

CONFORMED COPY

GRANT NUMBER H499-LA

Financing Agreement

(Fifth Poverty Reduction Support Development Policy Financing)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 9, 2009

FINANCING AGREEMENT

AGREEMENT dated September 9, 2009, entered into between LAO PEOPLE'S DEMOCRATIC REPUBLIC ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I A of Schedule 1 to this Agreement, and (b) the Recipient's maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore 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 nine hundred thousand Special Drawing Rights (SDR 12,900,000) ("Financing").
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 April 1 and October 1 in each year.
- 2.06. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consist of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety (90) days 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 address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

AGREED at Vientiane, Lao PDR, 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**Program Actions; Availability of Financing Proceeds****Section I. Actions under the Program**

- A. Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:
1. The Recipient has submitted for approval to the National Assembly a Law on Promotion of Investment, consistent with the Law on Enterprise on November 15, 2008.
 2. The MOIC, the MOF, and related agencies of the Recipient have prepared a detailed draft Trade Facilitation Master Plan, including the action plan to implement such master plan.
 3. The Bank of Lao PDR has prepared and submitted to the Prime Minister's Office, for consideration, a financial sector strategy on February 23, 2009.
 4. The MOF, in collaboration with the MOH, the MOE, and Lao PDR's seventeen (17) provinces, has approved a new revenue sharing formula and aggregate budget allocation norms to guide preparation of FY2009/10 budget on May 18, 2009, and finalized a strategy and implementation plan for developing a sector budget norm-based revenue sharing system for implementation from the FY2010/11 budget on February 15, 2009.
 5. The MOF has adopted the Treasury Single Account Framework by consolidating all revenue accounts into National Treasury managed accounts on June 2, 2008 and has started implementation of such framework immediately thereafter.
 6. The SAO has approved an audit strengthening plan based on the Audit Peer Review on April 28, 2009.
 7. The MOE has presented an annual work plan to the Education Sector Working Group, including costs and priorities, identifying resources needed in FY2009/10 budget on April 23, 2009.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient. No withdrawal shall be made unless the Association is satisfied, as of the date of the request for such

withdrawal: (a) with the Recipient's progress in carrying out the Program; and (b) that the Recipient's macroeconomic policy framework is appropriate.

- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	12,900,000
TOTAL AMOUNT	12,900,000

C. Deposits of Financing Amounts.

1. Except as the Association may otherwise agree:
 - (a) all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
 - (b) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

2. For the purposes of Paragraph 1 (a) of this Section C, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain a deposit account in Dollars at the Bank of Lao PDR designated by the Recipient and on terms and conditions satisfactory and acceptable to the Association.

3. The Recipient shall confirm to the Association:
 - (a) the name and number of the bank account mentioned in paragraph 1(a) above;
 - (b) the foreign currency amount received in the designated deposit account referred to above;
 - (c) the foreign currency amounts withdrawn from the said designated deposit account at the Bank of Lao PDR, and the equivalent amounts credited in local currency to the Central Treasury Account to finance budgeted expenditures; and

(d) the date and name, and/or number of the Central Treasury Account to finance budgeted expenditures to which the amounts withdrawn from the Financing Account have been credited.

D. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

E. Closing Date. The Closing Date is March 31, 2010.

APPENDIX

Section I. Definitions

1. “Audit Peer Review” means the report dated December 22, 2008 issued by the Auditor General of New Zealand.
2. “Bank of Lao PDR” means the Recipient’s central bank, or any successor thereto.
3. “Education Sector Working Group” means the Recipient’s working group on education chaired by MOE and co-chaired by the Australia International Development Assistance and the United Nations Children's Fund which is assessing donor support to the education sector and aid coordination among development partners.
4. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts

		thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
5. "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.
 6. "Government" means the government of the Lao People's Democratic Republic.
 7. "Law on Enterprise" means the Law on Enterprise approved by the National Assembly on November 9, 2005 and promulgated through Decree of the President No. 29/PO of December 9, 2005.

8. “Law on Promotion of Investment” means the draft law which aims to promote foreign and domestic investment in Lao People’s Democratic Republic.
9. “Minister of Finance” means the Recipient’s Minister of Finance, or any successor thereto.
10. “MOE” means the Recipient’s Ministry of Education, or any successor thereto.
11. “MOIC” means the Recipient’s Ministry of Industry and Commerce, or any successor thereto.
12. “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.
13. “MOH” means the Recipient’s Ministry of Health, or any successor thereto.
14. “National Assembly” means the Lao People’s Democratic Republic national representative body having supreme legislative powers.
15. “National Treasury” means the National Treasury within the Ministry of Finance or any successor thereto.
16. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated July 8, 2009, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
17. “SAO” means the State Audit Organization, or any successor thereto.
18. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
19. “Trade Facilitation Master Plan” means the Recipient’s draft strategic trade facilitation plan dated April 6, 2009.
20. “Treasury Single Account” means the system by which government’s bank accounts are consolidated and controlled by the National Treasury.
21. “Treasury Single Account Framework” means the Recipient’s framework which provides adequate control to the Treasury to monitor revenues and execute expenditures nationally.

Section II. Modifications to the General Conditions

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

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

- (a) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.05.”

