

CONFORMED COPY

GRANT NUMBER H402-LA

Financing Agreement

(Fourth Poverty Reduction Support Operation/Program)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 2008

GRANT NUMBER H402-LA

FINANCING AGREEMENT

Agreement dated July 25, 2008, 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 one hundred thousand Special Drawing Rights (SDR 6,100,000) ("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 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
Nongbone Village
Saysettha District
Vientiane, Lao PDR
Facsimile: 856-21-412142

6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

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

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By :/s/ Viengthong Siphandone

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ian C. 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 a negative list of business activities that would require prior approval from line agencies before enterprise registration as part of the implementation of the Enterprise Law and the Prime Minister's Office issued an Instructive Order on the Establishment of the Negative List (Ref. No. 1930/GS of November 12, 2007).
2. The Recipient has abolished: (a) the requirement to follow an approved annual import-export plan (MOIC Order No. 0453 of March 26, 2007); and (b) licensing requirements for all goods outside the revised control list of goods subject to import export license (MOIC Notice No. 1376 of March 26, 2007).
3. The Business Promotion Office has carried out monitoring of State Owned Enterprises during the FY 2007, including completion of independent external audits for FY 2005 and FY 2006 for Lao Airlines, Nam Papa Lao, Pharmaceutical Factory 3, Bolisat Pattana Khet Poudoi, Agriculture Industry Development Import Export State Owned Enterprise, Lao State Fuel Company, Société Lao Import Export, and Road Construction Company 13.
4. The MOF, MEM and Electricité du Laos agreed upon the quantum of arrears and a plan to settle such arrears from Recipient's agencies to EDL for the Recipient's FY 2006 pursuant to the Power Sector Action Plan.
5. The Recipient has issued Ministerial Decision No. 0750/MOF on April 1, 2008 requiring ministries and provinces to prepare FY2008/09 budget estimates based on A revised chart of accounts compatible with the government's finance statistics guidelines and budget nomenclature.
6. The Recipient has (a) published FY2005/06 budget in the Official Gazette, and (b) prepared its FY2007/08 summary budget with: (i) administrative classification; (ii) priority expenditure sectors; (iii) summary data on statutory funds; and (iv) technical revenues for health and education sectors at central level; and published said budget within the first half of FY2007/08.
7. The MOE presented the Education for All Mid-Decade Assessment to the Education and Gender Sector Working Group on March 11, 2008.

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	6,100,000
TOTAL AMOUNT	<u>6,100,000</u>

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.

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

F. Closing Date. The Closing Date is March 31, 2009.

APPENDIX

Section I. Definitions

1. “Agriculture Industry Development Import Export State Owned Enterprise (DAI)” means the wholly state-owned enterprise established and operating pursuant to resolution number 474 dated April 6, 1989, and any successor thereto.
2. “Bolisat Pattana Khet Pudoï” means a wholly state-owned enterprise established and operating pursuant to Decree No. 188, dated August 19, 1984, and any successor thereto.
3. “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.
4. “Central Treasury Account” means the Government Account at the Bank of Lao and operated by MOF.
5. “Deposit Account” means the account referred to in Section II(C)2 of the Schedule to this Agreement.
6. “EdL” means the state-owned enterprise *Electricité du Laos*, a state-owned enterprise, established and operating pursuant to the Charter of *Electricité du Laos*, as such Charter was approved by the Ministry of Industry and Handicrafts and the Board of Directors of *Electricité du Laos* on December 29, 1997.
7. “Education and Gender Sector Working Group” means the Recipient’s working group on education chaired by MoE and co-chaired by AusAID/UNICEF which is assessing donor support to the education sector and aid coordination among development partners.
8. “Education for All Mid-Decade Assessment” means the report dated March 11, 2008, that assesses progress made against the Education for All goals in Lao PDR since 2000, prepared by the Ministry of Education with support from development partners.
9. “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.
10. “FY” means: (a) in the case of the Recipient, the fiscal year extending from October 1 in any calendar year through September 30 of the following year; and (b) in the case of Lao Airlines, Nam Papa Lao, Pharmaceutical Factory 3, Bolisat Pattana Khet Poudoi, Agriculture Industry Development Import Export State Owned Enterprise, Lao State Fuel Company, Société Lao Import Export, and Road Construction Company 13, the fiscal year extending from January 1 to December 31.
 11. “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.
 12. “Lao Airlines” means the wholly state-owned enterprise established and operating pursuant to Decision No. 771/MCTPC dated May 23, 1989, of the Recipient’s Ministry of Communication, Transport, Post and Construction, and any successor thereto.
 13. “MEM” means the Recipient’s Ministry of Energy and Mines or any successor thereof.
 14. “MOE” means the Recipient’s Ministry of Education or any successor thereto.
 15. “MOIC” means the Recipient’s Ministry of Industry and Commerce or any successor thereto.
 16. “MOF” means the Recipient’s Ministry of Finance or any successor thereto.
 17. “Nam Papa Laos” means a wholly state-owned enterprise established and operating pursuant to Decision No. 1296, dated April 5, 2001, of the Recipient’s Ministry of Transport and Communications, and any successor thereto.

18. “Official Gazette” means the Recipient’s official [journal](#) that publishes, *inter alia*, the budget, texts of the new [laws](#) and government decisions.
19. “Pharmaceutical Factory 3” means a wholly state-owned enterprise established and operating pursuant to Resolution No. 275, dated May 15, 1987, of the Recipient’s Ministry of Health, and any successor thereto.
20. “Power Sector Action Plan” means the action plan signed on November 22, 2005 by the MIH, the MOF, and EdL.
21. “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, 2008, 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.
22. “Road Construction Company 13” means the wholly state-owned enterprise established and operating pursuant to resolution number 2375 dated October 30, 1993, and any successor thereto.
23. “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.
24. “Société Lao Import Export” means the wholly state-owned enterprise established and operating pursuant to resolution number 67 dated November 19, 1985, and any successor thereto.

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”.