



Report and Recommendation of the President to the Board of Directors

Project Number: 47293-001
October 2014

Proposed Policy-Based Loans Socialist Republic of Viet Nam: Improving Competitiveness Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 28 October 2014)

Currency unit – dong (D)

D1.00 = \$0.0000472

\$1.00 D21,246

ABBREVIATIONS

ADB	–	Asian Development Bank
EMCC	–	Economic Management Competitiveness Credit
GDP	–	gross domestic product
MOF	–	Ministry of Finance
NPL	–	nonperforming loan
PFM	–	public financial management
SBV	–	State Bank of Viet Nam
SEG	–	state economic group
SME	–	small and medium-sized enterprise
SOE	–	state-owned enterprise
VAMC	–	Viet Nam Asset Management Company
VAT	–	value-added tax

NOTE

In this report, “\$” refers to US dollars.

Vice-President	S. Groff, Operations 2
Director General	J. Nugent, Southeast Asia Department (SERD)
Director	T. Kimura, Viet Nam Resident Mission, SERD
Team leader	D. Mellor, Country Economist, SERD
Team members	T. Chu, Senior Financial Sector Officer, SERD V. Dao, Senior Public Sector Management Officer, SERD J. Gomez, Senior Public Management Specialist, SERD P. Jena, Senior Public Management Specialist, SERD B. Konyshbayev, Senior Counsel, Office of the General Counsel T. Phan, Project Analyst, SERD S. Schuster, Senior Financial Sector Specialist, SERD
Peer reviewer	P. Srivastava, Principal Economist, Central and West Asia Department

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 47293-001	
Project Name	Improving Competitiveness Program	Department /Division	SERD/VRM
Country Borrower	Viet Nam, Socialist Republic of Socialist Republic of Viet Nam	Executing Agency	State Bank of Vietnam
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Subsector(s) Economic affairs management	230.00	
		Total	230.00
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Anticorruption Institutional development Public financial governance	No gender elements (NGE)	✓
Partnerships (PAR)	Bilateral institutions (not client government) Official cofinancing		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:		Complex	
7. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		230.00	
Sovereign Program loan: Asian Development Fund		90.00	
Sovereign Program loan: Ordinary capital resources		140.00	
Cofinancing		400.00	
Japan International Cooperation Agency		150.00	
World Bank		250.00	
Counterpart		0.00	
None		0.00	
Total		630.00	
9. Effective Development Cooperation			
Use of country procurement systems		No	
Use of country public financial management systems		Yes	

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on proposed policy-based loans to the Socialist Republic of Viet Nam for the Improving Competitiveness Program (this program).¹

2. This program supports the government's structural reform program. The government's structural reform priorities are set out in its Socio-Economic Development Strategy, 2011–2020 and also its Socio-Economic Development Plan, 2011–2015. The strategy identifies three strategic priorities: (i) improved 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 is focusing structural reforms in three areas: state-owned enterprises (SOEs), the banking sector, and public investment management.

3. Support under this program aligns to a subset of the government's broad structural reform program through collaboration with other development partners. The World Bank provided support through the Economic Management Competitiveness Credit (EMCC) development policy operation and the Japan International Cooperation Agency also provided support.² The EMCC consists of a programmatic series of three policy-based operations (EMCC 1–3) implemented during 2013–2015. The program is based on a common policy matrix with EMCC-2 (Appendix 4).³ The program aims to enhance competitiveness through 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 Asian Development Bank (ADB) did not provide collaborative cofinancing to the approved EMCC-1,⁴ but supported government reforms through closely aligned program loans.⁵ ADB will support the government's reform agenda during EMCC-3 subject to continued reform progress. EMCC-3 will focus on actual implementation of policy actions under EMCC-2.

II. THE PROGRAM

A. Rationale

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

¹ The design and monitoring framework is in Appendix 1.

² The Government of Canada (Can\$6 million) and the Government of Switzerland (SwF8 million) provided cofinancing through the EMCC framework. The World Bank administered technical assistance funds provided by the Department for International Development of the United Kingdom (\$225,000) and the Government of Australia (\$150,000) for analytical work and capacity building activities.

³ World Bank. 2014. *Vietnam: Second Economic Management Competitiveness Credit Program*. Washington, DC.

⁴ World Bank. 2013. *Vietnam: First Economic Management Competitiveness Development Policy Operation Program*. Washington, DC.

⁵ ADB. 2010. *Report and Recommendation of the President to the Board of Directors on the Proposed Program Cluster and Loan for Subprogram 1, Second Small and Medium-Sized Enterprises Development Program*. Manila; and ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Loan for Subprogram 2 to Socialist Republic of Viet Nam: Third Financial Sector Program Loan - Subprogram II*. Manila.

Reduced competitiveness is hurting private investment and slowing gross domestic product (GDP) growth.

5. **More vigorous competition needed to boost private investment and growth.** The year 1986 marked a shift in policy away from central planning and toward a mixed economy—termed a “socialist market economy.” Subsequently, during 1990–2007 private investment accelerated, the economy grew at an annual average rate of more than 7.0%, and per capita income almost quintupled. However, this growth trajectory ultimately has limited potential, and growth has been increasingly based on factor accumulation and not productivity.⁶ Domestic private investment as a ratio of GDP has declined from an average of 15.0% in 2007–2010 to around 11.5% in 2013. During 2009–2012, 43 out of the 63 provinces saw a decline in their provincial competitiveness index.⁷ Far fewer private firms reported higher investments or intentions to expand production. To avoid the middle-income trap, Viet Nam will need to upgrade existing competitiveness fundamentals.

6. **Constraints on competitiveness.** Various country diagnostics have identified the following similar constraints on competitiveness and sustained economic growth:⁸

- (i) Workforce skill levels remain modest.
- (ii) The finance sector has expanded quickly but remains shallow and unsophisticated. Nonperforming loans (NPLs) 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. Public investment is inefficient and crowding out private investment.
- (iv) Unequal treatment exists in the enterprise sector, where SOEs and well-connected private firms have preferential access to land, credit, and public sector contracts.
- (v) Weak public administrative capacity and unclear business regulatory environment are obstacles to more vigorous market competition. Corruption remains pervasive.

7. **High-level political commitment for priority reforms to boost competitiveness.** To help steer reform efforts to boost competitiveness, in May 2012 the prime minister established a national council on sustainable development and competitiveness capacity enhancement, which is chaired by a deputy prime minister and has government-wide membership.

8. **ADB support for the government’s reform agenda.** ADB supports the government’s reform agenda both through this program as well as other closely aligned policy-based loans. During the first phase of the government’s program, the World Bank’s EMCC-1 aligned to the overarching policy frameworks of a broad reform agenda. During this initial phase, ADB did not enter into collaborative cofinancing arrangements with the World Bank but instead supported the government’s reform agenda through closely aligned interventions such as program loans for finance sector development and small and medium-sized enterprise (SME) development. The EMCC-2 operation is more narrowly focused, mainly on banking and SOE reforms. Under

⁶ D. Mishra. 2011. *Vietnam Development Report 2012: Market Economy for a Middle-Income Vietnam*. Washington, DC: World Bank.

⁷ E. Malesky. 2014. *The Vietnam Provincial Competitiveness Index: Measuring Economic Governance for Business Development*. Ha Noi. Vietnam Chamber of Commerce and Industry and United States Agency for International Development

⁸ J. Pincus. 2012. *Vietnam’s Reforms: The Road to Market Leninism*. London. Legatum Institute.

the current phase of the government's program, ADB and the World Bank are entering into a collaborative cofinancing agreement to allow for more efficient donor coordination. In particular, the reform agenda integrated in EMCC-2 is strategically important and complements ADB's ongoing policy reform programs, as well as the pilot SOE restructuring program.⁹ It also provides an opportunity for ADB to remain engaged in business environment reforms after completion of the SME development program in 2013. ADB will support the government's reform agenda during EMCC-3 subject to continued reform progress.

9. **Collaboration with other development partners.** The EMCC program policy matrix was designed jointly by the World Bank; ADB; the Japan International Cooperation Agency; the governments of Switzerland, Canada, and Australia; and the Department for International Development of the United Kingdom. ADB actively participated during the program design phase, including stakeholder consultations on proposed objectives and areas of focus for the EMCC. ADB contributed across all reform areas but more so through areas of comparative advantage, especially SOE and procurement reforms. ADB contributions include (i) direct engagement in policy dialogue; (ii) provision of technical comments on draft laws and regulations; (iii) diagnostics, particularly extraction from operational knowledge; and (iv) capacity building activities.¹⁰

10. **Benefits of the joint donor programmatic approach.** This program is aligned with the "enhancing economic efficiency" pillar of ADB's country partnership strategy, 2012–2015.¹¹ It provides a common platform for development partners to engage in policy dialogue with the government. It enables better alignment of donor programs to 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 remaining engaged in other related policy reforms.

11. **Lessons from earlier joint development partner policy-based operations.** ADB has participated in joint development partner programmatic budget support in Viet Nam since 2003.¹² A joint development partner evaluation suggested future policy-based lending should be more focused on a few important crosscutting issues, strengthen analytical underpinning of selected policy actions, and improve monitoring and communication of program impact.¹³ ADB's own evaluation is in line with this assessment.¹⁴ Consequently, the design of this program is more narrowly focused, and has dedicated technical assistance funds for analytical and advisory support, as well as increased outreach to communicate results of the program.

B. Impact and Outcome

12. The impact of the program will be increased private investment. The outcome will be the improved competitiveness of Viet Nam's economy.

⁹ Mapping of Support for Financial Sector Reforms; Mapping of Support for State-Owned Enterprise Reforms (accessible from the list of linked documents in Appendix 2).

¹⁰ Mapping of Support for Economic Management Competitiveness Credit (accessible from the list of linked documents in Appendix 2).

¹¹ ADB. 2012. *Country Partnership Strategy: Viet Nam, 2012–2015*. Manila.

¹² Development coordination (accessible from the list of linked documents in Appendix 2).

¹³ ACE Consultants. 2011. *Joint Evaluation of the Poverty Reduction Support Credit General Budget Support Operation in Viet Nam*. Ha Noi.

¹⁴ ADB. 2013. *Completion Report: Support for Implementation of the Poverty Reduction Program in Viet Nam*. Manila.

C. Outputs

13. Program outputs align to the six EMCC reform areas. The program includes 11 policy actions identical to those under the EMCC-2. These policy actions were completed between May 2013 and June 2014. The program also considered two crosscutting themes: the poverty and social impact of selected reforms, and promoting greater data and policy-making transparency.

14. **Enhanced banking sector stability (reform area 1).** Enhanced banking sector stability requires that weak banks are restructured, policies for dealing with systemic risks including NPLs are prioritized, and banking supervision is improved.

15. The program supports implementation of the government's credit institution restructuring plan. This includes relaxation of requirements on foreign investors by the State Bank of Viet Nam (SBV), encouraging more foreign participation in domestic banks as a way to meet banking sector recapitalization needs. During May 2013 the SBV also adopted a comprehensive policy framework to address the banking sector NPL problem. A significant element was the setting up of the Viet Nam Asset Management Company (VAMC), responsible for the purchase, recovery, and restructuring of bad debt. By 2013, the VAMC had purchased the equivalent of \$1.9 billion in bad debts from 35 banks (estimated at 1.1% of all outstanding loans). If adequately resourced and effectively supervised by the SBV, the VAMC could play an important role in overall NPL resolution.

16. ADB supported a gap assessment between Viet Nam and international accounting standards to strengthen regulations on asset classification and loan provisioning (circular 2). The extent to which the VAMC is able to deal with bad debts will hinge on the implementation of more challenging aspects of the circular, such as adjustment of loan classifications based on credit information center data.

17. **Maintained fiscal policy (reform area 2).** More fiscal transparency and discipline are needed to balance government revenues and expenditures in a way that is consistent with a long-term budget constraint of the public sector.

18. In May 2013 the Ministry of Finance (MOF) approved the medium-term debt management program, 2013–2015 that set medium-term targets across its entire debt portfolio. The government has taken a number of steps to better monitor and report on prudential debt thresholds, including publication for the first time of consolidated information on both external and domestic government debt. The government also implemented treasury single account procedures in two commercial banks. The implementation of such procedures is important because current cash management arrangements result in borrowing costs that are higher than necessary.

19. **Improved public administration and accountability (reform area 3).** Improved public administration and accountability require improved transparency and simplified public administrative procedures.

20. The program supports legislation to regulate and guide the implementation of the Amended Law on Anti-Corruption, 2012, including increased transparency, income and asset declaration of public officials, and accountability of public agencies and officials. Decree 59 clarifies what constitutes acts of corruption and the process for checks and inspections. It also details procedures for suspension or transfer of officials suspected in corruption cases. Decree

78 provides more details on who is required to file declarations, what types of assets and incomes need to be declared, and when to file the asset and income declarations. One important aspect in the decree is the detailed process guiding the verification of asset and income declarations. Another notable development is the requirement to disclose the declarations at the officials' offices or annual meetings of public agencies. Decree 90 is on accountability of public agencies and officials to provide better access to information for citizens. It has a detailed process on how individuals or organizations can request accountability or information, and how public agencies should respond to such requests.

21. **Strengthened state enterprise management (reform area 4).** Strengthened SOE management requires successful restructuring of large SOEs, better corporate governance, and improved regulatory environment for SOEs.

22. The program supports implementation of the government's SOE reform agenda that contains three broad elements: (i) regulatory environment for SOE restructuring (e.g. divestiture of state shareholding, restructuring of bad debts); (ii) the adoption and implementation of plans and targets for actual restructuring of SOEs; and (iii) corporate governance reforms of state economic groups (SEGs) and general corporations.¹⁵

23. The government has issued decisions on restructuring SEGs, which commit all SEGs to divest five high-risk noncore activities (banking, insurance, real estate, securities trading, and investment funds) by 2015.¹⁶ ADB has supported the pilot restructuring of selected SOEs in the construction, logistics, and textile sectors.¹⁷ ADB is therefore in a unique position to feed lessons from the experience of restructuring several SEGs into the program design. These operations have highlighted several legal impediments that obstruct successful restructuring of SOEs into commercially competitive enterprises. The MOF with ADB support has developed an SOE reform plan with timelines to guide the sequencing of necessary legal reforms and coordination among government agencies and is working toward resolving some legal impediments to SOE restructuring. These include Decree 71/2013/ND-CP issued in July 2013 allowing SOEs to sell assets below book value.

24. By the end of June 2014, the government had approved restructuring plans for over 60% of SEGs and general corporations. Many were however based on limited financial and operational analysis. ADB is therefore providing technical assistance (processed separately and already approved) to carry out due diligence on restructuring plans of those SEGs and to support its implementation under its pilot restructuring program. ADB is also providing capacity building support to the management of pilot SEGs being restructured, including on internal audit, corporate governance, and enterprise risk management. These skills are lacking because the operating focus of enterprise management has been on preserving the value of state capital rather than increasing its value.

¹⁵ During the early 2000s, the government concurrently consolidated some SOEs into larger entities (general corporations) 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 general corporations and SEGs.

¹⁶ PM Decision 320/QD-TTg dated 8 February 2013, PM Decision 1782/QD-TTg dated 23 November 2012, PM Decision 314/QD-TTg dated 7 February 2013, PM Decision 38/QD-TTg dated 5 January 2013, PM Decision 753/QD-TTg dated 17 May 2013, PM Decision 2097/QD-TTg dated 28 December 2012, PM Decision 46/QD-TTg dated 5 January 2013, and Decree 71/2013/ND-CP dated 11 July 2013 on restructuring of state economic groups.

¹⁷ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Viet Nam: SOE Reform and Corporate Governance Facilitation Program - PFR 1*. Manila.

25. The government issued Decree 61 to regulate financial supervision, performance assessment, and disclosure of financial information of SOEs. Policy dialogue on this decree has benefited from several ADB analytical papers that draw on pilot SOE restructuring case studies. All reports were prepared in response to government requests. Topics include corporate governance and financial information disclosure. These reports informed the new Decree 61 that rationalizes and consolidates the existing legislative framework and provides greater clarity on public disclosure of financial information. Development partners will be looking for evidence of implementation of Decree 61, including publication of key financial and operational performance of all SEGs. SOE supervising and monitoring institutions will therefore require capacity building to better understand the principles of market-driven commercial operations and to upgrade their skills in the oversight role of monitoring and evaluation. The MOF is currently developing a monitoring and evaluation framework to monitor reform progress with the support of ADB.

26. **Enhanced public investment management (reform area 5).** Enhanced public investment management requires improved public investment planning, prioritization of capital spending, and increased project efficiency.

27. The government approved a medium-term investment plan, 2013–2015 that set capital expenditure priorities. This program included a directive to accelerate clearance of capital expenditure arrears. All implementing ministries and agencies have since reported to the Ministry of Planning and Investment and the MOF the current status of arrears and how they propose to handle these.

28. **Improved business environment (reform area 6).** An enabling business environment requires simplified administrative procedures and a clearer and more transparent commercial regulatory environment that encourages competition.

29. In 2013 the government has taken a number of measures to improve the business environment. This included the launching of the government's online business registration portal and simplification of administrative procedures across government.

30. The government and development partners have been working closely on public procurement reform, which has a major impact on the business environment. Program policy actions include an Amended Law on Procurement, 2013 to strengthen transparency and competition in public procurement. ADB has a large country investment portfolio and vast operational knowledge on government procurement systems. In coordination with the World Bank, ADB has provided substantial technical inputs on drafting of the amended law and secondary legislation related to its implementation. The amended law contains significant improvements, including (i) expanded scope to include public–private partnerships and expenditures by SOEs, (ii) introduction of innovative electronic systems that enhance the efficiency and transparency of the procurement system, (iii) provisions to limit use and abuse of direct contracting, and (iv) the new law implicitly superseding procurement-related provisions in other laws to ensure consistent application and better enforcement. Despite these improvements, some deficiencies remain, such as lack of an independent bidder complaint mechanism and mandatory requirement for foreign firms to associate with local companies. ADB will examine implementation of the new legislation.

31. Other program policy actions related to tax reforms. An Amended Law on Value-Added Tax (VAT), 2013 includes a lower threshold, allowing a large number of taxpayers to move out of the VAT network under the invoice credit method, thereby reducing both tax compliance cost

and tax administration costs. The government also adopted an Amended Law on Corporate Income Tax, 2013 to establish competitive corporate income tax rates, clarify rules and regulations on transfer pricing, and introduce provisions on deductible expenses.

D. Development Financing Needs

32. In 2014, with a budget deficit target of 5.3%, the government will need to borrow D215 trillion (\$10.2 billion). EMCC-2 collaborative cofinancing contributes about 6% of Viet Nam's budget deficit financing requirements, and an even higher share of concessional financing to the budget. ADB will provide \$230 million, contributing about 36% of total EMCC-2 pledges by development partners (Table 1).¹⁸

33. The government has requested (i) a loan in various currencies equivalent to SDR60.68 million from ADB's Special Funds resources, and (ii) a loan of \$140 million from ADB's ordinary capital resources to help finance the program. The Special Funds resources loan will have a 25-year term, including a grace period of 5 years, an interest rate of 2.0% per annum, and such other terms and conditions set forth in the draft loan agreement. The ordinary capital resources loan will have a 15-year term, including a grace period of 3 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, a commitment charge of 0.15% per year, and such other terms and conditions set forth in the draft loan agreement. The loans will be disbursed in accordance with ADB's simplified disbursement procedure for policy-based loans¹⁹ based on a negative list.²⁰

Table 1: Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank	230.00	36.5
Ordinary capital resources (loan)	140.00	22.2
Special Funds resources (loan)	90.00	14.3
World Bank	250.00	39.7
Japan International Cooperation Agency	150.00	23.8
Total	630.00	100.0

Source: Asian Development Bank.

E. Implementation Arrangements

34. The SBV will be the executing agency. The EMCC has a tiered governance structure. A steering committee is chaired by a deputy prime minister and includes heads of agencies of key implementing agencies. The steering committee reviews and endorses the proposed areas of operational focus. Technical teams, represented by senior technocrats from key implementing agencies and EMCC development partners, help oversee the preparation of the operation, discuss the technical elements of policy actions, decide on analytical work, and brief the steering committee. Annually, three technical missions are carried out to appraise and monitor progress toward policy actions. The EMCC includes a trust fund for targeted analytical and advisory activities to underpin the strategic focus of the EMCC. ADB does not contribute directly to the trust fund but has contributed knowledge by leveraging off ongoing operations, such as lessons learned from SOE restructuring. The implementation arrangements are summarized in Table 2.

¹⁸ Financing contributions under EMCC-2 include \$250 million from the World Bank and \$150 million from the Japan International Cooperation Agency.

¹⁹ ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

²⁰ List of Ineligible Items (accessible from the list of linked documents in Appendix 2).

Table 2: Implementation Arrangements

Aspects	Arrangements
Implementation period	April 2013–June 2014
Estimated completion date	June 2015
Management	
(i) Executing agency	State Bank of Viet Nam
(ii) Key implementing agencies	Government Inspectorate, Ministry of Finance, Ministry of Justice, Ministry of Planning and Investment, State Bank of Viet Nam
Disbursement	The policy-based loans (\$140 million from ordinary capital resources and \$90 million from the Asian Development Fund) will be disbursed in a single tranche upon declaration of loan effectiveness.

Source: Asian Development Bank.

III. DUE DILIGENCE

A. Economic and Financial

35. It is not possible to accurately estimate the cost of structural reforms under the program because of unreliable data on NPLs in the banking sector and contingent liabilities associated with unprofitable SOEs that need restructuring. International credit rating agencies have estimated NPLs at 15%–30% of total banking system loans. Even on the lower end, this would require \$4 billion of additional capital to absorb the losses embedded in these assets. Structural reforms will boost competitiveness by improving efficiency of SOEs and public investment, and reduce crowding out of private investment. Enhanced banking sector stability and an improved business environment will encourage entrepreneurship and private investment. A recent debt sustainability analysis included a reform scenario whereby medium- to long-term GDP growth was 1.0%–1.5% of GDP higher than in a scenario with no reforms.²¹

B. Governance

36. Viet Nam's public financial management (PFM) environment is considered adequate to support this program. The 2013 Public Expenditure and Financial Accountability assessment²² assessed that 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. However, while the financial management and accountability systems of the government have improved, there remain weaknesses that need to be addressed. Table 3 includes some details on PFM risks and proposed mitigation measures.

37. ADB's Anticorruption Policy (1998, as amended to date) was explained to and discussed with the government.

C. Poverty and Social

38. The program is expected to have an overall positive effect on poverty reduction and employment in the long run by improving productivity. However, rationalization of public investment and potential SOE labor retrenchment may result in short-term negative social impacts. The government has an established set of policies and institutions to deal with SOE

²¹ International Monetary Fund. 2013. *Vietnam—Staff Report for the 2013 Article IV Consultation—Debt Sustainability Analysis*. Unpublished.

²² Government of Viet Nam. 2013. *Viet Nam: Public Expenditure and Financial Accountability*. Ha Noi.

redundancies, including unemployment insurance (economic, matching, and training benefits), compensation for structural redundancy, and eligibility for early pension. ADB has conducted analytical work on social impacts of SOE restructuring to inform policy developments in this area.

39. The program has positive social impacts, including (i) simplified VAT procedures reducing transaction costs for enterprises with favorable effects on economic growth and employment; (ii) reduced corporate income tax applied to SMEs to reduce tax obligations of enterprises, lessen potential layoffs, and increase wages; (iii) government efforts to clear arrears to contractors in the construction sector where a growing number of workers have not been paid; and (iv) improved implementation of the Amended Anti-Corruption Law, 2012 to reduce transaction costs for enterprises, especially SMEs, and programs targeting poverty reduction.

D. Safeguards

40. The program will not entail any involuntary resettlement or negatively affect indigenous people or the environment. It is therefore assigned category C for all safeguard categories.

E. Risks and Mitigating Measures

41. The program is complex due to the nature of reforms, but risk is deemed manageable based on ADB's experience implementing program-based loans in Viet Nam. The integrated benefits and impacts of the program are expected to outweigh the costs of risk mitigating measures. Major risks and mitigating measures are summarized in Table 3 and described in detail in the risk assessment and risk management plan.²³ The overall risk rating is assessed as medium.

Table 3: Summary of Risks and Mitigating Measures

Risks	Mitigation Measures
1. Public Financial Management	
1.1 Weak oversight of aggregate fiscal risk 1.2 Lack of budget comprehensiveness	Program policy actions include (i) improved fiscal transparency and discipline needed to balance government revenues and expenditures in a way that is consistent with a long-term budget constraint of the public sector; (ii) improved financial reporting of SOEs; and (iii) enhanced public investment management through improved public investment planning, prioritization of capital spending, and increased efficiency of projects.
2. Procurement	
2.1 Conflict of interest provisions insufficiently detailed 2.2 No independent complaint or review mechanism 2.3 Deliberate split packaging 2.4 Procurement malpractice still rife	Program policy actions include an Amended Law on Procurement, 2013 to strengthen transparency and competition in public procurement. ADB has provided substantial technical inputs on drafting of the amended law and secondary legislation related to its implementation.
3. Corruption	
3.1 Lack of capacity or proper monitoring and oversight may constitute a vehicle for corruption 3.2 Lack of clarity on institutional mandates of agencies fighting corruption	This program supports implementation of the Amended Law on Anti-Corruption, 2012 including guidelines on increased transparency, income and asset declaration of public officials, and accountability of public agencies and officials.
4. Other Project-Specific Risks	
4.1 Government coordination. Structural reform agenda cuts across the mandate of multiple government agencies. Reform progress,	To strengthen government ownership and interministerial coordination, EMCC adopts a governance arrangement whereby the overall strategic guidance comes from a

²³ Risk Assessment and Risk Management Plan (accessible from the list of linked documents in Appendix 2).

Risks	Mitigation Measures
particularly for SOE restructuring, has been hampered by weak interministerial coordination.	ministerial level steering committee, chaired by the deputy prime minister.
4.2 Political economy. Strong political commitment is needed to drive the reform agenda, which can lead to short-term losses for important interest groups.	The senior leadership of Viet Nam, including the President and Prime Minister, has reiterated its commitment to the reform agenda at several high-level forums, such as the Viet Nam Development Partner Forum and the Viet Nam Business Forum.

ADB = Asian Development Bank, EMCC = Economic Management and Competitiveness Credit, SOE = state-owned enterprise.

Source: Asian Development Bank.

IV. ASSURANCES

42. The government has assured ADB that implementation of the program shall conform to all applicable ADB policies including those concerning anticorruption measures, safeguards, gender, procurement, consulting services, and disbursement as described in detail in the loan documents.

V. RECOMMENDATION

43. I am satisfied that the proposed policy-based loans would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve:

- (i) the loan in various currencies equivalent to SDR60.68 million to the Socialist Republic of Viet Nam for the Improving Competitiveness Program, from ADB's Special Funds resources, with an interest charge at the rate of 2.0% per annum during the grace period and thereafter, for a term of 25 years, including a grace period of 5 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreements presented to the Board; and
- (ii) the loan of \$140,000,000 to the Socialist Republic of Viet Nam for the Improving Competitiveness Program, from ADB's ordinary capital resources with interest to be determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; for a term of 15 years, including a grace period of 3 years; and such other terms and conditions as are substantially in accordance with those set forth in the draft loan agreements presented to the Board.

Takehiko Nakao
President

29 October 2014

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact</p> <p>Increased private investment</p>	<p>By 2020:</p> <p>Total private investment as ratio of GDP increased to 15.0% (2013 baseline: 11.5%)</p>	<p>General Statistics Office annual statistics</p>	<p>Assumption</p> <p>Macroeconomic stability remains and economic growth continues</p> <p>Risk</p> <p>Prolonged global and regional economic slowdown distracts from structural reform agenda</p>
<p>Outcome</p> <p>Competitiveness of Viet Nam's economy improved</p>	<p>By 2015:</p> <p>Viet Nam's ranking in the World Economic Forum Global Competitiveness Report improved by 15 places: (2013 baseline: ranked 70th)</p>	<p>Global Competitiveness Index reports</p>	<p>Assumption</p> <p>Government remains committed to competitiveness reforms and continued integration with global economy</p> <p>Risk</p> <p>Weak implementation and enforcement of laws and decrees</p>
<p>Outputs</p> <p>1. Enhanced Banking Sector Stability</p> <p>2. Maintained Fiscal Discipline</p> <p>3. Improved Public Administration and Accountability</p> <p>4. Strengthened</p>	<p>By 2015:</p> <p>Nonperforming loans as percentage of total loans reduces to 5.0% or less, based on Vietnamese Accounting Standards (2014 baseline: 8.6%)</p> <p>The primary fiscal deficit average over the past 3 years remains less than 4% of GDP (2013 baseline: 4%)</p> <p>The percentage of disclosed official's income and asset declarations increases to 50% (2011 baseline: 0%)</p> <p>Businesses reporting less negotiation with tax authority as part of doing business decreases to 35% by median province (2011 baseline: 41%)</p> <p>Investments by SEGs in high-</p>	<p>State Bank of Viet Nam website</p> <p>Ministry of Finance</p> <p>Anti-Corruption Report to the National Assembly</p> <p>Provincial</p>	<p>Assumption</p> <p>Implementing agencies have the capacity to effectively meet policy actions</p> <p>Risk</p> <p>Lack of coordination between government agencies responsible for policy actions with crosscutting agendas</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks				
State Enterprise Management	<p>risk noncore areas as a share of SEG capital is reduced to 0% for securities, 0% 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 general corporations disclosed on websites increased to at least 30% (2012 baseline: 0)</p>	<p>competitiveness index</p> <p>SOE restructuring plans monitoring reports published by Ministry of Finance</p> <p>Ministry of Finance</p>					
5. Enhanced Public Investment Management	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)	National budget reports published by the Ministry of Finance					
6. Improved Business Environment	<p>More enabling business environment as reflected by less than 10.00% of domestic firms spending more than 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 (i) 220 hours for VAT, and (ii) 150 hours for corporate income tax (2012 baseline: 320 hours for VAT, and 217 hours for corporate income tax)</p>	<p>Viet Nam provincial competitiveness index</p> <p>Paying Taxes Report</p>					
<p>Activities with Milestones</p> <p>1. Enhanced banking sector stability</p> <p>1.1 Government has 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 address the problem of nonperforming loans across the banking sector.</p> <p>2. Maintained fiscal discipline</p> <p>2.1 Government issued decision approving a medium-term debt management</p>			<p>Inputs</p> <p>Asian Development Bank: \$230.00 million</p> <table border="1" data-bbox="1133 1780 1442 1902"> <thead> <tr> <th data-bbox="1143 1814 1214 1843">Item</th> <th data-bbox="1312 1780 1430 1843">Amount (\$ million)</th> </tr> </thead> <tbody> <tr> <td data-bbox="1143 1843 1214 1873">OCR</td> <td data-bbox="1312 1843 1430 1873">140.00</td> </tr> </tbody> </table>	Item	Amount (\$ million)	OCR	140.00
Item	Amount (\$ million)						
OCR	140.00						

<p>Activities with Milestones 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>3. Improved public administration and accountability</p> <p>3.1 Government issued decrees to regulate and guide the implementation of the Amended Law on Anti-Corruption, 2012 including increased transparency, income and asset declaration of public officials, and accountability of public agencies and officials</p> <p>4. Strengthened state enterprise management</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 state-owned enterprises</p> <p>5. Enhanced public investment management</p> <p>5.1 Government issued directive to accelerate clearance of capital expenditure arrears and report to the National Assembly the current status and future solutions</p> <p>6. Improved business environment</p> <p>6.1 Government has adopted the Amended Law on Procurement, 2013 to strengthen transparency and competition in public procurement</p> <p>6.2 Government has adopted the Amended Law on Corporate Income Tax, 2013 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, 2013 to adjust the group of goods and services exempt from value-added tax, clearly specify the goods and services subject to a 0% value-added tax rate, and apply thresholds as appropriate.</p>	<p>Inputs</p> <p>ADF 90.00</p> <p>Collaborative Partner Contributions to EMCC-2:</p> <p>World Bank: \$250 million</p> <p>Japan International Cooperation Agency: ¥15 billion (about \$150 million)</p>
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ADB = Asian Development Bank, ADF = Asian Development Fund, EMCC = Economic Management Competitiveness Credit, GDP = gross domestic product, IMF = International Monetary Fund, OCR = ordinary capital resources, SEG = state economic group, SOE = state-owned enterprise, VAT = value-added tax.
Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=47293-001-3>

1. Loan Agreement: Asian Development Fund
2. Loan Agreement: Ordinary Capital Resources
3. Sector Assessment (Summary): Public Sector Management
4. Contribution to the ADB Results Framework
5. Development Coordination
6. Country Economic Indicators
7. International Monetary Fund Assessment Letter
8. Summary Poverty Reduction and Social Strategy
9. Risk Assessment and Risk Management Plan
10. List of Ineligible Items

Supplementary Documents

11. Mapping of Support for Financial Sector Reforms
12. Mapping of Support for State-Owned Enterprise Reforms
13. Mapping of Support for Economic Management Competitiveness Credit
14. Macroeconomic and Debt Sustainability Assessment

DEVELOPMENT POLICY LETTER



STATE BANK OF VIETNAM

Office : 47 - 49 Ly Thai To, Hanoi
Tel : (84-4) 3934.3365 Fax : (84-4) 3825.0612

DEVELOPMENT POLICY LETTER

Hanoi, September 19, 2014

Mr. Takehiko Nakao
President
Asian Development Bank
Manila, Philippines

Dear Mr. Nakao:

The Viet Nam economy now enters its third year of macroeconomic stability. In early 2011, the Government implemented Resolution 11 in order to address the high and rising inflation, the volatility in the foreign exchange market, rapidly declining foreign reserves, and high levels of fiscal and trade deficits. The results have been positive with lower inflation, strong external trade and capital flows, and a firmer exchange rate. The State Bank of Vietnam (SBV) has also been able to replenish foreign exchange reserves.

The Government's efforts to restore macroeconomic stability have taken priority over sustained fast economic growth. As a result, the economy grew by just 5.4% of GDP in 2013, a slower pace than the 7.6% average growth rate of the four years prior to the global economic crisis. The Government has assisted growth by stepping up its public investment program in light of somewhat weaker domestic consumption and investment.

Viet Nam has been able to strengthen its external accounts. The trade account recorded a surplus in 2013, reflecting strong export performance. Government reforms have contributed to a steep decline in inflation rates. By May 2013, headline inflation for the year had fallen to 5.9%, down from 23% in August 2011. Lower inflation signals the effectiveness of Government's Resolution 11 as it was achieved in the framework of still high global commodity prices. In response to falling inflation and the perceived slowdown in growth, the SBV cut policy interest rates in order to assist private sector investment. On the fiscal front, the Government has redoubled its efforts to achieve fiscal consolidation by targeting more efficient public investment.

Going forward, the Government remains committed to sustaining macroeconomic stability, through a combination of cautious monetary and fiscal policy. Current inflationary trends will continue to be monitored while credit growth increases steadily to stimulate investment and consumption. In parallel, the Government will continue to apply selective fiscal incentives within the framework of current efforts towards consolidation.

Development priorities are set out in its Socio-Economic Development Strategy (SEDS) 2011-2020 and the Socio-Economic Development Plan (SEDP) 2011-2015. The SEDS sets out the country's goals, and the SEDP lays out more specific policy actions and programs to achieve those goals. The SEDS identifies three 'strategic breakthroughs': (i) improved 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 is focusing structural reforms in three areas: SOEs, the banking sector, and public investment management. To help steer competitiveness-reform efforts, 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.

We appreciate the budget support assistance being provided by the Asian Development Bank (ADB) through the Improving Competitiveness Program (ICP). This program supports the Economic Management Competitive Credit (EMCC), a joint development partner budget support program aligned to government reform priorities. The program supports reforms 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. Analytical work on Viet Nam jointly done by development partners participating in EMCC process as well as policy advice and general budget support they have provided within the framework of the EMCC process has been very important in implementing our reform agenda.

Through the EMCC framework, the ICP supports Viet Nam's economic management reforms to enhance competitiveness for inclusive growth. It is the main channel for policy dialogue between the government and Development Partners on priority economic management issues highlighted in Vietnam's SEDP 2011-2015. The objective of the project is to enhance competitiveness through strengthened financial sector and fiscal management; to improve public administration through anti-corruption, state-owned enterprises and public investment reforms; and to reduce administrative burden through improved tax and procurement policies.

The ICP supports reforms in a number of large and complex areas. Several prior actions under EMCC-1 (and 2) have helped to set the overarching policy frameworks for priority reforms including in the banking sector, debt management, anti-corruption, tax administration, and others. The EMCC dialogue has contributed extensively to developing these policy frameworks, which are now turning to implementation. Therefore prior to actual implementation, there is usually extensive review and consultation of current policies, before policy changes are effected through legislative amendment. Although this can be a lengthy process, there has been incremental change in the right direction.

ICP is aligned to EMCC-2 and promotes increased foreign participation in the banking sector and adopt a plan to address NPLs; strengthen medium-term debt management and improve the efficiency of public financial management; promote restructuring of State Economic Groups and improve SOE transparency; and strengthen the legal framework for public procurement, value-added tax and corporate income tax.

The EMCC provides a common platform for development partners to engage in policy dialogue with the government. It enables better alignment of donor programs to government priorities and, as a result, leverages more resources for the country. Coordination is improved and transaction costs are reduced. In this regard, the Government very much appreciates the assistance in carrying out these reforms that the ADB provides us through the ICP. We remain committed to the reforms, and in fact making faster progress, and call for continued support from development partners. The policy actions covered by the ICP are essential to the successful implementation of the SEDP 2011-2015. However, some of them entail substantial costs to the state budget. The Government has had to increase its expenditure on social safety net substantially in response to the global economic crisis which resulted in a considerable fiscal deficit. While we have a clear medium-term roadmap to bring down the fiscal deficit, the Government has limited resources this year to finance the cost associated with the policy actions covered by ICP. Therefore, the Government requests the ADB's assistance in the form of a program loan in carrying out these actions.

We look forward to your continued support in implementing our reform agenda and poverty reduction and economic growth strategy. *sh*

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'N. Van Binh', with a long horizontal flourish extending to the right.

Nguyen Van Binh
Governor

POLICY MATRIX

Sub-Objectives	EMCC 1 Prior Action	EMCC 2 Prior Action (This Program)	Tentative EMCC 3 Policy actions	Results		
				Baseline	Status	Target End-2015
1) Enhanced Banking Sector Stability	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 superceding 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"> RI-1: Reduction in reported NPLs (SBV)²⁴ RI-2: Number of banks with 20% foreign strategic ownership. Baseline = 8 	To be determined when Circular 2 becomes effective on June 1, 2013 <ul style="list-style-type: none"> 8 banks. 	<ul style="list-style-type: none"> RI-1 target (end 2015) = 5 percent or less. RI-2 target: 7 banks.
	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 sector.	1.6 GOV has instituted special portfolio and operational audit of at least one systemically important financial institution.			

²⁴This 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.

2) Maintained Fiscal Discipline	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>)	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.	2.4 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.	<ul style="list-style-type: none"> 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>) RI-4: The primary fiscal balance average over the past three years. Baseline (end 2012) = -2.7 percent of GDP RI-5: Consolidation of Treasury Main Accounts as a result of TSA implementation. Baseline (end 2012) = 700 accounts (<i>State Treasury, MOF</i>) 	<ul style="list-style-type: none"> 52 percent (end 2012) -3.7 percent of GDP 150 accounts by end of 2013. 	<ul style="list-style-type: none"> RI-3 target (end 2015) = 4. RI-4 target: < -4 percent of GDP RI-4 target (end 2015) = 5 accounts.
		2.3 GOV through State Treasury, has implemented the treasury single account procedures in the Bank for Investment and Development of Vietnam and the Vietnam Joint Stock Commercial Bank for Industry and Trade, and provided reports on the implementation.	2.5 GOV has fully implemented TSA arrangements at SBV, and Viet Nam Bank for Agriculture and Development.			
3) Improved Public Administration and Accountability	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		<ul style="list-style-type: none"> 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>) 	<ul style="list-style-type: none"> 9 provinces by end 2013 	<ul style="list-style-type: none"> RI-6 target (end 2015) = 45.25

²⁵ Land is among the five most corrupt sectors according to the 2012 Anti-Corruption Diagnostic.

		transparency, income and asset declaration of public officials, and accountability of public agencies and officials.		<ul style="list-style-type: none"> RI-7: Enhanced disclosure of public officials' income and asset declarations. Baseline (2011): None disclosed (<i>Annual Anti-Corruption Report to National Assembly</i>). RI-8: Businesses reporting less negotiation with tax authority as part of doing business. Baseline (2011): 41.1% by median province (PCI) 	<ul style="list-style-type: none"> 59% of declarations disclosed by end 2013 39.36% at end 2012. 	<ul style="list-style-type: none"> RI-7 target = 50% of declarations disclosed by 2015.26 RI-8: target (end 2015) = 35%
	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>)					
4) Strengthened State Enterprise Management	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. ²⁷	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"> RI-9: Reduced investments by SEGs in high risk non-core areas as a share of SEG capital. Baseline (end 2012) = (i) 0.13 percent for securities; (ii) 0.06% for 	<ul style="list-style-type: none"> (i) 0.13 percent for securities; (ii) 0.06% for investment fund; (iii) 0.16% for insurance; (iv) 1.53% for banking; and (v) 0.7% for real estate. 	<ul style="list-style-type: none"> RI-9: target (i) 0 percent for securities; (ii) 0% for investment fund; (iii) 0.8% for insurance; (iv) 0.8% for banking; and (v) 0.3 percent for

²⁶ The amended Law on Anti-Corruption requires that asset and income declarations of public officials be disclosed at the office of the filers.

²⁷ 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) 0.7% for real estate; (<i>Report 490/BC-CP, MOF</i>)</p> <ul style="list-style-type: none"> • RI-10: All SEGs disclose their audited financial statements on their websites. Baseline (end 2012) = 4 SEGs • RI-11: MOF discloses the reports on financial supervision and financial supervision result of SEGs/GCs on its website. Baseline (end 2012) = 0 	<ul style="list-style-type: none"> • 4 SEGs. • \None. 	<p>real estate.</p> <ul style="list-style-type: none"> • RI-10: target (end 2015) = 8 • RI-11: target (end 2015) = at least 30 percent of SEGs/GCs.
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5) Enhanced Public Investment Management	<p>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>)</p>	<p>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.</p>	<p>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.</p>	<ul style="list-style-type: none"> • RI-12: Reduction in ratio capital spending to capital budget. Baseline (average 2009-2011) = 135%²⁸ • RI-13: Reduction in total level of capital expenditure arrears from the central budget. Baseline (June 2013) = VND 43 trillion 	<ul style="list-style-type: none"> • 103%(2012 first estimates) • VND 43 trillion. 	<ul style="list-style-type: none"> • RI-12 target (end 2015) = 115% • RI-13 target (end 2015) = 30%
6) More Enabling Business Environment	<p>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>)</p> <p>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</p>	<p>6.3 GOV through National Assembly, has adopted the Amended Law 43/2013/QH13 on Procurement to strengthen transparency and competition in public procurement (Law 43/2013/QH13 dated 26 November 2013).</p>	<p>6.6 The Administrative Procedures Control Agency has adopted a Monitoring and Evaluation system for administrative procedures control.</p> <p>6.7 GOV has adopted circulars for implementation the amended Procurement Law.</p>	<ul style="list-style-type: none"> • RI-14: Reduced percentage of domestic firms spending over 10 percent of their time dealing with bureaucracy or bureaucratic regulations. Baseline (2011 survey) = 11.26 percent in median province (PCI) • RI-15: Reduced percentage of direct contracting over total contracting value. Baseline (end 2012) = 40 percent (<i>average for 2010-2012, MPI</i>) 	<ul style="list-style-type: none"> • 13.85 percent (2012 PCI survey) • 35.7 percent (end 2012). 	<ul style="list-style-type: none"> • RI-14 target (end 2015) = 10 percent or less in median province • RI-15 target (end 2015) = 30 percent.

²⁸ Including off-budget capital expenditure

	<p>registration, and the public disclosure of business registration information (<i>Circular 01/2013/TT-BKHDT, January 21, 2013</i>)</p>					
		<p>6.4 GOV through NA has adopted the Amended Law 32/2013/QH13 on CIT to establish competitive corporate income tax rates, clarify rules and regulations on transfer pricing, and introduce provisions on deductible expenses. (Law 32/2013/QH13 dated 19 June 2013)</p>	<p>6.8 GOV has adopted a Decision to increase the percentage of foreign investors' participation in selected areas in the stock market.</p>	<ul style="list-style-type: none"> 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) 		<ul style="list-style-type: none"> RI-16 target (end 2015) = (i) 220 hours for VAT; (ii) 150 hours for CIT.
		<p>6.5 GOV through NA has adopted the Amended Law 31/2013/QH13 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. (Law 31/2013/QH13 dated 19 June 2013)</p>				

CIT = Corporate Income Tax, EMCC = Economic Management and 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 loans, PCI = provincial competitiveness index, PM = Prime Minister, RI = results indicator, SBV = State Bank of Viet Nam, SEG = state economic groups, TSA = Single Treasury Account, VAT = Value-added Tax.