

CONFORMED COPY

GRANT NUMBER H597-LA

Financing Agreement

(Sixth Poverty Reduction Support Operation)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 1, 2010

FINANCING AGREEMENT

AGREEMENT dated July 1, 2010, 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 macroeconomic 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 thirteen million three hundred thousand Special Drawing Rights (SDR 13,300,000) ("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 February 15 and August 15 in each year.
- 2.05. 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 Recipient's macroeconomic policy framework and 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 Additional Condition of Effectiveness consists of the following: the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. 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 People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Viengthong Siphandone
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Patchamuthu Illangova
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 MPI abolished the requirement for an investment license for general investment activities outside the Negative List as part of the implementation of the Law on Investment Promotion.
 2. The Recipient approved PM Decree on Rules of Origin and the MOIC has submitted to the Minister of MOIC the implementing regulation under said Decree on May 17, 2010.
 3. The MOF:
 - (a) remained current on settlement of arrears for the period commencing FY 2004/05 and including FY 2007/08, and reconciled arrears for FY2008/09;
 - (b) provided adequate budgetary allocations to government agencies for current electricity consumption for FY2009/10; and
 - (c) together with EDL, clarified the financial arrangements for electricity provision to the irrigation sector in a letter sent by EDL to MOF on April 30, 2010 and at a following workshop held in Vientiane on May 4, 2010.
 4. The Bank of Lao PDR approved the Action Plan for the Financial Sector Strategy on April 20, 2010.
 5. The Bank of Lao PDR submitted to the MOF on April 30, 2010 the Annual On-Site Reports and the Quarterly Off-Site Examination Reports of the Banque pour le Commerce Extérieur Lao, the Lao Development Bank and the Agricultural Promotion Bank.
 6. The MOF completed centralization of the National Treasury on December 31, 2009, and the Minister of Finance issued Instruction No. 734/MOF on April 21, 2010 to the National Treasury to transfer spending unit accounts to the National Treasury.
 7. The MOH submitted the Health Financing Strategy to the MOH Steering Committee for consideration after due consultation on said strategy with MLSW,

MOF, MPI, and other concerned line ministries and agencies, and development partners on March 22, 2010.

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.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single tranche, from which the Recipient may make withdrawals of the Financing. 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)
(1) Single Withdrawal Tranche	13,300,000
TOTAL AMOUNT	13,300,000

- C. Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the appropriateness of the Recipient's macroeconomic policy framework.
- D. Deposit 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 D, prior to furnishing to the Association the request for withdrawal from the Financing Account, the Recipient shall maintain a deposit account in Dollars at the Bank of Lao PDR 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.

E. 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.

F. Audit. Upon the Association's request, the Recipient shall:

- (a) have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
- (b) furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, the report of said audit, of such scope and in such detail as the Association shall reasonably request; and
- (c) furnish to the Association such other information concerning the Deposit Account and their audit as the Association shall reasonably request.

G. Closing Date. The Closing Date is April 30, 2011.

APPENDIX

Section I. Definitions

1. “Action Plan for the Financial Sector Strategy” means the action plan approved by the Governor of the BOL on April 20, 2010 of its financial sector strategy of November 13, 2009.
2. “Agricultural Promotion Bank” means the bank established by the Recipient through PM Decision No. 92 on June 19, 1993 as a state-owned commercial bank focusing on providing rural finance, or any successor thereto.
3. “Annual On-Site Reports” means quality reports issued by the BOL on state-owned commercial banks based on on-site analysis of processes by BOL.
4. “Bank of Lao PDR” and the acronym “BOL” mean the Recipient’s central bank, or any successor thereto.
5. “Banque pour le Commerce Extérieur Lao” means the bank established by the Recipient as a state-owned commercial bank through BOL Decision No. 129 on November 1, 1989 and which operates as a commercial bank since, or any successor thereto.
6. “EDL” means the state-owned enterprise *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.
7. “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.

8. “FY” means the Recipient’s fiscal year extending from October 1 in any calendar year through September 30 of the following 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. “Health Financing Strategy” means the Recipient’s strategy to finance public health services, submitted by the Cabinet of MOH to the MOH Steering Committee for consideration on March 22, 2010.
11. “Lao Development Bank” means the state-owned commercial bank which was opened officially on April 9, 2003, and created by merging the following state owned commercial banks: Lao May Bank Ltd. and Lane Xang Bank pursuant to establishment permission No. 09/BOL, dated 19 June 2003 from the BOL and Resolution No. 2582/MOF, dated 10 December 2002 from MOF respectively, or any successor thereto.
12. “Law on Investment Promotion” means the Recipient’s Law on Investment Promotion approved by the National Assembly on July 8, 2009 and promulgated through Decree of the President No. 075 of July 20, 2009.
13. “Minister of Health” means the Recipient’s Minister of Health or any successor thereto.
14. “Minister of MOIC” the Recipient’s Minister of Industry and Commerce or any successor thereto.
15. “MLSW” means the Recipient’s Ministry of Labor and Social Welfare, or any successor thereto.
16. “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.
17. “MOH” means the Recipient’s Ministry of Health, or any successor thereto.
18. “MOH Steering Committee” means the MOH advisory committee to the Minister of Health which has an advisory, review, and approval role in respect of key strategic and policy decisions pertaining to the Recipient’s health sector.
19. “MOIC” means the Recipient’s Ministry of Industry and Commerce, or any successor thereto.

20. “MPI” means the Recipient’s Ministry of Planning and Investment, or any successor thereto.
21. “National Assembly” means the National Assembly of Lao People’s Democratic Republic.
22. “National Treasury” means the Recipient’s National Treasury within MOF, or any successor thereto.
23. “Negative List” means the list defined in Article 2 of 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; the list was approved by the Prime Minister Decree No. 68/PO of April 28, 2008, and mentions sensitive business activities (including national security, public order, cultural traditions and the environment) for which entrepreneurs are required to obtain investment licenses.
24. “PM Decree on Rules of Origin” means the Prime Minister’s Decree No. 228 of April 22, 2010 that defines the rules of origin of products imported to and exported from Lao PDR.
25. “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 May 24, 2010, 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.
26. “Quarterly Off-Site Examination Reports” means quality reports issued by the BOL on state-owned commercial banks based on regular data provided by such banks to the BOL.
27. “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.

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. 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.”

3. 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.
4. 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.
5. 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.”

6. 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.”

7. 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”.

(d) The term “Program Preparation Advance 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.”