, as targeted. Some reform areas demonstrated better progress than the others (see para. 12).

C. Efficiency in Achieving Outcome and Outputs

32. SIPRP II was highly efficient because of the unusually low transaction costs associated with this loan, which were a product of 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 a short period of time, from the Fact-Finding Mission of 18–19 August 2005 (which was upgraded to Appraisal Mission) to loan approval on 3 November 2005. The steering review committee meeting was waived. The processing 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.

¹³ ADB. 2005. *Country Strategy and Program Update: Viet Nam 2006–2008*. Manila.

33. ADB actively participated with other development partners in the formulation of the CPRGS prior to inception of the first PRSC. The policy dialogue during PRSC 4 was based in large part on the prior analytical studies and policy dialogue carried out during CPRGS formulation in 2002. As ADB participated for the second time in providing parallel funding to finance the PRSC program in Viet Nam, ADB staff participated more actively in refining and finalizing the PRSC 4 policy matrix than the first time. ADB staff provided comments and inputs regarding the priority and sequencing of tentative reforms to be achieved under PRSC 4, particularly policy actions supported by ADB sectoral operations (both loans and technical assistance projects). Those policy actions include, among others, (i) submit the anti-money laundering decree; (ii) enact a regulatory framework for the operation and supervision of microfinance institutions; (iii) improve the implementation of the land law, focusing on land registration and land valuation; (iv) integrate the CPRGS approach in the preparation of the SEDP 2006–2010; and (v) establish a framework to increase the effectiveness of anticorruption actions through institutional capacity building and human resources development of the State Inspectorate. ADB participated in policy dialogue with the Government along with the World Bank and other PRSC financing partners. With assistance from the newly established program coordination unit (PCU), the Executing Agency was able to effectively coordinated and planned the logistical arrangements of meetings for carrying out the policy dialogue between the Government and the increasing number of PRSC financing partners.¹⁴ All representatives from PRSC financing partners and other relevant development partners, such as the International Monetary Fund, United Nations Development Programme, and NGOs, participated more actively as their staffs became more familiar with policy dialogue process. The efforts undertaken jointly with other development partners provided greater leverage to other ADB sectoral operations. SIPRP II reduced the operational costs for both the Government and development partners, in accordance with the principle of aid harmonization. In terms of program process, ADB demonstrated adequate supervision and support to the PRSC process. ADB provided sufficient intellectual support, as required. However, the comprehensive nature of the SIPRPs to some extent limited the quality of ADB support; the World Bank had more sectoral specialists stationed in their field offices than ADB did.

34. The SIPRP II Executing Agency and implementing agencies demonstrated adequate efficiency in terms of program organization and management. The use of reliable information and analysis in policy making has also improved steadily over the course of the PRSC process. For the first three PRSCs, the Government made efforts to improve the quality of data that can be used to monitor PRSC outcomes. PRSC 4, upon which SIPRP II is based, continued to build on this experience. Key sources of monitoring information for poverty and program outcomes included the biennial Viet Nam Household Living Standards Survey, periodic participatory poverty assessments, local consultations, enterprise surveys, public expenditure tracking surveys, and progress reports from the relevant ministries and committees implementing the reform program. In addition, the Ministry of Finance–led strengthening of management information systems for all public spending and state-owned enterprises was an integral part of the PRSC reform agenda.¹⁵

¹⁴The increasing number of PRSC financing partners was the main reason for establishing the PCU. In addition, following up the compliance status of the large number of policy actions for each PRSC requires much time and effort. The PCU has helped the Executing Agency and PRSC financing partners compile supporting evidence from more than 20 government agencies that confirms compliance with those actions.

¹⁵World Bank. 2007. *Implementation Completion and Results Report on A Series of Five Credits in the Total Amount of SDR473.4 million to the Social Republic of Vietnam for a Series of Five Poverty Reduction Support Operations*. Washington, DC (29 June).

D. Preliminary Assessment of Sustainability

35. SIPRP II was assessed as highly likely to be sustainable. The latest available data (June 2006) on the progress of development outcomes confirms positive trend. There was negligible risk of reversal in the reform agenda, as the Government has full ownership of the reform program. In fact, the CPRGS principles adopted under SIPRP II were carried forward to 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. The trends of poverty reduction and high economic growth in Viet Nam are highly likely to continue. There is a risk that inequality between the rural population (including many ethnic minorities) and urban population (including the Kinh majority) will increase, and that corruption may increase as well. Nonetheless, results from credible macroeconomic analyses,¹⁶ coupled with the Government's strong commitment to continuing its effective reform agenda, suggests that the current trend of impressive poverty reduction and sustained high economic growth will continue in Viet Nam.

E. Impact

36. SIPRP II, as part of the PRSC operations, had substantial impacts on both poverty reduction and institutional development. In recent years no country in the world has registered faster progress in reducing poverty than Viet Nam. Based on the one-dollar per-day measure that was adjusted by the purchasing power parity, between 1990 and 2004 the percentage of the population living in poverty fell roughly 3 percentage points per year, twice the rate of the People's Republic of China. Viet Nam's impressive poverty reduction trend is also confirmed when using a comparable poverty line related to a consumption bundle that includes food and nonfood items sufficient to secure a daily food intake of 2,100 calories per person per day. As the poverty rate declines, reducing it further becomes more difficult, so a gradual deceleration of the process can be expected. However, after a slowdown between 1998 and 2002, the pace of poverty reduction in Viet Nam picked up again. The apparent acceleration in poverty reduction is consistent with other developments during the period. Output grew faster; the prices of commodities essential to sustaining the livelihood of farmers (such as rice and coffee) increased; and the volume of resources transferred to poorer provinces in the context of decentralization expanded. However, it is worth noting that poverty reduction progress has been slower for Viet Nam's ethnic minorities.¹⁷

37. Regarding institutional development impacts, SIPRP II, as part of the PRSC series, increased awareness of the Government's pro-poor policies and ability to improve pro-poor policy-making. The coordination among many stakeholders and systematic mechanisms for CPRGS implementation widened views and provided intellectual inputs resulting in positive changes. Through PRSC operations, the Government's capacity to undertake policy analysis was indirectly enhanced. SIPRP II was not accompanied by technical assistance projects aimed at strengthening the capacity of the Executing Agency and implementing agencies. However, the development partners' analytical studies, which supported the refinements of PRSC policy actions, were undertaken in close consultation with government agencies. The monitoring of policy implementation and evaluation of policy impacts 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

¹⁶ Medium-term macroeconomic forecasts carried out by IMF, World Bank, and private research institutes.

¹⁷ Footnote 11.

workers made redundant by the equitization (partial privatization) and restructuring of state-owned enterprises.

38. PRSC operations are policy-oriented programs and do not have investment components; hence, no PRSC operations trigger ADB safeguard policies on environment, indigenous peoples, or involuntary resettlement. 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

39. SIPRP II was implemented as conceived. The logical framework and the performance monitoring and evaluation system were well designed. The Program supported CPRGS implementation under the PRSC 4 framework. Assessment of the Program's development outcomes at SIPRP II appraisal revealed that these were generally on track, and that the targeted outcomes of the current cycle of PRSC operations would probably be achieved by the end of 2006. SIPRP II was rated as successful.

B. Lessons Learned

40. SIPRP II is a practical example of harmonization and alignment among development partners, as per the Rome and Paris Declarations. Through SIPRP II, ADB participated in the PRSC operations for the second time, and was among a growing number of financing partners. The lessons learned from ADB's participation in PRSC operations in Viet Nam are detailed in the project completion report (PCR) of the preceding loan (SIPRP I),¹⁸ as grouped into four categories: (i) harmonization, (ii) alignment, (iii) ADB-specific, and (iv) beyond PRSC operations. In addition to the already identified lessons in that PCR, this PCR highlights the evolution of ADB's involvement in the PRSC process and operations in Viet Nam.

41. **Evolution from SIPRP I to SIPRP II.** By the time that ADB's financing PRSC for the second time, the processing of the program loan had become more streamlined into ADB's pipeline planning process. The first reference to the possibility of ADB financing PRSC operations in Viet Nam appeared in the Country Strategy and Program Update 2005–2006 (approved by the President on 20 August 2004). A series of SIPRPs were subsequently included in the Country Strategy and Program Update 2006–2008 (approved by the President on 9 August 2005) and the recent Country Strategy and Program 2007–2010 (approved by the Board of Directors on 5 October 2006). In addition, a small-scale TA project (TA 4593) for preparing SIPRP II was approved by the Vice President (Operations 1) on 9 June 2005 for the purpose of (i) improving the design and quality of loan documents in the area of social safeguards; (ii) minimizing negative social risks of policy actions; and (iii) coordinating the comprehensive policy dialogue and consultation of the policy actions under the subsequent program loans financing the series of PRSC operations.¹⁹ With clear direction for ADB to become a financing partner for PRSC 4 and beyond, since late 2005 ADB staff had become more active in participating in policy dialogue, along with the World Bank and other financing

¹⁸ ADB. 2006. *Completion Report of Program Loan to the Socialist Republic of Viet Nam: Support to Implementation of Poverty Reduction Program*. Manila.

¹⁹ TA 4593 for Support to the Implementation of the Poverty Reduction Program was approved by Vice President (Operations 1) on 9 June 2005.

partners. The project mission had been actively participating in donor and donor–government meetings on PRSC 4 formulation since December 2004. Through funding from TA 4593, ADB jointly organized a PRSC stocktaking workshop in Hanoi on 23–25 October 2005, along with the World Bank. The purpose of the workshop was to consult with PRSC stakeholders beyond government agencies and donor agencies—i.e., with academia, civil society groups, and non-government organizations—to identify lessons learned and suggest ways to improve the formulation and processing of PRSC operations in Viet Nam. The results from the workshop were incorporated into the independent assessment²⁰ of PRSC operations by Mokoro consulting company in the review “Using Aid Well: Experience and Opportunities with Viet Nam’s PRSC,” published in November 2006.

42. As the number of PRSC financing partners has grown from eight in PRSC 3 (SIPRP I) to 10 in PRSC 4 (SIPRP II),²¹ frequent communication has become increasingly necessary for all parties to reach mutual understanding and agreement on the process and the content of the policy matrix and dialogue. The financing partners agreed to establish a program coordination unit containing a group of five capable domestic consultants for the purpose of facilitating meetings, assisting with program processing, arranging logistics, and compiling material evidence related to the program

43. **Connectivity and linkage between PRSC and sector-specific projects.** 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 operations in Viet Nam. Examples of maximum leverage include recommending policy actions under SIPRPs that are (i) prerequisites to achieving reforms envisaged in ADB sector-specific program loans or (ii) facilitating the implementation of ADB investment projects in the pipeline.²² The program officer for the upcoming SIPRP should keep specialists informed about PRSC technical details and incorporate the opinions of these specialists in the policy dialogue. However, in difficult areas of reform (e.g. banking and state-owned-enterprise reform), 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 Government decision makers. Additional efforts outside the 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 areas outside the PRSC framework. Ensuring that the PRSC process is integrated with these other processes, such as projects, programs, and technical assistance supported by specific development partners, is therefore critical for achieving targeted development outcomes. Therefore, PRSC inputs to lagging reform areas call for a concomitant involvement of relevant specialists.

²⁰ The review project was commissioned by the World Bank for use by all PRSC stakeholders.

²¹ For PRSC 3, financing partners include ADB, Canadian International Development Agency, Danish International Development Agency, United Kingdom’s Department for International Development, the European Commission, Japan Bank for International Cooperation, the Netherlands, and World Bank. For PRSC 4, new financing partners in addition to the eight PRSC 3 partners include Spain and Ireland.

²² The former include a SIPRP II policy action that requires submission of an anti-money laundering decree to the Prime Minister, which was supported by ADB TA and will lead to the establishment of a financial intelligence unit to coordinate the relevant activities, as provided for by the decree on anti-money laundering regulations under ADB’s Financial Sector Program Loan II. The latter include a policy action that required the Government to enact the Electricity Law, which will facilitate future ADB projects such as the Northern Power Transmission Expansion Sector Project.

44. Second, there are overlapping aid harmonization groups in Viet Nam, with multiple sectoral coordination or partnership groups being organized outside of the PRSC process. These groups are jointly organized by relevant government agencies and development partners who are active in the underlined developmental sectors. 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 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

45. Recommendations should include the following:

46. **Possible Streamlined Procedures in Future Processing.** The SIPRP loans are processed yearly, making them having shorter implementation periods and more frequently processed than the average ADB program loans. Since the SIPRPs are program loans that require full discussions by the Board of Directors prior to approval (footnote 9), the staff time required for processing the program loan, including the preparation and participation in pre-Board and Board discussions, is quite substantial. The yearly approved program loans also translate into yearly preparation of the program completion reports. As ADB's participation in program loans similar to SIPRPs (i.e., a series of frequent, single-tranche program loans that support medium-term reform) become more frequent and target more developing member countries, it may make sense to further streamline internal loan processing procedures by introducing a flexible lending modality similar to the Multitranche Financing Facility, which, at present, applies only to investment projects.

47. **Future Monitoring.** Even though ADB has actively participated in analytical work supporting the formulation and finalization of PRSC policy actions, ADB efforts to assess the performance of the attained development outcomes should be strengthened. The World Bank and IMF, whose staff produce annual joint staff advisory notes commenting on the CPRGS implementation reports, have dominated annual assessment of CPRGS implementation thus far. These advisory notes are 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. However, this would require coordination and collaboration among ADB specialists in various sectors, as the PRSC program includes 18 sectors. Inputs by specialists from both ADB headquarters and the Viet Nam resident mission are critical to ensuring 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 official development assistance community at biennial consultative group meetings in Viet Nam.

48. **Covenants.** Even though all policy actions of SIRPP II were identical to those of PRSC 4, the covenants in the Loan Agreement of SIPRP II required that all of the Program's policy actions remained satisfactorily complied with during and after the program period. Therefore, the compliance status of the policy actions and covenants had to be periodically assessed and verified. The loan was declared effective on 10 May 2006. The status of compliance with the

agreed policy actions is presented in Appendix 4. The three sections of Article IV, Particular Covenants, were fully complied with (Appendix 5).

49. **Further Action.** 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 the first Viet Nam Development Report (VDR). This occurred before ADB decided to financially contribute to the PRSC process in 2004, through SIPRP I. 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 mission leaders of SIPRP I and SIPRP II were members of the steering committees for VDR 2004 (*Poverty*), VDR 2005 (*Governance*), and VDR 2006 (*Business*). ADB continued its active participation in the latest VDR 2007 (*Aiming High*), which is a cross-cutting analysis that formulated the policy matrix for PRSCs 6–10, which implement the next 5-year comprehensive poverty reduction program and growth strategy. Such participation benefited ADB by synchronizing all future operations in the Country Strategy and Program 2007–2010 with the new SEDP 2006–2010. In addition to participating in the annual analysis studies, ADB was also a cosponsor with the World Bank in organizing consultative workshops in October 2005 and October 2006 (see para. 21). 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 continue to 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.

50. **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 based on strong analytical work. Therefore, the official development assistance community accepted the SEDP as the national poverty reduction strategy on which PRSCs 6–10 have been based. The Viet Nam Country Strategy and Program 2007–2010, which was approved by the ADB Board of Directors in October 2006, includes future program loans to be cofinanced with other development partners over the second (and last) PRSC cycle in Viet Nam. By 2010, it is expected that Viet Nam will 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.

51. **Timing of the Program Performance Evaluation Report.** The program performance evaluation reports (PPERs) for all of the SIPRPs supporting the first 5-year cycle of PRSCs (i.e., SIPRPs I–III) may be combined into a single report. The PPER should be conducted after the closing of the small-scale TA project for preparing the SIPRPs.²³ The TA project was recently closed on 30 September 2007. It is also recommended that ADB continue its contribution to the upcoming annual analytical report to be published in December 2007 (VDR 2008) as well as to the improvement of monitoring and evaluation mechanisms. Resources from another small-scale TA project for preparing SIPRP V through SIPRP VIII, approval on 15 November 2007, will be used for these purposes. Under the circumstance, the PPER should be undertaken early 2008.

²³ Footnote 19.

2. General

52. During a SIRPP program appraisal, the following recommendation could be offered for future processing of SIPRP V through SIPRP VIII. Each of the proposed SIPRP program loans use an innovative approach of a single-tranche program loan that is actually part of a continuous, multiple-tranche program loan. Since the SIPRPs supported the Government's comprehensive poverty reduction program, which covers a medium-term implementation period, it is reasonable that the design and monitoring framework of future SIPRPs in terms of its goal (impact) and purposes (outcomes) follow a medium-term framework, as opposed to the 1-year implementation period of each SIPRP. However, the achieved outputs under individual SIPRP—such as action plans; strategies; new laws, regulations, and guiding circulars; and amended laws and regulations—should be included in the design and monitoring framework.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
Impact Reduced poverty and high economic growth sustained	<ul style="list-style-type: none"> Poverty incidence below the level of the last Viet Nam Household Living Standard Survey conducted in 2004 (i.e., 24.1% of population)^a Gross domestic product (GDP) growth 7.5% or above annually 	<ul style="list-style-type: none"> Progress reports on the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) Draft 5-year Socioeconomic Development Plan (SEDP) 2006–2010 SEDP progress reports 	
Outcome Support implementation of the Government's Poverty Reduction Program within the framework of the Poverty Reduction Support Credit 4 (PRSC 4) focusing on <ol style="list-style-type: none"> reducing structural weaknesses, and improving the business environment; promoting socially inclusive development; and modernizing governance. 	<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 Increased private sector investment Improved telecommunication services and lowered cost State budget appropriation for health, education, and training in 2006 accounts for above 17% of total budget expenditure 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"> <i>Asian Development Outlook</i> report, the World Bank's <i>Taking Stock</i> 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 General Statistics Office's household living standard survey reports (conducted every 2 years, last survey was in 2004) 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 4 outcomes and PRSC 5 triggers (i.e., measures and actions) 	Assumptions <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 Risks <ul style="list-style-type: none"> Improper sequencing of reforms and incomplete policy and institutional reforms Conflict between the Government's ambitious economic growth objective and efforts to increase transparency and contain growth of contingent liabilities Less socially inclusive and environmentally unsustainable because of the dynamics of rapid economic growth and insufficient accountability of public service providers to deliver basic public services to the poor Fiduciary risk associated with the proposed loan, if progress on enhancing fiscal transparency and tackling corruption is not adequate

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
Outputs 1. Transition to a market economy	<p>Move to a market economy and integrate with the global economy</p> <ul style="list-style-type: none"> Ratio of exports (value) to GDP is 55% Share of industrial products in total exports is 70% (2010 target is 75%) 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 with good legal regulations and mechanism for integration <p>Promote competition in product markets by tightening the budget as incentives for SOEs to restructure</p> <ul style="list-style-type: none"> Number of SOEs reduced to 2,100 in 2006 from the current 4,200 Share of bank credit going to SOEs is less than 25% Increased number of profitable SOEs Most nonperforming inter-enterprise debts resolved Data on performance of SOEs available annually <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 	<ul style="list-style-type: none"> Quarterly progress reports of relevant ministries/ committees implementing the CPRGS. Six-monthly partnership and taking stock reports Sector progress reports Annual reports on SEDP, CPRGS ADB's participation in joint (government-development agency) assessments of PRSC 4 outcomes and PRSC 5 triggers <ul style="list-style-type: none"> Annual SEDP, CPRGS, and PRSC progress reports Annual budget report <ul style="list-style-type: none"> Annual SEDP, CPRGS, and PRSC progress reports Draft law discussed publicly 	<p>Assumptions</p> <ul style="list-style-type: none"> Adequate capabilities to enforce measures Actions based on clear understanding and pragmatic resolution of issues Regular monitoring and feedback to policymakers <p>Risks</p> <ul style="list-style-type: none"> Poor coordination or inappropriate sequencing with related reforms. Insufficient local resources and skills Inadequate capital, maintenance, and operating budgets Resistance of impacted agencies and officials

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> • 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 <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 (5.0 million jobs, increased from the latest figure of 2.5 million) <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., telecommunications) • Rational pricing policies for infrastructure services 	<ul style="list-style-type: none"> • Laws amended and approved by the National Assembly • Annual CPRGS and PRSC progress reports • Laws amended and approved by the National Assembly • Annual budget reports 	

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
2. Social inclusion and Environmental Sustainability	<p>Provide satisfactory coverage for 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%; increased from 62% in 1998 and recent figure of 72% (2010 target is 90%) <p>Change in the financing of health services and improve heath indicators</p> <ul style="list-style-type: none"> • Infant mortality rate is 30:1,000, reduced from 37:1,000 in 1998 and recent rate of 27:1,000 already outperformed the 2006 target (2010 target is 20:1,000) • Under 5 mortality rate is 36:1,000, reduced from 48:1,000 in 1998 and recent rate of 35:1,000 already outperformed the 2006 target (2010 target is 27:1,000) • A public health approach is in place to tackle HIV/AIDS epidemic, SARS, H5N1 <p>Improve use of land and water resources</p> <ul style="list-style-type: none"> • All land has been titled and allocated, and all upland areas has been allocated to local and ethnic communities • A functioning land market is in place and land tenure has been secured • Increased population 	<ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Sector reports <ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Sector reports <ul style="list-style-type: none"> • Annual CPRGS and PRSC progress reports • Laws amended and approved by the National Assembly • Review of New Land law implementation 	

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p>access to water, sanitation, and waste services</p> <ul style="list-style-type: none"> Integrated river basin planning and increased participation of users in irrigation management <p>Upgrade the legal framework for environmental protection</p> <ul style="list-style-type: none"> Forest cover expands to 38%, increased from 35% in 2001 (2010 target is 43%) No further degradation of highly biodiverse forest and wetlands A framework is in place to assess environmental impact of projects Mechanisms are in place to handle waste discharge and pollution offenders <p>Address gender issues</p> <ul style="list-style-type: none"> All newly issued or re-issued land-use right certificates are in the name of both spouses 	<ul style="list-style-type: none"> Annual CPRGS and PRSC progress reports Review of work on the Gender Equality Law. Review of the New Land law implementation. 	
3. Modern Governance	<p>Improve planning processes</p> <ul style="list-style-type: none"> Planning toward development goals A number of provinces and sectors have pro-poor socio-economic development plans Substantially improved integration of the public investment projects with budget <p>Improve public financial management</p> <ul style="list-style-type: none"> Continue to expand the implementation of pilot MTEF in some sectors and provinces Fully taken into account appropriate budget allocation for operation and maintenance costs 	<ul style="list-style-type: none"> Approved plan for implementation of working rules, etc. Annual CPRGS and PRSC progress reports <ul style="list-style-type: none"> Annual budget report Annual CPRGS and PRSC progress reports Evaluation of the implementation of the 2002 Law on State 	

Design Summary	Program Performance Targets/Indicators (as of 2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> Publicly disclose budget plan and approved budget accounts at all levels of state budget entities Sustainable public debt ratios, with assessment of contingent liabilities <p>Strengthen financial accountability and transparency</p> <ul style="list-style-type: none"> Accounting norms in accordance with international practice <p>Provide legal and public administration reform</p> <ul style="list-style-type: none"> A legal system based on the rule of law and promoting development Progress toward administrative simplification and administration procedures <p>Address anticorruption</p> <ul style="list-style-type: none"> Reduced corruption and perception of corruption as rated by independent monitors <p>Provide information</p> <ul style="list-style-type: none"> Reliable, publicly available economic and social data, allowing the evaluation of public policies 	<p>Budget</p> <ul style="list-style-type: none"> Annual CPRGS and PRSC progress reports Annual CPRGS and PRSC progress reports Public administration reform progress reports Annual CPRGS and PRSC progress reports Report of the State Inspectorate Diagnostic study findings Annual CPRGS and PRSC progress reports 	

<p>Activities with Milestones</p> <p>Measures and actions as per policy matrix of PRSC 4 and measures and actions (triggers) for PRSC 5 with detailed milestones identified by responsible government agencies</p>	<p>Inputs</p> <p>Policy dialogue and program loan proceeds of</p> <ul style="list-style-type: none"> • The World Bank—\$100 million equivalent • Asian Development Bank—\$15.0 million equivalent • Japan Bank for International Cooperation—\$22.8 million equivalent • Agence Française de Développement/France—€10 million <p>Policy dialogue and program grant proceeds of</p> <ul style="list-style-type: none"> • Agencia Española de Cooperación Internacional—€2 million • The European Commission—€8 million • Canadian International Development Agency—Can\$6.0 million • Denmark—DKr65 million (US\$10.8 million) • Ireland —€1.5 million • The Netherlands—€8 million • The United Kingdom's Department for International Development—£20 million <p>Total official development assistance of approximately \$225 million</p>
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Can\$ = Canadian dollar, € = euro, £ = pound sterling, \$ = United States dollar.

HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, H5N1 = highly pathogenic avian influenza A, MTEF = Medium Term Expenditure Framework, PRSC = Poverty Reduction Support Credit, SARS = Severe Acute Respiratory Syndrome.

Note:

^a The Government set a target to achieve a lower poverty rate of 14–16% (using an international poverty measurement) by 2010 in the draft Socioeconomic Development Plan 2006–2010.

OVERVIEW OF POLICY ACTIONS UNDER THE PRSC PROGRAM

Pillar I: Transition to a Market Economy				
Sector	PRSC 1 (no ADB financing)	PRSC 2 (no ADB financing)	PRSC 3 (ADB financing under SIPRP I)	PRSC 4 (ADB financing under SIPRP II)
Trade integration	<ul style="list-style-type: none"> • Adopt AFTA roadmap to gradually reduce tariffs on ASEAN imports. • Liberalize trading rights for all domestic enterprises and expand to foreign ones. • Eliminate quantitative restrictions (QRs) 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 QRs for cement, clinker, steel, glass, paper, vegetable oil and tiles. • Issue regulations for Most-Favored Nation Treatment and National Treatment. 	<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 • Harmonized Classification and Coding System applies to all trading partners. 	<ul style="list-style-type: none"> • Make strong progress in the multilateral and bilateral negotiations towards WTO accession. • Issue regulations on import licensing in accordance with WTO requirements. • Eliminate 80% export requirements on foreign direct investments. • Establish a national SPS notification body and Enquiry Point with clear terms of reference. • Issue Customs Law for electronic environment, self-assessment, risk management and post audits.
SOE reform	<ul style="list-style-type: none"> • Equitize 400 state-owned enterprises (SOEs), with final state share of capital of 35% or less in 2006. • Adopt comprehensive restructuring plans for three General Corporations (GCs). 	<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. 	<ul style="list-style-type: none"> • Substantially accelerate the SOE ownership transformation process. • Broaden the equitization process to large SOEs and GCs. 	<ul style="list-style-type: none"> • Issue a much narrower list of sectors where 100% state ownership is to be retained. • Strengthen the mechanisms for the equitization of SOEs, including the auctioning of shares.

Pillar I: Transition to a Market Economy				
Sector	PRSC 1 (no ADB financing)	PRSC 2 (no ADB financing)	PRSC 3 (SIPRP I)	PRSC 4 (SIPRP II)
SOE reform (continued)	<ul style="list-style-type: none"> 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"> Instruct all SOEs to report timely financial information to authorized agencies. 	<ul style="list-style-type: none"> Issue guidelines for the operation of the Debts and Assets Trading Company. 	<ul style="list-style-type: none"> Adjust SOE restructuring plans in line with the narrower list for 100% state ownership Equitize a number of large SOEs with substantive participation of outside investors. Introduce holding company model allowing GCs to exercise control over their affiliated SOEs.
Financial sector reform	<ul style="list-style-type: none"> Establish 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). Close 12 joint stock banks, 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. 	<ul style="list-style-type: none"> Instruct four biggest SOCBs to develop detailed plans to resolve unsecured nonperforming loans (NPLs). Complete key periodical milestones of restructuring plans of four biggest SOCBs Plan to resolve unsecured loans of 20 heavily indebted SOEs by each large SOCB. 	<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 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. 	<ul style="list-style-type: none"> Announce the separation of the SOCB management and supervision functions of SBV. Issue regulations on loan classification based on IAS, applying to all SOCBs Produce an estimate of the current stock of NPLs in SOCBs, based on IAS. Adopt credit manuals, internal audit committees and loan computerization in all SOCBs. Submit a decree establishing an anti-money laundering regime.

Pillar I: Transition to a Market Economy				
Sector	PRSC 1 (no ADB financing)	PRSC 2 (no ADB financing)	PRSC 3 (SIPRP I)	PRSC 4 (SIPRP II)
Financial sector reform (continued)	<ul style="list-style-type: none"> Initiate implementation of revised NPL classification and provisioning. 		<ul style="list-style-type: none"> Issue regulations for DAF operations restricting policy lending. Further develop securities market through easier listing and investment funds. 	<ul style="list-style-type: none"> Enact a regulatory framework for the operation and supervision of microfinance institutions.
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 NOIP. Improve the legal framework for the operation of business associations 	<ul style="list-style-type: none"> Issue a new Competition Law limiting the dominant market position of SOEs.
Infrastructure			<ul style="list-style-type: none"> Expand the 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 	<ul style="list-style-type: none"> Issue Electricity Law allowing the equitization of EVN subsidiaries and creating a regulator. Create a regulatory framework for network interconnection in telecoms. Reduce traffic accidents by 15% through an integrated set of preventive measures.

Pillar II: Social Inclusion and Environmental Sustainability				
Sector	PRSC 1 (no ADB financing)	PRSC 2 (no ADB financing)	PRSC 3 (SIPRP I)	PRSC 4 (SIPRP II)
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. 	<ul style="list-style-type: none"> • Evaluate 7% of all teachers based on new Primary Teacher Profile for career development. • Audit all primary schools nationwide against Fundamental School Quality Levels. • Open the tertiary education level to private sector participation.
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 	<ul style="list-style-type: none"> • Issue an action plan for tuberculosis prevention, accounting for its interaction with HIV/AIDS. • Strengthen the regulation and pricing of pharmaceuticals.
Land and forests		<ul style="list-style-type: none"> • Issue land-use right certificates 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. 	<ul style="list-style-type: none"> • Issue a new law on Forest Protection and Development. • Improve the implementation of the Land Law, focusing on land registration and land valuation. • Issue SFE decree, including the transfer of land to households, communities and the private sector.

Pillar II: Social Inclusion and Environmental Sustainability				
Sector	PRSC 1 (no ADB financing)	PRSC 2 (no ADB financing)	PRSC 3 (SIPRP I)	PRSC 4 (SIPRP II)
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 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. 	<ul style="list-style-type: none"> Submit the amended Law on Environmental Protection, jointly with implementation decree. Issue directive to strengthen the management of solid waste in urban and industrial zones.
Pillar III: Modern Governance				
Planning processes		<ul style="list-style-type: none"> Set up a steering committee for CPRGS and the PRSC/ PRGF processes. 	<ul style="list-style-type: none"> Issue guidelines to roll out the CPRGS approach to provincial planning. 	<ul style="list-style-type: none"> Integrate the CPRGS approach in the preparation of the next SEDP. Scale up the CPRGS roll out process to a more determined effort to improve provincial planning. Enhance the decentralization of public investment decisions to lower government levels.

Pillar III: Modern Governance				
Sector	PRSC 1 (no ADB financing)	PRSC 2 (no ADB financing)	PRSC 3 (SIPRP I)	PRSC 4 (SIPRP II)
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% 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. Pilot a medium-term expenditure framework in the education sector. 	<ul style="list-style-type: none"> Issue regulations to improve financial disclosure for all state budget entities, including SOEs. Launch an assessment of the fiscal risks associated with SOEs, SOCBs and DAF. Approve a public expenditure review leading to better integration of capital and recurrent budgets. Facilitate community participation and supervision in local investment projects.
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 Vietnam. 	<ul style="list-style-type: none"> Transform SAV into an independent specialized agency established by the National Assembly.
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 MOJ to the Supreme People's Court. 		<ul style="list-style-type: none"> Establish the prevalence of treaties, including WTO agreements, over national legislation.

Pillar III: Modern Governance				
Sector	PRSC 1 (no ADB financing)	PRSC 2 (no ADB financing)	PRSC 3 (SIPRP I)	PRSC 4 (SIPRP II)
Public administration reform			<ul style="list-style-type: none"> The OSS model promulgated as a national policy The report card approach to service delivery piloted in four urban sites. 	<ul style="list-style-type: none"> Better align civil service pay to the market alternatives of government employees.
Anti-corruption			<ul style="list-style-type: none"> Stronger public procurement through open bidding and Procurement Bulletin. Ban inspections of businesses by non-authorized government agencies. 	<ul style="list-style-type: none"> Establish a framework to increase the effectiveness of anti-corruption actions. Make public the results of a pilot diagnosis of corruption and its modalities in seven cities. Publish public tenders, list of bidders, and awards for large projects in the procurement bulletin
Information availability		<ul style="list-style-type: none"> Issue Statistical Law, with emphasis on data quality and accessibility. 		<ul style="list-style-type: none"> Strengthen the criteria used to measure poverty and to target the poor.

AFTA = ASEAN Free Trade Area; ASEAN = Association of Southeast Asian Nations; CPRGS = Comprehensive Poverty Reduction and Growth Strategy; DAF = Development Assistance Fund; EIA = Environmental Impact Assessment; HIV/AIDS = human immunodeficiency virus/ acquired immunodeficiency syndrome; IAS = international accounting standards; NOIP = National Office for Intellectual Properties; MOJ = Ministry of Justice; OSS = One-Stop Shop; PRSC = Poverty Reduction Support Credit; PRGF = Poverty Reduction and Growth Facility; SEDP = Socioeconomic Development Plan; SFE = State Forestry Enterprise; SPS = Sanitary and Phytosanitary; VBSP = Vietnam Bank for Social Policy

PROGRESS OF DEVELOPMENT OUTCOMES

Sector	Development Outcome			Latest Assessment
	Expected as of 2006	In 2001	Latest Available ¹	
Pillar I: Transition to a Market Economy				
Trade integration	Ratio of exports to gross domestic product (GDP) is 55%	47%	65%	HS
	Share of private sector exports in total exports is 85%	56%	77%	S
	All quantitative restrictions (QRs) have been removed	QRs on many products	All QRs have been removed	HS
	Modern customs procedures are in place	Customs procedures are burdensome	Modernization project is being implemented. E-customs piloted.	S
	Viet Nam becomes a member of the WTO	Slow progress in WTO negotiations	Viet Nam became a member of the WTO in January 2007.	HS
SOE reform	There are about 2,100 state-owned enterprises (SOEs)	5,334 SOEs	About 2,000 SOEs. Large SOEs being transformed. SOE shares sold through auctions.	S
	The share of bank credit going to SOEs is less than 25%	42%	31%. Marginal share of bank credit to SOEs in last 5 years was 27%.	S
	High proportion of profitable SOEs	High proportion of unprofitable SOEs	Operational reviews, General Statistics Office survey, and surveys of equitized (partly privatized) SOEs reveal better-than-expected performance. Most SOEs make profits, but profit levels are generally low. Profits improve upon equitization.	S
	Most nonperforming inter-enterprise debts resolved	Large volume of nonperforming inter-enterprise debts	Problem related to inter-enterprise debts not as large as initially presumed. Focus has been on setting nonperforming loans with commercial banks.	PS
	Data on performance of SOEs available annually	Data about SOE sector is sketchy	Classification of SOEs by performance is being conducted annually starting with 2004 data. Data for 2005 classification made public in 2007.	S

¹ As of June 2007.

Sector	Development Outcome			Latest Assessment
	Expected as of 2006	In 2001	Latest Available	
Financial sector reform	Banks in full compliance with banking regulations	No commercial bank in full compliance	Improved compliance on provisioning, capital adequacy, and disclosure. Prudential standards raised and are being complied with in a phased manner. Profitability significantly improved. Joint-stock banks consolidated, perform better than state-owned commercial banks (SOCBs).	PS
	High estimated nonperforming loan (NPL) ratio in banking system	NPLs represent 15% of credit	NPLs estimated at 8–10% (subject to revision)	PS
	State Bank of Viet Nam (SBV) focused on supervision and regulation	Conflicting SBV responsibilities as owner and regulator	Banking reform roadmap approved to remove conflicts and focus SBV on supervision. Basel Core Principles self-assessment completed.	PS
	Sound regulation of policy lending	Policy lending still done through SOCBs	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%	18%	S
	About 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	2.8 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	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 opened to competition for mobile and internet service providers. Further opening to foreign participants under WTO.	S
	Improved infrastructure provision and operations	Provision of infrastructure services often inefficient	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. Cost recovery in telecoms and electricity. Operation and maintenance costs covered in water sector.	S

Sector	Development Outcome			Latest Assessment
	Expected as of 2006	In 2001	Latest Available	
Pillar II: Social Inclusion and Environmental Sustainability				
Education	Net primary school enrolment rate reaches 98%	88% (in 1998)	94%	S
	School quality has improved, especially in poor areas	School quality is uneven and low in poor areas	FSQL standards under implementation, with poorer areas recording fast progress.	S
	Net lower secondary school enrolment rate reaches 80%	62% (in 1998)	80%	S
Health	Infant mortality rate per is 30/1000	37/1000 (in 1998)	18/1000	HS
	Under five mortality rate is 36/1000	48/1000 (in 1998)	24/1000	HS
	Effective mechanisms to reduce out-of-pocket payments by the poor	Out-of-pocket payments deter use of health services	Compulsory health insurance for the poor funded by government budget with top up for uncovered amounts from HCFP.. Free healthcare for children under 6 years of age. Near-poor receive 30% subsidy for to buy voluntary insurance. Voluntarily insured to rise from 9.1 million in 2005 to 10 million in 2006.	S
	A public health approach is in place to tackle the HIV/AIDS epidemic	No appropriate framework to prevent spread of HIV/AIDS	HIV/AIDS strategy under implementation. New cases fell from 16,980 in 2003 to 13,731 in 2005.	S
Social protection	A financially viable social insurance system	Unsustainable formula for pension benefits, especially in public sector	Law on Social Protection passed in 2006 to increase coverage and address financial viability	S
	Expansion of mandatory system and voluntary scheme for informal sector	4.4 million (11%) workers covered under mandatory system	Estimated 6.9 million (16%) of workers covered at end-2006, and voluntary scheme to be launched.	S

Sector	Development Outcome			Latest Assessment
	Expected as of 2006	In 2001	Latest Available	
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	In 2004, 72% of households have land-use right certificates (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	7.9% of rural households with leased agricultural land (in 1998)	10.7% in 2004. Land tenure secured by a rapid rise in LUCs allocation	PS
	Forest cover expands to 38%	35%	Cover expanded to 37%, but water quality has not improved	S
Water	Increased population access to water and sanitation services	76% with clean water and 25% with latrines (in 2002)	79% with clean water and 32% with latrines (in 2004)	S
	Integrated river basin planning and participation of irrigation users	Inefficient irrigation and limited participation of users	Greater participation of water users expected following new decree. Institutional conflicts impede integrated river basin planning, but an official letter now clarifies responsibility.	PS
Environment	No further degradation of highly biodiverse forests and wetlands	Cover of rich closed-canopy forest is 3.4% (in 2000). Protected area coverage 4.1% (1999). Widespread loss of mangrove forest. Degradation of wetlands and coral reefs.	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	Environmental impact assessments are uncommon	DONREs established in all provinces for environmental review of projects. Environmental impact assessments mandated under 2003 Land Law.	S
	Mechanisms in place to handle waste discharge and pollution offenders	Urban pollution is unchecked and affects the poor	"Polluter pays" principle introduced for wastewater, with fees collected in 2005.	S
Gender	95% of LUCs have been reissued in the name of both spouses	Low percentage of LUCs issued in the name of both spouses	Progress on newly issued LUCs, but no reissue of old LUCs. Convergence in other development indicators by gender	S

Sector	Development Outcome			Latest Assessment
	Expected as of 2006	In 2001	Latest Available	
Pillar III: Modern Governance				
Plan-ning process	Planning toward development goals	Planning focused on production targets but Comprehensive Poverty Reduction and Growth Strategy (CPRGS) under preparation	New SEDP based on broad consultation and focused on development outcomes. Poverty focus beyond targeted program alone. Monitoring tools developed, identifying data sources and responsible agencies.	HS
	A number of provinces and sectors have pro-poor socioeconomic plans	Planning not geared toward development goals	Piloted provincial CPRGS rollout in 20 provinces, to be scaled up to all provinces	HS
	Project appraisal guided by criteria based on growth and poverty reduction	Public Investment Plan is a compilation of projects with few links to budget	Improved criteria to prepare, appraise and implement public investment projects leading to better selection and more transparent funding	S
Public financial manage-ment	A publicly disclosed medium-term expenditure framework (MTEF) is used	Budget preparation is based on a short-term perspective	MTEF for 3 years prepared and disclosed in 2006. Budget for 2006 linked to 5-year plan.	S
	Operation and maintenance costs are fully taken into account	Little integration of capital and recurrent expenditures	Ban on public investment projects without proper funding. Under the MTEF, capital and recurrent expenditure are better integrated in four sectors.	S
	Annual publication of detailed and accurate budget data at all levels	Partial budget data available at central and commune levels only	Full disclosure of the central budget aggregated categories	S
	Sustainable public-debt ratios, with assessment of contingent liabilities	Limited knowledge of contingent liabilities	Assessment of contingent liabilities launched. Debt ratios at sustainable levels.	S
Financial account-ability	Accounting norms in accordance with international practice	Accounting practices differ from international standards	Convergence to international standards. Thirty seven auditing and 26 accounting standards issued.	S
Legal develop-ment	Legal system based on the rule of law and promoting development	Limited legal transparency	Effectiveness of legal documents is contingent on publication in Official Gazette. Legal and judiciary system strategies approved, but effective implementation measures needed.	PS

Sector	Development Outcome			Latest Assessment
	Expected as of 2006	In 2001	Latest Available	
Public administration reform	Progress towards administrative simplification	Cumbersome procedures and murky payments	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	Data from comprehensive diagnostic study and Investment Climate Assessment survey suggested that bribes as proportion of sales are low by international standards; no evidence of state capture; and petty corruption is widespread.	PS
Information availability	Reliable, publicly available economic and social data	Limited statistical development and data difficult to access	Poverty measurement is in line with international standards. Household and enterprise surveys are regularly conducted, and results are made publicly available.	S

DAF = Development Assistance Fund; DONRE = Department of Natural Resources and Environment; FSQI = Fundamental School Quality Index; HCFP = Health Care Fund for the Poor; HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome; VBSP = Viet Nam Bank for Social Policy;

Notes: 1. Assessments are jointly done by the World Bank and PRSC financing partners based on the development outcomes as of end-2006.

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 (June 2006)	Status at the Time of the Program Completion Report (September 2007)
Pillar I: Transition to a Market Economy		
Trade Integration		
1. Make strong progress in the multilateral and bilateral negotiations towards the World Trade Organization (WTO) accession by reaching the stage for a full draft Working Party Report and completing bilateral negotiations with six partners..*	Complied with. Accession to WTO requires agreements from all WTO members. In 1995, 28 WTO members had not decided to support Viet Nam's bid for WTO accession. The Working Party was established by the WTO in 1995 to support and monitor Viet Nam's membership negotiation. The meetings between the working party and Viet Nam's Negotiation Team were held semiannually to address emerging issues and agree on specific points for Viet Nam's accession. The semiannual meeting held in June 2004 marked a milestone that allowed Viet Nam to proceed and accelerate bilateral negotiations with the 28 WTO members. As of end-2004, Viet Nam completed negotiations with six WTO members, including Argentina, Brazil, Chile, Cuba, the European Union, and Singapore. As of June 2005, when the World Bank approved the fourth Poverty Reduction Support Credit (PRSC 4), Viet Nam had completed bilateral negotiations with 11 more partners; and as of mid-September 2005 it had completed bilateral negotiations with three more partners, for a total of 20 partners.	Viet Nam successfully became a member of the WTO in January 2007.
2. Issue regulations on import licensing in accordance with WTO requirements.	Complied with. Decision 41/2005/QD-TTg on promulgation of the Import Licensing Regulation (which took effect 1 September 2005) was adopted under the application of the action plan for the implementation of the WTO Agreement on Import Licensing Procedures, which was prepared by the interministerial National Committee on International Economic Cooperation. The issued regulations on import licensing were strictly based on the WTO rules and regulations. The compliance was later reported in the WTO's Working Party Reports No. WT/ACC/VNM/36 (dated 7 April 2005) and No. WT/ACC/SPEC/VNM/5/Rev.1 (dated 5 September 2005).	Condition remains satisfied.
3. Eliminate 80% export requirements on foreign direct investments.	Complied with. Decree 27/2003/ND-CP, revising Decree 24/2000/ND-CP dated 31 July 2000, stipulated the implementation of the Law on foreign investment in Viet Nam. Decision 27 eliminates 80% export requirements on foreign direct investments.	Condition remains satisfied.
4. Establish a national sanitary and phytosanitary notification body and Enquiry Point with clear terms of reference.	Complied with. Decision 99/2005/QD-TTg on the establishment of Viet Nam's National Notification Office and Enquiry Point for phytosanitation and animal and vegetable	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
	quarantine. Right after the promulgation of the decision, the office was established at MARD and headed by Deputy Director of International Cooperation Department, MARD.	
5. Issue Customs Law for electronic environment, self-assessment, risk management and post audits.	Complied with. The Government proposed the revision for the existing Customs Law. The National Assembly approved the Revised Customs Law for electronic environment, self assessment, risk management, and post audits on 25 May 2005. The Revised Custom Law provides an option for enterprises to file the compliance of customs law using electronic communications (Article 8). The law also contains specific articles addressing self assessment (Article 30, Section 5), risk management (Article 15, Section 1(a)) and post audits (Article 32).	Condition remains satisfied.
State-owned enterprise reform		
6. Issue a much narrower list of sectors where 100% state ownership is to be retained through Prime Minister's Decision 155/2004/QĐ-TTg.*	Complied with. Decision 155/2004/QĐ-TTg was issued to replace Decision 58/2002/QĐ-TTg issued by the Prime Minister on 26 April 2002. Decision 58 (i) specified criteria for classifying state-owned enterprises (SOEs) and general corporations, and (ii) issued a list of sectors where the state must retain 100% ownership or more than 50% ownership. Decision 155 reduced the list of sectors in which full state control is justified. More and larger SOEs are now in the equitization category.	Condition remains satisfied.
7. Strengthen the mechanisms for the equitization of SOEs, including the auctioning of shares and requiring that valuations be carried out by outside agencies through Decree 187/2004/NĐ-CP.*	Complied with. On 16 November 2004, the Government issued Decree 187/2004/NĐ-CP on the transformation of SOEs to joint stock companies, which eases the restrictions on the participation of outsiders, and improves the valuation of SOE assets. Subsequently, on 24 December 2004, the Ministry of Finance (MOF) issued Circular 126/2004/TT-BTC setting guidelines on the implementation of Decree 187.	Condition remains satisfied.
8. Adjust SOE restructuring plans in line with the narrower list for 100% state ownership.	Complied with in accordance with (i) Decision 13/2005/QĐ-TTg on the implementation plan of Directive CT 45-CT/TW dated 2 October 2004 by the Politburo on the restructure, renovation, development, and improvement of the effectiveness of the SOEs; and (ii) Directive 04/2005/CT-TTg on firmly boosting the equalization of SOEs	Condition remains satisfied.
9. Equitize a number of large SOEs with substantive participation of outside investors.	Complied with under the effectiveness of Decree 187/2004/NĐ-CP and Decision 155/2004/NĐ-TTg. Decree 187 eases restriction on the participation of outsiders and improves the valuation of SOE assets.	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
	Since 2001, 400 large SOEs (with state capital of more than D10 billion) have been equitized. According to Article 26 of Decree 187, outside investors are strategic investors (domestic investors that have strategic business relations with the enterprises) and other investors (including foreign investors). Article 27 of Decree 187 stipulates the following conditions for participation of outside investors in the first issue of SOEs: (i) Strategic investors are allowed to buy up to 20% of shares at preferential prices; (ii) Shares publicly auctioned to investors are not less than 20% of the registered capital.	
10. Introduce holding company model allowing General Corporations (GCs) to exercise control over their affiliated SOEs.	Complied with. Decree 153/2004/NĐ-CP detailed the organization, management, and transformation of GCs and their wholly owned subsidiaries to the holding company model. Decree 153 allows transformation of GCs into mother–child holding companies.	Condition remains satisfied.
Financial sector reform		
11. Confirm the principle of separation of the State Bank of Viet Nam's (SBV) state-owned commercial bank (SOCB)–management functions from its supervisory functions.*	Complied with. On 20 May 2005, the SBV governor sent the World Bank's country director a letter on the main orientation of banking reform in the next 5 years. The letter announced separation of SBV's SOCB-management function from its supervision functions. This letter envisages the transformation of SBV into a modern central bank, charged with conducting monetary policy in compliance with market principles, and with financial sector supervision. The commercial orientation and autonomy of SOCBs is another key objective of this reform.	Condition remains satisfied.
12. Issue regulations applicable to all SOCBs requiring them to classify loans on the basis of International Accounting Standards (IAS).*	Complied with. On 22 April 2005, the SBV Governor issued Decision 493/2005/QĐ-NHNN the Decision constituted regulations on loan classification, making of provisions, and utilization to address credit risks in banking activities of credit institutions. In fact, these regulations are applicable to all commercial banks, including SOCBs.	Condition remains satisfied.
13. Produce an estimate of the current stock of nonperforming loans (NPLs) in SOCBs, based on IAS.	Complied with. SBV produced and provided to World Bank on 20 May 2005 the preliminary estimate of the current stock of NPLs in SOCBs, based on IAS. The figure was preliminary as Decision 493 (on loan classification based on IAS, applying to all SOCBs) was issued about 1 month earlier. The volume of the stock of NPLs in SOCBs was reported to SBV at end-2005, the provisioning of which was included as one of the PRSC 5 actions accomplished by May 2005.	Condition remains satisfied.
14. Adopt credit manuals, internal	Complied with. All five SOCBs (VIBARD,	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
audit committees, and loan computerization in all SOCBs.	IncomBank, BIDV, Vietcombank, and Mekong Housing Bank) have adopted credit manuals and loan computerization since 2004. The World Bank has given technical assistance to SBV and SOCBs to restructure SOCBs. The five SOCBs applied to SBV in 2001 for approval of their restructuring programs. The National Assembly also approved the revised Law on Credit Institutions on 15 June 2004, which requires establishment of an internal audit committee—under management of the control board—within each SOCB. Prior to the law, internal auditing was carried out by a department under supervision of SOCB Management	
15 Submit a decree establishing an anti-money laundering regime	Complied with. The Government approved Decree 74/2005/ND-CP on anti-money laundering regime on 7 June 2005. An ADB technical assistance project (TA4290) assisted SBV in drafting the decree.	Condition remains satisfied.
16. Enact a regulatory framework for the operation and supervision of microfinance institutions.	Complied with. On 9 March 2005, the Government approved Decree 28/2005/ND-CP issuing regulations on the organization and operation of microfinance institutions in Viet Nam. Decree 28 provides a regulatory framework for the operation and supervision of microfinance institutions. An ADB technical assistance project (TA 3741) supported SBV in drafting the decree.	Condition remains satisfied.
Private sector development		
17. Issue a new competition law limiting the dominant market position of SOEs.	Complied with. The National Assembly approved the Law on Competition on 3 December 2004—the first law in Viet Nam governing competition in the market. It regulates unhealthy competitive practices and competition-restraining practices by all businesses. Chapter III of the law deals with the abuse of dominant and/or monopolistic position in the marketplace. It forbids certain behaviors deemed to constitute abuse of dominant and/or monopolistic position, and the control over enterprises operating in state monopolized sectors. Under the Law, supervisory authorities were established to regulate competitive practices in the market. The Law also sets out measures and sanctions (such as monetary fines, confiscation, and business license withdrawal) to enforce its provisions.	Condition remains satisfied.
Infrastructure		
18. Enact the Electricity Law, which (a) allows the equitization of Electricity of Viet Nam subsidiaries, and (b) establishes an electricity regulatory agency.*	Complied with. The National Assembly passed the Electricity Law on 3 December 2004. The law became effective on 1 July 2005.	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
19. Create a regulatory framework for network interconnection in telecommunications.	Complied with , in accordance with Decree 160/2004/NĐ-CP on the detailed implementation regulations on several provisions of the Post and Telecommunication Ordinance.	Condition remains satisfied.
20. Reduce traffic accidents by 15% through an integrated set of preventive measures.	Complied with . This figure is provided by the National Traffic Safety Committee. The containment of traffic accidents was achieved in spite of higher vehicle circulation.	Condition remains satisfied.
Pillar II: Social Inclusion and Environmental Sustainability		
Education		
21. Complete the evaluation of 7% of all teachers based on the new Primary Teacher Profile for career development.*	Complied with . Through the World Bank's Primary Teacher Development Project, Ministry of Education and Training officials and World Bank staff completed a preliminary assessment report, including an evaluation of all teachers based on the new Primary Teacher Profile (covering 25,000 of a total of 360,000 primary teachers) in May 2005.	Condition remains satisfied.
22. Audit all primary schools nationwide against Fundamental School Quality Levels.	Complied with . This undertaking is performed yearly under the joint World Bank–MOET project “Primary Education for Disadvantaged Children”	Condition remains satisfied.
23. Open the tertiary education level to private sector participation.	Complied with in accordance with (i) Decree 06/2000/NĐ-CP on foreign investment in education, health care, and scientific research; and (ii) Decision 14/2005/QĐ-TTg on the regulations on the organization and operation of private universities. The two regulations opened the tertiary education level to private sector participation.	Condition remains satisfied.
Health		
24. Issue an action plan for tuberculosis prevention, accounting for its interaction with HIV/AIDS.	Complied with . The Ministry of Health (i) completed the formulation of the 5-year plan for 2006–2010 of the target program for prevention of social diseases and fatal epidemics; and (ii) reported to the Ministry of Planning and Investment (MPI) and MOF and integrated this 5-year plan into the master plan for the health sector.	Condition remains satisfied.
25. Strengthen the regulation and pricing of pharmaceuticals.	Complied with , in accordance with (i) Decree 120/2004/NĐ-CP on price management of drugs used to prevent and treat human diseases; (ii) Circular 05 on enhanced management of hospital drug uses; and (iii) Decision 10 on financial autonomy of drug quality-control agencies. These regulations allow new entries of pharmaceutical companies to reduce the monopoly in the Vietnamese pharmaceutical industry. They also promote	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
	patient awareness of products of newly certified companies. Decree 120 also stipulates that the price of all pharmaceutical products be labeled. Products sold by pharmacies and hospitals are subject to quality and price inspections to protect the poor from unfair surcharges.	
Land and Forest		
26. Enact the Law on Forest Protection and Development.*	Complied with. The National Assembly passed the Law on Forest Protection and Development on 3 January 2005. The law became effective on 1 April 2005.	Condition remains satisfied.
27. Improve the implementation of the Land Law, focusing on land registration and land valuation.	Complied with according to (i) Circular 29/2004/TT-BTNMT on filing, adjusting, and managing land records; (ii) Decision 24/2004/QĐ-BTNMT; (iii) Decree 188/2004/NĐ-CP on pricing and price frame of lands; and (iv) Circular 114/2004/TT-BTC guiding the implementation of Decree 188/2004/NĐ-CP. These regulations collectively improve the implementation of the Land Law. Land registration procedures were streamlined, identifying clear steps taken in registration and time limit for each step. In addition MONRE issued another regulation enacting administrative penalties to discourage administrative discretion and abuse in land registration. Through Decree 188, land valuation has been adjusted so that it is closer to the market price. In addition, Decree 188 stipulated that land valuation be conducted annually.	Condition remains satisfied.
28. Issue State Forestry Enterprise decree, including the transfer of land to households, communities, and the private sector.	Complied with , in accordance with Decree 200/2004/NĐ-CP on restructuring and development of state-owned forest enterprises. Decree 200 stipulates that State Forestry Enterprise issue LUCs to households, communities, and the private sector for the purpose of forestation management.	Condition remains satisfied.
Environment		
29. Submit the draft Amended Law on Environmental Protection to the National Assembly for approval, and submit the draft implementing decree to the Government.*	Complied with. The draft Amended Law on Environment Protection was submitted to the National Assembly at the first session in May 2005. It was resubmitted for approval at the second session in November 2005. The draft decree guiding implementation of the law and the draft decree on violation settlement were also submitted to the Government. Subsequent to the passage of the amended law in November 2005, the two decrees were issued in early 2006.	Condition remains satisfied.
30. Issue directive to strengthen the management of solid waste in urban and industrial zones.	Complied with , in accordance with Instruction 23/CT-TTg issued on 21 June 2005 on strengthening solid waste	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
	management in urban areas and industrial zones.	
Pillar III: Modern Governance		
Planning Process		
31. Integrate the Comprehensive Poverty Reduction and Growth Strategy (CPRGS) approach in the preparation of the Socioeconomic Development Plan (SEDP) 2006-2010, namely the principles of strategic planning, consultation, outcome orientation, and monitoring.*	<p>Complied with. The SEDP was prepared using the same approach used for preparing the CPRGS, namely: (i) the approach was outcome-oriented and results-based, setting specific Viet Nam Development Goals to be achieved by the end of the 5-year cycle; (ii) it was based on sound analysis and background, which led to the generation of useful analytical documents; (iii) it included monitoring and evaluation mechanisms; and (iv) it involved wide consultation with all stakeholders.</p> <p>The results are evident in the high quality of the draft SEDP, completed in August 2005. All stakeholders, including the development community, civil society, and grassroots communities, reviewed and commended the draft SEDP. Consultations with the grassroots communities were conducted in nine provinces or more and in three regional workshops. Most importantly, a results-based policy framework was developed for the SEDP.</p>	Condition remains satisfied.
32. Scale up the CPRGS roll out process to a more determined effort to improve provincial planning.	<p>Complied with, according to Guideline 2215BKH/TH dated 13 April 2004 and Document 7681/BKH-TH dated 30 November 2004, guiding the Socio-Economic Development Plan 2006–2010. The document guides the provincial governments to prepare the provincial SEDPs, which integrates the "CPRGS approach," (namely outcomes-oriented and performance-based, with specific and monitorable medium-term targets). The roll-out CPRGS into SEDPs had been conducted in more than 20 provinces to ensure that the planning process captures the principles of the CPRGS that are focused on poverty and social inclusion, results-based planning and monitoring, and broad consultation. This planning reform is important to ensuring that all policy actions are captured in the long-term and medium-terms strategies at all levels and all sectors.</p>	Condition remains satisfied.
33. Enhance the decentralization of public investment decisions to lower government levels.	<p>Complied with, in accordance with (i) Revised Budget Law 2003, (ii) Decree 52/1999/WD-CP, (iii) amended Decree 12/2000/ND-CP, (iv) amended Decree 07/2003/ND-CP on decentralization of public investment decisions, and (v) Circular 04/2003/TT-BKH, instructing appraisal of investment projects, amendment of several points in the profiles of project appraisal,</p>	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
	<p>investment reports, and total investments</p> <p>Before these laws and regulations were passed, a large-scale public investment project required approval from the Minister of Planning and Investment. The Provincial People's Committees (PPCs) could only review such projects. Under Investment Law, the above decrees give the PPCs the authority to approve such projects—within the local budget—with verification from Department of Planning and Investment. Under the revised budget law and Decree 60/2003/ND-CP, local budgets are decentralized so that local governments can take initiatives to (i) retain a certain portion of their own revenue for investment purposes, and (ii) allocate their own budgets.</p>	
Public financial management		
<p>34. Issue regulations to improve financial disclosure for all state budget entities, including SOEs, requiring, among other information, disclosure of their annual budget allocations, budget plans, and final accounts.*</p>	<p>Complied with.</p> <p>1. On 16 November 2004, the Prime Minister issued Decision 192/2004/QĐ-TTg on regulations on financial disclosure of all levels of state budgets, state budgetary entities, state budget supported organizations, basic construction projects using state budget, state-owned enterprises, and funds from state and people's contribution sources.</p> <p>2. On 6 January 2005, MOF issued Circular 03/2005/TT-BTC guiding the regulations on financial disclosure of all levels of state budgets.</p> <p>3. On 11 March 2005, MOF issued Circular 19/2005/TT-BTC issuing guidelines for financial disclosure of funds from state and people's contribution sources.</p> <p>4. On 22 March 2005, MOF issued Circular 21/2005/TT-BTC guiding the implementation of regulations on financial disclosure of state budgetary entities and state budget-supported organizations.</p> <p>5. On 14 April 2005, MOF issued Circular 29/2005/TT-BTC guiding the regulations on financial disclosure of SOEs.</p>	<p>Condition remains satisfied.</p>
<p>35. Launch an assessment of the fiscal risks associated with SOEs, state-owned commercial banks (SOCBs), and the Development Assistance Fund.*</p>	<p>Complied with. The Government and the World Bank organized the Public Expenditure Review and Integrated Fiduciary Assessment (PER-IFA) workshop (13–14 April 2005) in Danang City, Viet Nam, to launch the assessment. On 4 May 2005, the joint Government–World Bank report on PER-IFA was published. The PER-IFA recommended an assessment of fiscal risks associated with SOEs, SOCBs, and the Development Assistance Fund.</p>	<p>Condition remains satisfied.</p>

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
36. Approve a public expenditure review leading to better integration of capital and recurrent budgets.	Complied with , in accordance with the Public Financial Review 2004, prepared by OF in April 2004 and approved in May 2005. On 4 May 2005, the joint Government–World Bank report on Public Expenditure Review and Integrated Fiduciary Assessment (PER-IFA) was published. The PER-IFA analyzed public expenditures and recommended ways to better integrate capital and recurrent budgets.	Condition remains satisfied.
37. Facilitate community participation and supervision of local investment projects.	Complied with , in accordance with (i) Decision 80/2005/QĐ-TTg issuing regulations on community investment supervision and (ii) Decision 80 facilitates community participation and supervision of local investment projects. The community can timely detect and make recommendations to state authorities on violations of regulations on investment management. The community's monitoring scope includes: investment projects and programs that use state capital; investment projects implemented with community capital and/or contributions or direct finance from organizations or individuals for the commune; and other investment projects financed from other sources. These regulations also specify in detail the monitoring content, scope, and authorities, as well as implementation processes and responsibilities of individuals and relevant organizations in implementing community investment monitoring.	Condition remains satisfied.
Financial accountability		
38. Enact the Law on State Audit stipulating that the State Audit of Viet Nam is an independent specialized agency established by the National Assembly.*	Complied with. On 25 May 2005, the National Assembly passed the State Audit Law, which transformed the State Audit into an independent specialized agency established by the National Assembly.	Condition remains satisfied.
Legal development		
39. Establish the prevalence of treaties, including WTO agreements, over national legislation.	Complied with. On 14 June 2005, the National Assembly passed Law on Conclusion, Assessment and Implementation of Treaties – Number 41/2005/QH11. The Law stipulate the prevalence of treaties including WTO agreements over national legislation.	Condition remains satisfied.
Public administration reform		
40. Better align civil service pay to the market alternatives of government employees.	Complied with/ On 14 December 2004, the Government issued Decree 204/2004/NĐ-CP on salary regime for public employees and the armed forces. Decree 204 rationalizes the salary scale system, the allowance system and on the whole, to increase salary of all the cadres and civil servants. The gap between high and low	Condition remains satisfied.

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
	<p>earnings in civil service is much narrower in the private sector, because the latter has integrated rapidly with the world economy. Through Decree 204, salary coefficient has been adjusted and number of seniority steps has been reduced. Salary spread between highest and lowest increased. Allowance schemes were also rationalized. For administrative civil servants, the coefficient adjustments correspond to a 26% salary increase, partly as compensation for less access to salary supplements.</p>	
Anticorruption		
<p>41. Establish a framework to increase the effectiveness of anticorruption actions, by formulating a program of organizational and operational reforms, institutional capacity building, and human resources development for the State Inspectorate, designed to increase its effectiveness and efficiency in preventing and combating corruption.*</p>	<p>Complied with. The Research Institute of the Government Inspectorate formulated and completed an overview of the program to strengthen capacity of the Inspectorate system. In addition, the Government Inspectorate completed an indicative action plan for the 1st year of the program (Quarter 4, 2005 to Quarter 4, 2006). This overview program framework included a framework for government-development partners cooperation on key components of its emerging anticorruption approach. Results from the first comprehensive study on the modalities and mechanisms of corruption were presented to the development partners.</p>	<p>Condition remains satisfied.</p>
<p>42. Make public the results of a pilot diagnosis of corruption and its modalities in seven cities.</p>	<p>Complied with, in accordance with a primary report of the results of a pilot diagnosis of corruption and the fight against corruption. The Central Commission on Internal Affairs (CCIA), released a study on combating corruption in seven Vietnamese cities on 16 June 2005. The CCIA carried out pilot diagnoses of corruption in Son La, Ha Noi City, Hai Duong, Nghe An, Thua Thien-Hue, Ho Chi Minh City and Dong Thap—and three ministries (Ministry of Construction, Ministry of Transport, and Ministry of Industry). It then made the results of these diagnoses public.</p>	<p>Condition remains satisfied.</p>
<p>43. Publish public tenders, lists of bidders, and awards for large projects in the procurement bulletin.</p>	<p>Complied with, in accordance with Decree 66/2003/ND-CP. Since April 2004, bidding-related information has been published in the procurement bulletin by the Department of Public Procurement of MPI twice a week on every Tuesday and Thursday.</p>	<p>Condition remains satisfied.</p>
Information availability		
<p>44. Strengthen the criteria for measuring poverty and targeting the poor by bringing them more in line</p>	<p>Complied with. On 5 July 2005, the Ministry of Labor, Invalids and Social Affairs issued Document 2128/LDTBXH on the new</p>	<p>Condition remains satisfied.</p>

Actions/Conditions	Status at the Time of Tranche Release (June 2006)	Status at the Time of the Program Completion Report (September 2007)
with international standards.*	poverty line for 2006–2010. On 8 July 2005, the Prime Minister issued Decision 170/2005/QĐ-TTg, which approved the new poverty line to be applied for 2006–2010. The criteria for measuring poverty and targeting the poor were strengthened. The new poverty line is more in line with international standards of poverty measurement. As a result, more people will be classified as poor and more people will be eligible to benefit from government programs targeting poverty.	

Note: The policy actions marked with asterisk (*) were tranche conditions as documented in the World Bank's Financing Agreement.

^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)

MARD = Ministry of Agriculture and Rural Development; MONRE = Ministry of Natural Resources and Environment;
MOET = Ministry of Education and Training

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 6 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 SIPRP III, which is the last PRSC of the first 5-year PRSC cycle in Viet Nam. 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 program coordination unit (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, and the Borrower and ADB shall from time to time exchange views on 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	Complied with. Intensive and frequent policy dialogue with the Government in all issues mentioned has been continuously carried out jointly with other PRSC financing partners 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.
<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	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.
<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	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 sectors.
<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	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 financing partners. The development outcomes were assessed every year by sector specialists of development partners.

Covenant	Reference in Loan Agreement	Status of Compliance
<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. The benefit monitoring and evaluations shall be conducted in accordance with ADB's <i>Project Performance Management System</i>. 	Section 4.01, Schedule 5, para. 9	Complied with. The evaluation has been carried out continuously as part of processing subsequent loans (PRSC 5 and PRSC 6 or SIPRP III and SIPRP IV). The benefit monitoring and evaluations have been conducted through the PPMS. A project completion report (PCR) for SIPRP II is scheduled to be completed by end-2007.
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. 2007. *International Development Association Program Document for a Proposed Credit to the Socialist Republic of Vietnam for a Sixth Poverty Reduction Support Operation (23 May)*. 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.