

**CREDIT NUMBER 3676-LA
GRANT NUMBER H316-LA**

Financing Agreement

**(Amending and Restating Development Credit Agreement and Providing Additional
Financing for the Financial Management
Capacity Building Project)**

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 5, 2007



**CREDIT NUMBER 3676-LA
GRANT NUMBER H316-LA**

FINANCING AGREEMENT

AGREEMENT dated September 5, 2007 entered into between LAO PEOPLE'S DEMOCRATIC REPUBLIC ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association").

WHEREAS (A) under an agreement dated August 19, 2002 between the Association and the Recipient, as amended ("Development Credit Agreement"), the Association agreed to provide the Recipient with a credit in an amount equivalent to six million eight hundred thousand Special Drawing Rights (SDR 6,800,000) to assist in financing the Financial Management Capacity Building Project described in Schedule 2 to the Development Credit Agreement;

(B) the Recipient has requested the Association to provide additional financial assistance in support of the Financial Management Capacity Building Project by increasing the amount made available under the Development Credit Agreement with a grant in an amount in various currencies equivalent to two million Special Drawing Rights (SDR 2,000,000); and

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 Credit 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, a credit and a grant (collectively, “Financing”) in the following amounts to assist in financing the project described in Schedule 1 to this Agreement (“Project”):
- (a) an original Credit in various currencies equivalent to six million eight hundred thousand Special Drawing Rights (SDR 6,800,000) (“the Credit”), and
 - (b) an additional Grant equivalent to two million Special Drawing Rights (SDR 2,000,000) (“the 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 Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. 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 through the Ministry of Finance 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 – EFFECTIVENESS; TERMINATION

- 4.01. The Additional Event of Effectiveness consist, namely, the Recipient shall adopt a revised Operations Manual satisfactory to the Association.
- 4.02. The Effectiveness Deadline is the date ninety days (90) days after the date of this Agreement.
- 4.03. 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 (20) twenty years after the date of this Agreement.

ARTICLE V – REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient’s Representative is the Minister of Finance.
- 5.02. The Recipient’s Address is:

Ministry of Finance
23 Singha Road
Post Box No. 46
Vientiane
Lao PDR

Facsimile: 856-21-412142

- 5.03. 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 PDR, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ H.E. Mrs. Viengthong Siphandone

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ian Porter

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve: (i) the Recipient's budget preparation, execution, reporting and auditing systems; strengthen monitoring of state owned commercial bank operations; and (ii) business performance management of selected state owned enterprises.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives:

PART A: Financial Sector Reform

Carrying out of a reform program for the financial sector, including: the design and implementation of individual restructuring plans for SCBs; the development and implementation of a legal and institutional framework for the resolution by SCBs of non-performing loans; the strengthening of the Bank of Lao PDR's capacity to supervise SCBs; strengthening the capacity of BOL to monitor and support SCBs' restructuring plans; and the implementation of the Recipient's financial sector strategy, through the provision of consultants' services, training, workshops, study tours and goods and the development and installation of a management information system for the Bank of Lao PDR's supervision and examination activities.

PART B: Public Finance Management Reform

(1) Support the Recipient's Public Expenditure Management Strengthening Program by:

(a) Carrying out of a program on capacity building for the Recipient in respect of public finance management reform, including: budget planning, execution and control; enabling transparency in the budgetary process and public finances; public disclosure of financial information; and public sector accounting and auditing standards, through: (i) the provision of consultants' services, training, workshops, study tours and goods such as computers, photocopiers, and peripherals thereof; and (ii) the rehabilitation and extension of existing MoF training centers.

(b) Providing advisory services to the Recipient's MOF civil servants on implementation of the new Budget Law and the Prime Minister's Decree on Organization and Operation of the Ministry of Finance: (i) implementation of the revised chart of accounts structure in a manner compatible with Government Finance Statistics guidelines, and a budget nomenclature; (ii) centralization of the role, duties, authority and organizational structure of the National Treasury;

(iii) development of a new inter-governmental fiscal framework; and (iv) preparation of the budget law implementation decree, all through the provision of, training, workshops, study tours and goods such as computers, photocopiers, and peripherals.

(2) Support the Recipient's State Audit Organization for strengthening its audit capacity through the provision of technical assistance, training, knowledge exchange visits to other countries, and goods such as computers, photocopiers, and peripherals.

PART C: SOE Reform

Carrying out of a program on capacity building for the Recipient in respect of SOE reform, including: oversight of the financial and operational performance of SOEs; SOE restructuring; and development and implementation of tariff policies; through the provision of consultants' services, office equipment and training thereof.

PART D: Project management and evaluation

Strengthening of the PFMSU's capacity for Project management and evaluation on, *inter alia*, financial management and audits, through the provision of training, vehicles, consultants' services, computer hardware and related software.

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

1. The Recipient shall:
 - (a) maintain the Project Steering Committee, under the direction of the Minister of Finance, and with membership acceptable to the Association, to provide policy direction and guidance, evaluate the Project outcome, and ensure inter-agency coordination in the implementation of the Project; and
 - (b) throughout the period of Project implementation, maintain the PFMSU, under the direction of a qualified and experienced director, staffed with competent personnel in sufficient number and provided with adequate resources, including an assistant project director, a procurement officer, a project accountant, and a project secretary, with qualifications and experience and terms of reference acceptable to the Association, and provided with adequate resources, said PFMSU to be responsible for the day-to-day administration of the Project, including, overall project financial management, planning and budgeting, procurement of goods and consultants' services, and preparing consolidated financial statements, financial monitoring reports, and progress reports.
2. The Recipient shall:
 - (a) prepare and adopt, through the PFMSU, and thereafter apply and cause to be applied an Operations Manual, acceptable to the Association, for the implementation of the Project, which Operations Manual shall provide, inter alia, for: (i) the procurement procedures for goods, works and services; (ii) the financial management reporting procedures, including audit procedures; and (iii) the project performance indicators agreed to with the Association; and
 - (b) not abrogate, amend, assign, repeal, suspend or waive any of the provisions of the Operations Manual without the prior concurrence of the Association.
3. The Recipient shall promptly review with the Association each of the reports referred to in Section II of this Schedule 2, and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

4. The Recipient shall carry out the audit referred to in paragraph B.3 of Section II of this Schedule 2 through the services of an external auditor with qualifications and experience and terms of reference acceptable to the Association.

B. Anti-Corruption.

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

C. Safeguards.

The Recipient shall:

- (a) prepare and adopt through the PFMSU an Environmental Checklist which will be included in the Operations Manual;
- (b) implement and cause to be implemented the provisions of the Environmental Checklist in accordance with sound environmental practices and standards acceptable to the Association;
- (c) ensure that a training center will become eligible for rehabilitation and extension only if the Environmental Checklist is fully complied with for such training center; and
- (d) introduce only such revisions in the Environmental Checklist as shall have been agreed to with the Association.

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 two (2) months 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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than

one month 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 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.** 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:

<u>Procurement Methods</u>
(a) National Competitive Bidding subject to the additional procedures set forth in the Annex to this Schedule 2
(b) Limited International Bidding
(c) Procurement from UN Agencies
(d) Shopping
(e) Direct Contracting

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:

<u>Procurement Methods</u>
(a) Individual Consultants
(b) Selection Based on Consultants' Qualifications
(c) Quality-based Selection
(d) Least-Cost Selection
(e) Single-Source Selection

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 Credit and 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 Credit Allocated (expressed in SDR)</u>	<u>Amount of the Grant Allocated (expressed in SDR)</u>	<u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u>
(1) Goods	1,420,000	80,000	100%
(2) Consultant’s services			
(a) Audit of Project Accounts	30,000		100%
(b) Other	3,350,000	1,140,000	100%
(3) Training and study tours	1,020,000	700,000	100%
(4) Incremental Operating Costs	240,000		100%
(5) Unallocated	294,000	80,000	
(6) Works	446,000		100%
TOTAL AMOUNT	<u>6,800,000</u>	<u>2,000,000</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 April 30, 2011.

ANNEX
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 that 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 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.

SCHEDULE 3**Repayment Schedule**

<u>Date Payment Due</u>	Principal Amount of the Credit repayable <u>(expressed as a percentage)*</u>
On each April 15 and October 15:	
commencing October 15, 2012 to and including April 15, 2022	1%
commencing October 15, 2022 to and including April 15, 2042	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

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. “Bank of Lao PDR” and the acronym “BOL” means the Recipient’s central bank, and any successor thereto.
3. “Calendar Semester” means a period equivalent to six months based on the calendar year.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “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.
6. “Development Credit Agreement” means the Development Credit Agreement signed between the Recipient and the Association on August 19, 2002 for the Financial Management Capacity Building Project, as amended.
7. “Environmental Checklist” means the environmental checklist prepared by the Recipient to manage the demolition of old structures containing asbestos for the rehabilitation and extension of training centers.
8. “Fiscal Year” means the Recipient’s fiscal year starting on October 1 and ending on September 30 of each calendar year.
9. “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.
10. “Incremental Operating Costs” means reasonable expenditures incurred by the PFMSU in managing and coordinating the implementation of the Project, including costs of office equipment and communication, which expenditures would not have been incurred absent the Project, but excluding staff salaries.
11. “MOF” means the Recipient’s Ministry of Finance, and any successor thereto.

12. “Operations Manual” means the manual, satisfactory to the Association, for the purposes set forth in paragraph 2 of Section I.A of Schedule 2 to this Agreement, as said manual may be revised from time to time with the prior agreement of the Association.
13. “PFMSU” means the Public Finance Management Strengthening Unit established by the Recipient in MOF in April 2007.
14. “Prime Minister’s Decree on Organization and Operation of the Ministry of Finance” means the decree adopted by the Recipient on February 28, 2007.
15. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
16. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 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.
17. “Project Steering Committee” means the committee established and maintained by the Recipient for purposes of implementing the Project in accordance with the provisions of paragraph 1(a) of Section I of Schedule 2 to this Agreement.
18. “Public Expenditure Management Strengthening Program” means the Recipient’s program adopted in November 2005.
19. “SCB” means any one of the Recipient’s state-owned commercial banks, and the term “SCBs” means, collectively, each of said SCBs.
20. “SOE” means any one of the Recipient’s state-owned enterprises, and the term “SOEs” means, collectively, each of said SOEs.
21. “Training and Workshops” means expenditures for the cost of training materials, facilities, course fees, travel and subsistence for trainees all in connection with training and workshops, including study tours abroad.

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:

Section 3.01(b) of the General Conditions is modified to read as follows:

“(b) The Commitment Charge shall accrue from a date sixty days after: (i) the date of the Development Credit Agreement with respect to the unwithdrawn balance of the Credit; and (ii) the date of the Financing Agreement with respect to the unwithdrawn balance of the Grant, to the respective dates on which amounts are withdrawn by the Recipient from the Financing Account or cancelled. The Commitment Charge shall accrue at the rate set as of the June 30 immediately preceding the accrual date and at such other rate as may be set from time to time thereafter pursuant to this Section. The rate set as of June 30 in each year shall be applied from the next Payment Date in that year. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date. The Commitment Charge shall be computed on the basis of a 360-day year of twelve 30-day months.”