
CONFORMED COPY

GRANT NUMBER H299-LA

Financing Agreement

(Third Poverty Reduction Support Operation/Program)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 5, 2007

FINANCING AGREEMENT

Agreement dated September 5, 2007 entered into between LAO PEOPLE'S DEMOCRATIC REPUBLIC ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of the Recipient's maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to six million seven hundred thousand Special Drawing Rights (SDR 6,700,000) ("Financing").
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of the Schedule to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are April 1 and October 1 in each year.
- 2.05. The Payment Currency is United States Dollars.

ARTICLE III – PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment, a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of the Schedule to this Agreement.

ARTICLE IV – REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following: a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V – EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Recipient's Minister of Finance.

6.02. The Recipient's Address is:

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

Facsimile: 856-21-412142

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423(MCI)

1-202-477-6391

AGREED at Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

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

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ian Porter

Authorized Representative

SCHEDULE

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. The Recipient has approved an updated Public Expenditure Management Strengthening Program and an implementation plan for FY2006-07 based on FY2005-06 Public Expenditure Review analysis in respect of such Program, and has demonstrated ongoing progress with implementation of the said plan, including capacity building activities.

2. The Recipient has prepared its FY2006-07 budget with: (a) administrative classification; (b) priority expenditure sectors; and (c) summary data on statutory funds; and published said budget within the first half of the Fiscal Year.

3. The Recipient has submitted to the National Assembly a revised Budget Law and has adopted Prime Ministerial Decree No. 80/PM on the Organization and Operation of the Ministry of Finance on February 28, 2007, and drafted a ministerial instruction on the Position, Role, Duties, Authority and Organizational Structure of the National Treasury.

4. The Recipient has approved a revised chart of accounts structure compatible with Government Finance Statistics guidelines, a budget nomenclature and an implementation strategy for the revised chart of accounts structure, following consultations with key stakeholders.

5. The Recipient has approved budget execution quarterly reporting formats consistent with the revised Budget Law.

6. The Bank Restructuring Implementation Committee has submitted to MOF, two (2) consecutive evaluation reports of the *Banque du Commerce Extérieur du Laos* and the Lao Development Bank performance with respect to operational and financial targets covering the period between January and September 2006 and October to December 2006, including recommendations to the banks for the targets that are not achieved.

7. The Business Promotion Office has carried out monitoring and evaluation of the implementation of the restructuring plans for State Owned Enterprises between March 2006 and February 2007 and submitted, in June 2006 and March 2007, to the Prime Minister's Office two semi-annual evaluations of progress against approved restructuring

plans for State Owned Enterprises, including recommendations on corrective actions for said Enterprises.

8. The Recipient and EdL have implemented succeeding phases of the Power Sector Action Plan, including tariff increases, measures to increase EdL's operational efficiency, a schedule of settlement of the stock of arrears accumulated prior to September 2005, timelines for agreement on settlement of the arrears for FY2006, and a preliminary plan for reducing future arrears.

9. The Recipient has improved the timeliness of payment of salaries to teachers and health workers.

10. The Recipient, through the issuance of the Prime Minister Order for Enterprise Law Implementation issued on October 24, 2006 (PM order No. 37), has made progress in the implementation of the new Enterprise Law.

11. The Recipient has adopted a Forest Industry Restructuring Plan to rationalize industrial capacity and resource supply.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	6,700,000
TOTAL AMOUNT	6,700,000

C. Deposit of Financing Amounts.

1. Except as the Association may otherwise agree:

- (a) all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and

- (b) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

2. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain a deposit account in United States Dollars at the Bank of Lao PDR designated by the Recipient and on terms and conditions satisfactory and acceptable to the Association.

3. The Recipient shall confirm to the Association:

- (a) the name and number of the bank account mentioned in paragraph 1(a) above;
- (b) the foreign currency amount received in the designated deposit account referred to in paragraph 2 above;
- (c) the foreign currency amounts withdrawn from the said designated deposit account at the Bank of Lao PDR, and, where funds are transferred into local currency, the equivalent amounts credited in local currency to the Central Treasury Account to finance budgeted expenditures; and
- (d) the date and name, and/or number of the Central Treasury account to finance budgeted expenditures into which the local currency amounts have been deposited.

D. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

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

- 1. have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
- 2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's request for such audit, a certified copy of

the report of such audit, of such scope and in such detail as the Association shall reasonably request; and

3. furnish to the Association such other information concerning the Deposit Account and its audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is March 31, 2008.

APPENDIX

Section I. Definitions

1. “Bank Restructuring Implementation Committee” [0][0] means the committee chaired by the deputy governor of the Bank of Lao PDR and comprising representatives of Bank of Lao PDR, the MOF and chairs of the board of directors of the state owned commercial banks.
2. “Business Promotion Office” means the [0]office in the Prime Minister’s Office in charge of state owned enterprises reform and business improvement under the supervision of the Minister to the Prime Minister’s Office responsible for business development, and any successor thereto.
3. “Deposit Account” means the account referred to in Section II(C)2 of the Schedule to this Agreement.
4. “EdL” means the state-owned enterprise *Electricité du Laos*, a state-owned enterprise, established and operating pursuant to the Charter of *Electricité du Laos*, as such Charter was approved by the Ministry of Industry and Handicrafts and the Board of Directors of *Electricité du Laos* on December 29, 1997.
5. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or sub-groups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured

		(whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
6. "Forest Industry Restructuring Plan" means the Prime Minister order issued on August 23, 2006, (PMO number 31) for the controlled management of forestry and the timber industry aiming to promote the wood processing industry and sustainable development.

7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
8. “MIH” means the Recipient’s Ministry of Industry and Handicrafts or any successor thereto.
9. “MOF” means the Recipient’s Ministry of Finance or any successor thereto.
10. “Power Sector Action Plan” means the action plan signed on November 22, 2005 by the MIH, the MOF, and EdL.
11. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated May 2, 2007, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
12. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of the Schedule to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project”

throughout these General Conditions are deemed to be references to “Program”.