

Lao People's Democratic Republic

**MINISTRY OF INDUSTRY AND COMMERCE
(MOIC)**

Department of Planning and Cooperation

NATIONAL IMPLEMENTATION UNIT (NIU)

Lao PDR Competitiveness and Trade Project

**BUSINESS ASSISTANCE FACILITY
BAF2**

Operations Manual

August 2018

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1 Objective and Essential Concepts

1.1 Introduction

The Lao PDR Business Assistance Facility (BAF2) represents Pillar C [Improving Firm-level Competitiveness] of the Lao PDR Competitiveness and Trade Project. BAF2 builds on the success of the Business Assistance Facility, which was supported under a previous World Bank operation, TDF2 [BAF1].

One of the three project development objectives of this current project is to improve firm-level competitiveness, and in particular the diversification of the economy, away from the natural resource sectors.

1.1.1 The Primary Objective of BAF2

The primary objective of the BAF is to support individual firms in building their skills and experience, so as to become fully internationally competitive. The intention is not only that firms in Laos be able to export more, but also that those selling in the domestic market be able to compete more effectively against imports, particularly with the loss of protection within ASEAN.¹ The key activities of BAF2 include (i) direct consulting services, advising individual firms on business growth plans; (ii) matching grants to assist individual firms financially in purchasing specialized business development services in support of growth plans; and (iii) rigorous impact evaluation of services provided.

1.1.2 Subsidiary Objectives of BAF2

One subsidiary objective of BAF2 is to support the broad shift in government strategy towards the private sector and SMEs, away from detailed transactional control and towards facilitation and support.

1.2 The Status of this Manual

This BAF Operations Manual defines exactly how BAF2 is to operate. It defines eligibility criteria and other rules applying to the use of BAF resources. It is referred to in the Financing/Grant Agreements for the Project, made between the World Bank and the Government of Lao PDR. This manual thus has legal standing. Its approval by the Government and the Bank is a Condition for Disbursement of any matching grant funds under the Project. Once approved, the manual cannot be amended, changed or revised in any way without the written agreement of the Government and the Bank.

¹ The primary Performance Indicator being adopted, to evaluate the impact of BAF2, is that BAF-supported client firms achieve an above-average rate of sales growth.

2 Operational Structure

2.1 The BAF Team

The BAF Team will consist of at least five professionals plus one support staff member, supplied under a management contract by a firm selected by competitive bidding. The BAF Team will be headed by the BAF International Team Leader, with broad experience in providing consulting advice to private firms including SMEs on how to grow their businesses, and with previous experience of managing or operating matching grant schemes in developing countries. The BAF Team Leader will work part-time in this post. He/she will be supported by three local BAF Advisors, with wide knowledge of the Lao private sector and SMEs, and preferably with some experience in providing consulting or advisory services to private firms including SMEs. One of these three BAF Advisors will be designated BAF Deputy Team Leader. One, preferably the Deputy Team Leader, will be designated Gender Specialist. Two of the Advisors will focus on supporting firms in Vientiane Capital, the other Advisor will focus on firms outside this district. The fifth professional in BAF2 will be the BAF Accounting and Administration Officer preferably with previous experience of accounting and progress-chasing work in similar organizations, and preferably with experience in working on World Bank-funded projects. In addition, the Unit will have an Administrative Assistant. BAF2 will be housed in dedicated commercial office space in Vientiane, to be selected by the BAF Team Leader ahead of scheme launch. The contract for the operation of BAF2 will run for 36 months.

2.2 The BAF Task Force

The Team will report to a BAF Task Force, operating at the technical level, rather than at Director-General level. It will have a majority of Government representatives, but also will include private-sector representation². This Task Force will be chaired by the Deputy Director-General of the Department of Planning and Cooperation. It will meet at least once every calendar quarter, to approve BAF2 Work Plans; and then subsequently to review Quarterly and other regular Progress Reports; and otherwise to provide strategic direction to the BAF Team Leader.

3 Assistance to Individual Firms

3.1 A Mix of Two Interventions

Interested eligible firms can approach the BAF team to discuss potential areas of support. The BAF team will work with interested firms to design an appropriate assistance package. Once the BAF contractor is selected, more detailed information on how to access support would be developed. The dominant activity within BAF2 is capacity-building assistance to the individual firm. This assistance will consist of a mix of two interventions: **firstly**, broad business advisory services, supplied free of charge by the professionals staffing the BAF Unit, advising the individual firm on its strategy to grow its sales, leading to a formal Business Growth Plan; and **secondly**, matching

² Provisionally the BAF Task Force will include representatives from the Trade and Product Promotion Department, and Department of Industry and Handicraft, Ministry of Industry and Commerce; and an individual nominated by the Lao National Chamber of Commerce and Industry.

grants, to assist the individual firm financially in purchasing specialized business development services, in support of its Business Growth Plan.

3.2 Free Advisory Services

Each firm being assisted will be assigned either to the BAF Team Leader or to a BAF Advisor. This assigned individual will assist the firm through every stage in the process of building capacity, and achieving increased sales. His/her essential task is to provide support, guidance and advice, to assist the firm to achieve the maximum possible sales growth.

3.3 Help with Locating Potential Service Suppliers

Where appropriate, BAF2 will help client firms directly with the process of locating potential service providers, either within Lao PDR or in major business centers elsewhere [eg. Bangkok, Singapore]. The aim is to do what is realistically possible, to reach the objective of achieving increased sales.

3.4 When BAF Assistance Ceases

In a typical firm, consulting might be aimed at assisting the firm to break into a new market. The focus is on helping the firm to achieve new breakthrough transactions. In such a case, BAF assistance would help the firm to book, and then to fulfill its first full order to the satisfaction of the customer. Typically, this could be expected to result in a follow-on order from that customer. Once that point had been reached, then normally, BAF assistance would cease. It is then up to the firm itself to build on this breakthrough transaction, and replicate it in the new market. However, if at a later stage, the firm is ready to take on the next challenge of extending its sales into new ground, it can then apply again for further BAF assistance.

3.5 Activity Targets and Performance Indicators

The evaluation of BAF2's performance will be primarily on the basis of targets, set within Annual Activity Plans for each of the operational years of the project. These will be based on the agreed Performance Indicators shown in the Results Framework in the Project Appraisal Document. A strong focus will be on achieving increased sales within individual firms assisted. BAF2 will be expected to demonstrate, year by year, real progress towards the primary Performance Indicator, that assisted firms increase their sales, after assistance, at a rate of increase 20 percent higher than non-assisted firms.

3.6 Allocating BAF2 Resources

The BAF Team Leader will allocate BAF2's available resources, primarily professional time, as he/she sees fit, to meet agreed targets. The BAF Team Leader will also arrange field visits to client locations as required. Each new firm making contact with the team will be visited on a first-come, first-serve basis. The intensity with which each firm is then given follow-up assistance, however,

will depend on how the BAF Team Leader evaluates each, as likely to contribute to agreed targets, primarily increased sales

3.7 Regional Balance

Although the primary focus of BAF2 is to achieve business growth, wherever the potential appears greatest, the BAF team will make particular efforts to ensure that the private-sector growth potential of each of Lao PDR's provinces is tapped.

3.8 A Balance between Larger and Smaller Firms

It must be recognized that, generally, dealing with larger professionally-managed foreign-owned or joint-venture firms is easier and less time-consuming than dealing with less sophisticated owner-managed smaller locally-owned firms. However, BAF2 will be expected to maintain a balance between supports to these two groups.

3.9 Gender

Special attention will be given to ensuring effective participation in the scheme by women-led firms, given the additional constraints that women are known to face within Lao PDR. Gender participation in BAF2 will be actively monitored over the course of implementation. One of the Intermediate Results Indicators in the Project Results Framework is that at least 35% by number of the grants extended under BAF2 should be made to women-led firms. Experience under BAF1 indicates that this is a realistic and achievable target

3.10 The Launch of BAF2

When BAF2 is launched, the BAF Team will undertake promotional activities in each of the major centers of business activity within Lao PDR. The aim is to ensure that as many firms as possible, that could make use of the scheme, are aware of what it offers. BAF2 will make use of local workshops, radio interviews, or whatever other means it deems cost-effective, in order to promote the scheme widely. The BAF Team will also promote the scheme to commercial banks, public business support agencies and similar business start-up support schemes, and to local and regional BDS service providers. These are all likely to be useful sources of referrals for BAF2.

3.11 The Initial Growth Diagnostic

Following the initial contact visit, each firm will be offered a growth diagnostic. This will be comprehensive, and evaluate all key elements of the business, which contribute towards achieving increased sales. The intention is to identify, in order of priority, the weaknesses or gaps that, when remedied, will lead to the highest possible impact in terms of increased sales growth. This initial growth diagnostic is not intended to be a comprehensive diagnostic, covering all aspects of a business. It focuses instead on what needs to be done, in order to achieve the business growth being planned for, and being supported by BAF.

3.12 The Diagnostic is Voluntary

Some firms will already have put together a comprehensive plan for growth, before contacting the BAF Team. In such cases, there would be no need for a BAF growth diagnostic. However, before beginning support to a firm, the BAF Team Leader would have to be satisfied that a proper analytical basis was in place, that had identified the most promising direction for growth, plus the priority weaknesses or gaps needing to be addressed, to achieve this planned growth.

3.13 Agreeing the Business Growth Plan

Following the growth diagnostic, the responsible BAF Advisor will present the results to the firm management, plus a proposal for how the BAF Team intends to assist the firm in addressing the priority weaknesses or gaps identified, and thus assist in achieving improved sales growth. The intention is to reach agreement on a Business Growth Plan, to be undertaken by the firm, but with support provided by the Advisor.

3.14 The Three Stages of Assistance

Typically, the BAF Advisor will support the firm to go through three stages, in order to make a significant impact on sales growth. First comes detailed understanding of the target market, supported usually by some form of market exploration or market research. Second comes making improvements in the supply package being offered to that market, based on the detailed understanding obtained. Third comes active selling into that market, to achieve the first breakthrough transactions. Firms will be discouraged from attempting to moving directly to active selling, before appropriate preparations are in place, in terms of market understanding, and supply package improvement.

So, for instance, applications for foreign trade fair participation, particularly group applications, will, under BAF2, be treated with particular care. The BAF Team Leader would have to be convinced that each firm involved had prepared the way, with real efforts having been put into exploring the needs of the market involved, and into improving its supply package accordingly, before actively promoting what it had to offer at a trade fair.

3.15 Regular Monitoring of Progress

Once the Business Growth Plan is agreed, the primary role of the Advisor is to visit the firm, on a pre-agreed regular basis. Each time, a set of actions will be agreed, based on progress made since the previous monitoring visit. The average frequency of such visits is expected to be every three to six months.

3.16 Supply of Sales Data

Each assisted firm will commit itself in writing, before any BAF2 assistance is given, to supply sales data to the BAF team and afterwards to the NIU, for a period of at least three years after direct assistance begins. Each firm will also need to commit itself to co-operate fully with any surveys or implementation support missions which review the performance and impact of BAF2.

3.17 Confidentiality and Data Protection

NIU staff working on BAF, the Advisor, and the BAF Team as a whole³, will be bound by written agreement to maintain client confidentiality. In order to make the consulting assistance meaningful, the firm will inevitably share with its Advisor some information that could be commercially sensitive. The confidentiality of such information must be assured.

The BAF Team Leader will ensure that any personal data shall be processed in accordance with relevant domestic and foreign legislation, including the 2018 EU General Data Protection Regulation (GDPR). Collection of personal data shall be collected in a lawful, fair and transparent manner; adequate, relevant and limited to what is necessary; accurate and up to date; and processed in a manner that ensures appropriate security of the personal data.

Personal data of BAF beneficiaries' will be used only if they have provided their express consent to such use. The purpose for which such data will be processed will be clearly indicated, in straightforward and simple terms before the consent is acquired. Personal data will only be used for this purpose and, in general, for the purposes of the performance, management and monitoring of the specific BAF initiative. Personal data shall not be disclosed to third parties without the express consent of the rights holder; and not further processed in a manner that is incompatible with the purpose for which the express consent was acquired.

Personal data shall be diligently stored and protected, and appropriate technical and organizational security measures shall be adopted in this regard. Personal Data shall be accessible only to the BAF Team strictly necessary for the performance, management and monitoring of the specific BAF initiative. BAF beneficiaries shall have the right of access to their personal data and the right to rectify any such data.

3.18 The Letter of Agreement

Ahead of direct consulting assistance being provided to a firm, that firm will be required to sign a copy of the BAF Client Letter of Agreement - the formal agreement between MoIC, represented by the Deputy Director-General of DPC, Director of the National Implementation Unit, on behalf of the Government of Lao PDR, and the recipient firm. This binds the firm, inter alia, to provide information on improved performance, and to collaborate in impact surveys. It further binds the firm to comply with the World Bank guidelines on preventing and combating fraud and corruption. This letter and all promotional and informational printed promotional materials will be translated into Lao. Agreements in Lao will be accepted, on the condition that full translations into English be made available for inspection. The parties to a letter of agreement can mutually agree upon changes to activities and cost of the activities within the eligible scope of activities. The BAF Client Letter of Agreement template will be annexed to this manual following its finalization and no-objection from the World Bank.

³ Including any temporary staff

3.19 The Use of a BAF2 Grant Allocation

The intention is that each individual BAF2 Grant Allocation is to be used, where the use of specialized external services is likely to have a powerful impact, in terms of addressing the key weaknesses or gaps identified. Again, the primary consideration will be to maximize impact, in terms of total sales growth achieved.

3.20 Eligibility Criteria for Firms

3.20.1 The Eligible Firm

Any private business entity and SMEs, providing work to Lao PDR nationals within Lao PDR, will be eligible for BAF2 capacity-building assistance and can approach the BAF for support. The reality is that some firms are not yet officially registered with the appropriate business registration authorities, and these firms will be encouraged to register. In the case of a business entity not formally registered, all contracts entered into between the MOIC and the firm or entity must be made either with an individual or a group of individuals acting as a partnership.

There are some explicit areas of exclusion where firms operating in the following sectors will not be eligible for BAF2 assistance:

- Weapons and armaments;
- Alcohol and tobacco;
- Financial and telecommunication sectors; and,
- Mining and electric power generation and distribution⁴.

3.20.2 Exclusion of State-controlled Firms

Firms that are in effect state-controlled will not be eligible. This control could, for instance, be by means of holding a majority shareholding, or by means of having a majority on the board of directors. In cases of doubt, the BAF Team Leader will refer an application to the BAF Task Force, to determine whether a firm is or is not to be treated as state-controlled.

3.20.3 Start-up Operations

It is expected that most firms assisted will already be operational. However, the Team will be at liberty to assist start-up operations, as the BAF Team Leader sees fit, bearing in mind that start-ups are inherently more risky, in terms of contributing to overall sales growth targets.

⁴ This does not exclude provision of services to mining or electric power generation projects; such provision of services is not excluded from BAF support.

3.21 Procedures applying to Firm-level Grants

3.21.1 Purchases of Services Eligible for BAF Grant Support

Purchases of any specialized service, considered by the BAF Team Leader likely to make a significant contribution to the implementation of the approved Business Growth Plan, will be eligible for BAF2 grant support. Payments for services may be for service fees and, where appropriate, for associated travel and subsistence costs, incurred directly and exclusively in connection with the delivery of eligible services.

3.21.2 Staff Travel Costs

Normally, the use of the firm's own staff to carry out activities in support of a Business Growth Plan will not be grant-supported. However, the exception is when a firm decides to use its own staff specifically for market exploration. Then the direct travel and subsistence costs of this travel can be supported. However, the BAF Team Leader will need to be satisfied that the staff member carrying out this work has the experience and capacity required. Also, the firm will be expected to share with BAF2 a full report of the exploration visit, including a list of persons and organizations visited.

3.21.3 Exclusion of Goods, Civil Works, Materials for Production and Internal Operating Costs

Purchases of goods, and civil works, even if exclusively required for the activity being assisted, will not be eligible for grant support. Similarly, expenditures on internal costs, such as salaries for permanent staff, are not eligible.⁵ Foreign exchange losses and interest charges for late payment are not eligible.

3.21.4 Conflict of Interest

The firms applying for matching grants under BAF2 are required to provide professional, objective, and impartial information at all times, and have an obligation to disclose to the BAF staff any situation of actual or potential conflict of interest. Failure to disclose such situations may lead to the disqualification of the firms or the termination of its contract/grant. If a grant has already been disbursed and it subsequently transpires that an actual conflict of interest has occurred in the specific situation, then BAF2/NIU shall be entitled to claim reimbursement from the beneficiary company of any grant monies paid to that company.

Without limitation on the generality of the foregoing, the firms shall not be eligible for matching grants in case of conflicting relationships. Conflicting relationships take place when a firm (including its owners or employees) has a close business or family relationship with a staff of the BAF (or NIU, MoIC and other entities), who are directly or indirectly involved in any part of

- (i) the preparation of the conditions to apply for matching grants,

⁵ Internationally, subsidies covering indirect costs are generally accepted. However, subsidies for the purchase of goods, civil works, materials for production or for other direct costs of production or supply, are not generally accepted.

- (ii) the selection process for the eligible firms or decision making related to matching grants, or
- (iii) the supervision of the firms activity.

In any of the above circumstances, the firm may not benefit from a matching grant, unless the potential conflict stemming from this relationship has been declared openly, and in advance, to BAF and NIU and resolved in an acceptable manner in line with existing guidelines.

3.21.5 Treatment of Tax Obligations

NIU will assume all tax obligations arising solely and directly from raising of the invoice submitted to NIU for the agreed grant support. The costs incurred shall be met out of BAF2 Grant Fund.

3.21.6 Level of Support

The BAF grant will cover 50 percent of actual incurred expenditures, up to a maximum of the pre-approved total direct cost to the firm of purchasing the external service. There will be one single level of support, with no exceptions. Where the BAF Team Leader considers that returns from further follow-on injections of grant support will yield attractive returns, a firm may receive follow-on grants.

3.21.7 Limits of Support per Firm

It is expected that most grants will be under US\$20,000. Most services required will be accessed within the region, if not available within Lao PDR itself. No firm or group of firms under common control or common ownership may receive more than US\$200,000 in grants in cumulative total.⁶

3.22 Processing Individual Applications for BAF Grant Support

The BAF Team Leader will vet all applications, and forward to the NIU those he/she considers are in compliance with the BAF Operational Manual, and which he/she therefore recommends for automatic approval. The NIU Director will make the formal decision on behalf of the Government that the specific application is indeed in compliance, and therefore approved. The NIU Director will then be responsible for finalizing and then signing the Letter of Agreement between the recipient firm and the funding agency, namely the NIU. If an application, duly forwarded and thus considered in compliance by the BAF Team Leader, is subsequently rejected by the NIU Director, then this rejection decision will be forwarded to the World Bank for a “No Objection”. If, after an application has been found to be in compliance, but subsequently, no agreement can be reached between the NIU and the recipient firm on the detailed terms of the Letter of Agreement, then, before a firm decision can be reached to reject the application, similarly a “No Objection” from the World Bank would be required.

⁶ Support for website design, which may include up to one year of website maintenance, is limited to support for a total cost of \$3000 equivalent.

3.23 World Bank “Technical Review” on Early Compliance Decisions

The first ten compliance decisions made after BAF launch will be submitted to the World Bank/IDA for a Technical Review, before the grant Letter of Agreement may be signed.

3.24 Rejections

It is expected that outright rejections of applications for grant support will be very rare. In most cases, client firms will be helped by their respective Advisors to ensure that applications are in compliance with the rules set out in this manual. However, any case of a rejection must be communicated directly in person by the responsible Advisor, giving clear reasons for the rejection, and where appropriate, agreeing next steps with the firm concerned. If such explanations are not sufficient for the applicant, the applicant will have the right to request a meeting with the BAF Team Leader during his/her next visit.

3.25 Selection of Suppliers for Services

The firm itself will agree and sign the contract for supply of services with the supplier. The firm will as part of its application, propose how it intends to contract the supplier of services. The BAF Team Leader will as part of the review of the application, approve or reject the proposed method of selection of the supplier of services. In the event of a rejection of the method of selection, the BAF Team Leader will convey this in writing. In normal circumstances, the commercial practices, acceptable to World Bank, will be used by the firms to select its service supplier, so long as the BAF Team Leader is satisfied that the method of selection proposed satisfies the principles of quality, economy, efficiency and transparency. In no instance shall the NIU or the BAF Team enter into a contract directly for the supply of services to a supported firm.

3.26 Rejections of Method of Selection

Where the method of selection initially proposed by the recipient firm has been rejected, the BAF Team Leader may, by exception, require the recipient firm to propose other acceptable selection process.

3.27 Rejection of a selected Service Supplier

Following approval of the *method* of selection proposed by a recipient firm, the BAF Team Leader may, in exceptional circumstances, reject the specific service supplier identified and proposed by the recipient firm where a specific provider will be agreed to in the grant application. This will only be done where, in the opinion of the BAF Team Leader, the selected supplier is unqualified to deliver the service(s) to the standard required. In such cases and if required, the BAF Team Leader shall explain the full reasoning for this decision to the BAF Task Force.

3.28 Assistance with Locating Service Suppliers

If requested by the firm, BAF2 will use its best efforts to locate suitably qualified specialist service suppliers. The BAF Team will be expected to develop contacts, particularly in Bangkok Singapore and other regional business centers, to locate specialist service suppliers, as needed.

3.29 Avoiding Double Subsidies

If the service provider or grant recipient is receiving some form of direct or indirect subsidy, then the grant will be calculated to ensure that the total level of subsidy to the service supply transaction is no higher than 50 percent.

3.30 Feedback Provision Mechanism

At any point during the design, approval, or implementation of grants, stakeholders can make use of the following feedback mechanism: Should applicants not be satisfied with the service provided by their respective advisors, they can request a meeting with the designated BAF Deputy Team Leader. Should that meeting not resolve their concerns, they could request a meeting with the BAF Team Leader during his/her next visit. Should that meeting not lead to an acceptable clarification, stakeholders will have the right to provide written feedback by email to the NIU on this issue, copying the BAF Team Leader. The BAF team will maintain records of all instances where this feedback provision mechanism will be used and retain them until the end of the project. Records will include relevant emails, and short summary notes of relevant meetings. In addition, each grant recipient will be asked to complete a short feedback form following completion of all activities and reimbursement. This short form will be designed by the BAF team following selection of the contractor.

4 Reporting, Management and Contracting Arrangements

4.1 Project-level Reporting Arrangements

Oversight of the Project will be delegated by the Government to the Project Executive Committee. Project implementation monitoring will be undertaken by the National Implementation Unit (NIU), within the Ministry of Industry & Commerce. Further detail on project implementation arrangements is included in the Project Appraisal Document, Chapter IV. The BAF team will publish a simple list with all grant recipients for transparency purposes. This list will only contain the name of the grant recipients.

4.2 Reporting Lines

Once BAF2 is operational, the BAF Team Leader will report formally to the BAF Task Force. The BAF Management Contractor, represented locally by the BAF Team Leader, will be formally responsible for the effective operation and management of all aspects of BAF2. The BAF management contract will be legally binding between the selected Management Contractor and the Government of Lao PDR. The Contractor will be responsible for ensuring that the program is run in strict accordance with the terms of this manual.

4.3 Annual Activity Plans

The BAF Team Leader will prepare Annual Activity Plans and Budgets for each twelve-month period of operation of the program. This will detail how the Team intends to utilize the resources

available to it, to achieve its objectives and targets. Each Annual Activity Plan is to be submitted to NIU, for presentation to the BAF Task Force. Each plan will specify the core activities in clear terms, such that performance against these targets can be verified.⁷

4.4 Quarterly Progress Reports

At the end of each three-month period of operation (December, March, June, September), the BAF Team Leader will prepare and submit to the BAF Task Force a Quarterly Progress Report, showing in detail how actual activities have compared with what was planned. This report will also detail progress being made towards agreed objectives and targets. Each Quarterly Progress Report will be forwarded to the World Bank/IDA, for information. This regular reporting cycle will link into the reporting cycle specified at the project level to the Project Executive Committee.

4.5 Achievement of Targets

Each year, the performance of individual staff members and the Team itself will be evaluated. In most years, this will be on the basis of the activity targets agreed within the Annual Activity Plans. However, at the times of the Mid-term Review and the Implementation Completion Report [see next section], it will be possible also to evaluate BAF2 in terms of the achievement of the Performance Indicators set within the Project Appraisal Document.

5 Monitoring and Evaluation

5.1 The Annual Project Audit

The NIU will be responsible for arranging an independent annual financial and operational audit for the project. This audit will extend to BAF operations inclusive of individual firm grant.

5.2 World Bank/IDA Supervision

The World Bank/IDA will conduct regular Implementation Support Missions. The intention is to hold at least one each year. These will include detailed regular supervision of the operations of BAF2. These supervision missions will make full use of the Annual Activity Plans and the Quarterly Progress Reports, to assist in their evaluation of progress being achieved.

5.3 Mid-term Review

A Project Mid-term Review will be carried out jointly by the Government of Lao PDR and World Bank/IDA. Ahead of this review, the NIU will organize an independent sample survey of private firms including SMEs in Lao PDR, covering both firms assisted by BAF2 and firms not assisted. This survey will enable the review team to evaluate whether BAF is on course to achieve the specified primary Performance Indicators as specified in the initial project documentation. Supported firms are expected to grow at a rate one-fifth faster than non-supported ones. Growth for firms will be in terms of sales.

⁷ So, for instance, it would not be enough to specify that, during the year, the unit would run dissemination seminars in regional centres. Attendees would be asked to complete simple feedback forms, indicating their level of satisfaction with the events.

5.4 Implementation Completion Report

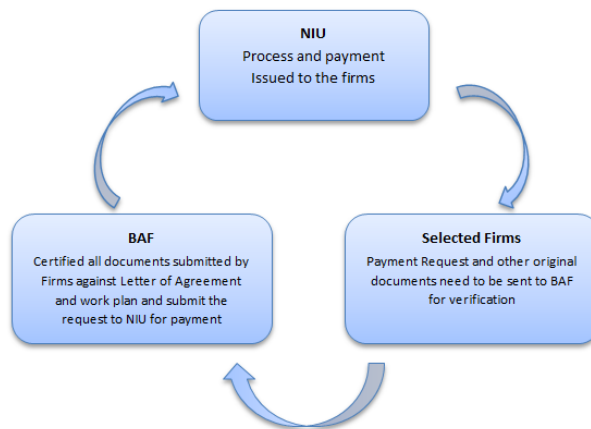
A further sample survey will be undertaken, on the same basis, prior to the Closing Date of the project to feed into the World Bank/IDA Implementation Completion Report.

6 Financial Management Procedure

The NIU will be responsible for ensuring uniformity of procedures and compliance with appropriate government and donor regulations, by providing guidelines on activity management, work planning, progress and results reporting, procurement and financial management. Operations of the NIU will be guided by the Project Operational Manual, approved by the World Bank. The BAF Team is to be treated as one of the Implementation Agencies within the Project. In case of any doubt or conflict, this Legal Agreements of the project take precedence over the BAF manual, while the BAF manual takes precedence over other project documentation related to the individual grants.

6.1 Funds flow

Diagram 1: Funds Flow for BAF2



Payment to firms will be made directly by NIU to beneficiary firms, on submission of the firms' invoices, and based on the BAF verification process and approval of the invoice by the BAF Team Leader.

6.2 Payment request procedure

6.2.1 Payment request

The BAF Team Leader is responsible for ensuring that the necessary documentation required by NIU is checked and verified before being submitted to NIU. In case of absence of the BAF Team

Leader, this responsibility may be delegated by the BAF Team Leader to a nominated BAF team member, this normally being the BAF Deputy Team Leader.

Documents to be provided by BAF2 will be specified ahead of BAF2 Launch by NIU and continue to be updated. All documentation shall be consistent with MoF and National Treasury regulations

6.2.2 Basis of Payment

Each purchase of a service for which a BAF grant is to be provided must be approved in advance. Payment of grants is strictly on a re-imbusement basis. Payments of service fees will be on the basis of a paid invoice from the supplier, in accordance with the pre-agreed rates. Payments of expenses will be on the basis of a Statement of Expenses, prepared on a cash basis, itemizing all expenses incurred directly and solely in connection with the approved activity. In most cases, payment will be on completion of the service delivery. However, by agreement between the BAF Team Leader and the assisted firm, payments may be made in stages, on completion of pre-agreed stages of work.

6.2.3 Speed of Payment

For BAF2 support to achieve the incentive impact intended, it is imperative that claims for reimbursement are handled speedily, and with the minimum additional administrative burden being placed on client firms. The aim should be that every claim is either paid within five working days of receipt of full documentation by the NIU, or, within that time, the claim is dealt with, and the client informed what further information or changes are required, in order for the claim to be paid.

6.2.4 Travel Cost Guidelines

Air travel will be supported on the basis of economy class travel. If per-diem expense allowances are used, as an alternative to actuals, these should be at a level no higher than the published Government of Lao PDR per-diem rates for the locations concerned.

6.3 Use it, or Lose it

If a firm does not commence service provision activity within three months of approval, or if there is a lapse in service provision activity of over three months, the BAF Team Leader, at his/her discretion, may terminate the approval and use the allocated funds for other assisted firms. This cancellation will only be activated after two warning letters have been delivered to the firm concerned.

6.4 Auditing of Grants

Within the Letter of Agreement signed by each BAF grant beneficiary in advance of commencing any BAF-grant supported activity, the beneficiary will agree to collaborate fully with the financial and operational audits (Internal and External Audits) that will take place regularly at project level. In particular, the beneficiary firm will agree to make available to these audits all statements of expenses and all supporting source documents [e.g., service supplier invoices, vouchers, flight coupons, boarding cards etc.]. Each beneficiary will agree to make these documents available for a

period of Five (5) years from after the Project Closing Date. BAF2 will retain for inspection all documentation and records of claims and payments.

7 Amendment of This Manual

7.1 Procedure

This manual may be amended as required, so as to achieve the objectives of the Project and of BAF2. However, it can only be amended on the recommendation of the BAF Task Force, with subsequent “No Objection” by the World Bank/IDA.

Attachment 1: Bank's Policy – Corrupt and Fraudulent Practices

(the text in this Attachment 1 shall not be modified)

Guidelines for Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants by World Bank Borrowers, dated January 2011:

“Fraud and Corruption

1.23 It is the Bank's policy to require that Borrowers (including beneficiaries of Bank loans), consultants, and their agents (whether declared or not), sub-contractors, sub-consultants, service providers, or suppliers, and any personnel thereof, observe the highest standard of ethics during the selection and execution of Bank-financed contracts [footnote: In this context, any action taken by a consultant or any of its personnel, or its agents, or its sub-consultants, sub-contractors, services providers, suppliers, and/or their employees, to influence the selection process or contract execution for undue advantage is improper.]. In pursuance of this policy, the Bank:

(a) defines, for the purposes of this provision, the terms set forth below as follows:

- (i) “corrupt practice” is the offering, giving, receiving, or soliciting, directly or indirectly, of anything of value to influence improperly the actions of another party⁸;
- (ii) “fraudulent practice” is any act or omission, including misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain financial or other benefit or to avoid an obligation⁹;
- (iii) “collusive practices” is an arrangement between two or more parties designed to achieve an improper purpose, including to influence improperly the actions of another party¹⁰;
- (iv) “coercive practices” is impairing or harming, or threatening to impair or harm, directly or indirectly, any party or the property of the party to influence improperly the actions of a party¹¹;
- (v) “obstructive practice” is
 - (aa) deliberately destroying, falsifying, altering, or concealing of evidence material to the investigation or making false statements to investigators in order to materially impede a Bank investigation into allegations of a corrupt, fraudulent, coercive, or collusive practice; and/or threatening, harassing, or intimidating any party to prevent it from disclosing its knowledge of matters relevant to the investigation or from pursuing the investigation, or

⁸ For the purpose of this sub-paragraph, “another party” refers to a public official acting in relation to the selection process or contract execution. In this context “public official” includes World Bank staff and employees of other organizations taking or reviewing selection decisions.

⁹ For the purpose of this sub-paragraph, “party” refers to a public official; the terms “benefit” and “obligation” relate to the selection process or contract execution; and the “act or omission” is intended to influence the selection process or contract execution.

¹⁰ For the purpose of this sub-paragraph, “parties” refers to participants in the procurement or selection process (including public officials) attempting either themselves, or through another person or entity not participating in the procurement or selection process, to simulate competition or to establish prices at artificial, non-competitive levels, or are privy to each other's bid prices or other conditions.

¹¹ For the purpose of this sub-paragraph, “party” refers to a participant in the selection process or contract execution.

- (bb) acts intended to materially impede the exercise of the Bank's inspection and audit rights;
- (b) will reject a proposal for award if it determines that the consultant recommended for award or any of its personnel, or its agents, or its sub-consultants, sub-contractors, services providers, suppliers, and/or their employees, has, directly or indirectly, engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices in competing for the contract in question;
- (c) will declare misprocurement and cancel the portion of the Loan allocated to a contract if it determines at any time that representatives of the Borrower or of a recipient of any part of the proceeds of the Loan were engaged in corrupt, fraudulent, collusive, coercive, or obstructive practices during the selection process or the implementation of the contract in question, without the Borrower having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur, including by failing to inform the Bank in a timely manner they knew of the practices;
- (d) will sanction a firm or an individual at any time, in accordance with prevailing Bank's sanctions procedures¹², including by publicly declaring such firm or an ineligible, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract, and (ii) to be a nominated¹³ sub-consultant, supplier, or service provider of an otherwise eligible firm being awarded a Bank-financed contract.

¹² A firm or an individual may be declared ineligible to be awarded a Bank-financed contract upon (i) completion of the Bank's sanctions proceedings as per its sanctions procedures, including inter alia: cross-debarment as agreed with other International Financial Institutions, including Multilateral Development Banks, and through the application of the World Bank Group corporate administrative procurement sanctions procedures for fraud and corruption; and (ii) as a result of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceedings. See footnote 12 and paragraph 8 of Appendix 1 of these Guidelines.

¹³ A nominated sub-consultant, supplier, or service provider is one which has been either (i) included by the consultant in its proposal because it brings specific and critical experience and know-how that are accounted for in the technical evaluation of the consultant's proposal for the particular services; or (ii) appointed by the Borrower.