Financing Agreement

(Second Trade Development Facility Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 28, 2013
FINANCING AGREEMENT

AGREEMENT dated March 28, 2013, entered into between LAO
PEOPLE’S DEMOCRATIC REPUBLIC (“Recipient”) and INTERNATIONAL
DEVELOPMENT ASSOCIATION (“Association”).

WHEREAS: (A) the Recipient intends to obtain from the European Commission, Australian
Agency for International Development, the Gesellschaft für Internationale Zusammenarbeit
(GIZ) GmbH, the Irish Aid, and any other development partner which may wish to participate
under the same arrangements (collectively referred to as the Donors), contributions in various
currencies, to be administered by the Association, to assist in financing part of the Project;

(B) the Association intends to enter with the Donors, into a Multi Donor Trust
Fund (“MDTF”) that shall govern the relationship among the Association and the
Donors, and to administer the MDTF all in accordance with certain terms and conditions
set forth in said arrangement and thereafter, as administrator of the MDTF intends to
enter with the Recipient into a Grant Agreement (“Grant Agreement”);

(C) the Recipient has requested the Association to provide further additional
financial assistance in the support of the Second Trade Development Facility Project; and

(D) the Association has agreed, on the basis, inter alia, of the foregoing, to
provide such additional funds to the Recipient and to co-finance the Second Trade
Development Facility Project upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

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

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions
set forth or referred to in this Agreement, a grant in an amount equivalent to two
million six hundred thousand Special Drawing Rights (SDR 2,600,000)
(“Financing”) to assist in financing the project described in Schedule 1 to this
Agreement (“Project”)
2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

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

2.04. The Payment Dates are 15 February and 15 August in each year.

2.05. The Payment Currency is Dollars.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through MOIC in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following the Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

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

4.03. 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 V -- REPRESENTATIVE; ADDRESSES

5.01. The Recipient's Representative is the Minister of Finance.

5.02. The Recipient's Address is:

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

Facsimile:

856-21-412142

5.03. The Association's Address is:

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

Cable: INDEVAS
Telex: 248423 (MCI)
Facsimile: 1-202-477-6391

Washington, D.C.
AGREED at Vientiane, Lao PDR, as of the day and year first above written.

LAO PEOPLE'S DEMOCRATIC REPUBLIC

By

[Signature]

Authorized Representative

Name: Santiphab Phomvihane

Title: Vice Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: Keiko Miwa

Title: Country Manager
SCHEDULE 1

Project Description

The objective of the Project is to support the implementation of the Recipient’s trade and integration priorities outlined in the DTIS Roadmap, and in particular to contribute to improved competitiveness and diversification, focusing outside the natural resource sectors.

The Project consists of the following parts:

Part A. Trade Facilitation, Trade Policy and Regulations

1. Trade facilitation support

Provision of support to, *inter alia*: (a) the Trade Facilitation Secretariat in the implementation of the secretariat’s action plan; (b) enhance the capacity of management starting at the middle level of the Recipient’s civil servants in trade related agencies; and (c) enhance and operate the Recipient’s trade portal.

2. Non tariff measures review and rationalization

Streamline, simplify and harmonize non-customs border agency measures through, *inter alia*: (a) the classification, review and streamlining of domestic non tariff measures; and (b) the conduct of a survey and related activities to identify and assess non tariff measures faced by Lao exporters.

3. Trade in services

Strengthen the governance of the regulatory environment affecting trade in services through, *inter alia*: (a) the conduct of regulatory assessments to, *inter alia*, compile the existing measures affecting trade in services, review the performance in their implementation, and identify gaps in the existing trade in services regulatory framework; and, (b) the improvement of access to the regulatory framework affecting trade in services.

4. Trade in goods

Support to activities associated with the implementation of the Recipient’s trade obligations to, *inter alia*, WTO and ASEAN, through, *inter alia*: (a) strengthening trade policy coordination mechanisms to ensure trade policy coherence; (b) disseminating the Recipient’s trade commitments and strengthening capacity on trade remedies; and (c) strengthening the legal framework for sanitary and phytosanitary measures.
Part B. Diversification and Competitiveness

1. Business Assistance Facility

Establish a Business Assistance Facility to *inter alia*: (a) advise firms on business growth plans; (b) provide Matching Grants to assist firms in purchasing specialized business development services in support of growth plans; and (c) conduct impact evaluation of services provided.

2. Labor standards and manufacturing productivity

Improve productivity, competitiveness and labor standards of the garments manufacturing sector, by *inter alia*: (a) strengthening the supervision of the Recipient’s labor standards and developing a scheme to improve said standards; and (b) supporting the transition of the Garment Skills Development Centre towards financial and operational independence.

Part C. Mainstreaming Aid-For-Trade


Support the Recipient’s aid-for-trade governance framework through, *inter alia*, the strengthening of the capacity of the National Implementation Unit and the Trade and Private Sector Development Working Group.

2. DTIS action matrix/roadmap challenge facility

Establish a challenge facility to support implementation of smaller priority activities identified within the DTIS Roadmap on a demand-driven basis.

3. Research and policy analysis

Support to the Recipient’s trade policy research capacity by *inter alia*: (a) research methodology and capacity building; and (b) development of policy relevant research on issues related to trade and private sector development.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall maintain, at all times during implementation of the Project, a Trade Program Executive Committee chaired by a senior representative of the Ministry of Industry and Commerce and co-chaired by a donor representative agreed by the donors, with a mandate, terms of reference and composition that is satisfactory to the Association, and whose membership includes representatives from, *inter alia*, the Recipient, the donors who provide financing to the MDTF, the Association and other key stakeholders invited as observers. The Trade Program Executive Committee shall, *inter alia*: (a) provide general oversight and strategic direction, including endorsing annual work plans, based on a selection of actions from the DTS Roadmap and joint identifications, preparation and appraisal missions which have taken place; and (b) review periodic financial and progress reports, prepared by the National Implementation Unit.

2. The Ministry of Industry and Commerce shall maintain, at all times during implementation of the Project a National Implementation Unit with a mandate, terms of reference and composition that is satisfactory to the Association, and which includes, *inter alia*, a project director, a deputy director and technical and fiduciary staff the said unit shall be responsible for: (a) drafting of action plans and proposals; (b) coordination of the inputs of technical implementing departments and agencies; (c) coordination of the preparation of work plans, progress reports and financial reports; (d) procurement and financial management arrangements and correspondence in accordance with the Association's rules and procedures; and (e) providing any other inputs to the Trade Program Executive Committee on issues related to policy, strategy and Project implementation.

3. The Recipient shall within one (1) month of the Effective Date adopt a Financial Management Manual satisfactory to the Association.

4. The Recipient shall, within three (3) months of the Effective Date:

(a) appoint an auditor on terms of reference acceptable to the Association;

(b) complete the recruitment a BAF team on terms of reference acceptable to the Association to support the NIU in the implementation of Part B.1 of the Project; and

(c) complete the recruitment of additional financial management staff required for the Project.
5. The Recipient shall carry out or cause to be carried out the Project in accordance with the Financial Management Manual, which shall include, *inter alia*:

(a) a description of the Project's implementation arrangements; and

(b) reporting requirements, financial management procedures and audit procedures referred to in Section II.B of this Schedule.

6. The Recipient shall adopt and carry out or cause to be carried out the Matching Grants in accordance with the BAF Operations Manual, which shall include, *inter alia*:

(a) details of Business Assistance Activities eligible for Matching Grants;

(b) eligibility criteria for Beneficiaries;

(c) eligibility criteria for the award of a Matching Grant;

(d) detail of the commercial practices acceptable to the Association; and

(e) reporting, management and contracting arrangements.

7. The Recipient shall

(a) undertake not to amend or permit to be amended, any provisions of the Financial Management Manual and of the BAF Operations Manual without the prior written agreement of the Association; and

(b) ensure that the Financial Management Manual and the BAF Operations Manual are made available at all times and applied in the carrying out of the Project.

8. In the event of any conflict between the provisions of the Financial Management Manual, the BAF Operations Manual and those of this Agreement, the latter shall prevail.

**B. Matching Grants under Part B.1.(b) of the Project**

1. Business Assistance Activities shall be eligible for financing out of the proceeds of the Financing provided that: (a) the Beneficiary has prepared a business growth plan in writing, and the review of the plan and award of the Matching Grant have been undertaken by the Recipient, in accordance with the guidelines, procedures and selection criteria set forth in the BAF Operations Manual; and (b) a Matching Grant Agreement for the carrying out of the relevant Business Assistance Activities in accordance with the procedures and the terms
and conditions referred to in the BAF Operations Manual and this Section I.B. shall have been entered into between the BAF and the relevant Beneficiary.

2. The amount of each Matching Grant shall be determined in accordance with the provisions of the BAF Operations Manual.

3. With respect to each eligible set of Business Assistance Activities for which the BAF has decided to make available a Matching Grant, the MOIC shall enter into a Matching Grant Agreement with the proposed Beneficiary on terms and conditions approved by the Association and outlined in the BAF Operations Manual, which shall include, *inter alia*, the following:

   (a) the amount of the Matching Grant denominated in Kip or Dollars;

   (b) details of the Business Assistance Activities and undertaking by the Beneficiary to implement any action plans agreed with the BAF, and to cooperate as necessary throughout Project implementation with the said Unit;

   (c) agreed disbursement of the Matching Grant;

   (d) provisions to suspend or terminate the right of the Beneficiary to use the proceeds of the Matching Grant, or obtain a refund of all or any part of the amount of the Matching Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Matching Grant Agreement;

   (e) requirements to: (i) carry out Business Assistance Activities with due diligence and in accordance with the provisions of the Anti-Corruption Guidelines; (ii) provide, promptly as needed, the resources required for the purpose of the Business Assistance Activities; (iii) procure the services to be financed out of the Matching Grant in accordance with the commercial practices as detailed in the BAF Operations Manual; (iv) provision of evidence of payment by the Beneficiary in cases eligible for Matching Grant reimbursement; (v) enable the Recipient and the Association to inspect the relevant records and documents related to the Business Assistance Activities; and (vi) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

4. MOIC shall exercise its rights under each Matching Grant 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 in writing, the Beneficiary shall not assign, amend, abrogate or waive any Matching Grant Agreement or any of its provisions.
C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators acceptable to the Association. Each Project Report shall cover the period of six (6) calendar months, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

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

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

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

Section III. Procurement

A. General

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

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

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

**B. Particular Methods of Procurement of Goods and Non-consulting Services**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded or the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding in accordance with the Recipient's Decree of the Prime Minister on Government Procurement of Goods, Construction, Maintenance and Services, 03/PM dated January 9, 2004, and the Implementing Rules and Regulations on Government Procurement of Goods, Works, Maintenance and Services, 0861/MOF dated May 5, 2009, and subject further to the procedures listed in Annex I to this Schedule 2; (b) Shopping; (c) Direct Contracting with prior concurrence from the Association; and (d) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Association.

**C. Particular Methods of Procurement of Consultants' Services**

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

2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Least Cost Selection; (c) Selection based on Consultants' Qualifications; (d) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Association; (e) Single-source Selection of consulting firms; (f) Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants with the prior approval of the Association.
D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants' services, Incremental Operating Costs and Training for the Project except under Part B.1.(b) of the Project</td>
<td>2,370,000</td>
<td>30%</td>
</tr>
<tr>
<td>(2) Matching Grants under Part B.1.(b) of the Project</td>
<td>230,000</td>
<td>30% of amount disbursed</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>2,600,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

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

   (a) for payments made prior to the date of this Agreement except that withdrawals up to an aggregate amount not to exceed one hundred fifty thousand Dollars ($150,000) equivalent may be made for payments made prior to this date but on and after February 1, 2013, for Eligible Expenditures under Category (1); or

   (b) under Category (2) until the Recipient has prepared and approved the BAF Operations Manual referred to in Section I.A.6. of this Schedule 2 satisfactory to the Association.

2. The Closing Date is March 31, 2017.
ANNEX 1
to
SCHEDULE 2

National Competitive Bidding Procedures

1. Bidding documents and contracts under national competitive bidding procedures financed by the Association shall include a provision requiring suppliers, contractors and their subcontractors to permit the Association to inspect their accounts and records relating to the bid submission and the performance of the supplier and/or contractor, as the case may be, and to have them audited by auditors appointed by the Association, if so required by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

2. Immediately after completion of the bid opening proceedings, a copy of the bid opening record shall be posted at a prominent location, accessible to the public, outside the office or the concerned procuring entity and shall be retained at the same location until the award of contract has been notified. A copy of the bid opening record shall be provided to all bidders who submitted bids.

3. The Recipient shall publish the following information on contract award on a free or open access website when it becomes operational or on another means of publication acceptable to the Association: (a) name of each bidder who submitted a bid; (b) bid prices as read out at bid opening; (c) name and evaluated price of each bid that was evaluated; (d) name of bidders whose bid were rejected and the reasons for rejection; (e) name of the winning bidder, contract price, explanation if it is different that bid price as well as the duration and summary scope of the contract awarded; and (f) contract variation orders. This publication shall be updated quarterly.

4. The eligibility of bidders shall be as defined under section I of the Procurement Guidelines; accordingly, a firm or individual previously declared ineligible by the Association based on determination by the Association that this firm or individual has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices shall be declared ineligible to be awarded a contract financed by Association.

5. The Association shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association and the Recipient, if at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, an Association-financed contract.
APPENDIX

Definitions

1. “ASEAN” means the Association of Southeast Asian Nations or any successor thereto.


3. “BAF Operations Manual” means the manual referred to in Section I.A.6. of Schedule 2 to this Agreement developed for the implementation of Part B.1 of the Project and satisfactory to the Association.

4. “Beneficiary” means any private business entity, operating in Lao People’s Democratic Republic and providing work to Lao People’s Democratic Republic nationals within the territory of the Recipient or a duly registered business membership organization of the private sector operating in Lao People’s Democratic Republic, which is eligible to receive assistance from the BAF including as a beneficiary of a Matching Grant under Part B.1 of the Project and in accordance with the BAF Operations Manual and “Beneficiaries” means any of the Beneficiaries.

5. “Business Assistance Activities” means the activities for which a Matching Grant is provided, including inter alia, specialized business development services and related costs for the purposes of supporting firms in building their skills and experience so as to become more competitive internationally utilizing the proceeds of a Matching Grant, all in accordance with the provisions of the BAF Operations Manual.

6. “Business Assistance Facility” and the acronym “BAF” mean the Business Assistance Facility established by the MOIC for the purposes of supporting firms in building their skills and experience so as to become more competitive internationally and referred to in Section I.A.4. of Schedule 2 to this Agreement and any successor thereto.

7. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


10. "Financial Management Manual" means the manual referred to in Section I.A.5. of Schedule 2 to this Agreement developed for the implementation of the Project and satisfactory to the Association.

11. "Garment Skills Development Centre" means the service centre operating under the Association of Lao Garment Industries or any successor thereto.


13. "Incremental Operating Costs" means reasonable expenditures directly related to the Project, incurred by the Recipient (which expenditures would not have been incurred absent the Project), including consumable materials and supplies, communications services (postage, telephone and internet), media and printing services, translation and interpretation services, office space rental and utilities, maintenance of office equipment, operation and maintenance, fuel costs, bank charges required for the Project, administrative support staff, and Project staff travel, lodging and per diems, but excluding salaries (including bonuses, fees and honoraria or equivalent payments) of officials of the Recipient’s civil service.


15. "Matching Grant" means a grant made available under Part B.1.(b) of the Project for Business Assistance Activities to be provided to a Beneficiary under terms and conditions set out in this Agreement, the BAF Operations Manual, and the Matching Grant Agreement for said activities, and the term “Matching Grants” means, collectively, more than one Matching Grant.

16. "Matching Grant Agreement" means any of the agreements to be entered into for purposes of implementing and financing a Business Assistance Activities and the term “Matching Grant Agreements” means collectively, all such Matching Grant Agreements.

17. "Ministry of Finance” and the acronym “MOF” mean the Recipient’s Ministry of Finance or any successor thereto.

18. "Ministry of Industry and Commerce” and the acronym “MOIC” mean the Recipient’s Ministry of Industry and Commerce or any successor thereto.

19. "National Implementation Unit” and the acronym “NIU” mean the unit referred to in Section I.A.2. of Schedule 2 to this Agreement or any successor thereto.

21. "Procurement Plan" means the Recipient's procurement plan for the Project, dated October 15, 2012 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraphs 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

22. "Trade and Private Sector Working Group" means the main government-donor consultative mechanism or any successor thereto.

23. "Trade Facilitation Secretariat" means the government's inter-agency border secretariat responsible for coordinating border management or any successor thereto.

24. "Trade Program Executive Committee" means the committee referred to in Section I.A.1 of Schedule 2 or any successor thereto.

25. "Training" means training, workshops and study tours conducted in the territory of the Recipient and abroad, including purchase and publication of materials, rental of facilities, course fees, and travel, accommodation and subsistence of trainees.

26. "WTO" means the World Trade Organization or any successor thereto.