

February 09, 1998

His Excellency  
Xaysomphone Phomvihane  
Minister of Finance  
Ministry of Finance  
Vientiane  
Lao People's Democratic Republic

His Excellency  
Viraphonh Viravong  
General Manager  
Electricite du Laos  
Samsenthai Road, P.O.Box 309  
Vientiane  
Lao People's Democratic Republic

Re: GEF-MSP Grant No.20056  
Lao-PDR: Southern Provinces Rural Electrification

Project

Excellencies:

I am writing on behalf of the International Bank for Reconstruction and Development (the "Bank") acting as an implementing agency of the Global Environment Facility (the "GEF") to indicate the Bank's agreement to make to the Electricite du Laos (the "Recipient") a grant in an amount not exceeding seven hundred forty-four thousand United States dollars (US\$ 744,000) (the "Grant"), in connection with the Southern Provinces Rural Electrification Project (the "Project"). In this regard, I also refer to the Development Credit Agreement (the "Development Credit Agreement") proposed to be entered into between the Lao People's Democratic Republic (the "Lao-PDR") and the International Development Association (the "Association") providing for a credit (the "Credit") to assist in financing the Project, and to the Project Agreement (the "Project Agreement") proposed to be entered into between the Recipient and the Association, also in connection with the Project.

The Grant is made in response to: (i) the Lao-PDR's request for financial assistance, and for the purposes and on the terms and conditions set forth or referred to in the Annex to this Letter Agreement (the "Annex"); and (ii) the Lao-PDR's confirmation, in its letter to the Bank dated July 18, 1997, of its support of the objectives of the activities to be financed by the Grant, and its endorsement that the Recipient receive, the Grant. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the purposes and on the terms and conditions set forth or referred to in the Annex.

Lao-PDR, by confirming its agreement hereunder, confirms its commitment to the objectives of the activities to be financed by the Grant, and, to this end, hereby undertakes to: (i) take all action necessary or appropriate to enable the Recipient to carry out its obligations set forth in the Annex to this Letter Agreement; (ii) afford all reasonable opportunity for representatives of the Bank to visit any part of its territory for purposes related to the Grant; and (iii) ensure that this Letter Agreement shall be free from any taxes levied by or in the territory of Lao-PDR, or in connection with the execution, delivery or registration thereof.

Please confirm your respective agreement to the above, on behalf of Lao-PDR and the Recipient, by duly signing, dating, and returning to us the enclosed duplicate original of this Letter Agreement. Upon receipt by the Bank of the duplicate original of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of its countersignature.

Very truly yours,

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ngozi N. Okonjo-Iweala  
Country Director, Lao-PDR  
South East Asia and Mongolia Country Unit  
East Asia and Pacific Region

CONFORMED AND AGREED  
LAO PEOPLE'S DEMOCRATIC REPUBLIC

By /s/ Xaysomphone Phomvihane  
Minister of Finance

Date: February 09, 1998

CONFIRMED AND AGREED  
ELECTRICITE DU LAOS

By /s/ Viraphonh Viravong  
General Manager

Date: February 09, 1998

ANNEX TO LETTER AGREEMENT DATED FEBRUARY 9, 1998

Purposes, Terms and Conditions of the Grant

1. Objectives, Activities and Expenditures to be Financed

1.1. The objective of the Grant is to increase access to electricity in remote, rural areas of Lao-PDR, and to demonstrate that renewable energy technologies (such as micro-hydro mini-grids and solar battery charging) are viable off-grid electrification options to displace diesel power generation. The objective of the Grant shall be attained by carrying out of the following Activities for which the Grant is given: (i) establishing local institutional, financial and technical capacity for sustainable implementation of off-grid rural electrification power generation, through the provision of consultants' services; (ii) installing rural electrification demonstration systems; (iii) carrying out pilot schemes to demonstrate the potential to displace diesel generators with rural electrification systems where possible to help reduce greenhouse gas emissions; and (iv) developing the institutional arrangements for a national off-grid rural electrification program incorporating modern rural electrification technologies, through the provision of consultants' services.

1.2. (a) The following sets forth the categories of items to be financed out of the proceeds of the Grant, the allocation of amounts of the Grant to each category, and the percentage of expenditures for items to be financed out of the proceeds of the Grant:

Category of Items	Amount of the Grant Allocated in US\$	% of Expenditures to be Financed
(1) Consultants' services	650,000	100%
(2) Goods	94,000	100% of foreign expenditures, 100% of local expenditures
(ex-factory local locally		cost) and 70% of items procured
TOTAL	744,000	

(b) For the purposes of this paragraph, the term:

(i) "foreign expenditures" means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; and

(ii) "local expenditures" means expenditures that are not foreign expenditures, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures.

1.3. The Recipient will ensure that all goods and services financed out of the proceeds of the Grant will be used exclusively for the purposes of the Activities.

2. Implementation General

2.1. The Recipient will: (a) carry out the Activities with due diligence and efficiency and in accordance with the provisions of this Letter Agreement; (b) promptly provide the funds, facilities, services, and other resources required for the purpose; (c) furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank may reasonably request; and (d) from time to time exchange views with the Bank's representatives on the progress and results of the Activities.

2.2. The Recipient will ensure, or cause to be ensured, that any facilities relevant to the Activities are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of these facilities are promptly made as needed.

2.3. The Bank may conduct periodic evaluations of the Activities. To this end, the Recipient will, upon the Bank's request, enable the representatives of the Bank to visit the sites and facilities, and inspect the goods, documents and financial records, related to the Activities.

2.4. The Recipient will prepare and furnish to the Bank not later than six (6) months after the completion of the Activities an evaluation report, in form and substance acceptable to the Bank, on the results and impact of the Activities.

### 3. Procurement

3.1. Except as the Bank shall otherwise agree:

(a) Consultants' services to be financed out of the proceeds of the Grant will be procured in accordance with the provisions of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 (the "Consultant Guidelines"); and

(b) Goods to be financed out of the proceeds of the Grant will be procured in accordance with the provisions of Section I and the applicable provisions of Section III (as set forth below) of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the "Guidelines").

3.2. The following sets forth the categories of goods and consultants' services to be financed out of the proceeds of the Grant, and the procedures for the procurement of these categories and for the review by the Bank of such procurement.

Category of Items	Contract Cost (expressed in US\$ equivalent)	Procedure	Bank Review
1. Goods	Any Amount	Shopping	Post
2. Consultants' services			
(a) Firms	\$100,000 or more	QCBS Complete	Prior
(b) Firms	less than \$100,000 CQ	Individual Complete	Prior
(c) Individuals	\$50,000 or more	Individual	Complete
Prior			
(d) Individuals	less than \$50,000	Individual	Post

3.3. For purposes of paragraph 3.2 above, the term:

(a) "Complete Prior" means: (A) with respect to contracts for consulting firms, the review procedures set forth in paragraphs 1, 2 (excluding the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines; and (B) with respect to contracts for individual consultants, review procedures whereby the qualifications, experience, terms of reference and terms of employment of the consultants are furnished to the Bank for its prior review and approval; and the contract is awarded only after the Bank gives this approval.

(b) "CQ" means the procedures for selection of consultants based on the consultants' qualifications, set forth in paragraphs 3.1 and 3.7 of the Consultant Guidelines.

(c) "Individual" means the procedures for the selection of individual consultants, set forth in paragraphs 5.1 through 5.3 of the Consultant Guidelines.

(d) "Post" means: (A) with respect to contracts for goods, the review procedures set forth in paragraph 4 of Appendix 1 to the Guidelines with the word "bids" in this paragraph, being read as "quotations"; and (B) with respect to contracts for services, the review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines.

(e) "QCBS" means the procedures for selection of consultants based on quality and cost of their services, set forth in Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof.

(f) "Shopping" means the procedures for procurement of goods set forth in paragraphs 3.5 and 3.6 of the Guidelines.

3.4. The Recipient will ensure that: (a) all imported goods to be financed out of the proceeds of the Grant are insured against hazards incident to their acquisition, transportation and delivery to the place of use or installation; and (b) any indemnity for this insurance is payable in a freely usable currency to replace or repair these goods.

#### 4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant will be credited to an account opened by the Bank on its books in the name of the Recipient (the "Grant Account". The Recipient may withdraw the amount of the Grant from the Grant Account in accordance with the provisions of this Letter Agreement, for expenditures in respect of the reasonable cost of the items referred to in paragraph 1.2 of this Letter Agreement required for the Activities and to be financed out of the proceeds of the Grant. Notwithstanding the foregoing: (a) no withdrawals of amounts from the Grant Account will be made: (i) for payments made prior to the date of signature of this Letter Agreement by the Bank; (ii) on account of payments for any taxes levied by, or in the territory of, the Lao People's Democratic Republic; (iii) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or services supplied from these territories; (iv) for the purpose of any payment to persons or entities, or for any import of goods, if this payment or import, to the Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; or (v) after June 30, 2004, or such later date as the Bank establishes by written notice to the Recipient (the "Closing Date"); and (b) if, in the Bank's opinion, an amount of the Grant allocated to any of the items in the table in paragraph 3.2 above will be insufficient to finance the expenditures for such item, the Bank may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which, in the Bank's opinion, will not be necessary to meet other expenditures.

4.2. When the Recipient will desire to withdraw any amount from the Grant Account, it will deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications will be: (a) signed on behalf of the Recipient by its General Manager, or such other person as he or she will have authorized in writing; and (b) be accompanied by such evidence in support of the application as the Bank will reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications will be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Activities. The Bank will pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.3. The Bank may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than one hundred thousand dollars (\$100,000) equivalent; and (b) services of individual consultants costing less than fifty thousand dollars (\$50,000) equivalent; and (c) goods under contracts costing less than fifty thousand dollars (\$50,000) equivalent, all under such terms and conditions as the Bank will specify by notice to the Recipient.

4.4. Withdrawals of the proceeds of the Grant will be made in the currency of the Grant. The Bank, at the Recipient's request and acting as an agent of the Recipient, will purchase with the currency of the Grant withdrawn from the Grant Account such currencies as will be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it will be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value will

be as reasonably determined by the Bank.

4.5. To facilitate the carrying out of the Activities, the Recipient may open and maintain in dollars a special deposit account (the "Special Account") in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account will be made in accordance with the following provisions:

(a) For the purposes of the following provisions: (i) the term "eligible item(s)" means the item(s) set forth in the table in paragraph 1.2 of this Letter Agreement; (ii) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant; and (iii) the term "authorized allocation" means an amount equivalent to one hundred thousand dollars (\$100,000) to be withdrawn from the Grant Account and deposited into the Special Account pursuant to sub-paragraph (c) (i) below.

(b) Payments out of the Special Account will be made exclusively for eligible expenditures in accordance with these provisions.

(c) 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 will be made as follows:

(i) The Recipient will furnish to the Bank a request or requests for a 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 will, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient will have requested.

(ii) (A) For replenishment of the Special Account, the Recipient will furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank will specify.

(B) Prior to or at the time of each such request, the Recipient will furnish to the Bank the documents and other evidence required pursuant to sub-paragraph (d) below for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank will, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient will have requested and as will have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits will be withdrawn by the Bank from the Grant Account under the eligible item(s), and in the respective equivalent amounts, as will have been justified by said documents and other evidence.

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

(e) Notwithstanding the provisions of sub-paragraph (c) above, the Bank will not be required to make further deposits into the Special Account: (i) if, at any time, the Bank will have determined that all further withdrawals should be made by the Recipient directly from the Grant Account; (ii) if the Recipient will have failed to furnish to the Bank, within the period of time specified in paragraph 5.1 (b) (ii) below, any of the audit reports required to be furnished to the Bank pursuant to said paragraph in respect of the audit of the records and accounts for the Special Account; (iii) if, at any time, the Bank will have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 7.1. below; or (iv) once the total unwithdrawn amount of the Grant will equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawals from the Grant Account of the remaining unwithdrawn amount of the Grant will follow such procedures as the Bank will specify by notice to the Recipient. Such further withdrawals will be made only after and to the extent that the

Bank will 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.

(f) (i) If the Bank will have determined at any time that any payment out of the Special Account: (A) was made for an expenditure or in an amount not eligible pursuant to subparagraph (b) above; or (B) was not justified by the evidence furnished to the Bank, the Recipient will, promptly upon notice from the Bank: (i) provide such additional evidence as the Bank may request; or (ii) deposit into the Special Account (or, if the Bank will 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 will otherwise agree, no further deposit by the Bank into the Special Account will be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be; and (ii) If the Bank will have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient will, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

## 5. Audits

5.1. (a) The Recipient will maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Grant, or any part thereof.

(b) The Recipient will: (i) have the records and accounts referred to in subparagraph (a) above, and the records and accounts for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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, the report of such audit by said auditors, of such scope and in such detail as the Bank will have reasonably requested; and (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank will from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient will: (i) maintain or cause to be maintained, in accordance with subparagraph (a) above, records and accounts reflecting such expenditures; (ii) retain, until at least one (1) year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (iii) enable the Bank's representatives to examine such records; and (iv) ensure that such records and accounts are included in the annual audit referred to in subparagraph (b) above and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## 6. Settlement of Disputes

6.1. Any dispute arising out of or relating to this Letter Agreement which is not settled by agreement of the parties hereto will be finally settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force. The number of arbitrators will be three. The place of arbitration will be Washington, D.C., U.S.A. In the event of a conflict between the UNCITRAL Arbitration rules and the terms of this Letter Agreement, the terms of this Letter Agreement will govern.

## 7. Suspension and Cancellation

7.1. The Bank may at any time, by notice to the Recipient:

(a) Suspend further withdrawals from the Grant Account if the Recipient fails to comply with any of its obligations specified in this Letter Agreement; and

(b) Cancel amounts of the Grant as follows:

(i) The Bank may cancel any amount of the Grant remaining unwithdrawn (A) at any time after withdrawals from the Grant Account have been suspended pursuant to the provisions of subparagraph (a) above; (B) at any time after withdrawal of any amount of the Credit has been suspended pursuant to the provisions of the Development

Credit Agreement; and (C) after the Closing Date.

(ii) If at any time the Bank determines (A) with respect to any contract to be financed out of the proceeds of the Grant, that corrupt or fraudulent practices were engaged in by representatives of the Recipient or of a beneficiary of the Grant during the procurement or the execution of such contract, without the Recipient having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Grant; or (B) that the procurement of any contract to be financed out of the proceeds of the Grant is inconsistent with the procedures set forth or referred to in this Letter Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Grant, the Bank may cancel this amount. the

