



## Concept Paper

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# Proposed Policy-Based Loans Viet Nam: Improving Competitiveness Program

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Asian Development Bank

## **CURRENCY EQUIVALENTS**

(as of 21 July 2014)

Currency unit	–	dong (D)
D1.00	=	\$0.0000471
\$1.00	=	D21,246

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
EMCC	–	Economic Management Competitiveness Credit
SBV	–	State Bank of Viet Nam
SEDS	–	Socio-economic Development Strategy
SOE	–	state-owned enterprise

## **NOTES**

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

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## I. THE PROGRAM

### A. Rationale

1. The Improving Competitiveness Program (the program) supports the Economic Management Competitiveness Credit (EMCC) Program, a joint budget support program by development partners aligned with the national reform priorities of the Government of Viet Nam.<sup>1</sup> The program objective is stronger competitiveness. The program supports the government's reform efforts in six policy areas: (i) banking sector, (ii) fiscal policy, (iii) public sector administration and accountability, (iv) state enterprise management, (v) public investment management, and (vi) business environment. The EMCC consists of a programmatic series of three policy-based operations (EMCC 1–3) implemented during 2013–2015. The Asian Development Bank (ADB) did not provide parallel financing to the approved EMCC-1<sup>2</sup> because other program loans already included related policy actions. This program supports EMCC-2 policy actions.<sup>3</sup> ADB's further involvement will depend on the progress of EMCC-2.

2. **Losing competitiveness.** Cross-country assessments show that Viet Nam is losing competitiveness relative to others. It ranks 70th out of 148 countries in the 2013–2014 World Economic Forum's Global Competitiveness Index and is one notch down from 2006–2007. During this period, Indonesia has gained 19 places and Cambodia 23 places. Viet Nam's ranking in the World Bank's Doing Business survey has fallen from 90th in 2011 to 99th in 2014.

3. **More vigorous competition to boost investment and growth.** 1986 marked a shift in policy away from central planning toward a mixed economy—termed a “socialist market economy.” Subsequently, during 1990–2007, investment accelerated, the economy grew at an annual average rate of over 7%, and per capita income almost quintupled. However, this growth trajectory ultimately has limited Viet Nam's potential, and growth has been based increasingly on factor accumulation rather than productivity.<sup>4</sup> Reduced competitiveness is hurting investment and slowing gross domestic product growth. Domestic private investment as a ratio of gross domestic product has declined from an average of 15% in 2007–2010 to around 11.5% in 2013. Between 2009 and 2012, 43 out of the 63 provinces registered a decline in their provincial competitiveness index. Far fewer private firms reported higher investments or intentions to expand production. To avoid the middle-income trap, Vietnam will need to constantly upgrade existing competitiveness fundamentals and create new advantages to move up to the next stage of development.

4. **Constraints on competitiveness.** Various country diagnostics<sup>5</sup> have consistently pointed out similar constraints on competitiveness: (i) workforce skills levels remain modest; (ii) the finance sector has expanded quickly but remains shallow and unsophisticated; and nonperforming loans have risen because of shortcomings in risk management at banks and weaknesses in the regulatory and supervisory framework; (iii) fiscal policy is hampered by the high structural deficits in the government sector and public investment efficiency is low; (iv) unequal conditions prevail in the enterprise sector, where state-owned enterprises (SOEs) and

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<sup>1</sup> EMCC partners include the World Bank, the Asian Development Bank (ADB), the Government of Australia, the Government of Canada, the Department for International Development of the United Kingdom (DFID), Japan International Cooperation Agency (JICA), and the Swiss State Secretariat for Economic Affairs (SECO).

<sup>2</sup> World Bank. 2013. *1st Economic Management Competitiveness Development Policy Operation*. Washington, DC.

<sup>3</sup> World Bank. 2014. *2nd Economic Management Competitiveness Development Policy Operation*. Washington, DC.

<sup>4</sup> Joint Donor Report. 2012. *Viet Nam Development Report: Market Economics for a Middle-Income Viet Nam*. Ha Noi.

<sup>5</sup> For instance: J. Pincus. 2012. *Vietnam's Reforms: The Road to Market Leninism*. London: Legatum Institute.

well-connected private firms have preferential access to land, credit, and public sector contracts; and (v) weak public administration capacity and an unclear business regulatory environment are obstacles to more vigorous market competition, and corruption remains pervasive.

5. **Government reforms prioritized to boost competitiveness.** Development priorities are set out in the government's Socio-Economic Development Strategy (SEDS), 2011–2020 and the Socio-Economic Development Plan, 2011–2015. SEDS sets out the country's goals, and the plan lays out more specific policy actions and programs to achieve these goals. SEDS targets three "strategic breakthroughs": (i) better market institutions and administrative reforms for a more competitive and equitable business environment, (ii) development of human resources and investment in science and technology, and (iii) improved infrastructure. Under the first strategic priority, the government focuses structural reforms in three areas: SOEs, the banking sector, and public investment management. To help steer efforts to reform competitiveness, the Prime Minister established in May 2012 a National Council on Sustainable Development and Competitiveness Capacity Enhancement. It is chaired by a deputy prime minister, and has government-wide membership.

6. **Lessons from earlier policy-based loans.** ADB has participated in joint programmatic budget support in Viet Nam since 2003. A joint development partner evaluation suggested that future program budget support should be more focused on a few important cross-cutting issues, strengthen the analytical underpinning of selected policy actions, and improve monitoring and communication of program impact.<sup>6</sup> ADB's own evaluation is in line with this assessment.<sup>7</sup> These assessments also take into consideration the falling number of donors as Viet Nam graduates from concessional financing under overseas development assistance. Consequently, the EMCC design is more narrowly focused, and has dedicated technical assistance funds for analytical and advisory support, as well as increased outreach to communicate program results.

7. **Benefits of joint programmatic approach and ADB value addition.** The EMCC is aligned with the "enhancing economic efficiency" pillar of ADB's country partnership strategy, 2011–2015 for Viet Nam.<sup>8</sup> It provides a common platform for development partners to engage in policy dialogue with the government. It enables better alignment of donor programs with government priorities and, as a result, leverages more resources for the country. Coordination is improved and transaction costs are reduced. ADB can also leverage support for its own policy-based loans in the finance and corporate sectors, while extending the reach to other related policy reforms. ADB is in a unique position to feed lessons from its experience of piloting SOE restructuring into the design of the proposed program.

## **B. Impact, Outcome, and Outputs**

8. The impact of the program will be increased investment. The outcome will be stronger competitiveness of Viet Nam's economy. EMCC-1 and EMCC-2 set the overarching policy frameworks for priority reforms, e.g., of the banking sector, state enterprise management, and debt management. EMCC-3 will focus on implementation. Program outputs align with the six EMCC reform areas and are briefly outlined below (Appendix 5 has more details). Under these areas are 11 policy actions to be completed between July 2013 and June 2014. This program also looks at two cross-cutting themes: (i) the poverty and social impacts of selected reforms and (ii) promotion of greater data and policy-making transparency.

<sup>6</sup> ACE Consultants. 2011. *Joint evaluation of the Poverty Reduction Support Credit General Budget Support Operation in Viet Nam*. Ha Noi.

<sup>7</sup> ADB. 2013. *Project Completion Report: Support for the Implementation of the Poverty Reduction Program*. Ha Noi.

<sup>8</sup> ADB. 2012. *Country Partnership Strategy: Viet Nam, 2011–2015*. Manila.

9. **Reform Area 1: Banking Sector.** Enhancing the sector's stability means restructuring weak banks, prioritizing policies for dealing with systemic risks such as nonperforming loans, and improving banking supervision. The program policy actions are: (i) legislation that provides a comprehensive policy framework to solve the problem of nonperforming loans across the banking sector, and (ii) amended decree to enable more foreign investor participation in domestic commercial banks.

10. **Reform Area 2: Fiscal Policy.** More transparency is needed, as is discipline to balance government revenues and expenditures in a way that is consistent with long-term budget constraints. The program policy actions are: (i) approval of a medium-term debt management program for 2013–2015, and (ii) implementation of treasury single account procedures in at least two commercial banks, and reports on the implementation.

11. **Reform Area 3: Public Administration and Accountability.** Improved public administration and accountability requires more transparency and simplified public administration procedures. The program policy action is issuance of decrees to regulate and guide the implementation of the Amended Law on Anti-Corruption.

12. **Reform Area 4: State Enterprise Management.** Strengthening SOE management requires successful restructuring of large SOEs, better corporate governance (including information disclosure), and improvement of the regulatory environment for SOEs. The program policy actions are: (i) decisions on restructuring large SOEs to divest from high-risk noncore activities by 2015, and (ii) decree to regulate financial supervision, performance assessment, and disclosure of financial information of SOEs.

13. **Reform Area 5: Public Investment Management.** Enhanced public investment management requires better public investment planning, capital spending cuts, and increased efficiency of projects. The program policy action is a directive to accelerate clearance of capital expenditure arrears.

14. **Reform Area 6: Business Environment.** A more enabling business environment requires simplified administrative procedures, and transparent and clear commercial regulations that encourage competition. The program policy actions are amended laws on (i) procurement, (ii) corporate income tax, and (iii) value-added tax.

15. **ADB operational support for structural reforms.** Aside from direct support through the EMCC framework, ADB also supports the government's structural reform agenda through closely aligned interventions such as program loans for finance sector development<sup>9</sup> and development of small and medium-sized enterprises,<sup>10</sup> as well as a multitranche financing facility in support of SOE reform.<sup>11</sup> EMCC-2 policy actions reinforce and complement ADB's other ongoing policy reform programs (Appendixes 6 and 7). ADB also provides policy advisory and capacity development support for selected policy actions (Appendix 8).

### C. Investment and Financing Plans

16. The program is estimated to cost \$230 million and contributes about 36% of total EMCC-2 pledges by development partners (Table 1). It is not possible to accurately estimate the cost of structural reforms under this program, but just dealing with nonperforming loans would require

<sup>9</sup> ADB. 2007. *Financial Sector Program Loan II, Subprogram II*. Manila.

<sup>10</sup> ADB. 2012. *Supporting the Second Small and Medium-Sized Enterprises Development Program*. Manila.

<sup>11</sup> ADB. 2010. *SOE Reform and Corporate Governance Facilitation Program, Project 1*. Manila.

\$4 billion of additional capital to absorb the losses embedded in these assets. In 2014, with a budget deficit target of 5.3%, the government will need to borrow D215 trillion (\$10.2 billion). In total, EMCC-2 contributes about 6% of Viet Nam's budget deficit financing requirements, and an even higher share of concessional financing to the budget.

**Table 1: Tentative Financing Plan**

<b>Source</b>	<b>Amount (\$ million)</b>	<b>Share of Total (%)</b>
Asian Development Bank	230.00	100.0
Ordinary capital resources (loan)	140.00	60.9
Special Funds resources (loan)	90.00	39.1
Government	0.00	0.0
<b>Total</b>	<b>230.00</b>	<b>100.0</b>

Source: Asian Development Bank.

#### **D. Indicative Implementation Arrangements**

17. State Bank of Viet Nam is the executing agency responsible for facilitating interactions between the government and development agencies under the EMCC framework. The loan will be withdrawn in a single tranche upon the declaration of loan effectiveness.

### **II. DUE DILIGENCE REQUIRED**

18. The program is expected to have an overall positive effect on poverty, gender equity, and employment—in the long run by improving productivity, and in the short run by promoting macroeconomic stability. However, rationalization of public investment and potential SOE labor retrenchment will have negative social impacts. ADB is conducting analytical work on the social impacts of competition reforms that will feed into the policy dialogue.

### **III. PROCESSING PLAN**

#### **A. Risk Categorization**

19. The program is complex because the loan is large, but the risk is deemed manageable based on ADB's experience in implementing program-based loans in Viet Nam.

#### **B. Processing Schedule**

20. The proposed processing schedule is in Table 2.

**Table 2: Proposed Processing Schedule**

<b>Milestones</b>	<b>(Expected) Completion Date</b>
Concept paper clearance	July 2014
Management review meeting	August 2014
Loan negotiations	September 2014
Board circulation	October 2014
Board consideration	November 2014
Loan signing	December 2014

Source: Asian Development Bank.

### **IV. ISSUES**

21. No issues.



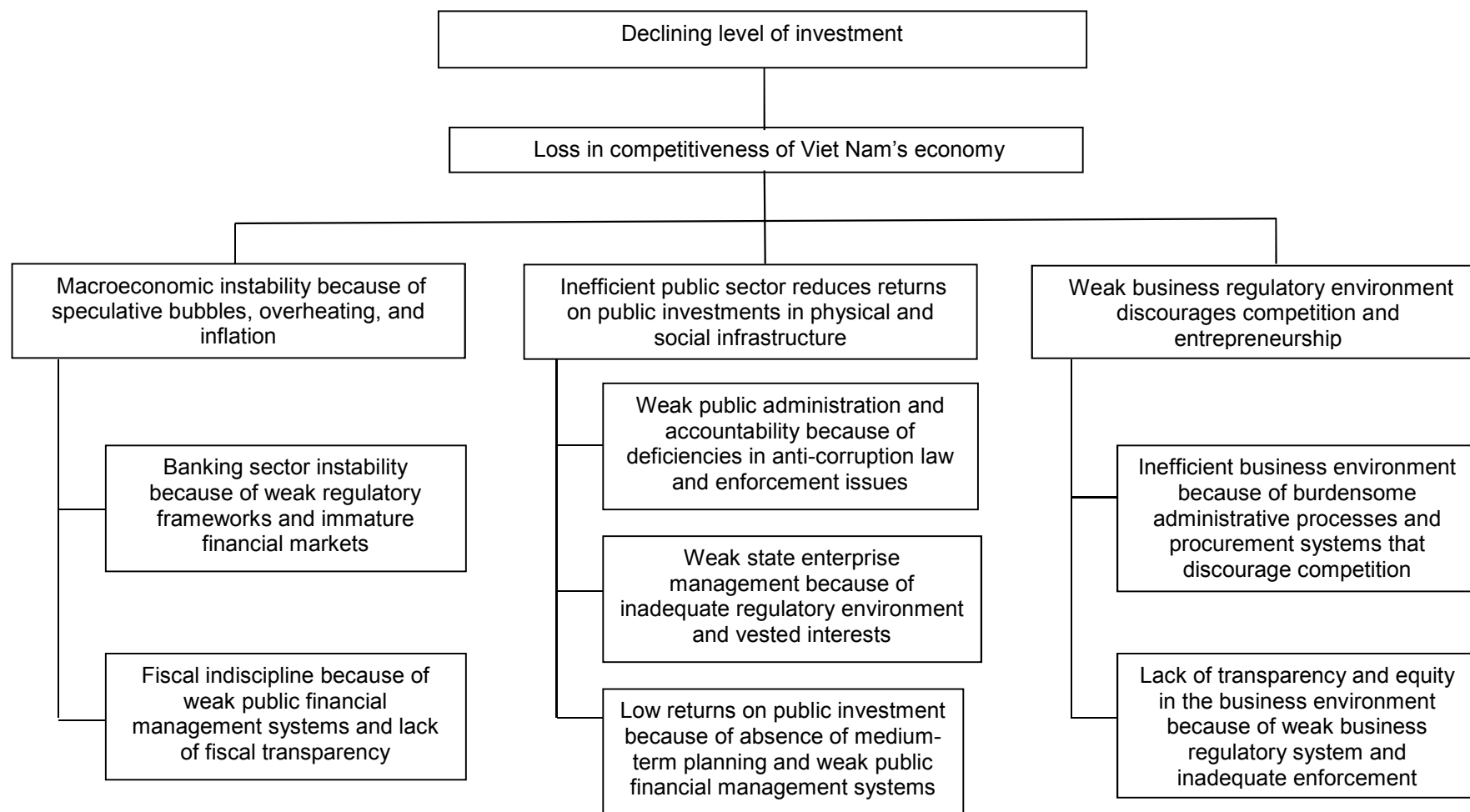
### BASIC PROJECT INFORMATION

Aspects	Arrangements
Modality	The Improving Competitiveness Program is a policy-based program loan.
Financing	Asian Development Fund: \$90.00 million equivalent ADB's ordinary capital resources: \$140.00 million equivalent  The EMCC-2 will also receive financial contributions from the World Bank (\$250 million), JICA (¥15 billion or about \$150 million equivalent), the Government of Canada (Can\$6 million or about \$5.5 million equivalent), and SECO (SwF8 million or about \$9 million equivalent). The Government of Australia pledged \$225,000 and DFID pledged \$180,000 for technical assistance support.
COBP	Consistent with the COBP for 2013–2015 and the country partnership strategy, 2012-2015, which includes economic efficiency as a key pillar. The program has been scheduled for consideration by the ADB Board of Directors in July 2014 in recognition of the Government of Viet Nam's willingness to accelerate reform to improve economic management.
Classification	Sector (subsector): Public Sector Management  (Economic and Public Affairs Management)  Themes (subthemes): Economic Growth (promoting economic efficiency and enabling business environment, promoting macroeconomic stability); governance (economic and financial governance); private sector development (policy reforms)  Targeting classification: general intervention  Gender mainstreaming category: some gender elements  Location impact: national (high)  Safeguards: C (environment), C (involuntary resettlement), C (indigenous peoples)
Risk categorization	Complex
Partnership(s)	In collaboration with other development partners under the EMCC framework
Use of a PBA	A PBA will not be used
Parallel PIU	No
Department and division	Southeast Asia Department Viet Nam Resident Mission
Mission leader	D. Mellor, Country Economist, VRM, SERD
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ADB = Asian Development Bank, COBP = country operations business plan, DFID = Department for International Development of the United Kingdom, EMCC = Economic Management Competitiveness Credit, JICA = Japan International Cooperation Agency, PBA = programmatic based approach, PIU = project implementation unit, SECO = Swiss State Secretariat for Economic Affairs, SEPF = Southeast Asia Public Sector Management and Finance Department, SERD = Southeast Asia Department, VRM = Viet Nam Resident Mission.

Source: Asian Development Bank.

### PROBLEM TREE FOR INCREASING COMPETITIVENESS PROGRAM



Source: Asian Development Bank.

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b></p> <p>Increased investment</p>	<p>By 2020</p> <p>Total investment as ratio of GDP increased to 30% (2013 baseline: 26.6%)</p>	<p>GSO annual statistics</p>	<p><b>Assumption</b></p> <p>Macroeconomic stability remains and economic growth continues</p> <p><b>Risk</b></p> <p>Prolonged global and regional economic slowdown distracts from structural reform agenda</p>
<p><b>Outcome</b></p> <p>Competitiveness of Viet Nam's economy improved</p>	<p>By 2016</p> <p>Viet Nam's ranking in the World Economic Forum's Global Competitiveness Index improved by 15 places: (2013 baseline: ranked 70th)</p>	<p>Global Competitiveness Index reports</p>	<p><b>Assumption</b></p> <p>Government remains committed to competitiveness reforms and continued integration in global economy</p> <p><b>Risk</b></p> <p>Weak implementation and enforcement of laws and decrees</p>
<p><b>Outputs</b></p> <p>1. Banking sector stability enhanced</p> <p>2. Fiscal discipline maintained</p> <p>3. Public administration and accountability improved</p> <p>4. State</p>	<p>By December 2015:</p> <p>Banking sector stability enhanced as reflected by reduction of nonperforming loans as a percentage of total loans to 5% or less, based on VAS (2014 baseline: 8.6%)</p> <p>The primary fiscal deficit average over the past 3 years remains at less than 4% of GDP (2013 baseline: 4%)</p> <p>Rate of disclosure of officials' income and asset declarations increases to 50% (2011 baseline: 0%)</p> <p>Share of businesses reporting less negotiating with tax authority as part of doing business decreases to 35% by median province (2011 baseline: 41%)</p> <p>Investments by SEGs in high-risk noncore areas as</p>	<p>State Bank of Viet Nam website</p> <p>Ministry of Finance</p> <p>Anticorruption report to National Assembly</p> <p>Provincial Competitiveness Index</p> <p>Reports on</p>	<p><b>Assumption</b></p> <p>Implementing agencies have the capacity to effectively meet policy actions under EMCC</p> <p><b>Risk</b></p> <p>Lack of coordination between various government agencies responsible for policy actions with cross-cutting agendas</p>

<p>enterprise management strengthened</p> <p>5. Public investment management enhanced</p> <p>6. Business environment improved</p>	<p>a share of SEG capital is reduced to 0.00% for securities, 0.00% for investment funds, 0.08% for insurance, 0.80% for banking, and 0.30% for real estate (2012 baseline: 0.13% for securities, 0.06% for investment funds, 0.16% for insurance, 1.53% for banking, and 0.70% for real estate)</p> <p>Percentage of reports on financial supervision of SEGs and GCs disclosed on websites increased to at least 30% (2012 baseline = 0)</p> <p>Public investment management enhanced as reflected by reduction in total level of capital expenditure arrears from the central budget to D30 trillion (June 2013 baseline = D43 trillion)</p> <p>More enabling business environment as reflected by less than 10% of domestic firms spending over 10% of their time dealing with bureaucracy or bureaucratic regulations (2011 baseline: 11.26% in median province)</p> <p>Time needed to comply with tax payment requirements reduced to 220 hours for VAT and 150 hours for CIT (2012 baseline = 320 hours for VAT and 217 hours for CIT)</p>	<p>monitoring of SOE restructuring plans published by the Ministry of Finance</p> <p>Ministry of Finance</p> <p>National budget reports published by the Ministry of Finance</p> <p>Viet Nam Provincial Competitiveness Index</p> <p>Paying Taxes Report</p>							
<p><b>Activities with Milestones—all must be achieved by June 2014</b></p> <p><b>1. Banking sector stability enhanced</b></p> <p>1.1 Government issued amended decree to enable increased foreign investor participation in domestic commercial banks</p> <p>1.2 Government issued legislation providing a comprehensive policy framework to solve the problem of nonperforming loans across the banking sector</p> <p><b>2. Fiscal discipline maintained</b></p> <p>2.1 Government issued decision approving a medium-term debt management program for 2013–2015</p> <p>2.2 Government implemented the treasury single account procedures in at least two commercial banks and provided reports on the implementation</p> <p><b>3. Public administration and accountability improved</b></p> <p>3.1 Government issued decrees to regulate and guide the implementation of the Amended Law on Anti-Corruption, including increased transparency, income and asset declaration of public officials, and accountability of public agencies and officials</p> <p><b>4. State enterprise management strengthened</b></p> <p>4.1 Government issued decisions on restructuring SEGs that commit all SEGs to divest five high-risk noncore activities (banking, insurance, real estate, securities trading, and investment funds) by 2015</p> <p>4.2 Government issued decree to regulate financial supervision, performance assessment, and disclosure of financial information of SOEs</p> <p><b>5. Public investment management enhanced</b></p> <p>5.1 Government issued directive to accelerate clearance of capital expenditure arrears and to report to the National Assembly on the current status and proposed solutions</p>			<p><b>Inputs</b></p> <p><b>Asian Development Bank:</b> \$230.00 million</p> <table border="1" data-bbox="1276 1199 1572 1325"> <thead> <tr> <th>Item</th> <th>Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td>OCR</td> <td>140.00</td> </tr> <tr> <td>ADF</td> <td>90.00</td> </tr> </tbody> </table> <p><b>Collaborative Partner Contributions to EMCC-2:</b></p> <p>World Bank – \$250 million</p> <p>JICA – ¥15 billion (equivalent to about \$150 million)</p> <p>Government of Canada – CAN\$6 million (equivalent to about \$5.5 million)</p> <p>SECO – SwF8 million (equivalent to about \$9 million)</p> <p>DFID – \$225,000 (TA only)</p>	Item	Amount (\$ million)	OCR	140.00	ADF	90.00
Item	Amount (\$ million)								
OCR	140.00								
ADF	90.00								

<p><b>6. Business environment improved</b></p> <p>6.1 Government adopted the Amended Law on Procurement to strengthen transparency and competition in public procurement</p> <p>6.2 Government adopted the Amended Law on Corporate Income Tax to establish competitive corporate income tax rates, clarify rules and regulations on transfer pricing, and introduce provisions on deductible expenses</p> <p>6.3 Government adopted the Amended Law on Value Added Tax to adjust the group of goods and services exempt from value-added tax, clearly specify the goods and services subject to 0% value-added tax rate, and apply thresholds as appropriate.</p>	<p>Government of Australia – \$180,000 (TA only )</p>
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Note: During the 2000s, the Government consolidated some SOEs into larger entities, called GCs, and established SEGs—a loose alliance of several SOEs with similar business interests—with the intention of creating globally competitive SOEs. By end 2013, there were around 100 GCs and SEGs.

ADB = Asian Development Bank, ADF = Asian Development Fund, CIT = corporate income tax, DFID = Department for International Development of the United Kingdom, EMCC = Economic Management Competitiveness Credit, GC = general corporation, GDP = gross domestic product, GSO = General Statistical Office, JICA = Japan International Cooperation Agency, OCR = ordinary capital resources, SECO = Swiss State Secretariat for Economic Affairs, SEG = state economic group, SOE = state-owned enterprise, TA = technical assistance, VAS = Viet Nam Accounting Standards, VAT = value-added tax.

Source: Asian Development Bank.

## POLICY MATRIX

Sub-Objectives	EMCC 1 Prior Action	EMCC 2 Prior Action (This Program)	EMCC 3 Trigger	Results		
				Baseline	Status	Target End-2015
<b>1) Enhanced Banking Sector Stability</b>	1.1 GOV has formally adopted a comprehensive Credit Institutions restructuring plan and direction on related policy actions including enhancing role of foreign participation in domestic commercial banks, incentives for consolidation of banks (especially weak banks) and a plan to deal with NPLs ( <i>Decision 254/QD-TTg, March 1, 2012</i> )	1.3 GOV has issued Decree Number 01/2014/ND-CP dated January 3, 2014 amending Decree 69/2007/ND-CP dated April 20, 2007 to enable increased foreign investor participation in domestic commercial banks.	1.5 Public reporting on the ratio of NPLs across the banking system based on implementation of Circular 02 on loan loss classification and provisioning. The SBV has reported to the World Bank the level of provisioning in commercial banks in accordance with Circular 02 based on audited financial statements for the year ending December 31, 2014.	<ul style="list-style-type: none"> <li>• RI-1: Reduction in reported NPLs (SBV)<sup>1</sup></li> <li>• RI-2: Number of banks with 20% foreign strategic ownership. Baseline = 6</li> </ul>	<ul style="list-style-type: none"> <li>• To be determined when Government publishes revised NPL figure under Circular 02</li> <li>• 6 banks</li> </ul>	<ul style="list-style-type: none"> <li>• RI-1 target (end of 2015) = 5% or less</li> <li>• RI-2 target: 10 banks</li> </ul>
	1.2 SBV has issued a Circular to improve banking supervision through strengthened regulations on asset classification, internal credit rating, and loan loss provisioning to better address credit risks ( <i>Circular 02/2013/TT-NHNN, January 21, 2013</i> )	1.4 GOV, through Prime Minister has issued Decision Number 843/QD-TTg dated May 31, 2013, and has issued Decree Number 53/2013/ND-CP dated May 18, 2013, providing a comprehensive policy framework to address the problem of NPLs across the banking	1.6 GOV has instituted special portfolio and operational audit of at least one systemically important financial institution.			

<sup>1</sup> This is based on Vietnam Accounting Standards. Whilst there are concerns over the accuracy of official NPL reporting, there are no other regular NPL estimates. It is expected that Circular 02 will be implemented starting June 2014 and that the authorities will be able to report on NPLs based on these new standards.

<b>2) Maintained Fiscal Discipline</b>	2.1 GOV has adopted a Decision to strengthen the institutional framework for debt management and establish prudential debt thresholds for medium-term fiscal sustainability ( <i>Decision 958/QD-TTg, July 27, 2012</i> )	sector. 2.2 GOV through Prime Minister, has issued Decision Number 689/QD-TTg, dated May 4, 2013, approving a medium-term debt management program for the period 2013-2015. 2.3 GOV through State Treasury, has implemented the treasury single account procedures in at least two commercial banks and provided reports on the implementation.	2.4 GOV has prepared an updated Medium-Term Debt Management Program for the period 2014-2016 with strengthened risk analysis based on additional scenarios and updated macroeconomic assumptions. 2.5 GOV has fully implemented TSA arrangements across all sub-national authorities in Viet Nam.	<ul style="list-style-type: none"> <li>• RI-3: Number of years the public debt is below the government target of 65 percent of GDP. Baseline (end 2012) = 1 (<i>MOF</i>)</li> <li>• RI-4: The primary fiscal balance average over the past three years. Baseline (end 2012) = -2.7% of GDP</li> <li>• RI-5: Consolidation of Treasury Main Accounts as a result of TSA implementation. Baseline (end 2012) = 700 accounts (<i>State Treasury, MOF</i>)</li> </ul>	<ul style="list-style-type: none"> <li>• 52% (end of 2012)</li> <li>• -3.7% of GDP</li> <li>• 550 accounts by end of 2013</li> </ul>	<ul style="list-style-type: none"> <li>• RI-3 target (end of 2015) = 4.</li> <li>• RI-4 target: &lt; -4% of GDP</li> <li>• RI-4 target (end of 2015) = 5 accounts.</li> </ul>
<b>3) Improved Public Administration and Accountability</b>	3.1 GOV has issued Law 27/2012/QH13 amending Law 55/2005/QH11 on Anti-Corruption and stricter transparency guidelines in areas and sectors most vulnerable to corruption ( <i>Law 27/2012/QH13 dated November 23, 2012</i> )	3.3 GOV has issued Decree 59/2013/ND-CP dated June 17, 2013, Decree 78/2013/ND-CP dated July 17, 2013, and Decree 90/2013/ND-CP dated August 8, 2013, to regulate and guide the implementation of the Amended Law on Anti-Corruption, including increased transparency, income		<ul style="list-style-type: none"> <li>• RI-6: Increased disclosure of information on land management. Baseline (2010): 6 out of 66 websites posted maps of current land use situations (<i>Land Information Disclosure Surveys</i>)</li> <li>• RI-7: Enhanced disclosure of public</li> </ul>	<ul style="list-style-type: none"> <li>• 9 provinces by end of 2013</li> <li>• 59% of declarations</li> </ul>	<ul style="list-style-type: none"> <li>• RI-6 target (end of 2015) = 45.<sup>2</sup></li> <li>• RI-7 target = 50% of declarations</li> </ul>

<sup>2</sup> Land is among the five most corrupt sectors according to the 2012 Anti-Corruption Diagnostic.

		and asset declaration of public officials, and accountability of public agencies and officials.		officials' income and asset declarations. Baseline (2011): None disclosed ( <i>Annual Anti-Corruption Report to National Assembly</i> ).	disclosed by end of 2013	disclosed by 2015. <sup>3</sup>
	3.2 GOV has issued Law 21/2012/QH13 amending Law 78/2006/QH11 on Tax Administration to streamline procedures; introduce Advance Pricing Arrangements; increase risk-based management; and improve transparency ( <i>Law 21/2012, November 20, 2012 amending Law 78/2006/QH11</i> )			<ul style="list-style-type: none"> <li>RI-8: Businesses reporting less negotiation with tax authority as part of doing business. Baseline (2011): 41.1% by median province (PCI)</li> </ul>	<ul style="list-style-type: none"> <li>39.36% at end of 2012</li> </ul>	<ul style="list-style-type: none"> <li>RI-8: target (end of 2015) = 35%</li> </ul>
<b>4) Strengthened State Enterprise Management</b>	4.1 GOV has issued a Decision to restructure SEGs and GCs, which includes a classification of these groups and corporations by level of ownership, and time bound actions with responsibilities across government agencies ( <i>Decision 929/QD-TTg,</i>	4.2 GOV through Prime Minister has issued Decisions on restructuring SEGs that commit all SEGs to divest 5 high risk non-core activities (banking, insurance, real estate, securities trading, and investment funds) by 2015. <sup>4</sup>	4.4 GOV has submitted a draft Law to NA setting out rules, regulations and oversight for investment of state capital in State Enterprises including consolidation of state accountabilities.	<ul style="list-style-type: none"> <li>RI-9: Reduced investments by SEGs in high-risk noncore areas as a share of SEG capital. Baseline (end 2012) = (i) 0.13% for securities; (ii) 0.06% for</li> </ul>	<ul style="list-style-type: none"> <li>(i) 0.13% for securities;</li> <li>(ii) 0.06% for investment fund;</li> <li>(iii) 0.16% for insurance;</li> <li>(iv) 1.53% for banking; and</li> <li>(v) 0.70% for real estate</li> </ul>	<ul style="list-style-type: none"> <li>RI-9: target (i) 0% for securities;</li> <li>(ii) 0% for investment fund;</li> <li>(iii) 0.8% for insurance;</li> <li>(iv) 0.8% for banking; and</li> <li>(v) 0.3% for real estate</li> </ul>

<sup>3</sup> The amended Law on Anti-Corruption requires that asset and income declarations of public officials be disclosed at the office of the filers.

<sup>4</sup> PM Decision 320/QD-TTg dated February 8, 2013, PM Decision 1782/QD-TTg dated November 23, 2012, PM Decision 314/QD-TTg dated February 7, 2013, PM Decision 38/QD-TTg dated January 5, 2013, PM Decision 753/QD-TTg dated May 17, 2013, PM Decision 2097/QD-TTg dated December 28, 2012, and PM Decision 46/QD-TTg dated January 5, 2013; and government Decree 71/2013/ND-CP dated July 11, 2013; on restructuring of state economic groups.



	<p>July 17, 2012)</p>	<p>4.3 GOV has issued Decree Number 61/2013/ND-CP dated June 25, 2013, to regulate financial supervision, performance assessment, and disclosure of financial information of state owned enterprises.</p>	<p>4.5 GOV has completed divestment of five high-risk non-core businesses from at least five SEGs.</p> <hr/> <p>4.6 GOV has implemented Decree 61 with publication of key financial and operational performance of all SEGs.</p>	<p>investment fund; (iii) 0.16% for insurance; (iv) 1.53% for banking; and (v) 0.70% for real estate; (<i>Report 490/BC-CP, MOF</i>)</p> <ul style="list-style-type: none"> <li>• RI-10: All SEGs disclose their audited financial statements on their websites. Baseline (end 2012) = 4 SEGs</li> <li>• RI-11: MOF discloses the reports on financial supervision and financial supervision result of SEGs/GCs on its website. Baseline (end 2012) = 0</li> </ul>	<ul style="list-style-type: none"> <li>• 4 SEGs</li> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• RI-10: target (end of 2015) = 8</li> <li>• RI-11: target (end of 2015) = at least 30% of SEGs/GCs</li> </ul>
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<b>5) Enhanced Public Investment Management</b>	5.1 GOV has submitted to the NA a Report on the development investment status of 2012 and Medium-Term Investment Plan for the period 2013-2015 to set medium-term capital expenditure priorities in the State Budget and including off-budget bond financing for 2013 ( <i>Submission of Report 283/BC-CP, October 19, 2012</i> )	5.2 GOV through Prime Minister, has issued Directive 14/CT-TTg, dated June 28, 2013, to accelerate clearance of capital expenditure arrears and report to the NA the current status and solutions going forward.	5.3 GOV has issued a Public Investment Law, establishing a comprehensive legal framework to improve efficiency of capital spending; reduce fragmentation in public investments; align public investments to national development plans; address leakage and waste; and improve public disclosure and transparency.	<ul style="list-style-type: none"> <li>• RI-12: Reduction in ratio of capital spending to capital budget. Baseline (average 2009–2011) = 135%<sup>5</sup></li> <li>• RI-13: Reduction in total level of capital expenditure arrears from the central budget. Baseline (June 2013) = D43 trillion</li> </ul>	<ul style="list-style-type: none"> <li>• 103% (2012 first estimates)</li> <li>• D43 trillion</li> </ul>	<ul style="list-style-type: none"> <li>• RI-12 target (end of 2015) = 115%</li> <li>• RI-13 target (end of 2015) = 30%</li> </ul>
<b>6) More Enabling Business Environment</b>	6.1 GOV has adopted a Decision for ministries and provincial authorities to review the impact of administrative procedures on the business environment and recommend actions to streamline procedures, avoid duplication, and reduce regulatory burden on the private sector ( <i>Decision 263/QD-TTg, March 5, 2012</i> ) 6.2 MPI has issued a Circular to enable adoption of e-signature and e-payment procedures to allow the roll out of e-business registration, and the	6.3 GOV through National Assembly, has adopted the Amended Law on Procurement to strengthen transparency and competition in public procurement	6.6 The Administrative Procedures Control Agency has adopted a Monitoring and Evaluation system for administrative procedures control. 6.7 GOV has adopted circulars for implementation the amended Procurement Law.	<ul style="list-style-type: none"> <li>• RI-14: Reduced percentage of domestic firms spending over 10% of their time dealing with bureaucracy or bureaucratic regulations. Baseline (2011 survey) = 11.26% in median province (PCI)</li> <li>• RI-15: Reduced percentage of direct contracting over total contracting value. Baseline (end 2012) = 40% (average for 2010–2012, MPI)</li> </ul>	<ul style="list-style-type: none"> <li>• 13.85% (2012 PCI survey)</li> <li>• 35.7% (end of 2012)</li> </ul>	<ul style="list-style-type: none"> <li>• RI-14 target (end of 2015) = 10% or less in median province</li> <li>• RI-15 target (end of 2015) = 30%</li> </ul>

<sup>5</sup> Including off-budget capital expenditure

	public disclosure of business registration information ( <i>Circular 01/2013/TT-BKHDT, January 21, 2013</i> )					
		6.4 GOV through NA has adopted the Amended Law on CIT to establish competitive corporate income tax rates, clarify rules and regulations on transfer pricing, and introduce provisions on deductible expenses.	6.8 GOV has adopted a Decision to increase the percentage of foreign investors' participation in selected areas in the stock market.	<ul style="list-style-type: none"> <li>RI-16: Reduced time needed to comply with tax payment requirements. Baseline (2012) = (i) 320 hours for VAT; (ii) 217 hours for CIT (Paying Taxes Report)</li> </ul>		<ul style="list-style-type: none"> <li>RI-16 target (end of 2015) = (i) 220 hours for VAT and (ii) 150 hours for CIT</li> </ul>
		6.5 GOV through NA has adopted the Amended Law on VAT to adjust the group of goods and services exempt from value added tax, clearly specify the goods and services subject to 0% value added tax rate, and apply thresholds as appropriate.				

CIT = corporate income tax, EMCC = Economic Management Competitiveness Credit, GCs = general corporations, GDP = gross domestic product, GOV = Government of Viet Nam, MOF = Ministry of Finance, MPI = Ministry of Planning and Investment, NA = National Assembly, NPL = nonperforming loan, PCI = provincial competitiveness index, PM = Prime Minister, RI = results indicator, SBV = State Bank of Viet Nam, SEG = state economic group, TSA = single treasury account, VAT = value-added tax.

## DESCRIPTION OF POLICY ACTIONS AND PROGRESS

1. **Reform Area 1: Banking Sector.** Enhancing the sector's stability means restructuring weak banks, prioritizing policies for dealing with systemic risks such as nonperforming loans (NPLs), and improving banking supervision. Policy actions under the first Economic Management and Competitiveness Credit (EMCC-1) were: (1.1) the government adopted a comprehensive plan for restructuring credit institutions, and direction on related policy actions such as more foreign participation in domestic commercial banks, incentives for consolidation of banks, and a plan to deal with NPLs (Decision 254/QD-TTg dated 1 March 2012); and (1.2) the State Bank of Viet Nam (SBV) improved banking supervision by strengthening regulations on asset classification, internal credit rating, and loan loss provisioning to better manage credit risks (SBV Circular 02/2013/TT-NHNN dated 21 January 2013).
2. The government has taken steps to implement Decision 254. To promote higher liquidity, SBV implemented tighter credit policies during 2012. SBV also forced the mergers of some of the weak banks and capped new lending of the weak banks at the volume of debt collected. These measures have eased short-run liquidity pressures and prevented the problems from spreading throughout the system, but they do not solve the fundamental weaknesses in the finance sector. Circular 02 was originally scheduled for June 2013 but implementation was delayed until June 2014 to allow banks more time to prepare for adoption of new loan classification and provisioning standards. Consequently, the officially reported NPL level increased to more accurate level but remains underreported because Circular 02 was slightly amended to phase in more challenging aspects of implementation, such as systematic reporting of financial data to the credit information center.
3. Policy actions under EMCC-2 involved (1.3) allowing increased foreign investor participation in domestic commercial banks (Decree 01/2014/ND-CP dated 3 January 2014) and (1.4) providing a comprehensive policy framework to solve the problem of nonperforming loans across the banking sector (Decision 843/QD-TTg dated 31 May 2013, and Decree 53/2013/ND-CP dated 18 May 2013).
4. Decree 01/2014 potentially allows for foreign participation in domestic banks as a way to meet recapitalization needs of the banking sector. The revised decree relaxes the requirements on foreign investors and reduces the number of transactions required for registration and approval by the SBV. The SBV has started to implement Decision 843, a dominant element of which is the Viet Nam Asset Management Company (VAMC), established in July 2013. The VAMC's objectives include restructuring bad debts and stimulating credit growth. The VAMC is responsible for the purchase, recovery, and restructuring of bad debt. By the end of 2013, the VAMC had purchased around \$1.9 billion worth of bad debt from 35 banks. If adequately resourced and effectively supervised by the SBV, the VAMC could play an important role in overall NPL resolution. Reforms are also needed for the current regulatory framework to allow the VAMC to take swift action on the restructuring and sale of purchased debts, including insolvent companies.
5. Tentative EMCC-3 policy actions involve (1.5) public reporting on the ratio of NPLs across the banking system based on implementation of Circular 02 on loan loss classification and provisioning—the SBV will report to EMCC partners the level of provisioning in commercial banks in accordance with Circular 02 and based on audited financial statements for the year ending 31 December 2014; and (1.6) establishment of a special portfolio and operational audit of at least one systemically important financial institution.

6. **Reform Area 2: Fiscal Policy.** More transparency is needed, as is discipline to balance government revenues and expenditures in a way that is consistent with the long-term budget constraints of the public sector. Prior action under EMCC-1 involved (2.1) strengthening the institutional framework for debt management and establishing prudential debt thresholds for medium-term fiscal sustainability (Decision 958/QD-TTg dated 27 July 2012). A number of steps have been taken to better monitor and report on these thresholds, such as the latest biannual Public Debt Bulletin (issued in July 2013), which, for the first time, consolidates information on both external and domestic government debt. As the capacity to monitor and analyze debt dynamics gradually improves, attention now needs to turn to the composition of the public debt portfolio.

7. Policy actions under EMCC-2 required the government to (2.2) approve the medium-term debt management program (MTDMP), 2013–2015 (Decision 689/QD-TTg dated 4 May 2013) and (2.3) implement treasury single account (TSA) procedures in at least two commercial banks and provide reports on the implementation. In the MTDMP, the government for the first time set medium-term targets across its entire debt portfolio, including for public and publicly guaranteed external debt; domestic debt; domestic and external debt guarantees broken down by recipients; and off-budget bond issuance. TSA implementation is important because the current cash management arrangement is inefficient and leads to higher borrowing costs than necessary.

8. Tentative EMCC-3 policy actions require the government to (2.4) prepare an updated MTDMP for 2014–2016 with strengthened risk analysis based on additional scenarios and updated macroeconomic assumptions, and (2.5) have fully implemented TSA arrangements across all subnational authorities in Viet Nam.

9. **Reform Area 3: Public Administration and Accountability.** Improving public administration and accountability requires more transparency and simplified public administration procedures. Prior actions under EMCC-1 required the government to (3.1) issue the Amended Law on Anti-Corruption and stricter transparency guidelines in areas and sectors most vulnerable to corruption (Law 27/2012/QH13 dated 23 November 2012); and (3.2) to issue the Amended Law on Tax Administration to streamline procedures, introduce advance pricing arrangements, increase risk-based management, and improve transparency (Law 21/2012 dated 20 November 2012).

10. Policy action under EMCC-2: (3.3) the government issued decrees to regulate and guide the implementation of the Amended Law on Anti-Corruption, including more transparency, income and asset declarations of public officials, and accountability of public agencies and officials (Decree 59/2013/ND-CP dated 17 June 2013, Decree 78/2013/ND-CP dated 17 July 2013, and Decree 90/2013/ND-CP dated 8 August 2013). These follow-up activities are critical to more objective reporting on anti-corruption efforts. The government has committed to report on the actual progress by the end of 2014.

11. **Reform Area 4: State Enterprise Management.** Strengthening state-owned enterprise (SOE) management requires successful restructuring of large SOEs, better corporate governance (including information disclosure), and improvement of the regulatory environment for SOEs. Prior action under EMCC-1: (4.1) the government issued a decision to restructure

state economic groups (SEGs) and general corporations (GCs)<sup>1</sup>, which includes classification of these entities by level of ownership, and time-bound actions with responsibilities across government agencies (Decision 929/QD-TTg dated 17 July 2012).

12. Progress in restructuring large SOEs has been slow because of a weak external environment, technical complexity of the reform, inadequate interministerial coordination and oversight, and political economy issues. The EMCC program, through policy and advisory technical assistance, is maintaining the dialogue with the government on the regulatory environment for SOE restructuring. Topics are: (i) clear rationale for private ownership limits on SOEs in different industries, (ii) barriers to entry in specific industries, and (iii) retrenchment policies for SOE workers. Pilot restructuring of SOEs by the Asian Development Bank (ADB) has yielded pertinent lessons.

13. Policy actions under EMCC-2 required the government to (4.2) issue decisions on the restructuring of SEGs that commit all SEGs to divest five high-risk noncore activities (banking, insurance, real estate, securities trading, and investment funds) by 2015,<sup>2</sup> and (4.3) to issue a decree to regulate financial supervision, performance assessment, and disclosure of financial information of SOEs (Decree 61/2013/ND-CP dated 25 June 2013).

14. By the end of September 2013, about 55% of SEGs and GCs had prepared restructuring plans that were approved, but it is too early to assess implementation results. There are some concerns that the plans are too ambitious under current market conditions. Although the plans define what is to be divested, financial and operational analysis of why and how these assets should be divested is limited. Experience to date indicates that operational restructuring of SEGs and GCs is complex and stretches the capacity of SOE management, and that various political and social risks may slow implementation. In February 2014, the government approved share sales at values below par, which could help in setting prices that attract investors. The new Decree 61 rationalizes and consolidates the legislative framework and provides greater clarity on public disclosure of financial information. ADB is providing capacity-building technical assistance to the Ministry of Finance for analyzing and reporting on SOE performance.

15. Tentative EMC-3 policy actions require the government to (4.4) submit a draft law to the National Assembly that sets out rules, regulations, and oversight for investment of state capital in state enterprises, including consolidation of state accountabilities; (4.5) complete the divestment of five high-risk noncore businesses from at least five SEGs; and (4.6) implement Decree 61 by publishing key financial and operational performance data of all SEGs.

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<sup>1</sup> During the early 1990s and early 2000s, the government concurrently consolidated some SOEs into larger entities called GCs and established SEGs—a loose alliance of several SOEs with similar business interests—with the intention of creating globally competitive SOEs. By the end of 2013, there were around 100 GCs and SEGs.

<sup>2</sup> Decision 320/QD-TTg dated 8 February 2013, Decision 1782/QD-TTg dated 23 November 2012, Decision 314/QD-TTg dated 7 February 2013, Decision 38/QD-TTg dated 5 January 2013, Decision 753/QD-TTg dated 17 May 2013, Decision 2097/QD-TTg dated 28 December 2012, Decision 46/QD-TTg dated 5 January 2013, and Decree 71/2013/ND-CP dated 11 July 2013 on restructuring of SEGs.

16. **Reform Area 5: Public Investment Management.** Enhancing public investment management requires improving public investment planning, cutting capital spending, and increasing the efficiency of projects. Prior action under EMCC-1: (5.1) the government submitted to the National Assembly a report on the development investment status of 2012 and the Medium-Term Investment Plan, 2013-2015 which sets the medium-term capital expenditure priorities in the state budget, including off-budget bond financing for 2013 (Submission of Report 283/BC-CP dated 19 October 2012).

17. Lack of adequate appraisal and costing frequently leads to delays in project start-up, cost overruns, and unfinished capital works. Downstream, provincial authorities had been operating under relatively soft budget constraints. The Medium-Term Investment Plan set ceilings for all government capital expenditure (central, subnational, and off-budget) for 2013–2015. These policies prioritized budget allocations for ongoing projects scheduled for completion in the current or next fiscal year. Other priorities included clearance of arrears to private contractors, counterpart funding for aid-funded projects, and repayment of advances borrowed through off-budget bonds. These measures have imposed greater discipline on managing the capital budget and led to a consolidation of capital spending.

18. Policy action under EMCC-2: (5.2) the government issued a directive to accelerate clearance of capital expenditure arrears and to report to the National Assembly on the current status and proposed solutions (Directive 14/CT-TTg dated 28 June 2013). All implementing ministries and agencies have since reported to the Ministry of Planning and Investment and the Ministry of Finance on the current status of arrears and how they propose to handle these. These reports were consolidated into one report to the National Assembly that provided a detailed breakdown of arrears by province.

19. The National Assembly issued a Public Investment Law no.49/2014/QH13 at the 7th session dated 18 June 2013. This was originally a tentative policy action under EMCC-3. The Law that provides a comprehensive legal framework for improving the efficiency of capital spending, reducing fragmentation in public investments, aligning public investments with national development plans, minimizing leakage and waste, and improving public disclosure and transparency.

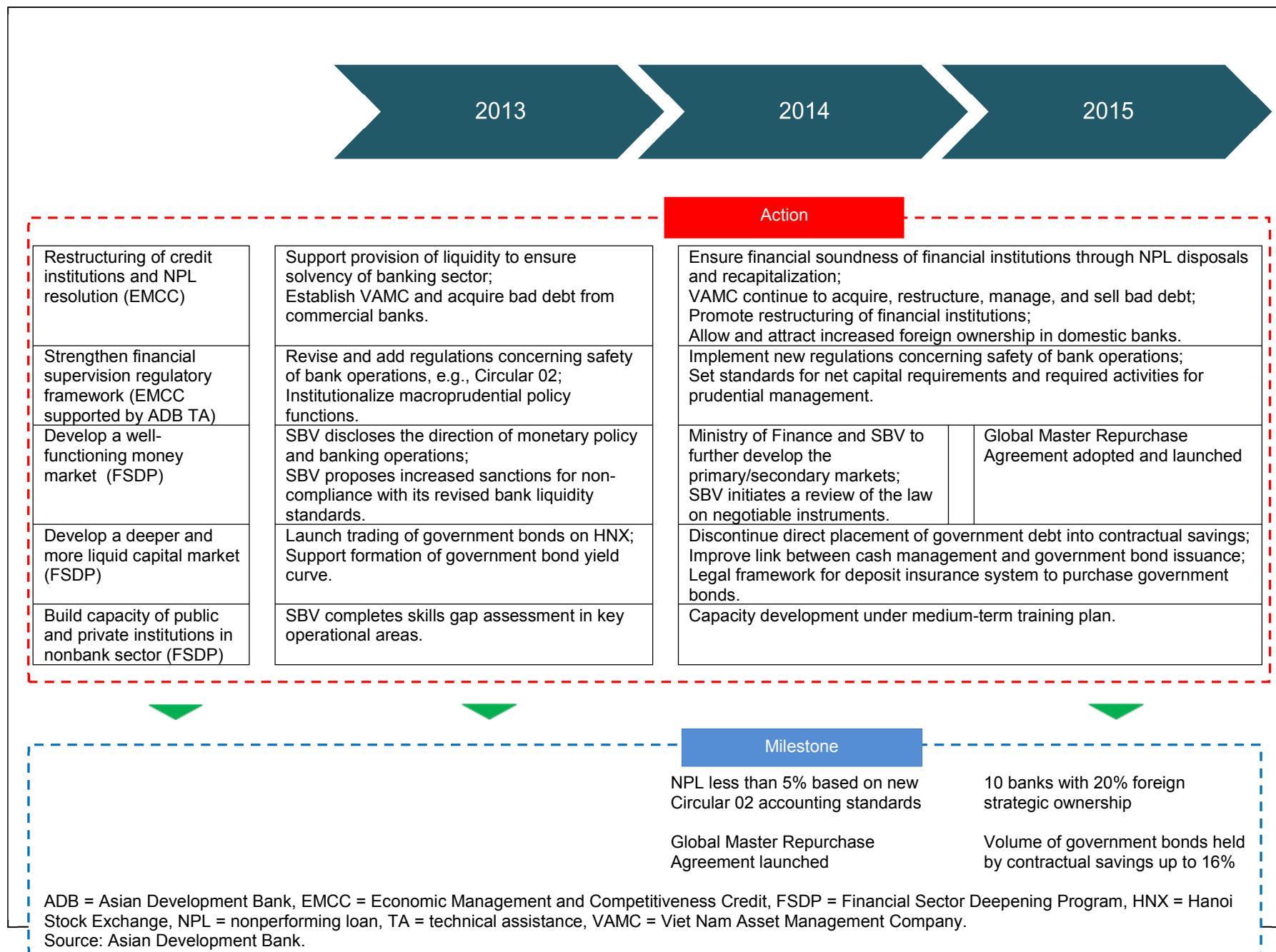
20. **Reform Area 6: Business Environment.** A more enabling business environment requires simplified administrative procedures and a transparent and clear regulatory structure that encourages competition. Prior action under EMCC-1 involved (6.1) a decision for ministries and provincial authorities to review the impact of administrative procedures on the business environment and to recommend actions to streamline procedures, avoid duplication, and reduce the regulatory burden on the private sector (Decision 263/QD-TTg dated 5 March 2012); and (6.2) MPI has issued a Circular guiding business registration, which includes guiding on online business registration procedures (Circular 01/2013/TT-BKHĐT, January 21, 2013).

21. Policy action under EMCC-2 required the government to (6.3) adopt, through the National Assembly, the Amended Law on Procurement to strengthen transparency and competition in public procurement (Law 27/2012/QH13 dated 23 November 2013; ADB provided technical inputs to the drafting of the amended law); (6.4) adopt the Amended Law on Corporate Income Tax to establish competitive corporate income tax rates, clarify rules and regulations on transfer pricing, and introduce provisions on deductible expenses (Law 27/2012/QH13 dated 23 November 2013); and (6.5) adopt the Amended Law on Value Added Tax to adjust the group of goods and services exempt from value-added tax, clearly specify the goods and services subject to the 0% value-added tax rate, and apply thresholds as appropriate (Law

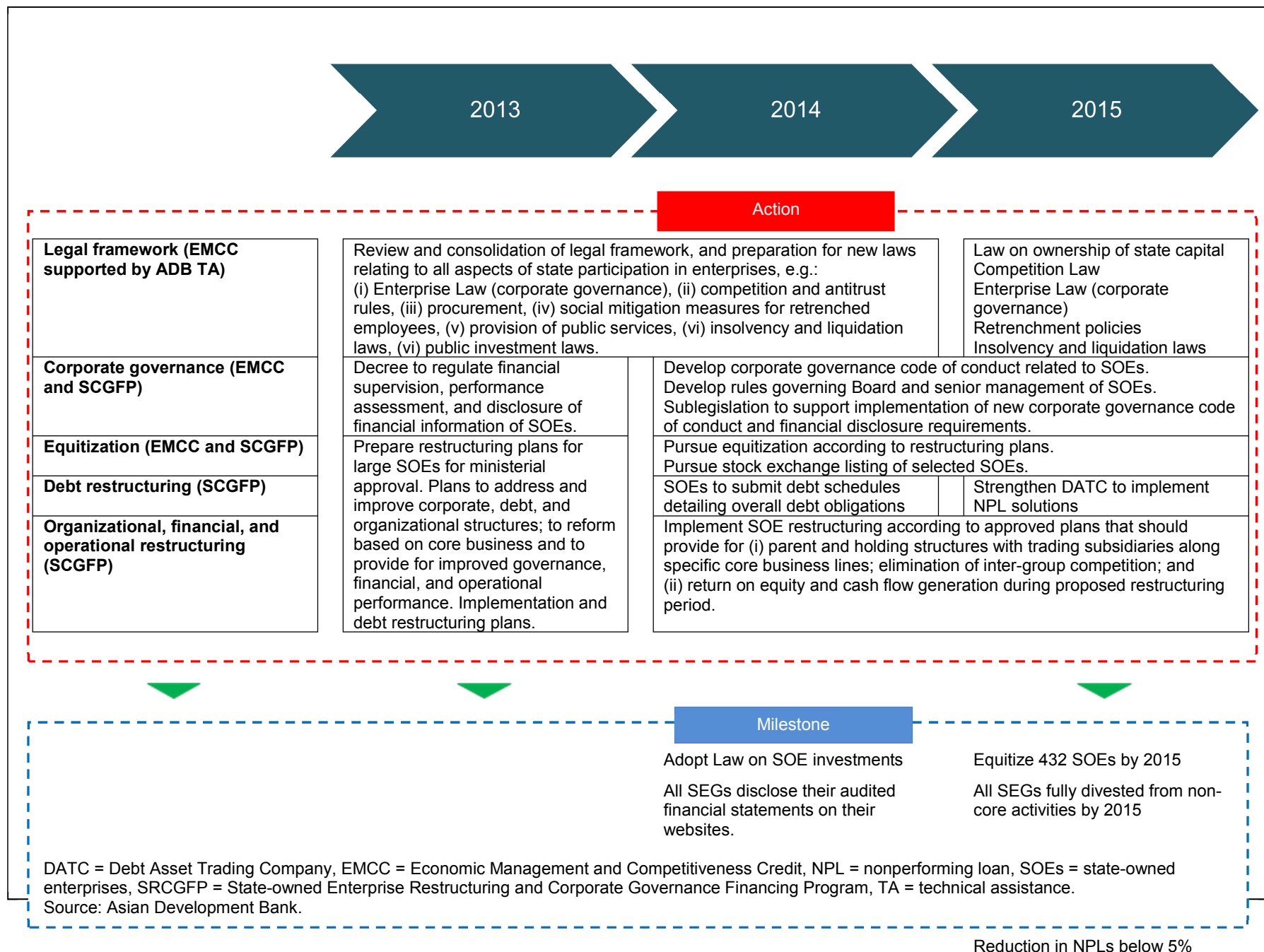
27/2012/QH13 dated 23 November 2013). Tentative EMCC-3 policy actions require (6.6) the Administrative Procedures Control Agency to adopt a monitoring and evaluation system for the control of administrative procedures, (6.7) the Government has adopted Decree 43/2014/ND-CP for implementation of the Procurement Law (43/2013/QH13) dated 26 November 2013, and (6.8) the government to issue a decision to increase the percentage of foreign investors' participation in selected areas of the stock market. ADB will continue to provide technical assistance on drafting of secondary legislation related to the implementation of the amended procurement law. The Government has further requested ADB to provide technical assistance for: (i) establishing a Code of Conduct/Integrity Pact, (ii) increasing training activities for state procurement management staff (policy making, monitoring and supervision of procurement) as well as procurement practitioners, and (iii) strengthening supervision on procurement.



### MAPPING OF SUPPORT FOR FINANCE SECTOR REFORMS



### MAPPING OF SUPPORT FOR STATE-OWNED ENTERPRISE REFORMS



**MAPPING OF ADB SUPPORT  
FOR ECONOMIC MANAGEMENT COMPETITIVENESS CREDIT**

No	Policy Actions under EMCC	ADB Intervention
1.	<p><b>Enhanced Banking Sector Stability</b></p> <p>1.1 Government formally adopted a comprehensive plan for restructuring credit institutions, and a direction on related policy actions such as enhancing the role of foreign participation in domestic commercial banks, incentives for consolidation of banks, and a plan to deal with NPLs—Decision 254/QD-TTg dated 1 March 2012</p> <p>1.2 SBV improved banking supervision through strengthened regulations on asset classification, internal credit rating, and loan loss provisioning to better manage credit risks—SBV issued Circular 02/2013/TT-NHNN dated 21 January 2013</p> <p>1.3 Allowed increased foreign investor participation in domestic commercial banks—Decree 01/2014/ND-CP dated 3 January 2014</p> <p>1.4 Provided a comprehensive policy framework to solve the problem of NPLs across the banking sector—Decision 843/QD-TTg dated 31 May 2013, and Decree 53/2013/ND-CP dated 18 May 2013</p> <p>1.5 Public reporting on the ratio of NPLs across the banking system based on implementation of Circular 02 on loan loss classification and provisioning—SBV reports to EMCC partners the level of provisioning by commercial banks in accordance with Circular 02 and based on audited financial statements for the year ending 31 December 2014</p> <p>1.6 Instituting special portfolio and operational audit of at least one systemically important financial institution</p>	<p>1.2 Supported MOF and SBV in assessing gaps between VAS and IAS (FSDP, SP1)</p> <p>1.2 VAS more than 50% aligned with IAS by 2015 (FSDP, SP2)</p> <p>1.5 At least 50% of IAS supervision staff trained on examination and inspection by 2015 (FSDP, SP2)</p> <p><b>Cross-cutting</b></p> <ul style="list-style-type: none"> <li>• Supporting liquidity management and the monetary transmission mechanism through development of a well-functioning money market (FSDP)</li> <li>• Conducted commercial bank survey to assess effectiveness of recent policy changes in safeguarding money market (FSDP, SP1)</li> <li>• Reducing reliance on a banking sector dominated by state-owned commercial banks by supporting the development of a deeper and more liquid capital market (FSDP)</li> <li>• Capacity building of public and private nonbank financial institutions (FSDP)</li> <li>•</li> </ul>
2.	<p><b>Maintenance of Fiscal Discipline</b></p> <p>2.1 Strengthened institutional framework for debt management and established prudential debt thresholds for medium-term fiscal sustainability—Decision 958/QD-TTg dated</p>	<p>2.1 Institutional capacity for debt management (FSDP, SP1)</p> <p>2.2 ADB and the World Bank provided joint training to MOF for debt sustainability</p>

No	Policy Actions under EMCC	ADB Intervention
	<p>27 July 2012</p> <p>2.2 Approved medium-term debt management program for 2013–2015—Decision 689/QD-TTg dated 4 May 2013</p> <p>2.3 Government to implement treasury single account procedures in at least two commercial banks and provide reports on the implementation</p>	<p>analysis, which included several seminars and workshops. Capacity building is ongoing and the target is for the debt management unit to conduct its own debt sustainability analysis in 2014</p>
3.	<p><b>Improved Public Administration and Accountability</b></p> <p>3.1 Government issued Amended Law on Anti-Corruption and stricter transparency guidelines in areas and sectors most vulnerable to corruption—Law 27/2012/QH13 dated 23 November 2012</p> <p>3.2 Government issued Amended Law on Tax Administration to streamline procedures, introduce advance pricing arrangements, increase risk-based management, and improve transparency—Law 21/2012 dated 20 November 2012</p> <p>3.3 Government issued decrees to regulate and guide the implementation of the Amended Law on Anti-Corruption, including increased transparency, income and asset declaration of public officials, and accountability of public agencies and officials—Decree 59/2013/ND-CP dated 17 June 2013, Decree 78/2013/ND-CP dated 17 July 2013, and Decree 90/2013/ND-CP dated 8 August 2013</p>	<p>3.2 Full implementation of the e-customs system for commercial imports and exports through Decree 87/2012/ND-CP (SME development program loan, SP2)</p> <p>3.2 Simplified the payment system through Decision 85/2011, enabling speedy release of goods from customs (SME development program loan, SP2)</p> <p>3.2 Reduced the submission frequency of VAT declarations from monthly to quarterly, under the Amended Law on Tax Administration (SME development program loan, SP2)</p>
4.	<p><b>Strengthened State Enterprise Management</b></p> <p>4.1 Government issued decision to restructure SEGs and GCs,<sup>1</sup> which includes classification of these entities by level of ownership, and time-bound actions with responsibilities across government agencies—Decision 929/QD-TTg dated 17 July 2012</p>	<p>4.1 ADB provided policy advisory support to the government on drafting of Decision 929 based on lessons from pilot restructuring of SEGs (SRCGFP)</p> <p>4.2 Building capacity of a pilot SOE to prepare</p>

<sup>1</sup> During the early 1990s and early 2000s, the government concurrently consolidated some SOEs into larger entities called GCs, and established SEGs—a loose alliance of several SOEs with similar business interests—with the intention of creating globally competitive SOEs. By the end of 2013, there were around 100 GCs and SEGs.

No	Policy Actions under EMCC	ADB Intervention
	<p>4.2 Government to issue decisions on restructuring of SEGs that commit all SEGs to divest five high-risk noncore activities (banking, insurance, real estate, securities trading, and investment funds) by 2015</p> <p>4.3 Government issued decree to regulate financial supervision, performance assessment, and disclosure of financial information of SOEs—Decree 61/2013/ND-CP dated 25 June 2013</p> <p>4.4 Government to submit a draft law to the National Assembly setting out rules, regulations, and oversight for investment of state capital in state enterprises, including consolidation of state accountabilities</p> <p>4.5 Government to complete divestment of five high-risk noncore businesses from at least five SEGs</p> <p>4.6 Government to implement Decree 61 by publishing key data on financial and operational performance of all SEGs</p>	<p>and implement restructuring plans during due diligence process (SRCGFP)</p> <p>4.4 Providing input on drafting and review of legal framework for management of state capital at SOEs (SRCGFP)</p> <p>4.5 Restructuring plans under ADB's pilot SOE restructuring program include divestment triggers (SRCGFP)</p> <p>4.6 Developing monitoring and evaluation indicators to track SOE reform progress under SOE program loan (SRCGFP)</p> <p><b>Cross-cutting</b></p> <ul style="list-style-type: none"> <li>• Feeding lessons from ADB's pilot SOE restructuring into policy dialogue.</li> <li>• Prepared an analytical paper and policy note on the labor market impact of SOE restructuring in Viet Nam. This work was done jointly with the World Bank and the International Labour Organization.</li> <li>• Support for government in developing a long-term SOE reform road map with activities and milestones under SOE program loan</li> </ul>
	<p><b>Enhanced Public Investment Management</b></p> <p>5.1 Government submitted to the National Assembly a report on the development investment status of 2012 and Medium-Term Investment Plan, 2013–2015 to set medium-term capital expenditure priorities in the state budget, including off-budget bond financing for 2013—Submission of Report 283/BC-CP dated 19 October 2012</p> <p>5.2 Government issued directive to accelerate clearance of capital expenditure arrears and to report to the National Assembly on the current status and proposed solutions—Directive 14/CT-TTg dated 28 June 2013</p> <p>5.3 Government to issue a public investment law,</p>	

No	Policy Actions under EMCC	ADB Intervention
	<p>establishing a comprehensive legal framework to improve efficiency of capital spending, reduce fragmentation in public investments, align public investments with national development plans, minimize leakage and waste, and improve public disclosure and transparency</p>	
6.	<p><b>More Enabling Business Environment</b></p> <p>6.1 Government issued decision for ministries and provincial authorities to review the impact of administrative procedures on the business environment and recommend actions to streamline procedures, avoid duplication, and reduce regulatory burden on the private sector—Decision 263/QD-TTg dated 5 March 2012</p> <p>6.2 MPI has issued a Circular guiding business registration, which includes guiding on online business registration procedures (Circular 01/2013/TT-BKHĐT, January 21, 2013).</p> <p>6.3 The National Assembly, adopted the Amended Law on Procurement to strengthen transparency and competition in public procurement—Law 43/2013/QH13 dated 23 November 2013</p> <p>6.4 Government adopted the Amended Law on Corporate Income Tax to establish competitive corporate income tax rates, clarify rules and regulations on transfer pricing, and introduce provisions on deductible expenses—Law 27/2012/QH13 dated 23 November 2013</p> <p>6.5 Government adopted the Amended Law on Value Added Tax to adjust the group of goods and services exempt from VAT, clearly specify the goods and services subject to 0% VAT rate, and apply thresholds as appropriate—Law 27/2012/QH13 dated 23 November 2013</p> <p>6.6 APCA to adopt a monitoring and evaluation system for control of administrative procedures</p> <p>6.7 The Government has adopted Decree no. 43/2014/ND-CP for implementation of the Procurement Law no.43/2013/QH13 dated</p>	<p>6.1 Office of Government published on its website all national and provincial administrative procedures affecting businesses (SME development program loan, SP1)</p> <p>6.1 Government issued Decree 63/ND-CP on administrative procedure control to institutionalize the control mechanisms for administrative procedures from drafting to implementation (SME development program loan, SP1)</p> <p>6.1 Government issued Resolution 25/NQ-CP on the simplification of 258 prioritized administrative procedures, including those in tax, custom, land, building, and real estate areas (SME development program loan, SP1)</p> <p>6.1 Prime Minister ratifying 25 ministerial resolutions that allow simplification of about 4,800 administrative procedures. Of these, about 3,800 have already been simplified (SME development program loan, SP2)</p> <p>6.2 MPI implementing the new national web-based business registration, which simplifies and unifies the process across 63 provinces and consolidates all information nationally (SME development program loan, SP1)</p> <p>6.2 Building capacity at provincial registrar offices to implement the new national business registration system (SME development program loan, SP2)</p> <p>6.2 Acknowledging pursuant to Decree 43/2010 the validity of web-based registrations, and streamlining and coordinating issuance of</p>

No	Policy Actions under EMCC	ADB Intervention
	<p>26/11/2013.</p> <p>6.8 Government to issue decision to increase the percentage of foreign investors' participation in selected areas in the stock market</p>	<p>tax and enterprise codes through the national business registration system (SME development program loan, SP2)</p> <p>6.3 Policy advisory services to key stakeholder on drafting of the revised procurement law</p> <p>6.6 Establishment of APCA to regularly review consistency of government agencies' administrative procedures and to simplify them (SME development program loan, SP2)</p> <p>6.6 Enabling APCA to coordinate with ministries, government agencies, and business associations to ensure simplification of national and provincial administrative procedures that affect businesses (SME development program loan, SP2)</p> <p>6.6 APCA conducting RIAs of about 2,700 of the administrative procedures (SME development program loan, SP2)</p> <p>6.7 Policy advisory services to key stakeholder on drafting of circulars for implementation of amended Procurement Law</p> <p><b>Cross-cutting</b></p> <ul style="list-style-type: none"> <li>• National Assembly amended Law on Laws to strengthen provisions on consultations and RIAs (SME development program loan, SP1)</li> <li>• Issuing guidelines to conduct RIAs across government agencies (SME development program loan, SP2)</li> <li>• VCA published a report reviewing the status of, and providing perspectives on, economic concentration in Viet Nam (SME development program loan, SP1)</li> <li>• VCA completing 5-year enforcement review of the Competition Law to guide the amendment of the law and implementing regulations</li> </ul>

No	Policy Actions under EMCC	ADB Intervention
		<p>(SME development program loan, SP2)</p> <ul style="list-style-type: none"> <li>• Central Institute of Economic Management preparing the first draft of the amended Enterprise Law (SME development program loan, SP2)</li> <li>• Preparing updated private sector assessment for Viet Nam as basis for policy dialogue on improving enabling environment for businesses</li> <li>• Corporate governance benchmarking of publicly listed companies in Viet Nam, against those of other ASEAN countries (under regional technical assistance on corporate governance)</li> </ul>

ADB = Asian Development Bank, APCA = Administrative Procedures Control Agency, ASEAN = Association of Southeast Asian Nations, EMCC = Economic Management and Competitiveness Credit, FSDP = Financial Sector Development Program, GC = general corporation, IAS = International Accounting Standards, MOF = Ministry of Finance, MPI = Ministry of Planning and Investment, NPL = nonperforming loan, RIA = regulatory impact assessment, SBV = State Bank of Viet Nam, SEG = state economic group, SMEs = small and medium-sized enterprises, SOE = state-owned enterprise, SP = subprogram, SRCGFP = State-Owned Enterprise Restructuring and Corporate Governance Financing Program, VAS = Viet Nam Accounting Standards, VAT = value-added tax, VCA = Viet Nam Competition Agency.



## INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Viet Nam	Project Title:	Increasing Competitiveness Program
Lending/Financing Modality:	Program Loan	Department/ Division:	Southeast Asia Department/ Viet Nam Resident Mission

### I. POVERTY IMPACT AND SOCIAL DIMENSIONS

#### A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The government set ambitious targets for poverty reduction in the Socio-economic Development Plan (SEDP), 2011–2015: poverty at the national level is to fall by 2 percentage points each year between 2011 and 2015, and by 4 percentage points in the poorest communities, including those with high proportions of ethnic minority households. Achieving these targets will require a substantially higher rate of progress than achieved under the previous SEDP, and may be particularly challenging given the slowdown in economic growth.

The country partnership strategy, 2011–2015 of the Asian Development Bank (ADB) supports the government's poverty reduction agenda through three pillars—inclusive growth, economic efficiency, and environmental sustainability. ADB's assistance will help integrate the poor and other vulnerable groups and segments of society in the development process through better access to opportunities generated from higher growth, and protect them from the impact of climate change.

Reforms under this program are fully aligned with the SEDP and the country partnership strategy, and are expected to have an overall positive effect on poverty and employment—in the long run by improving productivity across key sectors. Viet Nam's record on poverty reduction has been remarkable. Using a "basic needs" poverty line initially agreed in 1998, the poverty headcount fell from 58% in the early 1990s to 14.5% by 2008, and by these standards was estimated to be well under 10% by 2010. However, lack of competitiveness and low productivity are preventing the creation of higher-value jobs, leaving most workers in low-wage employment. Employment has increased with Viet Nam's impressive growth record. Larger domestic and foreign enterprises pay good wages. But they make up a small proportion of total employment. There also remain concerns over the quality of jobs, such as income, regularity of work, and social protection. Three-quarters of workers are assessed to be in "vulnerable" employment. Wages for most of these households have not kept pace with inflation. Through competitiveness-boosting reforms, this program will encourage investments that help expand work opportunities in higher-value-adding sectors over the long run.

In addition to longer-term effects, policies formulated under the program (for finance sector, fiscal, and public investment) should have positive poverty and social impacts in the short run by promoting macroeconomic stability. Although unskilled labor is still competitive compared with the People's Republic of China, rising inflation in Viet Nam between 2008 and 2011 has put enormous pressure on firms to increase wages. Almost 900 strikes occurred in 2011, double the number in 2010. Macroeconomic instability therefore has hurt firms' competitiveness, and their ability to generate quality employment. These events have also brought considerable challenges for urban residents.). It is estimated that 65% of households reported higher prices for food and essential items as a source of difficulties, making inflation by far the most common factor among other factors such as job losses, business slowdowns, natural disasters, and health shocks.

#### B. Targeting Classification

General Intervention  Individual or Household (TI-H)  Geographic (TI-G)  Non-Income MDGs (TI-M1, M2, etc.)

The general intervention features of the program are described above in section A.

#### C. Poverty and Social Analysis

**1. Key issues and potential beneficiaries.** Expected beneficiaries include workers in low-wage employment. This will benefit households remaining in poverty or just above the poverty line. Their needs can be met through the program as described in section A. The poverty rate in 2010 (based on the new poverty line applied in the 2010 Vietnam Household Living Standard Survey) was 20.7%. The 2010 poverty line is substantially higher than the original poverty line, reflecting improvements in the quality of the food reference basket and a higher allocation for basic nonfood spending, including housing and durables.

**2. Impact channels and expected systemic changes.** Through competitiveness-boosting reforms, this program will encourage investments that help expand work opportunities in higher-value sectors over the long run. In addition to longer-term effects, macroeconomic policies under the program should have positive poverty and social impacts in

the short run by promoting macroeconomic stability.

**3. Focus of (and resources allocated in) project preparatory technical assistance (PPTA) or due diligence.**

Rationalizing public investments under the fiscal discipline and public investment management objectives of the program could reduce employment in the short run. The objective of improving the management of state-owned enterprises (SOEs) may lead to employee redundancies as an enterprise restructures. A close examination of Viet Nam's current social safety net, carried out for the Economic Management and Competitiveness Credit (EMCC) program, reveals important gaps that risk hampering the protection of the poor and vulnerable in times of shocks. Careful review of specific safeguard policies to offset transient adverse impacts of structural reforms is necessary.

**4. Specific analysis for policy-based lending.** The shorter-term and longer-term transmission channels of the policy program are described in section A.

## II. GENDER AND DEVELOPMENT

**1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project or program?**

There is a growing understanding among researchers and policymakers that increasing the degree of economic equality of women and men in most cases correlates positively with the competitiveness and gross national income of a country. Women play a crucial role in the transition from a factor-driven to an efficiency-driven and finally to an innovation-driven economy, as illustrated by the 2011 Global Gender Gap Index (GGGI) of the World Economic Forum (WEF). The report highlights a positive association between competitiveness and gender equality by plotting the GGGI against WEF's Global Competitiveness Index.

Viet Nam ranks 73rd out of 136 countries in WEF's GGGI for 2013, where the four determining measures are (i) economic participation and opportunity, (ii) educational attainment, (iii) health and survival, and (iv) political empowerment. In the Economist Intelligence Unit's Women's Economic Opportunity Index 2012, Viet Nam is ranked slightly lower, 87th out of 128 countries. Here the rating is based on indicators in five different categories: (i) labor policy and practice, (ii) access to finance, (iii) education and training, (iv) women's legal and social status, and (v) general business environment.

While Viet Nam is ranked higher than several other countries at roughly the same level of development, there is still a lot of potential for improving its performance in these global gender equality indices with a focus on economic opportunities, thereby contributing to improving Viet Nam's competitiveness.

**2. Does the proposed program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by giving women access to and use of opportunities, services, resources, assets, and participation in decision making?**

Yes     No

Program-supported reforms are expected to have a positive impact on gender equality. Two examples:

**Tax administration reforms.** There is a lack of access to information on tax regulations and, linked to that, lack of networks for women entrepreneurs. In addition, while it is estimated that 20% of male entrepreneurs had paid someone (unofficial) to facilitate taxation, only 9% of women entrepreneurs had done so. Amendments to the Tax Administration Law should therefore help remove obstacles for women entrepreneurs. The EMCC will look at including a gender-disaggregated indicator in the upcoming tax administration survey.

**Business registration reforms.** Women entrepreneurs seem to see business registration procedures as more of an obstacle than their male counterparts. 64% of women entrepreneurs surveyed said that their company had a business license, compared with 70% of male entrepreneurs. This might be explained by limited awareness of woman entrepreneurs about registration processes, or it may be that more woman entrepreneurs plan to keep their businesses small. Further simplification of business registration procedures through adaptation of online registration processes should have a positive impact in this area. The EMCC will explore with the Business Registration Office the opportunities to track the gender impact more closely.

**3. Could the proposed project have an adverse impact on women and/or girls or widen gender inequality?**

Yes     No

Economic restructuring and macroeconomic shocks may have some impact on women. EMCC partners will prepare a study on gender and competitiveness for Viet Nam. ADB is conducting analytical work to better understand these impacts, including taking the lead on a joint study with the World Bank and ILO on the labor issues related to SOE restructuring. A section of the report will focus on gender issues.

4. Indicate the intended gender mainstreaming category:

- GEN (gender equity theme)       EGM (effective gender mainstreaming)  
 SGE (some gender elements)       NGE (no gender elements)

### III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the project, including beneficiaries and negatively affected people? Identify how they will participate in the project design. – The main stakeholders of the project include the EMCC development partners, the Government of Viet Nam, private sector enterprises, and the people of Viet Nam. As explained in Section A, there are both short-term and long-term benefits, and potential short-term negative impacts on the population.

The EMCC will have a tiered governance structure. The steering committee chaired by the Deputy Prime Minister will review and endorse the proposed areas of focus for operation. A technical working group (TWG) will lead technical discussions and analysis for triggers and policy actions. The TWG will help oversee the preparation of the operation, discuss the technical elements of policy actions, decide on analytical work, and brief the steering committee and development partners. This should help build greater ownership of program operation among the lead technical staff of the government and among development partners.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable and excluded groups? What issues in the project design require participation of the poor and excluded? – The EMCC program includes technical assistance to fund broad stakeholder consultations and development of long-term communication strategies. ADB has financed consultation workshops on key SOE reform legislation with government organizations, SOEs, business associations, academia, think-tanks, and the media. Other development partners have financed consultation workshops on other reform areas under the EMCC.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

M - Information generation and sharing, M – Consultation

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how shall they be addressed?  Yes     No

#### 1. SOCIAL SAFEGUARDS

**A. Involuntary Resettlement Category**  A     B     C     FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement?  Yes     No

2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process?

- Resettlement plan                       Resettlement framework                       Social impact matrix  
 Environmental and social management system arrangement                       None

**B. Indigenous Peoples Category**  A     B     C     FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples?  Yes     No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain?  Yes     No

3. Will the project require broad community support of affected indigenous communities?  Yes     No

4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process?

- Indigenous peoples plan     Indigenous peoples planning framework     Social Impact matrix  
 Environmental and social management system arrangement     None

#### 2. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

- M - Creating decent jobs and employment    M - Adhering to core labor standards    H - Labor retrenchment  
 Spread of communicable diseases, including HIV/AIDS     Increase in human trafficking     Affordability  
 Increase in unplanned migration     Increase in vulnerability to natural disasters    L - Creating political instability  
 Creating internal social conflicts     Others, please specify : Labor retrenchment

## 2. How are these additional social issues and risks going to be addressed in the project design?

ADB, ILO, and the World Bank jointly carried out a labor market impact assessment of SOE restructuring. The final output is a policy note advising the Government of Viet Nam on the labor risks associated with SOE restructuring (from the holistic view of the government, enterprises, and workers). The policy note has three main sections: (i) the role of SOEs in the labor market; (ii) an impact analysis of current SOE restructuring plans; and (iii) assessment of the adequacy of existing legislation relating to retrenchment, the institutional capacity to enforce these policies, and the interaction with other important labor market reforms, such as social safety systems. The objective of the policy note is to stimulate debate within the government. There may be follow-up technical assistance support, including a possible tracer study of ongoing SOE pilot restructuring, subject to government needs.

#### VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence to better analyze (i) poverty and social impact; (ii) gender impact, (iii) participation dimensions; (iv) social safeguards; and (vi) other social risks. Are the relevant specialists identified?

Yes       No

2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social and/or gender analysis, and participation plan during the PPTA or due diligence?

ADB can leverage the development partners' joint EMCC trust fund for about \$1,000,000 to conduct poverty, social, and/or gender analyses. ADB will also leverage existing loan and technical assistance projects aligned with this program loan. For example, ADB has funded a study on the labor market impact of SOE restructuring.