



## Completion Report

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Project Number: 38392-03  
Loan Number: 2262  
December 2008

### Viet Nam: Support for the Implementation of the Poverty Reduction Program III

Asian Development Bank



## CURRENCY EQUIVALENTS

Currency Unit      –      dong (D)

		<b>At Appraisal</b> (17 May 2006)	<b>At Program Completion</b> (16 December 2008)
D1.00	=	\$0.0000626292	\$0.0000588980
\$1.00	=	D15,967.00	D16,978.00

## ABBREVIATIONS

ADB	–	Asian Development Bank
CPRGS	–	Comprehensive Poverty Reduction and Growth Strategy
CSP	–	country strategy and program
DMF	–	design and monitoring framework
GDP	–	gross domestic product
IDC	–	interest during construction
PPP	–	purchasing power parity
PRSC	–	poverty reduction support credit
SBV	–	State Bank of Viet Nam
SEDP	–	socioeconomic development plan
SIPRP	–	Support for the Implementation of the Poverty Reduction Program
SOCB	–	state-owned commercial bank
SOE	–	state-owned enterprise
TA	–	technical assistance
VDR	–	Vietnam development report
VRM	–	Viet Nam Resident Mission
WTO	–	World Trade Organization

## NOTE

In this report, "\$" refers to US dollars.

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## CONTENTS

	Page
I. PROGRAM DESCRIPTION	1
II. EVALUATION OF DESIGN AND IMPLEMENTATION	1
A. Relevance of Design and Formulation	1
B. Program Outputs	3
C. Program Costs	4
D. Disbursement	4
E. Program Schedule	4
F. Implementation Arrangements	4
G. Conditions and Covenants	5
H. Related Technical Assistance	5
I. Consultant Recruitment and Procurement	5
J. Performance of the Borrower and the Executing Agency	5
K. Performance of the Asian Development Bank	6
III. EVALUATION OF PERFORMANCE	7
A. Relevance	7
B. Effectiveness in Achieving Outcome	7
C. Efficiency in Achieving Outcome and Outputs	8
D. Preliminary Assessment of Sustainability	9
E. Impact	10
IV. OVERALL ASSESSMENT AND RECOMMENDATIONS	11
A. Overall Assessment	11
B. Lessons	11
C. Recommendations	12
APPENDIXES	
1. Design and monitoring framework	15
2. Status of compliance with loan covenants	22
3. Status of outcome performance targets and indicators	25



## BASIC DATA

### A. Loan Identification

1.	Country	Socialist Republic of Viet Nam
2.	Loan Number	2262
3.	Program Title	Support for the Implementation of the Poverty Reduction Program III
4.	Borrower	Socialist Republic of Viet Nam
5.	Executing Agency	State Bank of Viet Nam
6.	Amount of Loan	SDR10,062,000.00
7.	Program Completion Report Number	1072

### B. Loan Data

1.	Appraisal	
	– Date Started	17 May 2006 (upgraded from fact-finding)
	– Date Completed	25 May 2006 (upgraded from fact-finding)
2.	Loan Negotiations	
	– Date Started	22 August 2006
	– Date Completed	24 August 2006
3.	Date of Board Approval	5 October 2006
4.	Date of Loan Agreement	7 December 2006
5.	Date of Loan Effectiveness	
	– In Loan Agreement	90 Days after the Loan Agreement signed (6 March 2007)
	– Actual	28 February 2007
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	31 December 2007
	– Actual	22 May 2007
	– 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

#### 8. Disbursements

a.	Dates		
	<b>Initial Disbursement</b>	<b>Final Disbursement</b>	<b>Time Interval</b>
	16 May 2007	16 May 2007	0 months
	<b>Effective Date</b>	<b>Original Closing Date</b>	<b>Time Interval</b>
	28 February 2007	31 December 2007	10 months

## b. Amount

Category or Subloan	Original Allocation	Last Revised Allocation	Amount Canceled	Amount Disbursed	Undisbursed Balance
Single Tranche (SDR)	10,062,000	10,062,000	0	10,062,000	0
Total (\$ equivalent)	15,000,000	15,000,000	0	15,265,966	0

**C. Program Data**

## 1. Program Cost (\$ million)

Cost	Appraisal Estimate	Actual <sup>a</sup>
Foreign Exchange Cost	601.0	613.1
<b>Total</b>	<b>601.0</b>	<b>613.1</b>

<sup>a</sup> Asian Development Bank estimates.

## 2. Financing Plan (\$ million)

Cost	Appraisal Estimate	Actual
Implementation Costs		
Borrower Financed	376.0	357.1 <sup>a</sup>
ADB Financed	15.0	15.3
Other External Financing	210.0	240.7 <sup>a</sup>
<b>Total</b>	<b>601.0</b>	<b>613.1<sup>a</sup></b>

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

<sup>a</sup> Asian Development Bank estimate.

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

Component	Appraisal Estimate	Actual <sup>a</sup>
Health funds for the poor	44.0	53.4
Increased spending on education	184.0	201.3
Social safety net for the retrenched state-owned enterprise workers	219.0	208.6
Maintenance for transport infrastructure	154.0	149.8
<b>Total</b>	<b>601.0</b>	<b>613.1</b>

<sup>a</sup> Asian Development Bank estimates.

## 4. Program Schedule

Item	Appraisal Estimate	Actual
Date		
Tranche Release	February 2007	16 May 2007

## 5. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 28 February 2007 to 22 May 2007	Satisfactory	Satisfactory

## D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Review 1 <sup>a</sup>	7 May 2006	2	6	Finance, Governance, and Trade Specialist; Assistant Project Analyst
Review 2 <sup>b</sup>	9 June 2006	1	2	Finance, Governance, and Trade Specialist
Program Completion Review <sup>c</sup>	25 June 2008	3	9	Country Economist; Counsel; Assistant Project Analyst

<sup>a</sup> The review was combined with the fact-finding for Support for the Implementation of the Poverty Reduction Program IV.

<sup>b</sup> The review was undertaken in conjunction with the participation in the June 2006 meeting of the Consultative Group for Viet Nam.

<sup>c</sup> The review was combined with the fact-finding for Support for the Implementation of the Poverty Reduction Program V.



## **I. PROGRAM DESCRIPTION**

1. Support for the Implementation of the Poverty Reduction Program (SIPRP) III was the third single-tranche standard program loan whereby the Asian Development Bank (ADB) provided general budget support to Viet Nam within the framework of the Poverty Reduction Support Credit (PRSC) process.<sup>1</sup> It provided parallel financing with the World Bank's PRSC 5, and the reform program it supported (the Program) comprised the actions included in the policy matrix for PRSC 5.

2. The intended impact of the Program was a reduction in poverty and sustained high economic growth in Viet Nam. Its expected outcome was the attainment of specific development outcomes in the areas of transition to a market economy, social inclusion, environmental sustainability, and governance. The outcomes in the area of transition to a market economy included deeper integration into the global economy, stiffer competition in product markets, strengthening of the institutional and regulatory framework for the financial sector, development of the private sector, and a greater focus on the quality of investment in infrastructure development. The outcomes in the area of social inclusion and environmental sustainability included greater gender equality and improvements in the coverage and quality of education, financing of health services, health indicators, social protection, use of land and water resources, and the legal framework for environmental protection. The outcomes in the area of governance included improvements in the planning processes, public financial management, financial accountability and transparency; legal and public administration reform; a reduction in corruption; and better disclosure of information.<sup>2</sup> The design and monitoring framework (DMF) of the Program is in Appendix 1.

## **II. EVALUATION OF DESIGN AND IMPLEMENTATION**

### **A. Relevance of Design and Formulation**

3. The Program was congruous with ADB's country strategy and program (CSP) 2007–2010 for Viet Nam. In particular, the intended impact of the Program was consistent with the goal of CSP 2007–2010, which is to help the Government reduce the poverty incidence to 10%–11% by 2010. The specific development outcomes that the Program was designed to contribute to closely matched the priorities of CSP 2007–2010. The top priority of CSP 2007–2010 is to foster business-led pro-poor economic growth by developing physical infrastructure, improving the business environment, strengthening financial and related market institutions, and developing human resources. CSP 2007–2010 also aspires to promote social

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<sup>1</sup> The PRSC process comprises several closely related activities jointly undertaken by participating development agencies on an annual basis with the goal of helping the Government carry out policy reforms needed for successful implementation of its poverty reduction strategy. The process involves preparation of annual Viet Nam development reports by participating agencies, consultations on the policy matrixes of the World Bank's PRSCs among key stakeholders (including the participating development agencies, the Government, civil society and the private sector), and provision of general budget support (in the form of grants and concessional loans) to Viet Nam by participating agencies to cover some of the adjustment costs of the policy reforms for the budget. The World Bank coordinates PRSC activities for the participating development agencies. ADB joined the PRSC process in 2003. In 2004, it approved Support for the Implementation of the Poverty Reduction Program (SIPRP) I, which provided parallel financing with PRSC 3. SIPRP II was approved in 2005 and provided parallel financing with PRSC 4.

<sup>2</sup> ADB. 2006. *Report and Recommendation of the President to the Board of Directors on the Proposed Program Loan to the Socialist Republic of Viet Nam for Support for the Implementation of the Poverty Reduction Program III*. Manila.

inclusiveness, strengthen management of the environment, improve governance, and promote regional integration.<sup>3</sup>

4. The Program was aligned with Viet Nam's development strategy. It comprised a broad range of policy actions that were needed for the successful implementation of the Government's Comprehensive Poverty Reduction and Growth Strategy (CPRGS) 2002–2006.<sup>4</sup> The specific development outcomes that the Program was to contribute to were in line with the priorities of CPRGS 2002–2006.<sup>5</sup> Consequently, the Government had strong ownership of the Program.

5. The Vietnam Development Report (VDR) 2004, VDR 2005 and VDR 2006 provided the Program's analytical underpinnings. The VDRs were jointly prepared by the development agencies participating in the PRSC process, including ADB. The VDR 2004 assessed the poverty situation in Viet Nam and analyzed the impacts of public policies on the poor;<sup>6</sup> the VDR 2005 assessed public financial management, public administration, and the planning processes;<sup>7</sup> and the VDR 2006 examined various issues related to business development.<sup>8</sup>

6. The Program was formulated in conjunction with the policy matrix for PRSC 5 through extensive consultations with key stakeholders. During 2005, the development agencies participating in the PRSC process (including ADB) and the Government agreed—in consultation with the civil society and the private sector—on the initial list of actions to be included in the policy matrix for PRSC 5. In early 2006, the development agencies and the Government jointly reviewed the status of these actions. The list was modified slightly at that stage, taking into account the status of the actions in early 2006. When the World Bank conducted the appraisal and the negotiations for PRSC 5 in May 2006, the development agencies and the Government agreed on the final list of actions to be included in the policy matrix for PRSC 5. These actions constituted the policy framework of the Program.<sup>9</sup>

7. Since the Program covered all actions included in the policy matrix for PRSC 5, it had a very broad scope, covering a wide range of actions in the areas of transition to a market economy, social inclusion, environmental sustainability, and governance. Many of these actions (such as those pertaining to the financial sector, infrastructure, health care, management of water resources, and public financial management) reinforced policy reforms supported by ADB's other program loans to Viet Nam or were otherwise important for ADB's operations in the country. However, some actions (such as those pertaining to gender and legal development) were not particularly relevant for ADB's operations in Viet Nam.

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<sup>3</sup> ADB. 2007. *Country Strategy and Program 2007–2010 for Viet Nam*. Manila.

<sup>4</sup> SIPRP I and SIPRP II also supported policy actions needed for successful implementation of CPRGS 2002–2006.

<sup>5</sup> The priorities of CPRGS 2002–2006 included creating a level playing field for all enterprises, reforming state-owned enterprises, implementing public administration and legal reforms, developing the private sector, strengthening public financial management, developing the financial sector, deepening integration into the global economy, developing physical infrastructure, establishing a higher quality and more egalitarian education system, improving the quality of and access by the poor to health services, and protecting environment.

<sup>6</sup> World Bank. 2003. *Vietnam Development Report 2004: Poverty*. Joint Donor Report to the Vietnam Consultative Group Meeting. Hanoi. 2–3 December 2003.

<sup>7</sup> World Bank. 2004. *Vietnam Development Report 2005: Governance*. Joint Donor Report to the Vietnam Consultative Group Meeting. Hanoi. 1–2 December 2004.

<sup>8</sup> World Bank. 2005. *Vietnam Development Report 2006: Business*. Joint Donor Report to the Vietnam Consultative Group Meeting. Hanoi. 6–7 December 2005.

<sup>9</sup> The manner in which the Program was formulated evidently differs significantly from the analytical and planning process of the DMF approach adopted by ADB in 2007 (ADB. 2007. *Guidelines for Preparing a Design and Monitoring Framework*. Second Edition. Manila).

8. A DMF matrix was apparently superimposed on the design of the Program, which was largely determined by the PRSC process. The Program's intended outcome was attainment of the development outcomes to which the first phase of the PRSC process (involving PRSCs 1–5) sought to contribute, and the performance targets and indicators for the Program included all 50 targets from the monitoring and evaluation framework of the first phase of the PRSC process. SIPRP III, the World Bank's PRSC 5 and parallel financing with PRSC 5 provided by other development agencies were listed as inputs to the Program in its DMF, but the policy actions that these loans and grants aimed to support were not included in the list of the activities under the Program. At the same time, some PRSC activities (such as the preparation of the VDRs) that went beyond the scope of the Program were listed as activities under the Program in its DMF.

9. This helps explain why the Program's DMF was not fully coherent. The program inputs were neither necessary nor sufficient to carry out the program activities specified in the DMF, while the activities were partly necessary but not sufficient to produce the Program's desired outputs. Some activities were in effect outputs, outputs were worded as activities, and many performance targets and indicators were not quantified.

10. The single-tranche standard program loan modality was chosen for two reasons. First, SIPRP III provided parallel financing with the World Bank's PRSC 5, which was a single-tranche policy-based credit. Second, SIPRP III was considered by ADB's Board of Directors in 2006, the last year of implementation of CPRGS 2002–2006. The policy actions included in the Program were necessary for the successful implementation of CPRGS 2002–2006 (paragraph 4); to be effective, they had to be completed by the end of 2006. Indeed, all 46 actions included in the Program's policy framework were completed prior to the approval of SIPRP III by ADB on 5 October 2006. No changes were made in the design of the Program during its implementation.

## **B. Program Outputs**

11. The Program was to produce the following outputs:

- (i) policy advice to the Government on designing and carrying out policy reforms under the Program;
- (ii) new laws and regulations needed for the Program's implementation;
- (iii) changes in the existing laws and regulations needed to carry out policy reforms under the Program;
- (iv) sector strategies, roadmaps and action plans needed for the Program's implementation; and
- (v) self-assessments of the status quo to determine what policy reforms were needed to attain the Program's outcome and impact.

12. All of these outputs were produced. The development agencies participating in the PRSC process (including ADB) gave the Government a good deal of advice on designing and carrying out the actions that were included in the policy matrix for PRSC 5 and the policy framework of the Program. A number of new laws, including the Law on Intellectual Property, Law on Securities, Investment Law, Enterprise Law, Bidding Law and Anticorruption Law were enacted. Amendments were made to several existing laws, including the Law on Environmental Protection and the Accounting Law. The national water resource strategy, banking sector road map, and actions plans for equitization of certain state-owned commercial banks (SOCBs) and simplification of administrative procedures were adopted. Assessments were prepared of (i) the implementation of the Basel Core Principles, and (ii) the fiscal risks and social and economic impacts of accession to the World Trade Organization.

### **C. Program Costs**

13. It was anticipated that some of the policy actions included in the Program would entail substantial costs to Viet Nam's state budget. In particular, (i) making health insurance compulsory for the poor, with greater coverage and an increased budget allocation, would cost the state budget about \$44 million; (ii) increasing expenditure on education proportionately to the budget (that is, keeping the share of education expenditure in total budgetary expenditure unchanged) would cost about \$184 million; (iii) social assistance to the retrenched workers of state-owned enterprises (SOEs) would cost about \$219 million; and (iv) increasing expenditure on maintenance of transport infrastructure would cost about \$154 million.

14. The total cost to the state budget of the policy actions included in the Program was estimated at about \$601 million. ADB would provide \$15 million from Special Funds resources to finance the Program. Other development agencies participating in the PRSC process were expected to provide about \$210 million in the form of grants and concessional loans. The remaining cost of the Program was to be covered by the Government.

15. The actual total cost to the state budget of the policy actions included in the Program is estimated at \$613.1 million. While budgetary expenditures on health care for the poor and on education were slightly higher than expected, social assistance to the retrenched workers of SOEs and maintenance of transport infrastructure cost slightly less than estimated. ADB provided \$15.3 million and other development agencies participating in the PRSC process provided about \$240.7 million, with the remainder covered by the Government.

### **D. Disbursement**

16. Since all actions included in the Program were completed before the approval of SIPRP III by ADB, loan effectiveness was the only condition for loan disbursement. The Loan Agreement, which was signed on 7 December 2006, stipulated that the loan would become effective within 90 days after the signature of the Loan Agreement. The loan became effective on 28 February 2007 upon receipt of the Ministry of Justice's legal opinion on the Loan Agreement. The Government sent a withdrawal application on 8 May 2007, and the loan was disbursed on 16 May 2007.

### **E. Program Schedule**

17. The implementation period for the Program was 19.5 months, from 17 May 2006 to 31 December 2007. There was no delay in implementation, with all policy actions having been completed prior to the approval of SIPRP III by ADB. The financial account was closed on 22 May 2007.

### **F. Implementation Arrangements**

18. The implementation arrangements for the Program were adequate to deliver its outputs and achieve its outcome. No changes were made in the arrangements during implementation. The State Bank of Viet Nam (SBV) was the executing agency and had overall responsibility for program implementation. The government agencies represented at the National Steering Committee on the PRSC process were the implementing agencies, and were responsible for

carrying out the Program's policy actions<sup>10</sup>. Each agency appointed a senior staff member as a focal point for the PRSC process and program implementation.

19. SBV's PRSC Coordination Unit, which is the Government's focal point for the PRSC process, acted as the program coordination unit. It was responsible for coordinating, monitoring and reporting on program implementation. In this regard, the Program's implementation arrangements were similar to those for the reform program supported by SIPRP II but different from those for the program supported by SIPRP I. In the latter case, program implementation was coordinated by the PRSC Secretariat, which consisted of senior officials from various government agencies. The Secretariat did not have full time staff and was less than effective in coordinating implementation of the program supported by SIPRP I.

#### **G. Conditions and Covenants**

20. The Program comprised 46 policy actions, of which 15 were tranche-release conditions for the loan. As mentioned above, all actions, including the tranche-release conditions, were completed prior to the approval of SIPRP III by ADB.

21. The Loan Agreement included a number of general covenants relating to the withdrawal and utilization of loan proceeds and particular covenants concerning the implementation of the Program. The covenants were relevant, and the Government fully complied with them (Appendix 2). None of the covenants were modified, suspended, or waived.

#### **H. Related Technical Assistance**

22. No technical assistance (TA) was provided in conjunction with SIPRP III. The scope of the small-scale project preparatory TA (Support the Implementation of the Poverty Reduction Program), which was approved in June 2005 to finance the preparation of SIPRP II, was extended to cover the preparation of SIPRP III. The TA was used to prepare assessments of potential environmental and social impacts of the Program and ensure that it complied with ADB's safeguard policies. The performance of the consultants recruited under the TA was rated excellent or satisfactory.

#### **I. Consultant Recruitment and Procurement**

23. No consultants were recruited for the implementation of the Program. In its withdrawal application, the Government indicated that the loan proceeds would be used to finance the foreign exchange cost of eligible items (as defined in the Loan Agreement) that were imported between 1 September 2006 and 31 December 2007. The Government also certified that the eligible items had been or would be procured in accordance with the provisions of the Loan Agreement.

#### **J. Performance of the Borrower and the Executing Agency**

24. The performance of the Borrower was satisfactory. The Government fully carried out the policy actions included in the Program and covered the part of their cost to the state budget not

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<sup>10</sup> The National Steering Committee on the PRSC process was set up in May 2002, and consists of representatives of government agencies responsible for policies and sectors covered by the process. The deputy prime minister in charge of economic reforms chairs the Committee, and an SBV deputy governor acts as its standing vice chairperson.

financed by development agencies. A total of 24 government agencies took part in implementation of the Program. They allocated sufficient staff resources to carry out the policy actions included in the Program and, through their focal points for the PRSC process, provided updates on the status of these actions to the PRSC Coordination Unit of SBV. The National Steering Committee on the PRSC process supervised the Program's implementation. At the Vietnam Consultative Group meetings held in June and December 2006, the Government presented reports describing the status of policy reforms covered by the Program. These reports were considered to be the Borrower's semiannual reports on the implementation of the Program, which were required by the Loan Agreement.

25. Although all policy actions included in the Program were completed prior to the approval of SIPRP III by ADB, it took the Government a relatively long time to carry out the following two types of policy actions:

- (i) actions that required collaboration of several government agencies (such as the action relating to health insurance for the poor, which required the collaboration of the Ministry of Health and the Ministry of Finance); and
- (ii) actions that were beyond the power of the executive branch of the Government (such as the action concerning a unified Enterprise Law, which required the adoption of the Law by the National Assembly).

26. The performance of the executing agency was also satisfactory. Due largely to SBV's efforts, there were no delays in the effectiveness and disbursement of SIPRP. The PRSC Coordination Unit of SBV coordinated and greatly facilitated a policy dialogue between ADB and other development agencies participating in the PRSC process on the one hand, and the government agencies that took part in the implementation of the Program on the other. This was a very difficult task given the large number of government and development agencies involved in the implementation of the Program. Furthermore, the PRSC Coordination Unit regularly provided ADB and other development agencies with updates on the status of policy actions included in the Program and contributed to capacity building at government agencies involved in program implementation.

## **K. Performance of the Asian Development Bank**

27. ADB's performance was satisfactory. ADB contributed to the VDR 2004, VDR 2005 and VDR 2006, which provided an analytical basis for the Program. SIPRP III was processed fairly quickly, with loan fact-finding upgraded to appraisal and only 4.3 months passing between fact-finding and approval. The loan was disbursed a few days after ADB received a withdrawal application.

28. The Viet Nam Resident Mission (VRM), which is ADB's focal point for the PRSC process, processed and administered SIPRP III. The VRM staff took part in consultations between development agencies and the Government on the actions that were included in the policy matrix of PRSC 5 and the policy framework of the Program. The VRM staff monitored the implementation of the program, in particular through participation at the June and December 2006 Vietnam Consultative Group meetings.

### III. EVALUATION OF PERFORMANCE

#### A. Relevance

29. The Program was “highly relevant”. It was and remains consistent with Viet Nam’s development strategy and ADB’s country strategy for Viet Nam. The development outcomes to which the Program was designed to contribute were aligned with the priorities of the Government’s CPRGS 2002–2006. Furthermore, they were in line with the goals and objectives of the Government’s Socioeconomic Development Plan (SEDP) 2006–2010,<sup>11</sup> as well as the objective and priorities of ADB’s CSP 2007–2010 for Viet Nam.

30. The Program had a sound analytical basis, which was provided by the VDRs for 2004, 2005, and 2006, and other reports prepared by development agencies participating in the PRSC process. The VDRs analyze development challenges facing Viet Nam in the key reform areas covered by the Program, and make policy recommendations aimed at helping the Government achieve its development objectives in these areas.

31. The policy actions included in the Program reflected a broad consensus among key stakeholders (including the Government, development agencies participating in the PRSC process, civil society and the private sector) on the priority policy reforms at the time of program formulation. To reach this consensus, development agencies participating in the PRSC process held several rounds of consultations with each other as well as with the Government, civil society, and the private sector.<sup>12</sup>

#### B. Effectiveness in Achieving Outcome

32. The Program was “effective” in attaining its outcome. Of the 50 performance targets for the outcome, 19 were fully achieved on time (that is, by the end of 2006), 24 were partially achieved by the end of 2006, and one was achieved in 2008. Progress in attaining the development outcomes was roughly even across the reform areas covered by the Program. Of the 20 outcome performance targets in the area of transition to a market economy, nine were fully achieved and seven were partially achieved by the end of 2006. Of the 18 targets in the area of social inclusion and environmental sustainability, six were fully achieved and 10 were partially achieved by the end of 2006, and one target not achieved by the end of 2006 was fully achieved in 2008. Of the 12 targets in the area of governance, four were fully achieved and seven were partially achieved by the end of 2006 (Appendix 3).

33. Some outcome performance targets (such as reducing the share of SOEs in bank credit from 42% in 2001 to less than 25% in 2006, creating a level playing field for all firms, establishing a financially viable social insurance system, and putting in place a functional land market) were not achieved or achieved only partially because they required considerable progress in complex economic, legal and institutional reforms (such as equitization of SOEs, reform of the financial sector, and adoption or revision of numerous legal documents concerning the business environment, social insurance system and land market) within a short period. The actions included in the policy framework of the Program and outputs specified in its DMF were evidently insufficient for this.

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<sup>11</sup> Viet Nam. 2006. *The Five-Year Socio-Economic Development Plan 2006–2010*. Hanoi.

<sup>12</sup> These consultations also helped the development agencies improve the coordination of their activities in Viet Nam and of their policy dialogue with the Government.

34. Some other outcome performance targets (such as focusing SBV's functions with regard to commercial banks on prudential regulation and supervision, adopting rational pricing policies for infrastructure services, strengthening integrated river basin planning and increasing the participation of water users in river basin planning) were not attained on time or were only partially attained, presumably due to the lack of political will and inter-agency collaboration that were needed to achieve these targets. This was apparently not taken into account in the design of the Program.

35. In the case of some outcome performance targets (such as focusing SBV's functions with regard to commercial banks on prudential regulation and supervision, liberalizing the entry in telecommunications and information technology services, and increasing forest cover from 35% in 2001 to 38% in 2006), the Program did not include a policy action that would produce an output that would in turn help achieve the target. As mentioned in paragraph 8, the performance targets and indicators of the monitoring and evaluation framework of the first phase of the PRSC process (involving PRSCs 1–5 and SIPRPs I–III) were used as the performance targets and indicators for the Program's outcome. Actions aimed at some of these performance targets were included in the policy matrixes for PRSCs 1–4 and SIPRPs I–II, but not in the policy matrix for PRSC 5 and the policy framework of SIPRP III.

36. The Program was fairly effective in achieving its outcome in part because the Government ably used the involvement of a large number of development agencies (including ADB) in the PRSC process to overcome domestic resistance to the actions included in the Program's policy framework. In fact, some of these actions were included in the policy matrix for PRSC 5 and the policy framework of the Program at the request of the government agencies that championed these actions and wanted to use the PRSC process to overcome domestic resistance to them. According to stakeholder consultations that were held in 2006 as part of an independent evaluation of the first phase of the PRSC process, general budget support provided by development agencies to Viet Nam within the framework of the PRSC process (including the general budget support provided by ADB through SIPRP III) was welcomed by the Government, but it was regarded as less important than the policy reforms that the PRSC process (which the Program was part of) helped to advance.<sup>13</sup>

### **C. Efficiency in Achieving Outcome and Outputs**

37. The Program was "highly efficient" in that all its outputs were produced and its outcome was largely attained with a relatively low expenditure by development agencies and the Government of staff time and financial resources on program design and implementation. The Program was efficient in its use of staff time primarily because it was formulated and implemented within the framework of the PRSC process. Development agencies participating in the PRSC process jointly prepared the VDR 2004, VDR 2005 and VDR 2006, which provided an analytical basis for the Program, and jointly held consultations with the Government on the policy actions included in the policy matrix for PRSC 5 and the policy framework of the Program. The institutional framework that the Government established for the PRSC process (namely, the national steering committee for the PRSC process, the PRSC Coordination Unit of SBV, and the PRSC focal points of the implementing agencies) were used in implementing the Program. Therefore, the "transaction cost" of the Program was relatively low for the development

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<sup>13</sup> Bartholomew, Ann, and Catherine Dom. 2006. *Using Aid Well: Experience and Opportunities with Vietnam's PRSC*. Oxford, United Kingdom: Mokoro Ltd.

agencies, and particularly so for the Government. The Program enabled ADB to promote—with a relatively small amount of financing—a broad range of policy reforms needed for the successful implementation of CPRGS 2002–2006 and the attainment of the objective of ADB’s CSP 2007–2010 for Viet Nam.<sup>14</sup> That the Program was formulated and implemented within the framework of the PRSC process provided ADB with another means of coordinating its activities in Viet Nam with those of other development agencies.

38. The “transaction cost” of the Program for ADB could have been even lower. The Program could have focused on those actions in the policy matrix for PRSC 5 that reinforced policy reforms supported by ADB’s other program loans to Viet Nam, or were otherwise important to ADB’s Viet Nam operations. This would have reduced the staff time needed for ADB’s participation in consultations between the Government and development agencies on the status of individual policy actions included in the initial list of actions for PRSC 5, as ADB staff could have only taken part in consultations on the actions covered by the Program.

39. Furthermore, at least some of the requirements relating to ADB’s social and environmental safeguards (e.g. the requirement to prepare a matrix of potential environmental impacts) could have been waived for SIPRP III. The policy framework of the Program comprised the actions that were included in the policy matrix for PRSC 5, which the World Bank approved before ADB approved SIPRP III. The approval of PRSC 5 by the World Bank indicated that its policy matrix complied with the World Bank’s social and environmental safeguards, which are similar to those of ADB. Therefore, showing that the Program complied with ADB’s social and environmental safeguards was arguably not necessary.

40. Although the cost to the state budget of policy actions included in the Program was substantial, it is likely to be less than the Program’s cumulative financial benefits for the Government. Similarly, the cumulative economic benefits of the Program for Viet Nam are likely to be larger than its economic costs. The policy reforms advanced by the Program have helped raise the living standards and reduce poverty in Viet Nam by fostering environmentally sustainable and socially inclusive economic growth. They have also increased budget revenue by expanding the tax base, and reduced budget expenditure by improving public financial management. These positive effects of the Program will last for many years, unless the policy reforms furthered by the Program are reversed.<sup>15</sup>

#### **D. Preliminary Assessment of Sustainability**

41. It is “most likely” that the outcome of the Program will be sustained, for two reasons. First, some of the goals and objectives of the Government’s SEDP 2006–2010, which was approved by the National Assembly in 2006, closely match the development outcomes that the Program contributed to, with the result that the successful implementation of SEDP 2006–2010 will sustain and consolidate the Program’s outcome.<sup>16</sup> The probability that SEDP 2006–2010

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<sup>14</sup> This corroborates the finding of ADB. 2007. *Special Evaluation Study on Policy-Based Lending: Emerging Practices in Supporting Reforms in Developing Member Countries*. Manila, which concludes that participation in policy-based lending that involves several development agencies and seeks to advance policy reforms in support of country-driven poverty reduction programs can be both cost-efficient and results-effective.

<sup>15</sup> See Section E below for an assessment of the Program’s economic and social benefits.

<sup>16</sup> The goals and objectives of SEDP 2006–2010 include maintaining high rates of economic growth; further reducing poverty; increasing exports; diversifying ownership; developing the financial system and physical infrastructure; improving the quality of and access to education and health care and gender equality in education, health care and employment; protecting the environment; increasing forest coverage; reforming public administration; and reducing corruption.

will be successfully implemented is high, in part because most development agencies (including ADB) have aligned their assistance to Viet Nam with SEDP 2006–2010, the implementation of which has thus far been largely on track.

42. Second, the policy reforms and development outcomes that the Program contributed to closely match the reforms and outcomes targeted and supported by the second phase of the PRSC process (involving PRSCs 6–10) and, in particular, the reform programs supported by SIPRP IV (approved by ADB on 2 October 2007) and SIPRP V (approved on 8 December 2008).<sup>17</sup> Therefore, the second phase of the PRSC process—and particularly the programs supported by SIPRP IV and SIPRP V—will further the policy reforms advanced by the Program and help sustain and reinforce its outcome.

## E. Impact

43. The impact of the Program was “significant”. By advancing economic reforms that enhance the efficiency of the economy, the Program contributed to Viet Nam’s strong economic growth and the substantial rise in incomes in 2006–2007. Growth of real gross domestic product (GDP) averaged 8.3% in 2006–2007. In 2007, real GDP grew by 8.5%, the highest rate since 1996. Per capita GDP at current prices rose from \$638 in 2002 to \$818 in 2007, and per capita GDP in dollars at purchasing power parity (PPP) from \$2,140 to \$2,587 over the same period.

44. The strong economic growth and the rise in incomes—combined with the improvements in social protection that the Program helped bring about—resulted in a considerable reduction in poverty. According to the most recent available household survey data, the poverty rate (based on the cost of a consumption basket allowing for a daily intake of 2,100 calories per person and some nonfood expenditure) dropped from 19.5% in 2004 to 16.0% in 2006.<sup>18</sup> The food poverty rate fell from 7.4% to 6.7% over the same period, while the poverty gap narrowed from 4.7% to 3.8%.<sup>19</sup> The proportion of people living on less than \$1.0 (at PPP) per day dropped from 6.2% of the total population in 1990 to 4.0% in 2007, and the proportion living on less than \$2.0 (at PPP) per day fell from 39.7% to 32.9%.<sup>20</sup> The poverty rate based on the methodology of the Ministry of Labor, Invalids and Social Affairs fell from 22.0% in 2005 to an estimated 14.7% in 2007.<sup>21</sup>

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<sup>17</sup> The policy reforms and development outcomes to which the second phase of the PRSC process—and particularly the programs supported by SIPRP IV and SIPRP V—aim to contribute include equitizing or restructuring SOEs; developing the financial and private sectors; improving the quality of infrastructure services; deepening Viet Nam’s integration into the global economy; improving the quality of health care and education and access to these services; strengthening social protection; promoting gender equality; strengthening the management of natural resources (including water, land, and forests), and the protection of the environment; improving planning processes; strengthening public financial management and public administration; reducing corruption; and improving legal transparency and accessibility (ADB. 2008. *Report and Recommendation of the President to the Board of Directors on the Program Cluster and Loan for Subprogram 1 to the Socialist Republic of Viet Nam for the Support for the Implementation of the Poverty Reduction Program V*. Manila).

<sup>18</sup> World Bank. 2007. *Vietnam Development Report 2008: Social Protection*. Joint donor report to the Vietnam Consultative Group Meeting, Hanoi, 6–7 December 2007.

<sup>19</sup> The food poverty rate is the proportion of people whose total expenditure would not be enough for a daily intake of 2,100 calories, even if expenditures were allocated entirely to food. The poverty gap is the difference between the poverty line and the average expenditure of the poor, expressed as a percentage of the former.

<sup>20</sup> World Bank. 2008. *East Asia: Testing Times Ahead*. Washington, DC.

<sup>21</sup> The poverty rate based on the methodology of the Ministry of Labor, Invalids and Social Affairs (MOLISA) measures the proportion of people living below the official poverty line, which is D260,000 per person in urban areas and D200,000 per person in rural areas. Households below the poverty line are identified by MOLISA local officials through a combination of personal knowledge, survey techniques, and village discussions.

45. By improving the coverage and quality of education and financing of health services, the Program brought about significant improvements in Viet Nam's social indicators in 2006 and 2007. In particular, the proportion of trained workers in the labor force increased from 25.0% in 2005 to 30.5% in 2007, the under-five mortality rate declined from 28.0 to 27.5 per 1000 live births, the under-5 malnutrition rate fell from 25.0% to 22.3%, and the proportion of rural population with access to clean water rose from 62.0% to 67.2% in 2007.

46. The Program also contributed to institutional development and improvements in governance in Viet Nam in 2006 and 2007 by improving planning processes, public financial management, financial accountability and transparency, and information disclosure; by furthering legal and public administration reform; and by addressing corruption. However, less progress was made in this area than in poverty reduction and social inclusion. Viet Nam's score for public sector management and institutions in ADB's country performance assessments increased marginally from 4.0 in 2005 to 4.1 in 2007. While the World Bank's Governance Indicators for regulatory quality and control of corruption in Viet Nam improved during 2006–2007, those for voice and accountability, government effectiveness, and rule of law worsened.<sup>22</sup> Transparency International's Corruption Perception Index score for Viet Nam remained unchanged between 2005 and 2007.<sup>23</sup>

#### **IV. OVERALL ASSESSMENT AND RECOMMENDATIONS**

##### **A. Overall Assessment**

47. The Program was implemented as conceived in that all actions included in the policy framework were completed, all inputs were provided, all outputs were produced, and no changes were made in the implementation arrangements. Furthermore, none of the covenants were modified, suspended or waived, and the Government fully complied with them. The loan became effective and was disbursed in time.

48. The Program was highly relevant, effective in achieving the outcome, and efficient in producing the outputs and attaining the outcome. Its impact was significant, and its outcome is most likely to be sustained. The Program is therefore rated as successful.

##### **B. Lessons**

49. The following lessons derive from the formulation and implementation of the Program:
- (i) a reform program formulated through the PRSC process is likely to enjoy strong government ownership and be successfully implemented;
  - (ii) participation in the PRSC process in Viet Nam enables ADB to promote, with relatively small amounts of financing, a broad range of policy reforms that are needed for achieving the objective of its CSP;
  - (iii) the staff time required for ADB to participate in the PRSC process can be reduced by focusing on policy actions that are particularly relevant to ADB's operations in Viet Nam and by avoiding duplication of the World Bank's work on social and environmental safeguards;

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<sup>22</sup> Available: <http://info.worldbank.org/governance/wgi/index.asp>

<sup>23</sup> Available: [http://www.transparency.org/policy\\_research/surveys\\_indices/cpi](http://www.transparency.org/policy_research/surveys_indices/cpi)

- (iv) because a large number of development agencies participate in the PRSC process, the chances that a particular policy action will be carried out improve significantly if the action is included in a PRSC policy matrix;
- (v) if a particular policy reform requires an action that is beyond the authority of a government agency (e.g. the adoption of a particular law by the National Assembly), the agency cannot make a firm commitment to carry out this policy reform by a specific date;
- (vi) a program to be implemented over a short period should not have outcome performance targets that require complex economic, legal and institutional reforms; and
- (vii) having a separate PRSC Coordination Unit (with full time staff) at SBV and PRSC focal points at other relevant government agencies is a more effective implementation arrangements for the PRSC process on the Government's side than utilizing a PRSC secretariat that comprises senior government officials but lacks a full time staff.

## C. Recommendations

### 1. Program Related

50. **Future Monitoring.** The Loan Agreement stipulates that the actions that were included in the Program's policy framework (and completed before ADB's approval of SIPRP III) would remain in effect for the duration of the Program and thereafter as appropriate. Since the actions were needed for the successful implementation of CPRGS 2002–2010 and are also essential for sustaining the strong economic growth and the downward trend in poverty in Viet Nam, it is important that they not be reversed. It is therefore recommended that VRM periodically assess the status of the actions, in particular in conjunction with its participation in the PRSC activities, at least as long as ADB remains involved in the PRSC process.

51. **Covenants.** There is no need to modify the covenants pertaining to the implementation of the Program (e.g. the covenants relating to the utilization of loan proceeds and the provision of counterpart funds), which are no longer relevant. The covenants that remain relevant (e.g. the covenant concerning the effectiveness of the actions included in the policy framework of the Program) are still appropriate and should be maintained without modifications. The Government has thus far been in compliance with these covenants. As recommended above, VRM should periodically assess the Government's continued compliance with the covenant concerning the effectiveness of the policy actions included in the Program.

52. **Further Action or Follow-Up.** It is recommended that, when preparing a program completion report on SIPRP IV and monitoring and evaluating the implementation of various subprograms of SIPRP V in 2009–2011, VRM assess the status of the Program's outcome performance targets that have not been or have been only partially achieved.

53. **Additional Assistance.** ADB continues to provide policy advice and general budget support to Viet Nam within the framework of the PRSC process. It approved SIPRP IV (a single-tranche standard program loan in the amount of about \$15.0 million) on 2 October 2007 and SIPRP V (a program cluster consisting of three chronologically ordered subprograms), together with a loan (amounting to about \$25.0 million) for subprogram 1 of this program cluster, on 8 December 2008, to help the Government carry out policy reforms needed for the successful implementation of SEDP 2006–2010. SIPRP IV was parallel financing with the World Bank's PRSC 6 and SIPRP V will provide parallel financing with PRSCs 7–9. ADB also contributed to

the VDR 2007 and the VDR 2008. VRM staff is taking part in consultations among the Government, development agencies and other stakeholders on the actions to be included in the policy matrix for PRSC 8 (which is expected to be approved by the World Bank in 2009). As mentioned above (para. 41), the goals and objectives of SEDP 2006–2010 and the priorities of the second phase of the PRSC process (which involves PRSCs 6–10) closely match the development outcomes that the Program contributed to.

54. Considering the effectiveness and efficiency of the PRSC process in advancing a broad range of policy reforms, it is recommended that ADB remains involved in the process at least until 2010, when the implementation of SEDP 2006–2010 is completed. The amounts and terms of the loans for subprograms 2 and 3 of SIPRP V could be the same as those of the loan for subprogram 1. These amounts are likely to be small compared to the total budgetary cost of the policy actions covered by subprograms 2 and 3 of SIPRP V. Nonetheless, subprograms 2 and 3 are likely to be implemented successfully because they will be part of the second phase of the PRSC process and their policy frameworks will be aligned with policy matrixes for PRSCs 8 and 9, respectively. Hence, continued participation in the PRSC process will enable ADB to further, through a relatively small financing commitment, a wide spectrum of policy reforms needed for the successful implementation of SEDP 2002–2010 and ADB's CSP 2007–2010 for Viet Nam. This will in turn amplify the Program's achievements.

55. While staying involved in the PRSC process, ADB should focus its involvement on those policy actions in the PRSC policy matrixes that are particularly relevant to its operations in Viet Nam. This will reduce the staff time needed for ADB's participation in the PRSC process and make program loans extended by ADB to Viet Nam within the framework of the PRSC process more congruent with ADB's other operations in this country. Furthermore, a program cluster consisting of several chronologically ordered subprograms (such as SIPRP V) instead of a series of single-tranche standard programs loans (such as SIPRPs I–IV) should be used to support the same government program. This will save ADB staff resources, strengthen ADB's partnership with the Government and other development agencies participating in the PRSC process, and make the quantity of general ADB budget support to be provided to Viet Nam within the framework of the PRSC process more predictable, thus facilitating the Government's medium-term budget planning and external debt management.

56. **Timing of the Program Performance Evaluation Report.** Considering that the implementation of CPRGS 2002–2006 (which SIPRP III was intended to support) and the first phase of the PRSC process (which the Program was part of) were both completed in 2006, it is recommended that the program performance evaluation report be prepared within the next 1–2 years.

## 2. General

57. Some flexibility should be exercised in applying the DMF approach to a reform program that is formulated within the framework of a partnership program (such as the PRSC process in Viet Nam) whereby many development agencies (including ADB) provide assistance to a country and in which ADB does not play a leading role. The analytical work and stakeholder consultations that are undertaken within the framework of the partnership program and on the basis of which the reform program is formulated may differ from the analytical and planning process of the DMF approach. The partnership program may have its own performance targets and indicators, and it may be desirable to use these as appropriate for the reform program, even if they do not conform to the DMF approach. This would ensure greater harmonization among the development agencies involved in the partnership program, and would reduce the ADB and

government staff time needed to design the reform program and monitor and evaluate its implementation.

58. Similarly, ADB's policies and operational procedures concerning social and environmental safeguards should be revised to avoid duplicating the work of other development agencies on social and environmental safeguards in relation to a reform program formulated within the framework of a partnership program. Another development agency (such as the World Bank) with social and environmental safeguards similar to those of ADB may be involved in the process and complete its social and environmental safeguard work before ADB. If ADB still undertakes its own social and environmental safeguards work, it will largely duplicate the work already done by the partner development agency.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
<b>Impact</b>  Reduced poverty and high economic growth sustained	<ul style="list-style-type: none"> <li>Poverty incidence below the level of the Viet Nam Household Living Standard survey, conducted in 2004 (i.e., 24.1% of population)<sup>a</sup></li> <li>Annual gross domestic product (GDP) growth 7.5% or higher</li> </ul>	<ul style="list-style-type: none"> <li>Progress reports on the Comprehensive Poverty Reduction and Growth Strategy (CPRGS)</li> <li>Draft Five-Year Socioeconomic Development Plan (SEDP) 2006–2010</li> <li>Progress reports on SEDP 2006–2010</li> </ul>	<b>Assumption</b> <ul style="list-style-type: none"> <li>Feasible and effective policy reform measures</li> </ul> <b>Risk</b> <ul style="list-style-type: none"> <li>Coordination and cooperation among various stakeholders including development partners and government agencies</li> </ul>
<b>Outcomes</b> Attainment of development outcomes specified under the three pillars of the Poverty Reduction Support Credit (PRSC) framework: (i) transition to a market economy, (ii) social inclusion and environmental sustainability, and (iii) modern governance  <b>1. Transition to a market economy</b> (reduced structural weaknesses and improved business environment)	<b>Move to a market economy and integrate with the global economy</b> <ul style="list-style-type: none"> <li>Ratio of the value of exports to GDP is 55%</li> <li>Share of private sector exports in total exports is 85%</li> <li>All quantitative restrictions on imports removed</li> <li>Modern customs procedures are in place</li> <li>Viet Nam becomes a member of the World Trade Organization with good legal regulations and mechanism for integration</li> </ul> <b>Promote competition in product markets by tightening the budget as incentive for state-</b>	<ul style="list-style-type: none"> <li>Summary of progress status on all program outcomes identified under the three pillars is updated annually by World Bank sector specialists with inputs from government agencies and other development agencies</li> <li>Quarterly progress reports of relevant ministries and/or committees implementing the CPRGS; partnership and taking stock reports (every 6 months)</li> <li>Sector progress reports</li> <li>Annual reports on the SEDP, CPRGS</li> <li>Investment climate assessment survey</li> <li>Comprehensive diagnostic study on corruption</li> <li>Assessments of SEDP 2006–2010 by development partners</li> </ul>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>Adequate capabilities to enforce measures</li> <li>Actions based on clear understanding and pragmatic resolution of issues</li> <li>Regular monitoring and feedback to policy makers</li> </ul> <b>Risks</b> <ul style="list-style-type: none"> <li>Unmatched macroeconomic management capacities of government agencies due to more complex and liberalized economy</li> <li>Wider disparities between urban and rural areas and between the Kinh majority and ethnic minorities due to rapid economic growth</li> <li>Opportunities for graft could outpace anticorruption policy improvements in the short run due to rapid economic growth</li> </ul>



Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<b>Focus infrastructure development on the quality of investment</b> <ul style="list-style-type: none"> <li>Free entry in telecommunications and information technology services</li> <li>Improved infrastructure provision and operation, i.e., telecommunications</li> <li>Rational pricing policies for infrastructure services</li> </ul>	<ul style="list-style-type: none"> <li>Annual SEDP, CPRGS, and PRSC progress reports</li> <li>Viet Nam Business Forum reports</li> <li>Annual budget reports</li> </ul>	
2. Social inclusion and environmental sustainability	<b>Provide satisfactory coverage of the poorest groups and quality of education imparted</b> <ul style="list-style-type: none"> <li>Net primary school enrollment rate attains 98%</li> <li>School quality in terms of qualified teachers has improved, with a substantial catch up of poor areas</li> <li>Net lower secondary school enrollment rate attains 80%</li> </ul> <b>Change the financing of health services and improve health indicators</b> <ul style="list-style-type: none"> <li>Infant mortality rate is 30/1,000</li> <li>Under 5 mortality rate is 36/1,000</li> <li>Effective mechanisms to reduce out-of-pocket payments by the poor</li> <li>A public health approach is in place to tackle the HIV/AIDS epidemic</li> </ul> <b>Improve social protection</b> <ul style="list-style-type: none"> <li>Financially viable social insurance system in place</li> <li>Expansion of mandatory system and voluntary scheme for informal sector</li> </ul>	<ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Sector reports</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Sector reports</li> </ul> <ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Sector reports</li> </ul>	



Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<p><b>Improve public financial management</b></p> <ul style="list-style-type: none"> <li>• Expansion of pilot implementation of the medium-term expenditure framework continues in some sectors and provinces</li> <li>• Appropriate budget is allocated for operation and maintenance costs</li> <li>• Budget plan and approved budget accounts are publicly disclosed at all levels of state budget entities</li> <li>• Public debt ratios are sustainable, with assessment of contingent liabilities</li> </ul> <p><b>Strengthen financial accountability and transparency</b></p> <ul style="list-style-type: none"> <li>• Accounting norms in accordance with international practice</li> </ul> <p><b>Provide legal and public administration reform</b></p> <ul style="list-style-type: none"> <li>• A legal system in place based on the rule of law and promoting development</li> <li>• Progress toward administrative simplification and administration procedures</li> </ul> <p><b>Address anticorruption</b></p> <ul style="list-style-type: none"> <li>• Reduced corruption and perception of corruption as rated by independent monitors</li> </ul>	<ul style="list-style-type: none"> <li>• Annual budget report</li> <li>• Annual CPRGS and PRSC progress reports</li> <li>• Evaluation of implementation of the 2002 Law on State Budget</li> </ul> <ul style="list-style-type: none"> <li>• Annual CPRGS and PRSC progress reports</li> </ul> <ul style="list-style-type: none"> <li>• Annual CPRGS and PRSC progress reports</li> <li>• Investment climate survey (by the World Bank)</li> <li>• Doing business survey (by the International Finance Corporation)</li> <li>• Business sentiment survey (by the Japan Bank for International Cooperation)</li> </ul> <ul style="list-style-type: none"> <li>• Annual CPRGS and PRSC progress reports</li> <li>• Public administration reform progress reports</li> <li>• Investment climate survey (by the World Bank)</li> <li>• Doing business survey (by the International Finance Corporation)</li> </ul>	

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<b>Provide information</b> <ul style="list-style-type: none"> <li>Reliable, publicly available economic and social data, allowing evaluation of public policies</li> </ul>	<ul style="list-style-type: none"> <li>Annual CPRGS and PRSC progress reports</li> <li>Report state inspectorate</li> <li>Diagnostic study findings</li> </ul>	
<b>Outputs</b> <ol style="list-style-type: none"> <li>Extend policy advisory services in a coordinated manner to 19 PRSC participants to assist the Government in formulating and implementing the reform policies under the program framework</li> <li>Issue regulations and policies conducive to reforms specified under the reform program's three pillars</li> <li>Strengthen or amend regulations and policies conducive to the reform program</li> <li>Issue action plans conducive to the reform program</li> <li>Prepare self assessments to identify the status quo as prerequisite for reforms</li> </ol>	<ul style="list-style-type: none"> <li>Policy measures and actions as per policy matrices of PRSCs 1–5 (Supplementary Appendix A)</li> <li>Sector road maps and strategies (including banking sector road map and National Water Resource Strategy)</li> <li>New laws, ordinances, decisions, and decrees (e.g., Law on Intellectual Property, Law on Securities, Investment Law, Enterprise Law, Bidding Law, and Anticorruption Law)</li> <li>Amended laws (including Amended Law on Environmental Protection, Revised Accounting Law in accordance with international practice)</li> <li>Sublaws and implementation guidelines to new laws (e.g., guiding circular for the Construction Law)</li> <li>Action plans including equitization plan for certain state-owned commercial banks, and action plans for simplification and greater transparency of administrative procedures</li> <li>Self assessment reports (including Basel Core Principles self assessment, assessment of social and economic impacts of World Trade Organization accession, fiscal risk assessment, etc.)</li> </ul>	<ul style="list-style-type: none"> <li>Policy matrices</li> <li>Official copies of laws, decrees, regulations, etc. from relevant government agencies</li> <li>Annual CPRGS and PRSC progress reports</li> <li>Review and progress reports by sector specialists of the Asian Development Bank (ADB) and other development partners</li> <li>Reports by other stakeholders including private sector and nongovernment organizations (e.g., reports from the Viet Nam Business Forum, newsletters from business associations, newsletters from nongovernment organizations)</li> </ul>	<b>Assumptions</b> <ul style="list-style-type: none"> <li>Commitment of the State Bank of Viet Nam (the executing agency), the Ministry of Planning and Investment (the implementing agency) all line ministries and agencies, as well as all development partners participating in the reform program</li> </ul> <b>Risks</b> <ul style="list-style-type: none"> <li>Poor coordination or inappropriate sequencing with related reforms</li> <li>Insufficient local resources and skills</li> <li>Inadequate capital, maintenance, and operating budgets</li> <li>Resistance of impacted agencies and officials</li> <li>Insufficient support from development partners in sector-specific projects/programs (that are being implemented in parallel) to supplement this multisector policy-oriented program in terms of technical capacity and financial resources</li> </ul>

Design Summary	Program Performance Targets/Indicators (by end-2006)	Data Sources/Reporting Mechanisms	Assumptions and Risks
			<p><b>Activities with Milestones</b></p> <ul style="list-style-type: none"> <li>• Meetings to discuss reform policies under the PRSC framework. Processing of each annual PRSC program; each participant attends at least 40 meetings including (i) internal meetings with sector specialists, (ii) meetings of development partners, and (iii) meetings between development partners and government agencies.</li> <li>• In addition to the direct PRSC-specific meetings, ADB staff participate in relevant partnership group meetings on several development issues related to the reform program of this proposed loan. The partnership group meetings of 20-plus groups are held at least quarterly. The main reports from all partnership group meetings are compiled and reported at the semiannual Consultative Group meetings.</li> <li>• Assessments of the Vietnamese economy as well as socioeconomic and development strategy and policies by development partners including the annual Vietnam development reports (prepared jointly by several development partners including ADB) and the joint staff advisory note on the Poverty Reduction Strategy (prepared jointly by the International Monetary Fund and World Bank with inputs from all development partners including ADB).</li> </ul> <p><b>Inputs (Tentative)</b>  <b>Policy dialogue and program loan proceeds of</b></p> <ul style="list-style-type: none"> <li>• World Bank: US\$100 million equivalent</li> <li>• Asian Development Bank: US\$15 million equivalent</li> <li>• Japan Bank for International Cooperation: to be determined</li> <li>• Germany: €6 million</li> <li>• Australian Government Overseas Aid Program: A\$10 million</li> <li>• Agencia Española de Cooperación Internacional: €3 million</li> <li>• European Commission : €10 million</li> <li>• Canadian International Development Agency: Can\$4.0 million</li> <li>• Danish International Cooperation Agency: US\$10.3 million equivalent</li> <li>• Ireland: €3 million</li> <li>• The Netherlands: €9–€14 million (to be confirmed)</li> <li>• United Kingdom's Department for International Development: £20 million</li> </ul> <p><b>Total official development assistance of over US\$210 million</b></p>

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

<sup>a</sup> The Government set a target for the poverty rate using a local version of the Millennium Development Goals, the Viet Nam development goals, to achieve a lower poverty rate of 14%–16% by 2010 in the draft socioeconomic development plan 2006–2010.

### 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 this Loan Agreement:</p> <p>1. The Borrower shall ensure that the Counterpart Funds shall be used to finance the structural adjustment costs and to finance the local currency costs relating to the implementation of the Program and other activities consistent with the objectives of the program, as more fully described under Schedule 1 to this 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 reforms under the Program.</p>	<p>Sector 4.01 Schedule 5 para. 1</p>	<p><b>Complied with.</b></p> <p>The Government covered the part of their cost to the state budget that was not financed by development agencies. A total of 24 government agencies took part in the implementation of the Program. They allocated sufficient staff resources to carry out the policy actions included in the Program and, through their focal points for the PRSC process, provided updates on the status of these actions to the PRSC Coordination Unit of SBV.</p>
<p>2. The State Bank of Viet Nam (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 on the PRSC process shall be implementing agencies, responsible for such aspects of the Program as are within their respective mandate.</p>	<p>Sector 4.01 Schedule 5 para. 2</p>	<p><b>Complied with.</b> The performance of the Executing Agency was highly satisfactory. The implementation arrangements established at program appraisal have been carried out consistently during the SIPRP implementation period. Due largely to SBV's efforts, there were no delays in the effectiveness and disbursement of SIPRP. The National Steering Committee on the PRSC process closely supervised the implementation of the Program.</p>
<p>3. The Borrower shall ensure the Program will properly be coordinated through the program coordination unit (PCU) at SBV. The PCU shall be a focal point to donors participating in the PRSC 5, and responsible for monitoring, reporting, awareness raising, capacity building and reform outcome dissemination under the Program.</p>	<p>Sector 4.01 Schedule 5 para. 3</p>	<p><b>Complied with.</b> The PCU was established in January 2005 to support the PRSC operations. The PCU's terms of references have been well observed.</p>
<p>4. 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>	<p>Sector 4.01 Schedule 5 para. 4</p>	<p><b>Complied with.</b> The Program comprised 46 policy actions, of which 15 were tranche-release conditions for the loan. All actions, including the tranche-release conditions, were completed prior to the approval of SIPRP III by ADB. A number of general covenants relating to the withdrawal and utilization of loan proceeds and particular covenants concerning the implementation of the</p>

		Program. The covenants were relevant, and the Government fully complied with them (Appendix 3). None of the covenants were modified, suspended, or waived.
5. 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, socially 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.	Sector 4.01 Schedule 5 para. 5	<b>Complied with.</b>
6. 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.	Sector 4.01 Schedule 5 para. 6	<b>Complied with.</b> The Borrower has also promptly discussed with ADB the problems such as health insurance for the poor, land registration, developing securities market, and unified Enterprise Law.
7. 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.	Sector 4.01 Schedule 5 para. 7	<b>Complied with.</b> The PRSC Coordination Unit of the SBV coordinated and greatly facilitated a policy dialogue between ADB and other development agencies participating in the PRSC process, on the one hand, and the government agencies that took part in the implementation of the Program, on the other. Furthermore, the PRSC Coordination Unit regularly provided ADB and other development agency with updates on the status of policy actions included in the Program and contributed to capacity building at government agencies involved in the implementation of the Program.
8. 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.	Sector 4.01 Schedule 5 para. 8	<b>Complied with.</b> 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.
9. 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	Sector 4.01 Schedule 5 para. 9	<b>Complied with.</b> The evaluation has been carried out continuously as part of processing subsequent loans (SIPRP IV and SIPRP V). The benefit monitoring and evaluations have been conducted through

and evaluations shall be conducted in accordance with ADB's <i>Project Performance Monitoring System</i> .		the PPMS.
10. The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.	Sector 4.02 (a)	<b>Complied with.</b>
11. The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Sector 4.02 (b)	<b>Complied with.</b>
12. As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Sector 4.03 (a)	<b>Complied with.</b>
13. Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly 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.	Sector 4.03 (b)	<b>Complied with.</b> The Borrower's semiannual reports on the implementation of the Program were submitted at the June and December 2006 Viet Nam Consultative Group (CG) meetings. The reports described the status of policy reforms covered by the Program.

## STATUS OF OUTCOME PERFORMANCE TARGETS AND INDICATORS

Reform Area	Performance Targets/Indicators (by end-2006)	Value/Status in 2001	Value/Status in 2006	Assessment
<b>1. Transition to a market economy</b>	Ratio of exports to gross domestic product (GDP) is 55%	47%	65%	Achieved
	Share of private sector exports in non-oil exports is 85%	56%	77%	Not achieved
	All quota restrictions removed	Quota restrictions on many products	Most quota restrictions removed	Partially achieved
	Modern customs procedures are in place	Customs procedures are burdensome	Customs procedures being modernized (in particular e-customs being introduced)	Partially achieved
	Viet Nam becomes a member of the World Trade Organization (WTO)	Slow progress in WTO negotiations	Viet Nam became a member of WTO in January 2007	Achieved
	About 2,100 SOEs	5,334 SOEs	About 2000 SOEs (815 SOEs equitized in 2005 and 313 in 2006)	Achieved
	The share of bank credit going to SOEs is less than 25%	42%	31.5%	Not achieved
	High proportion of profitable SOEs	High proportion of unprofitable SOEs	Most SOEs are profitable, but profits are generally low	Partially achieved
	Most nonperforming inter-enterprise debts resolved	Large amounts of nonperforming inter-enterprise debts	Most nonperforming inter-enterprise debts resolved	Achieved
	Data on performance of SOEs available annually	Data about SOE sector is sketchy	Classification of SOEs by performance conducted annually starting in 2004. Data for 2005 classification made public in 2007	Achieved
	Banks in full compliance with banking regulations	No commercial bank in full compliance	Compliance with banking regulations improved but not yet full. Improved compliance on provisioning, capital adequacy, and disclosure; prudential standards raised and being complied with in a phased manner; profitability improved; joint-stock banks consolidated and performing better than state-owned commercial banks	Partially achieved

Reform Area	Performance Targets/Indicators (by end-2006)	Value/Status in 2001	Value/Status in 2006	Assessment
	Low estimated nonperforming loan (NPL) ratio in the banking system	NPLs represent 15% of credit	NPLs estimated at 8%–10%; figure subject to revision	Partially achieved
	The State Bank of Viet Nam (SBV) focused on supervision and regulation	Conflicting SBV responsibilities as owner and regulator	SBV continues to perform both ownership and regulatory functions vis-à-vis commercial banks	Not achieved
	Sound regulation of policy lending	Policy lending still undertaken through state-owned commercial banks	Policy lending shifted to the Development Assistance Fund and the Viet Nam Bank for Social Policies under stricter regulation	Achieved
	Private investment is equal to 20% of GDP	Private investment equals 14% of GDP	Private investment equals 33.6% of GDP	Achieved
	Around 5 million people are employed in the formal private sector	0.6 million people are registered with social security, 1.3 million are in formal wage employment, 7 million are in wage employment	2.8 million people are registered with social security, 3.6 million are in formal wage employment, and 9.1 million are in wage employment	Not achieved
	A level playing field secured with same regulations for all firms	Discrimination on access to land, taxes, and public contracts	New land law improves access to land; corporate tax unified; new enterprise and investment laws create more level playing field	Partially achieved
	Liberalized entry to telecommunications and information technology services	State monopoly in telecommunications and information technology services	Telecommunications sector opened to competition for mobile and internet service providers. Further opening to foreign participants under WTO	Achieved
	Improved infrastructure provision and operations	Provision of infrastructure services often inefficient	Better access to infrastructure. 88% of rural households electrified. Rapid increase in road network, teledensity, and sanitation	Achieved
	Rational pricing policies for infrastructure services	Infrastructure services are expensive	Gradual convergence to regional prices; cost recovery achieved in telecoms and electricity, but not in irrigation	Partially achieved

Reform Area	Performance Targets/Indicators (by end-2006)	Value/Status in 2001	Value/Status in 2006	Assessment
<b>2. Social Inclusion and Environmental Sustainability</b>	Net primary school enrollment rate of 98%	88% (in 1998)	94%	Not achieved
	School quality improved, especially in poor areas	School quality is uneven and low in poor areas	Fundamental school quality standards being implemented, with poorer areas recording faster progress	Partially achieved
	Net lower secondary school enrollment rate of 80%	62% (in 1998)	80%	Achieved
	Infant mortality rate 30/1,000 live births	37/1,000 (in 1998)	18/1,000	Achieved
	Under-five mortality rate 36/1,000	48/1,000 (in 1998)	29/1,000	Achieved
	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 unfunded amounts supplemented by health care funds; free health care for children under 6 years; 30% subsidy for near-poor to buy voluntary insurance; voluntarily insured to rise from 9.1 million in 2005 to 10 million in 2006	Partially achieved
	A public health approach is in place to tackle the HIV/AIDS epidemic	No appropriate framework to prevent HIV/AIDS spreading	HIV/AIDS law passed with action plans for implementation; new cases declined as follows: 16,980 in 2003, 14,200 in 2004, 13,731 in 2005, 12,454 in 2006	Achieved
	A financially viable social insurance system	Unsustainable formula for pension benefits, especially in the public sector	New law in 2006 to increase coverage and address financial viability	Partially achieved
	Expansion of the mandatory social protection system and extension of the voluntary scheme to the informal sector	4.4 million (11%) workers covered by the mandatory system	Estimated 6.9 million workers covered by the mandatory system; voluntary scheme launched	Partially achieved
	All land allocated, with all land in upland areas allocated to locals and ethnic communities	Some land not allocated, especially in urban and upland areas; in 1998, 42% of households had land-use right certificates (LUCs) for agricultural land; 34% for urban residential land; 42% for forestry land	In 2006, 81.3% of households have LUCs for agricultural land, 56.9% for urban residential land, 59% for forestry land	Partially achieved

Reform Area	Performance Targets/Indicators (by end-2006)	Value/Status in 2001	Value/Status in 2006	Assessment
	A functioning land market is in place and land tenure has been secured	7.9% of rural households rent-in agricultural land (1998)	10.7% rural households rent-in agricultural land in 2004; tenure secured by a rapid rise in LUC allocation	Partially achieved
	Forest cover expands to 38%	35%	38.5%	Achieved
	Increased population access to water and sanitation services	76% have access to improved water and 25% to latrines (in 2002)	64.6% have access to improved water and 54% to latrines	Partially achieved
	Integrated river basin planning and participation of irrigation users	Inefficient irrigation and limited participation of users	River basin management was carried out by both the Ministry of Natural Resources and Environment (MONRE) and Ministry of Agriculture and Rural Development until early 2008. Decree 25/2008/ND-CP of March 2008 listed integrated river basin management as one of the key functions of MONRE and gave MONRE the authority to represent Viet Nam in the Mekong River Council	Achieved (in 2008)
	Framework in place to assess environmental impact of projects	Environmental impact assessments (EIAs) are uncommon	Departments of natural resources and environment established in all provinces for environmental review of projects. EIAs mandated under new law	Achieved
	No further degradation of highly biodiverse forests and wetlands	Rich closed-canopy forest cover equals 3.4% (2000). Protected area coverage is 4.1% (1999); loss of mangrove forest is widespread; degradation of wetlands and coral reefs is occurring	Rich closed-canopy forest cover equals 4.6% (2004), but is more fragmented. Protected area coverage 5.5% (2005); mangrove forest area stabilized; degradation of wetlands and coral reefs continues	Partially achieved
	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; implementation weaknesses remain	Partially achieved
	All newly issued or reissued LUCs are in the name of both spouses	Low percentage of LUCs issued in the name of both spouses	Progress on newly issued LUCs, but no reissuance of old LUCs	Partially achieved

Reform Area	Performance Targets/Indicators (by end-2006)	Value/Status in 2001	Value/Status in 2006	Assessment
<b>3. Modern Governance</b>	Planning toward development goals	Planning focused on production targets but CPRGS under preparation	SEDP 2006–2010 is based on broad consultation and focused on development outcomes	Achieved
	A number of provinces and sectors have pro-poor socioeconomic plans	Planning is not oriented toward pro-poor goals	Many provinces and sectors have adopted pro-poor socioeconomic plans based on SEDP 2006–2010	Achieved
	Substantially improved integration of the PIP and the budget	PIP is a compilation of projects with few links to the budget	Criteria for the preparation, appraisal, and implementation of public investment projects have improved, leading to better selection and more transparent funding	Partially achieved
	A publicly disclosed medium-term fiscal framework is used	Budget preparation is based on a short-term perspective	SEDP 2006–2010, which is available to the public, provides a 5-year fiscal framework	Achieved
	Operation and maintenance costs are fully taken into account	Little integration of capital and recurrent expenditures	Ban on public investment projects without proper funding, but operations and maintenance costs not fully taken into account	Not achieved
	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 aggregate categories	Achieved
	Sustainable public-debt ratios, with assessment of contingent liabilities	Limited knowledge of contingent liabilities	Sustainable public-debt ratios, but without a proper assessment of contingent liabilities	Partially achieved
	Accounting norms in accordance with international practice	Accounting practices differ from international standards	Convergence to international standards; 37 auditing and 26 accounting standards issued	Partially achieved
	A legal system based on the rule of law that promotes development	Limited legal transparency	Effectiveness of legal documents is conditional upon publication in the <i>Official Gazette</i> ; legal and judicial system strategies approved; effective implementation measures are needed	Partially achieved
	Progress toward simplifying administrative procedures	Cumbersome procedures and murky payments	One-stop shop (OSS) model adopted in 63 provinces, but quality needs attention. Interlinked OSS approach piloted to streamline processing. Simplification action plans being implemented	Partially achieved

Reform Area	Performance Targets/Indicators (by end-2006)	Value/Status in 2001	Value/Status in 2006	Assessment
	Reduced corruption as rated by independent monitors	Perception of widespread corruption	Comprehensive diagnostic study on corruption and its modalities available. Findings are corroborated by the investment climate assessment survey. Bribes as a proportion of sales are low by international standards; no evidence of state capture; petty corruption is widespread	Partially achieved
	Reliable, publicly available economic and social data	Limited statistical development; data difficult to access	Availability of economic and social data improved but remains limited	Partially achieved

CPRGS = Comprehensive Poverty Reduction and Growth Strategy, EIA = environmental impact assessment, GDP = gross domestic product, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, LUC = land-use right certificate, MONRE = Ministry of Natural Resources and Environment, NPL = nonperforming loan, OSS = one-stop shop, PIP = public investment plan, SBV = State Bank of Viet Nam, SOE = state-owned enterprise, SEDP = socioeconomic development plan, WTO = World Trade Organization.

Source: 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 (May 26, 2006)*. Washington DC; Government of Viet Nam, and Asian Development Bank.