

CONFORMED COPY

**ORIGINAL GRANT NUMBER H177-LA
ADDITIONAL FINANCING GRANT NUMBER H540-LA**

Financing Agreement

**(Amending and Restating Development Grant Agreement
and Providing Additional Financing for
the Lao Environment and Social Project)**

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 8, 2010



**ORIGINAL GRANT NUMBER H177-LA
ADDITIONAL FINANCING GRANT NUMBER 540-LA**

FINANCING AGREEMENT

AGREEMENT dated February 8, 2010, entered into between LAO PEOPLE'S DEMOCRATIC REPUBLIC ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association").

WHEREAS (A) under an agreement dated August 15, 2005 between the Association and the Recipient ("Development Grant Agreement"), the Association agreed to provide the Recipient with a Grant in an amount equivalent to two million seven hundred thousand Special Drawing Rights (SDR 2,700,000) to assist in financing the Lao Environment and Social Project described in Schedule 2 to the Development Grant Agreement (the "Project"); and

(B) the Recipient has requested the Association to provide additional financial assistance in support of the Project by increasing the amount made available under the Development Grant Agreement by an amount in various currencies equivalent to one million nine hundred thousand Special Drawing Rights (SDR 1,900,000) (the "Additional Grant");

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing to extend such additional assistance to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the Recipient and the Association hereby agree to amend and restate the Development Grant Agreement to read as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, two (2) grants (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
- (a) an amount in various currencies equivalent to two million seven hundred thousand Special Drawing Rights (SDR 2,700,000) (“the Original Grant”); and
 - (b) an amount in various currencies equivalent to one million nine hundred thousand Special Drawing Rights (SDR 1,900,000) (“the Additional Grant”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. The Recipient’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Minister of Finance.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are April 1 and October 1 in each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:

- (a) The Project Implementing Entity's Establishment Decree has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to implement the Project.
- (b) As a result of events which have occurred after the date of the Financing Agreement, an extraordinary situation has arisen which shall make it improbable that the Project Implementing Entity will be able to implement the Project.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) the Environment and Social Impact Assessment Decree has been duly adopted by the Recipient; and
 - (b) the Subsidiary Grant Agreement and the Project Implementation Plan have been amended to include the Additional Grant and the new activities to be financed under the Project as required.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister of Finance.
- 6.02. The Recipient's Address is:

Ministry of Finance
23 Singha Road
Nongbone Village
Saysettha District
Vientiane, Lao PDR

Facsimile:

856-21-412142

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Vientiane, Lao People's Democratic Republic as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By: /s/ Viengthong Siphandone

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Annette Dixon

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient to strengthen the management of environmental and social issues associated with the sustainable use of natural resources in Lao PDR.

The Project consists of the following parts:

Part A: Policy Implementation and Capacity Enhancement

Carrying out of selected Sub-projects including:

1. Strengthening the institutional capacity of Selected Provinces and other Recipient's agencies in environmental and social matters including the development and implementation of environmental and social safeguards regulations, preparation of Provincial Environmental Management Plans and guidelines for the mining and hydropower sub-sectors, and development of monitoring capacity.
2.
 - (a) Developing and implementing an integrated approach for the management of social and environmental cumulative impacts in Nam Theun/Nam Kading River Basin; and
 - (b) building institutional capacity of Beneficiaries under Part A of the Project to address cumulative impacts on local environment and local communities in the context of integrated river basin management.
3. Strengthening the institutional capacity of MEM and WREA to implement the National Policy on Environment and Social Sustainability of the Hydropower Sector.
4.
 - (a) Strengthening the Recipient's institutional capacity to: (i) implement the Decree on Compensation and Resettlement; (ii) finalize the draft Environment and Social Impact Assessment Decree, and implement the said decree when adopted; and (iii) undertake the development or revision of policies, laws, regulations, guidelines on natural resources, environment, pollution control and management, and climate change; through,

inter alia, the provision of training to staff, to enhance their technical and managerial capacity; and inter-ministerial coordination.

- (b) Strengthening the capacity of DESIA through technical assistance and operational support, including providing and/or upgrading offices and facilities for DESIA.
- 5. Carrying out environmental and social education activities and awareness campaigns, through *inter alia*: (a) workshops; (b) training; (c) the development of curricula on social safeguards; and (d) the development of national guidelines for consultation with Ethnic Groups.

Part B: Community and Biodiversity Investments

- 1. Strengthening the institutional capacity of Protected Area Management Units in environment and conservation activities, through the implementation of Sub-projects.
- 2. Carrying out of biodiversity conservation and community livelihood activities through the implementation of Sub-projects.

Part C: Management and Monitoring Support

- 1. Building the management and operation capacity of the EPF for approving, funding, monitoring and evaluating Sub-projects, including provision of staff training and technical assistance therefor.
- 2. Carrying out of a program to raise the awareness of potential Beneficiaries on the various activities under the Project.
- 3. Designing, establishing and applying a monitoring and evaluation system to assess the implementation of the Project and evaluate its effectiveness.

Part D: Sub-grants

Providing Sub-grants to finance Sub-projects under Parts A and B of the Project.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall cause the Project Implementing Entity to:
 - (a) Appoint through the EPF Board of Directors and thereafter maintain, until completion of the Project, a Project Steering Committee, chaired by the deputy head of WREA, vice chaired by a representative of each of MAF and MEM, and with representatives from, inter alia, the Prime Minister Office, MOF, MOE, MOFA, MIC, MPI, Selected Provinces, the National University of Laos, mass organizations, and civil society organizations, responsible for providing overall policy guidance and Project oversight.
 - (b) Maintain during the implementation of the Project the Management Unit, within the EPF Executive Office, to be responsible for, *inter alia*: (i) the day-to-day management of the Project; (ii) reviewing and approval of Sub-grant proposals; and managing and monitoring the implementation of Sub-grant Agreements; (iii) the carrying out of all procurement, disbursement, and financial management activities under the Project;
(iv) the consolidation of financial management reports and reports on Project activities; and (v) the monitoring and evaluation of the impact of Project activities; to be headed by a qualified and experienced manager, provided with sufficient resources provided by the Project to fulfill its responsibilities on a timely basis throughout the implementation of the Project, and staffed with competent personnel in adequate numbers, including technical and/or management advisor, an accountant, a financial officer, a procurement officer, all with qualifications and experience acceptable to the Association.

2. The Recipient shall cause the Project Implementing Entity to enter into Sub-grant Agreements for Sub-projects with Beneficiaries in accordance with Section I.D.3 of this Schedule 2.
3. (a) The Recipient shall cause the Project Implementing Entity to submit to the Association for review and comments, by June 30, 2010:
 - (i) WREA's proposal for a Sub-project under Part A of the Project to strengthen the technical and management capacity of DESIA, and evidence of the formal written appointment of the Sub-project implementation team which includes at least one full time appropriately qualified official responsible for the implementation of said Sub-project;
 - (ii) a report prepared by WREA, including an action plan, concerning the management of the NT-NKD River Basin;
 - (iii) a proposal submitted by Borikhamxay Province for a Sub-project to establish a conservation community network in Nam Theun-Nam Kading, including the proposed Sub-project implementation plan, procurement plan, and budget plan;
 - (iv) draft proposals submitted by Borikhamxay and Khammouane Provinces for Sub-projects to strengthen their capacity to plan and monitor the social safeguard activities, including the proposed Sub-projects implementation teams, which are to include at least one (1) full time appropriately qualified official responsible for the implementation of said Sub-projects; and
 - (v) proposals to develop curriculum on social safeguard and development of national guidelines on consultation with Ethnic Groups, including training to staff and concerned stakeholders by NUOL and LFNC.
- (b) The Recipient shall cause the Project Implementing Entity to ensure that the Association's comments are taken into account in finalizing the documents referred to in sub-paragraph (a) above and only the proposals, reports, and Sub-projects acceptable to the Association are carried out under the Project.
4. The Recipient shall ensure that the agencies and Selected Provinces which are included as part of the Beneficiaries under Part A and Part B of the Project, including WREA, LFNC, prepare Sub-project proposals referred

to _____ in paragraph 3 above and submit them to the Project Implementing Entity for approval, and implement the approved proposals.

B. Implementation Covenants

1. The Recipient shall cause the Project Implementing Entity to:
 - (a) not later than March 31 of each year furnish to the Association an annual report of EPF duly published on its website;
 - (b) not later than August 31 of each year, provide to the Association for its review and comments a consolidated annual work plan for the next fiscal year, including a revised procurement plan if needed, and the estimated budget therefor; and thereafter, implement said annual work plan in a manner satisfactory to the Association; and
 - (c) by March 31, 2010, carry out a consultation workshop with relevant stakeholders to discuss the implementation of the Project and the achievements of its objectives, including the Project Implementing Entity's annual Project progress report for Fiscal Year 2009, and take into consideration the recommendations of the said workshop in the subsequent implementation of the Project.

2. The Recipient shall cause:
 - (a) WREA to prepare and not later than March 31, 2011, submit to the Project Implementing Entity a mid-term report concerning, inter alia, the progress and lessons learnt from implementation of the Sub-projects it carried out; and recommendations and measures to be implemented in its Sub-projects;
 - (b) the Project Implementing Entity to:
 - (i) prepare and not later than December 31, 2010 submit to the Association for review and comments, the EPF Five-Year Strategic Program (including a plan to ensure financial and operational sustainability of EPF); and thereafter finalize the said Program taking into account the Association's comments, if any, and submit it to the EPF Board of Directors for approval; and

- (ii) submit to the Association, by June 1, 2011 a mid-term report consolidating the report referred to in sub-paragraph (a) above, review said report with the Association, by June 30, 2011, or such later date as the Association shall request, and, thereafter, implement the Project taking in account the recommendations of the said report and the Association's views.
- 3. The Recipient shall ensure that by March 31, 2010, WREA has submitted to the Project Implementing Entity, for approval, draft proposals for Sub-projects as follows:
 - (a) a proposal to facilitate effective operation of the NT-NKD River Basin Committee and its secretariat;
 - (b) a proposal to improve national policy and regulations, *inter alia*, those related to pollution control, and the climate change; and
 - (c) a proposal to develop capacity of WREA and ensure effective planning and coordination among WREA and other agencies.
- 4. The Recipient shall ensure that its agencies, including WREA and LFNC, and the Selected Provinces who are Beneficiaries:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis the carrying out of their Sub-projects and the achievement of the objectives thereof;
 - (b) prepare for consolidating and forwarding by the Project Implementing Entity to the Association, under terms of reference satisfactory to the Association, on or about October 1 of each year, an annual report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph on the progress achieved in the carrying out of the Sub-projects and setting out the measures recommended to ensure the efficient carrying out of the Sub-projects and the achievement of their objectives during the following year;
 - (c) provide timely input to the Project Implementing Entity for the preparation of the reports required under this Agreement; and
 - (d) furnish to the Project Implementing Entity for consolidating and forwarding to the Association the annual reports referred to in sub-paragraph (b) of this paragraph.

C. Subsidiary Grant Agreement

1. For purposes of carrying out the Project, the Recipient shall make the proceeds of the Financing available, on a grant basis, to the Project Implementing Entity under a Subsidiary Grant Agreement (as updated pursuant to the provisions of Section 5.01 of this Agreement to include the Additional Grant) to be entered into between the Recipient, through its Ministry of Finance, and the Project Implementing Entity, under terms and conditions which shall have been approved by the Association which shall include, *inter alia*, the terms and conditions set forth in Section I.C.2 of this Schedule 2.
2. The terms and conditions of the Subsidiary Grant Agreement shall include the following:
 - (a) the Project Implementing Entity shall undertake to carry out the Project with due diligence and efficiency and in accordance with the Project Implementation Plan;
 - (b) the Project Implementing Entity shall not use the financing provided through the Subsidiary Grant Agreement for ineligible expenditures and purposes inconsistent with this Agreement and the provisions of the Anti-Corruption Guidelines;
 - (c) the Project Implementing Entity shall follow management, financial, safeguards and practices acceptable to the Association, and provide, promptly as needed, the funds, facilities and other resources required for the purpose;
 - (d) the Project Implementing Entity undertakes to follow the safeguards provisions mentioned in Section I.F of this Schedule 2;
 - (e) the Project Implementing Entity shall train the accounting staff of its Management Unit in the preparation of financial reports and in the operation of its financial management system, all in a manner and substance satisfactory to the Association;
 - (f) the Project Implementing Entity shall adopt, put into effect, and apply throughout the implementation of the Project, a Project Implementation Plan, satisfactory to the Association, that includes: (i) the institutional arrangements for the implementation of the Project; (ii) the procurement manual, setting forth the procurement procedures consistent with the provisions set forth in Section III of this Schedule 2 and standard

procurement documentation; (iii) a financial management manual, setting forth: (A) the arrangements for the flow of funds; and (B) the guidelines and procedures for financial management and control, record keeping reporting and auditing requirements, all consistent with Section II.B of this Schedule 2; (iv) an operations manual, including Sub-project eligibility criteria and the procedures for the selection and approval of Sub-projects to be financed out of the proceeds of the Sub-grants; procedures for screening Sub-projects for environmental, involuntary resettlement; land acquisition, and Ethnic Groups purposes, procedures for disbursement of Sub-grants; terms and conditions governing Sub-grant Agreements, including, *inter alia*, the terms referred to in Section I.D of this Schedule, remedies for non-compliance; reporting requirements and monitoring and evaluation of Sub-project implementation; and (v) procedures for the monitoring, evaluation and reporting of Project activities;

- (g) the Project Implementing Entity shall not amend, suspend, abrogate, repeal or waive any provisions of the Project Implementation Plan without the prior agreement of the Recipient and the Association;
- (h) the Project Implementing Entity shall undertake to enable the Association to inspect the Sub-projects and, the operation thereof, and any relevant records and documents;
- (i) the Project Implementing Entity shall promptly inform the Recipient of any condition which obstructs or threatens to obstruct with the implementation of the Project and the achievement of the objectives thereof;
- (j) the Project Implementing Entity shall undertake to:
 - (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition;
 - (ii) retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Project until at least the later of: (A) one (1) year after the Recipient and the Association have received the audited financial statements covering the period during which the last withdrawal from the Financing Account was made; and (B) two (2) years after the Closing Date;

- (iii) enable the Recipient's representatives and the Association's representatives to examine such records;
 - (iv) have its records, accounts and financial statements (cash flow statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
 - (v) prepare and furnish to the Association interim unaudited financial reports, financial statements and accounts, and audits for the Project, as provided for in Section II.B of this Schedule 2; and
 - (vi) prepare and furnish to the Recipient and the Association all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Recipient and the Association shall reasonably request.
- (k) the Project Implementing Entity shall undertake to:
- (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators mentioned in Annex A to this Schedule 2 in the carrying out of the Project and the achievement of the objectives thereof;
 - (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Recipient and the Association for their review, the Project Reports referred to in Section II.A.1 of this Schedule 2;
 - (iii) promptly refund the Recipient any proceeds from the Financing not used for the purposes of carrying out the Project or for achieving the objectives thereof, or otherwise utilized in a manner in which does not comply with the provisions of this Agreement; and
 - (iv) the Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to the use of the financing made available under the Subsidiary Grant Agreement with said Project Implementing Entity upon failure by such Project Implementing Entity to perform its obligations under such agreement.

3. The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

D. Sub-Grants

1. Sub-grants may be provided for financing activities under Part A and Part B of the Project, pertaining to Sub-projects, provided, however, that such Sub-projects are technically and financially feasible, and capable of being implemented by the Beneficiaries themselves.
2. The amount of each Sub-grant shall be determined as set out in the Project Implementation Plan.
3. With respect to each eligible Sub-project for which the Project Implementing Entity has decided to make available a Sub-grant, the Project Implementing Entity shall enter into a Sub-grant Agreement with the proposed Beneficiary on terms and conditions approved by the Association, which shall include the following:
 - (a) the amount of the Sub-grant which shall be denominated in Kip;
 - (b) details of agreed disbursement schedules;
 - (c) provisions to suspend or terminate the right of the Beneficiary to use the proceeds of the Sub-grant, or obtain a refund of all or any part of the amount of the Sub-grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Sub-grant Agreement;
 - (d) a provision requiring the Beneficiary to permit the Association, at its request, to inspect their accounts and records relating to the Sub-project and to have said accounts and records audited by auditors appointed by the Association, and that the deliberate and material violation by a Beneficiary of such provision may amount to obstructive practice; and
 - (e) requirements to: (i) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, and ensure that the guidance to and requirements of Beneficiaries in this regard conforms with the provisions of the Anti-Corruption Guidelines applicable to recipients of Grant and Credit proceeds other than the Recipient and to observe the Recipient's laws against fraud and corruption; (ii) provide, promptly as needed, the

resources required for the purpose of the Sub-project; (iii) procure the goods, works and services to be financed out of the Sub-grant in accordance with the provisions of this Agreement; (iv) maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Sub-project; (v) enable the Project Implementing Entity and the Association to inspect the Sub-project, its operation and any relevant records and documents; and (vi) prepare and furnish to the Recipient, the Project Implementing Entity and the Association all such information as the Recipient, the Project Implementing Entity or the Association shall reasonably request relating to the foregoing.

4. No Sub-project shall be eligible for financing unless a Sub-grant Agreement has been entered into on terms and conditions set forth in paragraph 3 of this Section D and the Project Implementation Plan.
5. The Beneficiary shall exercise its rights under each Sub-grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Beneficiary shall not assign, amend, abrogate or waive any Sub-grant Agreement or any of its provisions.

E. Anti-Corruption

The Recipient shall ensure and cause the Project Implementing Entity to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

F. Safeguards

1. The Recipient shall and cause the Project Implementing Entity to:
 - (a) ensure that all Sub-projects to be financed through the Project are technically and economically viable, and have been designed and appraised, with due regard for public health, safety, social and environmental standards acceptable to the Association, and pursuant to the Environmental and Social Safeguards Framework acceptable to the Association;
 - (b) ensure that an environmental and social screening of each Sub-project has been done; and in the event that a Sub-project would involve land acquisition, restriction of resource access, Ethnic Groups, or civil works, the Resettlement Policy Framework, the

Ethnic Group Policy Framework, and the good engineering and management practices described in the Environmental and Social Safeguards Framework, as the case may be, will be followed;

- (c) ensure that all the screening results and other related follow-up actions are properly documented for possible post review by the Association; and
- (d) furnish to the Association for its prior approval any revisions proposed to be introduced into the Environment and Social Safeguards Framework, including the Resettlement Policy Framework and the Ethnic Group Policy Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. The Recipient shall and cause the Project Implementing Entity to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Annex A to this Schedule 2. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

- 1. The Recipient shall and cause the Project Implementing Entity to maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
- 2. Without limitation on the provisions of Part A of this Section, the Recipient shall and cause the Project Implementing Entity to prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
- 3. The Recipient shall and cause the Project Implementing Entity to have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year of the Recipient.

The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section; provided that goods and works for which the procurement process was initiated prior to December 3, 2009 may be procured in accordance with the requirements set forth or referred to in Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Association in May 2004.
2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section, provided that consultants’ services for which the procurement process was initiated prior to December 3, 2009 may be procured in accordance with the requirements set forth or referred to in Section I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Association in May 2004.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International

Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding in accordance with the Recipient's Decree of the Prime Minister on Government Procurement of Goods, Construction, Maintenance and Services, 03/PM dated January 9, 2004, and in the Implementing Rules and Regulations on Government Procurement of Goods, Works, Maintenance and Services dated March 12, 2004, subject to the procedures listed in Annex B to this Schedule 2
(b) Shopping
(c) Community Participation

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection based on Consultants' Qualifications
(b) Least Cost Selection
(c) Single Source Selection
(d) Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Original Grant and of the Additional Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Original Grant Allocated (expressed in SDR)	Amount of the Additional Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Sub-grants (a) under Part A of the Project (b) under Part B of the Project	1,053,186 957,838	1,160,000 340,000	100% of the Sub-grants amounts disbursed
(2) Consultants' Services	490,000	150,000	100%
(3) Training	92,948	40,000	100%
(4) Goods	55,000	10,000	100%
(5) Incremental Operating Costs	51,028	30,000	100%
(6) Unallocated		170,000	100%
TOTAL AMOUNT	2,700,000	1,900,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal of the Additional Grant shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2013.

ANNEX A
to
SCHEDULE 2

Performance Indicators

<i>Project Development Objective</i>	<i>Performance Indicators for the Project</i>
To strengthen the management of environment and social issues associated with the sustainable use of natural resources in Lao PDR.	<p>Increase in the % of environment compliance certificates (ECCs) issued by WREA that are of adequate quality as judged by a third party annually starting June 2010 as a baseline and agree on the % increase by September 30, 2010. The target is by the end of the Project to increase the issuance of said ECCs by WREA by a percentage to be agreed between the Recipient and Association based on the baseline data.</p> <p>Increase in the % of complaints resolved in Borikhamxay and Khammouane Provinces.</p> <p>First measurement of this indicator will be conducted by December 2010 to serve as a new baseline. The target is by the end of the Project to increase complaints resolved in Borikhamxay and Khammouane Provinces by a percentage to be agreed between the Recipient and the Association by March 30, 2011 based on the baseline data.</p>
<i>Intermediate Outcomes</i>	
Part A (Policy Implementation and Capacity Enhancement (PICE))	

<p>Improved policies and instruments are understood by relevant stakeholders, institutionalized within government agencies and systems, and implemented by technically competent staff.</p>	<p>By December 31, 2010, database for tracking type and number of development projects in the Selected Provinces is established.</p> <p>By December 31, 2012, a unit responsible for monitoring social impacts and a functional complaint handling mechanism are established in Borikhamxay and Khammouane Provinces.</p> <p>By June 30, 2010, the River Basin Committee for NT-NKD is established.</p> <p>By December 31, 2012, an implementation model for a river basin organization in Lao PDR is developed.</p> <p>By December 31, 2010, WREA has prepared guidelines for incorporating ECC measures in Concession Agreement for hydropower projects signed by the Recipient after the enactment of the Environment and Social Impact Assessment Decree.</p> <p>By December 31, 2012, social safeguard training program is developed for agencies and provinces participating in the Project and at least sixty (60) trainees are trained (ten (10) from DESIA, five (5) from provinces, twenty (20) from private sector and twenty-five (25) students from academic).</p> <p>By December 31, 2012 national guideline for Ethnic Groups' consultation has been completed and the relevant agencies' staff have been trained on how to conduct such consultation.</p>
<p>Part B (Community and biodiversity Investments (CBI))</p>	
<p>Selected protected areas and local communities benefit from improved environmental management, and enhanced livelihood options</p>	<p>By December 31, 2010, site plans for six (6) protected areas are available and the site plans have identified priority actions.</p> <p>By December 2012, at least sixty percent (60%) of the priority activities identified are being implemented in the six (6) protected areas.</p>

	<p>By December 31, 2012, at least ten (10) conservation communities are established in NT-NKD</p>
<p>Part C (Management and monitoring Support)</p>	
<p>EPF is a competent institution, eligible to receive NT2 revenues</p>	<p>By December 31, 2012, EPF's annual administrative cost which is about thirty three percent (33%) of a Sub-grant amount has been reduced to no more than fifteen percent (15%) of an Additional Grant.</p> <p>Eighty percent (80%) of Sub-projects financed by the Original Grant have been completed satisfactorily by December 31, 2010.</p> <p>Eighty percent (80%) of Sub-projects financed by the Additional Grant have been completed satisfactorily by December 31, 2012.</p> <p>EPF and WREA have received part of the NT2 revenue for financing their respective priority development projects by December 31, 2010.</p>

ANNEX B
to
SCHEDULE 2

National Competitive Bidding Procedures

1. Bidding documents and contracts under national competitive bidding procedures financed by the Association shall include a provision requiring suppliers contractors and their subcontractors to permit the Association to inspect their accounts and records relating to the bid submission and the performance of the supplier and/or contractor, as the case may be, and to have them audited by auditors appointed by the Association, if so required by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

2. Immediately after completion of the bid opening proceedings, a copy of the bid opening record shall be posted at a prominent location, accessible to the public, outside the office of the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the bid opening record shall be provided to all bidders who submitted bids.
3. The Recipient shall publish the following information on contract award on a free or open access website when it becomes operational or on another means of publication acceptable to the Association: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated price of each bid that was evaluated; (d) name of bidders whose bid were rejected and the reasons for rejection; (e) name of the winning bidder, contract price, explanation if it is different than bid price as well as the duration and summary scope of the contract awarded; and (f) contract variation orders. This publication shall be updated quarterly.
4. The eligibility of bidders shall be as defined under Section I of the Bank's Guidelines for Procurement under IBRD Loans and IDA Credits, published by the Bank in May 2004 and revised in October 2006; accordingly, a firm or individual previously declared ineligible by the Association based on determination by the Association that this firm or individual has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices shall be declared ineligible to be awarded a contract financed by Association.
5. The Association shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association and the Recipient, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, an Association-financed contract.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiaries Under Part A” means MAF, MIC, MEM, MOE, WREA, LFNC, Selected Provinces, the National University of Laos, a mass organization or a civil society organization and any other beneficiary agreed to between the Recipient and the Association.
3. “Beneficiaries Under Part B” means MAF, Protected Area Management Units or Selected Provinces.
4. “Beneficiary” means any of the Beneficiaries under Part A of the Project, and Beneficiaries under Part B of the Project, and the term “Beneficiaries” means collectively all such Beneficiaries.
5. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
7. “Decree on Compensation and Resettlement” means the Decree No. 192 adopted by the Recipient in 2005 which governs matters relating to the involuntary acquisition of land, other assets, resettlement and rehabilitation of and compensation to, persons whose livelihood is being adversely affected by the implementation of projects.
8. “DESIA” means the department of environmental and social assessment within WREA or any successor thereto.
9. “Displaced Person” means a person who, on account of the execution of the Project, experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction to access

to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, the plural thereof.

10. “Environment and Social Impact Assessment Decree” means the Recipient’s decree governing matters relating to the environment and social impact assessment required for the Project to be adopted by the Recipient pursuant to the provisions of Section 5.01 of this Agreement.
11. “Environmental and Social Safeguards Framework” means the framework instrument, satisfactory to the Association, adopted by the Recipient through EPF, and referred to in paragraph I.F.1(a) of Schedule 2 to this Agreement which sets forth the principles and procedures, satisfactory to the Association, governing: (a) the environmental impact screening of works to be carried out under the Sub-projects , which screening is to be done by EPF prior to the approval of the related Sub-grant, and the environmental protection measures, if any, required to be undertaken by the respective Beneficiary in order to avoid or mitigate potential adverse environmental impacts resulting from such works; (b) land or other asset acquisition from, resettlement and rehabilitation of and compensation to, Displaced Persons, as well as reporting and monitoring arrangements to ensure compliance with said principles, and for the preparation of resettlement action plans whenever required in the carrying out of Project implementation activities; and (c) the strategy to be implemented or cause to be implemented by the Recipient in the carrying out of the Project in areas where Ethnic Groups are residing, cultivating, hunting and carrying out other similar social activities which strategy includes special planning measures or actions to be undertaken by the relevant Beneficiary aimed at ensuring that through informed consultation the Ethnic Groups receive the benefits from the Project in a culturally compatible manner acceptable to them, and do not suffer adverse effects as a result of the implementation of the Project; as said Framework may be revised from time to time with the prior approval of the Association.
12. “EPF” means the Environment Protection Fund, the entity established and operating pursuant to the Prime Minister’s Decree on the Establishment of the Environment Protection Fund, No.146/PM, dated June 6, 2005, provided with legal personality distinct from that of the Recipient and possessing administrative and financial autonomy under the Recipient’s laws and regulations, for purposes of financing eligible activities to strengthen environmental protection, natural resources and biodiversity management, biodiversity conservation and management and community

development in Lao PDR, including the selection, approval and financing of Sub-projects, and any successor thereto.

13. “EPF Board of Directors” means the governing body of the National Environment Fund responsible for promoting and achieving the purpose of EPF, including the adoption of EPF Charter, establishing EPF’s policies, strategies and priorities, and providing guidance to the EPF Executive Office regarding the effective implementation of EPF’s duties and functions as established in the Prime Minister’s Decree on the Establishment of the National Environment Fund, No.146/PM, dated June 6, 2005, and in the EPF Regulations.
14. “EPF Regulations” means the operational documents specifying the organization, management and operations of EPF and functions of the EPF Board of Directors and EPF Executive Office to be adopted by the EPF Board of Directors pursuant to Article 8(4) of the Prime Minister’s Decree establishing the Environment Protection Fund, No.146/PM, dated June 6, 2005.
15. “EPF Executive Office” means the office responsible for the operation, management, and administration of EPF as established in the Prime Minister’s Decree establishing the Environment Protection Fund, No.146/PM, dated June 6, 2005, and the EPF Regulations.
16. “EPF Five-Year Strategic Program” means the program setting forth guidance for the allocation of EPF’s resources, as established in the Prime Minister’s Decree establishing the Environment Protection Fund, No.146/PM, dated June 6, 2005.
17. “Ethnic Groups” mean those social groups in Lao PDR who have a distinct social and cultural identity, and are susceptible to being disadvantaged in the development process induced by the Project or any part thereof.
18. “Fiscal Year” means the twelve (12) month period corresponding to any of the Recipient’s and Project Implementing Entity’s financial years, which period commences on October 1 and ends on September 30 in each calendar year, and the term “Fiscal Years” means collectively each of said Fiscal Year.
19. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as

amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.

20. “Incremental Operating Costs” means reasonable expenditures related to the Project incurred by EPF, which expenditures would not have been incurred without the Project, including expenditures for Project staff travel, lodging and per diem, publication and dissemination of reports, maintenance of office and field equipment, operation and maintenance of vehicles and motorbikes, but excluding staff salaries, salary supplements, allowances and salary of civil servants.
21. “Kip” means the official currency of Lao People’s Democratic Republic.
22. “LFNC” means the Lao Front for National Construction of Lao People’s Democratic Republic.
23. “MAF” means the Recipient’s Ministry of Agriculture and Forestry, or any successor thereto.
24. “Management Unit” means the unit established within EPF in accordance with the provisions set forth in Section I.A.1(b) of Schedule 2 to this Agreement.
25. “MEM” means the Recipient’s Ministry of Energy and Mines, or any successor thereto.
26. “MIC” means the Recipient’s Ministry of Information and Culture, or any successor thereto.
27. “MOE” means the Recipient’s Ministry of Education or any successor thereto.
28. “MOF” means the Recipient’s Ministry of Finance or any successor thereto.
29. “MOFA” means the Recipient’s Ministry of Foreign Affairs or any successor thereto.
30. “MPI” means the Recipient’s Ministry of Planning and Investment or any successor thereto.

31. “National Policy on Environmental and Social Sustainability of the Hydropower Sector” means the Recipient’s policy No.561/CPI, dated June 7, 2005, issued pursuant to Prime Minister’s Notice 839/PMO of June 6, 2005, providing for the development and implementation of hydropower activities in a sustainable manner.
32. “NT-NKD” means the Nam Theun-Nam Kading River Basin defined under the Water Law No.02-96, dated October 11, 1996 as catchments areas of ground surface and forests, from river sources to the mouths of rivers where water is distributed and in places where raindrops are accumulated into a water source system.
33. “NT-NKD River Basin Committee” means the committee established by the Recipient to oversee the management of NT-NKD river basin.
34. “NUOL” means the National University of Lao People’s Democratic Republic established under the Prime Minister’s decree No.50/PM dated June 9, 1995.
35. “Original Grant” means the original financing in various currencies equivalent to two million seven hundred thousand Special Drawing Rights (SDR 2,700,000) provided to the Recipient on the terms and conditions set forth or referred to in the Development Grant Agreement.
36. “Prime Minister Office” means the office of the Prime Minister of the Recipient or any successor thereto.
37. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
38. “Procurement Plan” means the Recipient’s procurement plan for the Project dated June 7, 2005 as updated on December 3, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
39. “Project Implementation Plan” means the plan as updated by the Recipient pursuant to the provisions of Section 5.01 of this Agreement, satisfactory to the Association, adopted by EPF for the implementation of the Project referred to in Section I.C.2(f) of Schedule 2 to this Agreement, as said plan may be

amended from time to time with prior agreement of the Association, and such term includes any schedules to the Project Implementation Plan.

40. “Project Implementing Entity” means EPF.
41. “Project Implementing Entity Establishment Decree” means the Prime Minister’s Decree on the Establishment of the National Environment Fund, No.146/PM, dated June 6, 2005, and the EPF Regulations.
42. “Project Steering Committee” means the Steering Committee to be established by EPF Board of Director pursuant to Section I.A.1(a) of Schedule 2 to this Agreement.
43. “Protected Area Management Unit” means any unit established at the provincial and district level in Selected Provinces or within the Ministry of Agriculture and Forestry pursuant to Prime Minister’s Decree establishing the National Protected Areas, No.164/PM, dated March 11, 1997, responsible for the management of protected areas, and the term “Protected Area Management Units”, means collectively, more than one (1) Protected Area Management Unit.
44. “Provincial Environmental Management Plans” means action plans developed under Part A.1 of the Project to manage covering environmental and natural resources management priorities, a five (5) year operational program and budget, institutional arrangements for the implementation of the plans, monitoring and evaluation activities, including the development of a provincial environmental index.
45. “Selected Provinces” means the provinces of Bolikhamxay, Khammouane and Savannakhet in the territory of the Recipient and their administrative units, and any other province to be agreed between the Recipient and the Association.
46. “Sub-grant” means a grant to be made available by EPF out of the proceeds of the Financing to a Beneficiary in accordance with the provisions of a Sub-grant Agreement, and the term “Sub-grants” means, collectively, more than one Sub-grant.
47. “Sub-grant Agreement” means the agreement to be entered into between EPF and Beneficiary for the purposes of implementing and financing a Sub-project under Parts A or B of the Project, and the term

“Sub-grant Agreements” means collectively, all such Sub-grant Agreements.

48. “Sub-project” means: (a) for purposes of Part A of the Project a specific capacity building activity; (b) for purposes of Part B.1 of the Project, a protected area management activity; and (c) for purposes of Part B.2 of the Project, a sustainable biodiversity conservation and livelihood activity; to be carried out by a respective Beneficiary utilizing the proceeds of a Sub-grant, all in accordance with the provisions of the Project Implementation Plan; and the term “Sub-projects” means all such Sub-projects.
49. “Subsidiary Grant Agreement” means the agreement entered into between the Recipient and EPF in April 2006, as updated pursuant to the provisions of Section 5.01 of this Agreement, as the same may be amended from time to time in a manner satisfactory to the Association, and such term includes all schedules to the Subsidiary Grant Agreement.
50. “Training” means trainings, workshops, and study tours, conducted in the country of the Recipient or abroad, including training materials, facilities, course fees, travel, accommodation, and subsistence for trainees in connection with these events.
51. “WREA” means the Water Resources and Environment Administration, an agency within the Prime Minister’s office responsible for, *inter alia*, formulating and implementing policies related to water resources and environment.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or

the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”