

Public Disclosure Authorized

CONFORMED COPY

IDA GRANT NUMBER H177-LA

Development Grant Agreement

(Lao Environment and Social Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 15, 2005

Public Disclosure Authorized

IDA GRANT NUMBER H177-LA

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated August 15, 2005, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Environment Protection Fund with the Recipient's assistance and, as part of such assistance, the Recipient will make available to the Environment Protection Fund the proceeds of the grant as provided for in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Beneficiaries” means collectively, Part A Beneficiaries and Part B Beneficiaries, and “Beneficiary” means any Part A or Part B Beneficiary;

(b) “Committee for Planning and Investment” and the acronym “CPI” mean the national committee responsible for the preparation of social economic development plans and public investments plans;

(c) “Decree on Resettlement and Compensation” means the Recipient’s policy to be adopted by the Recipient governing matters relating to the involuntary acquisition of land and other assets from, resettlement and rehabilitation of and compensation to, persons whose livelihood is being adversely affected by the implementation of development projects;

(d) “Displaced Person” means a person who, on account of the execution of the Project, 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 person must move to another location; or (ii) the involuntary restriction to access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Displaced Persons” means, collectively, the plural thereof;

(e) “DOE” means the Department of Environment within the Science, Technology and Environmental Agency responsible, inter alia, for the development of environmental policies, strategies and regulations, environmental impact assessments, and education and awareness campaigns;

(f) “Environmental and Social Safeguards Framework” means the framework instrument, satisfactory to the Association, duly approved by the Recipient through its Science, Technology and Environmental Agency on May 20, 2005, and referred to in paragraph 11 of Section II of Schedule 4 to this Agreement which sets forth the principles and procedures, satisfactory to the Association, governing: (i) the environmental impact screening of works to be carried out under the Sub-projects to be done by EPF prior to the approval of the related Sub-grant, and the environmental protection measures, if any, required to be undertaken by the respective Beneficiary in order to avoid or mitigate potential adverse environmental impacts resulting from such works; (ii) land or other asset acquisition from, resettlement and rehabilitation of and compensation to, Displaced Persons, as well as reporting and monitoring arrangements to ensure compliance with said principles, and for the preparation of resettlement action plans whenever required in the carrying out of Project implementation activities; and (iii) the strategy to be implemented or cause to be implemented by the Recipient in the carrying out of the Project in areas where Ethnic Groups are residing, cultivating, hunting and carrying out other similar social activities which strategy includes special planning

measures or actions to be undertaken by the relevant Beneficiary aimed at ensuring that through informed consultation the Ethnic Groups receive the benefits from the Project in a culturally compatible manner acceptable to them, and do not suffer adverse effects as a result of the implementation of the Project; as said Framework may be revised from time to time with the prior approval of the Association;

(g) “Environment Protection Fund” and the acronym “EPF” mean the entity established and operating pursuant to the Prime Minister’s Decree establishing the Environment Protection Fund, N° 146/PM, dated June 6, 2005, provided with legal personality distinct from that of the Recipient and possessing administrative and financial autonomy under the Recipient’s laws and regulations, for purposes of financing eligible activities to strengthen environmental protection, sustainable natural resources management, and community development in Lao PDR, including the selection, approval and financing of Sub-projects, and any successor thereto;

(h) “EPF Board of Directors” means the governing body of EPF responsible for promoting and achieving the purpose of EPF, including the adoption of EPF Regulations, establishing EPF’s policies, strategies and priorities, and providing guidance to EPF Executive Office regarding the effective implementation of EPF’s duties and functions as established in the Prime Minister’s Decree establishing the Environment Protection Fund, N° 146/PM, dated June 6, 2005, and in the EPF Regulations;

(i) “EPF Regulations” means the operational documents specifying the organization, management and operations of EPF and functions of the EPF Board of Directors and EPF Executive Office to be adopted by the EPF Board of Directors pursuant to Article 8 (4) of the Prime Minister’s Decree establishing the Environment Protection Fund, N° 146/PM, dated June 6, 2005;

(j) “EPF Executive Office” means the office responsible for the operation, management, and administration of EPF as established in the Prime Minister’s Decree establishing the Environment Protection Fund, N° 146/PM, dated June 6, 2005, and the EPF Regulations;

(k) “EPF Five-Year Strategic Plan” means the program setting forth guidance for the allocation of EPF’s resources, as established in the Prime Minister’s Decree establishing the Environment Protection Fund, N° 146/PM, dated June 6, 2005;

(l) “ERI” means the Environmental Research Institute within the Science, Technology and Environmental Agency responsible, inter alia, for environmental data collection, compilation, analysis, monitoring and assessment, and research and training activities;

(m) “Ethnic Groups” 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;

(n) “Financial Monitoring Report” and the acronym “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(o) “MAF” means the Recipient’s Ministry of Agriculture and Forestry, and any successor thereto;

(p) “Management Unit” means the unit to be established within EPF in accordance with the provisions set forth in paragraph 2 of Section II of Schedule 4 to this Agreement;

(q) “MIC” means the Recipient’s Ministry of Information and Culture, and any successor thereto;

(r) “MOE” means the Recipient’s Ministry of Education, and any successor thereto;

(s) “MOF” means the Recipient’s Ministry of Finance, and any successor thereto;

(t) “MOFA” means the Recipient’s Ministry of Foreign Affairs, and any successor thereto;

(u) “MIH” means the Recipient’s Ministry of Industry and Handicrafts, and any successor thereto;

(v) “National Policy on Environmental and Social Sustainability of the Hydropower Sector” means the Recipient’s policy, N° 561/CPI dated June 7, 2005, issued pursuant to Prime Minister’s Notice 839/PMO of June 6, 2005, providing for the development and implementation of hydropower activities in a sustainable manner;

(w) “Part A Beneficiary” means either MAF, MIC, MIH, MOE, STEA, WRCC, Selected Provinces, the National University of Laos, a mass organization and a civil society organization, as the case may be, selected to carry out a Sub-project under Part A of the Project pursuant to the Project Implementation Plan, and the term “Part A Beneficiaries” means all such Beneficiaries;

(x) “Part B Beneficiary” means: (a) for purpose of Part B.1, a Protected Area Management Unit or any of the Selected Provinces; and (b) for purposes of Part B.2, a community, a community group, a mass organization or a civil society organization eligible to carry out a Sub-project under Part B of the Project pursuant to the Project Implementation Plan, and the term “Part B Beneficiaries” means all such Beneficiaries;

(y) “Procurement Plan” means the Recipient’s procurement plan, dated June 7, 2005, and to be adopted by EPF, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(z) “Project Implementation Plan” means the plan, satisfactory to the Association, to be adopted by EPF for the implementation of the Project, in accordance with paragraph 6 of Section II of Schedule 4 to this Agreement, as said plan may be amended from time to time with prior agreement of the Association, and such term includes any schedules to the Project Implementation Plan;

(aa) “Project Steering Committee” means the Steering Committee to be established by EPF Board of Directors pursuant to paragraph 1 of Section II of Schedule 4 to this Agreement;

(bb) “Protected Area Management Unit” means any unit established at the provincial and district level in Selected Provinces or within the Ministry of Agriculture and Forestry pursuant to Prime Minister’s Decree establishing the National Protected Areas, N°164/PM, dated March 11, 1997 responsible for the management of protected areas, and the term “Protected Area Management Units”, means collectively, more than one Protected Area Management Unit;

(cc) “Provincial Environmental Strategy and Action Plans” means each of the environmental management plans to be prepared and duly adopted by the Selected Provinces pursuant to paragraph 1 of Section I of Schedule 4 to this Agreement, covering environmental and natural resources management priorities, a five-year operational program and budget, institutional arrangements for the implementation of the plans, monitoring and evaluation activities, including the development of a provincial environmental index;

(dd) “Selected Provinces” means the provinces of Bolikhamxay, Khammouane and Savannaket in the territory of the Recipient and their administrative units, and any other province to be agreed between the Recipient and the Association;

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

(ff) “STEA” means the Science, Technology and Environmental Agency under the Prime Minister’s office of the Recipient, established pursuant to Decree 68/PM dated May 21, 1999, and any successor thereto;

(gg) “Sub-grant” means a grant to be made available by EPF out of the proceeds of the Grant to a Part A or a Part B Beneficiary in accordance with the provisions of a Sub-grant Agreement, and the term “Sub-grants” means, collectively, more than one Sub-grant;

(hh) “Sub-grant Agreement” means the agreement to be entered into between EPF and a Part A Beneficiary or Part B Beneficiary for purposes of implementing and financing a Sub-project under Part A or B of the Project, and the term “Sub-grant Agreements” means collectively, all such Sub-grant Agreements;

(ii) “Sub-project” means: (a) for purposes of Part A of the Project a specific capacity building activity to be carried out by a Part A Beneficiary utilizing the proceeds of a Sub-grant; (b) for purposes of Part B.1 of the Project, a protected area management activity to be carried out by a Part B.1 Beneficiary utilizing the proceeds of a Sub-grant; and (c) for purposes of Part B.2 of the Project, a sustainable biodiversity management and livelihood activity, to be carried out by a Part B.2 Beneficiary utilizing the proceeds of a Sub-grant, all in accordance with the provisions of the Project Implementation Plan, and the term “Sub-projects” means all such Sub-projects;

(jj) “Subsidiary Grant Agreement” means the agreement to be entered into between the Recipient and EPF pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Grant Agreement; and

(kk) “Water Resources Coordination Committee” and the acronym “WRCC” mean the committee within the Prime Minister’s office responsible, inter alia, for formulating and implementing water resource policies.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to two million seven hundred thousand Special Drawing Rights (SDR 2,700,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Association shall so agree, to be paid) by the Recipient on account of withdrawals made by a Beneficiary under a Sub-grant to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which the withdrawal from the Grant Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out Part C of the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in U.S. Dollars a special deposit account in the Bank of Lao PDR on terms and conditions satisfactory to the Association. 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 December 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days (60) after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.04 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in U.S. Dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.06. The Minister of Finance, and any person whom he or she shall designate in writing, is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

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 Sub-projects under Parts A.1, A.2, A.3 and A.5 of the Project through MAF, MIC, MIH, MOE, and the Selected Provinces;
- (ii) cause STEA its departments and institutes to carry out Sub-projects under Parts A.1, A.2, A.3, A.4 and A.5 of the Project;
- (iii) carry out Sub-projects under Part A.2 of the Project through WRCC;
- (iv) cause the National University of Laos, to carry out Sub-projects under Part A.5 of the Project;
- (v) take all actions necessary or required to enable civil society organizations and mass organizations to carry out Sub-projects under Part A.5 of the Project;
- (vi) carry out Sub-projects under Part B.1 of the Project through a Protected Area Management Unit and the Selected Provinces;

- (vii) take all actions necessary or required to enable civil society organizations, mass organizations and community groups to carry out Sub-projects under Part B.2 of the Project; and
- (viii) cause EPF to carry out Parts C and D of the Project,

all with due diligence and efficiency and in accordance with administrative, financial and technical practices and social and environmental standards acceptable to the Association, and shall provide promptly as needed, the funds, facilities, services and other resources required for the purposes of sub-paragraphs (i), (iii) and (vi) of paragraph (a) of this Section; 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 STEA, National University of Laos, civil society organizations, mass organizations, community groups and EPF, to perform their respective obligations under sub-paragraphs (ii), (iv), (v), (vii) and (viii) of paragraph (a) of this Section, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For purposes of carrying out the Project, the Recipient shall make the proceeds of the Grant available, on a non-reimbursable grant basis, to EPF under a Subsidiary Grant Agreement to be entered into between the Recipient, through its Ministry of Finance, and EPF, under terms and conditions which shall have been approved by the Association which shall include, inter alia, the terms and conditions set forth in Section II of Schedule 4 to this Agreement.

(c) The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the 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 cause EPF to update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall cause EPF to:

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

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall, and shall cause EPF to establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources and expenditures related to the Project.

(b) The Recipient shall and shall cause EPF to:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association 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 Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may 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 shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Grant Account was made;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) The Recipient shall, and shall cause EPF to prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Grant, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association 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 FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effectiveness; Termination

Section 5.01. The following events are specified as conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) that the Subsidiary Grant Agreement has been executed on behalf of the Recipient and EPF, in a manner and substance satisfactory to the Association;

(b) that EPF is in operations in a manner and substance satisfactory to the Association, including:

- (i) the Board of Directors has been appointed by the Recipient's Prime Minister;
- (ii) the EPF Regulations provided in Article 8 (4) of EPF decree have been adopted by EPF Board of Directors;
- (iii) the following officers have been appointed by EPF Board of Directors: (i) a director of the Executive Office; (ii) a manager of the Management Unit; (iii) a chief technical and management advisor; (iv) a procurement officer; (v) a financial officer; (vi) an environmental specialist; and (vii) a social specialist, in accordance with the provisions of paragraph 2 of Section II of Schedule 4 to this Agreement;
- (iv) the recruitment plan for the Management Unit, satisfactory to the Association, has been approved by EPF Board of Directors;
- (v) the Project Implementation Plan, satisfactory to the Association, have been duly approved and adopted by EPF Board of Directors pursuant to paragraph 6 of Section II of Schedule 4 to this Agreement; and
- (vi) EPF has established a computerized accounting system in a manner and substance satisfactory to the Association.

(c) that the Recipient has adopted a Decree on Resettlement and Compensation, in a manner and substance satisfactory to the Association; and

(d) that the Environmental and Social Safeguards Framework has been duly authorized by the Recipient and is legally binding and enforceable in accordance with the applicable laws of the Lao People's Democratic Republic.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Subsidiary Grant Agreement has been duly authorized by the Recipient and EPF and is legally binding upon the Recipient and EPF in accordance with the applicable laws of the Lao People's Democratic Republic;

(b) that the members of EPF Board of Directors, including the Chairperson and Vice-Chairperson have been duly appointed;

(c) that the EPF Regulations have been duly adopted by EPF Board of Directors and are enforceable in accordance with the applicable laws of the Lao People's Democratic Republic;

(d) that the Decree on Resettlement and Compensation has been duly adopted and its provisions are enforceable in accordance with the applicable laws of the Lao People's Democratic Republic; and

(e) that the Environmental and Social Safeguards Framework has been duly authorized by the Recipient and is legally binding and enforceable in accordance with the applicable laws of the Lao People's Democratic Republic.

Section 5.03. The date one hundred eighty (180) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. 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 6.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
P.O. Box No. 46
Thatluang Road
Vientiane
LAO PDR

Facsimile: 856-21-412142
856-21-412405

For the Association:

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) 64145 (MCI)	(1-202) 477-6391

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 DEVELOPMENT ASSOCIATION

By: /s/ Ian Porter

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the 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 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 Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Sub-grants		100% of Sub-grant amount disbursed
(a) under Part A of the Project	945,000	
(b) under Part B of the Project	1,120,000	
(2) Consultants' services	490,000	100%
(3) Training	50,000	100%
(4) Goods	55,000	100%
(5) Incremental operating cost	40,000	100%
	2,700,000	
TOTAL	=====	

2. For the purposes of this Schedule the term “incremental operating costs” means reasonable expenditures directly related to the Project incurred by EPF (which expenditures would not have been incurred absent the Project), including expenditures for Project staff travel and per diem, publication and dissemination of reports, maintenance of office and field equipment, operation and maintenance of vehicles and motorbikes, but excluding staff salaries or salary supplements and allowances.

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

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) Sub-grants; (b) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (d) training; (e) goods; and (f) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to strengthen the management of environmental and social issues associated with the sustainable use of natural resources in Lao PDR for enhancing quality of growth and reducing poverty.

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: Policy Implementation and Capacity Enhancement

Carrying out of selected Sub-projects including:

1. Strengthening the institutional capacity of Selected Provinces and other Recipient's agencies in environmental and social matters including the development and implementation of environmental and social safeguards regulations, preparation of Provincial Environmental Strategy and Action Plans, guidelines and manuals for the mining and hydropower sub-sectors.
2. Developing and implementing an integrated approach for the management of social and environmental cumulative impacts in Nam Theun/Nam Kading river basin.
3. Strengthening the institutional capacity of MIH and STEA to implement the National Policy on Environmental and Social Sustainability of the Hydropower Sector.
4. Strengthening the Recipient's institutional capacity to implement its Decree on Resettlement and Compensation, including the development of related guidelines, manuals, training materials and the provision of staff training.
5. Carrying out of environmental education activities and awareness campaigns, including workshops, training, and the development of curricula for secondary schools.

Part B: Community and Biodiversity Investments

1. Strengthening the institutional capacity of Protected Area Management Units in environment and conservation activities, through the implementation of Sub-projects.

2. Carrying out of sustainable biodiversity management and community livelihood activities, through the implementation of Sub-projects.

Part C: Management and Monitoring Support

1. Building the management and operation capacity of the Environment Protection Fund for approving, funding, monitoring and evaluating Sub-projects, including provision of staff training and technical assistance therefor.

2. Carrying out of a program to raise the awareness of potential Beneficiaries on the various activities under the Project.

3. Designing, establishing and applying a monitoring and evaluation system to assess the implementation of the Project and evaluate its effectiveness.

Part D: Provision of Sub-grants to finance Sub-projects under Parts A and B of the Project.

* * *

The Project is expected to be completed by June 30, 2010.

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, Works and Services (other than Consultants' Services)

1. National Competitive Bidding. Except as provided for in Section II, paragraph 2 of this Schedule, goods may be procured under contracts awarded on the basis of National Competitive Bidding. The procedures to be followed for National Competitive Bidding shall be those set forth in the Prime Minister Decree No.03/PM dated January 9, 2004, on "Government Procurement of Goods, Construction, Maintenance and Service" and its Implementing Rules and regulations issued by the Ministry of Finance No.0063/MOF dated March 12, 2004.

2. Shopping. Goods estimated to cost less than \$30,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping. For purposes of improving economy, efficiency and transparency, the following special provisions shall apply to contracts for Goods estimated to cost between \$5,000-\$30,000:

(a) Invitations to quote shall be advertised in at least one (1) newspaper of provincial/regional (or national) circulation, and a minimum of ten (10) days for the preparation and submission of quotations shall be provided.

(b) Prior-registration shall not be a requirement to participate in quotation procedures.

(c) Quotations shall be required to be submitted in sealed envelopes.

(d) Quotations shall be opened in public immediately after the submission deadline in the presence of bidders and Project Beneficiaries who choose to attend.

(e) A copy of the quotation opening record shall promptly be posted at a prominent location outside the procuring agency office, and a copy will also be sent to all bidders who submitted quotations.

(f) There shall be no post-bid negotiations with the lowest or any other bidder. In case the lowest evaluated responsive quotation exceeds the pre-bid cost estimate by a substantial margin, procuring agency will assess the reasons for the price difference and recommend the course of action for approval by the head of the procuring agency. The rejection of any quotation exceeding pre-quotation estimates should be cleared in writing in advance by the Bank.

(g) A summary of contract award information shall be made public through an announcement in the press and updated on a quarterly basis.

3. Community Participation. Goods and works required for Part B.2. of the Project may be procured on the basis of community participation in accordance with procedures acceptable to the Association.

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. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 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. 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 prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$100,000 or more; (b) the first contract for goods procured on the basis of Shopping regardless of the value; and (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, with respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Schedule

Section I. Recipient's Implementation Obligations

Project implementation

1. In carrying out Part A.1 of the Project, the Recipient shall, through Bolikhamxay, Khammouane and Savannaket provinces, furnish to the Association for its review and comments, not later than June 30, 2006, draft Provincial Environmental Strategy and Action Plans prepared for each province, and taking into account the Association's views and comments thereon, thereafter take all measures to ensure that such plans are implemented in accordance with sound environmental practices and standards, in a manner and substance satisfactory to the Association.

2. In carrying out Part A.2 of the Project, the Recipient shall through WRCC:

(a) submit, not later than December 31, 2005, a scope of work to design an integrated approach to manage the river basin of Nam Theun/Nam Kading, and thereafter implement such design, taking into account the Association's comments thereon, in a manner and substance satisfactory to the Association; and

(b) prepare under terms of reference satisfactory to the Association, and furnish to the Association for its review and comments, not later than June 30, 2007, an institutional framework for the management of the Nam Theun/Nam Kading river basin, and taking into account the Association's views and comments thereon, implement said framework in a manner and substance satisfactory to the Association.

3. In carrying out Part A.3 of the Project, the Recipient shall, through MIH:

(a) furnish to the Association for its review and comments, not later than December 31, 2006, a draft institutional framework for monitoring the implementation of the National Policy on Environmental and Social Sustainability of the Hydropower Sector, and thereafter implement such framework, taking into account the Association's comments thereon, in a manner and substance satisfactory to the Association.

(b) furnish to the Association, not later than June 30, 2008, action plans to bring each hydropower plant constructed from 1990 and operating in Lao PDR in compliance with the National Policy on Environmental and Social Sustainability of the Hydropower Sector.

4. In carrying out Part A.4 of the Project, the Recipient shall by June 30, 2006, cause STEA and related agencies to establish and thereafter maintain a division or unit responsible for the implementation of the Decree on Resettlement and Compensation and its regulations, guidelines and manuals, which division shall be headed by a qualified and experienced officer, provided with sufficient resources to fulfill its responsibilities on a timely basis, and staffed with competent personnel in adequate numbers, all with qualifications and experience acceptable to the Association.

5. The Recipient shall cause STEA to carry out, not later than January 31 of each calendar year, commencing in January 31, 2006, a consultation workshop with stakeholders to discuss the implementation of the Project and the achievements of its objectives, including EPF's annual Project progress report, and thereafter take all measures required to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the next twelve (12) months, based on the conclusions and recommendations of the workshops.

Monitoring and Evaluation

6. The Recipient shall cause EPF to:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 1 of each year commencing on 2006, an annual report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph on the progress achieved in the carrying out of the Project in the preceding year 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;

(c) prepare under terms of reference satisfactory to the Association, and furnish to the Association, on or about April 30, 2008, a mid-term report 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

(d) review with the Association, by June 30, 2008, or such later date as the Association shall request, the mid-term report referred to in sub-paragraph (c) of this

paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Section II. Terms and Conditions of the Subsidiary Grant Agreement

The Subsidiary Grant Agreement shall include the following terms and conditions:

Project Management

1. EPF Board of Directors shall appoint and thereafter maintain, until completion of the Project, a Project Steering Committee, chaired by the vice-president of STEA, vice-chaired by a representative of MAF and MIH, with representation from, inter alia, the Prime Minister's office, MOF, MOE, MOFA, MIC, CPI, Selected Provinces, National University of Laos, mass organizations, and civil society organizations, responsible for providing overall policy guidance and Project oversight.

2. EPF shall establish, and thereafter maintain, a Management Unit, within EPF Executive Office, to be responsible for, inter alia: (i) the day-to-day management of the Project; (ii) the preparation, review and approval of Sub-project agreements; (iii) the carrying out and monitoring of procurement activities under the Project; (iv) the consolidation of financial management reports and reports on Project activities; and (v) the monitoring and evaluation of the impact of Project activities; headed by a qualified and experienced manager, provided with sufficient resources provided by the Project to fulfill its responsibilities on a timely basis throughout the period of the Project, and staffed with competent personnel in adequate numbers, including a chief technical and management advisor, an accountant, a financial officer, a procurement officer, an environmental specialist, and a social specialist, all with qualifications and experience acceptable to the Association.

Project Implementation

3. EPF shall carry out Parts C and D of the Project with due diligence and efficiency and in conformity with administrative, financial and technical practices and social and environmental standards, acceptable to the Association, and in accordance with the provisions of the Subsidiary Grant Agreement.

4. EPF shall (i) procure the goods and consultants' services for Parts C and D of the Project and (ii) take such actions as shall be necessary to ensure that the Beneficiaries shall procure the goods and consultants' services for their respective Sub-project, and to be financed out of the proceeds of the Grant, in accordance with the provisions of

Schedule 3 to this Agreement, and utilize such goods and consultants' services exclusively in the carrying out of the Project.

5. EPF shall:

- (i) establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources and expenditures related to Parts C and D of the Project;
- (ii) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Recipient and the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (iii) furnish to the Association through the Recipient as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Recipient and the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iv) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

6. EPF shall: (a) adopt and apply throughout the implementation of Parts C and D of the Project, a Project Implementation Plan, satisfactory to the Association, that includes:

- (i) the institutional arrangements for the implementation of the Project;
- (ii) the procurement manual, setting forth the procurement procedures consistent with the provisions set forth in Schedule 3 to this Agreement and standard procurement documentation;
- (iii) a financial management manual, setting forth (a) the arrangements for the flow of funds, and (b) the guidelines and procedures for financial

management and control, record keeping reporting and auditing requirements, all consistent with paragraph 5 of Section II and Article IV of this Agreement;

- (iv) an operations manual, including Sub-project eligibility criteria and the procedures for the selection and approval of Sub-projects to be financed out of the proceeds of the Sub-grants; procedures for screening Sub-projects for environmental, involuntary land acquisition, and Ethnic Groups purposes, procedures for disbursement of Sub-grants; terms and conditions governing Sub-grant Agreements, including remedies for non-compliance; Sub-grant reporting requirements and monitoring and evaluation of Sub-project implementation; and
- (v) procedures for the monitoring, evaluation and reporting of Project activities.

(b) carry out Parts C and D of the Project in accordance with the provisions of said plan, in a manner and substance satisfactory to the Association, and shall not amend, revise, delete, suspend, abrogate, or waive any provisions of the Project Implementation Plan or any part or parts thereof, without the prior concurrence of the Recipient and the Association.

7. EPF shall: (a) enter into Sub-project Agreements with selected Beneficiaries under terms and conditions set forth in the Project Implementation Plan, for purposes of financing Sub-projects under Parts A and B of the Project, and furnish to the Association copies of said fully executed Sub-grant Agreements as and when the Association shall reasonable request.

(b) take all necessary actions as shall be necessary to ensure that Sub-projects are carried out with due diligence and efficiency in accordance with administrative and financial practices, and social and environmental standards acceptable to the Association, and in accordance with the procedures set out in the Project Implementation Plan.

8. EPF shall prepare and submit for approval of EPF Board of Directors, not later than June 30, 2006, EPF Five-Year Strategic Plan.

9. EPF shall:

(a) not later than October 31 of each year, commencing in 2006, furnish to the Association its first annual report of EPF duly published on its website, and

(b) not later than August 31 of each year, commencing in 2006, provide to the Association for its review and comments a consolidated annual work plan for the next fiscal year, including a Procurement Plan and the estimated budget therefor; and (b) thereafter, implement said annual work plan in a manner satisfactory to the Association, giving due consideration to the Association's view thereon.

10. EPF shall train, the accounting staff of its Management Unit in the preparation of financial reports and in the operation of its financial management system, all in a manner and substance satisfactory to the Association.

Environmental and Social

11. For purposes of Part B of the Project, EPF shall ensure that all selected Sub-projects to be financed through Sub-grants are technically and economically viable, and have been designed and appraised, with due regard for public health, safety, social and environmental standards acceptable to the Association, and pursuant to the Environmental and Social Safeguards Framework, including:

(a) that an environmental screening of each Sub-project has been done and, if necessary on the basis of such screening, a full Environmental Impact Assessment has been carried out by the Beneficiary, in terms satisfactory to the Association, in order to determine any measures to be taken to prevent, minimize, mitigate or compensate any environmentally adverse effects. In the event that any Sub-projects would require any such mitigation measures, prior to commencing such Sub-project, ensure that an Environmental Management Plan has been prepared by the Beneficiary, in accordance with the Environment and Social Safeguards Framework, and thereafter, implement the Environmental Management Plan, in a manner and substance satisfactory to the Association;

(b) that a social screening of each Sub-project has been done and, if necessary on the basis of such screening, all necessary actions have been taken in order 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. In the event that the Sub-projects would give rise to Displaced Persons prior to commencing such Sub-projects, ensure that a Resettlement Action Plan has been prepared by the Beneficiary, in accordance with the Environment and Social Safeguards Framework, and thereafter, implement the Resettlement Action Plan in a manner and substance satisfactory to the Association;

(c) that a social screening of each Sub-project has been done and, if on the basis of such screening it is determined that Ethnic Groups reside, cultivate, hunt or undertake any other similar social activity within the proposed Sub-project area, prior to

commencing such Sub-projects, ensure that an Ethnic Groups Development Plan has been prepared by the Beneficiary, in accordance with the Environment and Social Safeguards Framework and with full participation and informed consultation of the affected ethnic groups, and with due regard to their cultural preferences, and thereafter, implement the Ethnic Group Development Plan in a manner and substance satisfactory to the Association;

(d) furnish to the Association for its prior approval any revisions proposed to be introduced into the Environment and Social Safeguards Framework and the environmental management plans and resettlement action plans of Displaced Persons, and the ethnic group development plans prepared pursuant thereof, in order to achieve their objectives; and thereafter introduce such revisions into and implement such Framework, environmental management plans, resettlement action plans and ethnic group development plans in a manner and substance satisfactory to the Association; and

(e) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Framework, environmental management plans, resettlement action plans and ethnic group development plans, and the achievement of their objectives.

Monitoring and Evaluation

12. EPF shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of Parts C and D of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Recipient and the Association, on or about October 1 of each year commencing on 2006, an annual report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph on the progress achieved in the carrying out of Parts C and D of the Project in the preceding year and setting out the measures recommended to ensure the efficient carrying out of such Parts of the Project and the achievement of the objectives thereof during the period following such date;

(c) prepare under terms of reference satisfactory to the Association, and furnish to the Recipient and the Association, on or about April 30, 2008, a mid-term report on the progress achieved in the carrying out of Parts C and D 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 Parts C and D of the Project and the achievement of the objectives thereof during the period following such date; and

(d) review with the Recipient and the Association, by June 30, 2008, or such later date as the Association shall request, the mid-term report referred to in subparagraph (c) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Parts C and D of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

13. EPF shall, at the request of the Recipient, exchange views with the Recipient, with regard to the progress of the Project and the achievement of the objectives thereof, and EPF's performance of its obligations under the Subsidiary Grant Agreement.

14. EPF shall promptly inform the Recipient of any condition which obstructs or threatens to obstruct with the implementation of Parts C and D of the Project and the achievement of the objectives thereof.

15. EPF shall promptly refund the Recipient any proceeds from the Grant not used for the purposes of carrying out Parts C and D of the Project or for achieving the objectives thereof, or otherwise utilized in a manner in which does not comply with the provisions of this Agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories means Categories (1) through (5) 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 goods and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories 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 Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$100,000 until the aggregate amount of withdrawals from the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 475,000.

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 Association 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 Association 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 Association shall, on behalf of the Recipient, withdraw from the 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 Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Association 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 Association shall, on behalf of the Recipient, withdraw from the 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 Association from the Grant Account under the respective eligible Categories, and in the respective 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 Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Recipient directly from the 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 Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Association 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 Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association 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 Association shall have determined at any time that any payment out of the 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 Association, the Recipient shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the 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 Association shall 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 shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:

(a) The term "Borrower" is modified to read "Recipient".

(b) The term "Credit" is modified to read "Grant".

(c) The term "Credit Account" is modified to read "Grant Account".

(d) The term "Development Credit Agreement" is modified to read "Development Grant Agreement".

3. Section 1.01 is modified to read as follows:

"Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement."

4. Paragraph 3 of Section 2.01 is modified to read as follows:

"3. "Recipient" means the party to the Development Grant Agreement to which the Grant is made."

5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:
 - (a) Section 4.02(a) is modified to read as follows:

“Section 4.02. Currencies in which Payments are to be Made

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”
 - (b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.
 - (c) Section 4.03 is modified to read as follows:

“Section 4.03. Amount of the Grant

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”
 - (d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. 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 Development 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 Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association 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 Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:

- (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
- (b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”

10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”

SCHEDULE 7

Performance Indicators

Performance Indicators	Mid-term	Project Completion
Part A: Policy Implementation and Capacity Enhancement		
Existing hydropower projects responsive to the National Policy on Environmental and Social Sustainability of the Hydropower Sector	Action plans prepared by all projects covered by the policy	Action plans Implementation ongoing in all hydropower plants covered by the policy
New hydropower projects responsive to the National Policy on Environmental and Social Sustainability of the Hydropower Sector	All new hydropower projects processed and implemented in accordance with provisions of the policy	
Approach to integrated management of the Nam Theun/Nam Kading river basin to address cumulative impacts	Institutional framework completed	Institutional framework in place
Number of provinces effectively implementing Provincial Environmental Strategy and Action Plans	3	3
Capacity to implement the Decree on Resettlement and Compensation - Qualified staff at the national and provincial-levels	15	30
Part B: Community and Biodiversity Investments		
Number of protected areas with management plans prepared in consultation with concerned ethnic groups, and thereafter actively managed according to these plans	4	6
Number of communities benefiting from sustainable environmental management activities	20	60
Part C: Management and Monitoring Support		
Reduction in annual operating costs per volume of transactions	25% (since first year)	40% (since first year)
Percentage of sub-projects completed satisfactorily	30	80

