Financing Agreement

(Eighth Poverty Reduction Support Operation)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 31, 2012
FINANCING AGREEMENT

AGREEMENT dated August 31, 2012, 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: (a) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an adequate macroeconomic 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 thirteen million three hundred thousand Special Drawing Rights (SDR 13,300,000) (“Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 June 15 and December 15 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 Recipient’s macroeconomic policy framework and 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 promptly inform the Association of any situation that 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 Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely, 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; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

5.02. 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 Minister of Finance.
6.02. The Recipient’s Address is:

Ministry of Finance
23rd Singha Road
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 248423(MCI) 1-202-477-6391
Washington, D.C.
AGREED at Vientiane, Lao PDR, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By

[Signature]

Authorized Representative

Name: Santiphab PHOMVIHANE

Title: Vice Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Ms. Keiko Miwa

Title: Country Manager
SCHEDULE 1

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 MOF, through the Instruction of the FY12/13 State Budget Preparation, instructed revenue-collecting agencies to break down non-resource and resource revenues, including separate break down for mining and hydropower, in their FY12/13 revenue collection plans.

2. The MOF and the Bank of Lao PDR consolidated all treasury-managed government accounts at the Bank of Lao PDR headquarters and its branches into the Treasury account through zero balance accounting mechanisms, and rolled-out said zero balance accounting mechanisms to the Lao Development Bank.

3. The MOF submitted on June 18, 2012 to the Government Office a draft Enterprise Accounting Decree.

4. The MOES distributed in FY11/12 school block grants to public primary schools based on a per student formula.

5. The MOH submitted to the Government Office a draft Decree on National Free Maternal and Child Health on March 27, 2012 (407/MOH) and issued on May 29, 2012 associated guidelines, covering financial, technical, capacity and infrastructure aspects (including basic and emergency obstetric and neonatal care standards), and such guidelines are consistent with Health Equity Funds and other social health protection mechanisms including, inter alia, the civil service, social fund and community based health insurances.

6. The National Trade Facilitation Secretariat established a website to make information on trade related processes and procedures accessible to the public, in accordance with article X of the GATT and article XIII of the ATIGA.

7. The MOIC and the MOF started implementing on November 10, 2011 simplified procedures for enterprise registration consistent with abolition of investment licenses for general investment, under the Law on Investment Promotion.
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 is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>SDR 13,300,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>SDR 13,300,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient, and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. Deposits 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. For the purposes of paragraph 1 of this Section D, prior to furnishing to the Association the request for withdrawal from the Financing Account, the Recipient shall:

   (a) open and thereafter maintain a deposit account in Dollars at the Bank of Lao PDR (“Foreign Currency Deposit Account”); and

   (b) maintain a central treasury account in the Recipient’s local currency used to finance budgeted expenditures (“Local Currency Deposit Account”);
in each case on terms and conditions satisfactory to the Association, and shall also provide written confirmation to the Association of the name and number of the Foreign Currency Deposit Account and the Local Currency Deposit Account.

3. Promptly following the withdrawal of the Single Withdrawal Tranche, the Recipient shall provide written confirmation to the Association of:

(a) the Dollar amount deposited into the Foreign Currency Deposit Account and the date of such deposit; and

(b) the Dollar amount withdrawn from the said Foreign Currency Deposit Account and the equivalent amount in local currency deposited into the Local Currency Deposit Account, and the dates of such withdrawal and deposit.

E. **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.

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

(a) have the Deposit Accounts 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 said audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

(c) furnish to the Association such other information concerning the Deposit Account and their audit as the Association shall reasonably request.

G. **Closing Date.** The Closing Date is December 31, 2012.
APPENDIX

Section I. Definitions


2. "Bank of Lao PDR" and the acronym "BOL" mean the Recipient's central bank, or any successor thereto.

3. "Decree on National Free Maternal and Child Health" means the draft decree submitted to the Government Office which sets the implementation principles of the Government policy for providing free maternal and child health services throughout the Recipient's territory.

4. "Deposit Accounts" means both the Foreign Currency Deposit Account and the Local Currency Deposit Account.

5. "Enterprise Accounting Decree" means the draft decree mandating the principles of international accounting standards for the private sector.

6. "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 subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>Code</td>
<td>Description</td>
<td></td>
</tr>
<tr>
<td>------</td>
<td>-------------</td>
<td></td>
</tr>
<tr>
<td>525</td>
<td>Radioactive and associated materials</td>
<td></td>
</tr>
<tr>
<td>667</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
<td></td>
</tr>
<tr>
<td>718</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
<td></td>
</tr>
<tr>
<td>728</td>
<td>Tobacco processing machinery</td>
<td></td>
</tr>
<tr>
<td>897</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)</td>
<td></td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></td>
</tr>
</tbody>
</table>

(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.

7. “Foreign Currency Deposit Account” means the account referred to in subparagraph D.2(a) of Section II of Schedule 1 to this Agreement.

8. “FY” means the Recipient’s fiscal year extending from October 1 in any calendar year through September 30 of the following year.
9. "GATT" means the General Agreement on Tariffs and Trade, a multilateral agreement regulating international trade of 1946, as updated in 1994.

10. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

11. "Government Office" means the office assisting the Prime Minister and his cabinet.

12. "Health Equity Funds" means the financing mechanisms established by the Recipient pursuant to the Regulation on Health Equity Fund Management and Implementation for the HSIP Project providing financial support to poor households to pay for priority health services.

13. "Instruction of the FY12/13 State Budget Preparation" means the Recipient’s circular instructing government agencies to prepare the annual budget for the FY12/13 (999/MOF April 3, 2012).

14. "Lao Development Bank" means the state-owned commercial bank which was opened officially on April 9, 2003, and created by merging the following state owned commercial banks: Lao May Bank Ltd. and Lane Xang pursuant to establishment permission No. 09/BOL, dated 19 June 2003 from the BOL and Resolution No. 2582/MOF, dated 10 December 2002 from MOF respectively, or any successor thereto.

15. "Law on Investment Promotion" means the Law on Investment Promotion No.2 (Lao PDR) adopted by the National Assembly in July 2009, effective as of September 18, 2009, which aims to promote foreign and domestic investment in Lao People’s Democratic Republic.

16. "Local Currency Deposit Account" means the account referred to in sub-paragraph D.2(b) of Section II of Schedule I to this Agreement.

17. "MOES" means the Recipient’s Ministry of Education and Sports, or any successor thereto.

18. "MOF" means the Recipient’s Ministry of Finance, or any successor thereto.

19. "MOH" means the Recipient’s Ministry of Health, or any successor thereto.

20. "MOIC" means the Recipient’s Ministry of Industry and Commerce, or any successor thereto.

21. "National Assembly" means the Recipient’s national representative body having supreme legislative powers.
22. "National Trade Facilitation Secretariat" means the inter-agency coordinating body for trade facilitation established by Decision of the Recipient's Prime Minister on October 26, 2010, or any successor thereto.

23. "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 June 25, 2012, 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.

24. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions 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 (Designate 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".