Project Agreement

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

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ELECTRICITE du LAOS

Dated September 5, 2007
PROJECT AGREEMENT

Agreement dated September 5, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and ELECTRICITE du LAOS (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between the Lao People’s Democratic Republic (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Financing 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 Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out Parts A, B, C, D, and G of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide, promptly as needed, the funds, facilities, services and other resources required for its Respective Parts of the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Parts of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is the General Manager, Electricité du Laos.
4.02. The Association’s Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: Telex: Facsimile:

INDEVAS 248423(MCI) 1-202-477-6391

Washington, D.C.

4.03. The Project Implementing Entity’s Address is:

Electricité du Laos
Nongbone Road
P.O. Box 309
Vientiane
Lao People’s Democratic Republic

Facsimile:

(856-21) 415 039
(856-21) 416 381

AGREED at Vientiane, Lao People’s Democratic Republic, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ian Porter

Authorized Representative

ELECTRICITE du LAOS

By: /s/ Mr. Khamphone Saignasane

Authorized Representative
SCHEDULE

Execution of the Project Implementing Entity’s Respective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Project Implementing Entity shall, throughout the period of implementation of the Project, maintain the EdL-PMU with terms of reference, staffing and other resources acceptable to the Association, to be responsible for the overall coordination and supervision of the execution of the Project Implementing Entity’s Respective Parts of Project, including carrying out procurement and financial management, and the associated environmental and resettlement activities; with reference to staff, in addition to the Project Manager professional staff will be assigned for coordinating inter alia, resettlement and environmental management (social and environment specialists).

2. The Project Implementing Entity shall enter into the Subsidiary Agreement with the Recipient, which shall include the provisions set out in Section I.B. of Schedule 2 of the Financing Agreement.

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

4. The Project Implementing Entity shall exercise its rights, and carry out its obligations, 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 Project Implementing Entity shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

5. The Project Implementing Entity shall with Electricité du Cambodge to achieve the objectives of the Project.

B. Safeguards.

1. The Project Implementing Entity shall:

   (a) implement, 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 the Association’s 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 Project Implementing Entity 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 the Resettlement Action Plan, in a manner satisfactory to the Association;

(c) provide to the Association for their 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 Project Implementing Entity shall monitor and evaluate the progress of its Respective Parts of the Project and prepare Project Reports for its Respective Parts of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later two weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity,
including the operations, resources and expenditures related to its Respective Parts of the Project.

2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year (or other period agreed to by the Association) of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

3. The Project Implementing Entity 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 its Respective Parts of the Project covering the quarter, in form and substance satisfactory to the Association.

4. Except as the Association may otherwise agree, commencing in its Fiscal Year 2007, the Project Implementing Entity shall not incur any debt unless a reasonable forecast of the revenues and expenditures of the Project Implementing Entity shows that the estimated net revenues of the Project Implementing Entity for each Fiscal Year during the term of the debt to be incurred shall be at least one and one third (1.3) times the estimated debt service requirements of the Project Implementing Entity in such year on all debt of the Project Implementing Entity including the debt to be incurred, except for the Fiscal Years 2009 and 2010 for which the net revenues shall be at least 1.1 times the estimated debt service requirements.

5. Except as the Association may otherwise agree, the Project Implementing Entity shall:

(a) produce for each of its Fiscal Years commencing in Fiscal Year 2008, funds from internal sources equivalent to not less than fifteen percent (15%) of the annual average of its capital expenditures incurred or expected to be incurred for that Fiscal Year, the previous Fiscal Year and the following Fiscal Year;

(b) before August 31 in each of its Fiscal Years, commencing in 2008, on the basis of forecasts, expressed in Kips, prepared by the Project Implementing Entity, and satisfactory to the Association, review whether it would meet the requirements set forth in sub-paragraph (a) of this Section in respect of such year and the next following Fiscal Year, and shall furnish to the Association a copy of such review upon its completion; and
(c) if any such review shows that the Project Implementing Entity would not meet the requirements set forth in subparagraph (a) of this Section, promptly take all necessary measures within its power (including, without limitation, seeking approval for and implementing adjustments of the structure or levels of its electricity rates) in order to meet such requirements.

6. Except as the Association may otherwise agree, the Project Implementing Entity shall not incur any debt, if after the incurrence of such debt, the ratio of debt to equity shall be greater than sixty (60) to forty (40).

7. For purposes of Paragraphs 4, 5 and 6 of Section II.B.:

(a) The term “capital expenditures” means all expenditures incurred on account of fixed assets, including interest charges to construction, related to operations.

(b) The term “current assets excluding cash” means all assets other than cash which could in the ordinary course of business be converted into cash within twelve (12) months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next Fiscal Year.

(c) The term “current liabilities” means all liabilities which will become due and payable or could under the circumstances then existing be called for payment within twelve (12) months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

(d) The term “debt” means any indebtedness of the Project Implementing Entity maturing by its terms more than one (1) year after the date on which it is originally incurred.

(e) Debt shall be deemed to be incurred: (i) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or other instrument; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(f) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
The term “equity” means the sum of the total of unimpaired paid-up capital, retained earnings and reserves of the Project Implementing Entity not allocated to cover specific liabilities.

The term “funds from internal sources” means the difference between: (i) the sum of revenues from all sources related to operations, net non-operating income and any reduction in working capital other than cash; and (ii) the sum of (A) all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, other cash distribution of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures, and (B) major repair expenditures.

The term “net non-operating income” means the difference between: (i) revenues from all sources other than those related to operations; and (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (i) above.

The term “net revenues” means the difference between: (i) the sum of revenues from all sources related to operations and net non-operating income; and (ii) the sum of (A) all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt, and (B) dividends and major repairs expenditures.

The term “reasonable forecast” means a forecast prepared by the Project Implementing Entity not earlier than four (4) months prior to the incurrence of the debt in question, which both the Association, and the Project Implementing Entity accept as reasonable and as to which the Association have notified the Project Implementing Entity of its acceptability, provided that no event has occurred since notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Project Implementing Entity.

The term “working capital other than cash” means the difference between current assets excluding cash and current liabilities at the end of each Fiscal Year.

Whenever for the purposes of Paragraphs 4, 5 and 6 of Section II.B., it shall be necessary to value, in terms of the currency of the Lao People’s Democratic Republic, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at
which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section III. Procurement

All goods, works and services required for the Project Implementing Entity’s Respective Parts of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.