

**The World Bank**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
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Q877-LA

August 30, 2013

H.E. Mr. Phouphet Khamphounvong  
Minister of Finance  
Ministry of Finance  
That Luang Road, PO Box 46  
Vientiane, Lao PDR

Re: Lao People's Democratic Republic: Advance Agreement for  
Preparation of Proposed Second Laos Environment and Social Project  
Project Preparation Advance No. Q8770

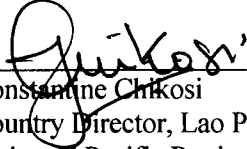
Excellency:

In response to the request for financial assistance made on behalf of Lao People's Democratic Republic ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank") proposes to extend to the Recipient an advance out of the World Bank's Project Preparation Facility in an amount not to exceed nine hundred thousand Dollars (\$ 900,000) ("Advance") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in financing the activities described in the Annex ("Activities"). The objective of the Activities is to facilitate the preparation of a proposed project designed to strengthen the financing and management of environmental and social issues associated with more sustainable use of forest and water resources ("Project"), for the carrying out of which the Recipient has requested the World Bank's financial assistance.

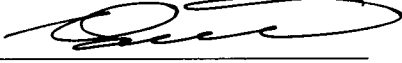
The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified by the World Bank in accordance with Article 6.01 of the Annex to this Agreement.

Very truly yours,  
INTERNATIONAL DEVELOPMENT ASSOCIATION

By   
Constantine Chikosi  
Acting Country Director, Lao PDR  
East Asia and Pacific Region

AGREED:  
LAO PEOPLE'S DEMOCRATIC REPUBLIC

By 

Authorized Representative

Name Phouphet KHAMPHOUNVONG

Title \_\_\_\_\_

Date: 19 NOV 2013

Enclosures:

(1) "Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility", dated July 31, 2010; and ✓

(2) Disbursement Letter for the Advance of the same date as this Agreement, together with "World Bank Disbursement Guidelines for Projects", dated May 1, 2006. ✓

PPA No. Q8770  
ANNEX

**Article I**  
**Standard Conditions; Definitions**

1.01. **Standard Conditions.** The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions and the following terms have the following meaning:

- (a) “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants” dated October 15, 2006 and revised in January 2011.
- (b) “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
- (c) “EPF” means the Environment Protection Fund, the entity established and operating pursuant to the Prime Minister's Decree on the Establishment of the Environment Protection Fund, No.146/PM, dated June 6, 2005, provided with legal personality distinct from that of the Recipient and possessing administrative and financial autonomy under the Recipient's laws and regulations, for purposes of financing eligible activities to strengthen environmental protection, natural resources and biodiversity management, biodiversity conservation and management and community development in the territory of the Recipient, including the selection, approval and financing of sub-projects, and any successor thereto.
- (d) “EPF's Legislation” means the Prime Minister's Decree on the Establishment of the National Environment Fund, No.146/PM, dated June 6, 2005.
- (a) “Operating Costs” means reasonable expenditures directly related to the Activities, incurred by the Recipient (which expenditures would not have been incurred absent the Activities), 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 Activities, administrative support staff, and 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.
- (b) “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.

- (c) "Procurement Plan" means the Recipient's procurement plan for the Project, dated August 7, 2013, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
- (d) "Training and Workshops" means the reasonable costs of training and workshops, based on an agreed plan and budget acceptable to the World Bank, and attributable to seminars, workshops, along with travel and subsistence allowances for training participants, services of trainers (other than consultants' services), rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.

## **Article II**

### **Execution of the Activities**

2.01. **Description of the Activities.** The Activities for which the Advance is provided consist of the following parts:

- (a) Supporting the institutional, procurement and financial management capacity of the EPF;
- (b) Preparing a Project implementation plan and upgrading the existing operational manual to include, *inter alia*, sections dealing with sub-grant selection and monitoring, financial management, monitoring and evaluation, and procurement;
- (c) supporting Project preparation activities for the carrying-out of various surveys and studies related to, *inter alia*: (i) the calculation of economic rate of return for biodiversity conservation, (ii) the review of the outcomes of the 2011-2015 Strategic Plan of the Recipient's Ministry of Natural Resources and Environment, (iii) the preparation of an human resources support strategy for said ministry, (iv) the design of a business plan for the EPF, (v) the review of the legal framework for EPF long term financing, (vi) verification of selected indicators and baseline surveys, and (vii) compliance with the relevant World Bank social and environmental safeguards requirements;
- (d) Arranging stakeholder consultation workshops, identifying potentially eligible sub-grants, assisting potential beneficiaries in developing proposals, developing training activities, and facilitating the meetings of the Recipient's Natural Resources and Environment Sectors Working Group within its Ministry of Natural Resources and Environment;
- (e) Other activities relating to the preparation of the Project, its effectiveness and implementation-readiness.

2.02. **Execution of the Activities Generally.** (a) The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall cause the Activities to be carried out by EPF in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) this Article II; and (iii) the Anti-Corruption Guidelines.

(b) Without limitation upon the foregoing, the Recipient shall cause the EPF to ensure that all terms of reference for any technical assistance or studies carried out under the Activities are consistent with, and pay due attention to, the World Bank environmental and social

safeguards policies, as well as the Recipient's own laws relating to the environment and social aspects.

2.03. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.04. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions.

(i) If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, the Recipient shall have the Financial Statements included in the first audit of financial statements required under the Refinancing Agreement.

(ii) If, by the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, such audit of the Financial Statements shall cover the period of the Advance, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of the Recipient's fiscal year in which the Refinancing Date occurs.

(iii) Notwithstanding the provisions of paragraphs (i) and (ii) of this Section, the World Bank may request an audit of the Financial Statements prior to the Refinancing Date, covering such period as is indicated in its request. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the [end of such period.

(d) The Recipient shall ensure that: (i) within two (2) months after the Effective Date a financial management consultant is appointed in EPF, in accordance with Section 2.06 below; and (ii) within six (6) months after the Effective Date the appointment of the auditors for the Project is completed, in a manner satisfactory to the World Bank.

#### 2.06. **Procurement**

(a) **General.** All goods and consultants' services required for the Activities and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the Procurement Guidelines, in the case of goods and non-consulting services;

(ii) Sections I and IV of the Consultant Guidelines in the case of consultants' services; and

(iii) the provisions of this Section, as the same shall be elaborated in the Procurement Plan.

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank 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.

(c) Particular Methods of Procurement of Goods and Non-consulting Services

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Least Cost Selection; (C) Selection based on Consultants' Qualifications; (D) Single-source Selection of consulting firms; (E) Selection of Individual Consultants; and (F) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

### **Article III Withdrawal of the Advance**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance 100% of Eligible Expenditures consisting of goods, consultants' services, Training and Workshops and Incremental Operating Costs under the Activities inclusive of Taxes.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed \$50,000 equivalent may be made for payments made prior to this date but on or after August 1, 2013, for Eligible Expenditures.

3.03. **Refinancing Date.** The Refinancing Date is January 31, 2015.

#### **Article IV Terms of the Advance**

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) **Refinancing under the Refinancing Agreement:** If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) **Repayment in the absence of a Refinancing Agreement:** If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then:

- (i) if the amount of the Withdrawn Advance Balance does not exceed \$50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in no event be earlier than 60 days following the date of dispatch of such notice; and
- (ii) if the amount of the Withdrawn Advance Balance exceeds \$50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) (the "Aggregate Balance") shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates ("Payment Dates") which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date ("Notice Date") of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of

one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.

#### **Article V Additional Remedies**

5.01. ***Additional Events of Suspension.*** The Additional Event of Suspension consists of the following, namely, the EPF's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Implementing Entity to perform any of its obligations under the Implementation Agreement.

5.02. ***Additional Events of Acceleration.*** The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 5.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the World Bank to the Recipient.

#### **Article VI Effectiveness; Termination**

6.01. ***Effectiveness.*** This Agreement shall not become effective until and unless: (a) the Recipient and EPF have entered into a Subsidiary Agreement; and (b) the execution and delivery of the Subsidiary Agreement on behalf of the Recipient and the EPF have been duly authorized or ratified by all necessary internal action.

6.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 6.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

6.03. ***Termination for Failure to Become Effective.*** This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

#### **Article VII Recipient's Representative; Addresses**

7.01. ***Recipient's Representative.*** The Recipient's Representative referred to in Section 9.02 of the Standard Conditions is the Recipient's minister responsible for finance.

7.02. ***Recipient's Address.*** The Recipient's Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Finance  
23d Singha Road



Saysettha District  
Vientiane, Lao PDR

Facsimile:

856-21-412142

7.03. **World Bank's Address.** The World Bank's Address referred to in Section 9.01 of the Standard Conditions is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

1-202-477-6391