

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF053573-LA

Global Environment Facility Trust Fund Grant Agreement

(Rural Electrification Phase I Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**
acting as an Implementing Agency of the Global Environment Facility

Dated June 2, 2006

GEF TRUST FUND GRANT NUMBER TF053573-LA

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated June 2, 2006, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) the Bank has received a letter from the Recipient, dated June 10, 2005, (the Letter of Program Development) describing a program designed to improve the living standards and increase the income of rural households by providing them access to electricity (the Program) and declaring the Recipient's commitment to the execution of such Program;

(D) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project) which constitutes Phase I of the Program, has requested assistance from the resources of the GEF Trust Fund for funding Parts A.6, B.2, B.3(a), B.4(a) and (b) and B.6 of the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution No. 94-2;

(E) the Recipient has also requested the International Development Association (the Association) to provide additional financing towards the financing of Parts A.1 through A.5, B.1, B.3(b) and (c), B.4(a) and B.5 of the Project; and by an agreement of even date herewith between the Recipient and the Association, the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to seven million Special Drawing Rights (SDR 7,000,000) (the IDA Grant); and

(F) Part A of the Project will be carried out by Electricité du Laos (EdL) with the Recipient's assistance, and, as part of such assistance, the Recipient will make available to EdL: (i) part of the proceeds of the IDA Grant referred to in Clause (E) above

as set forth in the Development Grant Agreement of even date herewith; and (ii) part of the proceeds of the grant provided for in Article II of this Agreement as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and EdL (the Project Agreement);

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (but excluding Sections 2.01 (1), (10), (11), (12), (13), (15), (17) and (20)), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01, 4.02(a) and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (but excluding 6.02(b), (k) and (n)), 6.03, 6.04 and 6.06;
- (vii) Section 8.01(b);
- (viii) Sections 9.01(a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01(c), 12.03 and 12.04.

- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01(8) and 6.02(f) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
 - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
 - (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
 - (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
 - (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
 - (vi) a new subparagraph is added after subparagraph (j) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”;
 - (vii) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the GEF Trust Fund Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Bank may, by notice to the Recipient, adjust the

percentage for withdrawal set forth or referred to in respect of such item in the GEF Trust Fund Grant Agreement as required to be consistent with such policy of the Bank.”; and

- (viii) Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

“(c) Not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, the Recipient shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Recipient and the Bank of their respective obligations under the GEF Trust Fund Grant Agreement and the accomplishment of the purposes of the Grant.”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

a) “Action Plan for Financial Sustainability of the Power Sector” means the Action Plan for Financial Sustainability of the Power Sector, adopted by the Recipient, dated November 2005.

b) “Category” means of a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

c) “Displaced Persons” means persons who, on account of the execution of the Project, have 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 persons 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 persons; and a “Displaced Person” means any of such Displaced Persons.

d) “EdL” means Electricité du Laos, a state-owned enterprise, established and operating pursuant to the Charter of Electricité du Laos, as such Charter was approved by the Ministry of Industry and Handicrafts and the Board of Directors of Electricité du Laos on December 29, 1997.

e) “Environmental Management Framework” means, in the case of EdL, the framework dated July 2004, approved by EdL, and, in the case of MIH, the framework dated June 18, 2004, approved by MIH, and referred to in paragraph 3 of Schedule 4 to this Agreement and paragraph 2 of Schedule 2 to the Project Agreement, which sets out the principles and procedures for carrying out environmental impact assessments and preparing environmental management plans for the works carried out under the Project, as said Framework may be revised from time to time with the agreement of the Bank.

f) “EPDP” means the Ethnic People Development Plan, dated July 2004, approved by MIH and EdL, and referred to in paragraph 5 of Schedule 4 to this Agreement and paragraph 4 of Schedule 2 to the Project Agreement; which sets out the policies and procedures to ensure meaningful consultation with, and the informed participation of, ethnic groups who live or cultivate or make their living within the Project area who are affected by the Project, and to ensure that benefits under the Project are socially and culturally acceptable to such groups, as said Plan may be revised from time to time with the prior concurrence of the Bank.

g) “Ethnic People” and “Ethnic minorities” 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.

h) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement, or with Section 4.02 of the Project Agreement, as the case may be.

i) “MIH” means the Recipient’s Ministry of Industry and Handicrafts, and any successor thereto.

j) “Procurement Plan” means the procurement plan, dated July 31, 2005, covering the initial eighteen (18) month period (or longer) of implementation of both Parts A and B of the Project, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 of this Agreement and Section 2.02 of the Project Agreement, to cover succeeding eighteen (18) month periods (or longer) of implementation of the Project.

k) “Project Agreement” means the agreement among the Association, the Bank, and Electricité du Laos, 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.

l) “Project Management Unit” or “PMU” means the unit within the Department of Electricity of MIH, established in accordance with paragraph 1 of Schedule 4 to this Agreement.

m) “Project Provinces” means those provinces of the Recipient listed in the Annex to Schedule 2 to this Agreement, and any successor thereto, as said Annex may be amended from time to time with the prior concurrence of the Bank, and a “Project Province” means any of said Project Provinces.

n) “Rural Electrification Fund” or “REF” means the facility to be established under Part B.2 of the Project, funded with purchaser repayments, to provide resources for rural electrification.

o) “Resettlement Policy Framework” means, in the case of EdL, the policy framework dated May 2004, approved by EdL, and in the case of MIH, the framework dated June 18, 2004, approved by MIH, and referred to in paragraph 4 of Schedule 4 to this Agreement and paragraph 3 of Schedule 2 to the Project Agreement; which sets out the policies and procedures for the acquisition of land and other assets, resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement action plans, as may be required, during the implementation of the Project, as said Policy Framework may be revised from time to time with the prior concurrence of the Bank.

p) “Respective Part of the Project” means: (i) in respect of EdL, Part A of the Project; and (ii) in respect of MIH, Part B of the Project.

q) “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed a reference to MIH and EdL.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount of three million seven hundred fifty thousand Dollars (\$3,750,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of services required for carrying out Parts A.6, B.2, B.3(a), B.4(b) and B.6 of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of Parts A.6, B.2, B.3(a), B.4(a) and (b) and B.6 the Project, open and maintain in Dollars a special deposit account in Bank of

Lao People's Democratic Republic, on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 31, 2010, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall:

- (i) carry out Part B of the Project through MIH, with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, and electrical utility and engineering practices, and sound social and environment standards acceptable to the Bank, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Part B of the Project;
- (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause EdL to perform in accordance with the provisions of the Project Agreement all the obligations of EdL therein in respect of Part A of the Project, and shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable EdL to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; and
- (iii) without limitation to the provisions of clause (ii) of this Section take all action necessary: (A) to enable EdL to comply with its financial covenants under the Project Agreement; and (B) to undertake and enable EdL to undertake their respective obligations under the Action Plan for Financial Sustainability of the Power Sector.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods required for Parts A.6, B.2 and B.6 of the Project and the consultants' services

required for Parts A.6, B.2, B.3(a), B.4(a) and (b) and B.6 of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant, shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update, and cause to be updated, the Procurement Plan in accordance with guidelines acceptable to the Bank and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Recipient on said plan.

Section 3.04. The Bank and the Recipient hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by EdL pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall: (i) establish and maintain a financial management system, including records and accounts, and prepare, or cause to be prepared, financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to Part B of the Project; and (ii) cause EdL to maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part A of the Project.

(b) The Recipient shall:

(i) have the financial statements referred to in paragraph (a)(i) of this Section for each fiscal year (or other period agreed to by the

Bank), audited in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) retain, and cause to be retained, until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 10 of Schedule 4 to this Agreement, in respect of Part B of the Project, the Recipient shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for Part B of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in the implementation of Part B of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of Part B of the Project; and
- (iii) sets forth the status of procurement under Part B of the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified:

(a) Subject to paragraph (b) of this Section 5.01, the right of the Recipient to withdraw the proceeds of the IDA Grant made to the Recipient for the financing of Part A (except Part A.6) and Part B (except Parts B.2, B.3(a), B.4 (b) and B.6) of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Development Grant Agreement.

(b) Paragraph (a) of this Section shall not apply if the Recipient establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, or termination is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness; Termination

Section 6.01. This Agreement shall become effective upon its execution by the parties hereto or the Effective Date of the Development Grant Agreement, whichever event is later.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder, provided, however that if the Development Grant Agreement terminates prior to the termination of this Agreement, this Agreement shall terminate automatically and shall cease to have any further force or effect.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
Post Office Box No. 46
Vientiane
Lao People's Democratic Republic

Facsimile:

856-21-412142
856-21-911370

For the Bank:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable Address	Telex:	Facsimile:
INTBAFRAD	248423 (MCI)	(1-202)477-6391
Washington, D.C.	64145 (MCI)	

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Somdy Douangdy

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND
DEVELOPMENT

By /s/ Ian Porter

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the GEF Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant Allocated (Expressed in US Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods under:		100%
(a) Part A.6 of the Project	60,000	
(b) Part B.2 and B.6(a) of the Project	20,000	
(2) Consultants' services and training under:		100%
(a) Part A.6 of the Project	690,000	
(b) Parts B.2, B.3(a), B.4(a) and (b), and B.6(a) of the Project	2,905,000	
(3) Operating costs	75,000	100%
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TOTAL	3,750,000	
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2. For purposes of this Schedule, the term "operating costs" means the incremental operating costs incurred by the PMU under Part B.6(b) of the Project on account of local contractual support staff salaries; travel and other travel-related expenditures; equipment rental and maintenance; vehicle operation, maintenance and repair; office rental and maintenance; materials and supplies; and utilities and communications expenses.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments for expenditures prior to the date of this Agreement.

4. The Recipient may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for:

(a) goods costing less than \$100,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms costing less than \$100,000 equivalent per contract; and (d) operating costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to implement, in the Project Provinces, Phase I of the Program which is designed to improve the living standards and increase the income of rural households by providing access to electricity.

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: Electricité du Laos

Carry out a program of grid extension in the Project Provinces and of institutional development of EdL, said program consisting of:

1. Grid Extension

Install and commission medium voltage (MV) and low voltage (LV) transmission lines, transformers and house wiring in the Project Provinces to cover about 42,000 households in about 545 villages in the Project Provinces; and initiation of selection of villages to participate in a succeeding phase of the Program and of design of said phase.

2. Loss Reduction

Carry out a program of activities and investments to reduce technical and commercial losses incurred by EdL including installation of equipment, enhancement of management and staff skill development, and development of a long term loss reduction program to be implemented in a succeeding phase of the Program.

3. Information Technology System

Integrate the headquarters and the branch offices of EdL through the rolling out of the billing and accounting system; strengthen EdL's financial management capacity, including its capacity to carry out internal audit and financial control functions, and corporate planning; and develop its material management procurement system.

4. Tariff Reform

Implement the tariff reform component of the Action Plan for Financial Sustainability of the Power Sector.

5. Safeguards Capacity

Enhance the capacity of EdL branch offices and provincial counterparts to carry out environmental and social assessments.

6. Demand-side Management

Develop demand-side management (DSM) and energy efficiency planning through the establishment of a DSM unit within EdL, development of an energy end-use database for DSM planning, screening and design of DSM programs and carrying out of DSM pilot projects.

Part B: Off-Grid Rural Electrification

Carry out a program to extend off-grid rural electrification in the Project Provinces and to develop an enabling environment for further rural electrification expansion, said program consisting of:

1. Off-grid Investment Program

Apply off-grid technologies, including solar home systems, village hydropower and diesel generating sets, to provide electricity to about 10,000 households in about 200 villages in the Project Provinces.

2. Off-grid Institutional Strengthening

Improve the institutional framework, organization and management capacity to support expansion of off-grid electrification offering a wide range of off-grid technologies, including developing a comprehensive program of management outsourcing, and quality assurance system.

3. Alternative Rural Electrification Technologies and Delivery Models

Develop alternative technologies, financing mechanisms and delivery models for off-grid rural electrification through:

(a) the development of the regulatory and institutional arrangements for the Rural Electrification Fund;

(b) the carrying out of a technical assessment of biomass resources and pilot biomass generations; and

(c) the carrying out of a study on income generation linkages with rural electrification.

4. Rural Electrification Master Plan and Database

(a) Develop a Rural Electrification Master Plan, including developing institutional arrangements and planning approaches, improving the rural electrification database, and developing a rural electrification planning manual.

(b) Prepare a renewable resource inventory.

5. Sector Financing Strategy

Develop an electricity sector financing strategy, including preparing pilot projects to be concessioned to independent power producers.

6. Organizational Strengthening of MIH's Department of Electricity

(a) Strengthen the institutional capabilities of MIH's Department of Electricity, to meet its expanded functions and responsibilities in sector regulation and oversight, planning, coordination and reform.

(b) Support the PMU in the implementation of Part B of the Project.

* * *

The Project is expected to be completed by September 30, 2009.

Annex to Schedule 2

Project Provinces

Part A.1 of the Project

1. Bolikhamxay
2. Khammouane
3. Savannakhet
4. Salavan
5. Xekong
6. Champasak
7. Attapeu

Parts A.2 through A.6, and B of the Project

1. Vientiane
2. Oudomxai
3. Luangnamtha
4. Champasak
5. Luangphabang
6. Xaignabouly
7. Xiengkhoang
8. Houaphan
9. Bolikhamxay
10. Khammouane
11. Savannakhet
12. Salavan

13. Xekong
14. Attapeu
15. Phongsaly
16. Bokeo
17. Xaisomboun SR

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

Shopping. Test equipment, computers, software, and other office equipment estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded

in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to the prior review of the Bank.

Section III. Review by the Association of Procurement Decisions

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

SCHEDULE 4

Implementation Program

Project Management

1. For purpose of Part B of the Project, the Recipient shall maintain until completion of Part B of the Project, a Project Management Unit under the Department of Electricity within MIH, to be responsible for managing the implementation of Part B of the Project, including financial management, disbursement and procurement; said Project Management Unit to be under the direction of qualified managers, provided with sufficient resources, and staffed with competent personnel in adequate numbers, including a Project manager, an accounting officer and a procurement officer, all with qualifications and experience and under terms of reference acceptable to the Bank.

2. (a) The Recipient, through MIH, shall maintain a financial management manual, acceptable to the Bank, setting forth guidelines and procedures for financial management and control, record keeping, reporting and auditing, and programs of training therefor.

(b) The Recipient shall maintain within MIH, a computerized accounting system to support Project accounting activities, including the production of Financial Management Reports and annual financial statements, acceptable to the Bank.

Environment, Resettlement and Ethnic Groups

3. The Recipient shall:

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

(b) prepare, and cause to be prepared, environmental management plans in regard to Part B of the Project, acceptable to the Bank, as may be necessary in accordance with the requirements set forth in said Framework, and implement such plans in a manner satisfactory to the Bank;

(c) provide, to the Bank for its prior approval any revision proposed to be introduced into said Framework or said environmental management plans, as the case may be, in order to achieve their respective objectives, and thereafter introduce such revision into said Framework or said environmental management plans as shall have been agreed with the Bank; and

(d) maintain, policies and procedures adequate to enable it and the Participating Provinces to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of said Framework or said environmental management plans, and the achievement of their respective objectives.

4. 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 Policy Framework, in a manner satisfactory to the Bank;

(c) wherever implementation of Part B of the Project or any part thereof, would give rise to Displaced Persons, provide to the Bank for its review, resettlement action plans prepared in accordance with the principles and procedures set forth in said Framework and, thereafter, implement in a manner satisfactory to the Bank, such resettlement action plans as shall have been approved by the Bank;

(d) provide to the Bank for its prior approval any revision proposed to be introduced into said Framework, or into the resettlement action plans prepared pursuant to said Framework, in order to achieve their respective objectives, and thereafter introduce such revision into said Framework or said plans as shall have been agreed with the Bank; and

(e) maintain policies and procedures adequate to enable it and the Participating Provinces to monitor and evaluate, in accordance with guidelines acceptable to the Bank, the implementation of said Framework and the resettlement action plans prepared pursuant thereto, and the achievement of their respective objectives.

5. The Recipient shall implement and cause to be implemented the Ethnic People Development Plan in a manner satisfactory to the Bank, designed to provide meaningful consultation with, and the informed participation of, ethnic groups living within the Project area, to ensure that benefits under the Project are socially and culturally acceptable to such groups, and to ensure that Project activities adequately address the needs, cultural practices and preferences of such community.

Project Implementation

6. The Recipient shall employ, until completion of the Project, a management contractor, acceptable to the Bank to be responsible, *inter alia*, for managing the village off-grid electrification planning and investment program, including identification of districts and provinces for participation in the village off-grid program, approval of off-grid electrification plans, monitoring of the performance of provincial electrification

service companies, ensuring compliance with the requirements of the Environmental Management Framework, Resettlement Policy Framework and the Ethnic People Development Plan.

7. The Recipient shall take all necessary actions to establish and put into operation a Rural Electrification Fund to provide financial resources for the purpose of rural electrification, including issuance of a prime ministerial decree establishing the management structure and the financial rules for such Fund.

8. In carrying out Part B.4 of the Project, the Recipient shall develop a Rural Electrification Master Plan and associated database, under terms of reference satisfactory to the Bank, and thereafter maintain and periodically update said Master Plan and database, all in a manner and substance acceptable to the Bank.

9. The Recipient shall:

(a) by December 31, 2006, develop an electricity sector financing strategy, including: domestic and export electricity generation, transmission, and distribution; and EdL power purchasing from small-scale, independent power projects; and (ii) provide such strategy to the Bank for its review and comments, and thereafter, taking into account the Bank's comments thereon, adopt said strategy; and

(b) by June 30, 2007, consistent with the strategy referred to in subparagraph (a) of this paragraph, prepare two small-scale hydropower projects, to be concessioned to independent power producers (IPPs).

Monitoring and Evaluation

10. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 31 and September 30 of each year, commencing March 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 10 and consolidating the reports prepared by EdL under paragraph 8 of Schedule 2 to the Project Agreement, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, promptly after furnishing each aforementioned report to the Bank, or at such date as the Bank shall request, each report referred to in sub-paragraph (b) of this paragraph 10, 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 Bank's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Category” means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$300,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the

Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under the eligible Category, and in the equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Category for the Special Account for the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Category the Project shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence

furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into any Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6(a), (b) and (c) of this Schedule shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.