Financing Agreement

(Poverty Reduction and Growth Operation)

between

KINGDOM OF CAMBODIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 14, 2007
FINANCING AGREEMENT

AGREEMENT dated August 14, 2007, entered into between KINGDOM OF CAMBODIA (“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 of the Schedule to this Agreement; and (b) 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.

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 nine million eight hundred thousand Special Drawing Rights (SDR 9,800,000) (“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 June 15 and December 15 in each year.

2.05. The Payment Currency is United States Dollars.

ARTICLE III – PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program.

ARTICLE IV – EFFECTIVENESS; TERMINATION

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

ARTICLE V – REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is the Minister of Economy and Finance.

5.02. The Recipient’s Address is:

Ministry of Economy and Finance
Street 92, Sang Kat Wat Phnom
Phnom Penh
Kingdom of Cambodia

Facsimile:

855-23-427798

5.03. 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 Phnom Penh, Kingdom of Cambodia, as of the day and year first above written.

KINGDOM OF CAMBODIA

By: /s/ Keat Chhon

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ian Porter

Authorized Representative
SCHEDULE

Program Actions; Availability of Financing Proceeds

Section I. Actions taken under the Program

1. The Recipient has issued on December 6, 2005 Prime Ministerial Order (PMO/90-SCD) to the Senior Minister, the Minister of Economy and Finance, the Chairman of the Steering Committee of Private Sector Development, the Minister of Commerce and the Chairman of the Sub-Steering Committee of Trade Facilitation, requiring them to coordinate with each other and with other government ministries and agencies, development partners, and the private sector, and to take appropriate action towards the adoption of a single administrative document that incorporates and contains all relevant information required by all concerned ministries and agencies for imports and exports administration.

2. The Recipient has adopted on March 1, 2006 sub-decree No.21 on the facilitation of trade, through the issuance of guidelines for implementation of risk management in the Royal Government of Cambodia by ministries and agencies involved with importation and exportation formalities.

3. The Recipient has adopted on December 29, 2005 sub-decree No.148 ANK.BK on the establishment and management of the Special Economic Zone.

4. The Recipient has taken measures to promote economy, efficiency, and decentralization of public procurement by issuing:

   (a) on January 3, 2005 prakas No.045 (MEF) on the Implementation of Deconcentrated Public Procurement, to deconcentrate procurement in ministries, provinces, and state owned enterprises and raising procurement thresholds under which government ministries and agencies may undertake procurement subject to post-review;

   (b) on June 30, 2006 prakas No.401 (MEF) on the Implementation of Public Procurement Modes, restricting the use of non-competitive procurement methods; and

   (c) on October 28, 2006 Sub-decree No.105 on Public Procurement, which amends the 1995 Sub-decree on the Management of Public Procurement and on January 23, 2007 prakas No.101 on the corresponding revised implementing rules and regulations on public procurement, both of which provide the new legal foundation for the management of public procurement.
5. The Recipient has developed and implemented new streamlined processes for budget execution, from commitment to payment, in order to make the budget more credible by making execution more timely and predictable, through the issuance on December 29, 2006 of:

(a) Instructing Circular on the Reduction of Control Procedures on Public Financial Management, No.015 (MEF); and

(b) prakas No.1415 (MEF) on the Delegation of Power to Financial Controllers Stationed at Ministries/Institutions at the Central Administration to Issue Visas on Spending Guarantees and Mandates for Disbursement.

6. The Recipient has increased its reliance on the banking system by:

(a) issuing (i) on December 31, 2004 prakas 636, on the procedures for payment of customs and excise taxes by check and direct payment through the National Bank of Cambodia, for tax and customs payments; and (ii) on March 7, 2007 a clarifying instruction (No.1177) requiring that all customs and excise duty obligations above US$1,000 in Phnom Penh and Sihanoukville be paid by check at the National Bank of Cambodia;

(b) issuing in September 2006, through the Director of the National Treasury, an instruction for all payments to government creditors to be made by check or transfer in Phnom Penh and Sihanoukville, and

(c) by implementing on August 1, 2006 a pilot project for paying selected civil servants in MEF and the Ministry of Health via electronic transfer, as per the Memorandum of Understanding signed by the MEF and the ANZ Bank.


8. The Recipient has adopted on October 7, 2005 sub-decree No.118 HNH.BK, and on March 10, 2006 prakas 42, each on State Land Management, including participation of local communities in mapping and land use planning, and permitting open public access at the provincial level to register information on the existing use of state land.

9. The Recipient has adopted on December 27, 2005 sub-decree No.146 ANK.BK on Economic Land Concessions which includes provisions for resolution with local communities of issues of prior occupancy/use of lands and classification of
land to exclude forests and protected areas, and has established the Economic Land Concessions Technical Secretariat.

10. The Recipient has issued on June 30, 2006 Prime Minister decision No.27 which establishes a technical secretariat as a mechanism to disseminate information on Economic Land Concessions, and has started dissemination of such information.

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:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Tranche</td>
<td>9,800,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>9,800,000</td>
</tr>
</tbody>
</table>

C. 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 National Treasury, 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 National Bank of Cambodia 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 National Bank of Cambodia, and the equivalent amounts credited in local currency to the National Treasury Single Account to finance budgeted expenditures; and

(d) the date and name, and/or number of the Central Treasury account to finance budgeted expenditures into which the local currency amounts have been deposited.

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

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

1. have the Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association’s request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request; and

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

F. **Closing Date.** The Closing Date is April 15, 2008.
Section I. Definitions

1. “Deposit Account” means the account referred to in Section II (C) 2 of this Agreement.

2. “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>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</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) under a contract 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 during the procurement or execution of such contract, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to remedy the situation.

3. “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.

4. “MEF” means the Recipient’s Ministry of Economy and Finance and any successor thereto.

5. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated May 2, 2007, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

6. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of the Schedule to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 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”.