Financing Agreement

(Small and Medium Enterprise Access to Finance Project)

between

LAO PEOPLE'S DEMOCRATIC REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 14, 2014
FINANCING AGREEMENT

AGREEMENT dated August 14, 2014, entered into between LAO PEOPLE'S DEMOCRATIC REPUBLIC ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). 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 this Agreement (including the Preamble and Appendix thereto).

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 and a credit (collectively, "Financing") in the following amounts to assist in financing the project described in Schedule 1 to this Agreement ("Project"): 

(a) an amount equivalent to six million five hundred thousand Special Drawing Rights (SDR 6,500,000) ("Grant"); and

(b) an amount equivalent to six million five hundred thousand Special Drawing Rights (SDR 6,500,000) ("Credit").

2.02. (a) The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.

(b) The Recipient's Representative for purposes of taking any action required or permitted to be taken pursuant to paragraph (a) of this Section and Article II of the General Conditions with regard to withdrawals of the proceeds of the Financing under Category (2) is the IFC's Vice President for East Asia and the Pacific or any person whom he or she shall designate in writing.
2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).

2.05. The Payment Dates are April 15 and October 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. 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:

(a) carry out Parts 1 and 3 of the Project through its Ministry of Industry and Commerce, in accordance with the provisions of Article IV of the General Conditions; and

(b) entrust IFC to carry out Part 2 of the Project in accordance with the Risk Sharing Framework Agreement and the Risk Sharing Agreements.

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 — TERMINATION**

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

4.02. 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. Except as provided in Section 2.02(b) of this Agreement, the Recipient's Representative is its Minister at the time responsible for finance.

5.02. The Recipient's Address is:

Ministry of Finance
23rd Singha Road
Saysettha 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

Facsimile:

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

LAO PEOPLE’S DEMOCRATIC REPUBLIC

By

Authorized Representative

Name: THIPPHA KONE CHANTHAVONGSA
Title: VICE MINISTER

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: ULRICH ZACHAU
Title: COUNTRY DIRECTOR
SCHEDULE 1

Project Description

The objective of the Project is to provide long-term funding sources for banks to provide long-term credit to small and medium enterprises.

The Project consists of the following parts:

Part 1: Line of Credit Facility

Provision of a line of credit facility to Participating Financial Institutions for extending long-term local currency loans to SMEs for the implementation of specific investment Sub-projects.

Part 2: Risk Sharing Facility

Provision of a risk sharing facility consisting of partial credit guarantees to Participating Financial Institutions covering potential losses in an eligible portfolio of loans extended to SMEs for the implementation of specific investment Sub-projects.

Part 3: Technical Assistance

3.1 Provision of technical assistance to DOSMEP and other relevant agencies to strengthen their capacity to formulate and implement strategies, policies, instruments and other activities related to the promotion of SMEs, and to implement, monitor and evaluate the Project.

3.2 Provision of technical assistance to Participating Financial Institutions and other relevant financial institutions to improve their SME banking strategies, products and practices, including their compliance with environmental social due diligence and safeguard requirements.

3.3 Provision of technical assistance to SMEs to build their capacity in business development and administration and financial management.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

Project Steering Committee

1. Except as the Association shall otherwise agree, the SME Fund Board shall serve as a steering committee for the Project and, to this end, the SME Fund Board shall be maintained at all the times during the implementation of the Project, with a mandate, composition and resources acceptable to the Association, and shall meet twice a year or more often if required for the purposes of, inter alia: (a) reviewing the overall progress of the Project and providing strategic and policy direction on Project activities; (b) facilitating the coordination of Project activities among the members of the SME Fund Board and the removal of any obstacles to the implementation of the Project; (c) approving the selection of PFIIs under Parts 1 and 2 of the Project; and (d) taking decisions on recommendations forwarded by DOSMEP.

Implementing Agencies

2. For the purposes of carrying out the Project, the Recipient shall maintain, at all times during the implementation of the Project, the Project Management Unit within DOSMEP and the National Implementation Unit within MOIC, both with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association.

3. Without limitation on the foregoing: (a) the Project Management Unit shall be responsible for carrying out the overall coordination, implementation, monitoring and evaluation of the Project, and environmental and social safeguard management of Parts 1 and 3 of the Project; and (b) the National Implementation Unit shall be responsible for the day-to-day procurement and financial management of the Project, and providing such operational and capacity building assistance to the Project Management Unit as shall be required to enable the Project Management Unit to perform its functions with due diligence and efficiency.

B. Project Implementation Manual

The Recipient shall ensure that the Project is carried out in accordance with the arrangements and procedures set out in the PIM (provided, however, that in the
case of any conflict between the arrangements and procedures set out in the PIM and the provisions of this Agreement, the provisions of this Agreement shall prevail) and, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of the PIM.

C. Environmental and Social Safeguards

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Environmental and Social Management Framework ("ESMF") and the relevant Safeguard Assessments and Plans.

2. Whenever a Safeguard Assessment and Plan shall be required for any proposed Project activity in accordance with the provisions of the ESMF, the Recipient shall ensure that:

(a) prior to the commencement of such activity, such Safeguard Assessment and Plan is: (i) prepared in accordance with the provisions of the ESMF; (ii) furnished to the Association for review and no-objection; and (iii) thereafter adopted and disclosed as accepted by the Association, in a manner satisfactory to the Association; and

(b) thereafter such measures are taken as shall be necessary or appropriate to ensure compliance with the requirements of such Safeguard Assessment and Plan.

3. The Recipient shall not amend, abrogate or waive, or permit to be amended, abrogated or waived, the ESMF or any Safeguard Assessments and Plans, unless the Association has provided its prior no-objection thereof in writing, and the Recipient has complied with the same consultation and disclosure requirements as applicable to the original adoption of the said instruments.

4. Without limitation to the foregoing, the Recipient shall ensure that each PFI shall adopt an Environmental and Social Management System, in form and substance satisfactory to the Association, and thereafter apply the policies, procedures and requirements set out in the ESMS, all in accordance with the provisions of the ESMF.

5. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall collect, compile and submit to the Association on a six-monthly basis (or such other frequency as may be agreed with the Association) consolidated reports on the status of compliance with the ESMF, the ESMS and the Safeguard Assessments and Plans, giving details of:

(a) measures taken in accordance with the said instruments;
(b) conditions, if any, which interfere or threaten to interfere with the implementation of the said measures; and

(c) remedial measures taken or required to be taken to address such conditions.

6. In the event of any conflict between the provisions of any of the ESMF, the ESMS or the Safeguard Assessments and Plans, and the provisions of this Agreement, the provisions of this Agreement shall prevail.

D. Anti-Corruption

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

E. Line of Credit Facility

General

1. For the purposes of carrying out Part 1 of the Project, DOSMEP shall:

(a) select PFIs to participate in the line of credit facility under Part 1 of the Project in accordance with eligibility criteria acceptable to the Association and set forth in the PIM;

(b) ensure that the PFIs select the SME borrowers to receive Sub-loans in accordance with eligibility criteria acceptable to the Association and set forth in the PIM;

(c) deposit with the selected PFI(s) the equivalent of the proceeds of the Financing allocated to Category (1) in Section IV.A of this Schedule under a Subsidiary Financing Agreement to be entered into between DOSMEP and the respective PFI, under terms and conditions acceptable to the Association and set forth in the PIM, including, inter alia, the terms and conditions referred to in paragraph 2 of this Part E;

(d) monitor the overall execution of Part 1 of the Project in accordance with the provisions of this Agreement, ensure that the PFIs perform in accordance with the provisions of their respective Subsidiary Financing Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(e) exercise its rights under the Subsidiary Financing Agreements in such manner as to protect the interests of the Recipient and Association and to
accomplish the purposes of the Financing, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such agreement or any provision thereof.

Terms and Conditions of Subsidiary Financing Agreements

2. Each Subsidiary Financing Agreement shall contain provisions pursuant to which the respective PFI shall undertake to:

(a) follow sound commercial practices in making Sub-loans to beneficiaries solely to finance productive private sector activity in the SME sector and that such loans will at all times be underwritten, priced, signed, documented, monitored and serviced in accordance with the relevant Participating Financial Institution’s credit guidelines and using its standard documentation;

(b) (i) make Sub-loans to beneficiary SMEs under Part I of the Project on the terms and conditions set forth in the Project Implementation Manual, including, without limitation, the terms and conditions set forth in paragraph 3 of this Part E;

(ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Recipient and the Association, comply with its obligations under its respective Subsidiary Financing Agreement, and achieve the purposes of the Project;

(iii) not assign, amend, abrogate or waive any of its Sub-loan Agreements, or any provision thereof, without the prior approval of DOSMEP;

(iv) appraise and approve Sub-projects and supervise, monitor and report on the carrying out by the beneficiary SMEs of Sub-projects, in accordance with the PIM;

(v) screen proposed Sub-projects and ensure that each beneficiary SME prepare and carry out the appropriate Safeguard Assessments and Plans for each Sub-project in accordance with the ESMF and the ESMS, and verify (through its own staff, outside experts, or existing environmental and social institutions) before approving a Sub-project that the Sub-project meets, and thereafter ensure that it remains in compliance with, the environmental and social requirements of appropriate national and local authorities and the provisions of the ESMF and the ESMS;
(vi) require each beneficiary SME applying for a Sub-loan to furnish, upon request, evidence satisfactory to the Association showing that the Sub-project in respect of which the application has been prepared is in compliance with the environmental and social requirements and procedures set forth in the ESMF and the ESMS;

(vii) ensure that: (aa) goods, works and services to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of this Schedule; and (bb) such goods, services and works shall be used exclusively in the carrying out of the Sub-project.

(c) (i) exchange views with and furnish all such information to the Association or DOSMEP, as may be reasonably requested by the Association and DOSMEP, with regard to the progress of its activities under Part I of the Project, the performance of its obligations under its respective Subsidiary Financing Agreement, and other matters relating to the purposes of the Project;

(ii) prepare and submit to DOSMEP semi-annual reports on Sub-loan disbursements and repayments, and annual reports on the progress made in achieving the objectives outlined in the business plans submitted with the Sub-loan applications, including reports on the status of compliance with the social and environmental requirements and procedures referred to in the preceding sub-paragraph (b)(v); and

(iii) promptly inform the Association and DOSMEP of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Financing Agreement.

(d) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; and

(ii) furnish to the Association such information concerning said records and accounts as the Association shall from time to time reasonably request.

(e) except as the Association and DOSMEP may otherwise agree:
(i) open and thereafter maintain on its books, in accordance with its normal financial practices and on conditions satisfactory to the Association, separate accounts to which it shall credit, as the case may be, each payment of interest or other charges on, or repayment of principal payments under, any Sub-loan; and

(ii) utilize all amounts so credited to said separate accounts, to the extent they are not yet required to meet said PFI's payment obligations to DOSMEP under its Subsidiary Financing Agreement, exclusively to finance additional development projects to further the development of the Recipient's SME sector; and

(f) assume the credit risk of each Sub-loan.

Terms and Conditions of Sub-Loans

3. The principal amount of each Sub-loan shall be made on financing terms and conditions, including those relating to, currency denomination, interest rate and other charges determined in accordance with the PFI’s investment and lending policies and practices and in accordance with requirements outlined in the PIM.

4. Sub-loans shall be made on terms whereby the PFI shall obtain, by written contract with the beneficiary SME or by other appropriate legal means, rights adequate to protect its interests and those of the Association and the Recipient, including the right to:

(a) require the beneficiary SME to carry out and operate the facilities financed under the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards, the provisions of Anti-Corruption Guidelines applicable to recipients of Financing proceeds other than the Recipient, and to maintain adequate records;

(b) without limitation to the generality of the provisions of the preceding paragraph (a), require the beneficiary SME to carry out and operate the Sub-project with due regard to applicable social impact, ecological, environmental and pollution control standards and in accordance with the provisions of the PIM and the ESMF;

(c) for Sub-projects which need a Safeguard Assessment and/or Plan in accordance with the ESMF, require the beneficiary SME to carry out such assessment and/or plan in a timely manner in accordance with the PIM and the ESMF;
(d) require: (i) that the goods, works and services to be financed out of the proceeds of the Sub-loans shall be procured in accordance with the provisions of Section III of this Schedule; and (ii) that such goods, works and services shall be used exclusively in the carrying out of the Sub-project;

(e) inspect, by itself or jointly with representatives of DOSMEP and the Association, if DOSMEP or the Association shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(f) require that, in the case of a Sub-loan made to finance investment capital: (i) the beneficiary SME shall take out and maintain with responsible insurers such insurance if available at reasonable cost, against such risks and in such amounts, as shall be available on the market and consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Sub-loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the beneficiary SME to replace or repair such goods;

(g) obtain all such information as the Association or DOSMEP shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the beneficiary SME and to the benefits to be derived from the Sub-project; and

(h) suspend or terminate the right of the beneficiary SME to the use of the proceeds of the Sub-loan upon failure by such SME to perform its obligations under its Sub-loan Agreement with the PFI.

F. Risk Sharing Facility

Risk Sharing Framework Agreement and Risk Sharing Agreements

1. For the purpose of carrying out Part 2 of the Project, the Recipient shall enter into a Risk Sharing Framework Agreement with the Association and IFC, which shall include the obligations of IFC to:

(a) Establish, and administer on behalf of the Recipient pursuant to the Risk Sharing Framework Agreement, a trust fund, on terms and conditions satisfactory to the Recipient and Association, for the purpose of holding funds to be used to satisfy the Recipient’s obligations as obligor under the Risk Sharing Facility.
(b) Enter into a Risk Sharing Agreement, in form and substance satisfactory to the Recipient and the Association, with each PFI, and exercise its rights under each such Risk Sharing Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purpose of the Financing.

(c) For its own account and for each PFI, ensure that each of them carry out their respective parts of the Project in accordance with the provisions of the Anti-Corruption Guidelines.

(d) Ensure that Part 2 of the Project is implemented in accordance with the provisions of the Risk Sharing Framework Agreement and the relevant Risk Sharing Agreements.

(e) Ensure that each Risk Sharing Agreement provides that each PFI shall follow sound commercial practices in making loans to beneficiaries solely to finance productive private sector activity in the SME sector and that such loans will at all times be underwritten, priced, signed, documented, monitored and serviced in accordance with the relevant PFI’s credit guidelines and using its standard documentation.

(f) Ensure that the policies, procedures and requirements set out in: (i) the ESMF; and (ii) the PFI’s ESMS, are applied by it, and also ensure that each PFI that has signed a Risk Sharing Agreement applies the policies, procedures and requirements set out in the ESMF and its ESMS.

(g) Carry out periodic supervision of each PFI.

(h) Carry out monitoring and evaluation, establishment of baseline, and an impact evaluation study of Part 2 of the Project.

2. The Recipient shall perform all its obligations under the Risk Sharing Framework Agreement and take all actions necessary on its part to enable IFC and the Association to perform their respective obligations under said agreement and also to enable IFC and each PFI to perform their respective obligations under the Risk Sharing Agreements, and not take or permit to be taken any action which would prevent or interfere with any such performance.

3. The Recipient shall exercise its rights under the Risk Sharing Framework Agreement in such a manner as to protect the interests of the Recipient, the Association and IFC, and to accomplish the purpose of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive, or permit to be assigned, abrogated, or waived the Risk Sharing Framework Agreement or any provisions thereof.
4. For the purpose of carrying out Part 2 of the Project, the Recipient shall entrust IFC to establish and maintain the RSF Trust Fund during the implementation of Part 2 of the Project. Deposits into, and payments out of the RSF Trust Fund shall be made in accordance with the terms and conditions set forth in this Agreement and the Risk Sharing Framework Agreement.

5. The proceeds of the Financing deposited in the RSF Trust Fund shall be used exclusively for First Loss Coverage, subject to the terms of this Agreement and the Risk Sharing Framework Agreement.

6. The Recipient may, through IFC, refund to the Association any amount on deposit in the RSF Trust Fund which IFC shall have determined will not be required to cover payments due under or in connection with the Risk Sharing Agreements.

7. The Recipient shall, through IFC, promptly refund to the Association any balance in the RSF Trust Fund remaining after the commitments under each Risk Sharing Agreement have expired or said agreements have otherwise been terminated in accordance with their terms.

8. Refunds to the Association made pursuant to the preceding paragraphs 6 and 7, or otherwise pursuant to the provisions of the Risk Sharing Framework Agreement shall be credited to the Financing Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions; provided, however, that: (a) amounts refunded to the Association pursuant to the preceding paragraph 7 after the Closing Date may be withdrawn and used for such developmental purposes consistent with the objective of the Project as shall have been agreed in writing between the Recipient and the Association prior to the Closing Date; or (b) failing such agreement, such amounts shall be cancelled by the Association.

9. (a) If the Association determines that an amount of the proceeds of the Financing deposited in the RSF Trust Fund has been used in a manner inconsistent with the provisions of this Agreement, the Risk Sharing Framework Agreement, any Risk Sharing Agreement, or the General Conditions, the Recipient shall, upon notice by the Association to the Recipient and IFC, promptly refund such amount to the Association through IFC. Such inconsistent use shall include, without limitation, use of such amount to make a payment for an expenditure that is not an Eligible Expenditure in accordance with the terms of this Agreement, the Risk Sharing Framework Agreement, or any Risk Sharing Agreement.
(b) Except as the Association may otherwise determine, the Association shall cancel all amounts refunded pursuant to subparagraph 9 (a) above.

10. Without limitation on the foregoing, or on Section 2.02 of this Agreement, the Recipient hereby entrusts IFC with the responsibility for preparing and delivering withdrawal applications in respect of the proceeds allocated from time to time to Category (2), as set forth in Section IV of Schedule 2 to this Agreement, and for collecting documents and other evidence to be furnished to the Association in support of such applications.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of Parts 1 and 3 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 indicators acceptable to the Association and set forth in the PIM, and entrust IFC to do the same in respect of Part 2 of the Project under the Risk Sharing Framework Agreement. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association (by the Recipient or IFC, as the case may be) not later than forty five (45) days after the end of the period covered by such report.

2. The Recipient shall: (a) on or about the date twenty four (24) months after the Effective Date, prepare and furnish to the Association a mid-term report, in such detail as the Association shall reasonably request, documenting progress achieved in the carrying out of the Project during the period preceding the date of such report, taking into account the monitoring and evaluation activities performed pursuant to paragraph 1 of this Part A, and setting out the measures recommended to ensure the continued efficient carrying out of the Project and the achievement of its objectives during the period following such date; and (b) review with the Association such mid-term report, on or about the date one month after its submission, and thereafter take all measures required to ensure the continued efficient implementation of the Project and the achievement of its objectives, based on the conclusions and recommendations of the mid-term report and the Association’s views on the matter.

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: (a) prepare and furnish to the Association not later than forty five (45) days after
the end of each calendar semester, interim unaudited financial reports for Parts 1 and 3 of the Project covering the semester, in form and substance satisfactory to the Association; and (b) in respect of Part 2 of the Project, the Association and the Recipient shall each access financial information via the World Bank’s Trust Fund Donor Center Website, in accordance with the applicable provisions of the Risk Sharing Framework Agreement.

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 (1) 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, Works and Non-consulting Services. All goods, works and non-consulting services required for Parts 1 and 3 of 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 Parts 1 and 3 of 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, Works and Non-consulting Services

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

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive
Bidding, subject to the additional provisions set out in paragraph 3 of this Part B; (b) Shopping; (c) Direct Contracting; and (d) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the Association.

3. **Additional NCB Provisions.** The procurement procedure to be followed for National Competitive Bidding shall be based on the public bidding procurement method as defined in the Decree No. 03/PM on Government Procurement of Goods, Construction, Maintenance and Services, dated January 9, 2004 and the Implementing Rules and Regulations, dated March 12, 2004 as amended on May 5, 2009; provided that such procedure shall be subject to the provisions of Section 1 and Paragraphs 3.3 and 3.4 of the Procurement Guidelines and the following additional provisions:

(a) **Eligibility:** The eligibility of bidders to participate in a procurement process and to be awarded a contract financed by the Association shall be as defined under Section 1 of the Procurement Guidelines; accordingly, no bidder or potential bidder shall be declared ineligible for contracts financed by the Association for reasons other than those provided in Section 1 of the Procurement Guidelines.

(b) **Domestic Preference:** No domestic preference may be applied in bid evaluation on the basis of bidder nationality, the origin of goods, services or labor, and/or preferential programs.

(c) **Registration and Inclusion in the Reference List of Suppliers/Contractors:** Registration and inclusion in the reference list shall not be used as a basis for or as a substitute for assessing the bidders’ qualifications.

(d) **Bidding Documents:** Procuring entities shall use the appropriate standard bidding documents acceptable to the Association, which documents shall be prepared to ensure economy, efficiency, transparency, and broad consistency with the provisions of Section 1 of the Procurement Guidelines.

(e) **Bid Opening:** All bids must be opened in public immediately at on the deadline set for the bid submission at the date, time and place stipulated in the tender documents. Bids shall be opened in public, that is, the bidders or their representatives may attend the bid opening. The tender committee shall announce the names of the bidders and the price offered by each bidder. A record of the bid opening shall be prepared and shall contain the names of the bidders, bid price, discounts and the names of persons in attendance and the organizations they represent.

(f) **Rejection of Bids and Re-bidding:** All bids (or the sole bid if only one bid is received) shall not be rejected, negotiations shall not take place at any time with a bidder, the procurement process shall not be cancelled,
or new bids shall not be solicited without the Association’s prior written concurrence.

(g) **Contract Modifications:** With respect to contracts subject to the Association’s Prior Review, the Recipient shall obtain the Association’s no objection before agreeing to: (i) a material extension of the stipulated time for performance of a contract; (ii) any substantial modification of the contract scope of services or other significant changes to the terms and conditions of the contract; (iii) any variation order or amendment (except in cases of extreme urgency) which, singly or combined with all variation orders or amendments previously issued, increases the original contract amount by more than fifteen percent (15%); or (iv) the proposed termination of the contract. A copy of all signed contract amendments shall be provided to the Association for record.

(h) **Bid and Contract Securities:** All bid and contract securities shall be in the format specified in the bidding documents.

(i) **Fraud and Corruption:** To be deemed acceptable by the Association, the bidding documents and contract shall include provision(s) stating the Association’s policy to sanction firms or individuals found to have engaged in fraud and corruption as defined in the Procurement Guidelines.

(j) **Inspection and Audit Rights:** In accordance with the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Association to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Association. Acts intended to materially impede the exercise of the Association’s inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines.

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) Single-source Selection of consulting firms; (e) Well-established Private Sector Procurement Methods or
Commercial Practices which have been found acceptable to the Association; (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (g) Single-source procedures for the Selection of Individual Consultants.

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 Credit and of the Grant 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 Credit (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Sub-loans under Part 1 of the Project</td>
<td>6,500,000</td>
<td>1,300,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(2) First Loss Coverage under Part 2 of the Project</td>
<td></td>
<td>1,950,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(3) Goods, non-consulting</td>
<td></td>
<td>3,250,000</td>
<td>100%</td>
</tr>
</tbody>
</table>
### Table: Services, Consultants' Services, Training and Operating Costs under Part 3 of the Project

| TOTAL AMOUNT | 6,500,000 | 6,500,000 |

### B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for:

   (a) payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 1,300,000 equivalent may be made for payments made prior to this date but on or after April 1, 2014, for Eligible Expenditures under Category (3); or

   (b) payments under Category (1) in respect an individual PFI, until: (i) the Subsidiary Financing Agreement with such PFI, on terms and conditions acceptable to the Association, has been duly executed and all conditions precedent to its effectiveness (other than the disbursement of the proceeds of the Financing in respect of such PFI) have been fulfilled; and (ii) such PFI has adopted its ESMS in form and substance satisfactory to the Association; or

   (c) under Category (2) in respect of an individual PFI, until: (i) the Risk Sharing Framework Agreement, and the Risk Sharing Agreement with such PFI, all on terms and conditions acceptable to the Association, have been duly executed and all conditions precedent to their effectiveness (other than the disbursement of the proceeds of the Financing in respect of such PFI) have been fulfilled; and (ii) such PFI has adopted its ESMS in form and substance satisfactory to the Association.

2. The Closing Date is June 30, 2019.

### Section V. Other Undertakings

The amount of the Grant allocated under Category (1) shall be disbursed before the amount of the Credit allocated under said Category.
### SCHEDULE 3

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15:</td>
<td></td>
</tr>
<tr>
<td>commencing October 15, 2024 to and including April 15, 2034</td>
<td>1%</td>
</tr>
<tr>
<td>commencing October 15, 2034 to and including April 15, 2054</td>
<td>2%</td>
</tr>
</tbody>
</table>

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

Definitions

1. "Anti-Corruption Guidelines" means: (a) with respect to Parts 1 and 3 of the Project, 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; and (b) with respect to Part 2 of the Project, IFC’s anti-corruption approach for private sector projects, as such approach may be amended from time to time by IFC.

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


4. “DOSMEP” means the Department of SME Promotion within MOIC, and any successor thereto.

5. “Environmental and Social Management Framework” and the acronym “ESMF” each means the Recipient’s framework dated March 11, 2014, setting out the principles, standards, processes and tools to be applied to assess potential adverse environmental and social impacts associated with Project activities and the ways to avoid, minimize and/or mitigate them, with related public consultation, disclosure, reporting and grievance redress procedures, including, inter alia, the Environmental Code of Practice, the Ethnic Group Planning Framework, and provisions for preparing and implementing Safeguard Assessments and Plans, as said framework may be modified from time to time with the prior written no-objection of the Association, and such term includes any schedules or annexes to such framework.

6. “Environmental and Social Management System” and the acronym “ESMS” each means a document, in form and substance satisfactory to the Association, to be developed and adopted by a Participating Financial Institution in accordance with the ESMF that provides for the screening of SME loan applications under the Project, managing associated environmental and social risks and requiring the beneficiary SMEs to comply with the social and environmental requirements arising from the application of the ESMF and the ESMS, as said document may be modified from time to time with the prior written no-objection of the Association, and such term includes any schedules or annexes to such document.
7. "Environmental Code of Practice" means the code included in the ESMF, setting out measures and procedures to avoid, minimize and/or mitigate any adverse environmental, health and safety impacts that may result from the implementation of the Project.

8. "Ethnic Groups" means, for purposes of the Project, the social groups residing or engaged in livelihood activities in the Participating Provinces, each of which possesses a distinct social and cultural identity that makes it vulnerable to being disadvantaged in the development process, including the presence in varying degrees of the following characteristics: (a) a close attachment to ancestral territories and to the natural resources in these areas; (b) self-identification and identification by others as members of a distinct cultural group; (c) a language, often different from the Lao language; (d) presence of customary social and political institutions; and (e) primarily subsistence-oriented production.

9. "Ethnic Groups Planning Framework" means the framework included in the ESMF, setting out the measures and procedures to be implemented in the carrying out of the Project to ensure that through free, prior and informed consultation the Ethnic Groups affected by any proposed Project activity express broad community support for such activity and receive the benefits from the Project in a culturally compatible manner acceptable to them, and do not suffer adverse effects as a result of the implementation of the Project; as said framework may be modified from time to time with the prior no-objection of the Association, and such term includes any schedules or annexes to such framework.

10. "First Loss Coverage" means the first loss risk coverage provided by the Recipient pursuant to the terms of the Risk Sharing Framework Agreement in respect of loans to beneficiary SMEs originated and held by Participating Financial Institutions pursuant to Risk Sharing Agreements.


14. "National Implementation Unit" means the unit established within MOIC under the Second Trade Development Facility Project Grant H819-LA.

15. "Operating Costs" means the reasonable costs of goods and non-consulting services required for the day-to-day coordination, administration and supervision of Project, including leasing and/or routine repair and maintenance of vehicles,
equipment, facilities and office premises, fuel, office supplies, utilities, consumables, communication expenses (including postage, telephone and internet costs), translation, printing and photocopying expenses, bank charges, publications and advertising expenses, insurance, Project-related meeting expenses, Project-related travel, subsistence and lodging expenses, and other administrative costs directly related to the Project, but excluding salaries, bonuses, fees and honoraria or equivalent payments of members of the Recipient’s civil service.

16. “Partial Credit Guarantee” means in respect of each Risk Sharing Agreement, the amount shared between the Recipient and IFC (as obligor for its own account) of up to fifty percent (50%) of documented principal losses on a portfolio of newly generated beneficiary SME loans, on a pari passu basis with each Participating Financial Institution.

17. “Participating Financial Institution” and the acronym “PFI” each means a commercial bank established and operating pursuant to the laws of the Recipient, (i) selected by IFC following prior consultation with the Recipient and the Association, and which has met the eligibility criteria specified in the Risk Sharing Framework Agreement and as a result has received or is proposed to receive a Partial Credit Guarantee under a Risk Sharing Agreement, and such term includes the First Participating Financial Institution; or (ii) selected by DOSMEP following prior no objection by the Association, and which has met the eligibility criteria specified in the PIM and as a result has received or is proposed to receive Financing from Category (1) under a Subsidiary Financing Agreement.


19. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 28, 2014, 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.

20. “Project Management Unit” means the unit established within DOSMEP for the purposes of the Project in accordance with Section I.A of Schedule 2 to this Agreement.

21. “Project Implementation Manual” and the acronym “PIM” each means the manual adopted by the Recipient for the implementation of the Project referred to in Section I.B of Schedule 2 to this Agreement, containing detailed arrangements and procedures for: (a) institutional coordination and day-to-day execution of the Project; (b) eligibility criteria, appraisal, approval and administration
arrangements and procedures, and terms and conditions for the line of credit and risk sharing facilities under Parts 1 and 2 of the Project, including, \textit{inter alia}, those referred to in Sections I.E and I.F of this Schedule; (c) disbursement and financial management; (d) procurement; (e) environmental and social safeguards management; (f) monitoring, reporting and evaluation; and (g) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project; as said manual may be modified from time to time with the prior written no-objection of the Association, and such term includes any schedules to such manual.

22. “Risk Sharing Agreement” means an agreement, on terms and conditions satisfactory to the Association, entered into or to be entered into between IFC (as agent of the Risk Sharing Facility) and a Participating Financial Institution, for the issuance of a Partial Credit Guarantee to such Participating Financial Institution, as the same may be amended or supplemented from time to time with the prior written approval of the Association.

23. “Risk Sharing Facility” and “RSF” each means the facility established or to be established to provide Partial Credit Guarantees to Participating Financial Institution in local currency to be issued by IFC as an agent of the Recipient to cover losses in respect of portfolios of loans to Beneficiary SMEs, originated and held by Participating Financial Institutions; such partial credit guarantees to be provided pursuant to a Risk Sharing Agreement.

24. “Risk Sharing Framework Agreement” means the agreement entered into or to be entered into between the Recipient, IFC (acting as obligor for its own account), IFC (acting as facility agent of the RSF), and the Association (acting as provider of financing to the Recipient) pursuant to Section I.F of Schedule 2 to this Agreement, as the same may be amended or supplemented from time to time by written agreement among the parties thereto.

25. “RSF Trust Fund” means the trust fund established under the Trust Fund Administration Agreement and referenced in Section I.F of Schedule 2 to this Agreement.

26. “Safeguard Assessment and Plan” means any environmental and social assessment, environmental and social management plan, ethnic group development plan, and any other applicable assessment or plan as described in the ESMF, to be prepared in accordance with the ESMF pursuant to Section I.C of Schedule 2 to this Agreement; and “Safeguard Assessments and Plans” means, collectively, all such assessments and plans.

27. “SME” means a small or medium enterprise established and operating under the laws of the Recipient.
28. "SME Fund Board" means the board established pursuant to Decree No. 123/PM, dated March 3, 2010, comprising the Vice Minister of MOIC, the Director General of the Planning Department of the Ministry of Planning and Investment and members from the Lao National Chamber of Commerce and Industry, the Ministry of Finance, the Prime Minister's Office, Bank of Lao PDR, the Ministry of Planning and Investment and DOSMEP, for the purpose of making decisions related to SME development funding.

29. "Sub-loan" means a loan made or proposed to be made by a PFI, out of the proceeds of the Financing allocated from time to time to Category (1) for purposes of financing all or a portion of the expenditures incurred by a beneficiary SME for goods, services (other than consultants’ services) and works under a Sub-project.

30. "Sub-project" means a specific development project under Parts 1 or 2 of the Project, which is carried out or proposed to be carried out by a beneficiary SME, in whole or in part through the utilization of the proceeds of a Sub-loan or a Partial Credit Guarantee.

31. "Subsidiary Financing Agreement" means an agreement, acceptable to the Association, entered or to be entered into between the DOSMEP and a PFI pursuant to Section I.E of Schedule 2 to this Agreement, as the same may be amended from time to time with prior agreement with the Association, and such term includes all schedules supplemental to the Subsidiary Financing Agreement.

32. "World Bank’s Trust Fund Donor Center Website" means the secure website maintained at https://clientconnection.worldbank.org.

33. "Training" means the reasonable costs of goods and services required for the participation of personnel involved in training and educational activities, workshops and study tours under the Project, including travel and subsistence costs for training, workshop and study tour participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, honorarium, scholarships, and other costs directly related to training or education course, workshop or study tour preparation and implementation, but excluding fees of consultants.