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Report No. 58821-VN

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

AND INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED LOAN
IN THE AMOUNT OF US$87.3 MILLION

AND A PROPOSED CREDIT
IN THE AMOUNT OF
SDR 167 MILLION (US$262.7 MILLION EQUIVALENT)

TO THE

SOCIALIST REPUBLIC OF VIETNAM

FOR THE SECOND PUBLIC INVESTMENT REFORM
DEVELOPMENT POLICY OPERATION

April 26, 2011

Vietnam Country Department
Poverty Reduction and Economic Management Unit
East Asia and Pacific Region

VIETNAM - GOVERNMENT FISCAL YEAR

January, 1 – December, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 28, 2011)

Currency Unit	VND
US$1.00	20,673
SDR 1.00	1.573

WEIGHTS AND MEASURES

Metric System

ABBREVIATION AND ACRONYMS

ADB	Asian Development Bank
AFD	Agence Française de Développement
CCBP	Comprehensive Capacity Building Program
CPS	Country Partnership Strategy
CFAA	Country Financial Accountability Assessment
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
DPL	Development Policy Loan
EIA	Environmental Impact Assessment
EMP	Environmental Management Plan
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GSO	General Statistics Office
IBRD	International Bank for Reconstruction and Development
ICOR	Incremental Capital-to-Output Ratio
IDA	International Development Association
IEG	Independent Evaluation Group
IMF	International Monetary Fund
JICA	Japanese International Cooperation Agency
KFW	German Kreditanstalt Für Wiederaufbau
MARD	Ministry of Agriculture and Rural Development
MOC	Ministry of Construction
MOCST	Ministry of Culture, Sports, and Tourism
MOF	Ministry of Finance
MOHA	Ministry of Home Affairs
MOIT	Ministry of Industry and Trade
MONRE	Ministry of Natural Resources and the Environment
MOT	Ministry of Transport
MPI	Ministry of Planning and Investment
M&E	Monitoring and Evaluation
NPL	Non-Performing Loan
ODA	Official Development Assistance
OOG	Office of the Government
PER-IFA	Public Expenditure Review and Integrated Fiduciary Assessment
PPP	Public-Private Partnership
PRSC	Poverty Reduction Support Credit
SAV	State Audit of Vietnam
SCIC	State Capital Investment Corporation
SBV	State Bank of Vietnam
SEA	Strategic Environmental Assessment
SEDP	Socio-Economic Development Plan
SOE	State-Owned Enterprise
SOCB	State-Owned Commercial Bank
VDB	Vietnam Development Bank
VGFM	Viability Gap Financing Mechanism
WTO	World Trade Organization

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SOCIALIST REPUBLIC OF VIETNAM

VN-SECOND PUBLIC INVESTMENT REFORM OPERATION (PIR 2)

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LOAN/CREDIT AND PROGRAM SUMMARY

SOCIALIST REPUBLIC OF VIETNAM

VN-SECOND PUBLIC INVESTMENT REFORM OPERATION (PIR 2)

Borrower	The Socialist Republic of Vietnam
Implementing Agency	State Bank of Vietnam (SBV)
Financing Data	Blend - IBRD Loan and IDA Credit IBRD Loan terms: commitment-linked IBRD Flexible Loan with variable spread. Final maturity of the Loan is 25 years including a grace period of ten years and level repayment of principal. IBRD Loan amount: US$87.3 million IDA Credit terms: standard IDA terms for blended countries: 35-year maturity including a grace period of 10 years. IDA Credit amount: SDR 167 million (US$262.7 million equivalent)
Operation Type	Single-tranche programmatic budget support operation, the second and last in a series of two.
Main Policy Areas	This is the second and last of a series of two programmatic development policy operations that was prepared in response to a request made by the Government of Vietnam (GoV) to provide more resources in support of its response to the global economic crisis. Vietnam's economy is recovering steadily from the global economic crisis, thanks partly to the large and timely stimulus package. While the stimulus measures are being phased out in a calibrated manner, the level of fiscal deficit and public debt remain elevated, and significantly above their historical pre-crisis, levels. The key emphasis of this operation remains unchanged from its predecessor, namely to strengthen the public investment cycle, an area where reforms have lagged. The Agence Française de Développement (AFD) will continue to provide parallel finance to the program based on the same policy matrix. The program is organized around four main areas which are essential to strengthening the public investment project cycle: • Project selection (environmental screening). • Project implementation (cost estimates, bidding rules, bidding transparency, conflict of interest, dispute resolution, land acquisition, environmental management). • Financial management (reporting and control, administrative costs, environmental budgets, subsidies and guarantees). • Project oversight (project documentation, monitoring and evaluation).

	Progress in these areas is expected to improve public investment processes and strengthen country systems.
Key Outcome Indicators	A set of nine measurable indicators covering the four areas of the program (project selection, project implementation, financial management and project oversight) has been identified. An effort has been made to refine the monitoring framework and include new indicators. However, given the short time span for the program, it is difficult to have measurable results on the ground. Therefore, it is expected that progress towards meeting development outcomes will be measured at completion.
Program Development Objectives and Contribution to CPS	Though Vietnam's economy has grown rapidly, the bulk of this growth has come through factor accumulation, with modest contribution from productivity growth. The country therefore cannot achieve its objective of growing at 7 to 8 percent, as indicated in its Socio-economic Development Strategy (SEDS) 2011-2020, without raising the productivity of investment, especially public investment. The reforms supported by PIR 2 attempt to improve the effectiveness of public investment through better project selection, implementation, financial management and oversight. In doing so, PIR 2 supports one of the emerging priorities of the SEDS 2011-2020, namely to raise productivity of investment. The operation also supports modern governance, which is one of the four main "pillars" of Vietnam's Socio-Economic Development Plan (SEDP) 2006-2010. The Country Partnership Strategy (CPS) is aligned to the SEDP. Better planning processes, more transparent procurement and stronger public financial management, all areas covered by the proposed program, fall under the modern governance pillar of SEDP. Through its focus on the environmental screening and the environmental management of projects, the proposed program is also expected to contribute to the natural resources pillar of SEDP. Its attention to fair compensation and livelihood support in the event of land acquisition should also contribute to the social inclusion pillar.
Risks and Risk Mitigation	In recent years, Vietnam's impressive growth performance has been tempered by its growing macroeconomic instabilities. The annual inflation rate has hovered at double-digit level and the local currency has been under intense pressure in the past few months. Foreign exchange reserves have declined and the sovereign rating has been downgraded on account of persistent macroeconomic volatility, including default by one of the largest state owned enterprises. While these instabilities were set-off by external shocks, they have become increasingly domestic, conditioned by domestic institutional weaknesses and policies. In recent months, and especially since mid-February 2011, there has been a distinct shift in government's policy stance – from emphasizing growth to stabilizing the economy. Resolution 11, which outlines a wide range of monetary, fiscal and structural policy measures to cool an overheated economy, is an important step in that direction. Some of the stabilization measures announced so far include: (i) a 9.3 percent

	devaluation of the dong against the US dollar; (ii) significant tightening of monetary policy including the increase in the refinancing rate from 8 percent to 13 percent and open market operation rate from 7 percent to 13 percent since November 2010; (iii) reduction in the target growth for domestic credit in 2011 to below 20 percent from actual growth of 30 percent in 2010; (iv) cutting non-salary current expenditure by 10 percent and containing the fiscal deficit to below 5 percent to GDP in 2011. In addition, the government has indicated its commitment to timely disseminate macroeconomic and financial information and communicate its policies more clearly and transparently to the market, strengthen regulations on provisioning by the banks, encourage independent audit of State-Owned Enterprises (SOEs) and better monitor contingent liabilities arising in the SOE sector. The recently announced measures constitute a credible package that could begin to address Vietnam's macroeconomic instability. So far the markets have reacted favorably, with parallel market premium and sovereign bond spreads steadily declining. Given the extensive consultation both within and outside the government, Resolution 11 enjoys broad support, thereby reducing the possibility of a policy reversal in the near future. Moreover, continuous monitoring of the macroeconomic situation, close collaboration with the IMF and frequent discussion with the authorities on remedial options are other potential ways the macroeconomic risks are being mitigated. In addition, there are potential operational risks arising from temporal mismatch between actions and triggers on one hand and development outcomes on the other. This is because the operation has a short time span (two years), but it addresses PFM/institutional reforms that are long-term in nature and in Vietnam context, have a slow pace of implementation. So while measures will be adopted as agreed in the operation, the specifics are such that their impact on efficiency and transparency of public investments could be felt after considerable lag. This risk is to some extent being addressed by the quality of the ongoing technical assistance provided by the six development banks in several of the areas covered by the proposed program, and by the World Bank and other development partners in relation to public financial management. Since many of the measures supported by this operation are expected to improve the speed and quality of public investment projects, including the projects financed by development partners, their implementation is being closely monitored.
Operation ID	P120946

IBRD/IDA PROGRAM DOCUMENT FOR A PROPOSED SECOND PUBLIC INVESTMENT REFORM OPERATION TO THE SOCIALIST REPUBLIC OF VIETNAM

I. INTRODUCTION

1. Improving the efficiency of investment has emerged as one of the key economic priorities in Vietnam. The country has already achieved rapid economic growth and fast poverty reduction over the last twenty years. However, there is a growing concern that the momentum of a growth strategy that is largely based on factor accumulation may have run its course. Vietnam has one of the highest investment to GDP ratios in the world, averaging around 43 percent of GDP during the past five years. But the growth rate has not been commensurate with this high investment rate. So if Vietnam aspires to grow at 7 to 8 percent rate during the next decade, as indicated in its Socio-economic Development Strategy (SEDS) 2011-2020, it cannot do so by raising investment rate even higher. Instead, the focus has to shift towards raising the competitiveness of economy, especially the quality of public investment.

2. The inefficiencies in public investment are partly the result of inherited institutional constraints. During the command and control period, public sector investments used to be managed by the Ministry of Planning and Investment (MPI). MPI used to compile proposals from line ministries, provincial governments and state-owned enterprises (SOEs) and arbitrate among competing demands. This "ask and give" mechanism resulted in economic inefficiency and fiduciary vulnerability. Gradually, the separation between government and SOE investments became clearer, and responsibilities for public investment projects were delegated to lower levels of government. The Law on the State Budget, which became effective in 2004, pushed decentralization further by leading to the adoption of progressive budget allocation norms, transferring more resources for public investments to poorer provinces. However, the decentralized system carried with it many of the deficiencies that existed at the federal level, such as weak project selection system, slow pace of execution, inadequate emphasis on monitoring and oversight.

3. The weaknesses of the public investment cycle have also resulted in cost overruns, time delays and slow disbursement of development assistance. There are important gaps between Vietnam's national system and international practices in areas such as environmental screening and environmental management, project preparation and appraisal, procurement, public financial management, the regulatory framework for private participation in infrastructure, and monitoring and evaluation. These gaps have led to the use of parallel systems by development partners, for instance in relation to procurement, which have resulted in considerable delays in project implementation. Officials in line ministries, provincial governments and project management units (PMUs) are reluctant to deviate from official procedures, for fear of sanctions. This cautious behavior is associated with consistently low disbursement rates for the development banks operating in Vietnam, thus reducing the efficiency of Official Development Assistance (ODA) implementation.

4. The proposed public investment reform program is designed to assist the government of Vietnam (GoV) to strengthen the selection, preparation, implementation and supervision of public investment projects. While much progress has been made over the last decade in the upgrading of public financial management in relation to recurrent expenditures, there are still important weaknesses in the management of investment projects. The recent international macroeconomic turbulence has exposed the weaknesses of public investment in Vietnam. Distorted price signals resulted in capital

expenditures going to sectors experiencing asset price bubbles, thus amplifying macroeconomic fluctuations. In fact the expansion of SOEs into non-core areas through leveraged borrowing is one of the key reasons for the recent default by the national shipbuilding conglomerate on its external debt. Insufficiently developed monitoring mechanisms have also made it difficult for the government to adjust investment volumes timely so that they would play a more counter-cyclical role.

5. The proposed program supports a series of policy measures which are expected to strengthen the effectiveness of public investment in Vietnam. The program aims to improve all public investment projects, regardless of their source of funding. The operation builds on analytical work conducted by the World Bank and other donors in relation to the efficiency and financing of capital accumulation in Vietnam (see *Capital Matters*, Vietnam Development Report 2009, World Bank, 2008), public financial management (see *Country Financial Accountability Assessment*, World Bank, 2009), harmonization in the spirit of the Paris Declaration on Aid Effectiveness (see *Mid-Term Review on Implementation of Paris Declaration and Hanoi Core Statement on Aid Effectiveness*, PGAE's Report, 2008) and findings presented at the International Conference on "*Public Investment Management*" held in Hanoi in September 2010. Other development banks and aid agencies, and especially the Agence Française de Développement, have been involved in the policy dialogue.

6. The proposed operation, Public Investment Reform Development Policy Operation 2, is the second and last in a programmatic series of two. The first operation was for US$ 500 million on IBRD resources, while the second operation is for US$ 350 million, with US$ 262.7 million from IDA resources and US$ 87.3 million on IBRD funds. The Agence Française de Développement co-financed PIR 1, contributing EUR 50 million and it will also co-finance PIR 2 with a contribution of EUR 35 million.

7. The size of PIR 2 has been reduced by US$ 150 million from the initial agreed amount for two reasons. First, with the gradual and calibrated phasing out of the stimulus measures, the fiscal deficit as a share of GDP, though large, has been declining – resulting in a smaller financing gap than was originally assumed. Second, while there has been important progress in reforming public investment cycle, one of the key policy actions for PIR 2 has not been achieved[1]. So keeping with the spirit of development policy lending operation, the size of PIR 2 has been reduced for both the World Bank and the AFD. In addition, given the concern that a second large development policy loan will quickly exhaust Vietnam's limited IBRD exposure, PIR 2 will be partly financed from Vietnam's IDA allocation. Accordingly, a blend operation, with US$ 262.7 million in IDA resources and $87.3 million in IBRD funds, has been prepared.

8. The proposed program is consistent with the objectives of the Country Partnership Strategy (CPS) for the period 2007-2011. Under its first pillar (improved business environment) one of the objectives is the efficient and reliable provision of infrastructure services. In Vietnam, infrastructure is still largely dependent on public investment. Under the fourth pillar (strengthened governance) objectives include improved effectiveness of public resources management and reduced corruption. Together with other development policy operations already approved or in preparation, the proposed program complements the series of Poverty Reduction Support Credits (PRSCs) which is the primary vehicle for the policy dialogue in Vietnam.

9. Apart from helping the government to finance the stimulus program, the PIR series has had many other benefits. Given the concessional nature of the operation (blend of IDA and IBRD), PIR 2 will provide alternative source of financing the fiscal deficit, substituting for more expensive

[1] We have been recently informed that the "Law on Public Investment," which was dropped from this operation, may now be tabled in the National Assembly in 2012. No formal announcement to this effect, however, has been made by the government yet.

borrowing, and thereby helping to keep the level of fiscal deficit and government debt lower than what they otherwise would be. It is also expected to reduce net credit to government, and consequently net credit expansion, at a time when the external position of the country remains vulnerable. Finally, the operation will help boost the level of international reserves and contribute to building market confidence.

II. COUNTRY CONTEXT

RECENT MACROECONOMIC DEVELOPMENTS

10. Vietnam has weathered the 2008-09 global economic crisis relatively well. After registering real GDP growth of 5.3 percent in 2009, its economy grew by an estimated 6.8 percent in 2010. Vietnam stands out not only for achieving a higher average growth rate in the post-crisis period, but also a more stable growth path. The rapid recovery has been bolstered by higher level of investment and a strong revival in exports. Foreign direct investments have continued to remain buoyant and remittances have grown at a healthy rate. Exports are growing at 24 percent, with export of non-oil sector doing particularly well, having registered 30 percent growth in first eleven months of 2010. Overall, the recovery of the real sector of the economy has been both robust and remarkable.

11. Vietnam's strong recovery has, however, been tempered by its growing macroeconomic vulnerabilities. The annual inflation rate is currently hovering at double-digit level and its currency has been under intense pressure for the last several months. Foreign exchange reserves have declined and Vietnam's sovereign rating has recently been downgraded on account of persistent macroeconomic vulnerabilities, including default by one of the largest state owned enterprises. These instabilities were triggered by external shocks – the surge in capital flows in 2007 and the global financial crisis in 2008-09 – but have become increasingly domestic, with the authorities being slower to react and hesitant to disrupt the country's impressive growth record.

12. The first signs of macroeconomic problems can be traced back to 2007 when Vietnam experienced an unprecedented surge in external capital flow, fueling a credit boom and an asset price bubble. Between 2006 and 2007, foreign direct investment increased by three fold and portfolio flows by four-fold – with total external capital increasing from US$ 3.6 billion (or 5.9 percent of GDP) in 2006 to US$ 12.8 billion in 2007 (18 percent of GDP). Consequently, money supply grew rapidly, fueling a credit boom and creating an asset price bubble. Inflation rate accelerated and trade deficit widened rapidly during this period.

13. The economic boom came to a sudden halt as the global economy plunged into a financial and economic crisis during 2008. Capital flows slowed, with portfolio flow reversing from its peak of US$ 6.2 billion in 2007 to US$ -0.5 billion in 2008. The stock market lost nearly 66 percent of its value in 2008. Fueled by global commodity price shocks, Vietnam's inflation rate accelerated to nearly 20 percent and its currency appreciated in real terms.

14. This was followed in 2009 by the global economic crisis that led to a significant slowdown in manufacturing growth, contraction in export demand and the possibility of closure of thousands of factories and millions of lost jobs. Many of the export-oriented firms, which had invested heavily with the belief that the boom would continue, suddenly found their orders cancelled and sales plunged. Some of the more leveraged firms, including SOEs, found it difficult to keep up with their debt service payments. A timely and large 'stimulus package' however helped to cushion the adverse impact of the global crisis.

15. The most recent episode of macroeconomic instability started in the second-half of 2010 when the economy overheated following delayed withdrawal of the fiscal and monetary stimulus that had been introduced to deal with the impact of the global financial crisis. As of December 2010, inflation climbed to a two-year high of 12.2 percent, the dong came under intense pressure, and the level of foreign exchange reserves declined to $12.5 billion (1.5 months of imports). The health of the banking sector also became a focus of concern, in part because of the build-up of contingent liabilities in the SOE sector. On account of this deterioration in the country's macroeconomic indicators and a default by one of its largest state owned enterprises, Standard & Poor's and Moody's downgraded Vietnam's sovereign rating to BB- and B1, respectively.

Table 1 : Key Economic Indicators

	2008	2009/r	2010/e	2011/p	2012/p	2013/p
Output, Employment and Prices						
GDP (% change previous year)	6.2	5.3	6.8	6.3	6.7	7.2
Industrial production index (% change, previous year)	13.9	7.6	14.0	13.0	13.5	14.0
Unemployment rate (%, urban areas)	4.7	4.6	4.4	4.0	4.0	4.0
Consumer price index (% change, period-end)	19.9	6.5	11.8	9.5	6.5	6.0
Fiscal Balance						
Official fiscal balance(% GDP, excluding off-budget items)	1.2	-5.1	0.1	-1.0	-1.0	-0.8
General fiscal balance (% GDP, incl. off-budget items)	-1.2	-9.0	-6.4*	-3.9	-3.8	-3.3
Foreign Trade, BOP and External Debt						
Trade balance (BOP definition, $US billion)	-12.8	-8.3	-7.1	-7.4	-7.8	-8.2
Exports of goods, ($US billion, fob)	62.7	57.1	72.2	84.8	99.5	116.1
Exports of goods (% change, previous year)	29.1	-8.9	26.4	17.5	17.3	16.7
Key exports, (value, % change) - crude oil	23.1	-40.2	-23.0	-5.0	-5.0	-5.0
Imports of goods, ($US billion, fob)	75.5	65.4	79.3	92.3	107.3	124.4
Imports of goods (% change, previous year)	28.1	-13.3	21.2	16.4	16.3	15.9
Current account balance ($US billion)	-10.8	-6.1	-4.0	-4.4	-4.5	-4.7
Current account balance (percent GDP)	-11.9	-6.6	-3.8	-3.8	-3.6	-3.3
Foreign direct investment (net inflows, $US billion)	9.3	6.9	7.1	7.2	7.3	7.5
External debt ($US billion)	28.4	37.3	43.2	47.7	52.2	56.8
as percent of GDP	31.4	40.0	41.3	41.4	41.7	40.7
Debt service ratio (% exports of g&s)	2.6	4.5	3.2	3.2	3.5	3.6
Financial Markets						
Credit to the economy (% change, period-end)	25.4	39.6	29.8	20.0	18.0	17.0
Short-term interest rate (3-M deposits, period-end)	8.1	10.7	13.0	---	---	---
Stock market - VN index (Jul 2000 =100)	316	495	485	---	---	---

Source: General Statistics Office, State Bank of Vietnam, IMF and World Bank. e = estimate, f = forecast.
* preliminary.

THE GOVERNMENT'S POLICY RESPONSE

16. After the successful completion of the XIth Party Congress in January 2011, a consensus begun to emerge within the government (including the provincial governments) behind the need for strong measures to restore macroeconomic stability. The authorities recognized that their attention and focus should be on addressing instability even if this comes at the expense of slower growth in the short term. The government publicly indicated its intention to pursue "*tight and prudent monetary and fiscal policy*" and approved Resolution 11, which commits the government to a wide range of monetary, fiscal and structural policy reforms that are intended to cool an overheated economy. Several of the measures in the Resolution have already been implemented. Specifically, the State

Bank of Vietnam (SBV) has issued Directive 01/CT-NHNH on March 1, 2011 to implement parts of Resolution 11 that fall under its ambit and similar directives and circulars are under preparation in all the relevant ministries. A brief summary of the measures are as follows:

17. ***Exchange Rate Policy***. The dong was devalued by 9.3 percent against the US dollar and the trading band was narrowed from +/-3 percent to +/-1 percent. This is the single largest correction to the exchange rate following the onset of macroeconomic instability in 2007. The authorities also indicated that the interbank average exchange rate will be managed more flexibly, consistent with the intention to gradually move to a more flexible exchange rate regime. Given a large and rapidly growing quasi-illegal trade in gold, which led to a significant increase in errors and omissions in the balance of payments, Resolution 11 instructs SBV to prepare a Decree on Management of Gold Trading for issuance by the second quarter of 2011. The Decree will centralize gold exports, eliminate trading in gold bars, and prevent cross-border trafficking of gold. The Resolution instructs responsible authorities to ensure that foreign exchange and gold traders comply with the law.

18. ***Monetary Policy***. In the last four months, SBV has increased the base (refinancing) rate from 8 percent to 13 percent and revised upward the overnight market operation (repo) rate six times– from 7 percent to 13 percent. SBV also announced that the target for credit growth in 2011 will be cut to 20 percent from 39 and 30 percent in 2009 and 2010 respectively. This will be the lowest target for credit growth in the last 10 years. Concomitantly, the target for broad money supply growth has been kept at 15-16 percent during 2011 — the lowest growth target since the beginning of economic reforms two decades ago.

19. ***Fiscal Policy.*** The government has announced that it will cut non-salary recurrent expenditures by 10 percent, will not start any new construction projects in the public sector this year, including in SOEs, and thereby reduce fiscal deficit to below 5 percent of GDP in 2011 (GoV's definition) — a 1 percentage point reduction relative to 2010 and 0.3 percentage point reduction relative to 2011 budget estimate.

20. ***Banking Sector***. Resolution 11 limits banks' exposure to non-productive activities (which include real estate and security market) to 22 percent of total credit by June 30, 2011 and to 16 percent by December 31, 2011. Non-compliant banks will be asked to double their required reserves ratio and restrict their business activities. SBV will review compliance at the end of June 2011. The government is revising Decision 493 to upgrade loan classification and provisioning practice in the banking system to bring them closer to international norms. The revised Decision will be issued by May 2011. The government has also confirmed its participation in the Financial Sector Assessment Program (FSAP), and has sought technical assistance from the Bank and Fund.

21. ***State-Owned Enterprises.*** The government has asked key Economic Groups to carry out independent audits using international norms and make the results available by end 2011. MPI has been asked to review planned loans and investment projects of SOEs to identify those that can be dropped or scaled down. The report from MPI is due to the National Assembly by the end of March 2011. Resolution 11 also indicates that the government will accelerate the equitization process and strengthen the governance of SOEs.

22. ***Other Structural Measures***. The government is preparing a Circular to increase disclosure of information and policies affecting monetary management and banking, including submitting key statistics to the IMF's International Financial Statistics on schedule. A draft Circular has been sent to the Bank for review. Finally, the government is moving from an administrative mechanism for setting the prices of key commodities such as electricity, gas and fuel, to a more market-based mechanism. It has already announced an increase in electricity tariffs by 15.3 percent, and in the price of gasoline (by

18 percent), diesel (24 percent), and kerosene (21 percent). In addition, Resolution 11 instructs MOIT to prepare a regulation for establishing a market mechanism for pricing electricity.

23. The above policy measures, in our view, constitute a credible plan for Vietnam to regain macroeconomic stability. The measures have been widely discussed and debated within the government, with representatives of large SOEs as well as with independent Vietnamese economists. It has the broad support of line ministries as well as key finance and budget committees in the National Assembly. The international financial markets have reacted favorably to the recent announcement, with Vietnam's sovereign spreads steadily declining over the past few days. This augurs well for successful implementation of Resolution 11.

MACROECONOMIC OUTLOOK AND RISKS

Fiscal Policy and Debt Situation

24. Vietnam experienced a sharp increase in its fiscal deficit in 2009 on account of the stabilization measures. The government's overall fiscal deficit was 9.0 percent of GDP in 2009, substantially above those of previous years, as the stimulus package came on top of an already expansionary budget plan. In addition to the measures adopted to stimulate economic activities, the fall in oil prices and the slowdown in economic activities have resulted in a decline in the government revenue. This decline was partially offset in the second half of 2009, as both international commodity prices and domestic economic activities became more buoyant.

Table 2 : Government Budgetary Operations

(percent of GDP)	2008	2009/r	2010/e	2011/p	2012/p	2013/p
Total revenue and grants	29.0	26.7	28.1	28.5	28.7	27.8
Revenue (excluding grants)	28.4	26.3	27.9	28.3	28.4	27.7
Tax revenue	24.5	22.3	23.6	24.1	24.4	23.6
Oil revenues	6.1	3.6	3.5	3.4	3.3	3.0
Non-oil tax revenues	18.4	18.7	20.1	20.7	21.1	20.6
Non-tax and capital revenues	3.9	4.0	4.2	4.1	4.0	4.1
Grants	0.6	0.4	0.3	0.2	0.2	0.2
Official expenditures	27.7	31.8	30.0*	29.5	29.7	28.7
Current	19.7	20.9	21.4	22.8	23.0	22.5
of which: interest	1.1	1.4	1.3	1.5	1.8	1.8
Capital	8.0	10.9	8.6*	6.7	6.7	6.1
Official fiscal balance	1.2	-5.1	0.1	-1.0	-1.0	-0.8
Other expenditures	2.4	3.9	4.5	2.9	2.8	2.4
Financed by off-budget bonds	1.8	2.8	2.8	1.9	1.9	1.8
ODA on-lending	0.6	0.5	1.6	0.9	0.9	0.7
Interest rate subsidy cost	0.0	0.6	0.1	0.0	0.0	0.0
Total expenditure	30.2	35.7	34.6*	32.4	32.5	31.1
Overall fiscal balance	-1.2	-9.0	-6.4*	-3.9	-3.8	-3.3
Financing	2.6	8.8	6.2	3.9	3.8	3.3
Foreign (net)	1.7	3.6	3.2	2.0	2.5	2.0
Domestic (net)	0.9	5.2	3.0	1.9	1.3	1.3
Discrepancy (+ is over-financing)	1.4	-0.2	1.8	0.0	0.0	0.0

Source: Ministry of Finance, IMF and World Bank staff estimates; * preliminary.

25. With significantly higher than expected revenue outturn and expenditure in check, the government has achieved a lower fiscal deficit than anticipated during 2010. According to the latest IMF estimate, total budget revenue and grants increased from 26.7 percent of GDP in 2009 to 28.1 percent in 2010. Meanwhile, total budget expenditure (including off-budget expenditure) is estimated to have decreased by 3.1 percentage points, from 35.7 percent of GDP in 2009 to 32.6 percent in 2010. The fiscal deficit is therefore estimated to have declined from to 9.0 percent of GDP in 2009 to 4.4 percent in 2010 (Table 2).

26. Through its 2011 Budget, and its recent Resolution, GoV has indicated its intention to further consolidate the fiscal accounts and gradually reduce the fiscal deficit to pre-crisis levels. This process is being facilitated by reining in current expenditure, improving efficiency of public investment and scaling up the existing medium term budget framework being piloted in various line ministries to the national level.

27. Vietnam's public debt is likely to remain sustainable if the current economic recovery continues and the authorities carry on the current fiscal tightening. The results of the debt sustainability analysis conducted in 2010 indicate that the public sector debt was 49 percent of GDP at end-2009, two-thirds of which (31 percent of GDP) was owed to external creditors. Under the baseline scenario, this ratio was projected to increase to just above 50 percent of GDP during 2010-13 before starting to decline again thereafter. The large fiscal deficits in 2009 and 2010 do not affect the overall debt sustainability significantly, as long as the government reverts to the pre-crisis levels of deficit in a few years as expected. The stress tests indicate that the two main risks to debt sustainability are a loss of access to non debt-creating capital inflows and a slowdown of exports. The standard assumptions applied for these shocks are severe, and are unlikely to materialize.[2]

28. The largest source of uncertainty and hence, unquantifiable risk, to the DSA comes from implicit obligations which are not captured under public and publicly-guaranteed debt statistics. Neither a clear definition nor a reliable estimate of such liabilities is available, which limits the government's ability to manage associated risks. Contingent liabilities might arise from off-budget statutory funds such as health insurance fund, the banking sector, or large SOEs. The last one in particular is a serious concern. It is now well known that Vinashin (a ship-building economic group) used resources obtained through their preferential access to credit to invest heavily outside its core businesses and falsified financial reports. Collecting reliable and up-to-date information on contingent liabilities (mostly in the SOE sector) and assessing their fiscal risks has become be a priority. And by articulating these changes taking place in the government to market participants and providing them with regular and up-to-date information on fiscal and debt situation, the government is trying to help to build confidence among market participants.

29. The second source of fiscal risk, albeit not of the same magnitude as contingent liabilities, arises from the large size of off-budget expenditure, which has been funded by issuing off-budget bonds. The off-budget spending is managed by MPI to build infrastructure such as canals, schools and housing for the poor. While the off-budget spending is approved by the National Assembly and is subject to the same level of oversight and scrutiny as on-budget spending, it has been termed as off-budget (misleadingly in our view) because it is largely managed by MPI – a leftover of the planning era. In the last four years, off-budget expenditure financed by MPI bonds has increased sharply from 1.5 percent of GDP in 2007 to 2.8 percent. However, it is scheduled to fall to 1.9 percent of GDP in 2011 and to 1.8 percent of GDP in 2012 (Table-2).

Changes in the Banking Sector

30. The banking sector has been adversely affected by the succession of asset price bubbles, monetary tightening and growth slowdown. The real estate bubble of end-2007 and its subsequent freeze in early 2008 have made it difficult for several commercial banks to recover their loans; the rapid disinflation in late 2008, at a time when interest rates were still very high, substantially increased the debt service burden faced by enterprises because of the rapid rise in real interest rates.

31. The asset quality of bank portfolios remains an ongoing concern given the unusually high credit growth of the past years and developing, but relatively weak, risk management capacity in the banking sector. According to the official data, the non-performing loan (NPL) ratio of the banking system was 1.9 percent, 2.5 percent and 2.4 percent in end-2009, March 2010 and August 2010, respectively. However, if international standards are applied, the NPL ratio of the banking sector is expected to be significantly higher. Currently, only 3 commercial banks are assessed to have the adequate capacity to use international method of calculating NPLs.

32. From the macroeconomic risk perspective, the financial health of the state-owned commercial banks (SOCBs) has often been highlighted as a source of concern. SOCBs play a dominant role in the banking sector, though they have been rapidly losing market share (in both credit and deposit markets) to the joint stock banks (JSBs) in recent years. At the end of 2007, SOCBs share in total outstanding credit was 59.3 percent and that for JSBs was 27.7 percent; by the end of 2010, these numbers were 51.4 percent and 34.8 percent respectively. Two SOCBs have started the equitization process and a third one plans to start the process this year. The International Financial Corporation (IFC) has recently bought 10 percent stake in the third largest SOCB. In terms of credit growth, loan portfolio of the SOCBs has grown at a slower rate than the overall system in the past couple of years. For example, in 2010, SOCBs loan portfolio grew at 22 percent compared with the average of 40 percent growth in the JSBs. The share of SOCBs credit going to SOEs has also declined in recent years. For example, only 25 percent of Bank for Investment and Development of Vietnam's (BIDV's) portfolio has been lent to SOEs in 2010 compared with 35 percent in 2009. For Agribank, the largest SOCB, the ratio was 6.6 percent and 4.4 percent in 2009 and 2010, respectively.

33. The SBV has upgraded its supervision efforts and raised minimum capital requirements in response to the concerns about the health of the banking sector. By the end of 2008, all commercial banks had met the new requirements. The process of increasing the minimum charter capital continues, in part as a gentle push towards some consolidation of smaller banks. However, the deadline to increase the minimum charter capital further to 3 trillion dong (about $150 million at today's exchange rate) by end 2010 was extended, when 18 of the smaller banks were unable to meet it. The SBV opted for a more measured implementation of this policy, especially in the current fragile macroeconomic environment.

34. In 2010, a number of other important changes in the policies and regulations governing the banking sector were announced. These include the removal of interest caps, the revised banking laws (namely, the Law on the State Bank of Vietnam (SBV Law) and the Law on Credit Institutions (LCI)), and regulation on prudential ratios. These together are expected to reshape the working environment of the banking sector. The SBV Law is expected to improve the accountability, mandate and autonomy of SBV in undertaking monetary policy. The LCI is seen as enhancing the autonomy, safety and soundness of credit institutions. The removal of the interest rate caps and the issuance of Circular 13 (replacing Decision 457) on prudential ratios are expected to affect the operation of the credit institutions. On one hand, credit institutions now have greater flexibility in setting interest rates, but on the other hand, are subject to the tighter prudential ratios, most notably the significantly higher capital adequacy ratio (9 percent as of October 01, 2010), while facing stricter requirements on the amount of

funds eligible for lending activities (although the subsequent Circular 19 lightened this requirement to some extent).

35. Much needs to be done over the medium term, however, to address some of the structural weaknesses, particularly in the banking and state enterprise sectors, that have contributed to periodic bouts of macroeconomic instability. On this, Resolution 11 is less ambitious, partly because of a lack of capacity to detail actions in this area and also because there is less consensus within the government on the way forward. Various on-going activities such as review of the state economic group model, taking stock of the SOE reform and the formulation of Decrees to improve the management of state assets and equities in SOEs can, however, provide valuable ingredients for the formulation of a systemic reform program in the medium term.

36. Through various tasks in the work program, the Bank team is providing policy advice and technical assistance to prepare detailed action plans for the reform of banking and SOEs, help build consensus behind them, and eventually support their implementation. The upcoming preparation of the FSAP will provide a platform for some of this work while ongoing TA on SOE Governance, the upcoming Vietnam Development Report 2012 on "Transition to Market", and a policy note on ensuring that SOEs face hard budget constraints will support progress on the SOE issues. Through the Public Financial Management Reform project we are also assisting the government in developing the legal framework and monitoring indicators to better manage contingent liabilities, including those arising from the SOE sector.

III. THE GOVERNMENT'S PROGRAM

OVERALL STRATEGY

37. Improving efficiency of investment is high in Vietnam's development agenda for the next decade. Despite its success in rapid economic growth and fast poverty reduction over the last twenty years, there is a growing concern that the momentum of a growth strategy that is largely based on factor accumulation may have run its course. There is a growing imperative to move to a new growth model that relies on more efficient use of resources. The Socio-Economic Development Strategy (SEDS) 2011-2020 and the Five Year Socio-Economic Development Plan (SEDP) 2011-15, therefore put greater emphasis on quality of investment and on sustainable growth. A common important objective of these strategic documents is to raise the competitiveness of the economy and improve quality of public investment.

38. The decision to add a stronger quality dimension to growth has been supported by various research initiatives of both the government and the National Assembly. Since 2008, the Prime Minister has instructed several government think tanks to conduct research on a number of topics such as restructuring the economy and impact of decentralization in investment. The National Assembly has also assigned a research team to carry out a study on economic restructuring. Vietnam first competitiveness report was just completed in November 2010 under the guidance of a Deputy Prime Minister. In October 2010, the Prime Minister issued Decision 1914 on implementation of a comprehensive research program to identify measures for improving the efficiency and competitiveness of the economy. Importantly, the Resolution 51/2010 issued by the National Assembly on November 8, 2010 includes a target on the share of investment in GDP at 40 percent in 2011, a reduction from 44 percent in 2010.

39. Raising the productivity of state capital has emerged as one of the key themes for improving investment efficiency and competitiveness. State investment still accounts for a very high share in total gross capital formation and continues to play a dominant role in infrastructure development. In addition, infrastructure development has been identified as one of the top three priorities during the next decade in Vietnam development strategy. Consequently, special attention has been given to strengthening the management of state capital in the SEDS and SEDP. Official assessment of public investment, as documented in the SEDP and a recent MPI report to the Consultative Group (CG) Meeting, proposes several areas for improvement, including further decentralization combined with strengthened Monitoring and Evaluation (M&E) activities, avoiding fragmentation in public investment and removal of SOE privileges.

40. Strengthening the management of public expenditures has also been an integral component of the Vietnamese Public Administration Reform Program over the last decade. A benchmark in the reform process was the approval of the Revised Law on the State Budget, which became effective in 2004. Except for the largest national projects, public investment decisions were decentralized to ministries and provinces. Other important developments were the move towards increased transparency for all agencies using budget resources, including SOEs and public investment projects, the establishment of the State Audit of Vietnam (SAV) as a technically independent entity under the National Assembly, and the gradual integration of capital and recurrent expenditures through forward-looking budgets and resource allocation norms. Decision 60/2010 by the Prime Minister sets out transparent and stable norms for the transfer of equalization investment expenditures from central budget to provinces for period 2011-15. A more detailed overview of public financial management in Vietnam is provided in Annex 4.

41. The reform of the state sector initially focused on the equitization of the SOEs, though dealt exclusively with small SOEs. During the current five-year cycle, the equitization process involved increasingly large enterprises such as Vinaconex and Vietcombank, but has recently slowed down. A new phase in state sector reform started with the transfer of state ownership rights in SOEs managed by ministries and provinces to the for-profit State Capital Investment Corporation (SCIC). From July 1, 2010, the Law on SOEs was effectively rescinded and all SOEs, FDI and private enterprises now operate under the same regulatory framework. The SEDP 2011-15 emphasizes "reform of SOEs must take the direction towards elimination of subsidies of all types, avoiding the abuse of monopoly or market power (p.98), and the government should minimize direct interventions, relies mostly on indirect instruments to create equal opportunities for all enterprises (p.101)".

42. At the same time, the recent years have recorded the emergence of State Economic Groups, reporting directly to the Prime Minister. Economic Groups may benefit from economies of scale and from their ability to mobilize financial resources, but this is at the same time a potential source of systemic risk. In the absence of sufficient competition, Economic Groups have become "too big to fail". Vinashin, a state economic group in ship building is on the verge of bankruptcy, highlights the risk of possible failure of state economic groups in the absence of good corporate governance and effective M&E for SOEs. During the last two years, measures were taken to prevent them from having controlling stakes in financial institutions, but with limited effects. Decree 101 was issued in November 2009 and creates legal foundation for the management and governance of state economic groups. The Prime Minister's Decision 1914 includes a research project that seeks solutions to separate the ownership and regulation functions of the state in the case of Economic Groups. Resolution 51/2010 of the National Assembly requires the implementation of several measures for stepping up the SOE reform, including the introduction of compulsory audits. The National Steering Committee for Enterprise Reform and Development (NSCERD) has been instructed by the PM to finalize a review of the pilot of state economic group model by the third quarter of 2011.

43. Vietnam has experienced a rapid financial deepening in recent years. There has been a sustained monetization of economic transactions, a parallel expansion of credit, a rapid growth of stock market capitalization, a gradual emergence of the bond market and a boom in insurance. This progress is all the more remarkable considering that barely a decade ago Vietnam's financial sector was simply a "window" to channel resources to SOEs. However, important weaknesses remain, including a still rudimentary approach to monetary policy, and an insufficiently developed capacity to monitor and supervise the financial sector. Aware of these challenges, at the beginning of this five-year period, the government launched a roadmap for the reform of the banking sector, including the transformation of SBV into a modern central bank, and the attraction of strategic investors to the SOCBs, so as to strengthen their commercial orientation and improve their ability to assess credit risk. The SBV Law and the LCI were revised in June 2010, further enhancing the role and flexibility of SBV in conducting monetary policy. The objectives of the government program in this area are reflected in the SEDP, which instructs "perfecting the legal framework towards transparency, stable to ensure effective operation of all participants in the financial market in a level-playing field." (p. 97).

INVESTMENT-RELATED POLICIES

44. The promulgation of the Law on Amendments in June 2009 was arguably the most important step towards overhauling the fragmented and overlapped regulatory framework for investment, including public investment. Several laws such as Land Law, Procurement Law, Investment Law, Construction Law and Enterprise Law were amended. Following the Law, a number of Decrees have been issued at the end of 2009. The formulation of the Law on Amendments and implementation Decrees benefitted significantly from the policy dialogue within the context of preparation of the PIR project.

45. The basic institutional and legal framework for environmental protection has been gradually laid out. The strategy is partly spelled out through the Amended Law on Environmental Protection, which became effective in July 2006, and in the National Environmental Protection Strategy until 2010 and vision toward 2020. Many policies, programs and plans have broad-reaching environmental implications. These cannot be captured by simply conducting Environmental Impact Assessments (EIAs) at the project level. MONRE has already developed guidelines for SEA work, and SEA guidelines for development planning are being prepared by MPI. Such "upstream" reviews are especially important at a time of rapid economic growth and massive public investment in infrastructure.

46. The period leading to the finalization of the SEDP 2011-15 witnessed the issuance of important strategic and legal documents related to the fight against corruption. The SEDP articulates five important groups of measures for its implementation and improving the effectiveness of the state apparatus is one of them. It puts emphasis on positive, systemic approaches to reduce the scope for corruption, in contrast with the almost exclusively punitive measures that prevailed until not long ago. Fostering government transparency and increased people's supervision are among those positive approaches. In this respect, the SEDP states the need to "[s]trengthen the publicity and transparency in the use and management of the state budget and funds" and [s]trengthen the supervision of the society and community to state apparatus (p.108)". At the same time, a number of important laws have recently been promulgated, including the Law on Natural Resources Administration and Law on Tax for Usage of Non-agricultural Land. These laws, issued in June 2010, are expected to result in significant improvement of the administration of land and natural resources, the two areas that are highly vulnerable to rent-seeking activities.

47. The weaknesses of the management of public investment were further highlighted in the draft SEDP 2011-15 and a recent MPI report to the 2010 CG Meeting. Among the major remaining issues, the lack of a consistent legal framework was identified as the most impact factor. At present, public investment is under the regulation of two different sets of legal documents. Projects that do not involve construction work are regulated by a series of decrees, whereas projects that do involve such work fall under the Construction Law and another set of associated decrees. In addition, the State Budget Law, Investment Law, the Procurement Law, the Land Law, the Environmental Protection Law and the relevant decrees apply. Furthermore, there are important inconsistencies between these documents, especially in relation to the preparation, appraisal, classification, and monitoring and evaluation of projects. There are important gaps as well, particularly in relation to assessing the economic and social impacts of projects. All these issues seem to be amplified with increased decentralization in investment-related decision making.

48. Recognizing those weaknesses, several important decisions were made by government. Through the Official Letter 6999/VPCP-TH, on October 8, 2009 the Prime Minister asked MPI to prepare a program on restructuring the economy, with the structure of investment as one of its focal areas. The Official Letter 78/BKH-VP, issued by MPI on February 5, 2009, identified as key policy actions for 2009 the completion of the Law on Amendments, the drafting of a new Law on Public Investment, and the issuance of several decrees related to investment processes. Prime Minister Decision 1914/QD-Ttg issued on October 19, 2010 instructs relevant line ministries to conduct 19 research projects, among them three projects directly touch upon the management of state capital. In particular, an MPI-led project focuses on the review and adjustment of public investment policies to improve the efficiency, quality of growth and competitiveness of the economy. The SEDP instructs the development of the second Public Administration Reform (PAR) Program for period 2011-20. Restructuring of investment sources towards less reliance on state budget and improving efficiency of state capital is also identified as one of the main tasks in 2011 in the government's report to the 2010 CG Meeting "*Achieving macroeconomic stability for sustainable growth*".

49. Despite several areas of progress in policy reform related to public investment, there is an important setback in taking the Law on Public Investment out of the National Assembly agenda for discussion. The Cabinet turned down the proposal from MPI to include the Law in its proposed list of laws to be presented to the National Assembly because of lack of consensus among the key stakeholders. The Law covers very complex cross-sectoral areas and involves stakeholders at both central and local levels. As a result, it is taking much longer time to build the consensus needed for the promulgation of the law.

50. The outcome of the recent Cabinet meeting in February 2011, however, indicates that a consensus within the Cabinet has indeed emerged on the need of having such a Law. MPI has been asked to prepare the brief note on the Public Investment Law as part of the government proposed law package for the National Assembly Program in 2012. The Ministry of Justice (MOJ), who takes lead in preparing the government proposal, has sent an official request to MPI about submission of the brief note for the Cabinet. An official government proposal with a list of laws to be reviewed in 2012, including the Public Investment Law, is expected to be sent to the National Assembly soon.

CONSULTATION ON THE REFORM PROGRAM

51. The preparation of the SEDS 2011-20 and SEDP 2011-15 had important strengths compared to its predecessors. Applying the new regulations, the drafting process was characterized by serious efforts to collect inputs from different groups of the Vietnamese society. In addition to internal discussions within the government, MPI organized consultation workshops with local officials, groups

of academics, the domestic business sector, international and local NGOs, and donors. A series of research exercises involving local and international experts was arranged to provide analytical inputs for both SEDS and SEDP. The draft SEDS was also posted on the internet to gather feedback from the public and the final SEDS is available in the government's website.

52. Several of the policy actions and triggers under the proposed program have been championed by the National Assembly, which has become much more assertive during the last five-years. This represents an important institutional transformation for Vietnam. National Assembly members have been especially vocal on the efficiency of capital accumulation, on the regulation of Economic Groups, and on the overall macroeconomic stance. All of these aspects affect the proposed program either directly or through the framework in which public investment decisions are made. National Assembly members were also the driving force with regard to the Law on Amendments, which underpins the first operation in the proposed program. The National Assembly has also been carrying out a study on restructuring the economy so that it can make better contribution to the formulation of Vietnam's strategy and supervising the government.

53. As part of the effort to monitor the results of the proposed program, a two-round survey of the people affected by land reclamation is foreseen. The first round was completed in early 2010 with active participation of the General Department for Land Administration at MONRE. The second round survey is planned at the end of 2011. As discussed in the section on social impacts, the most direct consequences of the proposed program would be on resettlement. The result of the first round suggests that the proposed program will have a positive impact, by leading to more timely and adequate compensation, and by introducing an independent monitoring mechanism.

IV. BANK SUPPORT TO THE GOVERNMENT'S PROGRAM

LINK TO COUNTRY PARTNERSHIP STRATEGY

54. The Country Partnership Strategy (CPS) 2007-2011 articulates the support of the World Bank Group to Vietnam around four main pillars: (i) improving the business environment, (ii) strengthening social inclusion, (iii) strengthening natural resource and environmental management, and (iv) improving governance. The proposed PIR 2 program touches on all the four pillars. With regards to the first pillar, the CPS focuses on more efficient and reliable provision of infrastructure services, which is being facilitated through various measures included in this operation. Through its focus on the environmental screening and the environmental management of projects, the proposed program is also expected to contribute to the natural resources pillar of CPS. Its attention to fair compensation and livelihood support in the event of land acquisition should also contribute to the social inclusion pillar. The operation supports modern governance, which is fourth pillar of the CPS. Better planning processes, more transparent procurement and stronger public financial management, all areas covered by the proposed program, fall under the improving governance pillar of CPS.

55. More importantly, the operation is closely linked to one of the key results set out in the CPS, namely to accelerate the implementation of investment projects. "While the quality of portfolio implementation continues to be satisfactory, challenges remain from slow disbursement against rapidly growing commitments, long project preparation, and delays in implementing investment and technical assistance interventions". The CPS concludes that "the most crucial task will be to improve and strengthen Vietnam's own process of planning and financing investment projects, and safeguards. The key factors behind the delays in processing are Vietnam's extensive internal control mechanisms for ODA implementation and centralized decision-making, coupled with inconsistent regulations for

government-funded investment projects compared to ODA-financed projects" (p. 35). This program is an attempt to address these very problems and initiate a process of upgrading the national system to international standards.

56. The proposed policy lending program to reform public investment processes was, however, not foreseen when the CPS 2007-2011 was prepared. Moreover, when the CPS was drafted, the use of IBRD resources had not been considered yet. These two developments are addressed in the CPS Progress Report, submitted to the Board of Directors in November 2009. The proposed program is explicitly mentioned, and briefly described, in the CPS Progress Report. Since Vietnam became eligible for IBRD resources, two operations with IBRD funding have been approved by the Board, including PIR 1.

COLLABORATION WITH THE IMF AND OTHER DEVELOPMENT PARTNERS

57. The Bank and the Fund country teams for Vietnam have an active dialogue on a range of macroeconomic and structural issues and have maintained a close working relationship. They have coordinated their macroeconomic policy messages to the authorities and even worked together in communicating joint messages to the authorities on key macroeconomic risks and policy options. The ability of the two teams to coordinate and provide consistent policy messages to the authorities has contributed to government action, which did help improve macroeconomic performance during 2010. The two teams also regularly share data and information and discuss and exchange institutional views on key macroeconomic developments.

58. The two teams also work together on a number of issues of mutual interest, such as technical assistance for financial sector reform, preparatory work for FSAP, public financial management and tax and customs modernization reform, preparation of the Bank's semi-annual economic update (Taking Stock) and Fund's Article IV Consultations including the joint preparation of the Debt Sustainability Analysis. The two teams are committed to continue the close cooperation going forward.

59. Beside the IMF, the World Bank worked closely with the other five development banks active in Vietnam to select the set of policy actions under the proposed program. The other five development banks are AFD, ADB, the Japanese International Cooperation Agency (JICA), the Korean Development Bank, and the German Kreditanstalt Für Wiederaufbau (KfW). Together with the World Bank, these agencies had been actively working on the implementation of the harmonization agenda under the Paris Declaration. In particular, they have provided extensive technical assistance aimed at narrowing the differences between the government systems used by the government of Vietnam to implement public investment projects and international practice. This effort was seen as essential to accelerate the disbursement of donor-funded projects. In the process, it led to a deep understanding of current weaknesses in project preparation, selection, implementation and monitoring in Vietnam.

60. Active consultation with other donors and with non-government actors also took place as part of analytical work underpinning this program. For instance, in the context of the report on Improvement of ODA Programs and Projects' Payment and Disbursement Process, completed in 2009, field visits were made to PMUs of ODA projects and expenditure control agencies (State Treasury, Vietnam Development Bank) in some localities in Hanoi, Hai Phong, Ho Chi Minh City and Dong Nai. Consultations also took place during the preparation of the CFAA, in relation to SEAs and EIAs, and on issues related to land reclamation and compensation.

RELATIONSHIP TO OTHER BANK OPERATIONS

61. There is a close relationship between the proposed program and the PRSC process. Until quite recently, PRSCs were one of the few vehicles for the policy dialogue in Vietnam, bringing together a dozen donors around policy actions in 17 policy areas. Gradually, sectoral policy lending operations started to emerge, to go into more detail into specific areas, such as poverty reduction, higher education, power sector reform, or climate change. The proposed program to reform public investment in Vietnam can be seen as one of those sectoral lending operations.

62. Previous PRSCs included a few policy actions aimed at strengthening public investment processes in Vietnam. Relevant prior actions included enhancing the decentralization of public investment decisions to lower government levels (under PRSC 4), facilitating community participation and supervision in local investment projects (also under PRSC 4), establishing criteria for selecting public investment projects and mechanisms to monitor their financing and implementation (PRSC 7) and revising the investment laws to improve efficiency in state capital expenditures and strengthen the management of public investment projects (under PRSC 8), implementation of annual procurement compliance and performance audits of project funded by the State budget, making public the results, adoption of a pilot procurement code of ethics for participants, and launching of an open access electronic bidding system (all under PRSC 9). In addition, the PRSC process supported the equitization of SOEs and the separation of regulation and ownership roles within the State.

63. The various policy dialogues pursued through this operation has implications going beyond public investment. The proposed program is seen as better suited to address the fight against corruption, the strengthening of planning and public financial management process, and the reform of the state sector in aspects directly linked to the efficiency of public investments.

LESSONS LEARNED

64. The design of the proposed program has been informed by World Bank experience with policy lending in Vietnam. It has followed the good practice principles for conditionality, which were recently the focus on extensive consultations with the relevant stakeholders. The design of the operation draws on the lessons from the PRSC series in identifying an area in which the leadership is keen to move, where the dialogue is well advanced and where capacity to develop and implement policy is in place. Such a window currently exists in Vietnam, given the renewed focus to improve the effectiveness of public investment. Also, growing concern about the environmental impacts of large public investment projects has added to the momentum, as does the discovery of problems at Vinashin has provided an urgency to undertake broad-based reforms in the state owned sector.

ANALYTICAL UNDERPINNINGS

65. A key analytical input in the preparation of the proposed program was the Vietnam Development Report 2009, entitled *Capital Matters*. It focused on the efficiency and financing of investments in Vietnam. It examined the sources and uses of funds, quantified the gaps between investment and savings for each of the main economic agents, and highlighted the mechanisms through which the agents who save channel resources to those who invest. Inadequate criteria to select projects, the lack of an adequate framework for private participation, and weaknesses in project implementation were identified as the main constraints to efficient public investment in Vietnam.

66. The selection of policy measures under the proposed program results from a combination of analytical and institutional criteria. The long-standing analytical program of the World Bank and other donors was used to select the actions deemed more strategic, or with the highest potential impact on the actual implementation of public investment projects. The analytical inputs combine insights

from the work program on public financial management and financial accountability, from the joint efforts of the six development banks to implement the Paris Declaration and the Hanoi Core Statement on Aid Effectiveness, from the flagship Vietnam Development Report series, and from the technical assistance work in support of planning reform at MPI, among others. The second criterion to select the actions in the policy matrix was readiness. The proposed measures were extensively discussed with the relevant line ministries and government agencies to identify which of them were feasible within the time frame of the proposed program. Taking into account the technical background work, the legal process and the consultation requirements in each case, a preliminary agreement has been reached on the content and time line of each of the measures.

67. A series of core diagnostics and specific studies have been undertaken to provide sound analytical underpinnings to the implementation of the government-led public financial management reform program. The two most important assessments produced in recent years are the best-practice *Public Expenditure Review and Integrated Fiduciary Assessment* (PER-IFA), completed in 2005, and the *2007 Country Financial Accountability Assessment* (CFAA) which was finalized in 2009. These two comprehensive diagnostics have helped identify areas in need of further improvement, including the process of budget development, budget execution control, accessibility of financial information, and accounting, reporting, auditing and oversight framework. The PER-IFA and the CFAA reflect a trend towards analytical work being undertaken jointly by the government, World Bank and interested development partners, which has ultimately resulted in enhanced ownership of relevant recommendations. In the meantime, the recommendations from PER-IFA 2004 and CFAA 2007 have formed the basis for policy dialogue conducted through the PRSC series and the proposed program.

68. Another important analytical underpinning for the design of this operation was the *Diagnostic Framework for Assessing Public Investment Management*, produced in early 2009 by the Public Sector and Governance Unit of the World Bank. This study provided a very useful starting point to design the results framework, an area in which few precedents are available. Other studies serving as analytical underpinnings for the proposed program included the *Public Investment Management Case Study for Vietnam* (2008), *Vietnam Infrastructure Strategy* (2006), the analysis of land markets in the Vietnam Development Report (2006), and the piloting process for Medium-Term Expenditure Frameworks (MTEFs). The operation has also benefitted from the findings at the International Conference on "*Public Investment Management*" held in Hanoi in September 2010.

69. The Joint Portfolio Performance Reviews and Joint Action Plan of the six development banks active in Vietnam contributed an in-depth understanding of the microeconomics of public investment processes in Vietnam. The focus of the six banks' efforts was to identify ways to upgrade the performance on the ODA-funded programs. However, the exercise led to a systematic identification of gaps between Vietnamese laws and regulations on public investments and accepted international practice. Several key areas where short-term actions could be taken were selected for what has become known as the Joint Action Program (JAP). Each of the six banks subsequently agreed to assist MPI to pursue options for improvements in specific areas of the JAP.

70. Several of the actions pursued by the six banks feed directly into the preparation of the proposed program. On procurement, an independent assessment of the Vietnamese system was commissioned by MPI in 2007 using the OECD-DAC methodology. On the use of cost estimates as bid price ceilings, the program included a program to review of the whole cost norm system to determine whether a reform would be advantageous for Vietnam. On construction contracts, an Institutional Development Facility (IDF) grant was signed to support the Ministry of Construction (MOC) to review an important decree and prepare its replacement. Good progress was also made by the six development banks on the common policy framework for resettlement and the environment. Regulations on SEAs and EIAs were thoroughly reviewed, and proposals were made to improve the management of the resettlement of illegal land users, which has been one of the most controversial issues in the public debate recently. On payment procedures and non-essential disbursement checks,

the work of the six development banks included a survey of PMU practices, leading to consultation and discussion with key stakeholders. Common guidelines for feasibility studies were jointly prepared with government for use in all projects by the six development banks. Finally, on establishing a consistent M&E framework, an Aligned Monitoring Tool was agreed upon with government and is already been used in all projects by the six banks.

71. The technical assistance provided to MPI in recent years is aimed at addressing remaining weaknesses in planning and investment. This engagement has resulted in substantive learning about project implementation in practice. The technical assistance program has supported reliance on broad-based consultations in planning process, the introduction of a results-based M&E framework at the central level, the adoption of forward-looking budgets better integrating capital and recurrent expenditures, the adoption of the first ever legal document in support of spatial planning, and the strengthening of provincial SEDPs. Some important lessons have been derived from this technical assistance work. It has appeared clearly that the key impediment to further breakthroughs in planning reform is the lack of a sound regulatory framework that clearly spells out requirements, responsibilities processing, steps and resources needed for strategic planning. Under current institutional settings, agencies and provinces simply compete for the allocation of resources through their SEDPs and investment master plans, without much guidance on which investments are eligible and which ones should not be selected. Another important lesson concerns the lack of an effective M&E mechanism which would not just be based on administrative reporting.

V. THE PROPOSED PROGRAM

OPERATION DESCRIPTION

72. The proposed operation is the second and last of a series of two general budget support operations that aims to strengthen public investment processes in Vietnam. In preparing this operation, several factors were considered regarding the appropriate lending instrument and the loan size. First, Vietnam has weathered the global crisis rather well and now policies put emphasis on more balance between stability and growth. As GoV has been withdrawing the stimulus, the rationale for an operation of the same size has become weaker overtime. Second, a key trigger for PIR 2, the submission of the draft Law on Public Investment to the National Assembly has been postponed, mostly due to the complexity of the issue and the lack of consensus within the government. A Deferred Drawdown Option (DDO) was also considered, but it is clear that the government will use the resources as soon as they are available.

73. Consultations with the government and the AFD about different alternatives took place, and the most preferred option was to have a reduced size of the operation and to make it a blend of IBRD and IDA resources – the latter decision was made to avoid rapid exhaustion of Vietnam's IBRD exposure limit. The proposed operation would mobilize US$ 350 million, including US$ 87.3 million in IBRD resources and US$ 262.7 million in IDA resources. In addition, AFD is expected to co-finance an additional EUR 35 million.

74. The policy actions under the operation are either complements or follow-ups of the prior actions under PIR 1. All of the proposed measures concern public investment projects in general, regardless of their source of funding and are organized around 12 main issues or problems to address. Following PIR 1, those 12 issues are grouped under four main *thematic groups*: project selection, project implementation, public financial management, and project oversight.

75. Difference between the original triggers in PIR1 and the final prior actions for PIR2 is summarized in Annex 5. Most of the changes are of editorial natures aiming to reflect more accurately the content of the supporting documents related to the relevant policy actions. These changes do not alter the substance of the prior actions and the reform objectives therefore have been kept unchanged.

76. There are, however, two notable changes in the policy matrix (Annex-5). The most important change is the trigger about the submission of Public Investment Law to the National Assembly for review. Towards this objective, MPI has intensively worked on the preparation of a Law on Public Investment. Several consultations with stakeholders, including the development partners, were held and the draft completed. Yet despite MPI's efforts, a consensus about the inclusion of this law in the proposed list of laws prepared by the government could not be reached and the draft law was not submitted to the National Assembly in November 2010 for review. As a result, the formulation of a Law on Public Investment has been dropped from PIR2 operation despite its importance. However, as discussed earlier (paras. 49 and 50), it appears that the Cabinet has agreed on the inclusion of the public investment law in its proposed list of laws to be issued in 2012 by the National Assembly. Thus, there are 12 prior actions in PIR 2 operation instead of 13 as formulated in PIR 1.

77. The second important change is with respect to trigger #13 in PIR1 (labeled as prior action # 12 in PIR 2) that required an approval of a Charter establishing an Association of Independent Investment Evaluators. Instead of approving the Charter, which required more time, the government asked MPI to issue two Circulars to establish standard templates for project monitoring reports and set up the criteria legally required for individuals and institutions to carry out investment evaluation. In addition, the Circular setting up the criteria legally required for individuals and institutions to carry out investment evaluation is the legal pre-condition needed for the approval of the concerned Charter.

THEMATIC AREA # 1: PROJECT SELECTION

78. **Environmental screening.** Only investment projects consistent with master plans are eligible for funding by the state budget. According to the Law on Environmental Protection of 2005, key master plans need to be informed by Strategic Environment Assessments (SEAs). But to date no master plan has incorporated the recommendations of an SEA in Vietnam. Lack of effective SEA has commonly been identified as one of the main reasons undermining the environmental sustainability of public investment. Hence, one of the objectives of the proposed program is to review the experience with SEAs and identify the main reasons why SEAs have not been conducted as mandated by the Law on Environmental Protection. The second objective is to have a "demonstration effect", whereby hands-on technical assistance allows producing SEAs and mainstreaming environmental concerns in the selected master plans.

79. As of April 18, 2011, the prior actions for Environmental Screening have been completed. In early 2010, MONRE submitted to the Prime Minister its SEA review report that includes recommended policy actions to improve SEA preparation and use. MPI has produced SEAs reports and master plans for all six geographical regions with technical assistance from the World Bank and DANIDA. All the SEA reports have already been reviewed by the National Appraisal Councils, chaired by MONRE. MPI has already revised the SEA reports for all six regions as per comments received from the appraisal councils and submitted the revised reports to MONRE for clearance[3]. The draft SEA report for the Power Master Plan, prepared with assistance from the ADB, has been completed and circulated for consultation.

[3] The SEA report for one region has already been cleared by MONRE as of April 20.

THEMATIC AREA # 2: PROJECT IMPLEMENTATION

80. Public procurement policies and practices are an important determinant of public resource management effectiveness and performance. Vietnam's evolving public resource management framework recognizes that sound and transparent public procurement policies are among the essential elements of good governance. However, an assessment of Vietnam's public procurement system using the OECD/DAC Baseline Information System benchmarking tool shows that the country meets the rating requirements for only 3 out of 17 Core Sub-Indicators. Weak areas include eligible bidders, opening of bids, evaluation criteria, contract negotiation, sole source and minimum time for bidding, among others. Unfortunately, up to now no major breakthrough has been made in bringing the Vietnamese legal framework for public procurement in line with international good practice. For example, there is a need to control the over-reliance on direct contracting through clearly defined conditions for use, rather than the current threshold method whereby all contracts under the threshold may be awarded by direct contracting without limitation. In some cases, there are even setbacks, as with the recent, substantial increase in the thresholds for direct contracting for consulting services, works and goods.

81. **Bidding transparency**. Direct interaction between investment owners and potential contractors is a source of fiduciary risk. Impersonal, electronic interfaces, reducing discretion by all parties, can in principle reduce processing times and increase transparency in procurement. The government is taking important steps in this direction. Under the time frame of the proposed operation, a regulation for the piloting of e-procurement in Hanoi and selected government agencies was issued. Circular 17/2010 on e-procurement was issued by MPI on July 22, 2010 that includes regulations on e-signature and digital certification. MPI also strongly encourage all other agencies to adopt the e-procurement in their biddings. There is strong evidence of high interest in adopting e-procurement by provinces and agencies which are not required to pilot the system. For example, Bac Ninh People's Committee already decided to use the system for some of its procurement packages.

82. **Conflict of interest**. The design and implementation of infrastructure projects is often conducted by SOEs affiliated with investment owners. This is especially the case in Ministry of Construction (MOC), which is in charge of a large fraction of infrastructure spending in Vietnam. While many of the affiliated SOEs have been equitized, the exercise of ownership rights on behalf of the state remains with the ministries in most cases. One way to solve this conflict of interest is to transfer state ownership rights in construction companies out of MOC. The proposed prior action for the operation concerns MOC and aims to transfer the exercise of state ownership rights in civil works companies outside the ministry. In January 2010, the Prime Minister issued two Decisions about the establishment of two State Economic Groups by merging State General Corporations which used to belong to MOC. The Prime Minister further issued two Decisions in February, appointing the Board members of these two groups. From July 2010, the two Economic Groups have been operating under the Enterprise Law. The ownership rights will be exercised by either the Prime Minister himself or a specialized agency while MOC only carries out state management functions. This change will help to address the eligibility issues related to conflict of interest that used to prevent the enterprises of these two economic groups participating in the bidding for construction work owned by MOC. In addition, an equitization plan for the remaining general corporations with 100 per cent state equity under the Vietnam Construction Economic Group has already been approved by the Prime Minister in December 2010. According to the plan, the equitization of these general corporations will be completed by 2012.

Table 3: Policy Matrix for Public Investment Reform Program

Thematic Area	Issue	Problem to address	Prior Action for PIR 2
Project selection	Environmental screening	Only investment projects consistent with master plans are eligible for funding by the state budget. According to the Law on Environmental Protection of 2005, national and sectoral development master plans required approved SEAs. But to date no master plan has incorporated the recommendations of an SEA.	1. The Borrower, through MPI and MOIT, has incorporated SEAs in the draft development master plans for four regions and one key sector. 2. The Borrower, through MONRE, has reviewed the experience with the implementation of SEAs and has designed actions to improve SEAs preparation and use.
Project implementation	Bidding transparency	Direct interaction between investment owners and potential contractors is a source of fiduciary risk. Impersonal, electronic interfaces, reducing discretion by all parties, can in principle reduce processing times and increase transparency in procurement.	3. The Borrower, through MPI, has issued a Circular, including technical guidelines, to implement the use of electronic procurement (e-procurement) in pilot provinces and agencies.
	Conflict of interest	While many SOEs have been equitized, the exercise of ownership rights on behalf of the state remains with the ministries they used to be affiliated with. Participation of these SOEs in the design and implementation of infrastructure projects owned by their ministries raises a conflict of interest. This is especially the case in MOC, which is responsible for a large fraction of infrastructure spending.	4. The Borrower has issued Decisions to transfer, from MOC, the right to exercise state ownership in two economic groups specialized in civil works, namely the Housing and Urban Development Group and Industrial Construction Group.
	Dispute resolution	The legal obligations of the parties engaging in civil works contracts are not clearly defined, with disagreements often slowing down project implementation. This problem became apparent during the inflation outburst of 2008. Templates for standard contracts under the Law on Commerce are needed.	5. The Borrower has issued a Decree to clarify the rights and obligations of parties engaging in civil works contracts.

TABLE 3: POLICY MATRIX FOR PUBLIC INVESTMENT REFORM PROGRAM (CONTINUED)

Thematic Area	Issue	Problem to address	Prior Action for PIR 2
Project implementation (continued)	Environmental management	EIAs are often conducted at a late phase in project preparation. As a result, Environmental Management Plans (EMPs), which are part of EIAs, tend to be weak. These problems arise because of inconsistencies in the legal framework, allowing the submission of EIAs at the same time as construction permits.	6. The Borrower has issued a Decree to mandate the timely preparation and review of SEAs and EIAs in order to inform preparation of master plans and feasibility studies for investment projects, respectively.
Financial management	Reporting and control	Recording of budget revenue and spending is much slower for ODA funds than for state budget funds due to the spending and reporting procedures of project implementing agencies. ODA-funded projects are also subject to less frequent auditing by the State Audit of Vietnam (SAV).	7. The Borrower, through MOF, has issued a Circular to mandate the sharing of independent audits of financial statements of ODA-funded projects with MOF and SAV.
	Administrative costs	Caps applying to consultant fees, translation services, the organization of workshops and other ancillary costs are increasingly misaligned with the market. This results in inadequate quality of project preparation and supervision.	8. The Borrower, through MOF, has issued Circulars to align with the market cost norms applied to translation fees, workshops and other costs related to the preparation and implementation of budget-funded projects.
	Environmental budgets	The absence of technical guidelines and the lack of clarity on admissible expenses have been among the main obstacles to the preparation and review of SEAs and EIAs, as mandated by the Law on Environmental Protection	9. The Borrower, through MOF and MONRE, has issued Circulars to define admissible expenses and sources of funding for the review of SEAs and EIAs.

(Continued)

TABLE 3: POLICY MATRIX FOR PUBLIC INVESTMENT REFORM PROGRAM

Thematic Area	Issue	Problem to address	Prior Action for PIR 2
Financial management (continued)	Payment and disbursement	The Law on Amendments mandated the review of circulars dealing with payment and disbursement procedures applicable to budget-funded projects. ODA-funded projects also include some areas in which disbursement checks can be improved to streamline payment processes as well as payment-supporting documents.	10. The Borrower, through MOF, has issued a Circular to streamline payment procedures and clarify and simplify payment-supporting documents for ODA-funded projects.
	Subsidies and guarantees	Few public investment projects ensure full cost recovery. But transparent mechanisms to bridge the viability gap in Public-Private Partnership (PPP) projects are not available, which results in insufficient private participation and the granting of ad hoc guarantees. Therefore a framework to value public infrastructure and public service projects and ensure adequate budget support in a competitive manner, is needed. The framework should apply to all PPP infrastructure projects regardless of source of funding.	11. The Borrower has issued a Decision to pilot the use of the PPP Framework.
Project oversight	Monitoring and evaluation	Discrepancies and inconsistencies in project reporting mechanisms across sectors and PMUs weaken accountability. Project management should be strengthened by broadening the use of standardized monitoring tools to all projects regardless of their source of funding and relying more extensively on independent evaluation of projects.	12. The Borrower, through MPI, has issued Circulars to establish standard templates for project monitoring reports and to set up the required legal criteria for individuals and institutions to carry out investment evaluation.

83. **Dispute resolution.** The legal obligations of the parties engaging in civil works contracts are not clearly defined, with disagreements often slowing down project implementation. This problem became apparent during the inflation outburst of 2008. Unambiguous templates for standard contracts under the Law on Commerce are needed. Contracting rules are currently regulated in a circular under a decree. However, one year into its implementation, it became apparent that the circular did not provide for adequate transparency, prompt settlement of disputes or removal of implementation bottlenecks. This in turn resulted in excessively slow disbursements. In response to this situation, the government has issued Decree 48/2010 in May 2010 on the Management of Construction Contracts. The issuance of this decree constitutes a prior action for this operation. The Decree has contributed significantly to clarify the rights and obligations of parties engaging in civil works contracts, and MOC is in the final stage of issuing detailed templates for different types of construction contracts under funding from an IDF grant.

84. **Environmental management.** Environment Impact Assessments (EIAs) are often conducted at a late phase in project preparation. Because of their poor quality, the associated Environmental Management Plans (EMPs) tend to be weak. Delays and technical weaknesses arise because of inconsistencies in the legal framework, allowing the submission of EIAs at the same time as construction permits. According to the Law on Environmental Protection, the EIA should be an integral part of the feasibility study for a public investment project. The independence of EIA consultants and review authorities is supposedly guaranteed and public consultation is required. However, inconsistencies in legal regulations and the lack of technical guidelines on the format and content of EIAs and on public consultation procedures have undermined the process. In particular, consultations usually take place with local authorities and representatives of mass organizations, but do not often involve the population at large. To address these shortcomings, a prior action under this operation is to replace two current but overlapping decrees by a new one mandating the timely preparation and review of EIAs and EMPs so that they inform feasibility studies. This Decree also covers the preparation and timing of SEA reports. Decree 29/2011 was issued on April 18, 2011 and its preparation benefitted from technical assistance from the World Bank-funded CCBP (through MPI) and from ADB.. The new Decree represents an improvement over their predecessors and is expected to substantially improve the process of EIA and SEA preparation. However, it became evident that some fundamental problems with the EIA process will require a revision of the Law on Environment Protection, which is scheduled to be done over the next two years.

THEMATIC AREA # 3: FINANCIAL MANAGEMENT

85. **Reporting and control.** Recording of budget revenue and spending is slower for ODA funds than for state budget funds, due to the spending and reporting procedures of project implementing agencies. ODA-funded projects are also subject to less frequent auditing by SAV, despite that fact that it is already authorized to oversee ODA-funded projects as it would do with budget-funded projects. However, in light of its growing responsibilities, SAV has been expanding its annual audit plan in this direction only gradually. Addressing these shortcomings in public financial management requires modifying several sub-laws. There was a prior action in PIR 1 about aligning the recording of ODA funds in government accounts with the timing of actual receipts and expenditures for ODA-funded projects. Because many ODA-funded projects are subject to independent audits, a prior action for PIR 2 is to mandate the sharing of those audits with MOF and SAV. After several months of consultation, including with development partners, MOF issued Circular 40/2011 on March 22, 2011 which amend some provisions of Circular 108. Circular 40 contains provisions about compulsory sharing of audit reports with SAV.

86. **Administrative costs.** Caps applying to consultant fees, travel costs, translation services, the organization of workshops and other ancillary expenses are increasingly misaligned with the market. This has resulted in an inadequate quality of project preparation and implementation. In addition, caps on total preparation costs set in percent of total project costs have proven to be inflexible to accommodate the diversity of projects. The caps applying to individual administrative cost items and to overall project preparation costs are set by different ministries under different regulations. Under PIR 1 operation, MOC has issued Decisions 957 (cost for project management), and under PIR 2, it issued Decisions 1129 and 1161 (cost for construction work and repair) and Circular 04/2010 for management of cost estimates for construction work. These documents clarify that norms for cost estimates set in percentage of total project are to be used as reference only, and do not establish a cap for budgeting purposes. Following the mandate of the Law on Amendments, MOF has already issued a set of circulars, including Circular 01/2010 in January and Circular 97/2010 in July 2010 to align cost norms related to project preparation and implementation with the market. The average increase of the norms is about 70 percent and a further 20 percent in excess of the MOF norms can be approved by authorized bodies. In special cases, the heads of the spending units can decide the specific level of expenditures and are responsible for their decisions. The issuance of those documents by MOC and MOF effectively completed Prior Action 8 for PIR 2 operation.

87. **Environmental budgets.** In the case of environmental work, such as the preparation and review of SEAs and EIAs the problem is not that cost norms are outdated, but rather that they were never introduced. The absence of guidelines on admissible expenses has been one of the main practical obstacles to compliance with the Law on Environmental Protection. To address this problem, admissible expenses for review of SEAs and EIAs as well as their funding sources need to be institutionalized; especially all spending for SEAs will be funded from state budget. At present, MOF and MONRE have already issued Joint Circular 45 in March 2010 about the reviewing costs for SEA and MOF has issued Circular 218 on December 29, 2010 for EIAs. The issuance of these Circulars results in satisfactory completion of Prior Action 9 for the operation.

88. **Payment and disbursement.** The Law on Amendments mandated the review of circulars dealing with payment and disbursement procedures applicable to budget-funded projects. ODA-funded projects also include some areas in which disbursement checks can be improved to streamline payment processes and simplify payment-supporting documents. The prior action in this case is to streamline payment procedures and simplify payment-supporting documents for ODA-funded projects. This was also completed by the amendment of the Circular 108 with Circular 40..

89. **Subsidies and guarantees.** Few public investment projects ensure full cost recovery and hence are not attractive to private investors. Sufficient private participation in these projects requires transparent mechanisms to bridge the viability gap in PPP projects. Such mechanisms need to articulate when and how the viability gap is to be bridged by the state, and how to ensure that explicit costs and contingent liabilities are minimized. In November 2010, the Prime Minister issued Decision 71 that sets up for the first time interim regulations for pilot Public-Private Partnership (PPP) projects. This represents an important step towards the establishment of sound legal foundation for PPP projects, although there is room for improvement, particularly in the areas of specific provisions for transparent and competitive selection of investors and a clear mechanism to provide government contribution to PPP projects. Decision 71 puts a clear time frame of 3-5 years for its validity, during which the MPI will regularly assess the implementation of pilot PPP project(s) to form the basis of making revisions to the Decision. The Bank is currently supporting the preparation of the first pilot PPP project in Vietnam, in the toll roads sector. The project will set an important benchmark for PPPs in Vietnam, particularly vis-à-vis demonstrating a transparent Viability Gap Financing Mechanism (VGFM) to increase the financial viability of PPP projects, and international standards of project preparation by accessing professional, high quality transaction advisors. The pilot project will also provide first learning opportunity to make improvements and revisions to Decision 71.

THEMATIC AREA # 4: PROJECT OVERSIGHT

90. **Monitoring and evaluation.** Discrepancies and inconsistencies in project reporting mechanisms across sectors and PMUs weaken accountability. In spite of various efforts to improve the M&E of public investment projects, there is a clear fragmentation of the legal framework, with some regulations referring to the general evaluation of projects across all sectors, others to individual sectors and projects, others to community-based monitoring, and yet others to ODA-funded investments. In addition, the stabilization program of 2008 spelled out clear criteria to stop or defer the implementation of non-critical public investment projects. Strictly speaking, no new M&E framework was introduced at that point; but the stabilization program marked one of the first instances in which selectivity needed to be applied across the board. To address these problems, project management should be strengthened by broadening the use of standardized monitoring tools to all projects regardless of their source of funding and by relying more extensively on independent evaluation of projects. Building on joint work between MPI and the six development banks, the prior action in this case was to establish a consistent M&E framework including standardized monitoring tools. The prior action in PIR 2 is about the issuance of Circulars that set up legal foundations for the working of independent investment evaluators and the standard templates for project monitoring. MPI has issued Circular 13 in June 2010 that covers the latter and Circular 23 in December 2010 that will fulfill the first. Circular 23 is the legal foundation required by MOHA to approve the Chart for the establishment of an association of independent investment evaluators.

VI. PROGRAM IMPLEMENTATION

POVERTY AND SOCIAL IMPACTS

Overall impact

91. Vietnam is widely acknowledged for its high and sustained poverty reduction. Poverty fell from 58.1 percent of the population in 1993, to 28.9 percent in 2002, to only 14.5 percent by 2008, the last year for which official poverty estimates are available.[4] Preliminary estimates from the 2010 Vietnam Living Standards Survey (VHLSS) suggest that poverty is continuing to fall, albeit at slower rate. Progress has been achieved without substantial increases in inequality, although poverty is increasingly concentrated in rural areas and among certain social groups (viz. ethnic minority populations). There are growing concerns about poverty and in particular vulnerability in Vietnam's cities and peri-urban areas due to high rates of urban population growth (including a heavy influx of migrant workers), excess demand for urban services, and a continuing rise in the cost of living. Urban poverty is back on the development agenda.

92. Public investment projects in infrastructure have made a substantive contribution to poverty reduction in Vietnam. Not only is the volume of such investments very high, reaching or exceeding 10 percent of GDP, but it also has a very strong poverty reduction focus. A case in point is the rural electrification program, the households now connected to the electricity grid. Local infrastructure projects, such as those undertaken under the second phase of Program 135, which is targeted to the most disadvantaged communes, have resulted in improved access to markets and better social services,

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4 Poverty data are based on the Vietnam Living Standards Surveys (VLSS) of 1993 and 1998, and on the Vietnam Household Living Standards Survey (VHLSS) carried out by Government Statistics Office (GSO) in 2002, 2004, 2006, and 2008.

having a clear impact of the livelihoods of some of the poorest population groups in the country. Large-scale infrastructure projects, while having a more indirect impact on poverty, have enhanced the business environment, thus contributing to significant job creation.

93. Pro-poorness of public investment in Vietnam has recently been further enhanced by increased decentralization in decision making and the establishment of a transparent set of progressive criteria for allocation of investment expenditures from central budget to provinces. With increased autonomy of local authorities and active participation of local communities, management of local infrastructure development projects have improved considerably, resulting in better satisfaction of local demand. In addition, the criteria for allocation of investment expenditure remain stable for five year plan period, allowing the local authority to develop better vision for investment planning. More importantly, the allocation is progressive and depends on several development indicators such as poverty rates, the population of ethnic minorities or remoteness of location.

94. Yet many of the local investments which have been so critical to poverty reduction are unlikely to secure sufficient cost recovery. Investment costs in the remote and disadvantaged areas are often higher, due to remoteness and small scale, whereas marginal returns are presumably lower. Low returns of the majority of public investment projects imply that a substantial fraction of public investments is bound to remain government-funded. The scope for private participation in these projects is therefore limited unless there are appropriate legal and institutional frameworks that address the viability financing gaps. By supporting the adoption of a financing framework for pilot PPP projects, the proposed program is expected to contribute to a rising share of private investments in infrastructure.

95. From the above perspective, the proposed operation should have positive social impacts. That is, given that public or private investment will contribute to poverty reduction, increasing the efficiency of such investments should in principle be beneficial.

96. However, some of the potential positive impact on poverty reduction through this operation could be offset by higher than expected inflation in Vietnam. The domestic price of rice has risen to a level comparable to mid-year 2008, the peak of the rice price crisis in East Asia. While analysis suggests that many poor rural households benefit from higher food prices (they are net producers of food), households in urban areas, also in food deficit regions like the Northwest and areas in the Central Highlands, purchase rice and other food staples in the market at high costs. In addition to rising food prices, the poor are paying more for basic services. Fuel costs are rising, and electricity tariffs were increased by an average of 15.3 percent in 2011, with the aim of bringing them more in line with market costs. Earlier PSIA work on electricity tariff reforms in 2009 indicated that, despite tariff increases and a reduced lifeline band, electricity was affordable and widely available to most poor households in Vietnam. However the number of households benefiting from lifeline tariffs was sharply reduced in March 2011 and the lifeline tariff itself has increased by over 30 percent. The government is putting in place a system to provide subsidies to poor households to help mitigate the impacts of electricity tariff increases.

Land issues

97. Investments in large-scale infrastructure typically require land acquisition, and the process of compensation and resettlement is typically a source of grievances in developing countries. Recent experience suggests that Vietnam is not an exception in this respect. There are no specific actions or investments supported by the project that would result in acquisitions or resettlement but we investigated the theoretical possibility of an indirect impact of greater amounts of resettlement taking place in the country as a result of the project.

98. The proposed operation is unlikely to lead to an increase in the overall volume of public investment. Admittedly, the resources provided by the program will be used to finance the stimulus package, and in particular to finance the implementation of critically important infrastructure projects. However, the stimulus package basically aims at offsetting a decline in public investments, as a result of a drop in revenue collection and the difficulties to issue more public debt on both domestic and international markets. Official capital expenditure, not including off-budget items, is actually expected to decline from 10.9 percent of GDP in 2009 to 7.4 percent in 2010.

99. On the other hand, the actual implementation of Decree 69/2009/ND-CP, a prior action under PIR 1 operation, should lead to substantial improvements in procedures for land acquisition and compensation. This decree includes provisions on land-use planning, land prices, development of land funds, land acquisition and compensation, and resettlement support. This decree includes the management of land use zoning at four levels (national, provincial, district, and communal) requesting a clear determination of land use indicators for wet rice cultivation, specialized-use forests, and protective forests. To ensure that land valuation reflects market prices, the decree includes articles on the relevant prices in the cases of land allocation, land lease, land reclamation, and SOE equitization. Importantly, the decree prescribes the same valuation procedures for allocated land and land rented from the state. This provision is expected to accelerate project implementation and to reduce the scope for corruption.

100. The most significant improvements introduced by this measure in relation to the social impacts of investment concern compensation and assistance for affected populations. According to the decree, those whose land is reclaimed are entitled to relocation and resettlement assistance in the cases of residential land, and livelihood and production assistance, occupational training and job-seeking assistance in the case of agricultural land. The decree clearly specifies the obligation of the state to make up for any shortfall between the compensation received and the market value of the property, allocating this responsibility to the relevant People's Committee. To speed up compensation and assistance, the decree also adjusts and combines some requirements in the process of land acquisition, allocation, and lease with existing construction and investment procedures. In doing so, it aims to reduce the processing time by one half to one third.

101. In summary, on land issues, based on a strong suite of analytical work carried out by the Bank, no evidence that actual investments in infrastructure will increase under the project, and the policy actions that will be actively reforming regulatory instruments in this area, it is concluded there are no likely impacts in the area of land and resettlement.

Other Policies

102. Other than the issue of potentially increasing land acquisition, a review of all the policy actions and triggers under the proposed program was conducted to determine if there are other potential social impacts. Those policy actions and triggers fall in one of two groups:

- Group A - Socially positive policy actions to upgrade consultation with affected populations. In the proposed program, several actions and triggers aim at improving the framework and practices of carrying out SEAs and EIAs. These are primarily environmental tools, but their strengthening has social implications as well. The mainstreaming of SEAs in master plans should result in reduced environmental degradation, and the poor are among the most directly affected by pollution or the loss of natural habitats. A timely implementation of EIAs involves consultation with affected populations, and this tends to enhance the voice of vulnerable groups. Therefore, these actions should all result in markedly positive benefits.

- Group B – Socially neutral actions. This group includes all the remaining policy actions included under the operation. None has been identified as being potentially socially detrimental.

ENVIRONMENTAL ASPECTS

Overall impact

103. The proposed program is likely to have an overall positive impact on the environment, forests, and other natural resources. This is to a large extent because of the strong leverage exercised through this operation to substantially advance the regulatory and legislative framework for SEAs and EIAs. A number of environmental policy actions are included in the program precisely with the objective of generating a significant positive environmental impact. Others, while not being strictly environmental, are also expected to result in positive externalities. A more detailed analysis, presented below, was carried out to determine whether the proposed set of prior actions and triggers could have significant effects, defined as environmental changes of sufficient magnitude, duration, and intensity as to have non-negligible impacts on the natural resource base and on human welfare. A small number of policy actions had some theoretically negative environmental impacts but were found to be neutral on further analysis. The bulk of actions supported through the project are environmentally neutral.

104. As argued in the section on social impacts, the proposed program aims at partially offsetting the decline in government revenue as a result of the economic downturn, but it is unlikely to result in an overall level of public investment (and thus environmental consequences) that would be different from a baseline case. Even if this were to happen, the strong pro-environmental measures in the proposed program should still ensure that the overall environmental impact remains positive.

Specific policies

105. Environmentally, the proposed program of prior actions and policy triggers can be divided into three groups as follows:

- Group A – Environmentally positive policy actions to update or improve environmental legislation. Prior actions and triggers in the areas of environmental screening, environmental management and environmental costs are intended to fill identified gaps in the country's existing environmental legislation. As a result of the policy interventions, environmental management practices in Vietnam will be improved. Regional and sectoral development strategies as well as specific investments can be expected to be more environmentally sustainable. Environmental impacts of future investment projects will be better assessed and addressed.

  To develop the proposed program, the Bank, in coordination with other international donors such as ADB and the Government of the Netherlands, over the last several years has provided technical and financial analytical support to improve environmental regulations and practices for impact assessments. Examples include the study on the *Harmonization of EIAs for the Hanoi Core Statement on Aid Effectiveness* (World Bank and ADB), the *Pilot Strategic Environmental Assessment in the Hydropower Sub-sector in Vietnam* (World Bank, the Netherlands Government and Birdlife), and the *Strategic Environmental Assessment for the Development Master Plan of Red River Delta, 2011-2020* (World Bank). The Bank has also published a recent analysis of SEA in South-east Asia with a strong analytical section on Vietnam: *Strategic Environmental Assessment in East and Southeast Asia: A Progress Review and Comparison of Country Systems and Cases.* Additional analytical work was carried out in 2010 as part of the preparation of the new decree. During this time ADB has also been carrying out an assessment of Vietnam's environmental policies and regulations as part of a country systems approach.

- Group B – Environmentally neutral policy actions. This group includes almost all of the policy actions and triggers in the proposed program.

- Group C – Policy actions with potentially detrimental environmental impacts. Of interest in this respect is the prior action related to conflict of interest, involving the transfer of state ownership rights in civil works companies under MOT to the SCIC. It could be argued that greater profit orientation may result in diminished attention to environmental mitigation measures, thus resulting in increases in negative impacts from their operations. However, regulations on SEAs, EIAs and EMPs will remain the same, regardless of who the contractor is affiliated with, and there are no solid grounds to claim that SOEs are more environmentally friendly than profit-driven companies.

  The prior action on land compensation could conceivably be seen as a driving force for project investors to convert natural habitats such as forested land, rather than accepting compensation costs for acquiring agricultural land. This potential impact is mitigated however by article 3 of Decree 69/2009-ND-CP which regulates that zoning of critical forested land (catchment protection forest, specialized forests and natural reserves) is determined in country-level master plans and production forest land is determined at provincial level. The impact is also mitigated by article 29 of the Law on Forest Protection and Development, which regulates that conversion must be in accordance with the Land Law, Forest Protection and Development Law, and that project proposals (including environmental impacts assessments) must be approved by the authorized agency. Taking this into account, the Bank thus considers that the proposed program entails no risk of increased conversion of natural habitats.

IMPLEMENTATION, MONITORING AND EVALUATION

106. Designing an appropriate results framework for the proposed program is challenging, given the shortage of relevant precedents to build upon. Previous lending related to public investment management is quite limited. Operations are often embedded in public financial management reform or concern a specific operation or sector (such as roads, for instance). The proposed program departs from existing precedents by combining the macroeconomic angle characterizing policy lending operations with the microeconomic focus that is typical of investment operations.

107. As previous operations have different scopes and development objectives, their results frameworks do not particularly fit to the one for the proposed program. Operations embedded in public financial management reform typically rely on outcome indicators for the performance of public investment management which are tied with measurement of efficiency, transparency and accountability of the overall public financial management system. These indicators tend to focus on strategic upstream public investment programming, on its alignment with budget processes, and on enhancing the associated regulatory framework. But broad indicators of this sort tend to be qualitative, and usually do not cover implementation and monitoring issues. On the other hand, in operations with a sectoral focus, outcome indicators for public investment management tend to emphasize project implementation. These programs are generally designed with sufficient time frames to allow measuring the outcomes of investment spending.

108. The proposed program combines the short time span of operations with a public financial management focus with the project dimension of operations with a sectoral focus. This results in a temporal mismatch between actions and triggers on the one hand, and development outcomes on the other. The proposed program would be closed when some of the key policy actions it supports could only become effective.

109. The monitoring framework (see Table 4) is proposed for the entire program (both PIR 1 and PIR 2) and has already been revised from that in PIR 1 Program Document. In particular, indicator 1 (number of FDI re-registered firms) was removed. With the issuance of Decree 102 on October 1, 2010, the re-registration of FDI firms has become unnecessary even if they want to have operation in areas not specified in their license. The framework should still be seen as work in progress, bound to be refined through completion of relevant economic and sector work. Ongoing discussions with experts and government officials in each area are being conducted to ensure that the preliminary target figures provided are realistic. These tentative estimates should provide a sense of the potential impact of the program.

FIDUCIARY ASPECTS

110. ***Public Financial Management.*** Vietnam's public financial management (PFM) environment is considered adequate to support this operation. The most recent Country Financial Accountability Assessment conducted in 2007 concluded that 'the financial management risk to proper use, control and reporting of funds that are managed through the Vietnam public financial management systems is assessed as moderate'. The government has maintained strong ownership of the PFM reform agenda and continues to lead a coordinated reform program in consultation with the donor community. While the financial management and accountability systems of the government have improved, the risks arising from weak implementation and compliance remain. The quality and extent of independent audit oversight can be further strengthened by updating the audit strategies and methodologies of the SAV to align with international practices, and through the development of an effective internal audit function, which currently is only at an embryonic stage in Vietnam. A detailed discussion on the state of PFM in Vietnam is in Annex 4.

111. ***Foreign Exchange Environment.*** An IMF safeguards assessment has not been conducted in Vietnam. This assessment would provide information about the foreign exchange control environment of the SBV and integrity of financial information. The SBV is subject to auditing by SAV on an annual basis, however under the current laws the audited financial statements and audit reports of SBV are not made public. Notwithstanding these factors, the Bank/Association understands, following recent discussions with the IMF, that there are no serious concerns with the SBV's foreign exchange control environment.

112. ***Flow of funds and auditing***. To address the potential residual fiduciary risks related to the foreign exchange environment, the Borrower/Recipient will maintain a dedicated foreign currency deposit account (DA) at SBV in US dollars for the proceeds of the Loan/Credit, and will report on the funds flow of the dedicated deposit account. The government will, if deemed necessary by the Bank/Association, allow an independent external audit of the dedicated foreign currency deposit account (DA).

113. ***Disbursement***. The proposed Loan/Credit will follow Bank/Association's disbursement procedures for development policy lending operations. The Loan/Credit proceeds will be disbursed against satisfactory implementation of the Program and not tied to any specific purchases, and no procurement requirements will be needed. Various measures have been taken to ensure that the overall fiduciary policies and institutions are adequate to proceed with support from the Bank/Association and other development partners. The Borrower/Recipient will open and maintain a dedicated Deposit Account in US dollars for the Borrower/Recipient's use once the Loan/Credit is approved by the Board and becomes effective. The dedicated DA will form part of the country's official foreign reserves. The Borrower/Recipient shall ensure that upon the deposit of the Loan/Credit into said account, an equivalent amount in Vietnamese Dong is credited in the Recipient's budget management system to be used for budget expenditures in a manner acceptable to the Bank/Association. If the proceeds of the Loan/Credit are used for ineligible purposes as defined in the Loan/Financing Agreement, the Bank/Association will require the Borrower/Recipient to refund the amount directly to the Bank/Association. Amounts refunded to IDA shall be cancelled. The administration of this Loan/Credit will be the responsibility of MOF.

114. ***Reporting***. The Recipient will report to the Bank/Association on the amounts deposited in the foreign currency account and credited to the budget management system and on the timing of such deposits and credits. The Recipient will forward the report within one month of receiving the letter from the Bank/Association advising of the deposit, and the report will include: (i) statement of the exact sum received into the dedicated DA and the timing of such receipts; (ii) confirmation to Bank/Association that all withdrawals are for eligible expenditures; (iii) confirm to the Bank/Association details of the Treasury account to which the Vietnamese Dong equivalent of the Loan/Credit proceeds will be credited, the credited amount, and their timing, and (iv) a report on receipts and disbursements for the dedicated DA.

RISKS AND RISK MITIGATION

115. Increased macroeconomic instability is one of the most important risks facing the proposed program. Rising inflation, volatility in the foreign exchange market, slower than expected fiscal consolidation, problems in the state-owned enterprises and health of the banking sector are some of the key factors have contributed to this elevated level of risk. In recent months, and especially since mid-February, however, there has been a distinct emphasis by the government to stabilize the macroeconomic situation. The recently policy measures, especially Resolution 11, should help to arrest further exacerbation of the situation and mitigate the macroeconomic risks facing the country. Moreover, continuous monitoring of the macro situation, close collaboration with the IMF and frequent discussion with the authorities on remedial options are other potential ways the risks are being mitigated.

116. There are potential operational risks arising from temporal mismatch between actions and triggers on one hand and development outcomes on the other. This is because the operation has a short time span (two years), but it addresses PFM/institutional reforms that are long-term in nature and in Vietnam context, have a slow pace of implementation. So while measures will be adopted as agreed in the operation, the specifics are such that their impact on efficiency and transparency of public investments could be felt after considerable lag. Moreover, weak and delayed implementation of good policies – a key challenge in Vietnam – could also dilute some of the impacts of this operation.

117. This risk is to some extent being addressed by the quality of the ongoing technical assistance provided by the six development banks in several of the areas covered by the proposed program, and by the World Bank and other development partners in relation to public financial management. Since many of the measures supported by this operation are expected to improve the speed and quality of public investment projects, including the projects financed by development partners, their implementation is being closely monitored. In parallel, the importance of the proposed program to sustain the economic recovery has increased the attention of senior leadership to the reforms covered by the proposed program.

TABLE 4: VIETNAM – RESULTS FRAMEWORK FOR PUBLIC INVESTMENT REFORM PROGRAM

Thematic Area	Outcome indicator	Definition and source	By preparation	By completion
Project selection	1. Integration of comprehensive SEAs in master plans.	Share of approved regional and sectoral master plans whose preparation was informed by a comprehensive SEA. Source: MPI, MARD, MOIT	None	66% for regional master plans and one-fifth for key economic sectors
Thematic Area	**Outcome indicator**	**Definition and source**	**By preparation**	**By completion**
Project implementation (continued)	2. Reduction of the scope for discretion in public procurement.	Number of Agencies actually using e-procurement in their operations Source: MPI	None	Three
	3. Removal of conflict of interest in civil works for infrastructure.	Share of state capital in civil engineering and civil work companies affiliated with MOC remaining under its management. Source: MOC.	90 percent	20 percent
	4. Improved satisfaction among people displaced by projects.	Compensation of resettled population groups is aligned with market prices and well-implemented as demonstrated by satisfaction in perception surveys building on previous analytical work. Source: GSO, MONRE, MOC.	45 percent (From World Bank study, 2005)	75 percent (World Bank estimate)

(Continued)

TABLE 4: VIETNAM – RESULTS FRAMEWORK FOR PUBLIC INVESTMENT REFORM PROGRAM (contd.)

Thematic Area	Outcome indicator	Definition and source	By preparation	By completion
Project implementation (continued	5. Completion of EIAs in time to inform feasibility studies.	Share of projects for which consultations on EIAs were implemented in a timely manner during preparation. Source: MPI, MONRE.	Negligible	50 percent
Thematic Area	**Outcome indicator**	**Definition and source**	**By preparation**	**By completion**
Financial management	6. Use of common state budget recording scheme regardless of source of funding.	Maximum reported time needed for budget recording of ODA projects Source: MOF.	12 months (CFAA, 2007)	2-3 months
	7. Allocation of budgets for EIAs.	Share of total investment costs spent on preparation and consultation of EIAs. Source: MONRE, MOF, MPI.	Negligible	0.5 percent
	8. Effective oversight of ODA-funded projects by the SAV.	Share of outstanding ODA investment portfolio with audits conducted by SAV or with independent audit reports received by SAV from implementing agencies. Source: SAV, MOF.	Negligible	60 percent
Thematic Area	**Outcome indicator**	**Definition and source**	**By preparation**	**By completion**
Project oversight	9. Increased reliance on independent project evaluators.	Share of "type A" projects which are subject to review by independent investment evaluators. Source: MPI, MOHA, IAE	None	7 to 8 percent

Note: The preparation of this program started in April 2009, at the request of Vietnam's first Deputy Prime Minister. Completion refers to the time when the Implementation Completion Report (ICR) for the program needs to be processed, around September 2011.

Annex 1 : Letter Of Development Policy

STATE BANK OF VIETNAM
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LETTER OF DEVELOPMENT POLICY

Hanoi, April 20 , 2011

To: **Mr. Robert B. Zoellick**

President of the World Bank

Washington, DC

Dear President Zoellick:

We are pleased to inform you that we just concluded the implementation of the socio-economic development plan for 2010 with important achievements. In 2010, the economy grew at 6.78 percent, the highest rate in the last three years. Export grew by 25.5 percent, strongly driven by non-oil sectors. Poverty reduction continues to record another year of success, with poverty incidence reduced by nearly 2 percentage points in 2010. Overall, the recovery of the real sector from the global crisis has been robust.

Strong performance of the economy in the 2010 has benefitted significantly from the timely implementation of a relatively large stimulus package in 2009. The package also contributed to Vietnam's successful weathering of the global crisis in 2009. Financing this large stimulus package has, however, not resulted in significant fiscal distress for our economy, thanks to the timely support from some development partners, including the World Bank. We would like to take this opportunity to thank you and the World Bank for the support during this critical time period, especially for the successful implementation of PIR1.

Despite strong growth performance in the last two years, we are yet to overcome the adverse impact of the global crisis and the structural weaknesses of the economy remain. The budget deficit in 2010 was 5.6%, much higher than the average in pre-crisis period in spite of the withdrawal of the stimulus package. Inflation picked up notably in the last few months, totaling at 11.75% for the whole year 2010. There were at times tensions in the foreign exchange market. There is also evidence that some of our SOEs were strongly affected by the crisis, in addition to weak corporate governance. All of these have been happening in a world economy on a bumpy recovery road with looming uncertainties. In domestic markets, the effects of frequent natural disasters and epidemics added difficulties and hardship to the economy.

Recent macroeconomic instabilities have resulted in growing concerns of all individuals and institutions, including the National Assembly, the Government, the media, and research institutions. Addressing them has become a leading theme in recent sessions of both the National Assembly and the Government. There is an overwhelming consensus that attaining macroeconomic stability should be a top priority in 2011 for successful implementation of the next ten year strategy 2011-20. In what follows we would like to summarize our view and policies in dealing with these instabilities and structural weaknesses.

The Macroeconomic Stability

In our view, the current set of economic problems has been triggered by a rapidly changing and unfavorable global environment. Vietnam has been exposed to a series of external shocks dating back to as early as 2007 when Vietnam joined the WTO and experienced an unprecedented surge in capital inflow. This was followed by the international price hike in 2008, the global financial crisis in 2009, and strong fluctuation of key commodity prices at the end of 2010. Existing structural weaknesses of the economy have also contributed to the current macroeconomic instabilities. On policy front, there are important lessons for us to draw about effective coordination between fiscal and monetary policies, communication of our policies, and maintaining a right balance between growth and stability.

Attaining macro stability to achieve sustainable growth has therefore become our top priority in 2011. Resolution 51/2010 of the National Assembly, issued on November 8, 2010 requires the Government to adopt necessary measures in 2011 to strengthen the macro stability, improve the macroeconomic balances, especially between saving and investment and between budget revenue and expenditure. Compared to the 2010 plan, Resolution 51 sets lower targets for 2011 for both investment (40% of GDP) and budget deficit (5.3% of GDP). Achieving macroeconomic stability in 2011 was again one of the key messages in a recent Prime Minister's article about the main content of the Socio-economic Development Strategy 2011-2020 and the Socio-economic Development Plan 2011. The Prime Minister has also emphasized that policy making should convey transparent and consistent messages in order to ensure credibility for markets and businesses.

A comprehensive policy framework to restore macroeconomic stability has been announced with the issuance of Government's Resolution 11 on February 24, 2011. Resolution 11 specifies six different groups of policy measures including tightening monetary and fiscal policies, deepening SOE reform, and reducing of distortions in pricing of some key commodities and utilities. Resolution 11 was prepared with extensive consultation with local governments, academia and representatives of large SOEs. As a result, it enjoys broad support in implementation and indicates our strong commitment to achieve macroeconomic stability.

With regards to monetary policy, Resolution 11 requires SBV to take lead in implementing cautious and tightened monetary policies. The targets for the growth of credit and total liquidity were set at very low level, below 20 percent and 15-16 percent respectively. In addition, the share of credit for the non-productive sectors such as securities and real estate is to be reduced and strictly monitored.

On fiscal side, Resolution 11 also lowers the target for budget deficit from 5.3 percent to below 5 percent of GDP by our classification[1]. This will be achieved by cutting of non-salary recurrent expenditures by 10 percent for the remaining time of 2011. In addition, we have been reviewing investment projects using state capital implemented by line ministries, agencies, provinces and SOEs so that capital expenditures can be reduced by downscaling or eliminating inefficient, cost overrun projects. We will not start new constructions using state budget during 2011 and will not advance 2012 state resources for 2011 projects. Off-budget expenditures will also be reduced by lowering the 2011 state credit of Vietnam Development Bank by 10 percent of the planned level. External debt of SOEs, especially short-term borrowings will be strictly monitored. Over medium-term, our objective is to gradually lower the budget deficit to 4.5 percent of GDP by 2015[2].

Moving towards market mechanisms in pricing electricity and petroleum is another objective of Resolution 11. The current mechanism relies largely on administrative decisions to adjust the prices and therefore often result in substantial disparity between selling prices and costs, underinvestment for electricity and distorted signals for producers. Resolution 11 requires us to increase prices for electricity and fuel and a plan to issue a market mechanism for pricing electricity in 2011. At the same time, we have already formulated necessary measures to support the poor who may be adversely affected by the electricity price hike.

Successful implementation of the comprehensive framework set out by Resolution 11 will be a big challenge for us and the government has already required key ministries and agencies such as MPI, MOF, MOIT and SBV to work out action plans with concrete measures in respective areas. By the end of April 2011, MPI and MOF will have to present to the Government the possible saving from a detailed list of activities and projects to be cut or downscaled.

Monitoring the implementation of Resolution 11 will be undertaken by periodic reporting to the cabinet and the National Assembly. The overall report on saving will be presented to the National Assembly in May 2011. The progress and results of implementation of Resolution 11 will also be regularly reviewed in the monthly meetings of the cabinet.

To date, the following measures have been implemented:

- The repo rate for 7-14 day term was raised from 7 percent to 13 percent to reduce credit growth in the banking system and to curb inflation. At the same time, the discount rate was raised from 7 percent to 12 percent. In addition, refinancing rate and the overnight rate were raised to 13 percent from 9 percent.

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[1] IMF forecast for 2011 is 3.9 percent.

[2] Report of the Central Committee of the Communist Party of Vietnam for the XI Party Congress in January 2011.

- Directive 01 was issued by SBV on March 1 setting strict ceiling for non-productive credit and strong enforcement measures. The maximum level of share of non-productive credit in total credit should be 22 percent by June 30 and 16 percent by December 31, 2011.
- The exchange rate of the Dong vis-a-vis the US dollar was devaluated by 9.3 per cent and the trading band was narrowed from 3 per cent to 1 per cent on February 11, 2011. This aims to tackle recent tensions in the foreign exchange market and restore the market confidence in the Dong.
- MPI and MOF have already sent several teams to line ministries and agencies, provinces and SOEs to review possible projects and activities to be cut or downscaled so that we can meet our lower target for budget deficit of below 5 percent of GDP for 2011.
- Prices of petroleum and electricity were raised by 29.9 percent and 15.3 percent respectively. In addition, MOIT is working on a regulation about a market mechanism for pricing electricity for the government to issue in 2011.

In addition to Resolution 11, we are also pleased to inform that the following structural reform measures have been planned for in 2011:

- Revise Decision 493/2005/QD-NHNN about loan classification and loan loss provisioning. This is expected to be finished by May 2011.
- The Prime Minister has already authorized the SBV to take lead in the preparation of the Financial Sector Assessment Program (FSAP). SBV will work with the IMF and World Bank for the preparation and aletter inviting the two organizations to participate in the FSAP process has already been sent.
- SBV to issue a Circular "Disclosure and provision of information" which outlines types and frequencies of key macroeconomic and financial information to be released regularly to the public. The Circular has been prepared and expected to be issued in May 2011.
- Formulate of the "Strategy for Management of Public Debt and National External Debt until 2020 with a vision to 2030" with the overall objective of maintaining a sustainable level of public debt.

State-owned Enterprise Reform

SOE reform has been a major component of our economic reform in the last 20 years. We have adopted several measures to increase the efficiency of SOEs, including equitization, sale and contracting out the SOEs. We have also established some state economic groups on a pilot basis in order to utilize the economies of scale, having sufficiently large and competitive enterprises in a small number of strategic sectors. Until October 2010, we have restructured 6,140 SOEs, of which about 4,000 were equitized. The performance of the SOEs has significantly improved after equitization. At present, there are 1,200 SOEs with 100% state equity, concentrating in sectors that provide public utilities or strategic commodities and services.

The creation of a level-playing field has been a focal area in our SOE reform agenda. Over the years, we have adopted several measures to gradually remove the privileges of the SOEs. Subsidies to SOEs have been abolished and access of private sector to bank credit, even to state-owned commercial banks has considerably improved. From July 1, 2010, the Law on SOEs was removed and all enterprises, regardless of ownership, are now subject to the same Enterprise Law and the same legal framework for tax, investment, and credit policy.

Despite important achievements, we have come to realization that the efficiency of SOEs remains a critical issue. Recent economic turbulence has brought the weaknesses of the SOEs to the forefront, especially with the high level of leverage of the state economic groups as well as their large investment outside their core business. Management of the SOEs has emerged as a hotly debated issue in recent sessions of the National Assembly. In our assessment, the main problem facing the SOEs right now is the lack of effective state monitoring and supervision of the SOEs. The current structure of state management for SOEs is cumbersome, with a lot of fragmentations and overlaps of responsibilities of various agencies and ministries. In addition, there is also room for improvement in SOE governance.

Stepping up the SOE reform is another priority of our policy making in 2011. Resolution 51/2010 of the National Assembly lists the SOE reform as one important measure to achieve restructuring the economy. The measures to be implemented in 2011 will focus on improving the state management of SOEs and SOE governance. The SOEs, especially the state economic groups will be subject to close monitoring and supervision and are accountable for their performance. We will adopt compulsory auditing for the SOEs and release the audit reports publicly. We will strongly implement and enforce the separation of state ownership exercise and state management functions. The state economic groups will have to focus on their core businesses and will be put in a competitive environment.

To have a holistic approach to SOE reform, the Prime Minister has issued Decision 1914/2010 on October 19, 2010 that requires the National Steering Committee for Enterprise Reform and Development (NSCERD) to carry out a research project for identifying measures and solutions needed to improve the performance of SOEs. The Ministry of Planning and Investment have also been working on research projects on improving SOE governance and on the separation of state ownership representation and state management function. In addition, NSCERD has been assigned to carry out a review of the state economic group model and the review has to be submitted to the Prime Minister by Quarter 3, 2011.

The Vinashin default at the end of 2010 is of particular concerns for us. To effectively deal with the situation, the Government has established a National Committee for Restructuring Vinashin, headed by one of the Deputy Prime Ministers. The Committee has already proposedmeasures for Vinashin, including revamping its core activities around ship building and repair and adequate scale of supporting activities. A new Charter for the holding company of Vinashin group has recently been issued with clear mandates and responsibilities. Official announcement 30 of the government issued on February 28, 2011 instructed MOF to take lead in the appraisal of the options for financial restructuring of Vinashin group and present to the Prime Minister in Quarter 3, 2011.

To prevent events similar to Vinashin, the Government has issued a new regulation requiring all enterprises issuing corporate bonds under a Government guarantee to first have their plans appraised by the Ministry of Finance and approved by the Prime Minister. Decree No 01/2011/ND-CP also requires these enterprises to disclose three consecutive years of financial statements that have been audited by the State Audit of Vietnam or an independent auditing organization licensed to operate in Vietnam. The purpose of the bond issuance must also be limited to debt restructuring, high-tech applications, or energy or production projects approved by the Prime Minister or National Assembly. The measure, though applies to all enterprises, will largely impact the level of external borrowing of SOEs, who are the biggest users of government guarantees.

Resolution 11 also indicates that the Government will accelerate the equitization process and strengthen the governance of SOEs. The Prime Minister has already approved the equitization plan of several general corporations belonging to the two construction economic groups. A Decree for the operation of the State Capital Investment Corporation (SCIC) which at present oversees the state equities in a large number of equitized SOEs will also be developed in 2011.

Public Investment Reform

Heavy reliance on investment for generation of rapid growth has recently become a growing concern for us. We already have a very high share on investment in GDP and there is evidence of declining impact of incremental investment..

In the formulation of our Socio-economic Development Strategy for 2011-20, we strongly emphasize the quality dimension of investment and improving the efficiency of public investment is therefore high in our development agenda for the next decade. The Government is committed to reforming public sector investment in the direction of better sequencing and prioritization, reducing the share of the state budget in total investment, and strengthening socialization in areas where other economic stakeholders can participate. The main objectives are improving investment efficiency, fighting against leakage, waste and fragmentation, and ensuring debt sustainability in support of capital accumulation.

Significant progress in public investment reform has already been achieved in the last two years, with support we received from the World Bank in PIR1 and in the preparation of PIR2. We have issued a new Law to remove critical inconsistencies among existing legal documents governing investment. This is an important step towards the creation of a holistic legal system for public investment. In addition, we have issued and amend several legal documents for improving policies and mechanisms on project consultation, monitoring, and management in the direction of more transparency; on avoiding the closed status, where contractors for civil works are related to investment owners; on clarifying the responsibilities of each sector and each level, while strengthening the work of inspection, check, and supervision; and on overcoming ineffective projects, investment outside of master plans, losses and corruption. We have also created a legal framework to encourage the private sector's participation in pilot public projects and for the implementation of e-procurement in pilot agencies.

There is, however, an important objective that we could not manage to achieve. This is the presentation of the Draft Law on Public Investment to the National Assembly session at the end of 2010. We understand the importance of having that Law in creating a coherent legal framework for public investment. Yet because of complexity of the issue, more time is needed for us to reach a consensus about coverage and scope the law. It is our pleasure to inform that in our recent regular meeting of the cabinet, such a consensus has been achieved and we will propose to the National Assembly to include the Law on Public Investment in its 2012 Law formulating program.

In light of this background, the set of prior actions in our proposed PIR2 operation is fully consistent with our objectives and with our approach to reform in this area. We therefore commit our strong support to this program, and our determination to complete it successfully.

Conclusion

Two decades of economic reform has brought about fundamental progress for Vietnam. From one of the poorest countries in the world, Vietnam has already become a low middle income country with GDP per capita more than US$ 1,100 at the end of 2010.

Besides positive significant achievements, there remain important weaknesses and shortcomings. We still rely on an investment-led growth model, with an ineffective economic structure, low level of productivity and competitiveness. There is still room for improvement for infrastructure, human resources and institutions for a market economy that are still considered as growth bottlenecks. The business environment is not really streamlined. The administrative system is bureaucratic and with low efficiency. Our capacity and experience on macroeconomic management remains limited. Public investment remains fragmented, inefficient with cost overruns, delay, or even unfinished projects. The management and use of state assets, both from the state budget and from state-owned enterprises remains ineffective.

Not only are we aware of these weaknesses and shortcomings, we are also determined to take decisive actions to overcome them. A strong macroeconomic framework for restoring economic stability has been introduced by Resolution 11. However, we fully understand that the successful implementation of Resolution 11 remains a critical challenge and we will monitor the implementation closely and add further measures to the package if needed. We will strengthen the management of public investments and SOEs for making better use of state assets for improved competitiveness and sustainable growth.

We want to accomplish all these objectives without sacrificing the economic recovery that we have managed to sustain during these difficult years. In spite of the successes, GDP growth rates for 2008-2010 are the lowest in the decade. Budget deficit remains much higher than the time before the global crisis. We thus request your support for our proposed operation PIR2. We firmly believe that with the support of the World Bank we will overcome difficulties and challenges and make full use of opportunities to accomplish the expected targets for 2011 and set up favorable conditions for implementation of the Socio-economic Development Strategy 2011-20.

Yours Sincerely,

Nguyen Van Giau

Governor

Annex 2: Supporting Documentation for Prior Actions and Triggers

Thematic Areas	Issue	Prior Action for PIR 2	Documentation
Project selection	Environmental screening	The Borrower; through MPI and MOIT, has incorporated SEAs in the draft development master plans for four regions and one key sector. The Borrower, through MONRE, has reviewed the experience with the implementation of SEAs and has designed actions to improve SEAs preparation and use.	SEA Reports and Draft Master Plans MONRE report
Project implementation	Bidding transparency	The Borrower, through MPI, has issued a Circular, including technical guidelines, to implement the use of electronic procurement (e-procurement) in pilot provinces and agencies.	Circular 17/2010/TT-BKH dated July 22,2010
	Conflict of interest	The Borrower has issued Decisions to transfer, from MOC, the right to exercise state ownership in two economic groups specialized in civil works, namely the Housing and Urban Development Group and Industrial Construction Group.	Decision 261/QĐ-TTg dated February 12, 2010, Decision 262/QĐ-TTg dated February 12, 2010
	Dispute resolution	The Borrower has issued a Decree to clarify the rights and obligations of parties engaging in civil works contracts.	Decree 48/2010/NĐ-CP dated May 07, 2010
	Environmental management	The Borrower has issued a Decree to mandate the timely preparation and review of SEAs and EIAs in order to inform preparation of master plans and feasibility studies for investment projects, respectively.	Decree 29/2011 was issued on April 18, 2011
Financial management	Reporting and control	The Borrower, through MOF, has issued a Circular to mandate the sharing of independent audits of financial statements of ODA-funded projects with MOF and SAV.	Circular 40/2011 /TT-BTC amending Circular 108/2007/TT-BTC
	Administrative costs	The Borrower, through MOF, has issued Circulars to align with the market cost norms applied to translation fees, workshops and other costs related to the preparation and implementation of budget-funded projects.	Circular 01/2010/TT-BTC issued in January 2010 and Circular 97/2010/TT-BTC issued in July 2010
	Environmental budgets	The Borrower, through MOF and MONRE, has issued Circulars to define admissible expenses and sources of funding for the review of SEAs and EIAs.	Circular 218/2010/TT-BTC issued on December 29, 2010 for EIAs. Joint MONRE-MOF Circular 45/2010 for SEA, issued in March 2010, replace Circular 114/2006

(Continued)

ANNEX 2: SUPPORTING DOCUMENTATION FOR PRIOR ACTIONS AND TRIGGERS (CONTINUED)

Thematic Areas	Issue	Prior Action for PIR 2	Documentation
Financial management (continued)	Payment and disbursement	The Borrower, through MOF, has issued a Circular to streamline payment procedures and clarify and simplify payment-supporting documents for ODA-funded projects.	Circular 40/2011 /TT-BTC amending Circular 108/2007/TT-BTC
	Subsidies and guarantees	The Borrower has issued a Decision to pilot the use of the PPP Framework.	Decision 71/2010/QĐ-TTg dated November 09, 2010
Project oversight	Monitoring and evaluation	The Borrower, through MPI to issue Circulars to establish standard templates for project monitoring reports and to set up the required legal criteria for individuals and institutions to carry out investment evaluation.	Circular 13/2010/TT-BKH issued on June 2, 2010 and Circular 23/2010/TT-BKH issued on December 13, 2010

ANNEX 3: IMF ASSESSMENT LETTER

Vietnam—Assessment Letter for the World Bank [1]

April 5, 2011

1. **Growth has remained strong through the global crisis thanks to the sizable stimulus package, but macroeconomic stability has deteriorated and financial sector risks have increased as monetary policy has remained accommodative.**

- GDP growth accelerated in 2010, and is estimated at 6¾ percent for the year as a whole. At the same time, inflation rose to 11.8 percent y/y in December and further to 13.9 percent y/y in March 2011.
- Credit-to-GDP ratio reached 125 percent of GDP as credit growth remained high at 32 percent y/y in December 2010. Concomitantly, financial sector risks have risen, exacerbated by cross-holdings within the financial sector and ownership links to the corporate sector, in particular state-owned enterprises (SOEs).
- The current account deficit in 2010 narrowed significantly to 3.8 percent of GDP from 6.6 percent in 2009, on the back of recovery in exports. Direct investment inflows remained robust and portfolio investment rose strongly, but high unrecorded outflows of $13.3 billion (13 percent of GDP), reflecting to a large extent foreign currency and gold hoarding by residents outside the financial system, have led to continued exchange rate weakness and further pressures on international reserves which stand at 1.4 months of prospective imports at end-2010.
- The overall fiscal deficit in 2010 is estimated to have reached 6½ percent of GDP, lower than the budgeted 7½ percent, owing to higher-than-projected revenues even as expenditures are also estimated significantly higher than budgeted levels.

2. **Against this background, the authorities have shifted their policy focus toward restoring macroeconomic stability.** After raising policy interest rates in several steps in late 2010 and early 2011, the State Bank of Vietnam (SBV) in February devalued the dong by 8.5 percent, while indicating greater flexibility in adjusting the daily exchange rate. Subsequently, the government announced a comprehensive stabilization package aimed at reining in inflation. Key measures for 2011 in the package include a reduction of credit growth to below 20 percent, proactive use of policy interest rates, and a reduction of the budget deficit by around ¼ percentage point of GDP from the budget plan. In addition, 10 percent of non-wage recurrent spending is to be frozen until the second half of the year, and investments by the state and SOEs are to be reviewed, reprioritized, and in some cases cut. The authorities have also announced plans to ban trading of gold bars to curb hoarding. cut. The authorities have also announced plans to ban trading of gold bars to curb hoarding. To address financial sector risks, the SBV earlier raised minimum capital requirements— though its application has been postponed for some banks—and the capital adequacy ratio, and is introducing a limit on the credit-to-deposit ratio.

IMF Official Contact: Mr. Masato Miyazaki

1 The 2010 Article IV consultation was concluded on July 28, 2010. Staff visited Vietnam periodically since then, most recently during February 24–March 9, 2011 to conduct the 2011 Article IV consultation. Discussion of the staff report for the 2011 Article IV consultation is scheduled for April 28, 2011.

3. **The stabilization package is a very important step in the right direction, but steadfast implementation through concrete action, which may need to be stepped up, is crucial.** The revised credit growth target is appropriate to reduce inflation expectations and stabilize the exchange rate in 2011. At the same time, more ambitious fiscal consolidation than currently planned would help support inflation reduction and build cushions against potential contingent liabilities. If such a policy package is implemented, IMF staff expect output growth in 2011 to slow down somewhat to around 6¼ percent, and inflation at end- 2011 to about 9½ percent y/y. The current account deficit is projected to widen slightly, but remain more than covered by continued strong direct investment inflows. Provided confidence in the dong is restored, international reserves are expected to recover somewhat but remain low. Downside risks to this outlook include a further rise in international commodity prices, and a slower growth in major export markets.

4. **Safeguarding financial sector stability is critical.** In this context, the recent request for an assessment under the Financial Sector Assessment Program is welcome. The SBV's new prudential regulations are important steps, but enforcement is key. The SBV's credibility—and with it successful management of sectoral risks—hinges on close onsite and offsite supervision of the financial sector and strong enforcement of prudential norms.

Annex 4: Public Financial Management in Vietnam

Overview

1. Over the past decade, Vietnam has made **strides in establishing a sound public financial management system.** With the adoption of the first organic budget law in 1996 and its revision in 2002, a legal framework for public resource management has been put in place. A centralized treasury system is being set up with branches extending from the center to all provinces and districts to provide basic essential financial services to all government agencies. Steady progress has been achieved in making the budget more predictable and pro-poor, and the budgeting process more transparent and participatory. Substantial efforts have also been made in recent years to improve transparency in the use of public resources through disclosure of information on detailed government spending as well as expenditure policies, regulations and procedures.

2. **There is strong ownership in the Vietnamese Government of the PFM reform agenda.** MOF is currently engaged, as are other Ministries, in developing a reform strategy for 2011-2020. The strategy aims at (i) maintenance of stability of public finances within the broader economy; (ii) improved effectiveness of public sector expenditure in achieving policy and service delivery; (iii) development of effective influence by government over key finance markets; and (iv) effective and efficient resource mobilization to finance public expenditures. Support to the implementation of reforms is coordinated through the PFM partnership group which overarches the activities of government, donors, and working groups, meeting half yearly to discuss progress. There is ongoing effort among donors to directly align their support with the mainstreaming government's strategies and plans.

3. **PFM remains in the center of Public Sector reforms.** Other focus areas are organizational restructuring, pay and employment reform, and institutional development. The PFM reforms hinge on seven priorities: budget management, revenue management, debt management, SOE fiscal risk management, financial market supervision and government bond market development, public asset management, and price management.

4. The overall conclusion of the latest Country Financial Accountability Assessment (CFAA 2007) stated that **PFM arrangements and their implementation and performance pose a moderate risk** that funds will not be properly controlled or used for intended purposes. The CFAA proposed a set of recommendations to help the government design and continue implementing reforms and capacity building programs to modernize and strengthen PFM and enhance transparency and accountability arrangements in support of sound economic management and improved governance.

5. Even though a series of analytical work, such as Public Expenditure Review (PER) or CFAA, have been undertaken every three to four years, progress and impact of the PFM reforms and development initiatives can only be measured by establishing an **official monitoring framework**, and baseline performance measures. The Public Expenditure and Financial Accountability (PEFA) measurement framework provides a recognized measurement of the performance of the public financial management of government. Similarly, the Debt Management Performance Assessment (DeMPA), adapted from the PEFA framework, but is focused on debt management issues, would provide a baseline assessment of debt management capacity. Although the government has agreed in principle to introducing these measurement frameworks through pilot self-assessment process in 2011 (PEFA) and 2012 (DeMPA), no firm decision on detailed timeframe and commitment of resources have been made.

6. Within the MOF, the number of technically-qualified and experienced managerial staff needs to be increased to meet the reform challenges of the Ministry. Support is needed for **Capacity building** across sectors and sub-national government to implement decentralized PFM reforms.

Recent Developments and the Way Ahead

7. **PFM Legal and Institutional Framework.** The CFAA reported that since 2004, implementation of the 2002 State Budget Law and the 2005 Accounting Law has progressed and a State Audit Law has been enacted. However, it also noted that some confusion and overlap in budget responsibilities remain in the budgeting system which is limiting the participation of sectors in resource planning, budgeting and budget management and confuses accountabilities between the national and sub-national levels. Furthermore with the redevelopment of the government accounting systems and regimes, the Accounting Law is no longer adequate and needs revision, and the basis for accounting needs to be better defined, however there is no clear plan at that this time to revise the Accounting Law. The State Budget Law will be revised and re-submitted to the National Assembly in 2012, expectedly including a number of critical changes to state administration in Vietnam such as enhanced decentralization to sub-national government and adjusted fiscal authority of central vis-a-vis sub-national tiers of government in budget approval.

8. **PFM information systems**. The Treasury and Budgetary Management Information System (TABMIS) will progressively address difficulties in monitoring a fully-consolidated budget as well as the fiscal position. TABMIS has been developed since 2007, piloted in 2009, and recently rolled-out to MOF and treasuries and financial agencies in 35 out of 63 provinces. Fifteen largest spending line-ministries are getting ready to use TABMIS to conduct budget allocations for 2011. It is expected that the system will become fully operational in 2012 upon its nationwide roll-out. TABMIS will provide the capability to record and control commitments, improve cash management and arrears management, and strengthen expenditure management and controls. There are initial staged plans for TABMIS consolidation and expansion, in both terms of both functionality and coverage, towards the Integrated/Government Financial Management Information System (IFMIS).

9. **Public accounting regulations**. In parallel with TABMIS project, a unified Treasury and Budgetary Chart of Accounts has been developed to provide consistency of classification of revenues and expenditures in budgeting, accounting and reporting with expenditures classified on an administrative, economic and functional basis. This will facilitate accurate and timely financial reporting, and the flow of budgetary information between government ministries provinces and the public. For future TABMIS expansion, development of a unified and uniform chart of accounts for the public sector (including the Spending Units) is now envisaged. A staged roadmap for adoption of the International Public Sector Accounting Standards (IPSAS) is also being developed to align government accounting regimes and practices with international standards.

10. **Budget Development & Execution.** Vietnam's budget coverage is reasonably comprehensive but still incomplete compared to international practices. Budget gaps arise from the lack of clarity in the state budget coverage of user fees and charges of many service delivery units, lack of integration or disclosure of the financial positions of public financial funds, untimely and sometimes inadequate incorporation of donor financing, and off-budget government bonds. Budget execution variations arise from such practices as revenue underestimation particularly for crude oil revenues, keeping the state accounts open after year end with post year expenditures recorded against previous year unused budgets, and over implementing construction and development plans. Separate preparation of the recurrent and capital investment budgets hampers effective management of resources and the composition of public expenditure remains unbalanced.

11. **Public expenditure** is planned annually and also for medium-term over five year periods but the linkage between the two remains weak. The ongoing revision of the State Budget Law introduces Medium-Term Fiscal and Expenditure Framework, to be mainstreamed in the annual budget cycle. There are also initial discussions on reforming budget planning toward output- and program-based budget elaboration.

12. **Off-budget-balance expenditures,** i.e., expenditures not counted in the calculation of the budget deficit, include government bonds issued to finance infrastructure projects and education facilities, recapitalization of entities such as the Vietnam Development Bank or the Vietnam Social Policy Bank, and borrowings by sub-national governments and their affiliated entities such as local development funds. However, these so-called off-budget expenditures in Vietnam can be considered on-budget in several respects. They are included in the budget that is reviewed and approved by the National Assembly, and their execution was done through the Treasury and subject to the same disclosures and scrutiny as standard budget expenditures. There are attempts under the ongoing revision of the State Budget Law to adjust budget structure and coverage to be more in line with the international norms.

13. **Contingent liabilities** might be arising from these "off-budget-balance expenditures" and other implicit sources. A systemic definition and a reliable estimate of such contingent liabilities are not available, which limits the government's ability to manage such risks properly. More broadly, as Vietnam is reaching middle-income status, it will need to engage more long-term finance from both domestic and external sources. Under the recently improved debt management, initial attention from the government on risk management and monitoring of contingent liabilities has been observed. Given the recent default of one of the largest state owned Economic Groups (Vinashin), MOF is planning to strengthen monitoring of fiscal risks from the SOEs. However, although considered as the country's lead agency for national and public debt management, MOF has not yet prepared an inventory of government contingent liabilities from various sources, due to lack of necessary legal framework, poor data availability and limited assessment capacity.

14. R**evenue administration**. Customs controls are still considered low in productivity, inconsistent and vulnerable to corruption. The Customs administration will need to change significantly, shifting its mindset from a culture of domestic protection and control of all transactions to one that facilitates foreign trade and promotes private sector development. The tax administration is also characterized by low compliance and vulnerability towards corruption. Five areas of tax administration have been identified as in need of special attention: (1) the fragmentation of the legal framework related to tax administration; (2) the absence of effective coordination and information-sharing between the tax administration and other government agencies; (3) taxpayers' lack of knowledge about the tax laws and compliance procedures; (4) inadequate professional skills and training of tax administration; and (5) information technology system which is lagging behind the requirements of a modern tax administration. In addition, tax laws and policies will need further reforms to broaden the tax base, and to reduce the number of rates and exemptions. Reforms in the management of revenue are progressing with clearer allocation rules and decentralized responsibilities; however classification of revenue in line with international standards needs to be introduced, and enhanced consultation on revenue targets is needed to improve the quality of revenue budgets.

15. **Public debt management** has improved both in terms of legal framework and institutional arrangements. The Debt Management Department was established in May 2009 with the role of a modern debt management office under the MOF. Although not all of the tasks relating to public debt management have been consolidated to this Department, the organizational structure of the department is similar to the debt management office according to international practices, with 6 divisions functioning as front office, one division performing the middle office functions, and one division performing the back office functions. Meanwhile, the first-ever Law on public debt management was approved by the National Assembly in June 2009 and came into effect in 2010. The Law introduced substantial reforms in managing and monitoring comprehensively public debt and government commitments (including domestic sub-national debts and on-lending), and addressing many weaknesses in the public debt management in Vietnam. A series of guiding decrees were adopted in 2010 to facilitate the implementation of the law. Special attention is now paid to strengthening risk management and developing forward-looking debt management strategy and program.

16. **Financial market supervision and the government bond market.** At present, many agencies participate in financial market supervision, leading to overlapping responsibilities and ineffective management and supervision. There is a need to consolidate market supervision functions into a single agency and to separate state management and supervision functions. Vietnam's government bond market is still small scale, low liquidity, and the maturity structure is skewed toward short-term. The number of market participants is relatively small and supporting infrastructure, such as depository, clearing and information systems, is yet to be developed. Therefore, considerable efforts are required to develop a full-fledged government bond market and coordinate it with development of related markets such as capital, security and real estate. A bond market development roadmap is being prepared towards these visions.

17. The government's PFM reform program highlights that state assets budget resources and human resources need to be managed in an integrated way for efficient and effective service delivery, and reforms are being gradually introduced. The legal framework and market principles in **asset management** were recently adopted under the Law on State Asset Management. The requirements for management reporting systems are being defined, but reform in this area has been slow. Initially, attention is needed for developing consistent and comprehensive asset accounting and asset management policies in line with international standards and practices. Further study will be carried out in 2011 to determine the most appropriate solutions to address the government's accounting and asset management requirements.

18. **Independent scrutiny** of PFM has significantly increased, with external oversight of budgetary affairs by the National Assembly and the recently independent State Audit of Vietnam (SAV). The functional committees and deputies of the National Assembly, and the local People's Committees have been given greater prominence in examining, decision-making and oversight of the state budget. There is steady expansion of external audit coverage and quality, and legislative oversight. Encouragingly, the SAV audit report was made public for the first time in 2006, and regularly since, triggering serious debates where are broadcasted live on the usage of state budgets. However, the capacity of these institutions, especially the SAV, is limiting the coverage and scope of audits. It is difficult for the SAV to manage the increasing workload including compulsory audit for 100 percent of SOEs, and to consider the move towards performance audit. Significantly, the SAV has recently approved an ambitious and comprehensive strategy to 2020 (with accompanying implementation plan to 2015) aimed at upgrading its capacity across the key areas of organizational and legal framework, human resources, audit planning and methodologies (including performance audit), information technology, and external relations.

19. The country's public financial management system has a range of **internal oversight mechanisms**. In the past, the focus was on inspection rather than systematic review to provide regular and timely feedback to the management on the use of public resources. Internal auditing is an important element of a sound public financial management system, which helps increase effectiveness, efficiency and financial control. This issue becomes even more important if the government intends to decentralize further to the local levels. The legal and institutional frameworks for the organization and operation of internal audit are being developed. Although implementation will be challenging, this has been a very encouraging step towards establishing a sound internal audit system in Vietnam in the coming years.

20. Vietnam has increased its level of **fiscal transparency**. Budget plans and budget execution accounts are being made available publicly, and there is incr**easing compliance with report**ing regulations. However there is still room for improvement, particularly in relation to consistency in quality of reports and their timeliness. The draft budget plan should be disclosed before National Assembly's approval. To enhance the quality of financial reporting, consistency between budget and accounting classifications needs to be maintained. The number of budget execution reports needs to be rationalized. Content and presentation of financial information needs to be improved in line with

existing government regulations in the publicly available budget execution reports to make them more informative. Enabled by TABMIS, MOF has committed to, by 2013, publish monthly and more disaggregated budget execution reports on MOF website 15 days after month end, as opposed to the current practice of publicize quarterly and aggregated report 45 days after quarter end. In addition, the government is establishing a State Accounting General function, and working toward producing and issuing annual financial statements, including cash and asset information, in line with international practices. The annual final accounts need to be issued faster than the current 18 months, e.g. 9 months, after year end to enhance their relevance to the discussions on the budget of the subsequent year.

21. Good progress has been made in establishing legislation and the environment for greater **financial accountability and transparency of financial information.** Regulations on financial disclosures of the State Budget Law, Accounting Law and State Audit Law have been issued increasing the scope and range of required disclosures by entities at all levels of government. Information is being made available on public accessible websites. However, implementation remains the challenge. To further increase transparency, the content of budget documentation and the final accounts could be enhanced by including analysis, explanations and information in line with international practices. Disclosure of financial information, particularly spending at unit level should be actively monitored to ensure compliance with the enhanced disclosure requirements. Published financial reports should be timely, and a calendar for disclosures issued publicly.

Annex 5: Changes in Policy Matrix for the second Public Investment Reform DPL operation

Thematic Area	Issue	Trigger as in PIR 1	Prior Action for PIR 2
Project selection	Environmental screening	1. The Borrower; through **MPI, MARD, and MOIT**; has incorporated SEAs in the development master plans for **two regions and two key sectors**. 2. The Borrower, through MONRE, has reviewed the experience with the implementation of SEAs and has designed actions to improve SEAs' preparation and use.	1. The Borrower, **through MPI and MOIT**, has incorporated SEAs in the **draft** development master plans for **four regions and one key sector**. 2. The Borrower, through MONRE, has reviewed the experience with the implementation of SEAs and has designed actions to improve SEAs preparation and use.
Project implementation	Project approval	3. The Borrower has submitted, for consideration by the National Assembly, a draft law on Public Investment providing a common framework for all public projects.	**Dropped**
	Bidding transparency	4. The Borrower, through MPI, has issued a Decision, including technical guidelines, to implement the use of electronic procurement (e-procurement) in pilot provinces and agencies.	3. The Borrower, through MPI, has issued a Circular, including technical guidelines, to implement the use of electronic procurement (e-procurement) in pilot provinces and agencies.
	Conflict of interest	5. The Borrower has issued **a Decision** to allocate the exercise of state ownership rights in two Economic Groups specialized in civil works **outside MOC.**	4. The Borrower has issued **Decisions** to transfer, **from MOC**, the right to exercise of state ownership in two economic groups specialized in civil works, **namely the Housing and Urban Development Group and Industrial Construction Group.**
	Dispute resolution	6. The Borrower has issued a Decree to clarify the rights and obligations of parties engaging in civil works contracts.	5. The Borrower has issued a Decree to clarify the rights and obligations of parties engaging in civil works contracts.
	Environmental management	7. The Borrower has issued a Decree to mandate the timely preparation and review of EIAs in order to inform preparation of feasibility studies for investment projects.	6. The Borrower has issued a Decree to mandate the timely preparation and review of **SEAs** and EIAs in order to inform preparation of **master plans** and feasibility studies for investment projects, respectively.

ANNEX 5: CHANGES IN POLICY MATRIX FOR THE SECOND PUBLIC INVESTMENT REFORM DPL OPERATION

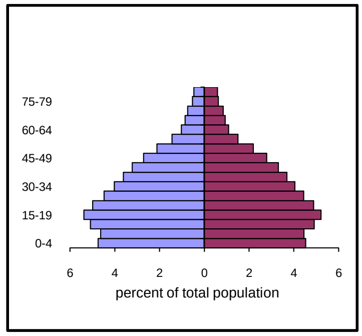
Thematic Area	Issue	Trigger as in PIR 1	Prior Action for PIR 2
Financial management	Reporting and control	8. The Borrower, through MOF, has issued a Circular to mandate the sharing of independent audits of financial statements of ODA-funded projects with MOF and SAV.	7. The Borrower, through MOF, has issued a Circular to mandate the sharing of independent audits of financial statements of ODA-funded projects with MOF and SAV.
	Administrative costs	9. The Borrower, through, MOF, has issued Circulars to align with the market cost norms applied to translation fees, workshops and other costs related to the preparation and implementation of budget-funded projects.	8. The Borrower, through MOF, has issued Circulars to align with the market cost norms applied to translation fees, workshops and other costs related to the preparation and implementation of budget-funded projects.
	Environmental budgets	10. The Borrower, through MOF and MONRE, has issued **a joint Circular** to define admissible expenses for **the preparation and review** of SEAs and EIAs **and, through MONRE, has issued a Decision to set adequate technical guidelines in each case.**	9. The Borrower, through MOF and MONRE, has issued **Circulars** to define admissible expenses and **sources of funding for the review** of SEAs and EIAs.
	Payment and disbursement	11. The Borrower, through MOF, has issued **Circulars** to streamline payment procedures and clarify and simplify payment-supporting documents for ODA-funded projects.	10. The Borrower, through MOF, has issued **a Circular** to streamline payment procedures and clarify and simplify payment-supporting documents for ODA-funded projects.
	Subsidies and guarantees	12. The Borrower has issued a Decision to pilot the use of the PPP Framework **which contains provisions on government participation, including financing**.	11. The Borrower has issued a Decision to pilot the use of the PPP Framework.
Project oversight	Monitoring and evaluation	**13. The Borrower, through MOHA, has issued a Decision to approve the Charter establishing the Association of Independent Evaluators.**	**12. The Borrower, through MPI, has issued Circulars to establish standard templates for project monitoring reports and to set up the required legal criteria for individuals and institutions to carry out investment evaluation.**

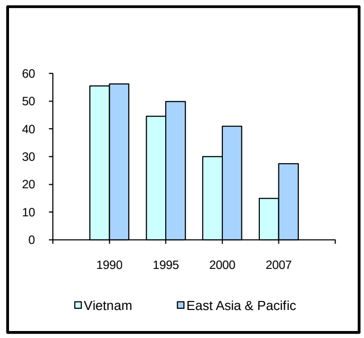
Annex 6: Country At a Glance

Vietnam at a glance

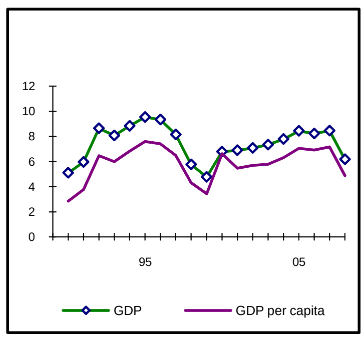
11/13/09

Key Development Indicators	Vietnam	East Asia & Pacific	Low income
(2008)			
Population, mid-year (millions)	86.2	1,912	1,296
Surface area (thousand sq. km)	329	16,299	21,846
Population growth (%)	1.2	0.8	2.2
Urban population (% of total population)	28	43	32
GNI (Atlas method, US$ billions)	76.6	4,173	744
GNI per capita (Atlas method, US$)	890	2,182	574
GNI per capita (PPP, international $)	*2,530*	4,969	1,489
GDP growth (%)	6.2	11.4	6.4
GDP per capita growth (%)	4.9	10.5	4.2
(most recent estimate, 2003–2008)			
Poverty headcount ratio at $1.25 a day (PPP, %)	21	17	..
Poverty headcount ratio at $2.00 a day (PPP, %)	48	39	..
Life expectancy at birth (years)	74	72	57
Infant mortality (per 1,000 live births)	13	22	80
Child malnutrition (% of children under 5)	20	13	28
Adult literacy, male (% of ages 15 and older)	..	96	72
Adult literacy, female (% of ages 15 and older)	..	90	55
Gross primary enrollment, male (% of age group)	..	111	100
Gross primary enrollment, female (% of age group)	..	109	89
Access to an improved water source (% of population)	92	87	68
Access to improved sanitation facilities (% of population)	65	66	39





Net Aid Flows	1980	1990	2000	2008 [a]
(US$ millions)				
Net ODA and official aid	277	181	1,681	2,497
Top 3 donors (in 2007):				
Japan	4	1	924	640
France	15	12	53	154
Germany	0	16	33	98
Aid (% of GNI)	..	3.0	5.5	3.8
Aid per capita (US$)	5	3	22	29



Long-Term Economic Trends	1980	1990	2000	2008	1980–90	1990–2000	2000–08
Consumer prices (annual % change)	..	36.4	-1.7	7.3			
GDP implicit deflator (annual % change)	..	42.1	3.4	21.7			
Exchange rate (annual average, local per US$)	*0.6*	6,482.8	14,167.8	16,450.0			
Terms of trade index (2000 = 100)	..	..	100	114			
					(average annual growth %)		
Population, mid-year (millions)	53.7	66.2	77.6	86.2	2.1	1.6	1.3
GDP (US$ millions)	..	6,472	31,173	89,831	*4.6*	7.9	7.7
		(% of GDP)					
Agriculture	..	38.7	24.5	22.1	*2.8*	4.3	3.9
Industry	..	22.7	36.7	39.7	*4.4*	11.9	10.0
Manufacturing	..	12.3	18.6	21.1	*1.9*	11.2	11.9
Services	..	38.6	38.7	38.2	*7.1*	7.5	7.5
Household final consumption expenditure	..	84.3	66.4	69.3	..	*5.1*	8.0
General gov't final consumption expenditure	..	12.3	6.4	6.2	..	*3.2*	7.6
Gross capital formation	..	12.6	29.6	41.1	..	19.8	12.7
Exports of goods and services	..	36.0	55.0	78.2	..	19.2	12.1
Imports of goods and services	..	45.3	57.5	94.7	..	19.5	14.4
Gross savings	..	..	..	..			

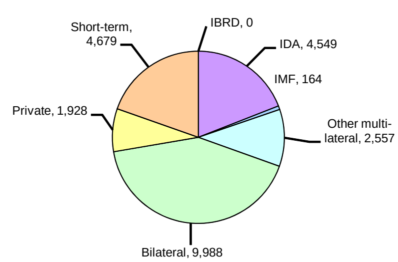
Note: Figures in italics are for years other than those specified. 2008 data are preliminary. .. indicates data are not available.
a. Aid data are for 2007.

Development Economics, Development Data Group (DECDG).

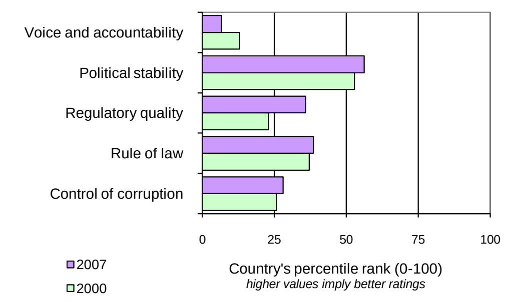
Balance of Payments and Trade	**2000**	**2008**
(US$ millions)		
Total merchandise exports (fob)	14,483	62,685
Total merchandise imports (cif)	15,637	80,713
Net trade in goods and services	-173	-13,617
Current account balance	1,108	-10,705
as a % of GDP	3.6	-11.9
Workers' remittances and compensation of employees (receipts)	*2,000*	*5,500*
Reserves, including gold	3,030	*21,578*

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	20.4	26.0
Tax revenue	..	..
Current expenditure	15.9	20.2
Overall surplus/deficit	-2.0	-1.1
Highest marginal tax rate (%)		
Individual	*50*	*40*
Corporate	32	*28*

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	12,825	26,158
Total debt service	1,310	1,344
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	41.1	29.1
Total debt service (% of exports)	7.5	1.9
Foreign direct investment (net inflows)	1,298	9,579
Portfolio equity (net inflows)	..	-578



Private Sector Development	**2000**	**2008**
Time required to start a business (days)	–	50
Cost to start a business (% of GNI per capita)	–	16.8
Time required to register property (days)	–	57
Ranked as a major constraint to business	**2000**	**2007**
(% of managers surveyed who agreed)		
Access to/cost of financing	..	*40.5*
Access to land	..	*25.9*
Stock market capitalization (% of GDP)	..	28.5
Bank capital to asset ratio (%)	..	..



Technology and Infrastructure	**2000**	**2007**
Paved roads (% of total)	*25.1*	..
Fixed line and mobile phone subscribers (per 100 people)	4	61
High technology exports (% of manufactured exports)	11.0	*6.2*

Environment		
Agricultural land (% of land area)	28	*31*
Forest area (% of land area)	37.7	*41.7*
Nationally protected areas (% of land area)	..	*5.2*
Freshwater resources per capita (cu. meters)	*4,597*	4,304
Freshwater withdrawal (billion cubic meters)	71.4	..
CO2 emissions per capita (mt)	0.69	*1.2*
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	3.3	*3.7*
Energy use per capita (kg of oil equivalent)	479	*621*

World Bank Group portfolio	**2000**	**2007**
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	–	–
Disbursements	–	–
Principal repayments	–	–
Interest payments	–	–
IDA		
Total debt outstanding and disbursed	1,113	4,549
Disbursements	174	748
Total debt service	9	64
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	223	70
of which IFC own account	107	70
Disbursements for IFC own account	25	22
Portfolio sales, prepayments and repayments for IFC own account	18	7
MIGA		
Gross exposure	46	111
New guarantees	10	0

Note: Figures in italics are for years other than those specified. 2008 data are preliminary. 11/13/09
.. indicates data are not available. – indicates observation is not applicable.

Development Economics, Development Data Group (DECDG).

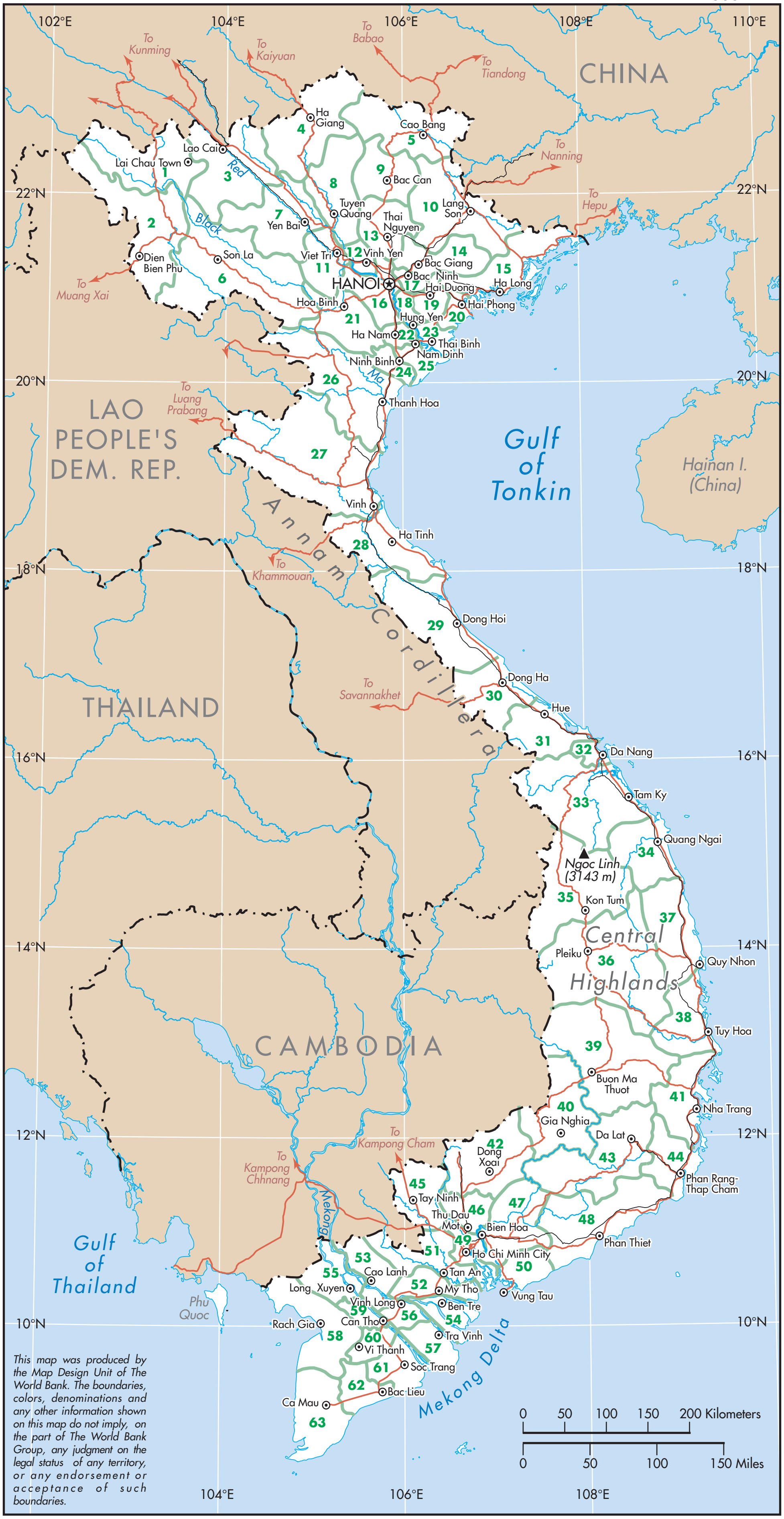
IBRD 33511R1

VIETNAM

- ⊙ PROVINCE CAPITALS
- ⊛ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- PROVINCE BOUNDARIES
- INTERNATIONAL BOUNDARIES

PROVINCES:

1	Lai Chau	32	Da Nang
2	Dien Bien	33	Quang Nam
3	Lao Cai	34	Quang Ngai
4	Ha Giang	35	Kon Tum
5	Cao Bang	36	Gia Lai
6	Son La	37	Binh Dinh
7	Yen Bai	38	Phu Yen
8	Tu Yen Quang	39	Dac Lac
9	Bac Can	40	Dac Nong
10	Lang Son	41	Khanh Hoa
11	Phu Tho	42	Binh Phuoc
12	Vinh Phuc	43	Lam Dong
13	Thai Nguyen	44	Ninh Thuan
14	Bac Giang	45	Tay Ninh
15	Quang Ninh	46	Binh Duong
16	Ha Noi	47	Dong Nai
17	Bac Ninh	48	Binh Thuan
18	Hung Yen	49	T.P. Ho Chi Minh
19	Hai Duong	50	Ba Ria-Vung Tau
20	Hai Phong	51	Long An
21	Hoa Binh	52	Tien Giang
22	Ha Nam	53	Dong Thap
23	Thai Binh	54	Ben Tre
24	Ninh Binh	55	An Giang
25	Nam Dinh	56	Vinh Long
26	Thanh Hoa	57	Tra Vinh
27	Nghe An	58	Kien Giang
28	Ha Tinh	59	Can Tho
29	Quang Binh	60	Hau Giang
30	Quang Tri	61	Soc Trang
31	Thua Thien Hue	62	Bac Lieu
		63	Ca Mau



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JANUARY 2010