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Agreement on Debt-for-Development Swap
between
the Government of the Socialist Republic of Vietnam
and
the Government of the Italian Republic

The Government of the Socialist Republic of Vietnam and the Government of the Italian Republic, hereinafter referred to as the "Parties", with a view of promoting their bilateral co-operation and relieving Vietnamese debt burden,

whereas according to the Programming guidelines and directions of the Italian Development Co-operation for the three-year period 2010 – 2012 and to the Agreement on Development Co-operation between the Government of the Italian Republic and the Government of the Socialist Republic of Vietnam, signed in Milan on December 12th 2009, the Italian Co-operation will continue to be inspired by the achievement of the Millennium Development Goals, in particular those concerning poverty reduction, health, sustainable development and protection of the environment and consistent with the Vietnamese Social Development Plan (SDP).

considering that in order to reduce aid fragmentation and maximize the value added of each donor, the above mentioned Programming guidelines have identified a limited number of priority sectors, among those is environment,

bearing in mind that the three-year programming of the activities of the Italian Co-operation will take into account the framework of priorities laid down by the G8, that is the increasing incorporation of development and environmental protection into co-operation policies. Within this framework, the issue of climate change will remain a key focus of the international community's concerns and of the Italian development co-operation over the next three years, especially in the sectors of adaptation and mitigation, forests (special attention will be given to forestation-reforestation projects that have a significant impact on CO^2 reduction and the promotion of biodiversity) and desertification,

whereas following the Copenhagen Accord and within the framework of the European Union, the Government of the Italian Republic recognizes the need to assist the achievement of tangible results in both adapting to climate change and mitigating its effects, as far as addressing climate change in development efforts is necessary to the attainment of the Millennium Development Goals. To this extent the Government of the Italian Republic recognizes the importance of promoting sustainable management and planning of forests and biodiversity, that may complement the aims and objectives of national forest programmes, and of increasing capabilities for incorporating climate change considerations into forest governance,

considering that environmental protection must co-ordinate harmoniously with economic development and ensure social progress in order to achieve national sustainable development. Protection of the national environment must be associated with protection of the regional and global environment,

recalling that in the Annex to the above mentioned Agreement on Development Co-operation, the Parties agreed to negotiate a debt swap agreement for a maximum of 10 million Euros and that this amount will be granted for the implementation of development co-operation projects with a participatory approach of local communities to be jointly selected by the two Governments in priority sectors focused on social-economic development and environment protection in poor areas,

have agreed to the following:

Article 1
Scope of the Agreement

1.1. The present Agreement consists of 7 Articles and 1 Annex, which forms an integral part thereof.

1.2. This Agreement relates to Debt-for-Development Swap operations of Official Development Assistance (ODA) bilateral debt owed by the Government of the Socialist Republic of Vietnam to the Government of the Italian Republic and establishes procedures for the implementation of such operations.

1.3. This Agreement shall apply to the installments of the loans listed in Annex 1 (principal and interest) due starting from the date of entry into force of the present Agreement. The amount of debt subject to swap operations shall not exceed Euro 10 (ten) million.

1.4. Any other present and future debt owed by the Government of the Socialist Republic of Vietnam to the Government of the Italian Republic remains unaffected by this Agreement.

1.5. The Parties agree that funds resulting from Debt-for-Development Swap operations shall be used to finance development projects and acknowledge the need for these projects to be additional with respect of the existing Vietnamese development budget.

1.6. In consideration of the importance of environment protection in Vietnam, which will be one of the world countries to be most affected by the effects of climate change, the Parties agree to focus on the sector of eco-region/biodiversity conservation and forest protection, as in the context of climate change, forestry is generally seen as a greenhouse gas mitigation action, while coastal forests (especially mangroves) have evident advantages for disaster risk reduction and also for the maintenance of aquaculture and other local livelihoods.

1.7. Projects eligible for swap operations shall be financed by the Government of the Italian Republic through this Agreement and shall be related to jointly agreed social and development projects and programmes. Parties agree that the present debt swap Agreement shall imply a high degree of involvement and participatory approach of local communities and local organisations active in the field of development and environment protection, as the best guarantee for a sustainable, self-directed, bottom-up driven process of social – economic development. Projects financed through this Debt-for-Development Swap Agreement shall therefore combine the enhancement of local livelihoods with the sustainable management of natural resources.

Article 2
Debt-for-Development Swap procedures

2.1. Upon the entry into force of the present Agreement, the outstanding amount due (principal and interest) of the loans as listed in Annex 1 shall be suspended up to a maximum amount of Euro 10 million. At the same time the Government of the Italian Republic shall communicate to the Government of the Socialist Republic of Vietnam, through an exchange of letters, a plan containing the detailed list of the installments (principal and interest) referred to the above outstanding amount to be cancelled.

2.2. Upon the entry into force of the present Agreement, the Government of the Socialist Republic of Vietnam shall establish a Counterpart Fund (CPF) at the State Bank of Vietnam in the name of the "Italian - Vietnamese Debt Swap Agreement – Management Committee".

2.3. The Government of the Socialist Republic of Vietnam shall deposit into the Counterpart Fund (CPF) the amount provided for in Article 1.3 in three equal annual installments. Each annual installment shall be converted in Vietnamese Dong (VND) at the exchange rate EURO/VND quoted by the State Bank of Vietnam on the same date of the deposit of the installment. The first installment shall be deposited within 6 months after the entry into force of this Agreement. Thereafter, the Government of the Socialist Republic of Vietnam shall credit the CPF on June 30th of each year.

2.4. The State Bank of Vietnam shall communicate through the Italian Embassy to the Ministry of Foreign Affairs – Directorate General for Development Co-operation (MFA-DGDC) and to Italian Financial Institution (IFI) manager of ODA loans, within 15 days from deposits, the following information:

- the amount in Vietnamese Dong (VND) deposited into the CPF and the exchange rate utilized (the relevant administrative documents showing the amount deposited shall be attached);
- the outstanding amount in the CPF and interest accrued (if any).

Within 15 days from the receipt of the above information, the Italian Financial Institution shall give to the State Bank of Vietnam an acknowledgement of the correctness of the amount deposited in the CPF.

2.5. At the end of the validity period of the Agreement, specified in art. 7.2, all amount credited to the Counterpart Fund and disbursed on eligible projects shall be considered as cancelled, provided the positive verification of the Management Committee on each project's achievements.

2.6. Within 30 working days from the notification by the Italian Financial Institution, the Government of the Socialist Republic of Vietnam shall pay to the Government of the Italian Republic all amount credited to the CPF and not disbursed on eligible projects (equal to the outstanding amount on the CPF) at the same original exchange rate. Interest accrued bar late interest shall be payable.

2.7. The two Parties shall audit the accounting management of the Funds through an external auditor. Auditing expenses will be charged to the CPF. In case of severe mismanagement of the Funds the Government of the Italian Republic reserves the right to terminate this agreement.

Article 3
Eligible Projects

3.1. Funds resulting from debt-swap operations and deposited in the CPF, including accrued interests, if any, shall be used to finance jointly agreed development projects. An amount of maximum 2,5 % of the CPF could be allocated to assist the beneficiaries on project formulation and monitoring.

3.2. Eligible projects shall promote poverty reduction, socio-economic sustainable development and environmental protection in the Provinces of Central Vietnam and shall be identified, through calls for proposals, in compliance with Article 1.5 above and with the principles and guidelines agreed upon by both Parties within the framework of the aforementioned Agreement on Development Co-operation, and its Annex.

3.3. Priority shall be accorded to projects focusing on the sector of eco-region/biodiversity conservation and forest protection, in a context of verifiable social participation of local communities and environmentally sustainable resource use. Projects shall be targeted to Provinces/Districts with the highest poverty rates. The funds resulting from debt swap operations collected in the CPF shall be assigned equitably to projects defined at local level and submitted to the Government of the Socialist Republic of Vietnam by Local Governmental Entities, local community-based organisations active in the field of development and environment protection, Vietnamese and/or Italian Non Governmental Organisations or channelled through relevant UN Organisations. The comprehensive budget of each selected project shall be between the equivalent of Euro 250.000,00 and Euro 1.000.000,00. At least the 5 % of the comprehensive budget of each project shall be financed by local contributions (cash and/or in-kind).

3.4. The Government of the Socialist Republic of Vietnam shall submit to the Management Committee referred to in Article 4 the projects to be financed, providing, for each project, a project description, including, where appropriate, anticipated quantities, costs and the timing of subsequent stages. During the implementation of selected projects, it shall submit a six months progress report including disbursements made for each project during the previous year and a final report on each project financed under this Agreement. During the implementation of the projects, the Italian party is entitled to carry out monitoring activities in order to evaluate the conformity of single projects to the eligibility criteria and to their foreseen costs; upon request, the local counterparts shall made available contracts related to the implementation of works, invoices and payments receipts and any other required document.

3.5. Projects implemented under this Agreement shall be presented as jointly financed by the Government of the Socialist Republic of Vietnam and the

Government of the Italian Republic and shall be implemented according to the Agreement on Development Co-operation, signed in Milan on December 12th 2009.

3.6. Invoices and other documents relating to the projects shall be kept on file for five years after project completion and shall be made available to the Parties upon their request. The Italian party is entitled to visit project sites during and after their implementation.

3.7. A Technical Agreement shall be negotiated between the Parties to regulate in detail, in accordance with the present Agreement, procedures for selection, financial management and monitoring of the projects.

Article 4
Management Committee

4.1. A Management Committee is established for the implementation of this Agreement and is composed of:
- on behalf of the Government of the Italian Republic, H.E. the Ambassador of the Italian Republic to the Socialist Republic of Vietnam or his/her representative, assisted by members of the Italian Embassy and/or of the MFA-DGDC, through the Italian Co-operation Office in Hanoi, as the case may be;
- on behalf of the Government of the Socialist Republic of Vietnam, H.E. the Minister of Planning and Investment or his/her representative, assisted by representatives of the Ministry of Finance, of the State Bank of Vietnam, and of the other relevant Ministries and/or organizations, as the case may be.

4.2. The Management Committee, assisted by the Technical Committee mentioned in Article 4.5, shall have the following tasks:
- to monitor the implementation of the present Agreement;
- to select projects to be financed in accordance with the present Agreement and with agreed criteria for projects' selection;
- to verify the situation of the CPF, the amounts of funds to be transferred from the CPF to the Project Accounts;
- to monitor and approve the projects' implementation through field visit and evaluation of the following documents: Six-monthly Project Progress Report (technical and financial); Final Report (upon conclusion of the project); Annual Financial Auditing Report on each project, prepared by an external auditor, selected by the Management Committee, whose costs will be ascribed to the CPF;
- to inform the Parties on the selected projects and on technical/financial progress of projects;
- to verify projects achievements.

4.3. The Management Committee shall provide the Parties with a bi-annual progress report on each selected project describing the activities carried out and relative disbursements occurred in the previous period, giving also information of outstanding amount in the CPF.

4.4. The Management Committee shall meet every six months and shall operate according to rules and procedures that will be jointly established by the Parties. The first meeting shall be held within three months from the entry into force of this Agreement. The first batch of projects shall be presented and, if possible, approved in this meeting.

4.5. The Management Committee shall be assisted by a Technical Committee, which shall:

a) propose to the Management Committee the criteria for projects' selection;

b) pre-select projects and approve Project Documents including: objectives, activities and results, overall working plan and first year annual working plan, institutional framework and implementation modalities, financial plan and budget, including a detailed yearly break-down of costs, technical annexes (i.e. Feasibility Study);

c) evaluate projects' implementation.

The Technical Committee will be composed by one representative for each of the following: the Italian Development Co-operation Office in Hanoi, the Ministry of Planning and Investment of Vietnam, a Vietnamese organisation active in the field of development and environment protection jointly selected by the Parties. Such committee will operate according to rules and procedures that will be jointly established by the Parties within three months starting from the entry into force of the present Agreement.

Article 5
Amendments

5.1. The present Agreement and its Annex may be amended through Exchange of Letters.

Article 6
Disputes

6.1. Any dispute between the Parties regarding the interpretation or application of the provisions of the present Agreement shall be settled through diplomatic channels.

Article 7
Entry into force and effectiveness

7.1. The present Agreement shall enter into force on the date of the receipt of the last of the two notifications by which the two Contracting Parties shall formally have communicated each other that their respective internal procedures have been completed.

7.2. The present Agreement shall remain in force until two years after the last installment is deposited in the CPF. Its extension may be mutually agreed upon, in case funds allocated to specific projects and activities have not been fully spent by the expiration date.

In witness thereof, the undersigned Representatives being duly authorized thereto by their respective Governments have signed the present Agreement.

Done in Milano, Italy on 13th July 2010, in two originals in the English language.

For the Government of the Socialist Republic of Vietnam

The Standing Vice Minister of Finance
H.E. Nguyen Cong Nghiep

For the Government of the Italian Republic

The Minister for Foreign Affairs
H. E. Franco Frattini