Financing Agreement

(First Programmatic Green Growth Development Policy Operation)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 7, 2017
FINANCING AGREEMENT

AGREEMENT dated June 4, 2017, entered into between the LAO PEOPLE’S DEMOCRATIC REPUBLIC ("Recipient") and the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia: of (i) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule I to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I—GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty eight million five hundred thousand Special Drawing Rights (SDR 28,500,000) (variously, “Credit” and “Financing”), in support of the Program.

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section II of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.

2.06. The Payment Dates are April 15 and October 15 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.

2.08. The Payment Currency is Dollar.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 of the General Conditions:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

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

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule I to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension is that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness is that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

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

5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Minister at the time responsible for finance.

6.02. The Recipient’s Address is:

Ministry of Finance
23rd Singha Road
Saysettha District
Vientiane, Lao PDR

Facsimile:

856-21-412142

6.03. The Association’s Address is:

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

Facsimile:

1-202-477-6391
AGREED at Vientiane, Lao People's Democratic Republic, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By

Authorized Representative

Name: Bounchom UBONPASEUTH

Title: Deputy Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Veitch Zachau

Title: Country Director
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I.  Actions under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient, through the Prime Minister, has taken steps to support fiscal consolidation, through: (i) eliminating tariff exemptions on fuel imports for investment projects, as evidenced by Notification No. 1152/PM dated August 9, 2016; and (ii) limiting the intake of civil servants to up to 5,000 in 2017, as evidenced by Decision No. 73/PM dated August 29, 2016; and through the Ministry of Finance, (iii) has revised the implementing instructions for the value added tax, as evidenced by Instruction No. 0077/MOF January 11, 2017.

2. The Recipient has incorporated the principles of green growth in national development planning, through: (i) the National Assembly adopting the 8th NSEDP (2016-2020) that sets forth Outcome 3 and Outputs 1 to 3 associated with environmental protection and sustainable natural resources management, as evidenced by Resolution No. 9 /NA dated April 22, 2016; and (ii) the Prime Minister establishing the national green growth steering committee to oversee the planning, implementation, monitoring and evaluation of the country’s green growth agenda, as evidenced by Agreement No. 95 /PM dated December 8, 2016.

3. The Recipient, through the Prime Minister, has restructured the Environment Protection Fund (“EPF”), with provisions that: (i) create an inter-ministerial governance mechanism to manage the EPF operations and resources; (ii) require revenues and expenditures be operated by the national treasury system; and (iii) specify eligible revenue sources, as evidenced by Decree No. 94/PM dated March 8, 2017.

4. The Recipient, through the Prime Minister, (i) has mandated MONRE to collaborate with key line sectors in the preparation of strategic environmental assessments, as evidenced by Order No. 445/PMO dated December 19, 2016, and through MONRE (ii) has required strategic environmental assessments in the formulation of all policies, programs, and strategic plans, to incorporate environmental and social sustainability considerations, and the Sustainable Development Goals in public planning, as evidenced by Ministerial Decision No. 483/MONRE dated February 6, 2017.

5. The Recipient, through its Ministry of Planning and Investment, has established the public investment project review process that takes into account climate and
disaster risk considerations, as evidenced by Ministerial Decision No. 0645/MPI dated March 28, 2017.

6. The Recipient, through the Prime Minister, has strengthened the strictness of timber harvest management and inspection, timber transport and trade in order to control illegal logging in infrastructure areas and timber harvesting, processing and trade, as evidenced by Order No. 15/PM dated May 13, 2016.

7. The Recipient, through the Prime Minister, has adopted the legal framework to pilot a national park reform by: (i) upgrading the conservation standing of the Nam Theun 2 (NT2) watershed to become a national park; (ii) establishing and clarifying community rights to access protected areas; and (iii) adjusting the organizational structure of the Recipient’s NT2 Watershed Management and Protection Authority to anchor its responsibilities under the Recipient’s Ministry of Agriculture and Forestry, as evidenced by Decree No. 122/PM dated April 21, 2017.

8. The Recipient, through the National Assembly, has established legal provisions: (i) for the management, monitoring and inspection of chemicals for minimizing health risks and promoting cleaner production, as evidenced by the Law on Chemicals, No. 07/NA dated November 10, 2016 and Promulgation Decree No. 202/President dated November 12, 2016; and (ii) on phytosanitary management, including pest management, as evidenced by the Law on Plant Protection and Quarantine, No. 13/NA dated November 15, 2016 and Promulgation Decree No. 197/President dated November 28, 2016.

9. The Recipient, through the Prime Minister and MONRE, has established national air quality, water quality and vehicle emissions standards, including lead in air and water, as evidenced by Decree No. 81/PM dated February 21, 2017 and Ministerial Decision No. 0485/MONRE dated February 7, 2017.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:
### Allocations

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>28,500,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>28,500,000</td>
</tr>
</tbody>
</table>

### C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the adequacy of the Recipient's macroeconomic policy framework.

### D. Deposits of Financing Amounts.

1. Except as the Association may otherwise agree:
   
   (a) all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
   
   (b) the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

2. For the purposes of paragraph 1 of this Section D, prior to furnishing to the Association the request for withdrawal from the Financing Account, the Recipient shall:
   
   (a) open and thereafter maintain a deposit account in Dollars at the Bank of Lao PDR ("Foreign Currency Deposit Account"); and
   
   (b) maintain a national treasury account in the Recipient's local currency used to finance budgeted expenditures ("Local Currency Deposit Account"); in each case on terms and conditions satisfactory to the Association, and shall also provide written confirmation to the Association of the name and number of the Foreign Currency Deposit Account and the Local Currency Deposit Account.

3. Promptly following the withdrawal of the Single Withdrawal Tranche, the Recipient shall provide written confirmation to the Association of:
(a) the Dollar amount deposited into the Foreign Currency Deposit Account and the date of such deposit; and

(b) the Dollar amount withdrawn from the said Foreign Currency Deposit Account and the equivalent amount in local currency deposited into the Local Currency Deposit Account, and the dates of such withdrawal and deposit.

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

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

2. furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association’s request for such audit, a certified copy of the report of said audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

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

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

G. Closing Date. The Closing Date is June 30, 2018.
SCHEDULE 2

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15:</td>
<td></td>
</tr>
<tr>
<td>commencing October 15, 2022 to and including April 15, 2032</td>
<td>1.65%</td>
</tr>
<tr>
<td>commencing October 15, 2032 to and including April 15, 2042</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amounts of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions

1. "Deposit Accounts" means both the Foreign Currency Deposit Account and the Local Currency Deposit Account.

2. "Excluded Expenditure" means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

(b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

3. “Foreign Currency Deposit Account” means the account referred to in sub-paragraph D.2(a) of Section II of Schedule I to this Agreement.

4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

5. “Local Currency Deposit Account” means the account referred to in sub-paragraph D.2(b) of Section II of Schedule I to this Agreement.

6. “MONRE” means the Recipient’s Ministry of Natural Resources and Environment, and any successor thereto.


7. “Program” means the program of actions, objectives and policies designed to achieve fiscal stability and consolidate the Recipient’s pathway towards green growth, and set forth or referred to in the letter dated April 25, 2017, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

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

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.

3. Section 3.02 is modified to read as follows:

"Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

4. Sections 4.01 (Project Execution Generally) and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 4 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

"Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association's representatives to examine such records."

7. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

"Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing."
8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

"Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement."

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The definition of the term “Financing Payment” is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

(d) A new paragraph is inserted with the following definition of the term “Interest Charge”:

“Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02 (b)."

(e) The definition of the term “Payment Date” is modified by inserting the words “Interest Charges” between the words “Service Charges” and “Commitment Charges”.

(f) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

(g) The definition of the term “Service Charge” is modified by replacing the reference to Section 3.02 with Section 3.02 (a).