

Public Disclosure Authorized

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**CREDIT NUMBER 4928-PG**

# **Financing Agreement**

**(Small and Medium Enterprise Access to Finance Project)**

**between**

**INDEPENDENT STATE OF PAPUA NEW GUINEA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 14, 2011**

Public Disclosure Authorized



**CREDIT NUMBER 4928-PG**

**FINANCING AGREEMENT**

AGREEMENT dated June 14, 2011, entered into between INDEPENDENT STATE OF PAPUA NEW GUINEA (“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 the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to thirteen million nine hundred thirty thousand Special Drawing Rights (SDR 13,930,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. The Recipient’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section and Article II of the General Conditions with regard to Categories (1) and (2) is IFC’s Director, East Asia and Pacific.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 1 and September 1 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) cause Part 1 of the Project to be carried out through IFC, in accordance with the Risk Sharing Framework Agreement, and the Risk Sharing Agreements; and
  - (b) carry out Parts 2, 3, and 4 of the Project through DCI, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Events of Suspension consists of the following: (a) the Risk Sharing Framework Agreement has been suspended or terminated in accordance with its terms; or (b) any Participating Financial Intermediary shall have failed to perform any of its obligations under their respective Risk Sharing Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

### **ARTICLE V —EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
  - (a) The Risk Sharing Framework Agreement has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.

- (b) At least one Risk Sharing Agreement has been executed and delivered and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement) have been fulfilled.
  - (c) The Project Steering Committee, the Project Implementation Unit, and the Technical Evaluation Committee have each been established in a manner satisfactory to the Association.
- 5.02. The Additional Legal Matter consists of the following, namely, the Risk Sharing Framework Agreement and the Risk Sharing Agreement mentioned in Section 5.01(b) above have each been duly authorized or ratified by the Recipient and the First Participating Financial Intermediary, respectively, and is legally binding upon the Recipient and the First Participating Financial Intermediary, as the case may be, in accordance with their respective terms.
- 5.03. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Minister for Treasury and Finance of the Recipient.
- 6.02. The Recipient's Address is:

Department of Treasury  
Vulupindi Haus 4<sup>th</sup> floor  
P.O. Box 542  
Waigani, 131 NCD  
Papua New Guinea

Facsimile:

(675) 3128804  
(675) 3128808

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at Port Moresby, Papua New Guinea, as of the day and year first above written.

INDEPENDENT STATE OF PAPUA NEW GUINEA

By/s/ Peter O'Neill

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ Laura Bailey

Authorized Representative

## SCHEDULE 1

### Project Description

The objective of the Project is to facilitate access to sustainable credit for SMEs and thus contribute to incremental growth of SME employment and income.

The Project consists of the following parts:

1. **SME Risk Sharing Facility**

Provision of financing to assist in the establishment of the Risk Sharing Facility to provide partial credit guarantees in local currency to be issued by IFC as an agent of the Recipient to cover losses of portfolios of loans to SMEs that are newly originated and held by Participating Financial Intermediaries; such partial credit guarantees to be provided through a Risk Sharing Agreement between IFC and each Participating Financial Institution.

2. **Performance Based Grants**

*Capacity Building for Participating Financial Intermediaries.* Provision of Performance Based Grants to one or more Participating Financial Intermediaries to build and improve their capacity for SME banking operations through technical assistance.

3. **Capacity building for SMEs**

- (a) *Training of SMEs.* The provision of management, marketing, and financial and legal skills training to Eligible SMEs.
- (b) *Mentoring and coaching.* The provision of individual mentoring and coaching to Participating SMEs.
- (c) *Targeted training for Women Entrepreneurs.* The provision of training to Women Entrepreneurs, in core financial literacy (including money management), starting a business, business planning, and how to work with PFIs.
- (d) *Provincial government training.* Training of staff of the commerce divisions of the provincial governments of the Recipient, through short refresher training in management, marketing, and financial and legal skills, to enable them to provide improved support to micro and small enterprises in their regions.

4. **Capacity building of the Department of Commerce and Industry**

- (a) Management and coordination of the day-to-day implementation of the Project, including financial management, accounting, procurement, monitoring and evaluation, supervision activities, and audits of Project accounts and reporting, through the provision of technical assistance.
- (b) Capacity building to conduct SME surveys and develop baseline performance indicators for the Project.
- (c) Provision of assistance for the development and approval of an updated national SME Policy and Strategy.
- (d) Provision of assistance for facilitating and supporting the operations of the Project Steering Committee.



## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Recipient shall maintain until completion of the Project a Project Steering Committee chaired by the Secretary of Commerce and Industry and including representatives of the Department of National Planning and Monitoring, the Department of Treasury, each Participating Financial Intermediary, the Consultative Implementation and Monitoring Council and, until the Recipient shall have established a private sector consultative group focused upon issues of particular relevance to SMEs, the PNG Business Council, and, once the private sector consultative group has been established, such group; said committee shall meet once every calendar quarter during Project implementation to provide overall policy guidance and implementation oversight, and may make recommendations for improving Project implementation to the Minister for Commerce and Industry and the Association jointly.
2. The Recipient, through DCI, shall maintain until the completion of the Project, a Project Implementation Unit, consisting of qualified staff in sufficient numbers and under terms of reference satisfactory to the Association (including, *inter alia*, a financial management advisor), and provided at all times with adequate funds and other resources, which shall be responsible for the overall coordination, procurement, implementation, financial management, and monitoring and evaluation of the Project activities.
3. The Project Implementation Unit shall also serve as secretariat to the Project Steering Committee.
4. The Recipient, through DCI, shall maintain until the completion of the Project, a Technical Evaluation Committee consisting of qualified staff (including, as the case may be, staff of the Project Implementation Unit) in sufficient numbers, and under terms of reference satisfactory to the Association, and provided at all times with adequate funds and other resources, which shall be responsible for evaluating procurement bids and proposals related to Parts 2, 3 and 4 of the Project.

##### B. Risk Sharing Framework Agreement and Risk Sharing Agreements

1. For the purpose of carrying out Part 1 of the Project, the Recipient shall enter into a Risk Sharing Framework Agreement with the Association and IFC, which shall include the obligation 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 Association, for the purpose of holding funds to be used to satisfy the Recipient's obligations as obligor under the Risk Sharing Facility, and the establishment of which trust fund shall have received the requisite endorsement of the Recipient's Minister for Treasury and Finance in accordance with the requirements of the Recipient's Public Finances (Management) Act, 1995.
- (b) Enter into a Risk Sharing Agreement, in form and substance satisfactory to the Association, with each Participating Financial Intermediary, 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 Participating Financial Intermediary, 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 1 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 Participating Financial Intermediary will follow sound commercial practices in making loans to beneficiaries solely to finance productive private sector activity in the formal 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 Intermediary's credit guidelines and using its standard documentation.
- (f) Ensure that the policies, procedures and requirements set out in: (i) the Environmental and Social Risk Management Operations Manual; and (ii) the Participating Financial Intermediary Specific Social and Environmental Management Systems, are applied by it, and also ensure that each Participating Financial Intermediary that has signed a Risk Sharing Agreement applies the policies, procedures and requirements set out in its Participating Financial Intermediary Specific Social and Environmental Management System.
- (g) Carry out periodic supervision of each Participating Financial Intermediary.
- (h) Carry out monitoring and evaluation, establishment of baseline, and an impact evaluation study of Part 1 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.

**C. Risk Sharing Facility Trust Fund**

1. For the purpose of carrying out Part 1 of the Project, the Recipient shall entrust IFC to establish and maintain the RSF Trust Fund during the implementation of Part 1 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.
2. The proceeds of the Credit 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.
3. 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.
4. 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.
5. Refunds to the Association made pursuant to paragraphs 3 and 4 of this Section I.C or otherwise pursuant to the provisions of the Risk Sharing Framework Agreement shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.
6. (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 6 (a) above.
7. Without limitation or restriction to the foregoing, or to 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 Part 1 of the Project, 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.

**D. Performance Based Grants**

- 1. To facilitate the carrying out of Part 2 of the Project, the Recipient, through DCI, shall make the proceeds of the Financing allocated from time to time to Category (3) available, on a non-refundable grant basis, to the First Participating Financial Intermediary and any other Participating Financial Intermediary as the Recipient may propose and the Association may agree, which has executed a Risk Sharing Agreement with IFC, all under Performance Based Grant Agreements, on terms and conditions satisfactory to the Association, including the right of the Recipient to:
  - (i) suspend or terminate the right of the Participating Financial Intermediary (to use the proceeds of the Performance Based Grant, or obtain a refund of all or any part of the amount of the Performance Based Grant then withdrawn, upon the Participating Financial Intermediary's failure to perform any of its obligations under the Performance Based Grant Agreement; and
  - (ii) require the Participating Financial Intermediary to: (A) carry out its Performance Based Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Performance Based Grant in accordance with the

provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Performance Based Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Performance Based Sub-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (F) enable the Recipient and the Association to inspect the Performance Based Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

2. The Recipient, through DCI, shall exercise its rights under each Performance Based Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive a Performance Based Grant Agreement or any of its provisions.

**E. Anti-Corruption**

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

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

The Recipient shall monitor and evaluate the progress of Parts 2, 3 and 4 of the Project, and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions on the basis of indicators acceptable to the Association, and entrust IFC to do the same for Part 1 of the Project under the Risk Sharing Framework Agreement. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association (by the Recipient or IFC, as the case may be) not later than one (1) month after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section: (i) the Recipient shall prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for Parts 2, 3, and 4 of the Project covering the quarter, in form and substance satisfactory to the Association; and (ii) in respect of Part 1 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 for Parts 2, 3 and 4 of the Project audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
4. No later than thirty (30) days following the hiring of the Financial Management Advisor pursuant to Section IV.B.1(e) of Schedule 2 to this Agreement, the Recipient shall adopt a Financial Management Manual, in form and substance satisfactory to the Association, setting out implementation, organizational, administrative, monitoring and evaluation, arrangements for purposes of the financial management of the Project.
5. The Recipient shall ensure that (a) the Project is carried out in accordance with the Financial Management Manual; and (b) except as the Association shall otherwise agree, not assign amend, abrogate or waive or permit to be assigned, amended, abrogated or waived, the aforementioned Manual or any provision thereof.
6. In case of any inconsistencies between the Financial Management Manual and this Agreement, the provisions of this Agreement shall prevail.

**Section III. Procurement****A. General**

1. **Goods and Works.** All goods and works required for Parts 2, 3 and 4 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 2, 3 and 4 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>
(a) National Competitive Bidding, subject to the additional provisions in Section III.C below
(b) Shopping
(c) Direct contracting
(d) Commercial practices acceptable to the Association

**C. Special Procedures for National Competitive Bidding**

The following provisions shall be applied in National Competitive Bidding:

**Participation in Bidding**

1. The eligibility of bidders shall be as defined under the Procurement Guidelines.
2. Government-owned enterprises in Papua New Guinea shall be eligible to bid only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Recipient.
3. A firm declared ineligible by the Association, based on a determination by the Association that the firm has engaged in corrupt, fraudulent, collusive, coercive

or obstructive practices in competing for or in executing an Association-financed contract, shall be ineligible to be awarded an Association-financed contract during the period of time determined by the Association.

4. A firm which has been engaged by the Recipient to provide consulting services for the preparation or implementation of a project, and any of its affiliates, shall be disqualified from subsequently providing goods or works resulting from or directly related to the firm's consulting services for such preparation or implementation. This provision does not apply to the various firms which together are performing the contractor's obligations under a turnkey or design and build contract.
5. Foreign bidders shall be eligible to participate in bidding under the same conditions as national bidders. In particular, no domestic preference over foreign bidders shall be granted to national bidders or goods in bid evaluation.

#### **Advertising; Time for Submission of Bids**

6. Invitations to bid shall be advertised in at least one (1) newspaper of national circulation, allowing a minimum of thirty (30) days for the preparation and submission of bids, such thirty (30) days to begin with the date of availability of the bid documents or the date of the advertisement, whichever is later.

#### **Bidding Documents**

7. Until national standard bidding documents approved by the Association are available, bidding documents approved by the Association shall be used.

#### **Bid Security**

8. All bidders should provide bid security if indicated in the bidding documents, in the amount and form so indicated. A bidder's bid security shall apply only to a specific bid. A bidder shall be permitted to withdraw or modify its bid prior to the bid submission deadline without forfeiting its bid security.

#### **Classification of Contractors; Qualification; Post-qualification**

9. Bidding shall not be restricted to any particular class of contractors, and non-classified contractors shall also be eligible to bid. Qualification criteria (in case prequalification is not carried out) shall be stated in the bidding documents and shall be based entirely upon the capability and resources of prospective bidders to perform the particular contract satisfactorily, taking into account their experience and past performance on similar contracts, capabilities with respect to personnel, equipment and construction or manufacturing facilities, as well as their financial



position. Before contract award, the bidder having submitted the lowest evaluated, substantially responsive bid shall be subject to post-qualification.

### **Registration of Bidders**

10. If a registration process is required, a foreign firm determined to be the lowest evaluated responsive bidder shall be given reasonable opportunity of registering, without any let or hindrance. Bidders shall not be required to register as a precondition for bidding.

### **Evaluation Criteria**

11. Evaluation criteria shall be clearly specified in bidding documents, and evaluation criteria other than price shall be quantified in monetary terms.

### **Bid Submission, Opening; and Bid Evaluation**

12. Bidders may submit bids, at their option, either in person or by courier service or by mail.
13. Bids shall be opened in public, immediately after the deadline for submission of bids. Bidders' representatives shall be allowed to attend. The name of the bidder, the total amount of each bid, and any discounts shall be read aloud and recorded in the minutes of the public bid opening. A copy of the minutes of the public bid opening shall be promptly provided to all bidders who submitted bids. With respect to contracts which are subject to the Association's prior review, the Recipient shall promptly provide the Association a copy of the minutes of the public bid opening. No bid shall be rejected during the public bid opening. Bids received after the bid submission deadline shall be promptly returned unopened to the bidder.
14. The evaluation of bids shall be done in strict adherence to the criteria declared in the bidding documents and contracts shall be awarded to the qualified bidder which submitted the lowest evaluated, substantially responsive bid.
15. No bid shall be rejected merely on the basis of a comparison with the owner's estimate or budget ceiling without the Association's prior written concurrence.
16. The Recipient shall publish the following information on contract award on a free and open access website when that website becomes operational, or on another means of publication acceptable to the Association: (i) name of each bidder who submitted a bid; (ii) bid prices as read out at bid opening; (iii) name and evaluated price of each bid that was evaluated; (iv) names of bidders whose bids were rejected and the reasons for the rejection; and (v) name of the winning bidder, price it offered, as well as the duration and

summary scope of the contract awarded. This publication shall be updated at least quarterly.

### **Rejection of Bids**

17. Rejection of all bids and re-bidding shall not be carried out without the Association's prior written concurrence.

### **Extension of the Validity of Bids**

18. In exceptional circumstances, the procuring entity may, before the expiration of bid validity, request all bidders in writing to extend the validity of their bids. In such cases, bidders shall not be requested nor permitted to amend the price or any other condition of their bids. Bidders shall have the right to refuse to grant such an extension without forfeiting their bid securities, but bidders granting such an extension shall be required to provide a corresponding extension of the validity of their bid securities.

### **No Contract Negotiations**

19. There shall be no negotiation of contracts, even with the lowest evaluated bidder, without the Association's prior concurrence. A bidder shall not be required, as a condition of award of contract, to undertake obligations not specified in the bidding documents, or otherwise to modify its bid as originally submitted.

### **Suppliers, Contractors and Subcontractors**

20. The Association shall declare a firm ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Association, if it at any time determines that the firm has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the Association.
21. Each contract financed from the proceeds of the Credit shall provide that the suppliers, contractors and subcontractors shall permit the Association, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Association. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

### **Conflict of Interest**

22. Suppliers and contractors that have a business or family relationship with a senior member of the Recipient's staff may not be awarded a contract, unless the conflict of interest stemming from this relationship has been resolved in a manner

satisfactory to the Association throughout the process of evaluation of the bids and the execution of the contract.

**Bid Protest Mechanism**

- 23. The Recipient shall establish an effective bid protest mechanism related to the procurement process and contract award, acceptable to the Association that allows for bidder protests and the timely handling of such protests. The procedures to receive and handle complaints shall be disclosed in the bidding documents.

**D. 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 table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) Quality-Based selection
(b) Selection under a Fixed Budget
(c) Selection Based on the Consultants’ Qualifications
(d) Single-Source Selection
(e) Selection of Individual Consultants based on qualifications
(f) Selection of Individual Consultants based on sole-sourcing
(g) Commercial Practices acceptable to the Association

**E. 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 to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) First Loss Coverage for First Participating Financial Intermediary (Part 1 of the Project)	3,710,000	100% of amounts disbursed
(2) First Loss Coverage for subsequent Participating Financial Intermediaries (Part 1 of the Project)	3,710,000	100% of amounts disbursed
(3) Performance Based Grants to PFIs	970,000	65%
(4) Goods, consultants’ services, Training and Incremental Operating Costs	5,540,000	100% of amounts disbursed
<b>TOTAL AMOUNT</b>	<b>13,930,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
- (a) for payments made prior to the date of this Agreement;
  - (b) under Category (1) until evidence satisfactory to the Association has been provided that the PFI-SEMS, satisfactory to IDA, has been adopted by the First Participating Financial Intermediary;

- (c) under Category (2) in respect of each subsequent Participating Financial Intermediary, until: (i) IFC has signed a Risk Sharing Agreement satisfactory to the Association with the subsequent PFI; (ii) evidence satisfactory to the Association (including delivery of a satisfactory legal opinion of legal counsel acceptable to the Association) has been provided that such Risk Sharing Agreement has been duly authorized, executed and signed and ratified by and is legally binding on the subsequent PFI and all conditions precedent to effectiveness (except only the disbursements of the proceeds of the Credit) have been fulfilled; and (iii) evidence satisfactory to the Association has been provided that a PFI-SEMS satisfactory to IDA has been adopted by the subsequent PFI;
- (d) under Category (3) for costs incurred in respect of each Participating Financial Intermediary unless such Participating Financial Intermediary has entered into a Performance Based Grant Agreement with the Recipient, and evidence satisfactory to the Association (including delivery of a satisfactory legal opinion of legal counsel acceptable to the Association) has been provided that said agreement has been duly authorized, executed and signed and ratified by and is legally binding on the parties thereto and all conditions precedent to effectiveness (except only the disbursements of the proceeds of the Credit) have been fulfilled; or
- (e) for costs incurred under Category (4) until the Financial Management Advisor has been hired by the Recipient in accordance with the requirements of Section III of Schedule 2 to this Agreement and such Advisor has assumed her/his responsibilities within the Project Implementation Unit.

2. The Closing Date is December 31, 2024.

**Section V. Other Undertakings**

- 1. The Recipient shall undertake jointly with the Association, within eighteen (18) months of the Effective Date, or such later date as may be established by the Association, a review of the implementation of the Project.

**SCHEDULE 3****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 1 and September 1:	
commencing September 1, 2021 to and including March 1, 2031	1.25%
commencing September 1, 2031 to and including March 1, 2046	2.5%

\* 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****Section I. Definitions**

1. “Anti-Corruption Guidelines” means:
  - (i) with respect to Part 1 of the Project, IFC’s anti-corruption approach for private sector projects, as such approach may be amended from time to time by IFC; and
  - (ii) with respect to Parts 2, 3 and 4 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.
2. “Bank South Pacific” means Bank South Pacific Ltd., a banking corporation established and operating under the laws of the Recipient with headquarters in Port Moresby.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
5. “DCI” means the Recipient’s Department of Commerce and Industry, or any successor thereto.
6. “Department of Treasury” means the Recipient’s Department of Treasury, or any successor thereto.
7. “Environmental and Social Risk Management Operations Manual” means the manual by that name dated October 7, 2010, and adopted by IFC (as facility agent on behalf of the Recipient) and the Recipient, as may be amended or supplemented from time to time with the prior written consent of the Association.
8. “Eligible SME” means a private sector SME, or a woman-owned start up business, in each case operating in the formal sector on the territory of the Recipient, that: (i) has been referred by a PFI, or a chamber of commerce or business council office of the Recipient; (ii) provides adequate information relating to its current business (sector, location, employee numbers, turn-over and current sources and amounts of external financing; and (iii) demonstrates commitment by making a financial contribution to the costs of the training; as

such criteria may be amended or supplemented from time to time with the prior written agreement of the Association.

9. “Financial Management Advisor” means the financial management advisor referred to in Section I.A.2 of Schedule 2 of this Agreement.
10. “Financial Management Manual” means the manual referred to in Section II.B.4 of Schedule 2 to this Agreement; as such manual may be amended or supplemented from time to time with the prior written approval of the Association.
11. “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 SMEs in local currency originated and held by Participating Financial Intermediaries pursuant to Risk Sharing Agreements.
12. “First Participating Financial Intermediary” means Bank of South Pacific.
13. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
14. “IFC” means the International Finance Corporation.
15. “Incremental Operating Costs” means the reasonable and necessary incremental expenses incurred by the Project Implementation Unit on account of Project implementation, support and management, based on an annual budget satisfactory to the Association, and which would not have been incurred absent the Project, including communications, utilities, stationery, and domestic travel costs, but excluding salaries of the Recipient’s civil servants.
16. “Kina” and “K” each mean the lawful currency of the Recipient.
17. “OP 4.10” means, the Association’s policy on Indigenous Peoples, as may be amended from time to time.
18. “OP 4.12” means the Association’s policy on Involuntary Resettlement, as may be amended from time to time.
19. “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 SME loans, on a *pari passu* basis with each Participating Financial Intermediary.



20. “Participating Financial Intermediary” and “PFI” each means a commercial bank or a leasing company established and operating pursuant to the laws of the Recipient, 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 Intermediary.
21. “Participating Financial Intermediary Specific Social and Environmental Management System” and “PFI-SEMS” each mean a document, satisfactory to the Association, developed and adopted by a Participating Financial Intermediary that provides for the screening of SME loan applications and managing associated environmental and social risks in a manner consistent with the Environmental and Social Risk Management Operations Manual, and setting forth, *inter alia*:
- (a) social and environment policies and procedures, and instructions for preparation and implementation by the PFI of safeguard instruments that may be required, including those to comply with the requirements of OP 4.10 and OP 4.12 when applicable;
  - (b) the PFI’s current organizational structure and staffing for managing environmental and social risks, including the skills and competencies in social and environmental areas;
  - (c) the proposed training and awareness of the PFI’s investment, legal, and credit officers on the organization’s social and environmental management system;
  - (d) reporting systems to managers and performance monitoring procedures;
  - (e) the PFI’s commitment not to finance any loan for activities that would trigger the application of OP 4.10 or OP 4.12, unless the Association shall have provided its prior written approval for the financing of such activities; and
  - (f) the PFI’s commitment to require the beneficiary of the loan to comply with the social and environmental requirements arising from the application of the PFI-SEMS;
- as the same may be amended or supplemented from time to time with the prior written consent of the Association.
22. “Participating SME” means: (a) an Eligible SME that: (i) has obtained a loan from a PFI under the RSF; and (ii) demonstrates commitment by making a

financial contribution to the cost of the mentoring program; and (iii) commits to provide appropriate data on business turnover and employment for twenty-four (24) months after completion of the mentoring program under Part 3(b) of the Project, and (b) Women Entrepreneurs that have completed training under Part 3(c) of the Project.

23. “Performance Based Grant” means a grant made or proposed to be made out of the proceeds of the Credit by the Recipient to a Participating Financial Intermediary for the purpose of financing a Performance Based Sub-project.
24. “Performance Based Grant Agreement” means an agreement, entered into or to be entered into between the Recipient and a Participating Financial Intermediary, for the purpose of extending the Performance Based Grant, on terms and conditions satisfactory to the Association.
25. “Performance Based Sub-project” means a set of activities: (A) under Part 2(a) of the Project carried out or to be carried out by a Participating Financial Intermediary with the assistance of a Performance Based Grant.
26. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
27. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 23, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
28. “Project Implementation Unit” means the unit within DCI referred to in Section 5.01(c) and Section I.A.2 of Schedule 2 to this Agreement.
29. “Project Steering Committee” means the committee referred to in Section 5.01(c) and Section I.A.1 of Schedule 2 of this Agreement.
30. “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 Intermediary, for the issuance of a Partial Credit Guarantee to such Participating Financial Intermediary, as the same may be amended or supplemented from time to time with the prior written approval of the Association.
31. “Risk Sharing Facility” and “RSF” each means the facility established or to be established to provide Partial Credit Guarantees to Participating Financial Intermediaries in local currency to be issued by IFC as an agent of the Recipient to cover losses in respect of portfolios of loans to SMEs, originated and held by

Participating Financial Intermediaries; such partial credit guarantees to be provided pursuant to a Risk Sharing Agreement.

32. “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.B.1 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.
33. “RSF Trust Fund” means the trust fund established under the Trust Fund Administration Agreement and referenced in Section I.B.1 (a) and Section I.C.1 of Schedule 2 to this Agreement.
34. “SME” means an enterprise established and operating under the laws of the Recipient that: (i) has been formally registered under the Recipient’s Companies Act of 1997; (ii) has a minimum of three (3) employees and a maximum of one hundred fifty (150) employees; (iii) has a minimum in borrowings of K20,000 and maximum of K2 million; (iv) has an annual business turnover of between K100,000 and K15 million; and (v) is not a wholly owned subsidiary of a larger corporate entity; as such criteria may be amended or supplemented from time to time with the prior written agreement of the Association.
35. “Training” means reasonable expenditures incurred by the Recipient in connection with the holding of training under the Project, based upon an annual budget satisfactory to the Association, including the domestic travel costs and per diem of trainers and trainees, and the rental of facilities and the production and/or acquisition and distribution of training materials.
36. “Technical Evaluation Committee” means the committee referred to in Section 5.01(c) and Section I.A.4 of Schedule 2 to this Agreement.
37. “Women Entrepreneurs” means one or more women operating a business in the formal sector on the Recipient’s territory (such business not necessarily being a SME), who: (i) is or are referred by a registered PFI, a chamber of commerce or business council or a recognized and registered women’s business forum; and (ii) demonstrates or demonstrate commitment by making a financial contribution to the cost of Training.
38. “World Bank’s Trust Fund Donor Center Website” means the secure website maintained at <https://clientconnection.worldbank.org>.

**Section II. Modification to the General Conditions**

Paragraph (a) of Section 2.05 is modified to read as follows:

“Section 2.05. Eligible Expenditures

(a) the payment is for the financing of the reasonable goods, works, services, First Loss Coverage, Performance Based Grants, Training, and Incremental Operating Costs (as said terms are defined in the Financing Agreement) required for the Project, to be financed out of the proceeds of the Financing and procured, all in accordance with the provisions of the Legal Agreements;”.