Financing Agreement

(Greater Mekong Subregion Power Trade (Lao PDR) Project)

between

LAO PEOPLE’S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 5, 2007
FINANCING AGREEMENT

AGREEMENT dated, September 5, 2007, entered into between LAO PEOPLE’S DEMOCRATIC REPUBLIC ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association 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 nine million nine hundred thousand Special Drawing Rights (SDR 9,900,000) ("Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 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 May 15 and November 15 in each year.

2.05. The Payment Currency is U.S. Dollars.

ARTICLE III – PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out Parts E and F of the Project through MEM and cause Parts A, B, C, D, and G of the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV – REMEDIES OF THE ASSOCIATION**

4.01. The Additional Events of Suspension consist of the following:

(a) the Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project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;

(b) the Project Implementing Entity has failed to perform any of its obligations under the Project Agreement; and

(c) as a result of events which have occurred after the date of the Financing Agreement, an extraordinary situation has arisen which shall make it improbable that the Project Implementing Entity will be able to perform its obligations under the Project Agreement.

**ARTICLE V – EFFECTIVENESS; TERMINATION**

5.01. The Additional Condition of Effectiveness consists of the following: The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.

5.02. The Additional Legal Matters consist of the following:

(a) the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms; and

(b) that the Environmental Management Plan and the Resettlement Action Plan have been duly adopted by the Recipient and are consistent with the applicable laws of the Lao People’s Democratic Republic.

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

5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for
payment obligations) shall terminate is twenty (20) years 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
Post Office Box No. 46
Vientiane
Lao People’s Democratic Republic

Facsimile:

856-21-412142
856-21-911370

6.03. The Association’s Address is:

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

Cable: Telex: Facsimile:

INDEVAS 248423 (MCI) 1-202-477-6391
Washington, D.C.
AGREED at Vientiane, Lao People’s Democratic Republic, as of the day and year first above written.

LAO PEOPLE’S DEMOCRATIC REPUBLIC

By: /s/ H.E. Mrs. Viengthong Siphandone

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ian Porter

Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to enhance power trade within the Sub-Region with a view to bringing reliable electricity to selected provinces in Lao PDR, and creating the conditions for eventual interconnections of Lao PDR with other countries of the region.

The Project consists of the following parts:

Part A: Transmission system: Ban Hat Substation to Lao PDR-Border

Construction of a 115 kV double circuit tower-mounted, transmission line, having a firm capacity of about 90 MVA, from Ban Hat Substation to the Lao PDR border (at Veun Kham), and construction of associated switching bays at Ban Hat Substation.

Part B: Xeset-1 sub-station to Saravan

Construction of a 115 kV double circuit, transmission line of about 90 MVA firm capacity between Xeset-1 substation and Saravan, construction of associated substations in Saravan, and construction of associated switching bays at Saravan and at Xeset-1 Sub-Station.

Part C: Strengthening Institutional Capacity

Strengthen the capacity of EdL to implement Parts A and B through the provision of technical assistance and equipment.

Part D: National/Regional Load Dispatch Centers

1. Undertake a study for a detailed feasibility study and the design of a load dispatch system for the Recipient’s power system, and for management of its implementation.

2. Construct a national/regional load dispatch center(s) as appropriate, including the associated buildings and SCADA and communication facilities, based on priorities identified in the feasibility and design stage carried out under Part D.1. of the Project.

Part E: Houay Lamphan Gnai Hydro-Power Project

Undertake a detailed feasibility study of the proposed Houay Lamphan Gnai Hydro-Power Project.
Part F: Technical Assistance for Collector Substation System

Carry out studies on technical feasibility and economic and financial viability of collector substations intended to evacuate power from clusters of hydropower generating stations in the same river basins in the territory of the recipient in the most economic and financially viable way.

Part G: Technical Assistance for Updating Tariff Review Study

Carry out update of current tariff study taking into account, especially, the impact of export/import tariffs on Electricité du Laos’s performance.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient shall: (a) designate, for the duration of the Project, staff of MEM, including a project manager, supervision managers and a financial officer, who shall be responsible on a full time basis for implementation of the Recipient’s Respective Parts of the Project with terms of reference and resources satisfactory to the Association to carry out their functions; and (b) ensure that such staff will coordinate the implementation of the overall Project with the EdL-PMU on a regular basis.

2. The Recipient shall coordinate with the Kingdom of Cambodia to achieve the objectives of the Project, and cause the Project Implementing Entity to coordinate with Electricité du Cambodge.

3. The Recipient shall cause the Project Implementing Entity to enter into by June 30, 2008, a power purchase agreement with Electricité du Cambodge for Part A of the Project.

B. Subsidiary Agreement.

1. To facilitate the carrying out of the Project Implementing Entity’s Respective Parts of the Project, the Recipient shall make part of the proceeds of the Financing available to the Project Implementing Entity through a Loan which consists of the amounts of the financing drawn down for the purpose of Parts A, B, C, D, and G of the Project.

2. The Loan will be made available through the Subsidiary Agreement under terms and conditions satisfactory to the Association.

3. The lending terms of the Subsidiary Agreement shall include:

   (a) the principal amount shall be made available as a loan in United States Dollars (determined on the date, or respective dates, of withdrawal from the Financing Account) of the value of the currency or currencies so withdrawn;

   (b) repayment of the proceeds of the Loan over a period of twenty (20) years, inclusive of a grace period of five (5) years;

   (c) payment of interest on the principal amount of the Loan withdrawn and outstanding from time to time at the rate of four percent (4%) per year; and
(d) payment of a commitment charge on the unwithdrawn Balance at the rate payable by the Recipient pursuant to Section 2.03 of this Agreement.

4. Other terms of the Subsidiary Agreement shall include the following:

   (a) the Project Implementing Entity shall undertake to: (i) carry out its Respective Parts of the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices and social and environmental standards acceptable to the Association, and provide, promptly as needed, the funds, facilities and other resources required for the purpose; and (ii) without limitation on the foregoing, take all measures necessary to ensure that its Respective Parts of the Project and related activities shall be implemented in accordance with the Resettlement Action Plan and the Environment Management Plan;

   (b) the Project Implementing Entity shall undertake to procure the goods, works and consultants’ services to be financed out of the proceeds of the Loan in accordance with the provisions of Section III of Schedule 2 to this Agreement, and utilize such goods, works and consultants’ services exclusively in the carrying out of its Respective Parts of the Project;

   (c) the Project Implementing Entity shall undertake to enable the Recipient and the Association to inspect such goods and the sites and works included in its Respective Parts of the Project, the operation thereof, and any relevant records and documents;

   (d) the Project Implementing Entity shall undertake to take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including, without limitation, such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable to replace or repair such goods;

   (e) the Project Implementing Entity shall undertake to:

      (i) maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition;

      (ii) retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under its Respective Parts of the Project until at least the later of: (i) one (1) year after the Recipient and the Association have received the audited financial statements covering the period during which the last
withdrawal from the Financing Account was made; and (ii) two (2) years after the Closing Date;

(iii) enable the Recipient and the Association’s representatives to examine such records;

(iv) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(v) prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for its Respective Parts of the Project covering the quarter, in form and substance satisfactory to the Association;

(vi) furnish to the Recipient and the Association as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited; an opinion on such statements by said auditors in such scope and detail as the Recipient and the Association shall have reasonably requested; and all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Recipient and the Association shall reasonably request; and

(vii) prepare and furnish to the Recipient and the Association all such other information concerning said records, accounts and financial statements, as well as the audit thereof, as the Recipient and the Association shall reasonably request.

(f) The Project Implementing Entity shall undertake to:

(i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Recipient and the Association the carrying out of its Respective Parts of the Project and the achievement of the objectives thereof; and

(ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Recipient and the Association for their review, consolidation in the Project Reports and submission to the Association, semi-annual reports integrating the results of the
monitoring and evaluation activities performed pursuant to clause (i) of this sub-paragraph (f) on the progress achieved in the carrying out of its Respective Parts of the Project during the period preceding the date of each such report; and

(g) the Recipient shall have the right to suspend or terminate the right of Project Implementing Entity to the use of the proceeds of the loan made available under the Subsidiary Agreement with said Project Implementing Entity upon failure by such Project Implementing Entity to perform its obligations under such agreement.

5. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Safeguards

1. The Recipient shall:

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

   (b) provide to the Association for its prior approval any revision proposed to be introduced into said Environmental Management Plan in order to achieve its respective objectives, and, thereafter, introduce only such revision into said plan as shall have been agreed with the Association; and

   (c) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Environmental Management Plan, and the achievement of its objectives.

2. 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 Action Plan, in a manner satisfactory to the Association;

   (c) provide to the Association for its prior approval any revision proposed to be introduced into said Resettlement Action Plan, in order to achieve its respective
objectives, and, thereafter, introduce only such revision into said plan as shall have been agreed with the Association; and

(d) maintain policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Resettlement Action Plan, and the achievement of its objectives.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports.

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than one (1) month after the end of the period covered by such report.


1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year (or other period agreed to by the Association) of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General.

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the
requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.


1. International Competitive Bidding. The following table specifies the method of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such method may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shopping</td>
</tr>
</tbody>
</table>

C. Particular Methods of Procurement of Consultants’ Services.

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. Other Methods of Procurement of Consultants’ Services. The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality Based Selection;</td>
</tr>
<tr>
<td>(b) Selection Based on Consultants’ Qualifications;</td>
</tr>
<tr>
<td>(c) Single-Source Selection;</td>
</tr>
<tr>
<td>(d) Individual Consultants; and</td>
</tr>
<tr>
<td>(e) Individual Consultants selected on a sole source basis.</td>
</tr>
</tbody>
</table>

D. 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.
Section IV. Withdrawal of the Proceeds of the Financing

A. General.

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall 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 Association and as made applicable to this Agreement pursuant to such instructions), to finance 100% (inclusive of Taxes) of Eligible Expenditures, consisting of Goods, Works, and Consultants’ Services.

2. The Recipient shall open a designated account at the Bank of Lao PDR.

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is December 31, 2013.
APPENDIX

Definitions


2. “Displaced Person” means a person who, on account of the execution of the Project, has 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 person 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 person; and “Displaced Persons” means, collectively, all such Displaced Persons.

3. “Electricité du Laos” and the acronym “EdL” mean 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.

4. “Environmental Management Plan” and “Plan” mean the Plan dated October 2006, adopted by EdL, which sets out the environmental protection measures in respect of the Project, as well as administrative and monitoring arrangements to ensure the implementation of said Plan, as said Plan may be revised from time to time with the agreement of the Association.

5. “Fiscal Year” means the twelve (12) month period corresponding to any of the Recipient's financial years, which period commences on October 1 and ends on September 30 in each calendar year, and the term “Fiscal Years” means collectively each of said Fiscal Year.


7. “Greater Mekong Subregion Power Trade (Cambodia) Project” means the Project to be agreed to between the Kingdom of Cambodia and the Association to enhance power trade within the Greater Mekong Sub-Region with a view to also bringing affordable grid-based electricity to selected provinces in Cambodia through import of power from the Lao People’s Democratic Republic and the Socialist Republic of Viet Nam.

8. “Loan” means the part of the proceeds of the Financing which will be on-lent to the Project Implementing Entity to facilitate the carrying out of the Project
Implementing Entity’s Respective Parts of the Project, pursuant to Section I.B.1. of Schedule 2 to this Agreement.


11. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

12. “Project Agreement” means the agreement between the Association, 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.


14. “Project Implementing Entity’s Legislation” means 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.

15. “Project Management Unit of the Project Implementing Entity” and “EdL-PMU” mean the unit within the Project Implementing Entity.

16. “Resettlement Action Plan” means the plan dated October 2006, adopted by EdL, which sets out the policies and procedures for the acquisition of land and other assets, resettlement, compensation and rehabilitation of Displaced Persons, as said Plan may be revised from time to time with the prior concurrence of the Association.

17. “Respective Parts of the Project” means: (i) in respect of EdL, Parts A, B, C, D and G of the Project; and (ii) in respect of MEM, Part E and F of the Project.

18. “Sub-Region” means the Kingdom of Cambodia, the Kingdom of Thailand, the Lao People’s Democratic Republic, Myanmar, Yunan Province of the People’s Republic of China, and the Socialist Republic of Viet Nam.

19. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to the Project Implementing Entity.