Development Grant Agreement

(Nam Theun 2 Hydroelectric Project -- NTSEP)

between

LAO PEOPLE’S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 26, 2005
DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated April 26, 2005, between LAO PEOPLE’S DEMOCRATIC REPUBLIC (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to provide an IDA Partial Risk Guarantee for financing part of Part A of the Project as further detailed in clauses (B) and (C) of this Preamble, and to assist in the financing of Parts B through E of the Project as provided for in this Agreement;

(B) pursuant to a Loan Agreement (the IDA Guaranteed Facility Agreement) dated on or about April 21, 2005, entered into between Nam Theun 2 Power Company Limited (NTPC or the Company), the financial institutions named therein as lenders (the IDA Guaranteed Lenders) and [Fortis Bank] as agent (the Agent) for the IDA Guaranteed Lenders, the IDA Guaranteed Lenders have agreed to make available to the Company a Loan of up to United States Dollars fifty million (US$50,000,000) (the Commercial Loan) to support a portion of the financing of Part A of the Project (the NT2 Hydroelectric Power Facility) as set forth in Schedule 2 to this Agreement and further described in the Concession Agreement dated October 3, 2002, entered into between Lao PDR and the Company, as amended by the Nam Theun 2 Concession Agreement First Amendment Agreement, dated April 3, 2003, the Nam Theun 2 Second Amendment Agreement, dated July 3, 2003, the Nam Theun 2 Third Amendment Agreement, dated November 7, 2003, the Nam Theun 2 Fourth Amendment Agreement, dated August 3, 2004, and the Nam Theun 2 Fifth Amendment Agreement, dated on or about the date hereof, as it may be restated in a consolidated form (together the Concession Agreement);

(C) At the request and with the agreement of the Recipient, the Association has agreed to guarantee to the IDA Guaranteed Lenders the payment of interest and the repayment of the principal amount of the Commercial Loan (the IDA Guarantee) on the terms and conditions set forth in the Guarantee Agreement dated on or about the date hereof entered into between the Association and the Agent (the IDA Guarantee Agreement), but on condition that the Recipient agrees to reimburse to the Association all amounts paid by the Association in relation to or arising from the IDA Guarantee and to undertake such other obligations to the Association as are set forth in an Indemnity Agreement entered into between Lao PDR and the Association, dated on or about the date hereof (the Indemnity Agreement);

(D) the Association has received a letter from the Recipient, dated March 7, 2005, (the letter together with all annexes thereto, the Government Letter of
Implementation Policy) describing a program of policies, actions and procedures (the Program) designed to ensure that Part A of the Project (the NT2 Hydroelectric Power Facility) is developed in a socially and environmentally sustainable manner; (i) the Nakai-Nam Theun National Protected Area is established, protected and conserved in a socially and environmentally sustainable manner; and (ii) the revenues accruing from the NT2 Hydroelectric Power Facility under Part A of the Project to the Recipient are used to provide additional funding to Eligible Programs and declaring the Recipient’s commitment to the execution of the Program;

(E) Part A of the Project (the NT2 Hydroelectric Power Facility) will be carried out by NTPC in accordance with the Concession Agreement and the NT2 Project Agreement, and Parts B (other than Part B.8), C (other than Part C.6) and E.1 of the Project will be carried out by NTPC in accordance with the Concession Agreement and the NTSEP Project Agreement with the Recipient’s assistance and, as part of such assistance, the Recipient will make available to NTPC, through LHSE the proceeds of the grant provided for in this Agreement as set forth in this Agreement and under terms and conditions acceptable to the Association; and Part B.8, Part C.6, Part D, and Part E.2 of the Project will be carried out or caused to be carried out by the Recipient; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon (a) the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and NTPC (the NTSEP Project Agreement), (b) the issuance of the Government Letter of Implementation Policy by the Recipient, and (c) the entering into of the IDA Guarantee Agreement, the Indemnity Agreement, the IDA Guaranteed Facility Agreement, and the Concession Agreement by the parties thereto.

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 4 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) “Additional Plan” and “AP” mean a plan, to be prepared and adopted by the NTPC and/or the Recipient in addition to the PIP and the AIP to further define the
modalities and conditions for the implementation of the Environmental and Social Plans, and Additional Plans means collectively two or more Additional Plans; a list of such plans being defined in the PIP and referred to in paragraph 5(b) of Schedule 3 to this Agreement.

(b) “Annual Implementation Plan” and “AIP” mean the plan to be prepared and adopted by the NTPC and/or the Recipient for each annual period commencing May 1st and terminating April 30, during the life of the Project and elaborating the implementation requirements for the relevant period in order for NTPC and the Recipient to implement the and comply with their respective environmental and social obligations under the Concession Agreement, including Schedule 4 to the Concession Agreement, and referred to in Paragraph 5(b) of Schedule 3 to this Agreement.

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

(d) “Commercial Operations Date” and “COD” has the meaning provided for in Article 48 of the Concession Agreement.

(e) “Coordinating and Management Office for the Nam Theun 2 Reservoir” means the office established within the RMU by the Recipient through Decision 0084 of the Governor of the Province of Khammouane, and maintained in accordance with the provisions of paragraph 2 of Schedule 3 to this Agreement.

(f) “Corridor Areas” means: (i) the Southern Corridor, and (ii) the Nam Theun Corridor, as described in the Recipient’s Prime Minister Decree 193, dated December 29, 2000 and referred to in Decree 39.

(g) “Decision 0084” means the Recipient’s Governor of Khammouane Province, dated February 16, 2005, on the “Establishment and Activities of the Coordinating and Management Office for the Nam Theun 2 Reservoir”, herein defined.

(h) “Decision 0085” means Decision 0085/GN.KM dated February 9, 2005 of the Governor of Khammouane Province, on the Management and Use of the Resettlement Sites, Community Forest Area and Nam Theun 2 Reservoir Area on the Nakai Plateau Affected by the Nam Theun 2 Project, as the same may be amended from time to time with the prior concurrence of the Association.

(i) “Decision 0171” and “Regulation 97” means Decision 0171 dated March 7, 2005, Regulation 0097/GN.KM dated February 18, 2005, issued by the Governor of Khammouane Province, Chairman of the Resettlement Committee, amending

(j) “Decree 193” means the Recipient’s Prime Minister Decree dated, December 20, 2000, on the establishment of the National Protected Areas for the Whole Country, including the Nakai Nam Theun National Protected Area (NNT NPA), otherwise known as the NNT National Biodiversity Conservation Area (NNT NBCA).

(k) “Decree 37” means the Recipient’s Prime Minister Decree, dated April 12, 2002, and related to the approval of the allocation of the resettlement and forest area to people and village organizations affected by the Project for carrying out forestry business activities, as the same may be amended from time to time with the prior concurrence of the Association.

(l) “Decree 39” means the Recipient’s Prime Minister Decree dated February 21, 2005, restating and amending the Recipient’s Prime Minister Decree 25 dated February 26, 2001, on Establishment and Activities of the Nam Theun 2 Watershed Management and Protection Authority (WMPA).

(m) “Downstream Areas” means the following areas that may be impacted by Project activities: (i) the Xe Bang Fai River riparian area (from the confluence of the Nam Phit River and the Xe Bang Fai River down to the Mekong River); (ii) the Nam Kathang River riparian area; (iii) the hinterland area, including those areas where hinterland villages access the Xe Bang Fai River or Nam Phit River for fishing or collecting aquatic products; and (iv) the area downstream of the Nakai Dam in the vicinity of the Nam Theun River and its tributaries (Nam Phao River, Nam Kata River and Nam Ngoy River).

(n) “DSRP” means the Dam Safety Review Panel established and to be maintained by NTPC pursuant to Section 29 of the Concession Agreement.

(o) “EDF” means Electricité de France, in charge of the carrying out of the implementation of the construction works under Part A of the Project as the head contractor under the HCC.

(p) “EGAT Power Purchase Agreement” and “EGAT-PPA” has the meaning provided for in Article 48 of the Concession Agreement.

(q) “Eligible Categories” means the Categories set forth in the table in Part A.1 of Schedule 1 to this Agreement.
(r) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement.

(s) “Eligible Programs” means programs of expenditures for poverty reduction and/or environmental management and conservation of natural resources which are identified in the Recipient’s budget and chart of accounts and have been selected to receive additional funding from NT2 Revenues in accordance with criteria acceptable to the Association and laid out in the Recipient’s NT2 Revenue Management Program.

(t) “EMO” means the Environmental Management Office established and maintained by NTPC pursuant to the provisions of the Concession Agreement and paragraph 8(b)(ii) of the NTSEP Project Agreement, for purposes of managing the implementation of the environmental protection and mitigation measures set forth in the EAMP; and any successor thereto.

(u) “EMU” means the Environmental Management Unit established and maintained by the Recipient within STEA, pursuant to the provisions of the Concession Agreement and the provisions of paragraph 1 of Schedule 3 to this Agreement, responsible for coordinating responsibilities and activities in respect of the EAMP, and for oversight and monitoring thereof; and any successor thereto.

(v) “Environmental and Social Plans” means collectively the EAMP, SDP and SEMFOP, and an “Environmental and Social Plan” means any of these plans.

(w) “Environmental Assessment and Management Plan” and “EAMP” mean the Environmental Assessment and Management Plan dated November 29, 2004, and Addenda of January 10, 2005 and February 10, 2005, prepared and adopted by NTPC, and approved by STEA (as defined below) through Certificate of Approval dated February 10, 2005, for purposes of analyzing the environmental and social impacts of the Project, and defining procedures, guidelines, rules and measures to mitigate, reduce and/or offset negative environmental and social impacts of the Project, and enhance the environmental and social benefits to be derived from the Project; as said Plan may be amended and/or supplemented from time to time with the prior concurrence of the Association.

(x) “Ethnic Minority Development Plans” and “EMDPs” mean the plan prepared jointly by: (i) the NTPC and the Recipient, as part of the SDP, and (ii) by the WMPA as part of the SEMFOP and approved respectively by the Recipient et the Board of Directors of the WMPA for the purposes of: (a) ensuring meaningful consultation with, and the informed participation of ethnic minorities communities within the Project area who are affected, or may be affected by the Project, and (b) socially and culturally
acceptable mitigation and compensation measures to address impacts on such communities, and “EMDP” means any of such plans.

(y) “Finance Parties” means all lenders providing loans to NTPC for the Project.

(z) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(aa) “Fiscal Year” means the Recipient’s fiscal year, from October 1 through September 30 of each calendar year.

(bb) “Government Letter of Implementation Policy” and “GLIP” mean the Recipient’s letter referred to in the Preamble of this Agreement.

(cc) “Head Construction Contract” and “HCC” mean the contract entered into by EDF-CIH and the NTPC for the purpose of development and construction of the construction works under Part A of the Project during the construction phase of the Project and referred to in the Concession Agreement.

(dd) “Head Contractor’s Construction Environmental Management and Monitoring Plan” and “HCCEMMP” mean the plan, part of the Head Construction Contract, to be entered into by EDF and the NTPC and to be approved by the Recipient for the purposes of mitigating, reducing and/or offsetting negative environmental and social impacts and enhancing positive impacts of the construction works during the construction phase of the Project all in compliance with Section 3 of Part 2 of Schedule 4 to the Concession Agreement and Paragraph 1 of Schedule 2 to the NTSEP Project Agreement.

(ee) “Independent Monitoring Agencies” and “IMAs” mean the agencies to be contracted by, respectively: (i) Recipient pursuant to Section 6.4 of Part 2 of Schedule 4 of the Concession Agreement for the purpose of monitoring the implementation of and compliance with the environmental obligations of NTPC and the Recipient, and (ii) the Recipient pursuant to Section 5.4 of Part 1 of Schedule 4 of the Concession Agreement for the purpose of monitoring the implementation of and compliance with the social obligations of NTPC and the Recipient under Part 2 of Schedule 4 of the Concession Agreement, and (iii) WMPA pursuant to Section 4.1 Item 80 of Part 3 of Schedule 4 of the Concession Agreement for the purpose of monitoring the implementation of the SEMFOP, including management plans, operational plans and budget of WMPA; and “Independent Monitoring Agency” and “IMA” means individually any of such agencies.
(ff) “Lao Holding State Enterprise” and “LHSE” means the entity established by the Recipient for the purposes of holding the Recipient’s equity interest in NTPC.

(gg) “LHSE Loan and Shareholders Agreement” means the agreement between the Recipient, represented by the Ministry of Finance, and LHSE, entered into in accordance with the provisions of Section 3.02(a) of, and Part A of the Annex to Schedule 3 to, this Agreement.

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

(ii) “Nam Theun 2 Watershed Area” means the area defined in Decree 25, dated February 26, 2001, and further re-stated in Decree 39, dated February 21, 2005 comprising: (i) the Nakai Nam Theun National Biodiversity Conservation Area (otherwise known as the Nakai Nam Theun National Protected Area), and (ii) the Corridors Areas.

(jj) “Nam Theun National Protected Area” and “NNT NPA” mean the protected area, otherwise known as the NNT National Biodiversity Conservation Area or NNT NBCA, established by the Recipient’s Decree 164, dated October 29, 1993 on the Establishment of the National Protected Areas for the Whole Country and further described in Decree 193 and referred to in Decree 25 and Decree 39.

(kk) “NT2 Project Agreement” means the agreement of even date herewith between the Association and NTPC with respect to Part A of the Project, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the NT2 Project Agreement.

(ll) “NT2 Revenue Account” means: a dedicated Treasury Account established by the Recipient in Bank of Lao PDR for the purposes of receiving all NT2 Revenues prior to their transfer to the Central Treasury Account.

(mm) “NT2 Revenue Management Program” means the Program described in the Government Letter of Implementation Policy, which sets forth the policies and procedures for the allocation, application and reporting on NT2 Revenues and expenditures financed with NT2 Revenues, as well as the arrangements for Program monitoring.

(nn) “NT2 Revenues” means: (i) funds payable by NTPC to the Recipient from the development and operation of Part A of the Project (the Nam Theun 2 Hydroelectric Power Facility), comprising: (a) after deducting US$5,000,000, being the
amount of any proceeds described in Clauses 19.1 (e) and 19.1 (f) of the Concession Agreement applied to contingent equity and paid following the release of any such amounts in accordance with the Financing Documents (as defined in the Concession Agreement); (b) royalties (water resource usage charge) in accordance with the provisions of Clause 19 and Schedule 24 of the Concession Agreement; and (c) Profit Tax (as defined in the Concession Agreement) and in accordance with the provisions of Clause 19 and Schedule 24 of the Concession Agreement; (ii) any taxes payable by the LHSE to the Recipient; and (iii) all dividends from NTPC received by LHSE, the amount of such dividends (for purposes of calculation under this definition) to be reduced by: (a) any NT2 related expenditures of LHSE (to be paid from the NT2 operating budget as described in the Annex to Schedule 3 of this Agreement); and (b) any monies required to maintain the cumulative fund required under the Lao Business Law.

(oo) “NTSEP Project Agreement” means the agreement of even date herewith between the Association and NTPC with respect to Parts B through E of the Project, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the NTSEP Project Agreement.

(pp) “NTSEP” means Parts B, C, D and E of the Project.

(qq) “POE” means the Social and Environmental Panel of Experts established and maintained by the Recipient pursuant to the provisions of Section 30.15 of the Concession Agreement.

(rr) “Procurement Plan” means the procurement plan, dated February 3, 2005 covering the initial 18 month period (or longer) of Parts B, C, D and E of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(ss) “Project Affected Peoples” and “PAPs” mean persons who, on account of the execution of the Project or any part thereof, (i) have experienced or would experience direct economic and social impacts caused by: (A) the involuntary taking of land, resulting in (1) relocation or loss of shelter; (2) loss of assets or access to assets; or (3) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (B) the involuntary restriction of access to legally designated protected areas, resulting in adverse impacts on the livelihood of such persons; or (ii) persons in the Downstream Areas under Part A of the Project, who on account of the execution of the Project or any part thereof, have or would have their: (A) standard of living adversely affected by additional flooding and/or reduced fisheries; or (B) right, title, or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, or otherwise adversely affected
temporarily or permanently; and a “PAP” or a “Project Affected Person” means any of such Project Affected Peoples.

(tt) “Project Implementation Entity” means either of NTPC or WMPA, as the case may be.

(uu) “Project Implementation Plan” and “PIP” mean the environmental and social implementation plan for the Project, to be delivered to the Association in accordance to the terms of the NTSEP Project Agreement.

(vv) “Public Expenditure Management Strengthening Program” and the acronym “PEMSP” means the program of actions designed to improve policy consistency, efficiency, transparency and accountability in the Recipient’s management of public expenditures, as set forth in the Government Letter of Implementation Policy.

(ww) “Regulation 96” means Regulation 0096/KM.GOV dated February 10, 2005, issued by the Governor of Khammouane Province, on the Management, Use and Allocation of Land in the Resettlement Area as the same may be amended from time to time with the prior concurrence of the Association.

(xx) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the Grant Account referred to in Part A.5 of Schedule 1 to this Agreement.

(yy) “Resettlement Action Plan” and “RAP” mean a resettlement action plan, or a mitigation and compensation program, in form and content satisfactory to the Association, said plan or program prepared or to be prepared jointly by the NTPC and the Recipient and to be approved by the Recipient’s RC in each case in accordance with the SDP and the CA and could refer to: (a) a resettlement action plan; (b) a resettlement plan, or (c) a mitigation and compensation program in respect of respectively: (i) the Nakai Plateau; (ii) the Downstream Areas and upstream of the Nam Theun River; or (iii) Project Lands, being lands required by NTPC to construct the Project facilities.

(zz) “Resettlement Area” means the geographical area defined pursuant to the Recipient’s Prime Minister Decree 193 dated December 29, 2000.

(aaa) “Resettlement Committee” means the committee established pursuant to Prime Minister’s Decision No. 64/PMO dated November 4, 1998, responsible for guiding and overseeing the resettlement process as further provided in Schedule 4, Part 1, Section 4.2 of the Concession Agreement, and any successor thereto.
“Resettlement Management Unit” and “RMU” means the established and maintained by the Recipient under the Resettlement Committee, in accordance with the provisions of Schedule 4, Part 1, Section 4.3 of the Concession Agreement and the provisions of paragraph 2 of Schedule 3 to this Agreement, and any successor thereto.

“RO” means the Resettlement Office as established and maintained by NTPC in accordance with the provisions of Schedule 4, Part 1, Section 4.6 of the Concession Agreement and the provisions of paragraph 8(b)(ii) of the NTSEP Project Agreement, responsible for managing the implementation of the resettlement, compensation and rehabilitation of PAPs; and any successor thereto.

“Shareholders Agreement” means the agreement between the shareholders and NTPC dated September 19, 2001, as the same has been amended to the date of this Agreement relating to the respective rights and obligations of the shareholders in respect of NTPC.

“Social and Environmental Management and First Operational Plan” and “SEMFOP” mean the Social and Environmental Management Framework and First Operational Plan, dated February 2005, adopted by the Recipient through Notification 002 dated February 14, 2005, of the Board of Directors of the WMPA which sets out a strategic framework for the management and the first operational plan of the Nam Theun 2 Watershed Area, and to be implemented by the WMPA from April 1, 2005, through September 30, 2011, as said Framework and Operational Plan may be amended from time to time with the prior concurrence of the Association.

“Social Development Plan” and “SDP” mean the Social Development Plan, dated November 29, 2004, together with the Addenda dated January 26, 2005, prepared and adopted by the NTPC and the Resettlement Committee, and approved by the Prime Minister’s Office through Decision No.22/PM dated February 26, 2005, which incorporates the Resettlement Action Plans, the Ethnic Minority Development Plan, policy framework(s) for land acquisition for the NT2 Hydroelectric Power Project, and provisions for rehabilitation measures to be provided to persons in the Xe Bang Fai and Nam Theun downstream area affected by loss of income, including income from fishery, pursuant to the development and operation of the NT2 Hydroelectric Power Facility under Part A of the Project; as said Plan may be amended and/or supplemented from time to time with the prior concurrence of the Association.

“Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.
(hhh) “STEA” means the Science, Technology and Environmental Agency of the Recipient, established pursuant to Decree 68/PM dated May 21, 1999, and any successor thereto.

(iii) “Tri-partite Agreement” means the agreement to be entered into among the Recipient through its Ministry of Finance, LHSE and NTPC pursuant to Section 3.02 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Tri-partite Agreement.

(jjj) “Watershed Management and Protection Authority” and “WMPA” mean the Recipient’s Authority established pursuant to Decree 25 and further re-stated in Decree 39, to manage the Nam Theun 2 Watershed Area.

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 thirteen million one hundred thousand Special Drawing Rights (SDR13,100,000).

Section 2.02. 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, works and services required for carrying out Parts B through E of the Project and to be financed out of the proceeds of the Grant.

Section 2.03. The Closing Date shall be December 31, 2017, 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 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 canceled; and (ii) at the rate set as of the 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 United States 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 semiannually on April 1 and October 1 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 Paragraph 1 of Schedule 2 to this Agreement and, to this end, shall carry out Part B.8 of the Project through the National Steering Committee on Nam Theun 2 Implementation, reporting to the Deputy Prime Minister, Part C.6 of the Project through STEA, Part D of the Project through WMPA, and Part E.2 of the Project through MIH and WMPA, with due diligence and efficiency and in conformity with appropriate administrative and financial practices and sound social and environmental standards acceptable to the Association, and shall provide, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project.

(b) 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 Parts B.8, C.6, D and Part E.2 of the Project in accordance with the implementation program set forth in Schedule 3 to this Agreement.

(c) Without any limitation or restriction upon any of its other obligations under this Agreement, the Recipient shall take all action as may be necessary to cause NTPC to perform in accordance with the provisions of the NTSEP Project Agreement all the obligations of NTPC therein set forth, including the carrying out of Parts B (other than Part B.8), C (other than Part C.6) and E.1 of the Project and to this end shall take and cause to be taken all action necessary or appropriate to enable NTPC to perform such obligations, including granting all necessary approvals, permits or licenses, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) The Recipient shall, through MOF, make the proceeds of the Grant available to LHSE under a loan and shareholder agreement to be entered into between the Recipient and LHSE, under terms and conditions which shall have been approved by the Association which shall include those set forth in Part A of the Annex to Schedule 3 to this Agreement.
(b) The Recipient shall, through MOF, exercise its rights under the LHSE Loan and Shareholder 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 LHSE Loan and Shareholder Agreement or any provision thereof.

(c) The Recipient shall, through MOF, enter into an agreement with NTPC and LHSE under terms and conditions which shall have been approved by the Association, which shall include those set forth in Part B of the Annex to Schedule 3, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Tri-Partite Agreement or any provision thereof.

Section 3.03. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for Parts B through E 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 NTSEP Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall take all action as may be necessary under the Tripartite Agreement, to cause NTPC to update the Procurement Plan in accordance with guidelines acceptable to the Association and to furnish such update to the Association not later than 12 months after the starting 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 months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan designed to ensure the continued achievement of the objectives 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 Parts B (other than Part B.8), C (other than Part C.6) and E of the Project shall be carried out by NTPC pursuant to the provisions of the NTSEP Project Agreement.
ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall ensure that a financial management system is established and maintained, including records and accounts, and that financial statements are prepared in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts B through E of the Project.

(b) The Recipient shall ensure that:

(i) the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), are audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) the Association is furnished, as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), with (A) certified copies of the financial statements referred to in paragraph (a) 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) the Association is furnished with 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient shall ensure that:

(i) all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures, are retained until at least one 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;

(ii) the Association’s representatives are permitted to examine such records; and
such reports and 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 Section 5.02 and paragraph 10 of Schedule 3 to this Agreement, the Recipient shall ensure that a financial monitoring report is prepared and furnished to the Association, 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 45 days after the end of the first calendar semester 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 semester; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar semester.

ARTICLE V

Other Covenants

Section 5.01. The Recipient shall:

(a) commencing with the State Budget for FY2008, and for each Fiscal Year thereafter, prepare a summary budget including therein details of projected NT2 Revenues, their allocation to Eligible Programs and total expenditures on Eligible Programs for such Fiscal Year, and publish the summary budget within sixty days of its approval by the National Assembly;

(b) commencing in Fiscal Year 2008, and thereafter: (i) prepare budget execution reports and annual financial statements and undertake audits of Eligible Programs; and (ii) make publicly available said reports, statements and audit reports in a manner and substance satisfactory to the Association;
(c) commencing in Fiscal Year 2006, and every second Fiscal Year thereafter: (i) jointly with the Association carry out public expenditure reviews and public expenditure tracking surveys under terms of reference acceptable to the Association; and (ii) promptly upon completion of such reviews and surveys, make publicly available the results thereof in a manner and substance satisfactory to the Association;

(d) undertake an audit peer review of the Recipient’s State Audit Organization in accordance with INTOSAI (International Organization of Supreme Audit Institutions) standards in FY2006, in the fiscal year in which the Recipient first receives revenues from the NT2 Hydroelectric Power Facility, and every third year thereafter, by a Supreme Audit Institution which is a member of the INTOSAI and acceptable to the Association, and make publicly available a summary report of said peer review in a manner and substance satisfactory to the Association; and

(e) prepare: (i) commencing in September 2005 through September 2009, an annual PEMSP work plan for the forthcoming Fiscal Year, including therein a technical assistance plan and training plan; and (ii) commencing in September 2005 biannual PEMSP progress reports in a manner and substance satisfactory to the Association.

Section 5.02. Without limitation to the provisions of Section 9.01 of the General Conditions, Cooperation and Information, the Recipient shall:

(a) (i) monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, progress in carrying out the Program and the Project and the achievement of the their objectives; (ii) provide representatives of the Association access to data, personnel and documentation needed to assess progress in the implementation of the Program and the Project, including the implementation of the revenue and expenditure management arrangements, the financial control environment and the performance of Eligible Programs; (iii) commencing in 2006, provide the Association semi-annual reports on the progress achieved in carrying out the Program and the Project, in such detail as the Association shall reasonably request, and (iv) promptly thereafter, make publicly available each such report in a manner and substance satisfactory to the Association;

(b) no later than six months prior to the expected Commercial Operations Date, review with the Association the progress achieved in the implementation of the Program and the Project;

(c) commencing in 2006, hold an annual consultative review on the matters referred in paragraph (a) of this Section, with the participation of NTPC, international financial institutions participating in the financing of NT2 Hydroelectric Power Facility, and local and international civil society; and
(d) afford to representatives of the Association all reasonable access to information needed to assess progress in implementing the Program and all reasonable opportunities to have access to the area of the Project.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) 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 the Recipient and/or NTPC will carry out their obligations under the Project or a significant part thereof.

(b) The Concession Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the carrying out of the Project and/or the Recipient’s ability to carry out any of its obligations under this Agreement.

(c) Decree 193 and/or Decree 39 and/or Regulation 96 and/or Decision 0171 and/or Decision 0084 and/or Decision 0085 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the implementation of the Project.

(d) NTPC shall have failed to perform any of its obligations under the NTPC Project Agreement.

(e) The IDA Guarantee Agreement shall have been suspended.

Section 6.02. Without limitation on the provisions of Article VI of the General Conditions and the Association’s rights thereunder, the Association shall, during the period after the Grant has been fully disbursed in accordance with the provisions of this Agreement and until its termination in accordance with its terms, have the right to suspend or cancel, in the same manner as is specified in Article VI of the General Conditions, the right of the Recipient to make withdrawals under any Development Credit Agreement, Development Grant Agreement or Development Finance Agreement with the Association, in the event that:

(a) the Recipient shall have failed to perform any of its obligations under Articles III, IV and V of, or Schedule 3 to, this Agreement; or

(b) NTPC shall have failed to perform any of its material obligations under the NTSEP Project Agreement because the Recipient has failed both to perform its
obligations under the Concession Agreement and to remedy the Recipient’s failure in accordance with the provisions of the Concession Agreement.

**ARTICLE VII**

**Effectiveness; Termination**

Section 7.01. 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) that LHSE, with Articles of Association acceptable to the Association, has been duly established in accordance with the laws of the Recipient;

(b) that the LHSE Loan and Shareholder Agreement has been executed on behalf of the Recipient and LHSE in accordance with the provisions of Section 3.02(a) of this Agreement;

(c) that the Tri-partite Agreement has been executed on behalf of the Recipient, LHSE and NTPC in accordance with the provisions of Section 3.02(c) of this Agreement;

(d) that the three member Dam Safety Review Panel has formally commented on and made recommendations to the Recipient on: (i) the final design of the dam to be constructed under Part A of the Project and (ii) the operations and maintenance plan in respect thereof;

(e) that the core staff of each of the EMU, the RMU and the executive secretariat of the WMPA have been appointed in accordance with the provisions of Schedule 3 to this Agreement;

(f) that the Recipient’s Ministry of Agriculture and Forestry has issued a saw-milling license satisfactory to the Association to the Nakai Plateau Village Forestry Association;

(g) that WMPA has engaged patrolling and enforcement consultants for the purposes of Part D of the Project in accordance with terms of reference satisfactory to the Association;

(h) that each of (i) a summary of the final PIP and (ii) a final copy of the first year AIP, satisfactory to the Association has been provided to the Association.

(i) that all amendments to the Concession Agreement, Power Purchase Agreement and Shareholders’ Agreement, acceptable to the Association, are effective; and
(j) that all conditions precedent to the effectiveness of each of the IDA Guarantee Agreement, the Indemnity Agreement and the IDA Guaranteed Facility Agreement have been met, other than the effectiveness of this Agreement.

Section 7.02. 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 NTSEP Project Agreement has been duly authorized or ratified by NTPC, and is legally binding upon NTPC in accordance with its terms;

(b) that LHSE has been duly incorporated in accordance with the laws of the Recipient;

(c) that the LHSE Loan and Shareholder Agreement has been duly authorized or ratified by the Recipient and LHSE and is legally binding upon the Recipient and LHSE in accordance with its terms;

(d) that the Tri-Partite Agreement has been duly authorized or ratified by the Recipient, LHSE and NTPC and is legally binding upon the Recipient, LHSE and NTPC in accordance with its terms; and

(e) that SDP, EAMP, and SEMFOP have been duly approved by, respectively, the Prime Minister’s Office, STEA and the Board of Directors of the WMPA.

Section 7.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VIII

Representative of the Recipient; Addresses

Section 8.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 8.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
P.O. Box No.46, Thatluang Road
Vientiane
LAO PDR
Facsimile: 856-21-412142;
856-21-412405

For the Association:

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.  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

A. General

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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>6,450,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>1,560,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Consultants’ Services</td>
<td>3,930,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>850,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Operating costs</td>
<td>310,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>13,100,000</td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule:

   (a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

   (b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient.

   (c) the term “operating costs” means expenditures for reasonable expenditures incurred by the Recipient in carrying out Parts B.8, C.6 and D of the Project, including expenditure for Project staff travel and per diem, office supplies, utilities, office rent, email internet fees, maintenance of office equipment, and operation and maintenance of vehicles, but excluding staff salaries or salary supplements and allowances (which expenditures would not have been incurred absent the Project).
3. 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.

4. 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 $30,000 equivalent per contract; (b) works; (c) services of individual consultants costing less than $50,000 equivalent per contract; and (d) 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.

5. The Recipient may request withdrawals from the Grant Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in the Bank of Lao PDR or a commercial Bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

   (b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:
(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 Account.
Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.
Annex A  
to  
SCHEDULE 1  

Operation of Special Account  
When Withdrawals Are Not  
Report-based Disbursements  

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of $2,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the 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 Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

   (b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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 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 Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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 Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.
Annex B

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

1. The objectives of the Project is to assist the Recipient to implement priority poverty reduction and environmental programs by generating revenues through environmentally and socially sustainable exploitation of the resources potentially generated from the Nam Theun 2 Hydroelectric Power facility.

2. 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: Nam Theun 2 Hydroelectric Power Facility

Construction, operation and maintenance of the Nam Theun 2 Hydroelectric Power facility with an installed capacity of about 1070MW, providing about 995MW of power for export to Thailand and about 75MW for domestic use in Lao PDR, comprising, inter alia, of a dam 48 meters high and a 450km2 reservoir on the Nam Theun River and on the Nakai Plateau, headrace channel, intake structure, surge shaft, pressure shaft, pressure tunnel, an above-ground power station, regulating pond, 27km long downstream channel to discharge waters into the Xe Bang Fai River, 130km double circuit 500kV transmission line to the border with the Kingdom of Thailand at the Mekong River, and 70km of 115kV transmission lines, associated facilities and 22kV connection to the regional Lao PDR power grid.

Part B: Social Development

Implementation of the Social Development Plan including:

1. design and construction of resettlement villages for Project Affected People relocating away from the inundation zone;

2. provision of basic infrastructure and social services for PAPs on the Nakai Plateau;

3. design and delivery of livelihood programs, including technical assistance therefore for PAPs;

4. design and implementation of measures necessary to achieve the household income targets for PAPs on the Nakai Plateau;

5. design and implementation of compensation and mitigation measures in the downstream areas:
6. disclosure of information and timely consultation with all Project Affected Persons;

7. promotion of participation of Project Affected People in the design and implementation of all mitigation and compensation programs; and

8. implementation of the technical assistance to strengthen the capacity of the Recipient’s Resettlement Management Unit.

Part C: Environmental Assessment and Management

Implementation of the Environmental Assessment and Management Plan, including:

1. design and implementation of a wildlife management program on the Nakai Plateau;

2. design and implementation of water quality monitoring and management programs in the reservoir and downstream areas;

3. design and implementation of flood control measures in downstream areas;

4. implementation of the riparian release measures;

5. supervision and monitoring of HCC-EMMP and site-specific environmental management plans;

6. implementation of the technical assistance program to strengthen the capacity of the Recipient’s Environmental Management Unit.

Part D: Watershed Management

Implementation of the Social and Environmental Management Framework and First Operational Plan for the Nam Theun 2 Watershed, including:

1. preparation and implementation of land use plans in a participatory manner in said Area;

2. design and implementation of a program to prevent loss of forest cover, wildlife trade and non-sustainable resource use in said Area;

3. design and delivery of sustainable livelihood alternatives for the population of enclave villages within said Area.
4. provision of compensation for livelihood impacts due to resource access restriction and facilitation of the development of alternative livelihoods for villagers living in the peripheral impact zones;

5. implementation of a technical assistance program to strengthen the capacity of the Recipient’s Watershed Management and Protection Agency, including in land use planning, conservation program development, monitoring and enforcement; and

6. preparation of a detailed operational plan for the second phase of SEMFOP implementation.

Part E: Monitoring and Evaluation

1. Establishment of a baseline of environmental and social conditions in the plateau and downstream areas, as a reference for future monitoring activities and for the assessment of the achievement of Project objectives and monitoring the implementation of the environmental impacts of the Project through the IMA.

2. Monitoring of trends in the social and environmental conditions, the impacts of the construction and operation of the Nam Theun 2 Hydroelectric Power facility and the effectiveness of mitigation measures in respect thereof through support for the Social and Environmental Panel of Experts, the Dam Safety Review Panel, Independent Monitoring Agencies and other monitoring and evaluation activities.

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The Project is expected to be completed by December 31, 2017.
SCHEDULE 3

Implementation Program

1. The Recipient shall maintain the Environmental Management Unit under its Science, Technology and Environmental Agency, under the direction of qualified managers and staffed with competent personnel in sufficient numbers, with qualification and experience and under terms of reference acceptable to the Association, and provided with adequate facilities and resources, having regard amongst other things to the funding provided by NTPC, all in a manner satisfactory to the Association; said Unit to be responsible, inter alia, for the activities set forth in Part 2, Section 5.1 of Schedule 4 of the Concession Agreement.

2. The Recipient shall maintain the Resettlement Management Unit, including a Coordinating and Management Office for the Nam Theun 2 Reservoir, under the Resettlement Committee, under the direction of qualified managers and staffed with competent personnel in sufficient numbers, with qualification and experience and under terms of reference acceptable to the Association, and provided with adequate facilities and resources, having regard amongst other things to the funding provided by NTPC all in a manner satisfactory to the Association; said Unit to be responsible, inter alia, for the activities set forth in Part 1, Section 4.3 and Part 4 of Schedule 4 to the Concession Agreement.

3. The Recipient shall maintain each District Resettlement Working Group under the direction of the Resettlement Management Unit, to be responsible, inter alia, for the activities set forth in Part 1, Section 4.4 and Part 4 of Schedule 4 to the Concession Agreement.

4. The Recipient shall maintain each Village Resettlement Committee to implement the activities set forth in Schedule 4, Part 1, Section 4.5 of the Concession Agreement.

5. The Recipient shall:

   (a) carry out, in a manner satisfactory to the Association, all of its obligations under the Concession Agreement, including Schedule 4 thereto, with due regard to the findings, reports and recommendations of Environmental Assessment and Management Plan, Social Development Plan and the Social and Environmental Management Framework and the First Operational Plan and the Government Letter of Implementation Policy; and

   (b) in order for the Association to determine that the provisions set forth in sub-paragraph (a) of this paragraph 5 are carried out satisfactorily, the Recipient shall:

   maintain, policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines and indicators acceptable to the Association, the
implementation of the Concession Agreement, the Government Letter of Implementation Policy, the Additional Plans and the Annual Implementation Plans, and the achievement of their respective objectives; and

(ii) to this end, by no later than June 30, 2005 engage the services of an IMA or IMAs with qualifications and experience and under terms of reference acceptable to the Association.

6. Without limitation on the other provisions of this Schedule 3, the Recipient shall:

(a) take all such steps as are reasonably necessary to ensure that no persons other than PAPs are permitted to occupy the resettlement area except in accordance with the provisions of Schedule 4 Part 1 Paragraphs 8.7.3 and 8.7.4 of the Concession Agreement; and

(b) revise, by no later than May 1, 2006, the urban plans of Gnommalat and Oudomsouk Towns and any other towns in the Nakai Plateau likely to receive a significant influx of population arising out of construction activities under the Project.

7. The Recipient shall:

(a) by June 30, 2005 cause to be contracted by NTPC qualified consultants for designing the downstream activities in accordance with Schedule 4 Part 4 of the CA and the SDP, and in a manner satisfactory to the Association; and

(b) by June 30, 2006, cause NTPC to provide to the Association for its review and comment, a detailed downstream mitigation/compensation plan, in compliance with Part 4 of Schedule 4 to the Concession Agreement, and thereafter implement such plan as shall have been agreed with the Association, in a manner satisfactory to the Association.

8. In the event that any additional land is required either permanently or temporarily during Project implementation for construction and/or operation of the NT2 Hydroelectric Power Facility under Part A of the Project or any other Part of the Project, the Recipient shall take all such action as shall be necessary to cause NTPC to:

(a) apply the mitigation principles and measures and provide to the Project Affected People compensation, resettlement and rehabilitation entitlements in accordance with the principles and objectives set forth in Schedule 4 Part 1 of the Concession Agreement and the relevant Additional Plan;

(b) undertake timely informed consultation with the PAPs and make publicly available the plans designed to provide the required compensation and entitlements; and

(c) promptly notify the Association of such occurrences and furnish the plans prepared to the Association.
9. In the event that the compensation and mitigation program for the Downstream Areas exceeds the allocated budget provided for in Schedule 4 of the Concession Agreement, the Recipient shall take or cause to be taken such action as shall be necessary to:

(a) apply the mitigation principles and measures and provide to the Project Affected People compensation and rehabilitation entitlements in accordance with the principles and objectives set forth in Schedule 4, Part 1 to the Concession Agreement and the relevant Additional Plan; and to this end, shall;

(b) undertake informed consultation with the Project Affected People and make publicly available the plans designed to provide the required entitlements; and

(c) promptly notify the Association of such occurrences and furnish the plans prepared to the Association.

10. The Recipient shall:

(a) carry out and/or cause to be carried out the Social and Environmental Management Framework and First Operational Plan in a manner satisfactory to the Association and designed to ensure that the Nam Theun 2 Watershed Area will be conserved, protected and maintained in accordance with the Decree 39 of 2005, and to this end: (i) not later than June 30, 2005, engage or cause to be engaged technical assistance consultants for WMPA in accordance with the provisions of the Procurement Plan; and (ii) not later than June 30, 2005, cause WMPA to provide to the Association a satisfactory time-bound plan to hire staff for all positions identified in the SEMFOP and thereafter appoint all such staff in accordance with the plan;

(b) take all necessary action to maintain WMPA, with sufficient responsibility and authority, in accordance with Decree 39, under the direction of qualified managers, staffed with competent personnel in sufficient numbers, and provided with adequate resources, to enable said Authority to manage the Nam Theun 2 Watershed Area and to implement the SEMFOP;

(c) provide, and cause to be provided, to the Association for its prior concurrence any revision or amendment proposed to be introduced into the SEMFOP and/or Decree 39, in order to achieve its objectives, and thereafter introduce, and cause to be introduced, such revision or amendment into the SEMFOP and/or Decree 39, as shall have been agreed with the Association;

(d) maintain, policies and procedures adequate to enable it to monitor and evaluate, in accordance with guidelines and indicators acceptable to the Association, the implementation of the SEMFOP, and the achievement of its objectives, and to that end prepare and provide to the Association for its review a draft second Operational Plan, not later than December 31, 2010, and promptly after receiving comments from the
Association adopt and implement such second Operational Plan satisfactory to the Association; and

(e) promptly: (i) notify the Association of any material transgressions with respect to admissible land uses and activities as set forth in Decree 39; and (ii) take all actions as may be reasonably necessary to correct such transgressions.

11. The Recipient shall:

(a) carry out the institutional strengthening program for WMPA, as contemplated by the SEMFOP, satisfactory to the Association; and

(b) by May 1 of each year, commencing 2005, prepare or caused to be prepared and provide to the Association for its review and comment, an Annual Implementation Plan, and thereafter implement said work plan giving due regards to the Association’s views thereon.

12. The Recipient shall maintain the Social and Environmental Panel of Experts as a permanent standing body throughout the concession period, in accordance with the terms of the Concession Agreement.

13. The Recipient shall maintain through the sixth anniversary of the Commercial Operations Date, a Dam Safety Review Panel in accordance with the Clause 29 of the Concession Agreement.

14. The Recipient shall promptly provide to the Association a copy of each report prepared by the Social and Environmental Panel of Experts and the Dam Safety Review Panel.

15. By no later than May 15, 2005, the Recipient shall cause NTPC to prepare and provide to the Association for its review and comment, a community forestry management plan for the Resettlement Areas; and thereafter implement such plan as shall have been agreed with the Association, in a manner acceptable to the Association.

16. By no later than October 31, 2005, the Recipient shall prepare and provide to the Association for its review and comment, a salvage logging plan, and thereafter, implement such plan as shall have been agreed with the Association, in a manner acceptable to the Association.

17. The Recipient shall:

(a) maintain the NT2 Revenue Account described in the NT2 Revenue Management Program in accordance with its undertakings set forth therein;

(b) take all such steps as are necessary to ensure that all NT2 Revenues are deposited into the NT2 Revenue Account; and
(c) apply all resources in the NT2 Revenue Account exclusively for: (i) additional funding for Eligible Programs as described in the NT2 Revenue Management Program; (ii) any repayments (principal and interest) and related charges arising out of loan and grants made to the Recipient and on-lent to the LHSE to finance its equity in NTPC; and (iii) expenditures related to the exercise of the Recipient’s rights and the performance of its obligations under the Concession Agreement and Project Documents.
Annex to Schedule 3

Part A: LHSE Loan and Shareholder Agreement

The Grant shall be on-lent to LHSE pursuant to a LHSE Loan and Shareholder Agreement to be entered into between the Recipient, through MOF, and LHSE, which agreement shall include the following terms and conditions:

1. The loan proceeds shall be used by LHSE to finance Eligible Expenditures.

2. LHSE shall pay interest on the principal amount of such loan (the Loan) withdrawn and outstanding from time to time at a rate satisfactory to the Association.

3. LHSE may pay to the Recipient a commitment charge on the principal amount of the Loan not withdrawn from time to time.

4. The principal amount of the Loan shall be repaid over a period and with a grace period satisfactory to the Association.

5. The Loan shall be drawn down by LHSE in accordance with the provisions of the Tri-Partite Agreement.

6. LHSE shall maintain an annual NT2 operating budget relating only to the Project (within its overall budget), which shall be satisfactory to the Association and approved by the Recipient, such budget to cover only the costs directly related to LHSE’s obligations and the enforcement of its rights as a NTPC shareholder, and Nam Theun 2 Hydroelectric Project oversight and implementation costs.

7. LHSE may retain a reserve fund within the percentage range required under the Lao Business Law.

8. LHSE shall establish and thereafter maintain one or more on-shore escrow accounts (the LHSE escrow accounts) into which all dividend receipts from LHSE’s equity shares in NTPC shall be deposited.

9. All NT2 revenues due to the LHSE shall be paid into the LHSE Escrow account. Payments from the LHSE escrow accounts will be effected according to the following irrevocable standing instructions provided to the institution(s) at which the LHSE escrow accounts are held:

   a) all payments corresponding to LHSE’s NT2 operating budget shall be made to an operating account nominated by and held in the name of LHSE;
   
   b) any funds to be retained for a reserve fund of LHSE shall be paid to an account in the name of LHSE;
(c) all payments due to the Recipient under the LHSE Loan and Shareholders Agreement shall be made to the NT2 Revenue Account;

(d) all payments of income, turnover and minimum taxes due to the Recipient on dividend and other payments received by LHSE in connection with its shares in NTPC shall be paid to the NT2 Revenue Account; and

(e) the balance of funds following the payments above shall be transferred to the NT2 Revenue Account as LHSE’s payments in respect of NT2 to the Recipient pursuant to the LHSE Loan and Shareholders Agreement.

10. LHSE shall prepare annual financial statements covering all its operations, which statements shall include the receipt and application of all dividend and other payments received by LHSE in connection with its equity shares in NTPC. These financial statements shall be audited annually by an auditor acceptable to the Association and the Recipient. The audited financial statements together with the audit report thereof will be made available to the Association and published by LHSE within six months of the close of LHSE’s fiscal year.

Part B. The Tri-Partite Agreement

The Tri-Partite Agreement to be entered into among the Recipient, through MOF, LHSE and NTPC shall include the following terms and conditions:

1. **Grant Withdrawal Arrangements**

Subject and without limitation to the provisions of Schedule 1 to the Development Grant Agreement, the withdrawal arrangements for the Grant from the Grant Account shall include the following:

A. Each request by the Recipient for a withdrawal from the Grant Account for a deposit of funds into the Special Account shall be based on a Financial Monitoring Report furnished in accordance with Section 4.02 of the Development Grant Agreement and a written determination by NTPC of projected sources and applications of funds in respect of Eligible Expenditures for Parts B through E of the Project for the next six-month period following the date of such request. Such written determination shall be provided by NTPC to MOF with a copy to LHSE.

B. Standing instructions shall be provided by MOF to the institution at which the Special Account is held as follows: payments out of the Special Account shall be made exclusively at the written request and sole signatures of designated representatives of NTPC upon provision of a letter certifying that the expenditures identified in the Financial Monitoring Report are Eligible Expenditures. For such purposes, when
opening the Special Account MOF shall request NTPC to provide to the said institution specimen signatures of NTPC’s designated representatives authorized to withdraw funds from the Special Account.

2. **Issuance of Lao PDR equity shares in NTPC**

   (a) Every six-months, or such shorter period of time as NTPC may decide, NTPC shall furnish to LHSE documents evidencing Eligible Expenditures incurred during the previous six-months or relevant shorter period of time.

   (b) NTPC shall issue to LHSE equity shares in NTPC to be held on behalf of MOF, upon receipt by the institution where the Special Account is held of the certifying letter referred to in paragraph 1.B of this Part B and in accordance with the NTPC Shareholders’ Agreement.

3. **Financial Statements**

   Every Fiscal Year, NTPC will prepare financial statements in accordance with the provisions of Article IV of the NTSEP Project Agreement. Such statements shall include the receipts and application of income, clearly indicating all payments to the Recipient and to LHSE in accordance with the provisions of Schedules 19 and 24 of the Concession Agreement. These financial statements shall be audited annually by an auditor acceptable to the Association. The audited financial statements together with the audit report thereof will be published by NTPC within six months of the completion of said audit report.
SCHEDULE 4

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. Section 12.05 and its heading are modified to read as follows:

“The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 15 years after the date of the Development Grant Agreement.”