

CONFORMED COPY

GRANT NUMBER H301-KH

Financing Agreement

(Greater Mekong Subregion Power Trade (Cambodia) Project)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 14, 2007



GRANT NUMBER H301-KH

FINANCING AGREEMENT

AGREEMENT dated August 14, 2007, entered into between KINGDOM OF CAMBODIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree 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, a grant in an amount equivalent to twelve million three hundred thousand Special Drawing Rights (SDR 12,300,000) (“Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 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 June 1 and December 1 in each year.
- 2.05. The Payment Currency is United States Dollars.

ARTICLE III – PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 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- (a) the Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement;
 - (b) the Project Implementing Entity has failed to perform any of its obligations under the Project Agreement; and
 - (c) 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 perform its obligations under the Project Agreement.

ARTICLE V – EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the Subsidiary Agreement being executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matters consist of the following:
- (a) the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms;
 - (b) that the Initial Environmental Examination and Environmental Management Plan and the Resettlement Action Plan have been duly adopted by the Project Implementing Entity and are consistent with the applicable laws of the Kingdom of Cambodia; and
 - (c) that the procurement agent is contracted by MEF.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. 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 twenty (20) years after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Minister of Economy and Finance.

6.02. The Recipient’s Address is:

Ministry of Economy and Finance
Street 92, Sang Kat Wat Phnom
Phnom Penh
Kingdom of Cambodia

Facsimile:

855-23-427798

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 Phnom Penh, Kingdom of Cambodia as of the day and year first above written.

KINGDOM OF CAMBODIA

By: /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ian Porter

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to enhance power trade within the Greater Mekong Sub-Region with a view to also bringing affordable grid-based electricity to selected provinces in Cambodia through import of power from the Lao People's Democratic Republic and the Socialist Republic of Vietnam.

The Project consists of the following parts:

Part A: 115 kV Transmission system—Vietnam border to Kampong Cham

Construction of a 115 kV double circuit transmission line from Kampong Cham substation to the Cambodia-Vietnam border, and construction of associated substations in Kampong Cham, Suong, and Kraek.

Part B: 115 kV Transmission System—Lao border to Stung Treng

Construction of a 115 kV double circuit transmission line from Stung Treng to the Cambodia-Laos border (at Veun Kham), and construction of associated substation in Stung Treng.

Part C: Technical Assistance

For the contracts for supply and installation proposed for Parts A and B of the Project, strengthen the capabilities of *Electricité du Cambodge* in:

- (a) bid documents preparation, evaluation, and contract finalization; and
- (b) subsequent management of the contracts.

Part D: Institutional Development

Strengthen the capabilities of:

- (a) *Electricité du Cambodge's* internal audit office through the provision of advisory services; and
- (b) *Electricité du Cambodge* for design of high voltage transmission system and optimizing system dispatch, through the provision of technical advisory services.

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

1. The Recipient shall designate, for the duration of the Project, staff of MIME to coordinate the implementation of the overall Project with the EdC-PMU on a regular basis.
2. The Recipient shall coordinate with the Socialist Republic of Vietnam and the Lao People's Democratic Republic to achieve the objectives of the Project, and cause the Project Implementing Entity to coordinate with: (a) Power Company (PC-2) of Vietnam; and (b) *Electricité du Laos*.
3. The Recipient shall coordinate with and cause the Project Implementing Entity to enter into by June 30, 2008 power purchase agreements with: (a) Power Company (PC-2) of Vietnam for Part A of the Project; and (b) *Electricité du Laos* for Part B of the Project.

B. Subsidiary Agreement.

1. To facilitate the carrying out of the Project, the Recipient shall make part of the proceeds of the financing available to the Project Implementing Entity through a Loan which consists of the amounts of the financing drawn down for the purpose of Parts A, B, C(b), and D(a) and (b) of the Project, and through a grant which consists of the amounts of the financing drawn for the purpose of Part C(a).
2. The Loan will be made available through the Subsidiary Agreement under terms and conditions satisfactory to the Association.
3. The lending terms of the Subsidiary Agreement shall include the following:
 - (a) the principal amount shall be made available as a loan in United States Dollars and repaid by the Project Implementing Entity in Khmer Riels at the average official rate of exchange as determined by the National Bank of Cambodia on the respective dates on which the proceeds of the loan are repaid by the Project Implementing Entity to MEF;
 - (b) repayment of the proceeds of the Loan over a period of twenty (20) years, inclusive of a grace period of five (5) years;
 - (c) payment of interest on the principal amount of the Loan withdrawn and outstanding from time to time at the rate four percent (4%) per year; and

(d) payment of a commitment charge on the unwithdrawn balance at the rate payable by the Recipient pursuant to Section 2.03 of this Agreement.

4. Other terms of the Subsidiary Agreement shall include the following:

(a) the Project Implementing Entity shall:

(i) undertake to carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Association, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and

(ii) without limitation on the foregoing, take all measures necessary to ensure that the Project and related activities shall be implemented in accordance with the Resettlement Action Plan and the Initial Environmental Examination and Environmental Management Plan;

(b) the Project Implementing Entity shall undertake to procure, through the services of the procurement agent unless otherwise agreed, the goods, works and consultants' services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to this Agreement, and utilize such goods, works and consultants' services exclusively in the carrying out of the Project;

(c) the Project Implementing Entity shall undertake to enable the Recipient and the Association to inspect such goods and the sites and works included in the Project, the operation thereof, and any relevant records and documents;

(d) the Project Implementing Entity shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable to replace or repair such goods;

(e) 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 and the Association's representatives to examine such records;
 - (iv) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related 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 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;
 - (vi) furnish to the Recipient and the Association as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Recipient and the Association shall have reasonably requested; and 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; and
 - (vii) 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;
- (f) 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 satisfactory to the Recipient and the Association the carrying out of the Project and the achievement of the objectives thereof; and

- (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Recipient and the Association for their review, consolidation in the Project Reports and submission to the Association, semi-annual reports integrating the results of the monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (f) on the progress achieved in the carrying out of the Project during the period preceding the date of each such report; and

(g) the Recipient shall have the right to suspend or terminate the right of Project Implementing Entity to the use of the proceeds of the Loan made available under the Subsidiary Agreement with said Project Implementing Entity upon failure by such Project Implementing Entity to perform its obligations under such agreement.

5. The Recipient shall exercise its rights under the Subsidiary 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 Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Safeguards.

1. The Recipient shall:

(a) implement and cause to be implemented, in a manner satisfactory to the Association, the Initial Environmental Examination and Environmental Management Plan designed to ensure that the Project is implemented in accordance with sound environmental practices and standards;

(b) provide to the Association for its prior approval any revision proposed to be introduced into said Initial Environmental Examination and Environmental Management Plan in order to achieve its respective objectives, and, thereafter, only introduce such revision into said plan as shall have been agreed with the Association; and

(c) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Initial Environmental Examination and Environmental Management Plan, and the achievement of its objectives.

2. The Recipient shall:

(a) take and cause to be taken all necessary actions to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently;

(b) to this end, implement and cause to be implemented the Resettlement Action Plan, in a manner satisfactory to the Association;

(c) provide to the Association for its prior approval any revision proposed to be introduced into said Resettlement Action Plan, in order to achieve its respective objectives, and, thereafter, only introduce such revision into said plan as shall have been agreed with the Association; and

(d) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Resettlement Action Plan, and the achievement of its objectives.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports.

1. The Recipient shall 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 indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits.

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall 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 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 (or other period agreed to by the Association) 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.

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.

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.** 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 method 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 method may be used.

Procurement Method

- (a) Shopping.

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) Quality Based Selection;
- (b) Selection Based on Consultants' Qualifications;
- (c) Single Source Selection; and
- (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 Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	<u>Amount of the Grant Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed</u>
(1) Goods and Consultants' Services for the Project	10,800,000	100 % excluding taxes and duties
(2) Works	1,300,000	95% including taxes and duties
(3) Incremental Operating Costs for the Project Implementing Entity	200,000	100 % including taxes and duties
TOTAL AMOUNT	<u>12,300,000</u>	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is December 31, 2011.

Section V. Other Undertakings

- A. All taxes and duties that may be applicable in implementing the Project will be borne by the Recipient.
- B. Unless otherwise agreed to between the Recipient and the Association for the purposes of Section III of Schedule 2 to this Agreement, the Recipient shall cause the Project Implementing Entity to use the services of a procurement agent contracted by the MEF under terms of reference satisfactory to the Association for procurement to be undertaken under the Project.
- C. For the purposes of Section III of Schedule 2 to this Agreement, guidance for implementing the Procurement Guidelines and the Consultant Guidelines is provided in the Kingdom of Cambodia's Externally Assisted Project Procurement Manual: Goods, Works and Services, issued under Sub-Decree 14 dated February 26, 2007, on Promulgating of the Standard Procedure for Implementing the World Bank and the Asian Development Bank Assisted Projects.

APPENDIX**Definitions**

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person; and “Displaced Persons” means, collectively, all such Displaced Persons.
4. ‘Fiscal Year’ means the twelve (12) month period corresponding to any of the Recipient’s financial years, which period commences on January 1 and ends on December 31 in each calendar year, and the term ‘Fiscal Years’ means, collectively, more than one (1) Fiscal Year.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
6. “Greater Mekong Subregion Power Trade (Lao PDR) Project” means the Project to be agreed to between the Lao People’s Democratic Republic and the Association to enhance power trade within the Sub-Region with a view to bringing reliable electricity to selected provinces in Lao PDR, and creating the conditions for eventual interconnections of Lao PDR with other countries of the region.
7. “Incremental Operating Costs” means reasonable and necessary expenditures directly related to the implementation and monitoring of the Project, incurred by the Project Implementing Entity (which expenditures would not have been incurred absent the Project), including expenditures for office space, office supplies, utilities, communications services (including telephone and internet costs), publication services, translation services, maintenance of office equipment, and vehicle operation costs, but excluding salaries of officials and employees of the Recipient and *Electricité du Cambodge*.
8. “Initial Environmental Examination and Environmental and Management Plan” and “Plan” mean the Plan dated February 20, 2007, approved by *Electricité du*

Cambodge, which sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said Plan, as said Plan may be revised from time to time with the agreement of the Association.

9. “Loan” means the part of the proceeds of the Financing which will be on-lent to the Project Implementing Entity to facilitate the carrying out of the Project, pursuant to Section I.B.1 of Schedule 2 to this Agreement.
10. “MEF” means the Recipient’s Ministry of Economy and Finance, and any successor thereto.
11. “MIME” means the Recipient’s Ministry of Industries, Mines and Energy, and any successor thereto.
12. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 22, 2007 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.
14. “Project Agreement” means the agreement between the Association, and the Project Implementing Entity, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.
15. “Project Implementing Entity” means *Electricité du Cambodge*, the electricity utility of the Recipient established and operating as a limited liability company pursuant to the Royal Decree No. NS 0396/10, dated March 9, 1996, for generation, transmission and distribution of electric power throughout Cambodia, and such term includes any successor thereto.
16. “Project Implementing Entity’s Legislation” means the Royal Decree No. NS 0396/10 dated March 9, 1996, pursuant to which *Electricité du Cambodge* was established, Sub-decree No. 23 dated May 23, 1996, and the Electricity Law dated February 2, 2001, and other laws, decrees, sub-decrees, directives, resolutions and regulations which may from time to time govern, control or regulate the operations of *Electricité du Cambodge*.
17. “Project Management Unit of the Project Implementing Entity” and “EdC-PMU” mean the unit within the Project Implementing Entity responsible for the implementation of the Project.

18. “Resettlement Action Plan” means the plan dated April 25, 2007, approved by *Electricité du Cambodge*, which sets out the policies and procedures for the acquisition of land and other assets, resettlement, compensation and rehabilitation of Displaced Persons, as said Plan may be revised from time to time with the prior concurrence of the Association.
19. “ Greater Mekong Sub-Region” means the Kingdom of Cambodia, the Kingdom of Thailand, the Lao People’s Democratic Republic, Myanmar, Yunan province of People’s Republic of China, and the Socialist Republic of Viet Nam.
20. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to the Project Implementing Entity.