LOAN NUMBER 1802-VIE(SF)

# LOAN AGREEMENT
(Special Operations)

(Rural Enterprise Finance Project)

between

SOCIALIST REPUBLIC OF VIET NAM

and

ASIAN DEVELOPMENT BANK

DATED 26 April, 2001

**LOAN AGREEMENT**
**(Special Operations)**

LOAN AGREEMENT dated 26 April, 2001 between SOCIALIST REPUBLIC OF VIET NAM (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called the Bank).

WHEREAS

(A) the Borrower has applied to the Bank for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) a portion of the Project will be carried out by Vietnam Bank for Agriculture and Rural Development (hereinafter called VBARD), and for this purpose the Borrower will make available to VBARD a portion of the proceeds of the Loan provided for herein in the amount and upon terms and conditions satisfactory to the Bank;

(C) a portion of the Project will be carried out by the Central People's Credit Fund (hereinafter called CCF), and for this purpose the Borrower will make available to CCF a portion of the proceeds of the Loan provided for herein in the amount and upon terms and conditions satisfactory to the Bank;

(D) the Bank has agreed to make a loan to the Borrower from the Bank's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreements of even date herewith between the Bank and VBARD, and CCF, respectively; and

(E) the Borrower has also applied to the Bank for technical assistance (hereinafter called the Technical Assistance) for Support of Rural Businesses, and the Bank has agreed to provide to the Borrower a grant of up to the equivalent of one million dollars ($1,000,000).

NOW THEREFORE the parties hereto agree as follows:

## ARTICLE I

### Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of the Bank, dated 7 December 1982, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Special Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

(a) Section 2.01(17) is deleted and the following is substituted therefor:

amount of the Loan shall remain unwithdrawn from the Loan Account, the Bank may by notice to the Borrower and the Guarantor, if any, terminate the right of the Borrower to make withdrawals with respect to such amount or contract. Upon the giving of such notice, the amount of the Loan or the relevant portion thereof shall be cancelled.

(h) Section 8.04 is deleted and Sections 8.05, 8.06 and 8.07 are renumbered as Sections 8.04, 8.05 and 8.06, respectively.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "CCF Subsidiary Loan Agreement" means the agreement between the Borrower and CCF referred to in Section 3.01 of this Loan Agreement;

(b) "Central People's Credit Fund" or "CCF" means the Central People's Credit Fund organized and existing under license dated July 1995 from the SBV;

(c) "Charter" means the charter of VBARD promulgated under Decision 280/QD-NHNN5 dated 10 October 1996 and Decision 390/QD-NHNN5 dated 22 November 1997 of the Governor of the State Bank of Vietnam on the establishment of VBARD;

(d) "Dong" or the sign "D" means dong in the currency of the Borrower;

(e) "household" means for the purpose of the Project a household carrying out rural business;

(f) "low-income household" means for the purpose of the Project a household with an average annual expenditure of less than $128 per capita carrying out or willing to carry out a rural business;

(g) "micro business" means for the purpose of the Project rural business having less than 5 employees;

(h) "NGO" means a private, voluntary, politically neutral, non-profit non-government organization;

(i) "PCA" means the Project Coordinating Agency described in paragraph 3 of Schedule 6 to this Loan Agreement;

(j) "People's Credit Funds" or "PCFs" means people's credit funds established under licenses issued by the State Bank of Viet Nam, and "PCF" means any one of them;

(k) "PIUs" means the Project Implementation Units established in VBARD and CCF for purposes of Project implementation described in paragraph 2 of Schedule 6 to this Loan Agreement, and "PIU" means any one of them;

(l) "Policy Matrix" means the policy matrix covering policy issues and actions in the rural financial and business sectors, discussed with relevant ministries and departments of the Borrower, VBARD and CCF;

(m) "Project area" means all Provinces of the Borrower excluding the municipal boundaries of Ho Chi Minh City and Hanoi, and including provincial and district towns whose economic roles and functions are closely linked to agricultural and rural enterprises;

(n) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means VBARD for Part I and III (Rural and Agribusiness Credit and Institutional Strengthening components), and CCF for Part II (Household and Cooperative Credit component);

(o) "Regulations on Collateral" means Decree 165 on Secured Transactions dated 19 November 1999 and Decree 178 on Security Interests for Loans Extended by Credit Institutions dated 29 December 1999;

(p) "rural business" means for the purpose of the Project non farm businesses that are not concerned with primary agricultural, livestock and forestry production such as agricultural input producers and suppliers; processors of fruits, vegetables, and other horticultural crops; processors of industrial crops; processors of fish and livestock products; services such as mechanization; small-scale manufacturers producing goods such as baskets and bags, mats, furniture, woven products; and storage and marketing businesses;

(q) "SBV" means the State Bank of Viet Nam, and any successor thereto;

(r) "small business" means for the purpose of the Project rural business having less than 50 employees;

(s) "Subborrower" means a group or an individual, or a cooperative, or a registered private household, or an incorporated enterprise under Vietnamese law, to whom VBARD or a PCF proposes to make or has made a subloan;

(t) "Subloan(s)" means a loan(s) made or proposed to be made by VBARD or a PCF out of the proceeds of the Loan to a Subborrower for a Subproject;

(u) "Subproject" means a specific development project to be carried out by a Subborrower utilizing the proceeds of a Subloan;

(v) "subsidiary" means a company or other enterprise in which CCF or VBARD holds an ownership stake;

(w) "Subsidiary Loan Agreements" means the VBARD Subsidiary Loan Agreement and the CCF Subsidiary Loan Agreement;

(x) "VBARD Subsidiary Loan Agreement" means the agreement between the Borrower and VBARD referred to in Section 3.01 of this Loan Agreement;

(y) "VBARD" means the Viet Nam Bank for Agriculture and Rural Development and any successor thereto; and

(z) "VBARD Action Plan" means the action plan prepared under the Bank-financed technical assistance for Strengthening Corporate Governance at VBARD (TA No. 3227-VIE) and approved by VBARD.

## ARTICLE II

## The Loan

Section 2.01. The Bank agrees to lend to the Borrower from the Bank's Special Funds resources an amount in various currencies equivalent to sixty-two million five hundred thirty-two thousand Special Drawing Rights (SDR62,532,000).

Section 2.02. (a) The Borrower shall pay to the Bank an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 June and 1 December in each year.

Section 2.04. (a) Subject to the provisions of paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

(b) If the Bank shall determine, after due consideration by its Board of Directors, that (i) the Borrower's gross national product per capita (per capita GNP) has exceeded the Bank's per capita GNP operational cutoff in respect of the Bank's Special Funds resources for five consecutive years and (ii) the Borrower has achieved the capacity to borrow from the Bank's ordinary capital resources, the Bank may, by notice to the Borrower, modify the terms of repayment of the Loan by increasing by 100 percent the amount of each maturity due thereafter until the principal amount of the Loan shall have been fully repaid. However, at the request of the Borrower, the Bank may, in lieu of so increasing any such maturity amounts, charge interest, at an annual rate to be agreed between the Borrower and the Bank, on the principal amount of the Loan withdrawn and outstanding from time to time in such a manner and to such extent as to yield the same grant element as would be obtained under the above-stated increase of maturity amounts.

(c) If, at any time after a modification of the lending terms pursuant to the provisions of paragraph (b) above, the Bank shall, after due consideration by its Board of Directors, determine that the Borrower's economic condition has deteriorated significantly, the Bank may, at the request of the Borrower, restore the original lending terms with respect to the remaining amount of the Loan withdrawn and outstanding.

## ARTICLE III

## Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan for the Project equivalent to:

(i) SDR38,086,000 to VBARD for the purpose of carrying out Part I and Part III of the Project under the VBARD Subsidiary Loan Agreement upon terms and conditions satisfactory to the Bank; and

(ii) SDR23,664,000 to CCF for the purpose of carrying out Part II of the Project under the CCF Subsidiary Loan Agreement upon terms and conditions satisfactory to the Bank.

Except as the Bank shall otherwise agree, the terms of the Subsidiary Loan Agreements shall include the terms set out in Schedule 6 to this Loan Agreement.

(b) The Borrower shall bear the foreign exchange risk of the Loan.

(c) The Borrower shall cause VBARD and CCF to apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreements.

Section 3.02. The goods and services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such goods and services and other items of expenditure shall be in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Bank.

Section 3.03. Except as Bank may otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to this Loan Agreement. The Bank may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and the Bank or where the terms and conditions of the contract are not satisfactory to the Bank.

Section 3.04. Except as the Bank may otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. Withdrawals from the Loan Account in respect of goods and services shall be made only on account of expenditures relating to

(a) goods which are produced in and supplied from and services which are supplied from such member countries of the Bank as shall have been specified by the Bank from time to time as eligible sources for procurement, and

(b) goods and services which meet such other eligibility requirements as shall have been specified by the Bank from time to time.

Section 3.06. The closing date for withdrawals from the Loan Account for the purposes of Section 8.03 of the Loan Regulations shall be 30 November 2006 or such other date as may from time to time be agreed between the Borrower and the Bank.

## ARTICLE IV

## Particular Covenants

Section 4.01. (a) The Borrower shall cause VBARD, CCF, PCFs, and SBV to carry out the Project with due diligence and efficiency and in conformity with sound banking, administrative, financial, business, and environmental practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 6 to this Loan Agreement.

Section 4.02. The Borrower shall make available to VBARD and CCF, promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.03. (a) The Borrower shall furnish, or cause to be furnished, to the Bank all such reports and information as the Bank shall reasonably request concerning (i) the Loan, and the expenditure of the proceeds and maintenance of the service thereof; (ii) VBARD, CCF, PCFs, the Subborrowers and the Subloans; (iii) the Project; (iv) the administration, operations and financial condition of VBARD and CCF; (v) financial and economic conditions in the territory of the Borrower and the international balance-of-payments position of the Borrower; and (vi) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, the Borrower shall cause VBARD and CCF to furnish to the Bank semiannual reports on the Project's implementation and its overall operations and management. Such reports shall indicate, among other things, (i) the expenditure for the different components of the Project; (ii) credit disbursement, recoveries, overdues, outstanding loans and status of revolving fund; (iii) deposit mobilization effort and performance; and (iv) physical progress of all Project activities including compliance with covenants. In addition, the Borrower shall furnish to the Bank quarterly reports on (i) implementation of the incentive scheme, the procedure for lending to

Subborrowers with insufficient collateral and progress of the training subcomponent; (ii) reforms that are being undertaken and their progress; and (iii) utilization of the training and technology fund of CCF.

(c) Promptly after physical completion of the Project, but in any event not later than six (6) months thereafter, or such other date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish or shall cause to be prepared and furnished to the Bank a report, in such form and in such detail as the Bank shall reasonably request, on the utilization and impact of the Loan on intended beneficiaries, and the performances by the Borrower, VBARD and CCF of their obligations under this Loan Agreement.

Section 4.04. The Borrower shall enable the Bank's representatives to inspect VBARD, CCF-PCFs, any Subborrower, any Subproject, the goods financed out of the proceeds of the Loan, and any relevant records and documents maintained by SBV, VBARD, CCF and PCFs.

Section 4.05. The Borrower shall promptly take all action including the provisions of funds, facilities, service and other resource, which shall be necessary on its part to enable VBARD and CCF to perform their obligations under their respective Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.06. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreements in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Loan Agreements shall be assigned, amended, or waived without the prior concurrence of the Bank.

Section 4.07. (a) It is the mutual intention of the Borrower and the Bank that no other external debt owed a creditor other than the Bank shall have any priority over the Loan by way of a lien on the assets of the Borrower. To that end, the Borrower undertakes (i) that, except as the Bank may otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will ipso facto equally and ratably secure the payment of the principal of, and interest charge and any other charge on, the Loan; and (ii) that the Borrower, in creating or permitting the creation of any such lien, will make express provision to that effect.

(b) The provisions of paragraph (a) of this Section shall not apply to (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; or (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) The term "assets of the Borrower" as used in paragraph (a) of this Section includes assets of any administrative subdivision or any agency of the Borrower and assets of any agency of any such administrative subdivision, including SBV and any other institution performing the functions of a central bank for the Borrower.

## ARTICLE V

## Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.02(l) of the Loan Regulations:

(a) the Borrower, VBARD or CCF shall have failed to perform any of its obligations under its respective Subsidiary Loan Agreement;

(b) any change in law shall have occurred which in the reasonable opinion of the Bank will or may adversely affect the carrying out of the Project or the ability of VBARD or CCF, as the case may be, to perform any of its obligation under its respective Project Agreement.

Section 5.02. The following are specified as additional events for acceleration of maturity for the purposes of Section 8.06(d) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

## ARTICLE VI

## Effectiveness

Section 6.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations:

(a) each of the Subsidiary Loan Agreements, in form and substance satisfactory to the Bank, shall have been duly executed and delivered on behalf of the Borrower and each of VBARD and CCF, and shall have become fully effective and binding on the parties thereto in accordance with its respective terms, subject only to the effectiveness of this Loan Agreement; and

(b) Project Implementation Units shall have been established at the headquarters of VBARD and CCF, as provided in paragraph 2 of Schedule 6 to this Loan Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to the Bank: that each Subsidiary Loan Agreement and Project Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the parties thereto and is legally binding upon each such party in accordance with its respective terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

## ARTICLE VII

## Delegation of Authority

Section 7.01. The Borrower hereby designates VBARD and CCF its agent for its respective portions of the Project, for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.06 of this Loan Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by VBARD and CCF pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on VBARD and CCF under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and the Bank.

## ARTICLE VIII

## Miscellaneous

Section 8.01. The Governor of SBV is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations:

For the Borrower

State Bank of Viet Nam
49 Ly Thai To
Hanoi, Viet Nam

Cable Address:

VIET BANK

Telex Number:

412248 NHTW VT

Facsimile Number:

(84-4) 825 0612

For the Bank

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-2295.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of the Bank, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIET NAM

By _____
LE DUC THUY
Authorized Representative

ASIAN DEVELOPMENT BANK

By _____
JOHN SAMY
Resident Representative

## SCHEDULE 1

## Description of the Project

1. The objective of the Project is to reduce poverty by promoting the development of private sector investments in rural and agro-based businesses.

2. The Project consists of the following components:

Part I: VBARD Rural and Agribusiness Credit

A credit line equivalent to SDR35,416,600 to VBARD to be used as follows:

(i) 40 percent by value to finance the medium and long term investment and semi-permanent working capital needs of about 3,500 households and enterprise in rural businesses with an average Subloan size of $7,500 equivalent, including an average contribution by VBARD of $2,650 equivalent per Subloan;

(ii) 40 percent by value to finance the medium and long term investment and semi-permanent working capital needs of about 11,000 micro businesses with an average Subloan size of $2,500 equivalent, including an average contribution by VBARD of $880 equivalent per Subloan; and

(iii) 20 percent by value of the credit line to be used to finance the income generating activities of about 18,300 low-income households with an average Subloan size of $750 equivalent, including an average contribution of $265 equivalent by VBARD.

Part II: CCF-PCFs Household and Cooperative Credit

A credit line equivalent to SDR23,449,400 to be used as follows:

(i) 50 percent of the value of the credit line will finance the business operations of about 31,000 low-income households with an average Subloan size of $750 equivalent, including an average contribution of $265 equivalent by PCFs; and

(ii) the balance of 50 percent of the credit line will finance about 7,500 small and micro enterprises with an average Subloan size of $2,500 to $4,000 equivalent, including an average contribution of about $880 to $1,400 equivalent per Subloan by PCFs.

Schedule 1

Part III: Institutional Strengthening

Under this component, the Project will:

(i) provide assistance (a) to VBARD for the establishment on an incentive scheme for credit officers, (b) to VBARD and CCF-PCFs for the establishment of a risk premium scheme, and (c) to CCF-PCFs for the establishment of a training and technology fund;

(ii) provide civil works and equipment for the construction of a central training institute by VBARD; and

(iii) provide assistance to VBARD for the implementation of comprehensive training curriculum development, course design, training, and general institutional strengthening in line with VBARD Action Plan.

3. The Project is expected to be completed by 31 May 2006.

## SCHEDULE 2

## Amortization Schedule

## (Rural Enterprise Finance Project)

| Date Payment Due | | Payment of Principal (expressed in Special Drawing Rights)* |
|---|---|---|
| 1 June | 2009 | 1,302,750 |
| 1 December | 2009 | 1,302,750 |
| 1 June | 2010 | 1,302,750 |
| 1 December | 2010 | 1,302,750 |
| 1 June | 2011 | 1,302,750 |
| 1 December | 2011 | 1,302,750 |
| 1 June | 2012 | 1,302,750 |
| 1 December | 2012 | 1,302,750 |
| 1 June | 2013 | 1,302,750 |
| 1 December | 2013 | 1,302,750 |
| 1 June | 2014 | 1,302,750 |
| 1 December | 2014 | 1,302,750 |
| 1 June | 2015 | 1,302,750 |
| 1 December | 2015 | 1,302,750 |
| 1 June | 2016 | 1,302,750 |
| 1 December | 2016 | 1,302,750 |
| 1 June | 2017 | 1,302,750 |
| 1 December | 2017 | 1,302,750 |
| 1 June | 2018 | 1,302,750 |
| 1 December | 2018 | 1,302,750 |
| 1 June | 2019 | 1,302,750 |
| 1 December | 2019 | 1,302,750 |
| 1 June | 2020 | 1,302,750 |
| 1 December | 2020 | 1,302,750 |
| 1 June | 2021 | 1,302,750 |
| 1 December | 2021 | 1,302,750 |
| 1 June | 2022 | 1,302,750 |
| 1 December | 2022 | 1,302,750 |
| 1 June | 2023 | 1,302,750 |
| 1 December | 2023 | 1,302,750 |
| 1 June | 2024 | 1,302,750 |
| 1 December | 2024 | 1,302,750 |

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

Schedule 2

| Date Payment Due | | Payment of Principal (expressed in Special Drawing Rights)* |
|---|---|---|
| 1 June | 2025 | 1,302,750 |
| 1 December | 2025 | 1,302,750 |
| 1 June | 2026 | 1,302,750 |
| 1 December | 2026 | 1,302,750 |
| 1 June | 2027 | 1,302,750 |
| 1 December | 2027 | 1,302,750 |
| 1 June | 2028 | 1,302,750 |
| 1 December | 2028 | 1,302,750 |
| 1 June | 2029 | 1,302,750 |
| 1 December | 2029 | 1,302,750 |
| 1 June | 2030 | 1,302,750 |
| 1 December | 2030 | 1,302,750 |
| 1 June | 2031 | 1,302,750 |
| 1 December | 2031 | 1,302,750 |
| 1 June | 2032 | 1,302,750 |
| 1 December | 2032 | 1,302,750 |
| | Total | 62,532,000 |

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

## SCHEDULE 3

### Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of goods, services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Taxes

2. No withdrawals from the Loan Account shall be made in respect of any local taxes.

Percentages of Bank Financing

3. Except as the Bank may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

4. Notwithstanding paragraph 5 of this Schedule, any contract awarded to a local supplier after effective international competitive bidding or international shopping pursuant to the relevant provisions of Schedule 4 to this Loan Agreement shall be financed out of the proceeds of the Loan on the following basis:

(a) where the goods procured from a local supplier are manufactured locally, 100 percent of the ex-factory price of the goods supplied (exclusive of any taxes); and

(b) where the goods procured from a local supplier have been entirely imported, 100 percent of the foreign-currency component of the contract price.

Local Expenditure

5. (a) Loan proceeds up to the amount equivalent to SDR14,922,000 may be withdrawn from the Loan Account in foreign currency for the purposes of financing local expenditure.

(b) Except as provided in this paragraph or as the Bank may otherwise agree, no withdrawals from the Loan Account shall be made in respect of any local expenditure on the Project.

Schedule 3

Interest Charge

6. The amount allocated to Category 6 is for financing interest charge on the Loan during the implementation period of the Project. The Bank shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest charge.

Reallocation

7. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table and subject to paragraph 5 of this Schedule,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, the Bank may, by notice to the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of the Bank, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, the Bank may, by notice to the Borrower, reallocate such excess amount to any other Category.

Direct Payment; Imprest Account; Statement of Expenditures

8. (a) Except as the Bank may otherwise agree, VBARD and CCF shall establish within one month of the Effective Date, separate imprest accounts at a "servicing bank" to be appointed by SBV and subject to the Bank's approval. The imprest accounts shall be established, managed, replenished and liquidated in accordance with the Bank's "Loan Disbursement Handbook" dated June 1996, as amended from time to time, and detailed arrangements agreed upon between the Borrower and the Bank. The initial amount to be deposited into the imprest accounts shall be equivalent to 3 months' estimated expenditures, but in any event not exceeding the amount of $3,000,000 equivalent for VBARD and $2,000,000 equivalent for CCF. Direct foreign exchange payment or letters of credit, as well as local currency expenditures may be paid out of the imprest account.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest accounts, in accordance with the Bank's "Loan Disbursement Handbook" dated June 1996, as amended from time to time, and detailed arrangements agreed upon between the Borrower and the Bank. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of $50,000.

(c) The Borrower shall cause VBARD and CCF to ensure that (i) the imprest accounts and expenditures liquidated under the SOE procedure are audited, (ii) the opinion of the auditors relating thereto are included separately in the auditors reports required pursuant to Section 3.07 of the Project Agreement, and (iii) all records pertaining to the imprest accounts are respectively approved by VBARD and CCF in a timely manner.

Conditions for Withdrawal from Loan Account

9. Notwithstanding any other provisions of this Loan Agreement, and except as the Bank may otherwise agree:

(i) no withdrawals shall be made from the Loan Account by VBARD and CCF until they comply with the requirements for submission, within nine months of the close of the financial year 2000 and thereafter within six months of the close of the financial year, certified copies of the Project audit report and their overall financial statements which in the case of VBARD shall be in compliance with International Auditing Standards produced by auditors acceptable to the Bank together with the auditor's opinion.

(ii) no further withdrawal shall be made by VBARD, upon reaching a withdrawn amount equivalent to $3,000,000, from the Loan Account for Part I of the Project, until VBARD has obtained the Borrower's approval on the rationalized reorganizational structure, which was submitted to the Bank and SBV and has implemented it together with VBARD Action Plan;

(iii) upon reaching a withdrawn amount equivalent to $15,000,000, all subsequent withdrawals by CCF from the Loan Account for Part II of the Project shall be subject to the prior approval of SBV.

Attachment to Schedule 3

TABLE

| ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS<br>Rural Enterprise Finance | | | | | |
|---|---|---|---|---|---|
| CATEGORY | | | | PERCENTAGE OF BANK FINANCING | |
| Number | Item | Amount Allocated SDR | | Percentage | Basis for Withdrawal from the Loan Account |
| | | Category | Subcategory | | |
| 1 | Credit | 58,866,000 | | 70 | percent of total expenditure |
| | | | | | (20% for foreign and 50% for local) |
| 2 | Civil Works | 1,231,000 | | 61 | percent of total expenditure |
| | | | | | (0% for foreign and 61% for local) |
| 3 | Equipment | 410,000 | | 100 | percentage of foreign expenditure |
| | | | | 100 | percentage of local expenditure * |
| 4 | Training | 274,000 | | 0 | percentage of foreign expenditure |
| | | | | 15.5 | percentage of local expenditure |
| 5 | Consulting Services | 243,000 | | 100 | percentage of foreign expenditure |
| | | | | 100 | percentage of local expenditure * |
| 6 | Interest Charge | 782,000 | | 100 | percent of amounts due |
| 7 | Unallocated | 726,000 | | | |
| | Total | 62,532,000 | | | |

* Excluding local taxes and duties

## SCHEDULE 4

## Procurement

1. Except as the Bank may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of goods and services to be financed out of the proceeds of the Loan. In this Schedule and the Attachment hereto, the term "goods" includes equipment and materials; the term "services" does not include consulting services.

2. Procurement of goods and services shall be subject to the provisions of the "Guidelines for Procurement under Asian Development Bank Loans" dated February 1999 (hereinafter called the Guidelines for Procurement), as amended from time to time, which have been furnished to the Borrower, VBARD and CCF.

3. Procurement of goods and services shall be made without any restriction against, or preference for, any particular supplier or contractor or any particular class of suppliers or contractors, except as otherwise provided in paragraph 7 below.

4. (a) Each civil works contract estimated to cost the equivalent of more than $1,000,000 and each supply contract for equipment or materials estimated to cost the equivalent of more than $500,000 shall be awarded on the basis of international competitive bidding as described in Chapter II of the Guidelines for Procurement. The civil works for the construction of the central training institute under Part III of the Project shall be grouped in one package and awarded on the basis of international competitive bidding. The bidders for civil work contracts shall be prequalified before bidding.

(b) For contracts to be awarded on the basis of international competitive bidding, there shall be submitted to the Bank, as soon as possible, and in any event not later than 90 days before the issuance of either the first prequalification invitation or the first invitation to bid for the Project, as General Procurement Notice (which the Bank will arrange to publish separately) in such form and detail and containing such information as the Bank shall reasonably request. The Bank shall be provided the necessary information to update such General Procurement Notice annually as long as any goods [and works] remain to be procured on the basis of international competitive bidding.

(c) For contracts to be awarded on the basis of international competitive bidding, procurement actions shall be subject to review by the Bank in accordance with the procedures set forth in Chapter IV of the Guidelines for Procurement. Each draft prequalification invitation and each draft invitation to bid, to be submitted to the Bank for approval under such procedures, shall reach the Bank at least 42 days before it is issued and shall contain such information as the Bank shall reasonably request to enable the Bank to arrange for the separate publication of such invitation.

6. (a) Each supply contract for equipment (other than minor items) estimated to cost the equivalent of less than $500,000 shall be awarded on the basis of international shopping as described in Chapter III of the Guidelines for Procurement.

(b) Each draft invitation to bid and related bid document shall be submitted to the Bank for approval before they are issued.

7. In comparing bids under international competitive bidding, a margin of preference may be provided, at the option of the Borrower and in accordance with the provisions of the Attachment to this Schedule, for

(a) goods manufactured in the territory of the Borrower, provided that the bidder offering such goods shall have established to the satisfaction of the Borrower and the Bank that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods; and

(b) civil works to be carried out by eligible domestic contractors, as defined by the Bank.

8. Civil works contracts estimated to cost less than the equivalent of $500,000 may be awarded on the basis of local competitive bidding among contractors in accordance with the standard procurement procedures of the Borrower and acceptable to the Bank. Selection and engagement of contractors shall be subject to the approval of the Bank. As soon as the bids received have been evaluated, the proposal for award of contract shall be submitted to the Bank for approval. For this purpose, the Bank shall be furnished with three copies of (i) an account of the public opening of bids; (ii) a summary and evaluation of the bids; (iii) the proposal for award; and (iv) a draft contract or a draft letter of acceptance. Promptly after each contract is awarded, the Bank shall be furnished with three copies of the contract as executed.

9. Supply contracts estimated to cost the equivalent of less than $100,000 may be procured through direct purchase. Prior to such procurement, a list of individual items to be procured, an estimate of their costs, an indication of potential sources of supply and any related documents shall be submitted to the Bank for approval. After award, three copies of each contract for such items shall be furnished to the Bank.

10. For procurement of goods and services to be financed by Subloans made out of the proceeds of the Loan in respect of Parts I and II of the Project, the Borrower shall cause VBARD and CCF to require the Subborrowers to demonstrate that the procurement procedures adopted by them are appropriate in the circumstances. The Borrower shall cause VBARD and CCF to ensure and certify to the Bank that the goods and services to be financed by such Subloans shall be purchased at a reasonable price, account being taken also of relevant factors such as time of delivery, efficiency and reliability of the goods, their suitability for the Subprojects and the availability of maintenance facilities and spare parts, and, in the case of services, of their quality and the competence of the parties rendering them.

11. (a) The Borrower shall ensure that all Bank-financed goods and services procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall ensure that all Bank-financed contracts for the procurement of goods and services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

Preference for Domestically Manufactured Goods

1. In the procurement of goods through international competitive bidding, goods manufactured in the territory of the Borrower may be granted a margin of preference in accordance with the following provisions, provided that the bidder shall have established to the satisfaction of the Borrower and the Bank that the domestic value added equals at least 20 percent of the ex-factory bid price of such goods. The 20 percent domestic value added applies to the total ex-factory bid price of the goods and not only to one item in a list.

(a) For application of domestic preference, all responsive bids shall first be classified into the following three categories:

Category I -- bids offering goods manufactured in the territory of the Borrower which meet the minimum domestic value added requirement;

Category II -- bids offering other goods manufactured in the territory of the Borrower; and

Category III -- bids offering imported goods.

(b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves, without taking into account customs duties and other import taxes levied in connection with the importation, and sales and similar taxes levied in connection with the sale or delivery, pursuant to the bids, of the goods.

(c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I or Category II is found to be the lowest, it shall be selected for the award of contract.

(d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category III, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category III by adding either

(i) the amount of customs duties and other import taxes which a nonexempt importer would have to pay for the importation of the goods offered in such Category III bid; or

(ii) 15 percent of the CIF bid price of such goods if the customs duties and import taxes referred to above exceed 15 percent of the CIF bid price.

If, after such further comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category III shall be selected for the award.

2. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference, including the minimum domestic value added.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Domestic Preference for Turnkey Contracts and
Supply-and-Installation Contracts

3. In single-responsibility turnkey (including design-build) contracts and supply-and-installation contracts for large and complex packages, procured through international competitive bidding and in which discrete items of goods are grouped into one contract package and where the CIF cost of goods to be used for or in the permanent works under such contracts is estimated, prior to bidding, to equal or exceed 60 percent of the total cost of such works, a margin of preference shall be applied to the domestically manufactured goods in accordance with the following provisions.

(a) The margin of preference shall not be applied to the whole package but only to the domestically manufactured goods within the package.

(b) Goods offered from outside the territory of the Borrower shall be quoted CIF and goods offered domestically shall be offered ex-factory or ex-works (free of sales and similar taxes).

(c) All other cost components, such as design as well as works installation and supervision, shall be quoted separately.

(d) In the comparison of bids (which should not be classified into Categories I, II or III as with the domestic preference for goods), only the CIF price in each bid of the goods offered from outside the territory of the Borrower shall be increased by the applicable duty and other taxes payable by a nonexempt importer or by 15 percent, whichever is less.

(e) If duties vary from item to item within a package, the appropriate tariff for each item shall apply.

(f) No margin of preference shall be applied to any associated services or works included in the package.

(g) Bidders will not be permitted or required to modify the mix of domestic and foreign goods after bid opening.

4. (a) Bidders applying for the preference shall provide evidence necessary to establish the eligibility of a bid for the preference.

(b) The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of a bid for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above.

Preference for Domestic Contractors

5. In the selection of civil-works contractors, single-responsibility turnkey (including design-build) contractors or supply-and-installation contractors where the CIF cost of goods to be used for or in the permanent works under such contracts is less than 60 percent of the total cost of such works, eligible domestic contractors, as defined below, through international competitive bidding may be granted a margin of preference in accordance with the following provisions.

(a) For application of domestic preference, all responsive bids shall first be classified into the following two categories:

Category I -- bids offered by domestic contractors and joint ventures eligible for the preference in accordance with the applicable criteria as set forth in paragraph 6 below; and

Category II -- bids offered by other contractors.

(b) The lowest evaluated bid of each category shall then be determined by comparing all evaluated bids in each category among themselves.

(c) Such lowest evaluated bids shall next be compared with each other and if, as a result of this comparison, a bid from Category I is found to be the lowest, it shall be selected for the award of contract.

(d) If, however, as a result of the comparison under subparagraph (c) above, the lowest bid is found to be from Category II, it shall be further compared with the lowest evaluated bid from Category I. For the purpose of this further comparison only, an upward adjustment shall be made to the lowest evaluated bid price of Category II by adding an amount equal to seven-and-one-half percent of the bid price. If, after such comparison, the Category I bid is determined to be the lowest, it shall be selected for the award of contract; if not, the lowest evaluated bid from Category II shall be selected.

6. (a) To be eligible for the preference set forth in paragraph 5 above, domestic contractors must meet the following criteria:

(i) firms are registered in the territory of the Borrower;

(ii) firms have majority ownership by nationals of the Borrower; and

(iii) firms will not subcontract more than 50 percent of the total value of their work to foreign contractors.

(b) A joint venture between a domestic contractor and its foreign partner shall be eligible for the preference only if it meets the following criteria:

(i) the domestic partner(s) is individually eligible for the preference according to the criteria stated above;

(ii) the domestic partner(s) would not qualify for the contract works on technical or financial grounds without the foreign participation; and

(iii) the domestic partner(s) will, under the arrangements proposed, carry out at least 50 percent of the contract works measured in terms of value.

(c) Contractors applying for the preference shall be required to provide, as part of the data for qualification, necessary information, including details of ownership, for determining whether, according to the applicable criteria, a particular firm or group of firms qualifies for the preference.

7. The bidding documents shall clearly indicate the preference to be granted, the information required to establish the eligibility of firms for the preference claimed, and the procedures to be followed in the comparison of bids, all as set forth above. Bidders applying for the preference shall provide such additional information in support of such eligibility as may be requested by the Borrower and the Bank.

(d) Execution of Contract. After the conclusion of negotiations but before the signing of the contract, the Bank shall be furnished with (i) the contract as negotiated for approval and (ii) the evaluation of the proposals. Promptly after the contract is signed, the Bank shall be furnished with three copies of the signed contract. If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to the Bank for prior approval.

5. Some of the consulting services, as shall be agreed upon between the Borrower and the Bank, may be carried out by individual consultants. Such consultants shall be selected and engaged by the PIUs in accordance with the following procedures.

(a) A list of the candidates together with their qualifications and a draft contract shall be furnished to the Bank for approval before the selection of consultants.

(b) Promptly after the contract is signed, the Bank shall be furnished with the evaluation of the candidates and a brief justification for the selection, together with three copies of the signed contract.

(c) If any substantial amendment of the contract is proposed after its execution, the proposed changes shall be submitted to the Bank for prior approval.

6. PIUs shall ensure that all Bank-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

## SCHEDULE 6

## Execution of Project; Financial Matters

### A. Implementation

1. VBARD shall be the Executing Agency for Part I and Part III of the Project (the Rural and Agribusiness Credit and Institutional Strengthening components) and CCF shall be the Executing Agency for Part II of the Project (the Household and Cooperative Credit component).

2. (a) Prior to the Effective Date, VBARD and CCF shall each establish and maintain a suitably equipped and staffed Project Implementation Unit (PIU) at their respective headquarters, each with a full-time director responsible for their respective components under the Project. Each PIU shall at a minimum, comprise a credit officer responsible for ensuring and facilitating the implementation of the credit line, an evaluation staff to monitor and evaluate the implementation of the Project and VBARD Action Plan, a training officer to implement the training programs for staff, and a budget staff to prepare relevant withdrawal application and submit periodic reports to the Bank.

(b) The PIUs shall be the Project-specific contact and focal point for the Bank in respect of all matters relating to the implementation, management, and coordination of the Project. The PIUs shall be specifically responsible for:

(i) submitting withdrawal applications to the Bank;

(ii) coordinating and consolidating Project reporting requirements;

(iii) overseeing the implementation of the various components;

(iv) preparing the bid documents, advertising, bid evaluation and procurement for all procurement under the Project;

(v) overseeing the implementation of contracts awarded under (iv) above;

(vi) undertaking Benefit Monitoring and Evaluation as specified in paragraph 16 hereunder;

(vii) preparing, in VBARD (together with other departments of the Borrower as appropriate), the incentive scheme for credit officers and the procedure for charging a risk premium on Subloans with insufficient collateral for the approval of the Bank, supervision and reporting on their implementation, and the preparation of training plans and administration of the training subcomponent in VBARD;

(viii) in CCF, preparing the plans for the establishment and operation of the training and technology fund for the Bank's approval, the basis and amount of risk premium to be charged for Subloans without sufficient

collateral, and the administration of the training subcomponent in CCF-PCFs;

(ix) advertising the credit lines and supervising their implementation;

(x) conducting workshops to clarify the objectives, scope, targets and implementation plans for the components of the Project;

(xi) carrying out mid-term review and evaluation; and

(xii) production of progress reports, project completion reports and other reporting as may reasonably be required by the Bank and the Project Steering Committee during implementation.

3. In order to ensure effective Project supervision and co-ordination, the Borrower shall appoint SBV as the Project Co-ordination Agency (PCA). SBV shall be responsible for the implementation of all policy aspects of the Project as set out in the Policy Matrix, for overseeing the implementation of the reform action plans in VBARD and CCF-PCF, and for ensuring compliance of VBARD and CCF-PCF with all the covenants included in this Loan Agreement and the Project Agreements. SBV shall also be responsible for ensuring that VBARD and CCF-PCF prepare detailed implementation plans, for the review and approval of the plans prior to their submission to the Bank for further approval, and for ensuring that VBARD and CCF-PCF prepare comprehensive progress reports timely.

4. (a) Within three months of the Effective Date, the Borrower shall establish a Project Steering Committee (PSC). The PSC shall be headed by a Deputy Governor, SBV, and shall comprise the Deputy General Director of VBARD, the General Director of CCF, the Directors/Deputy Directors of Foreign Department, Monetary Department, and Cooperative Credit Department of the SBV, Ministry of Finance and Ministry of Agriculture and Rural Development. The Foreign Department in SBV shall be the secretariat for the PSC.

(b) The PSC shall meet at least twice yearly to review the progress of the Project and to take actions to remove constraints affecting the implementation of the Project including any non-compliance noted by SBV in its role as PCA. The PSC shall review the procedures for the tendering and award of contracts for the central training institute in VBARD and all other procurement under the Project to ensure compliance with the appropriate Bank Guidelines. A full record of the discussions and decisions of each meeting shall be submitted to the Bank for information.

**B. Financing Arrangements**

Relending Terms under the Subsidiary Loan Agreements

5. Except as the Borrower and the Bank may otherwise agree, the proceeds of the Loan shall be relent to VBARD and CCF on the basis of Subsidiary Loan Agreements to be entered into between the Ministry of Finance and VBARD and CCF, respectively, which shall include the following terms:

## SCHEDULE 5

## Consultants

1. The services of consultants shall be utilized in the carrying out of the Project, particularly with regard to:

(a) development of new training curricula;
(b) training course design;
(c) training trainers; and
(d) establishment of accreditation systems.

The terms of reference of the consultants shall be as determined by agreement between the Bank, VBARD and CCF.

2. The selection, engagement and services of the consultants shall be subject to the provisions of this Schedule and the provisions of the "Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers" dated October 1998, as amended from time to time, which have been furnished to the Borrower, VBARD and CCF, and other arrangements satisfactory to the Bank on the engagement of domestic consultants.

3. Selection and engagement of the consultants shall be made without any restriction against, or preference for, any particular consultants or any particular class of consultants.

4. The consultants shall be selected and engaged by PIUs in accordance with the following procedures.

(a) Invitation for proposals. The invitation to submit proposals and all related documents shall be approved by the Bank before they are issued. For this purpose, three copies of the draft invitation to submit proposals, a list of consultants to be invited, the proposed criteria for evaluation of proposals and other related documents shall be submitted to the Bank. A period of at least [60] days shall be allowed for submission of proposals. A copy of the final invitation as issued, together with all related documents, shall be furnished to the Bank for information promptly after issuance.

(b) Draft Contract. A draft contract with consultants shall be furnished to the Bank for approval sufficiently before the commencement of evaluation of proposals.

(c) Proposal for Selection. After the proposals received have been evaluated and before negotiations are started with the consultants selected for negotiations, approval of the Bank shall be obtained to the selection made. For this purpose, the Bank shall, promptly after the evaluation of proposals, be furnished with three copies of (i) an evaluation of the proposals (together with one set of each proposal not previously furnished to the Bank); and (ii) justification for the selection.

8. Except as the Borrower and the Bank may otherwise agree, the Borrower shall cause VBARD and eligible PCFs to ensure (i) that Subloans finance a fair geographic dispersal of Subprojects including at least ten percent of Subloans by number in less developed regions of the Project Area, (ii) that there is no over concentration of certain types of businesses where the market is already saturated, (iii) that preference will be given to export-oriented businesses, and (iv) that no loan shall be made to finance pick-up trucks, luxury 4-wheel drive vehicles and other vehicles that may be used substantially for non commercial purposes.

9. Except as the Borrower and the Bank may otherwise agree, the maximum individual Subloan size shall not exceed $30,000 equivalent for VBARD and $10,000 equivalent for PCFs.

Subloan Arrangements

10. (a) VBARD and PCFs shall make Subloans in local currency to Subborrowers at interest rates that shall cover cost of funds, operating costs, loan loss and interest variation risks, in accordance with the prevailing Vietnamese regulations. VBARD and PCFs shall evaluate all proposed enterprise and low-income household Subloans in accordance with their standard and prudent banking procedures, supplemented by a cash-flow and debt-service analysis. The Subloan maturity shall be consistent with the projected Subproject implementation period and debt-service capacity of each Subborrower.

(b) Subloans shall not represent more than 85 percent of the cost of the Subproject including the financing percentage of VBARD and each PCF representing 30 percent of the cost of the Subproject. Subborrowers shall provide not less than 15 percent of the cost of the Subproject in the form of cash, materials or labor.

Subloans with no Collateral and Risk Premium Scheme

11. VBARD and the PCFs shall, before onlending to Subborrowers, assess the collateral that may be provided by Subborrowers in the light of the provisions of the Regulations on Collateral. VBARD and PCFs shall, for Subloans with no collateral, charge a risk premium to cover the risk from insufficient collateral. This scheme shall be subject to guidelines and detailed internal regulations of VBARD and CCF-PCFs covering the operation of the risk premium scheme. Such guidelines and internal regulations shall be prepared and submitted to the Bank, for review and approval, within three months of the Effective Date, and shall be adopted and implemented by VBARD and CCF-PCFs promptly after receipt of the Bank's approval.

Group Lending Approach and Gender Participation

12. In lending to low-income households, VBARD and CCF shall apply a group lending methodology, where low-income households listed and certified by the commune peoples committee according to the poverty criteria published by the Borrower from time to time, shall be mobilized and organized into joint-liability groups. VBARD and CCF may recruit the services of NGOs and mass-organizations, such as the Women's Union, or the Farmers'

Association, as intermediaries and catalysts in group formation, social preparation, training, and credit supervision of Project beneficiaries.

13. VBARD and PCFs shall ensure that there will be no discrimination against women Subborrowers or those from ethnic minority groups and that lack of collateral shall not be a reason to deny a Subloan. VBARD and PCFs shall encourage women and ethnic minorities to borrow to undertake livelihood and income generating activities under their names.

14. VBARD and CCF shall develop appropriate systems and procedures for microcredit operations and shall ensure that its staff at district and commune levels are committed to and fully participate in the Project activities by working closely and in partnership with NGO staff. VBARD and CCFs shall appoint staff at branch level to provide close supervision, monitoring and reporting on Subloan performance and take action as appropriate.

Incentive Scheme within VBARD

15. VBARD shall establish an incentive scheme whereby 1 percent of the Subloan interest (annually) shall be credited to an incentive fund. VBARD shall, at its discretion, use the fund to reward existing staff through incentive payments for full Subloan recovery. The Borrower shall ensure that within three months of the Effective Date, VBARD shall prepare and submit to the Bank, for review and approval, the guidelines and detailed internal regulations for such incentive scheme fund.

Benefit Monitoring and Evaluation (BME) and Reports

16. Within three months of the Effective Date, VBARD and CCF shall carry out a baseline survey of a stratified sample of rural households that is representative of the rural community as a whole. The Borrower, VBARD, CCF, PCA and the Bank shall carry out a comprehensive midterm review, within two years of the Effective Date, on the Project implementation to evaluate its actual physical and financial progress, review the relative allocations of the Loan to VBARD and CCF-PCF credit line components, BME, compliance with specific covenants, and the performance of the PIUs. Based on this review, modifications and improvements to the Project shall be made and implemented.

Environment

17. VBARD and PCFs shall require all Subborrowers for Subprojects to be financed under their respective credit line to comply with the Borrower's environmental laws and regulations in force. In the lending processes VBARD and PCFs shall raise customer's awareness of environmental responsibilities by requiring (i) Subborrowers to provide copies of all environmental permits prior to loan disbursement, where such permits are required, (ii) the inclusion of a standard environmental loan covenant in all loan agreements specifying the Subborrower's environmental responsibilities, and (iii) the monitoring of compliance with loan covenants and taking corrective action if non-compliance is detected.

## C. Financial Matters

18. The Borrower shall cause VBARD and CCF to establish and maintain separate Project-specific revolving funds within three months of the Effective Date to credit proceeds from repayment of the principal of the Subloans to these funds. The resources in the revolving funds shall, until the obligations under the Subsidiary Loan Agreements have been terminated, be utilized exclusively to finance subloans similar to those made under Parts I and II of the Project and which contribute to economic growth and employment generation. The revolving fund accounts shall be audited in accordance with Section 3.07 of the Project Agreements.

19. Unless the Borrower and the Bank shall otherwise agree, the Borrower shall, with respect to VBARD's operations:

(i) cause SBV, upon the Effective Date, to (a) include VBARD in the inspection on risk weighted capital adequacy and accrued income recognition in line with Decree No. 48/1998/QD-NHNN5 dated 8 February 1999, and (b) define within one year of the Effective Date the asset classification and provisioning policy for VBARD taking into consideration its unique character as a development bank;

(ii) within six months of the Effective Date, identify all of the State Owned Enterprise (SOE) directed lending in VBARD's loan portfolio and within one year of the Effective Date issue a binding statement to VBARD reconfirming the guaranteed status of SOE loans directed by the Borrower or otherwise transfer such loans to a newly created policy bank or other asset management vehicle; and

(iii) cause VBARD to (i) rationalize its organizational structure to reduce spans of control, increase delegation of authority, clarify chains of command, group together functionally related departments and remove potential for conflict of interest; formulate and document revised policies for payment, deposit, loan and service products; formulate and document revised policies for the management of credit, liquidity, interest rate, foreign exchange and operational risks; formulate and document revised policies for accounting, budgeting, and management information; formulate and document revised policies for personnel management, job descriptions, staff hiring, performance evaluation, compensation, promotion and training in accordance with the agreed VBARD Action Plan; and (ii) to implement the VBARD Action Plan within the specified timeframe.

20. Unless the Borrower and the Bank shall otherwise agree, the Borrower shall, with respect to CCF-PCF's operations:

(i) cause the Credit Cooperatives Department and Banking Supervision Department of SBV to continue to supervise CCF-PCFs and to provide support for training CCF-PCFs staff and Subborrowers;

(ii) cause the Foreign Department of SBV to submit regular reports to the Bank on the performance and weaknesses of the CCF-PCFs as determined from time to time until such time as the CCF-PCFs network is fully autonomous; and

(iii) cause CCF to submit, within three months of the Effective Date, to the Bank and SBV the approved time-bound Institutional Development Plan prepared under the Evaluation of the Pilot Operation of the PCF Network which was concluded in January 2000.

21. Within one year of the Effective Date, the respective PIU at VBARD and CCF shall operationalize the rural businesses centers to be established under the Technical Assistance.

22. VBARD and CCF shall operate in a self-sustainable manner based on prudential commercial banking practices and shall at all times maintain compliance with the law and banking regulations of SBV including maintaining adequate capital. In this context, the Borrower shall ensure that it shall infuse additional capital into VBARD as soon as the 1999 audit confirms the capital shortage.

23. The Borrower shall ensure that no Subloans shall be made by VBARD to SOEs from the proceeds of the Loan without prior approval from the Bank and that VBARD shall reduce the outstanding loans to SOEs in accordance with the Borrower's overall program to reduce the number of SOEs.

24. The Borrower shall ensure that a review of the relending and onlending rates shall be carried out annually by the Ministry of Finance, SBV, VBARD, CCF-PCFs and the Bank to ensure that the average spread is adequate to cover the cost of operations and loan losses of VBARD and CCF-PCFs.

25. Within three months of the Effective Date, VBARD and CCF shall (i) establish monitoring systems for the implementation of the Project, and (ii) ensure that systems and procedures to implement the Project are adequate, that targets are regularly transmitted to the branches and that performance is measured.

26. Within one year of the Effective Date, VBARD and CCF shall prepare and submit to the Bank their detailed training plans. In addition, VBARD shall prepare a full feasibility study for the central training institute including the detailed plans for training curriculum development, course design and implementation, subject to the Bank's approval.