

Public Disclosure Authorized

CONFORMED COPY

---

---

IDA GRANT NUMBER H218-LA

# Development Grant Agreement

(Rural Electrification Phase I Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 2, 2006

---

---

**IDA GRANT NUMBER H218-LA**

**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated June 2, 2006, between LAO PEOPLE'S DEMOCRATIC REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Recipient, dated June 10, 2005, (the Letter of Program Development) describing a program designed to improve the living standards and increase the income of rural households by providing them access to electricity (the Program) and declaring the Recipient's commitment to the execution of the Program;

(B) the Recipient has requested that the Association assist in the financing of the Program through a series of grants or credits over a period of approximately six (6) years;

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement, which constitutes Phase I of the Program, has requested the Association to assist in the financing of Parts A.1 through A.5, B.1, B.3(b) and (c), B.4(a) and B.5 of the Project;

(D) the Recipient has requested assistance from the resources of the Global Environmental Facility (GEF) Trust Fund in the financing of Parts A.6, B.2, B.3(a), B.4(b) and B.6 of the Project; the International Bank for Reconstruction and Development (the Bank) has determined that such assistance would be in accordance with Resolution No. 94-02 of the Executive Directors dated May 24, 1994, establishing the GEF Trust Fund; and by an agreement of even date herewith between the Recipient and the Bank, acting as an Implementing Agency of the GEF (the GEF Trust Fund Grant Agreement), GEF is agreeing to provide such assistance in an aggregate amount of three million seven hundred fifty thousand Dollars (\$3,750,000) (the GEF Trust Fund Grant); and

(E) Part A of the Project will be carried out by Electricité du Laos (EdL) with the Recipient's assistance and, as part of such assistance, the Recipient will make part of the proceeds of the grant provided for in Article II of this Agreement available to EdL as set forth 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 and in the agreement of even date herewith between the Association and EdL (the Project 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) “Action Plan for Financial Sustainability of the Power Sector” means the Action Plan for Financial Sustainability of the Power Sector, adopted by the Recipient, dated November 2005.

(b) “Category” means of a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(c) “Displaced Persons” means persons who, on account of the execution of the Project, have 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 persons must move to another location; or
- (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons;

and a “Displaced Person” means any of such Displaced Persons.

(d) “EdL” means 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.

(e) “EdL Special Account” means the account established for the purpose of Part A of the Project and referred to in Section 2.02(b) of this Agreement, and “Special Accounts” means any of the EdL or MIH Special Account.

(f) “Environmental Management Framework” means, in the case of EdL, the framework dated July 2004, approved by EdL, and, in the case of MIH, the framework dated June 18, 2004, approved by MIH, and referred to in paragraph 3 of Schedule 4 to this Agreement and paragraph 2 of Schedule 2 to the Project Agreement, which sets out the principles and procedures for carrying out environmental impact assessments and preparing environmental management plans for the works carried out under the Project, as said Framework may be revised from time to time with the agreement of the Association.

(g) “EPDP” means the Ethnic People Development Plan dated July 2004, approved by MIH and EdL, and referred to in paragraph 5 of Schedule 4 to this Agreement and paragraph 4 of Schedule 2 to the Project Agreement which sets out the policies and procedures to ensure meaningful consultation with, and the informed participation of, ethnic groups who live or cultivate or make their living within the Project area who are affected by the Project, and to ensure that benefits under the Project are socially and culturally acceptable to such groups, as said Plan may be revised from time to time with the prior concurrence of the Association.

(h) “Ethnic People” and “Ethnic Minorities” 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.

(i) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement, or with Section 4.02 of the Project Agreement, as the case may be.

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

(k) “MIH Special Account” means the account established for the purpose of Part B of the Project and referred to in Section 2.02(b) of this Agreement, and “Special Accounts” means any of the MIH or EdL Special Account.

(l) “Procurement Plan” means the procurement plan, dated December 6, 2005, covering the initial eighteen (18) month period (or longer) of implementation of Parts A and B of the Project, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 of this Agreement and Section 2.02 of the

Project Agreement, to cover succeeding eighteen (18) month periods (or longer) of implementation of the Project.

(m) “Project Agreement” means the agreement between the Association, the Bank acting as an implementing agency of the Global Environment Facility, and Electricité du Laos, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(n) “Project Management Unit” or “PMU” means the unit within the Department of Electricity of MIH, established in accordance with paragraph 1 of Schedule 4 to this Agreement.

(o) “Project Provinces” means those provinces of the Recipient listed in the Annex to Schedule 2 to this Agreement, and any successor thereto, as said Annex may be amended from time to time with the prior concurrence of the Association, and a “Project Province” means any of said Project Provinces.

(p) “Rural Electrification Fund” or “REF” means the facility to be established under Part B.2 of the Project, funded initially with purchaser repayments, to provide resources for rural electrification.

(q) “Resettlement Policy Framework” means, in the case of EdL, the policy framework dated May 2004, approved by EdL, and in the case of MIH, the framework dated June 18, 2004, approved by MIH, and referred to in paragraph 4 of Schedule 4 to this Agreement and paragraph 3 of Schedule 2 to the Project Agreement; which sets out the policies and procedures for the acquisition of land and other assets, resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement action plans, as may be required, during the implementation of the Project, as said Policy Framework may be revised from time to time with the prior concurrence of the Association.

(r) “Respective Part of the Project” means: (i) in respect of EdL, Part A of the Project; and (ii) in respect of MIH, Part B of the Project.

(s) “Subsidiary Financing Agreement” means the agreement to be entered into between the Recipient and Electricité du Laos pursuant to Section 3.02(a) of this Agreement, including all schedules and agreements supplemental to said Subsidiary Financing Agreement, as the same may be amended from time to time with the prior concurrence of the Association.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed a reference to MIH and EdL.

## 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 seven million Special Drawing Rights (SDR 7,000,000).

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 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 the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may open and maintain in Dollars, for the purposes of Parts A.1 through A.5 of the Project, a special deposit account (the EdL Special Account) and, for the purposes of Parts B.1, B.3(b) and (c), B.4(a) and B.5 of the Project, another special deposit account (the MIH Special Account), in The Bank of Lao People's Democratic Republic, on terms and conditions satisfactory to the Association. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be March 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 (60) days 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 cancelled; and (ii) at the rate set as of 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 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 semi-annually on March 15 and September 15 in each year.

### **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 carry out Part B of the Project through MIH with due diligence and efficiency and in conformity with appropriate administrative, financial, technical, and electrical utility and engineering practices, and sound social and environment standards acceptable to the Association, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project.

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, the Recipient shall cause EdL to perform in accordance with the provisions of the Project Agreement all the obligations of EdL therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable EdL to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without any limitation upon the provisions of paragraph (b) of this Section, the Recipient shall take all action necessary: (i) to enable EdL to comply with its financial covenants under the Project Agreement; and (ii) to undertake and enable EdL to undertake their respective obligations under the Action Plan for Financial Sustainability of the Power Sector.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient shall carry out Part B of the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) The Recipient shall make the part of the proceeds of the Grant allocated from time to time to Categories (1)(a) and (2)(a) available to EdL under a subsidiary financing agreement, acceptable to the Association, to be entered into between the Recipient and EdL, under terms and conditions which shall have been approved by the Association and which shall include the following:

- (i) of the aggregate amount made available to EdL, eighty percent (80%) shall be treated as a sub-grant (the Sub-grant), and twenty percent (20%) shall be treated as a loan (the Loan);

- (ii) the principal amount of the Loan repayable by EdL shall be the equivalent in Dollars (determined as of the date or respective dates of withdrawal from the Grant Account) of twenty percent (20%) of the value of the currency or currencies withdrawn from the Grant Account in respect of the Categories (1)(a) and (2)(a);
- (iii) EdL shall repay the Loan over a term of twenty (20) years, including a grace period of five (5) years;
- (iv) interest at the rate of 4.5 percent per annum shall be charged on the principal amount of the Loan outstanding from time to time; and
- (v) a commitment charge at a rate per annum equal to the effective rate applicable under Section 2.04 of this Agreement shall be charged on the principal amount of both the Sub-grant and the Loan so made available and not withdrawn from time to time.

(b) The Recipient shall exercise its rights under the Subsidiary Financing 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 3.03. (a) Except as the Association shall otherwise agree:

- (i) procurement of the goods and services required for Parts B.1, B.3(b) and (c), B.4(a) and B.5 of 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, and
- (ii) procurement of the goods and services required for Parts A.1 through A.5 of the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall 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 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before 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 objectives of Part B of the Project; and

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

Section 3.05. The Recipient and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by EdL pursuant to Section 2.03 of the Project Agreement.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Recipient shall:

(i) establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Part B of the Project; and

(ii) cause EdL to establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

(i) have the financial statements referred to in paragraph (a)(i) 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)(i) of this Section for such year (or 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 and 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) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 10 of Schedule 4 to this Agreement, the Recipient shall prepare, in respect of Part B of the Project, 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**

### **Remedies of the Association**

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified:

- (a) A situation has arisen which makes it improbable that the Program or a significant part thereof will be carried out.
- (b) EdL shall have failed to perform any of its obligations under the Project Agreement.
- (c) As a result of events which have occurred after the date of the Development Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that EdL will be able to perform its obligations under the Project Agreement.
- (d) EdL's Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of EdL to perform any of its obligations under the Project Agreement.
- (e) (i) Subject to sub-paragraph (ii) of this paragraph (e), the right of the Recipient to withdraw the proceeds of the GEF Grant made

to the Recipient for the financing of Parts A.6, B.2, B.3(a), B.4(b) and B.6 of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the GEF Grant Agreement.

- (ii) Sub-paragraph (i) of this paragraph (e) shall not apply if the Recipient establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Recipient to perform any of its obligations under the GEF Grant Agreement; and (B) adequate funds for said Parts of the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

(f) Either of the following instruments shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement: (i) 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; or (ii) the Recipient's Letter of Program Development.

## **ARTICLE VI**

### **Effectiveness; Termination**

Section 6.01. 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) the Subsidiary Financing Agreement has been executed on behalf of the Recipient and EdL in accordance with the provisions of Section 3.02 of this Agreement;

(b) the GEF Trust Fund Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder have been fulfilled except only the effectiveness of the Development Grant Agreement.

Section 6.02. 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 Project Agreement has been duly authorized or ratified by EdL, and is legally binding upon EdL in accordance with its terms;



INDEVAS                      248423 (MCI)                      (202) 477-6391  
Washington, D.C.              64145 (MCI)

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<br/>Grant Allocated<br/>(Expressed in<br/>SDR Equivalent)</u> | <u>% of<br/>Expenditures<br/>to be Financed</u> |
|---|--|---|
| (1) Goods under:                                    |  | 100%  |
| (a) Parts A.1 through<br>A.5 of the Project         | 3,967,600  |   |
| (b) Parts B.1, B.3(b) and<br>B.4(a) of the Project  | 1,240,400  |   |
| (2) Consultants' services<br>and training under:    |  | 100%  |
| (a) Parts A.1 through<br>A.5 of the Project         | 861,000  |   |
| (b) Parts B.3(b) and (c),<br>and B.5 of the Project | 325,500  |   |
| (3) Unallocated                                     | 605,500  |   |
|   | <hr/>  |   |
| <b>TOTAL</b>  | <b>7,000,000</b>   |   |
|   | <hr/> <hr/>  |   |

2. 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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 210,000 may be made in respect of Categories (1)(b) and (2)(a) on account of payments made for expenditures under Parts B.1 and A.1 of the Project, respectively, before that date but after July 1, 2005.

3. 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) goods costing less than \$100,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; and (c) services of consulting firms under contracts costing less than \$100,000 equivalent per contract, all under such terms and conditions as the Association shall specify by notice to the Recipient.

4. 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 implement, in the Project Provinces, Phase I of the Program which is designed to improve the living standards and increase the income of rural households by providing access to electricity.

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: Electricité du Laos

Carry out a program of grid extension in the Project Provinces and of institutional development of EdL, said program consisting of:

1. Grid Extension

Install and commission medium voltage (MV) and low voltage (LV) transmission lines, transformers and house wiring in the Project Provinces to cover about 42,000 households in about 545 villages in the Project Provinces; and initiation of selection of villages to participate in a succeeding phase of the Program and of design of said phase.

2. Loss Reduction

Carry out a program of activities and investments to reduce technical and commercial losses incurred by EdL including installation of equipment, enhancement of management and staff skill development, and development of a long term loss reduction program to be implemented in a succeeding phase of the Program.

3. Information Technology System

Integrate the headquarter and the branch offices of EdL through the rolling out of the billing and accounting system; strengthen EdL's financial management capacity, including its capacity to carry out internal audit and financial control functions, and corporate planning; and develop its material management procurement system.

4. Tariff Reform

Implement the tariff reform component of the Action Plan for Financial Sustainability of the Power Sector.

5. Safeguards Capacity

Enhance the capacity of EdL branch offices and provincial counterparts to carry out environmental and social assessments.

6. Demand-side Management

Develop demand-side management (DSM) and energy efficiency planning through the establishment of a DSM unit within EdL, development of an energy end-use database for DSM planning, screening and design of DSM programs and carrying out of DSM pilot projects.

Part B: Off-Grid Rural Electrification

Carry out a program to extend off-grid rural electrification in the Project Provinces and to develop an enabling environment for further rural electrification expansion, said program consisting of:

1. Off-grid Investment Program

Apply off-grid technologies, including solar home systems, village hydropower and diesel generating sets, to provide electricity to about 10,000 households in about 200 villages in the Project Provinces.

2. Off-grid Institutional Strengthening

Improve the institutional framework, organization and management capacity to support expansion of off-grid electrification offering a wide range of off-grid technologies, including developing a comprehensive program of management outsourcing, and quality assurance system.

3. Alternative Rural Electrification Technologies and Delivery Models

Develop alternative technologies, financing mechanisms and delivery models for off-grid rural electrification through:

(a) the development of the regulatory and institutional arrangements for the Rural Electrification Fund;

(b) the carrying out of a technical assessment of biomass resources and pilot biomass generations; and

(c) the carrying out of a study on income generation linkages with rural electrification.

4. Rural Electrification Master Plan and Database

(a) Develop a Rural Electrification Master Plan, including developing institutional arrangements and planning approaches, improving the rural electrification database, and developing a rural electrification planning manual.

(b) Prepare a renewable resource inventory.

5. Sector Financing Strategy

Develop an electricity sector financing strategy, including preparing pilot projects to be concessioned to independent power producers.

6. Organizational Strengthening of MIH's Department of Electricity

(a) Strengthen the institutional capabilities of MIH's Department of Electricity, to meet its expanded functions and responsibilities in sector regulation and oversight, planning, coordination and reform.

(b) Support the PMU in the implementation of Part B of the Project.

\* \* \*

The Project is expected to be completed by September 30, 2009.

**Annex to Schedule 2**

**Project Provinces**

**Part A.1 of the Project**

1. Bolikhamxay
2. Khammouane
3. Savannakhet
4. Salavan
5. Xekong
6. Champasak
7. Attapeu

**Parts A.2 through A.6, and B of the Project**

1. Vientiane
2. Oudomxai
3. Luangnamtha
4. Champasak
5. Luangphabang
6. Xaignabouly
7. Xiengkhoang
8. Houaphan
9. Bolikhamxay
10. Khammouane
11. Savannakhet
12. Salavan

13. Xekong
14. Attapeu
15. Phongsaly
16. Bokeo
17. Xaisomboun SR

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All goods 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 and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient.

##### B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$100,000 equivalent per contract and concrete poles and cross arms regardless of the value of contract, 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. Tools, loss-reduction equipment and office equipment estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

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.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 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. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. 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 the prior review of the Association.

Section IV. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.



## **SCHEDULE 4**

### **Implementation Program**

#### Project Management

1. For purpose of Part B of the Project, the Recipient shall maintain until completion of Part B of the Project, a Project Management Unit under the Department of Electricity within MIH, to be responsible for managing the implementation of Part B of the Project, including financial management, disbursement and procurement; said Project Management Unit to be under the direction of qualified managers, provided with sufficient resources, and staffed with competent personnel in adequate numbers, including a Project manager, an accounting officer and a procurement officer, all with qualifications and experience and under terms of reference acceptable to the Association.

2. (a) The Recipient shall, through MIH, maintain a financial management manual, acceptable to the Association, setting forth guidelines and procedures for financial management and control, record keeping, reporting and auditing, and programs of training therefor.

(b) The Recipient shall maintain within MIH, a computerized accounting system to support Project accounting activities, including the production of Financial Management Reports and annual financial statements, acceptable to the Association.

#### Environment, Resettlement and Ethnic Groups

3. The Recipient shall:

(a) implement and cause to be implemented, in a manner satisfactory to the Association, the Environmental Management Framework designed to ensure that the Project is implemented in accordance with sound environmental practices and standards;

(b) prepare, and cause to be prepared, environmental management plans in regard to Part B of the Project, acceptable to the Association, as may be necessary in accordance with the requirements set forth in said Framework, and implement such plans in a manner satisfactory to the Association;

(c) provide to the Association, for its prior approval, any revision proposed to be introduced into said Framework or said environmental management plans, as the case may be, in order to achieve their respective objectives, and, thereafter, introduce such revision into said Framework or said environmental management plans as shall have been agreed with the Association; and

(d) maintain policies and procedures adequate to enable it and the Participating Provinces to monitor and evaluate, in accordance with guidelines acceptable

to the Association, the implementation of said Framework or said environmental management plans, and the achievement of their respective objectives.

4. The Recipient shall:

(a) take and cause to be taken all necessary actions 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;

(b) to this end, implement and cause to be implemented the Resettlement Policy Framework, in a manner satisfactory to the Association;

(c) wherever implementation of Part B of the Project or any part thereof, would give rise to Displaced Persons, provide to the Association for its review, resettlement action plans prepared in accordance with the principles and procedures set forth in said Framework and, thereafter, implement in a manner satisfactory to the Association, such resettlement action plans as shall have been approved by the Association;

(d) provide to the Association for its prior approval any revision proposed to be introduced into said Framework, or into the resettlement action plans prepared pursuant to said Framework, in order to achieve their respective objectives, and, thereafter, introduce such revision into said Framework or said plans as shall have been agreed with the Association; and

(e) maintain policies and procedures adequate to enable it and the Participating Provinces to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Framework and the resettlement action plans prepared pursuant thereto, and the achievement of their respective objectives.

5. The Recipient shall implement and cause to be implemented the Ethnic People Development Plan in a manner satisfactory to the Association, designed to provide meaningful consultation with, and the informed participation of, ethnic groups living within the Project area, to ensure that benefits under the Project are socially and culturally acceptable to such groups, and to ensure that Project activities adequately address the needs, cultural practices and preferences of such community.

#### Project Implementation

6. The Recipient shall employ, until completion of the Project, a management contractor, acceptable to the Association, to be responsible, *inter alia*, for managing the MIH village off-grid electrification planning and investment program, including identification of districts and provinces for participation in the village off-grid program, approval of off-grid electrification plans, monitoring of the performance of provincial electrification service companies, ensuring compliance with the requirements of the

Environmental Management Framework, Resettlement Policy Framework and the Ethnic People Development Plan.

7. The Recipient shall take all necessary actions to establish and put into operation a Rural Electrification Fund to provide financial resources for the purpose of rural electrification, including issuance of a prime ministerial decree establishing the management structure and the financial rules for such Fund.

8. In carrying out Part B.4 of the Project, the Recipient shall develop a Rural Electrification Master Plan and associated database, under terms of reference satisfactory to the Association, and thereafter maintain and periodically update said Master Plan and database, all in a manner and substance acceptable to the Association.

9. The Recipient shall:

(a) (i) by December 31, 2006, develop an electricity sector financing strategy, including domestic and export electricity generation, transmission, and distribution; and EdL power purchasing from small-scale, independent power projects; and (ii) provide such strategy to the Association for its review and comments, and thereafter, taking into account the Association's comments thereon, adopt said strategy; and

(b) by June 30, 2007, consistent with the strategy referred to in subparagraph (a) of this paragraph, prepare two small-scale hydropower projects, to be concessioned to independent power producers (IPPs).

#### Monitoring and Evaluation

10. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators acceptable to the Association, 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 March 31 and September 30 of each year, commencing March 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 10 and consolidating the reports prepared by EdL under paragraph 8 of Schedule 2 to the Project Agreement, 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

(c) review with the Association, promptly after furnishing each aforementioned report to the Association, or at such date as the Association shall request,

each report referred to in sub-paragraph (b) 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.

## **SCHEDULE 5**

### **Special Accounts**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means: (i) in the case of the EDL Special Account, Categories (1)(a) and (2)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and (ii) in the case of the MIH Special Account, Categories (1)(b) and (2)(b) set forth in said table;

(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, in the case of the EdL Special Account, an amount equivalent to \$1,000,000, and, in the case of the MIH Special Account, an amount equivalent to \$200,000, to be withdrawn from the Grant Account and deposited into the respective Special Account pursuant to paragraph 3(a) of this Schedule; provided, however, that, in the case of the EdL Special Account, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Grant Account allocated to Categories (1)(a) and (2)(a) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part A of the Project shall be equal to or exceed the equivalent of SDR 1,380,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Recipient shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Recipient shall furnish to the Association requests for deposits into the respective 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 respective 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 respective 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 respective 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 any 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 Accounts;

(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 for the respective Special Account, 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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. Paragraph (c) of Section 9.06 is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Recipient and the Association of their respective obligations under the Development Grant Agreement and the accomplishment of the purposes of the Grant”.
11. 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”.