The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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CONFORMED COPY
April 22, 2011

H.E. Somdy Douangdy
Minister of Finance
Ministry of Finance
Vientiane
Lao People’s Democratic Republic

Re: Lao PDR: JSDF Grant for Mobilizing Ethnic Communities for
   Improved Livelihoods and Wellbeing Project
   Grant No.TF097786

Excellency:

In response to the request for financial assistance made on behalf of Lao People’s
Democratic Republic (“Recipient”), I am pleased to inform you that the International
Development Association (“World Bank”), as administrator of grant funds provided by
Japan under the Japan Social Development Fund, proposes to extend to the Recipient, a
grant in an amount not to exceed two million six hundred twenty one thousand five
hundred United States Dollars (US$2,621,500) (“Grant”) on the terms and conditions set
forth or referred to in this letter agreement (“Agreement”), which includes the attached
Annex, to assist in the financing of the project described in the Annex (“Project”). This
Grant is funded out of the Japan Social Development Fund for which the World Bank
receives periodic contributions. In accordance with Section 3.02 of the Standard
Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the
Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized
to enter into this Agreement and to carry out the Project in accordance with the terms and
conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement with the foregoing by having an
authorized official of the Recipient sign and date the enclosed copy of this Agreement,
and returning it to the World Bank. Upon receipt by the World Bank of this
countersigned copy, this Agreement shall become effective as of the date of the
countersignature.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Keiko Miwa
AGREED:
LAO PEOPLE'S DEMOCRATIC REPUBLIC

By: /s/ Viengthong Siphandone

Title: Vice Minister of Finance

Date: April 22, 2011

Enclosures:


Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in Section 1.03 of this Agreement.

1.03. (a) “Environmental and Social Management Framework” means the framework to be adopted by the Recipient and referred to in Section 2.03(d) of this Annex, which sets forth the principles and procedures, satisfactory to the World Bank, governing, inter alia: (a) the environmental preliminary screening of proposed Sub-projects, and the preparation of environmental assessment and environment management plans during the implementation of the Project; (b) meaningful consultation with, and the informed participation of Ethnic Groups who are affected, or may be affected by the Project, and socially and culturally acceptable mitigation measures to address impacts on such Ethnic Groups; and (c) an integrated pest management plan.

(b) “Ethnic Group” means, for purposes of the Project, the social groups residing or engaged in livelihood activities under the Project from time to time; each of which possesses a distinct social and cultural identity that makes it vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics: (i) close attachment to ancestral territories and to the natural resources in these areas; (ii) self-identification and identification by others as members of a distinct cultural group; (iii) a language, often different from the Lao language; (iv) presence of customary social and political institutions; and (v) primarily subsistence-oriented production; and “Ethnic Groups” means, collectively, all such Ethnic Groups.

(c) “Incremental Operating Costs” means reasonable expenditures directly related to the Project, incurred by the Recipient and/or the Poverty Reduction Fund (which expenditures would not have been incurred absent the Project), including expenditures for Project staff travel, lodging and per diem, consumable materials, office supplies, communications services (including postage handling, telephone and internet costs), publication services, translation services, office space rental and utilities, maintenance of office equipment and operation, and operation and maintenance of vehicles but excluding civil services salaries of officials of the Recipient’s civil service.

(d) “Operations Manual” means the manual to be adopted by the Recipient, satisfactory to the World Bank, referred to in Section 2.03(b) of this
Annex, as the same may be amended from time to time with the prior agreement of the World Bank.

(e) “Poverty Reduction Fund” or “PRF” means the entity established and operating pursuant to the PRF Legislation and provided with legal personality distinct from that of the Recipient, and possessing administrative, managerial, technical and financial autonomy under the Recipient’s laws and regulations, for purposes of supporting small-scale village investment and services and strengthening local capacity for village development, and any successor thereto.


(g) “Project Agreement” means the agreement between the World Bank and the Project Implementing Entity 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.

(h) “Project Implementing Entity” means the PRF.

(i) “Subsidiary Agreement” means the Subsidiary Agreement to be entered into between the Recipient and the Project Implementing Entity, under which funds will be granted to the Project Implementing Entity for the implementation of the Project and referred to in Section 2.03(a) of this Annex.

(j) “Sub-grant” means a sub-grant to be made available by the PRF out of the proceeds of the Grant to eligible village self-help groups for the purposes of part (b) of the Project referred to in Section 2.01(b) of this Annex, in accordance with the provisions of the relevant Sub-grant Agreement, and the term “Sub-grants” means, collectively, more than one Sub-grant.

(k) “Sub-grant Agreement” means the agreement to be entered into between the PRF and the eligible village self-help groups for purposes of providing a Sub-grant, as the same may be amended from time to time with the prior agreement of the World Bank, and the term “Sub-grants” means collectively all said Sub-grant Agreements.

(l) “Training” means training conducted in the territory of the Recipient, including purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to pilot an innovative livelihood focused community-driven development program in the selected five
poverty reduction priority districts in Huaphan and Savannakhet provinces enabling 28,800 households in ethnic communities in rural areas in Lao PDR to improve their livelihoods and wellbeing through group-based activities. The Project consists of the following parts:

(a) Formation of Community Self-Help Groups and Capacity Building of Local Service Providers: Forming self-help groups (SHGs), with a focus on women's SHGs, in ethnic group communities, including, *inter alia:* (i) enhancing social capital through formation and capacity building of SHGs; (ii) identifying and training community facilitators; and (iii) building capacity and incentives among service providers.

(b) Community Asset Creation: Providing the Sub-grants to eligible village SHGs through a competitive, transparent and participatory selection process to support the planning, implementation and sustainability of livelihood activities, including, *inter alia:* (i) provision of input support for production and marketing through the Sub-grants and in-kind contribution (including labour and materials from villagers); (ii) empowering SHGs through training and technical assistance; and (iii) promoting sustainability of community assets and SHGs through basic financial literacy and links to finance and markets.

(c) Participatory Pro-Nutrition Assessment and Activities: Promoting the development of pro-nutrition livelihood activities, including, *inter alia:* (i) engaging communities in participatory assessment and prioritization of nutrition problems and developing solutions; and (ii) providing training and support to SHGs for implementation of pro-nutrition activities.

(d) Monitoring and Impact Evaluation of Activities: Evaluation of pilot impacts as well as efficacy of implementation and monitoring mechanisms, with lessons intended to inform the planned expansion of the Poverty Reduction Fund, including, *inter alia:* (i) regular program monitoring; (ii) rigorous impact evaluation of livelihoods and nutrition improvement activities; and (iii) special studies focusing on thematic or operational innovations and participatory assessment of nutrition training.

2.02. Project Execution Generally. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through the Poverty Reduction Fund ("Project Implementing Entity") in accordance with: (a) the provisions of Article II of the Standard Conditions; (b) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 ("Anti-Corruption Guidelines"), with the modifications set forth in Section I of the Appendix to this Agreement; and (c) this Article II; and (d) in accordance with provisions of the Project Agreement.

2.03. Institutional and Other Arrangements.

(a) To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Grant available to the PRF under a subsidiary agreement ("Subsidiary Agreement") between the Recipient and the Project Implementing Entity, under terms and conditions approved by the World Bank.
(b) In carrying out the Project, the Recipient shall cause the Project Implementing Entity, within thirty (30) days of the Effective Date, to prepare, adopt, and thereafter implement an Operations Manual, in a manner and substance satisfactory to the World Bank, which manual inter alia shall include the description of: (i) implementation arrangements; (ii) the procurement procedures and standard procurement documentation; (iii) reporting requirements, financial management and audit procedures; (iv) monitoring and evaluation arrangements; (v) eligibility criteria and procedures for selection of the beneficiaries of the Sub-grant; and (vi) terms and conditions of the Sub-grant.

(c) The Recipient shall not assign, amend, abrogate or waive the Operations Manual or any provisions thereof if, in the opinion of the World Bank, such assignment, amendment, abrogation or waiver will materially and adversely affect the implementation of the Project. Any amendments to the said manual shall be made with the prior agreement of the World Bank. In case of any conflict between the provisions of the Operations Manual and the provisions of this Agreement, the provisions of this Agreement shall govern.

(d) The Recipient shall, within one (1) month of the Effective Date adopt and disclose the Environmental and Social Management Framework of the Project acceptable to the World Bank which will include, inter alia, provisions on Ethnic Groups.

(e) The Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to the use of the financing made available under the Subsidiary Agreement upon failure by the Project Implementing Entity to perform its obligations under such agreement.

(f) The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

2.04. Donor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. Financial Management. (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.
(c) The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

2.06. **Procurement**

(a) **General.** All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”), in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan: (A) Shopping; (B) Direct Contracting; and (C) Community Participation procedures which have been found acceptable to the World Bank.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
(ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants' Qualifications; (E) Single-source Selection; (F) Selection of Individual Consultants; and (G) Sole Source Procedures for the Selection of Individual Consultants.

(c) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USS)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Consultants' Services, Training</td>
<td>1,101,500</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Incremental Operating Costs</td>
<td>120,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Sub-grants under part (b) of the Project</td>
<td>1,400,000</td>
<td>100% of the amount of Sub-grants disbursed</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>2,621,500</strong></td>
<td></td>
</tr>
</tbody>
</table>

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06(c) of the Standard Conditions is four (4) years after the date of countersignature of this Agreement by the Recipient.
Article IV
Additional Remedies

4.01. Additional Events of Suspensions. The Additional Events of Suspension referred to in Section 4.02(k) of the Standard Conditions consists of the following:

(a) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by Project Implementing Entity of its obligations under the Project Agreement.

(b) The Project Implementing Entity has failed to perform any obligation under the Project Agreement.

(c) The International Bank for Reconstruction and Development (IBRD) or International Development Association (IDA) has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by IBRD or IDA, or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA (including as administrator of funds provided by another financier), as a result of: (i) a determination by IBRD or IDA that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.

(d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that the Project Implementing Entity will be able to perform its obligations under the Project Agreement.

(e) The PRF Legislation pursuant to which the Project Implementing Entity has been established and is operating has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

Article V
Recipient’s Representative; Addresses

5.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Minister of Finance.
5.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

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

Facsimile:  
856-21-412142 or 856-21-412417

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INDEVAS  
Telex: 248423 (MCI) or 1-202-477-6391  
Facsimile: Washington, D.C. 64145 (MCI)
APPENDIX

Modifications to the Anti-Corruption Guidelines

Section I. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

   "...(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier."

2. Section 11(a) is modified to read as follows:

   "...(a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier."

Footnotes:

"13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier."
"14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines."

"15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders."