

Credit Guarantee Fund for Small and Medium-sized Enterprises of the Organization for Entrepreneurship Development

CGF Operations Manual

regarding Portfolio Guarantees

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Version 1.2	Board of the Public Institution Organization for Entrepreneurship Development	1. Confer the Director of ODA the competence to approve the collaboration with the PFIs, and allocating the appropriate portfolio volume based on the due diligence process and the registered scoring, taking in account the methodology of calculating the maximum exposure and limit values for Lenders approved by the ODA Board. 2. Withdrawal of the Director's competence to make editorial amendments to the annexes. Editorial changes to the Operational Manual (writing, expression, linguistic, spelling, grammar), are approved by the Board, without consulting the Committee, on the proposal of the Director. 3. Change in the Guarantee Agreement, regarding the need of only sending a request/notification to ODA, in case of any modification	03.09.2024 (Protocol no. 15)

		of collateral structure (termination, discharge, replacement). 4. Exclusion of the Lender's Environmental and Social Management System from the Annex to the Guarantee Agreement.	
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I. GENERAL DISPOSITIONS ON PORTFOLIO GUARANTEES

1.1. The operational manual on portfolio guarantees (hereinafter – **Manual**) is elaborated in accordance with the World Bank requirements and the provisions of Government Decision no. 709 of 19.10.2022 for the approval of the *Regulation on the organization, functioning and use of the Credit Guarantee Fund for small and medium-sized enterprises* and regulates the process of inclusion, exclusion, monitoring, claims and recovery of portfolio guarantees.

The Manual establishes the procedures that are necessary for the implementation of portfolio guarantees, a new guarantee scheme that is supported by the MSME Competitiveness Project (hereinafter **Project**). The Project's objective is to reduce the regulatory burden, increase access to finance, and increase the export competitiveness of Moldovan enterprises.

The Project objectives will be achieved through a set of activities that aim to: a) digitize government to business services and inspections, streamline permissive documents, and enhance national quality infrastructure to reduce the regulatory burden enterprises face (Component 1); b) support access to finance for enterprises through credit guarantees and enhance the capacity of CGF (Component 2), c) support the development of MSMEs and enhance their export competitiveness (Component 3), d) support project management; and, e) support the government's response in case of an emergency.

Component 2 (Access to Finance) aims to support the Credit Guarantee Fund (hereinafter – CGF) within ODA for the provision of portfolio financial guarantees to Participating Financial Intermediaries (LENDERS) for loans to MSMEs, to enable them to expand the business and realize economies of scale, start operations in new markets, engage in new export activities, and adopt new technologies required for productivity gains.

The objective of Component 2 is to unlock financial intermediation to MSMEs by addressing high collateral requirements and the heightened risk aversion to MSMEs in Moldova of financial institutions through public portfolio partial credit guarantees. The Project will support the provision of credit guarantees for both investment loans and working capital loans made by LENDERS via CGF. The Project will finance the provision of MSME loan portfolio guarantees to LENDERS by capitalizing CGF and will also provide technical assistance to strengthen ODA/CGF's institutional capacity to facilitate access to finance for MSMEs.

On July 15, 2022, the Government of the Republic of Moldova and the International Bank for Reconstruction and Development (IBRD) signed the Loan Agreement (9423-MD) in the amount of EUR 17.700.000, ratified by the Parliament of the Republic of Moldova, through Law no.203/2022, from which EUR 13.800.000 is destined for the capitalization of CGF, which provides for the implementation of a new mechanism to guarantee loan portfolios and strengthen Lenders' capacity to grant loans to small and medium-sized enterprises ("SMEs") in the Republic of Moldova, thus creating positive outcomes by maintaining and creating new jobs and stimulating economic growth.

- 1.2. In accordance with the provisions of art. 13 of the Law no.179/2016 *on small and medium-sized enterprises*, CGF is created within the organizational structure of the Public Institution Organization for Entrepreneurship Development (hereinafter – ODA) with the status of an autonomous internal subdivision, without legal personality.
- 1.3. The internal subdivision of the ODA representing the CGF is *the Department of the Credit Guarantee Fund*.
- 1.4. In the process of work, the subdivisions responsible for the implementation of portfolio guarantees will adhere to the provisions of Law 179/2016, *the Regulation on the organization, functioning and use of the Credit Guarantee Fund for small and medium-sized enterprises*, approved by Government Decision no. 709 of 19.10.2022, the dispositions of this Manual, as well as of other normative acts.
- 1.5. The manual establishes the operational basis for the implementation of portfolio guarantees. In order to ensure the implementation of some processes from the Manual, ODA will develop internal documents regulating:
 1. Risk management framework, including environmental and social risks;
 2. Policies for monitoring and evaluating portfolio guarantees;
 3. Pricing policies.
- 1.6. Responsible for the operational part and the monitoring of portfolio guarantees is *the Section for assessing the compliance of portfolio guarantees of the CGF*.
- 1.7. Responsible for risk assessment and analysis, the *Risk Assessment and Analysis Section* of the CGF is appointed.
- 1.8. The Financing and Risk Committee (hereinafter - *the Committee*), is the independent collegiate body for participation in the decision-making and advising process on the portfolio guarantees, according to the attributions established by the ODA Statute and the Rules of the Financing and Risk Committee approved by the ODA Board.
- 1.9. ODA issues portfolio guarantees in favor of eligible creditors, for all loans granted to beneficiaries and included in the guaranteed loan portfolio and which meet the eligibility criteria and conditions set out in the Guarantee Scheme and the Guarantee Agreement (Annex 8. Template Guarantee Agreement), respecting the provisions of this Operational Manual, as well as other internal documents of the ODA.
- 1.10. ODA may issue the following types of portfolio guarantees:
 - 1) capped portfolio guarantees;
 - 2) uncapped portfolio guarantees.
- 1.11. Depending on the type of guarantee and the collateral coverage ratio, the guarantee schemes are structured as follows:
 - 1) capped secured portfolio;
 - 2) uncapped secured portfolio;
 - 3) capped unsecured portfolio;
 - 4) uncapped unsecured portfolio.
- 1.12. In the secured portfolios only loans whose collateral coverage is more than 50% will be included. The guarantee scheme sets out the exact coverage rate and criteria for the type of collateral allowed.
- 1.13. The collateral coverage ratio is determined by the following formula:

$$RG = VG * C/100$$

where:

RG – collateral coverage ratio;

VG - the amount of collateral assuring the loan included in the portfolio of the Lender (pledge amount accepted by the Lender). The calculation of the pledge amount is based on the internal procedure of the Lender;

C - initial loan amount.

- 1.14.** For the capped portfolio guarantee, ODA is obliged to honor all the payment commitments requested by the Lender regarding the enforcement of the guarantees, until the maximum amount of the guarantee cap related to the guaranteed loan portfolio is reached (hereinafter - *the maximum guarantee cap amount*), predetermined in the guarantee product, and guarantee agreement.
- 1.15.** For the uncapped portfolio guarantee, ODA is obliged to honor the payment commitments requested by the Lender regarding the enforcement of the guarantees, up to the maximum *guarantee cap amount*.
- 1.16.** The maximum guarantee cap amount shall be determined by ODA and calculated by the following formula:

$$PG = S * C/100 * RP/100$$

where:

PG – maximum guarantee cap amount, expressed in MDL;

S – the maximum value of the guaranteed loan portfolio, expressed in MDL;

C – the guarantee rate;

RP - guarantee cap rate for the guaranteed loan portfolio. For uncapped portfolio guarantees RP is 100%, and for capped RP will be not more than 50%.

- 1.17.** For portfolio guarantee management services, as well as for covering any risks of claims, the Lender pays to the ODA a guarantee fee, which is calculated for the outstanding portfolio volume recorded at the end of the calculation month and taking into account the guarantee fee rate, set out in the guarantee agreement, according to the following formula:

$$CG = S * C/100 * (R/12)/100$$

where:

CG – guarantee fee amount, expressed in MDL;

S – the outstanding portfolio volume, recorded at the end of the calculation month, expressed in MDL;

C – the guarantee rate;

R - the annual rate of the guarantee fee set in the guarantee products.

- 1.18.** The guarantee schemes/products are approved by the ODA Board and include all specific conditions for granting financial guarantees. The guarantee schemes are developed in accordance with government policies and are designed to achieve the objectives which are set by the ODA Board for the CGF. The respective objectives are established by the market analysis to be undertaken by the CGF. The purpose of the analysis is to define the target group and adjust the eligibility criteria accordingly.

For the purposes of the Manual, the following notions are defined:

Portfolio guarantee - financial guarantee issued by ODA for an eligible loan portfolio of the Lender, under the terms of a guarantee agreement concluded, in order to share the credit risk between the ODA and the Lender, associated with this loan portfolio.

Applicant – micro, small or medium-sized enterprise as defined according to art. 4 of the Law no.179/2016 on small and medium-sized enterprises, which requests a loan from the Lender, guaranteed with financial guarantee;

Beneficiary - micro, small or medium-sized enterprise defined according to art. 4 of the Law no.179/2016 on small and medium-sized enterprises, which obtained from the Lender a loan included in the Portfolio.

Lender – licensed bank, which has concluded a guarantee agreement with ODA, for the purpose of granting loans guaranteed with portfolio guarantee.

Eligible Loan – a new loan granted by the Lender to the Beneficiary under a loan agreement, which complies with the requirements of this Manual and the guarantee agreement signed between ODA and the Lender.

The agreed portfolio volume - value expressed in MDL established in the guarantee agreement, calculated as a percentage of the maximum portfolio volume. At the decision of ODA, the agreed portfolio volume can be increased to the maximum portfolio volume, depending on the successful use and compliance with the Portfolio Objectives, set out in the guarantee agreement.

The actual portfolio volume – the total amount of principal according to the loan agreements included in the Portfolio. The Actual Portfolio Volume shall not be reduced with the reduction of the outstanding of the loans or the value of the claims. The actual portfolio volume is reduced only by excluding the loans from the Portfolio, cancelling the Loans or reducing the size of the Loans due to the non-disbursement of the maximum amount of the loan or the decrease of the value of the credit line. The Actual Portfolio Volume is limited to the Agreed Portfolio Volume.

Outstanding portfolio volume – the sum of the following two amounts: (i) for simple term loans or similar facilities: the aggregate of all actual outstanding (i.e. not repaid) principal amounts of all loans included in the Portfolio, and (ii) for credit lines, loans granted in instalments (until their full payment) and for overdrafts or similar facilities: the amount of credit limits and approved facilities (regardless of whether these overdrafts and credit facilities are actually disbursed) from all loans included in the Portfolio.

Portfolio objectives - Objectives to be achieved by the Lender, which may include risk parameters, sectoral actions, geographical actions or others. The objectives are set by ODA for each Portfolio and detailed in the guarantee agreement.

Inclusion Period - Period that starts from the date specified in the guarantee agreement signed with the Lender and ends after 2 years. During this period, the Lender may include new Loans in the portfolio, the aggregated value of the principal amount of which will not exceed the Agreed Portfolio Volume.

Termination date of the agreement – at the expiry of 7 years from the moment of signing the guarantee agreement with the Lenders.

Claims - The amount of portfolio guarantees paid by ODA in connection with the losses incurred by the Lender as a result of the failure of the Beneficiary to repay the loan included in the Portfolio.

Guarantee rate – percentage part of the outstanding balance of the portfolio guaranteed by ODA;

Guarantee cap rate - percentage rate used to determine the maximum guarantee cap value, which sets the limit of the aggregate loss assumed by the Guarantor for the capped portfolio guarantees;

Non-performing loan – loan, the payment of which has not been paid by the Beneficiary to the Lender for more than 90 consecutive days, from the due date of the payments stipulated in the loan agreement and for which the Lender and the Beneficiary have not reached an agreement on remedial measures.

Loan restructuring – renegotiation (modification of loan value or purpose of the loan) and/or extension of the term of the loan agreement included in the portfolio.

Payment request – Report sent monthly by the Lender to ODA address regarding the payment of the guarantee in relation to non-performing loans. The model of the report is set out in Annex 4. Lenders' reporting requirements.

Final payment request – The last payment request submitted by the Lender to the ODA address regarding the losses incurred until the termination date of the contract, indicated in the guarantee agreement. The final request for payment may be submitted by the last day of the month, following the month in which the termination date of the guarantee agreement takes place.

Maximum exposure on a Beneficiary or on a group of affiliated Beneficiaries – The maximum cumulative value of the loans included in the portfolio, granted by the Lender to a Beneficiary or to a group of affiliated Beneficiaries. The Affiliated Beneficiary Group is defined on the basis of the Lender's internal procedures.

Recoveries – Amounts recovered from the sale of the pledge, as well as of any other amounts collected on account of the payment of arrears related to the loan agreement from the Beneficiary (either as voluntary payment or as forced execution of real or personal guarantees, compensation or otherwise obtained), after deducting the costs of collection / enforcement.

Reimbursements – All amounts transferred by the Lender to ODA after the payment of the Claims (minus recovery costs), divided in the same proportion of the Guarantee rate between the Lender and ODA.

Lender Default Event – Events of default by the Lender that may include non-payment of guarantee fees or reimbursements, any breach of obligations under the guarantee agreement, insolvency, the conduct of illegal business activities such as terrorist financing or money laundering.

Trigger event – A trigger event may occur if, at a review during the inclusion period, the portfolio targets have not been met or in the event of default under the guarantee agreement.

Amendments with financial impact – are considered to be amendments to this Operational Manual, which concern the maximum amount of guaranteed loans, the maximum amount of the guaranteed loan portfolio, the amount or the way of calculation of guarantee fees, the guarantee rate or the minimum collateral coverage ratio.

II. MARKET ANALYSIS AND APPROVAL OF THE GUARANTEE SCHEME

2.1. Before initiating a new loan portfolio guarantee scheme, the Department for the Development of Lending and Guarantee Products, collects data from various available sources on the activity of access to finance of MSMEs, the results of the SME's economic activity and the impact of their economic results on the national economy, the priorities of

state policies on the development of SMEs, as well as based on information from Lenders (to the extent available and according to the checklist) at least the following information:

1. Information on credit products for SMEs;
 2. Purpose of the product;
 3. Target group;
 4. Product characteristics;
 5. Eligibility criteria;
 6. Approval criteria;
 7. Risk analysis.
- 2.2.** On the basis of the available information, the Department for the Development of Lending and Guarantee Products carries out an economic and financial analysis on the activity of SMEs, including their access to finance.
- 2.3.** Based on the results of the analysis, the Department for the Development of Lending and Guarantee Products develops a project of a product/guarantee scheme for loan portfolios.
- 2.4.** The results of the analysis and the draft portfolio guarantee scheme are submitted to the Compliance Assessment Section and the Risk Assessment and Analysis Section for examination. The draft of the loan portfolio guarantee scheme with an opinion of the mentioned sections shall be submitted for consultation to the head of the CGF and the Director of ODA, subsequently to the Committee.
- 2.5.** Once the Guarantee Scheme has been approved by the Committee, it shall be consulted with the potential lenders/professional associations representing them. Following the collection of approvals from lenders, the Department for the Development of Lending and Guarantee Products will analyze the lenders' proposals, will review the draft of the Guarantee Scheme and forward it to the Committee with the indication and comments of the lenders' proposals.
- 2.6.** Based on the market assessment and consultations with Lenders, after endorsement by the Committee, the CGF proposes to the ODA Council for approval the Guarantee Scheme which will include at least the following main information:
- a) Justification of the intervention and portfolio objectives;
 - b) The amount of funding required;
 - c) The structure of the scheme, including the maximum multiplication coefficient or the maximum leverage;
 - d) Target volume of transactions and number of SMEs to be supported under the scheme;
 - e) The maximum guarantee rate at the credit level included in the portfolio;
 - f) Collateral coverage ratio;
 - g) Maximum exposure on a Beneficiary or on a group of affiliated Beneficiaries;
 - h) The maximum amount of loan to be guaranteed;
 - i) The currency of the guarantee and the currency of the guaranteed loans;
 - j) The maximum duration of the Guarantee Scheme;
 - k) Definition of priority sectors or groups and eligibility criteria of beneficiaries;
 - l) Guarantee fee rate;
 - m) Risks identified for the implementation of the scheme and mitigation measures.

*The ODA Board may establish additional provisions, conditions and restrictions.

III. GUARANTEE SCHEME AND GUARANTEE AGREEMENT

- 3.1. The Guarantee Scheme is the document used to align the Guarantee Products for each Lender with the objectives of the CGF and the evolutions in the financial sector.
- 3.2. Based on the Government Decision no.709 of 19.10.2022, the Manual and the Guarantee Scheme, the Department for the Development of Lending and Guarantee Products jointly with the Legal Section, elaborates the final model of the Guarantee Agreement between ODA and the Lenders, which will include all the economic and legal aspects regarding the collaboration between the parties.
- 3.3. The model of the Guarantee Agreement shall be consulted with the Compliance Assessment Section and the Risk Assessment and Analysis Section.
- 3.4. After the approval of the model of the Guarantee Agreement by the Committee, it is submitted to the ODA Board for approval. The final model of the Guarantee Agreement is part of the Guarantee Scheme and can be approved by the Board, at the same time as the approval of the Guarantee Scheme (Annex 11).
- 3.5. The same Guarantee Scheme and guarantee agreement model are applicable in relation to all Lenders.
- 3.6. The guarantee scheme may be adjusted during its operation. In case of any financial impact, the approval of the amendments is carried out by the ODA Board, after consulting them with the ODA Committee.
- 3.7. Based on the decision of the Plenary of the Competition Council no. ASER-62 of 28.12.2023, the support measure in the form of portfolio guarantees for loans granted to small and medium-sized enterprises under the Loan Portfolio Guarantee Scheme, managed by the Credit Guarantee Fund, constitutes state aid within the meaning of Article 3 of Law no. 139/2012 on state aid.

IV. DURABILITY OF THE GUARANTEE SCHEME AND GUARANTEE FEE

- 4.1. The performance of the Guarantee Scheme shall be assessed on the basis of the ex-post analysis of its impact on the national economy as well as the analysis of its financial sustainability. Financial sustainability reflects the degree to which a guarantee scheme is dependent on additional funding.
- 4.2. Ensuring financial sustainability is linked to the ability of the scheme to cover its costs with the income generated (self-financing). In terms of expenses, the CGF bears fixed costs related to the administration and management of portfolio guarantees and costs for external funds (if any).
- 4.3. With the implementation of the guarantee scheme, the risk of claims from lenders is identified. In order to cover the mentioned future risks, the CGF will create provisions in accordance with the Financial Projections.
- 4.4. The CGF generates income from guarantee fees, reimbursements from Lenders and financial investments.
- 4.5. The CGF will prepare the Financial Projections resulting from the costs regarding the management of the portfolio guarantees, the costs for external funds, provisions for possible claims and revenues generated from the guarantee fees, reimbursements and financial investments.
- 4.6. Based on the objectives of the Guarantee Scheme and the desired impact, CGF will ensure a pricing policy for guarantees, acceptable for the business environment, taking into account the price of other guarantee schemes previously and currently active in Moldova,

as well as which would also ensure to a certain extent the coverage of the risks specific to the Guarantee Scheme, the administrative/operational costs of CGF.

- 4.7. The recommended minimum guarantee fee, based on the type of Guarantee Scheme, is presented in Table 1. When approving the Guarantee Schemes, account will be taken of the financial projections that will include all administrative/operational expenses, investment income and any losses caused by claims. The ODA Board may decide to waive the setting of the guarantee fee, depending on public policy priorities, but only after an analysis of the financial sustainability of the CGF's activity.

Table 1: Minimum rate of the guarantee fee (% of the outstanding portfolio volume)

	Secured	Unsecured
Capped	0.5% p.a	1% p.a
Uncapped	1% p.a	1.5% p.a

V. SELECTION OF LENDERS

Eligibility criteria for Lenders

- 5.1. ODA selects Eligible Lenders for collaboration in the context of financial guarantees, based on a transparent procedure of selection and evaluation methodologies, non-discriminatory and objective, avoiding conflicts of interest. Access to participation will be open for all licensed banks that are interested in participation, providing that they are able to meet the eligibility criteria. All financial institutions wishing to participate will be required to:
- Provide a written confirmation allowing the ODA's and the World Bank's representatives, on a need-to-know basis, access to privileged and confidential information necessary to appraise whether a bank meets and/or continues to meet the set qualification criteria;
 - Undertake annual external audits by auditors acceptable to the National Bank and according to National Bank regulations and according to international financial reporting standards and international auditing standards; and
 - Appoint specific staff that will be responsible for the collaboration with CGF and the management of the guaranteed portfolio, to maintain adequately staffed credit and risk committee, and to join available staff training.
- 5.2. A Lender shall be considered eligible if it meets the criteria below relevant to its type of financial institution:
- the bank must be duly licensed and have been in operation for at least two years;
 - the bank's owners and managers must be considered 'fit and proper' in line with banking regulations; and the bank must have good governance, qualified and experienced management, adequate organization and institutional capacity for its specific risk profile;
 - it must be in 'good standing' with the NBM (that is, it observes prudential regulations and all applicable laws).
 - it must have well-defined written policies and procedures for management of all types of financial risks (liquidity, credit, currency, interest rate, and market risk, as well as risks associated with balance sheet and income statement structures);
 - it must maintain capital adequacy, with the minimum risk-based capital adequacy ratio as per the NBM's regulation;
 - it must have adequate liquidity and meet the minimum liquidity prescribed by prudential regulations;

- it must have positive profitability and an acceptable risk profile—it must maintain the value of its capital;
 - it must have adequate portfolio quality, proper classification of its assets and off-balance-sheet credit risk exposures, and must make adequate provisions and impairments;
 - it must have adequate internal audits/controls for its specific risk profile; and
 - it must have adequate management information systems.
- a)** complies with the rules of the guarantee products, the guarantee caps for each lender, the provisions of this Manual, the instructions, as well as other documents approved by the ODA regarding the financial guarantees.
- b)** Owns and implements the social and environmental policy framework, in accordance with the requirements of the financier (donor) of the financial resources provided for the Guarantee Scheme.

Due diligence of the Lenders

5.3. The due diligence process consists of actions taken by ODA to assess the risks and benefits of working with a potential Lender.

5.4. The scope and context of due diligence reflects the type of relationship to be established under the Guarantee Scheme, the opportunities and constraints on both sides – internal and external.

5.5. The essential areas of a due diligence investigation that can be performed both remotely and on-site will include:

- a)** The image of the Lender on the market based on an external investigation (review of the Lender’s website for transparency and disclosure of the services offered, publications in media, social media presence and image) and also during the on-site visit;
- b)** The lender’s application of environmental and social risk management systems including elements such as: an environmental and social policy endorsed by management, a procedure for screening loan applicants for environmental and social risk and for classification of this risk, trained and qualified staff and accountability for environmental and social considerations linked to credit decision-making processes, lender’s labor policies, codes of conduct, participation in social responsibility activities, environmental and social corrective action requirements for companies receiving funding. The due diligence review for environmental and social responsibility will focus on these management systems, as well as a sample of potential loan Beneficiaries, also taking into account the requirements of donors of financial sources. More detailed requirements are described in Annex 9. Environmental and Social Management Arrangements.
- c)** Validation of the Lender’s compliance with all of the financial and non-financial criteria stated in Section 5.2. Validation will be in the form of Due Diligence Report prepared using the template provided in Annex 2. Report on Due Diligence, using the public information from the NBM, the bank’s annual audit reports and other relevant documents provided by the banks;
- d)** The ability to carry out the activities set out in the Guarantee Agreement which is evaluated on the basis of the Maximum Portfolio Volume requested by the Lender and the historical data on the new loans granted to the SME sector.

e) Corporate Governance – Corporate Governance Code, Structure and Functioning of the Board of Directors, Control Environment (Internal Audit, Risk Management and Compliance Function), Transparency and Disclosure of Information.

5.6. Due diligence activities involve the collection and analysis of information based on:

- a) the information provided in the lender's application and lenders annual reports;
- b) review of the available secondary data such as publications on the official web site of the institution, on the media channels as well as information received from other stakeholders (including checks in external databases or interviews) and review of CGF past experience with the lender;
- c) case on-site visits must be carried out to complete and verify the information identified.

5.7. Due diligence of Lenders aims to:

- a) Confirm the eligibility of the Lender to participate in the Guarantee Scheme;
- b) Check and request further clarifications on the data provided in the Application Form. ODA may verify certain information on-site, such as the verification of randomly chosen credit files, a nonperforming loan, records in the information system and interviews with managers and staff;
- c) Collect the data needed for the financial and business assessment of the Lender and to assign a risk score according to Annex 1. Scoring allocation approach for Lenders Applications.;
- d) Collect the data needed to establish the individual parameters and additional covenants that would be included in the guarantee agreement;
- e) Assess the Lender's ability to build up the envisaged portfolio, the risk profile of beneficiaries, risk management and collection processes through recovery;
- f) Assess the Lender's ability to comply with the eligibility criteria for the Guarantee Scheme (for Beneficiaries and Loans) and also the ability to comply with the reporting requirements;
- g) Identify the potential risks to be removed by the Lender for the successful implementation of the portfolio guarantees, as well as the plan of measures to mitigate them;
- h) Provide support to Lenders in connection with the implementation of portfolio guarantees.

Call for the Selection of Lenders

5.8. CGF will announce an Open call for applications, describing the conditions of the Guarantee Scheme approved by the ODA Board. The announcement will be published on the official website of ODA, and the specialist responsible for operations will ensure the direct transmission of the Scheme and the application form to Lenders, who have shown interest during the market analysis.

5.9. CGF's approach to the selection of Lenders is based on harmonization and competitiveness. The initial published deadline for submitting applications is the same for all interested Lenders, ensuring that the CGF proposes the same terms to all interested Lenders.

- 5.10.** The bank that intends to become a Lender shall submit an application to ODA, to which is attached a statement regarding the meeting and the commitment to comply with the eligibility conditions set out in 5.2. as well as documents and information demonstrating that the conditions of Government Decision no. 709 of 19.10.2022 and point 5.2, are satisfied, as appropriate.
- 5.11.** ODA examines the application of the bank that intends to become a Lender within 20 days. CGF is responsible for the examination of applications. No later than the expiry of that period, CGF shall notify the entity concerned of the acceptance or rejection of the request. If the application is not accompanied by all the necessary documents and information, the examination period shall start to run from the date of receipt of all those documents and information.
- 5.12.** Within the prescribed period, but no later than the 15th day of that period, ODA shall be entitled to request, if necessary, additional documents and information relevant to the examination of the application. The request shall be made in writing, describing the additional documents and information to be submitted. The bank shall submit the requested additional documents and information within 3 days from the date of their request. For that period, the time limit for examining the application shall be suspended. During the examination period of the application, CGF may pay visits to the office of the bank, in order to complete the data provided.

Examination of the Application and pre-selection of lenders

- 5.13.** The due diligence process begins with the examination of the Lender’s application. The first stage of the evaluation will identify the eligibility of the Lender in accordance with the requirements set out in the Manual and the Guarantee Scheme.
- 5.14.** CGF will examine the Application on a first-come, first-served basis. In case there are missing documents or information needed to assign rating according to the quality and impact assessment matrix (Figure no. 1), CGF will suspend the application and notify the Lender.
- 5.15.** The evaluation of quality and impact is carried out by the CGF based on the score set out in Annex 1. Scoring allocation approach for Lenders Applications. and Annex 3. Lender’s approval proposal and the Impact and Quality Assessment Score Matrix shown in Figure No. 1.

1. Quality assessment (A,B,C)	2. Impact assessment (1,2,3)		
	A 1	A 2	A 3
	B 1	B 2	B 3
	C 1	C 2	C 3

Figure no. 1: Impact and quality assessment score matrix

- 5.16.** Quality evaluation (rating A – High, B – Medium and C – Low) shall include: financial capacity, quality of the SME portfolio, experience in SME lending and guarantee instruments, environmental and social policy, quality of the application.
- 5.17.** The impact assessment (rating 1 – High, 2 – Medium and 3 – Low) shall include: the value of the proposed portfolio, cap rate and the mechanism for transferring benefits to beneficiaries (how the guarantees shall be used to improve SME access to finance).
- 5.18.** The rating according to Annex 3. Lender’s approval proposal is assigned by the Risk Assessment and Analysis Section, which carries out the due diligence assessment and

consults the results with the Compliance Assessment Section. The Head of the Risk Assessment and Analysis Section (RAAS) and the Head of the Compliance Section (CS) will make a joint recommendation regarding the lender and forward that recommendation to the Head of the CGF Department. The Head of the CGF Department will either concur with the joint recommendation of the two sections and the decision will be final or disagree with the joint recommendation. In the case of a disagreement, the Head of the CGF Department will forward the application to the Director supervising the CGF. The Director will either agree with the joint recommendation by the Heads of RAAS and CS or with the Head of the CGF. The evaluation results will also be coordinated with the Committee.

- 5.19.** The applications submitted by the commercial banks will be qualified as “Pre-selected”, regardless of the rating assigned according to the matrix in Figure no. 1 and will move on to the “due diligence” stage. The rating assigned to banks will be used in calculating the maximum limits. Based on the rating, guarantee scheme, and the methodology of calculating the maximum exposure and limit values for Lenders approved by the ODA Board, the Director of ODA will decide the maximum portfolio volume to be allocated to banks.

Preliminary Assessment and Due Diligence on site

- 5.20.** If certain gaps were identified in the application form or it is necessary to verify the information included in the application, the specialist responsible for the analyzing the requests, shall draw up a list of additional questions and data necessary to complete the due diligence procedure (internal policies, portfolio details, an example of a credit file), this is communicated to the potential Lender.
- 5.21.** If the data cannot be submitted by the Lender remotely, an on-site visit will be requested.
- 5.22.** Prior to the on-site visit, the Lender will be given a minimum of 5 days to prepare the necessary information. At the request of the Lender, the CGF may sign a confidentiality agreement with the Lender prior to initiating on-site due diligence.
- 5.23.** The on-site evaluation team will be approved by the head of the CGF and will include at least two specialists, one specialist in charge of operations and another for risks.
- 5.24.** During the on-site visit, the evaluation team will have interviews and review the internal documentation, reports, structure and organization of corporate governance. Based on the results of the on-site visit, a Report of the due diligence meeting will be prepared Annex 2. Report on Due Diligence
- 5.25.** The proposal for the approval of the Lender Annex 3. Lender’s approval proposal to the ODA Director supervising the CGF, is prepared by the specialist appointed by the head of the CGF, based on the examination of the Application submitted, additional information collected from secondary sources and the due diligence process. The proposal is revised by the Head of the CGF, and in case no completions are necessary, the proposal is submitted to the ODA Director.
- 5.26.** The proposal for approval also includes the parameters to be set out in the agreement, additional covenants related to risk management or the development of additional capacities within the Lender, and recommendations for monitoring of the Lender by ODA more frequently than annually.
- 5.27.** Based on the model of the Guarantee Agreement approved by the ODA Board, the responsible specialist jointly with the Legal and Procurement Section, prepares an updated version of the contract specifying the portfolio objectives that would correspond to the specifics of the Lender. The final version of the guarantee agreement, after being revised by the Head of CGF, shall be forwarded to the ODA Director for examination and approval.

- 5.28.** The Guarantee Agreement may stipulate requirements for the Lenders to carry out measures to publicize the Guarantee Scheme, including the publication of at least 2 success stories of the Beneficiaries.
- 5.29.** In case of approval, the specialist in charge of operations will share the final draft of the Guarantee Agreement with the Lender, incorporating the proposed and approved additional covenants. In the event of the appearance of major negotiating points from the Lender's side, the responsible specialist, jointly with the Legal and Procurement Section, and consulting with the Head of CGF, will have the task of bringing these points to the attention of the ODA Director and requesting approval.
- 5.30.** In case of lack of information and if further questions arise, the specialist responsible for operations will collect the missing information and communicate them to ODA Director who will determine next steps and seek recommendations from appropriate staff.
- 5.31.** In the event of rejection, the specialist responsible for operations must duly communicate to the Lender in writing, with a constructive explanation of the reason for the rejection.
- 5.32.** The CGF will publish the list of Partner Lenders on the official website of ODA.

VI. IMPLEMENTATION PROCEDURES

- 6.1.** At the same time with the signing of the guarantee agreement with the Lender, ODA delegates to the Lender, the risk assessment mechanism related to the Loans granted to the Beneficiaries and the right to include eligible loans in the portfolio with the exception of activities described in Annex 6. Ineligible Businesses, without the prior consent of CGF, also following the steps of assessing the credit risk as described in Annex 7. Eligibility criteria and assessment procedures to be followed by Lenders for the loans included in the portfolio.
- 6.2.** The role of CGF is to develop the scheme and eligibility parameters at the level of SMEs and loans included in the portfolio, to select Lenders, to monitor the implementation of the scheme and to take corrective measures if necessary.
- 6.3.** The loans are recognized as being included in the guarantee portfolio, if the Lender has entered them in the Information System for the Management of Financial Guarantees (SIGGF) within 5 working days from the moment of signing the loan agreement with the Beneficiary. In case any technical issues of SIGGF prevent the Lender to include the information on guaranteed loans, the loans will be considered included in the portfolio based on the monthly report. The technical issues will be notified by the bank, and in case they can't be fixed in a timely manner, ODA will send a notification regarding the fact that loans granted during the downtime of the software, will be considered included in the portfolio, if they were mentioned in the monthly report. As soon as the software is fixed, all new loans reported during the time of the problem will be reviewed to ensure that all loans submitted via the monthly report are eligible.

Reporting submitted by Lenders

- 6.4.** The Lender shall submit monthly, by the 10th of the month following the management month, a report in electronic format, in accordance with Annex 4. Lenders' reporting requirements, containing at least the following:
- 1) Information on the new loans included;
 - 2) Information about the SMEs that have benefited from the guarantee;
 - 3) Outstanding portfolio data (including a calculation of the guarantee fees);
 - 4) Loans due / paid in advance;

- 5) Restructured loans;
- 6) Claims;
- 7) Recoveries;
- 8) Excluded loans;
- 9) The guarantee fee calculated and paid.

6.5. The monitoring specialist within the Portfolio Guarantee Compliance Assessment Section will monitor the following aspects:

- 1) Receiving reports in a timely manner;
- 2) The correctness of the data provided and the comparison with previous reports, as well as the correct calculation of the guarantee fee due;
- 3) Collection of guarantee fees and reimbursements related to the claims;
- 4) Transfer of funds by the ODA to lenders, needed to cover the approved payment requests.

6.6. After collecting and verifying the data provided by the Lenders, the monitoring specialist compiles the submitted reports and prepares a report for the CGF, which will include at least the following data:

- 1) The maximum cap amount on Lender's portfolio level;
- 2) Outstanding cap amount on Lender's portfolio level;
- 3) Outstanding guarantee exposure Lender's portfolio level;
- 4) Provisions calculated on outstanding guarantee exposure on each Lenders portfolio;
- 5) Individual provisions on claims at the level of each loan;
- 6) The amount of commissions calculated for the portfolio of each lender;
- 7) Claims and reimbursements at the level of each loan.

Lenders' Monitoring

6.7. Monitoring is an essential activity in managing the risks related to portfolio guarantees. Monitoring is divided into 3 types of essential activities: portfolio monitoring, remote/on-site monitoring and impact monitoring.

6.8. The objectives of the monitoring activities are:

- 1) to support the lenders during the implementation of portfolio guarantees, including the setting of training sessions for loan officers, by case;
- 2) receiving feedback from lenders on the success factors and existing constraints;
- 3) to ensure that lenders comply with the guarantee agreement, its internal procedures related to the approval and management of loans to SMEs;
- 4) detect non-performing portfolio at an early stage and implement delinquency management activities to reduce the possibility of claim pay-out;
- 5) identifying the risks and proposing corrective measures;
- 6) to determine the progress and performance based on the set targets;
- 7) to assess the development impact of beneficiaries receiving guaranteed loans.

6.9. The results of the monitoring will be used in the implementation phase and incorporated into the design of the new portfolio guarantees and related guarantee products.

Monitoring of the CGF portfolio

6.10. CGF shall monitor the implementation of portfolio guarantees on overall scheme level, at the Lender level and at the Lenders' portfolio level. The specialist in charge of monitoring within the Portfolio Guarantee Compliance Assessment Section, will prepare quarterly, by the 20th of the month following the reporting quarter, a compiled report according to the model set out in Annex 5. Internal reporting of the present Manual.

6.11. Based on the monthly reports received from the Lenders, the specialist in charge of monitoring prepares the internal quarterly report, which includes the following data:

- 1) *information on the capital commitment and provisions formed* - the equity needed to cover the maximum loss amount;
- 2) *financial performance* - achieved profitability from guarantee fees and from interest income less total administrative costs and risk cost;
- 3) *the average interest rate on secured loans* – if a reduction in the interest rate on secured loans has been achieved in comparison with market rates and loans not guaranteed by the CGF;
- 4) *the average collateralization level* - whether a reduction in the collateral coverage rate has been achieved compared to market rates and loans not guaranteed by the CGF;
- 5) *new loans included by Lenders and the share of priority segments* - female-owned/female-managed companies, youth business loans and exporting companies;
- 6) *guaranteed portfolio risk* – the breakdown of the loan portfolio by days in arrears up to 30 days, 30-90 days; 90-180 days and 180+days on individual portfolio level and lender level and Scheme level;
- 7) *assimilation rate* - a percentage of the assimilated portfolio guarantees, at individual portfolio level, at lender level and at the level of the entire Guarantee Scheme;
- 8) *exclusion rate* – percentage of loans excluded due to non-compliance with the guarantee agreement compared to the total number of loans (at individual portfolio level, Lender and Guarantee Scheme);
- 9) *claims* - the guarantees paid as a value and as a percentage of the total guaranteed portfolio, at the level of the individual portfolio, Lender and guarantee;
- 10) *total new transactions included per quarter* – guarantees (in terms of value and number) and guaranteed loans (in terms of value and number) for each portfolio;
- 11) *new income generated per quarter* – the amount of guarantee fees at the level of individual portfolio, lender and scheme level;
- 12) *cashd reimbursements* – the amounts collected from lenders related to the paid claims, for the last quarter and as the total amount at the portfolio level, lender and guarantee scheme.

6.12. In the process of monitoring, in case of detection of major problems classified as triggering events (see chapter 7), within 10 days, the information shall be transmitted to the ODA Director and where appropriate to the Committee, for taking a decision regarding the initiation of triggering events.

Remote and on-site monitoring

6.13. Depending on the quality of the loan portfolio reported monthly by the Lender, in order to efficiently manage the risks, the CGF will prepare a remote monitoring plan, which will be

applied in accordance with the non-performing loans rate recorded with lenders. If necessary, monitoring can also be carried out on-site.

- 6.14.** In order to streamline the collaboration process with lenders, the monitoring of the loans included in the portfolio will be carried out largely remotely, including through SIGGF.
- 6.15.** Remote monitoring will be carried out monthly on the basis of the submitted reports, and once in the quarter at least 10 loans will be checked, which will be selected according to the report from the last month of the reporting quarter.
- 6.16.** The specialist in charge of monitoring extracts the list of credits per lender at the end of the respective quarter. The sample for the audit will be selected randomly from this list. Priority will be given to lenders with higher portfolio volumes and lenders where the share of loans with more than 30 days in delay is above average.
- 6.17.** The risk specialist of CGF has the right to ask for the prioritization of certain loan files, taking into account the default status, the location of the business, the structure of the loan, the sector, the type of product, restructured loans, etc. The list of files for monitoring will be approved by the head of the CGF.
- 6.18.** The scope of the monitoring will include the verification of the level of compliance of the Lender with the internal procedures and manuals and the guarantee agreement. The review should also include the collateral agreements, approval decision and other documents related to the approval and monitoring of loans included in the Portfolio. The CGF also carries out the verification of the eligibility of loans and SMEs, reviews the inclusion in the borrowers' contracts of the visibility and audit clauses, as stipulated in the guarantee agreement.
- 6.19.** The lender is obliged to inform the ODA about internal policy changes (after initial due diligence) that affect the assessment/decision/monitoring of loans under portfolio guarantees. The information gained from lenders about the internal policy change serves for CGF as a reference point for remote and on-site monitoring.
- 6.20.** The on-site visit for loan monitoring, can be taken by the specialist in charge of operations only with the agreement of the head of the CGF, after the completion of the remote monitoring. Such a decision is taken if the documents submitted by the lender are insufficient to verify eligibility and compliance. The lender shall be notified in advance of the on-site monitoring, by providing a list of the loans to be examined.
- 6.21.** The specialist responsible for monitoring will prepare a Monitoring Report of the on-site visit within 10 working days after the site visit.
- 6.22.** The Report shall list all the loan files examined and any incompliance identified. This report will be submitted to the specialist responsible for operations and the one responsible for risks for examination, which will be presented within 5 working days. After the approval of the report by the head of the CGF, the specialist in charge of monitoring will notify the Lenders of the results of the monitoring, including recommendations for improvement.

VII. MONITORING RESULTS

Corrective actions and trigger events

- 7.1.** If any noncompliance is identified during the remote/onsite monitoring, in terms of applicability of the internal credit policy manual of the Lender in relation to a loan or the incompliance with the guarantee agreement by the Lenders, the CGF will initiate a meeting with the ODA Director. The Head of the CGF along with the Heads of the RAAS and CS will make a recommendation for the scope and timing of the corrective measures. The ODA Director will make the final decision, and in case of financial impact, the measures are consulted with the Committee.
- 7.2.** The specialist in charge of operations has the task of communicating to the Lender the corrective actions and the timetable drawn up as a result of the monitoring.
- 7.3.** As part of the examination of the Monthly Reports of the Lenders, the specialist in charge of monitoring, will review monthly the compliance of the Lenders with the Objectives of the Portfolios of each Lender and any failure to comply with the obligations under the Guarantee Agreement. If any noncompliance is identified, the monitoring specialist will request additional information from the Lender in order to clarify the noncompliance and present the justification for the situation. The specialist in charge of monitoring has the task of sending informing letters, memorandums, electronic messages if necessary.
- 7.4.** If the noncompliance continues for a period of 15 days, and the Lender has not provided any justification, the monitoring specialist prepares a Trigger Event Report and proposes actions to be taken by the CGF if the Lender does not take corrective measures within the deadlines specified in the Guarantee Agreement. The report on the triggering event will be sent to the head of the CGF.
- 7.5.** Within 3 days of receiving the Report, the head of the CGF examines the triggering events and takes into account the level of discrepancy, the effects of the measures on the relations with the lender and the Objectives of the Guarantee Scheme. The head of the CGF submits to the ODA Director for approval the proposal on the termination of the inclusion period along with a recommendation, the adjustment of the Objectives set for the Lender or the modification of the Agreed Portfolio Value, depending on the nature of the non-compliance.
- 7.6.** Following the decision of the ODA Director, within 1 working day, the specialist responsible for operations will send a letter of notification to the Lender.

VIII. EXCLUSION OF TRANSACTIONS FROM THE PORTFOLIO

- 8.1.** Loans that do not meet the eligibility criteria (identified during remote/on-site monitoring or on the basis of notification from the Lender) will be excluded from the portfolio based on the proposal of the monitoring specialist and approval by the Head of the CGF. The lender will be given a written notice of the exclusion decision.
- 8.2.** The lender may object to the exclusion from the portfolio of loans classified as ineligible within 30 days, presenting the necessary clarifications and explanations.
- 8.3.** The final exclusion decision is approved by the director of ODA, after examining the proposals of the Head of CGF and the additional information submitted by the Lender.

IX. PAYMENT REQUESTS AND REIMBURSEMENTS

Payment requests

- 9.1** Payment requests related to the loans included in the portfolio will be submitted by the Lender together with the monthly reports.
- 9.2** Payment requests will be accepted only if they are submitted before the final date of the payment request stipulated in the Guarantee Agreement and refer to the losses incurred by the Lender as a result of non-fulfillment of the Beneficiary's obligations under the loan agreement.
- 9.3** The compliance of the payment request is examined by the specialist responsible for monitoring as part of the examination of the Lender's reports specified in 6.11.
- 9.4** CGF will only honor the payment request if the maximum guarantee cap is higher than the amount of the payment request. Partial coverage of the payment request is not allowed.
- 9.5** If the maximum available guarantee cap amount is lower than the amount of the payment request, the specialist in charge of monitoring will mark the payment request as pending and will review the request after the next reporting period.
- 9.6** The cap amount will increase during the inclusion period with the increase of the Actual Portfolio Volume, up to the maximum guarantee cap amount specified in the guarantee scheme. The guarantee cap amount available for payment to the lender is revolving, decreasing with each payment request and increases with the reimbursements collected.
- 9.7** Payment requests are accounted on a loan-by-loan basis.
- 9.8** Within 3 working days of receipt of the payment request from the Lender, the monitoring specialist and the risk specialist review the list of included loans and confirm that they are sent prior to the final payment request date, checking that the loans included in them are linked to files that required corrective measures by the Lender and whether these corrective measures were carried out.
- 9.9** The payment request is submitted to the head of the CGF for pre-approval, within one day from the moment of verification by the specialist in charge of monitoring and risks, after which it is submitted to the Director of ODA for final approval.
- 9.10** In case no issues were identified, within 2 working days from the moment of final approval by the ODA Director or Deputy Director supervising the CGF, the payment request is sent for payment to the Accounting and Financial Reporting Section of the ODA. Payments are transferred to the bank account specified in the guarantee agreement, unless otherwise agreed with the Lender.
- 9.11** The monitoring specialist reduces the cap amount of the portfolio for the Lender with the amount of the covered claim and transmits the information to the Accounting and Financial Reporting Section of the ODA.

Management of reimbursements related to payment requests

- 9.12** At any time until or after the claims payment, the Lender undertakes all measures regarding the recovery of the outstanding debts (arrears) related to the loan agreement from the guaranteed loan portfolio, including by the complete sale of the pledge within a reasonable time, according to its internal documents and normative acts.
- 9.13** At the request of the CGF, the Lender submits all the requested information regarding the conduct of the procedure for the sale of the pledge and the measures taken by the Lender in order to recover the outstanding debts (arrears) related to the loan agreement included in the portfolio.
- 9.14** Within 30 days from the date of receipt by the Lender of the amounts recovered from the sale of the pledge, as well as of any other amounts collected on account of the payment of the outstanding debts related to the loan agreement (the cost of the loan), after deducting the costs of collection / enforcement, the Lender reimburses to the ODA, the value of the recovered amounts calculated proportionally to the guarantee rate (%), according to the following formula:

$$R = (P - E) * C / 100$$

where:

R – the amount for reimbursement to ODA, expressed in MDL

P – the amount recovered from the sale of the pledge and of any other amounts collected on account of the payment of the outstanding debts related to the loan from the guaranteed loan portfolio, expressed in MDL;

E – costs of collection / enforcement, expressed in MDL;

C – the guarantee rate

- 9.15** Obligation of the Lender to reimburse payments in accordance with 9.14 is also valid after the expiration term of the Guarantee Agreement.
- 9.16** The lender at the request of the CGF, but not less often than once in the quarter, is obliged to submit information on the process of sale of the pledge, as well as the measures taken by the Lender in order to recover the outstanding debts related to the guaranteed loans.
- 9.17** The Lender informs the CGF in accordance with 9.16. until the outstanding balance of the loan is fully recovered or its recognition as a loss (classified as 'Compromised').
- 9.18** Reimbursements are accounted on a loan-by-loan basis.

X. Loan Restructuring

- 10.1** The loans included in the portfolio may be restructured by the Lender in accordance with the internal rules and procedures of the Lender, only with the prior consent of the Guarantor.
- 10.2** Based on the request of the Beneficiary, the Lender may request in writing, the consent of the Guarantor, regarding the restructuring of the loan included in the portfolio.
- 10.3** The Guarantor shall examine the application submitted by the Lender in accordance with p. 10.2 and inform the Lender in writing within 5 working days about the approved decision.
- 10.4** The specialist in charge of operations has the task of preparing the informative note for the risk assessment and analysis section, which after being reviewed by risk specialist, will be

submitted to the Head of CGF, describing the restructured terms, possible risks and if they correspond to the eligibility criteria of the Guarantee Scheme.

- 10.5** Based on the informative note and the documents attached, the Head of CGF proposes the decision (positive/negative) regarding the application sent.
- 10.6** Final restructuring decision is approved by the director of ODA, after examining the proposals of the Head of CGF and the additional information submitted by the Lender.
- 10.7** In case of a positive decision of the Guarantor regarding the restructuring of the loan included in the portfolio, the Lender will make the necessary changes in the loan agreement, in this case the loan remains included in the portfolio according to the initial conditions.
- 10.8** In the event of a negative decision by the Guarantor, the Lender may withdraw in writing the requested changes, the loan remaining included in the portfolio or may request the exclusion from the portfolio of the loan for which the restructuring was requested.
- 10.9** In case of modification in the collateral structure of the guaranteed loan, the Lender will be obliged to send a request about the changes willing to be made, and they will be considered accepted by the Guarantor by default without any written confirmations, in case the minimum collateral coverage rate of the loan complies with the rate specified in Annex 1 of the Guarantee Agreement.
- 10.10** In the event the modifications made to the collateral don't comply with the minimum coverage rate of the loan, in case of a claim, the Guarantor shall reduce the value to be paid in accordance to the claims section in the Guarantee Agreement.

XI. Evaluation process

- 11.1.** The evaluation process refers to a systematic and objective evaluation of an ongoing or finalized Guarantee Scheme, its design, implementation and results. The difference between monitoring and evaluation is their timing and focus point. Monitoring takes place continuously and tends to focus on current activity.
- 11.2.** Evaluations are periodic and are carried out at certain times in time to assess how well an intervention has been carried out and what difference it has achieved for the target Beneficiaries in accordance with the objectives set.
- 11.3.** Impact assessment is the focus point of evaluation exercises, as it requires methodologically sound and targeted assessment, which is conducted during the evolution on the basis of systematically collected data.
- 11.4.** Impact assessment is based on the review on how MSMEs have utilized the bank loans, to which extent the guarantees were instrumental to facilitate these loans and what effect this might have had on their revenue generation, jobs created/maintained, and other associated benefits.

11.5. The evaluation of CGF interventions is carried out according to the evaluation criteria established by ODA or an entity designated by the ODA Board.

11.6. The evaluation of CGF is guided by the following principles:

- 1) The evaluation is carried out mainly through surveys among Lenders and Beneficiaries in order to track additionality and social impact respectively. The evaluation helps to collect data that the CGF is not able to collect through the usual periodic reports from Lenders.
- 2) The evaluation is carried out on a regular basis (for example once in every three years), or when necessary to assess the social impacts streaming from the implementation of the Guarantee Schemes.
- 3) The evaluation aims to collect data on the outcome and impact level indicators within the monitoring and evaluation exercise of CGF.
- 4) The results of the evaluation are to demonstrate whether the Guarantee Schemes managed by CGF are changing the behavior of lenders, thereby contributing to the increased access to finance for SMEs, increasing SMEs' revenues, creating more jobs and whether the guarantees allow CGF to fulfil its mandate.

XII. Other provisions

12.1. Editorial changes to the Operational Manual (writing, expression, linguistic, spelling, grammar), are approved by the ODA Board, without consulting the Committee, on the proposal of the Director, on the basis of a recommendation from the Head of CGF, and prior consultation with the World Bank, and any other changes to the text of the Operational Manual shall be approved by the ODA Board, with prior consultation with the Committee.

Annex 1. Scoring allocation approach for Lenders Applications.

1.	Formal assessment of the guarantee application	Compliance
1.1.	The application was submitted and prepared in accordance with the call	Yes/No
1.2.	The applicant is a registered lender and operates according to the regulatory framework	Yes/No
1.3.	The applicant has submitted the necessary documents according to the requests	Yes/No
1.4.	The applicant submitted the requested declarations	Yes/No
1.5.	The applicant complies with the selection criteria	Yes/No
2.	Quality impact assessment criteria	Weight
2.1.	Quality assessment	100 p.
Objective	2.1.1. 1. Financial capacity to build the requested portfolio: the ratio between the proposed portfolio volume by the Lender and the amount of new loans granted by the Lender to SMEs in the last 24 months: <ul style="list-style-type: none"> ➤ More than 50% - 1 p. ➤ From 25% to 50% - 10 p. ➤ Less than 25% - 20 p. 2. Number of clients – SMEs active loans in the bank's portfolio <ul style="list-style-type: none"> ➤ More than 2000 - 20 p. ➤ From 1000 to 2000 - 10 p. ➤ Less than 1000 - 1 p. ➤ 	Up to 40 p.
	2.1.2. 1. The quality of the portfolio on the last day of the month prior to the submission of the application (non-performing loans – delay in payment of more than 90 days) for new loans granted to SMEs during the previous 24 months: <ul style="list-style-type: none"> ➤ More than 10% - 1 p. ➤ From 5% to 10% - 10 p. ➤ Less than 5% - 20 p. 2. Focus on the SME segment at the situation on the last day of the month prior to the application (loan portfolio granted to SMEs/Total loan portfolio): <ul style="list-style-type: none"> ➤ More than 50% – 20 p. ➤ From 25% to 50% - 10 p. ➤ Less than 25% - 1 p. 	Up to 40 p.
Subjective	2.1.3. Subjective assessment of the applicant based on experience with CGF and other guarantee instruments: <ul style="list-style-type: none"> ➤ Poor/No history - 1 p. ➤ Good - 10 p. ➤ Excellent - 20 p. 	Up to 20 p.
For quality A min 70 p are required, for quality B - min 50 p. and for quality C - less than 50 p.		

2.2.	Impact assessment		100 p
Objectives	2.2.1.	<p>1. Proposed portfolio volume (commercial banks):</p> <ul style="list-style-type: none"> ➤ Less than 50 million MDL - 1 p. ➤ From 50 million MDL up to 100 million MDL - 10 p ➤ More than 100 million MDL - 20 p <p>2. The proposed portfolio volume is requested in a proportion greater than or equal to 50% for:</p> <ul style="list-style-type: none"> ➤ Capped secured portfolio - 20 p. ➤ Capped unsecured portfolio - 5 p. ➤ Uncapped secured portfolio - 10 p. ➤ Uncapped unsecured portfolio - 1 p. 	Up to 40 p.
	2.2.2.	<p>1. Existence of environmental and social policies* – 10 p</p> <p>2. Decreased collateral requirements (or increased loan amount for unsecured loans) – 10 p</p> <p>3. Decreased interest rates/fees compared to standard loans – 10 p</p> <p>4. Increase in new lending volumes to SMEs above 20% (last 2 years) – 10 p</p>	Up to 40 p.
Subjective	2.2.3.	<p>Subjective assessment of the proposed portfolio and contribution to the achievement of the objectives of the scheme (new product, focus on priority sectors, additional non-financial support and others):</p> <ul style="list-style-type: none"> ➤ Poor – 1 p. ➤ Good - 10 p. ➤ Excellent - 20 p. 	Up to 20 p.
<p>*For World Bank sources, this criterion is mandatory.</p>			
<p>For Impact 1 min 70 p are required, for Impact 2 - min 50 p, and for Impact 3 less than 50 p.</p>			

Annex 2. Report on Due Diligence

Date of Due diligence meeting _____

Place of meeting _____

Participants of the CGF _____

Due Diligence Report (Section 5.2) Prepared By: _____

Signature: _____

Due Diligence Report (Section 5.2) Approved By: _____

Signature: _____

Participants from the lender and their role

List of questions submitted before the meeting

- 1 Social responsibility and environmental accountability
- 2 Corporate Governance
- 3 Other – Volumes, the use of the Portfolio Guarantee to improve SMEs' access to finance

List of documents reviewed.

- 1 Internal credit policy
- 2 Collateral policy

Comments based on the Lender Application Form

TEMPLATE

PARTICIPATING FINANCIAL INTERMEDIARY EVALUATION OF

[NAME OF BANK]

Evaluation Prepared By: : [Name(s), Title(s)]
Date of On-Site/virtual Meetings : [Date]
Evaluation Date : [Date of Report]
Evaluation Approved By : [Name(s), Title(s)]

DUE DILIGENCE REPORT

1. Abbreviations

AC	Audit Committee
ALCO	Asset and Liability Management Committee
CC	Credit Committee
CEO	Chief Executive Officer
COO	Chief Operating Officer
CRO	Chief Risk Officer
CRM	Credit risk management
EUR	Euro
FX	Foreign currency
IFRS	International Financial Reporting Standards
IT	Information Technology
KPI	Key performance indicator
MB	Management Board
MDL	Moldova Lei
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
NBM	National Bank of Moldova
NPL	Nonperforming loan
RC	Risk Committee
RMD	Risk Management Department
SB	Supervisory Board
SFA	Subsidiary Financing Agreement
SOE	State Owned Enterprise
USD	US Dollar
WB	World Bank

2. Summary

- 2.1 Overview of the Bank** [Very brief history of the bank. Confirm that the bank has been licensed and in operation for at least two years]
- [Summary of key indicators (total assets, total capital, total individual deposits, CAR)]
- [Description of ownership, key shareholders]
- [Summary of position in the market (share of total assets, share of total loans, share of total deposits, share of insured deposits)]
- [Summary of bank's business strategy]
- [Summary of key non-financial issues (negative press coverage, issues involving key shareholders, management)]
- 2.1 Major Negative Findings** [Summarize key negative findings, if any]
- 2.2 Reputational Risk Assessment** [Summarize any reputational risks identified relating to the bank itself, management, and key shareholders]
- 2.3 Management-Indicated Demand for CGF Guarantees** [Provide data on the bank's expectations for the timing and amounts of CGF guarantees it intends to use]
- 2.4 Evaluation Conclusion** [Recommendation to approve or disapprove credit line participation. The bank should be in compliance with all of the criteria and definitions set out in Annexes 2.1. and 2.2. The recommendation can be conditional on the bank taking specific actions/correcting specific problems before it is permitted to utilize guarantees]

[Make a recommendation if the bank needs to be monitored by ODA more frequently than annually]

3. Financial Assessment

3.1 **Asset Quality**

[Summary of overall asset quality assessment (good, satisfactory, unsatisfactory)]

[Short description of loan portfolio quality and trends broken down by type of loan (corporate, retail, SME); description of NPL trends and ratios, description of provision/impairment coverage ratios. Summarize any positive or negative information on asset quality trends received from the bank]

3.2 **Liquidity**

[Summary of overall liquidity assessment (good, satisfactory, unsatisfactory)]

[Describe compliance/non-compliance with regulatory liquidity ratios]

[Describe liquidity trends and main sources of liquidity]

3.3 **Capital**

[Summary of capital assessment (good, satisfactory, unsatisfactory). Comment on availability of additional capital if needed (e.g., from foreign parent) to the bank]

[Describe compliance/non-compliance with regulatory capital ratios]

[Describe trends in capitalization]

3.4 **Loan Portfolio Composition**

[Summarize the composition of the loan portfolio (retail, housing, large corporate, MSME's, etc.). Describe trends in terms of growth and composition of the loan portfolio]

[Summarize the distribution of the corporate loan portfolio between economic sectors (manufacturing, trade, transport, agriculture, etc.)]

[Describe loan portfolio concentrations (geographical, sectoral)]

3.5 Earnings

[Summary of earnings assessment (good, satisfactory, unsatisfactory). Comment on provisioning and impairments and negative/positive impact on earnings (e.g., dependence on provision and impairment reversals/recoveries to generate satisfactory earnings)]

[Describe trends in earnings and costs]

4. Risk Management

4.1 **Overview of Risk Management**

[Describe compliance with regulatory and (if applicable) parent bank risk management requirements].

[Confirm that bank has a chief risk officer (CRO) and evaluate the independence of the CRO in performing risk management functions].

[Describe and give an assessment of the number of staff, and qualifications and experience of staff of the risk management department relative to the size and complexity of the bank's operations]

4.2 **Credit Risk Management**

[Summarize: the role of the supervisory board (SB) in setting credit risk policy for the bank, including its role in approving delegations of credit authority; describe credit risk management reports provided to the SB; describe the independence of credit risk management from lending functions; and, confirm that the bank's credit risk management architecture is in compliance with regulatory requirements]

[Describe the bank's credit committees and their authorities. Describe the relationship between the credit committees and credit risk management. Evaluate the effectiveness of the powers given to credit risk management to stop/refer credit decisions to a higher level]

[Assess the effectiveness and appropriateness of credit approval processes, including appropriateness of delegated credit authorities]

4.3 **FX, Liquidity, and Market Risk Management**

[Describe the banks risk management process for management of financial risks. Confirm that the bank has an Asset/Liability Committee (or equivalent). Describe the role of the SB in approving financial risk limits and reporting from the ALCO to the SB on these types of risks. If applicable, describe the role of the bank's parent in management of financial risks]

[Summarize compliance with regulatory requirements for liquidity and FX risks. If applicable, describe any additional liquidity support/support for managing FX risks (hedging) available from the bank's parent]

4.4 **Operational risk management**

[Describe and assess the adequacy of the bank's operational risk management architecture. Describe the role played by the SB in monitoring and setting policies for operational risks, particularly with respect to IT]

4.5 **Internal Audit & Control**

[Describe the internal audit and control mechanisms of the bank. Provide specific comments on the independence of these functions within the bank and the reporting relationship between the heads of internal audit and control and the SB. Confirm that the head of internal audit is employed and dismissed by the SB]

[Describe and give an assessment of the number of staff, and qualifications and experience of staff of the internal audit and control departments relative to the size and complexity of the bank's operations. Describe the bank's arrangements (internal and/or outsourced) for internal audit of IT]

[Describe the annual internal audit plan of the bank and the SB's role in approving and monitoring fulfilment of the plan, including following up to ensure that internal audit recommendations are followed]

5. Governance

5.1 **Structure**

[Confirm that the bank's governance structures are in compliance with regulatory requirements]

[Describe the composition of the SB, number of independent members, and structure and membership of SB committees governing credit risk management, other risk management, internal audit and controls]

6. Regulatory Issues

6.1 **Findings**

[Confirm that the bank has no outstanding regulatory orders for non-compliance with regulations. If any violations/orders are found, describe each violation and assess whether the violation is significant]

7. Information Technology

7.1 **Findings**

[Describe whether the bank's IT systems are adequate for its business needs and provide adequate support for its risk management functions]

[Confirm that the bank's IT will support reporting at the level of detail required under the Project Operations Manual]

8. Reputational Risk

8.1 **Issues**

[Review and summarize any recent (<2 years) negative media coverage of: (a) the bank; and, (b) the bank's main shareholders. Assess whether this coverage presents any reputational risk to ODA as a result of the potential business relationship established by providing LOC funding to the bank]

Annex 2.1: Summary of Compliance with Eligibility Criteria - Banks

#	Criterion	Compliant (Y/N)
1	Duly licensed and have been in operation for at least two years	
2	The bank's owners and managers must be considered 'fit and proper' in line with banking regulations	
3	Good governance, qualified and experienced management, adequate organization and institutional capacity for its specific risk profile. (See Annex 2)	
4	In 'good standing' with the NBM (that is, it observes prudential regulations and all applicable laws). (See Annex 2)	
5	Has well-defined written policies and procedures for management of all types of financial risks (liquidity, credit, currency, interest rate, and market risk, as well as risks associated with balance sheet and income statement structures). (See Annex 2)	
6	Maintains capital adequacy, with the minimum risk-based capital adequacy ratio as per the respective banking agency's regulation. (See Annex 2)	
7	Has adequate liquidity and meet the minimum liquidity prescribed by prudential regulations. (See Annex 2)	
8	Has positive profitability and an acceptable risk profile—it must maintain the value of its capital	
9	Has adequate portfolio quality, proper classification of its assets and off-balance-sheet credit risk exposures, and must make adequate provisions and impairments. (See Annex 2)	
10	Has adequate internal audits/controls for its specific risk profile	
11	Has adequate management information systems	

Annex 2.2: Compliance with Prudential Regulations

Risk Related Concerns	Prudential Regulations
Capital Adequacy	<p>Banks should comply with the following solvency ratios:</p> <p>(I) the common equity Tier I capital should be at least 5.5 % of the bank's risk-weighted assets (RWA);</p> <p>(II) the Tier I capital should meet at least 7.5% of the RWAs, whereas;</p> <p>(III) the total capital of the bank should cover as minimum 10% of a bank's RWAs.</p> <p>In case for a certain bank, other solvency rates than those established above have been established by the NBM, the compliance of the bank's solvency with the rates established by the NBM will be checked.</p>
Credit Exposure and Concentration Limits	<p>Outstanding principal amount of all credit from a bank to a single borrower or a group of related borrowers may not exceed the equivalent of 15% of the bank's eligible capital.</p>
Liquidity Ratio	<p>The Liquidity Coverage Ratio should be higher than 100%. This means that banks should have enough high-quality liquid assets to cover the potential net cash outflows during a combined systemic and idiosyncratic scenario during a 30-days period.</p> <p>Banks need to comply with a minimum Net Stable Funding Ratio of 100%, which means that the bank should meet its stable funding needs with stable funding sources, although this requirement is suspended until further notice. Until this ratio comes into force, the requirements for mismatches between assets and liabilities and concentration of funding sources.</p>
Foreign Exchange Exposure	<p>Maximum to 40% of core capital (FC position of the bank)</p> <p>Maximum to 20% of core capital (for individual FC overnight position)</p>
Loan Loss Provisioning	<p>Banks need to classify its loans in three stages (Stage 1, 2 and 3), according to the local standards that have implemented IFRS9 and calculate provisions for credit losses accordingly (1 year expected losses for Stage 1 loans and lifetime for Stage 2 and 3 Loans).</p>
Risk Management Structures	<p>Bank's Supervisory Board is required to set up a risk committee within its members to supervise matters regarding risk management.</p> <p>Banks should have a risk management function, a compliance monitoring function, and an internal audit function.</p>

Annex 2.3: Financial Statements

[Attach copies of the bank's balance sheet, income statement, and key financial and regulatory ratios (e.g., ROE, ROA, CAR, liquidity ratios) for the most recently available period (audited if year-end, unaudited if a different period) and at least two previous year-end financial statements.

Annex 3. Lender’s approval proposal

2. Overview

Name of lender _____

Proposed Maximum Portfolio volume, millions MDL_____

Type of Portfolio _____

Quality / impact assessment rate (ABC/123)_____

Due diligence date_____

Due diligence total scoring_____

3. Analysis and comments on the Application Form, quality/impact assessment on the due diligence areas

Due diligence area	Scoring *	Weight	Comments
1.Company image		10%	
2.Social responsibility & Environmental accountability		20%	
3.Financial situation and lending policy		30%	
4.Ability to carry out the activities set out in the guarantee agreement		20%	
5.Corporate Governance		20%	
Total **	Formula	100%	
Formula = S1*0.1+S2*0.2+S3*0.3+S4*0.2+S5*0.2 * 1 Very Good, 2 Good, 3 Poor, 4 Very Poor, 5 Not acceptable ** If only one of the areas is not qualified as acceptable, the total scoring will also be unacceptable			

3. Proposal (Approved / Approved under conditions/Not approved)

Portfolio details (maximum portfolio volume, agreed portfolio volume, maximum loan value, portfolio targets.)

Additional covenants

Date

Signatures

Annex 4. Lenders' reporting requirements

The prepared reports must include:

1. Information on New Loans (for the reported month)

Field	Format	Mandatory	Comments
Borrower ID	Number	Yes	Company register
Loan ID	Number	Yes	
Reporting period	List	Yes	month 1, month 2
Lender ID No.	Number	Yes	
Lender Branch ID No.	Number	Yes	
Portfolio ID	Number	Yes	
Loan type	List	Yes	Credit, revolving type, Overdraft
Loan Currency	MDL/EUR/USD	Yes	
Loan principal amount	Number	Yes	
Date of signing the loan agreement	Date	Yes	
Date of first disbursement	Date	Yes	
Loan amount not used	Number	Yes	
Date of the first instalment of payment (principal)	Date	Yes	
Maturity date of the loan agreement	Date	Yes	
Tenor	Number of months	Yes	
Collateral coverage rate, MV	Percentage	Yes	Market value
Collateral coverage rate, LV	Percentage	Yes	Liquidation value
Annual interest rate	Percentage	Yes	
Guarantee rate	Percentage	Yes	
Date of currency conversion	Date	Yes	
Currency conversion rate	Number	Yes	National Bank of Moldova
Guarantee amount in MDL	Number	Yes	Loan principal amount*Currency conversion rate* guarantee rate
Date of approval of the security	Time	Yes	

2. Information on Beneficiaries of guarantees (for the reported month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	Month 1, month 2
Beneficiary's ID No.	Number	Yes	Company register
Name of the Beneficiary	Text	Yes	
Type of Beneficiary	Text	Yes	Specify Micro, Small or Medium enterprise
Legal form	List	Yes	
Date of establishment	Date	Yes	
Address	Text	Yes	
Postal code	Number	Yes	

Sector (CAEM code)	List	Yes	
Email:	Text	Yes	
Mobile phone:	Text	Yes	
Female-owned/female-managed company	Yes/No	Yes	
Founded or managed by a young person (maximum 35 years)	Yes/No	Yes	
Exporting company	Yes/No	Yes	
Annual value of exports for the previous fiscal year in MDL	Number	Yes	
The value of exports of new products or to new markets/customers after the date of disbursement of the guaranteed loan, in MDL equivalent. (data is updated quarterly)	Number	Yes	
New beneficiary	Yes/No	Yes	New borrower for the Lender
Number of employees: Women Men	Number Number Number	Yes	Employees, owners-managers
Total turnover in MDL	Number	Yes	
Total assets in MDL	Number	Yes	
Internal Classification of the Beneficiary /Internal Scoring	Text	Yes	
Comments	Text	Not	

3. Loan balance data (for all loans in the portfolio)

Field	Format	Mandatory	Comments
Lender ID No.	Number	Yes	
Reporting period	List	Yes	M1, M2...
Loan ID No.	Number	Yes	Mandatory
Cumulative disbursements	Number	Yes	
Loan balance (currency)	Number	Yes	
Days of delay	Number	Yes	If any
Date of currency conversion	Time	Yes	
Currency conversion rate	Number	Yes	NBM
Balance of loans in MDL	Number	Yes	
Guarantee rate	Percentage	Yes	
The balance of the guarantee in MDL	Number	Yes	
Guarantee fee rate per year	Percentage	Yes	
Amount of the guarantee fee	Number	Yes	
Comments	Text	No	Optional

4. Loans due/paid in advance (for the reported month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	M1, M2, etc.
Loan ID No.	Number	Yes	Mandatory
Date of repayment	Date	Yes	Mandatory
Comments	Text	No	Optional

5. Restructured loans (for the reporting month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	M1, M2...
Loan ID	Number	Yes	Mandatory
Type of restructuring	List	Yes	Mandatory (List:
Date of restructuring	Date	Yes	Mandatory
Comments	Text	Yes	Optional

6. Claims (for the reporting month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Transaction ID	Number	Yes	
Reporting period	List	Yes	M1, M2...
Defaulted principal amount	Number	Yes	
Currency	MDL/EUR/USD	Yes	
Date of default	Date	Yes	
Outstanding Principal amount	Number	Yes	
Date of currency conversion	Date	Yes	
Currency conversion rate	Number	Yes	NBM
Payment request	Number	Yes	Claim amount

7. Recoveries (for the reported month)

Field	Format	Mandatory	Comments
Transaction ID No.	Number	Yes	
Reporting period	List	Yes	L1, L2...
Date of recovery		Yes	
Amount of recovery		Yes	Minus recovery costs
Currency		Yes	
Date of currency conversion	Date	Yes	
Currency conversion rate	Number	Yes	NBM
The amount in MDL to be transferred to CGF	Number	Yes	

8. Excluded transactions (for the reported month)

Field	Format	Obligatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	M1, M2...
Loan ID No.	Number	Yes	
Date of exclusion	Date	Yes	
Comments	Text	Yes	Optional

Annex 5. Internal reporting

1 Outstanding Portfolio data set (based on the Lender's reports and the guarantee agreements)

Field	Format	Obligatory	Comments
Financial intermediary ID	Number	Yes	
Portfolio ID	Number	Yes	
Reporting period	List	Yes	M1, M2...
Start of inclusion period	Date	Yes	
End of inclusion period	Date	Yes	
Termination date	Date	Yes	
Maximum Portfolio Volume	Number	Yes	
Agreed Portfolio Volume	Number	Yes	
Actual Portfolio Volume	Number	Yes	
Number of SMEs	Number	Yes	cumulative
Outstanding portfolio volume	Number	Yes	
Outstanding portfolio volume (PAR 30)	Percentage	Yes	
Outstanding portfolio volume (PAR 90)	Percentage	Yes	
Guarantee rate	Percentage	Yes	
Outstanding Guarantee amount	Number	Yes	
Guarantee Fee Rate	Percentage	Yes	
Guarantee Fee Amount	Number	Yes	
Fee Amount receipt date	Date	Yes	
Minimum Collateral Coverage Ratio	Percentage	Yes	
Average collateral coverage ratio	Percentage	Yes	
Average interest rate p.a.	Percentage	Yes	
Interest rate (minimum)	Percentage	Yes	
Interest rate (maximum)	Percentage	Yes	
Guarantee Cap Rate	Percentage	Yes	
Guarantee Cap Amount	Number	Yes	
Available guarantee cap amount	Number	Yes	Taking into consideration the claims and reimbursements
Claims Amount	Number	Yes	
Claims Number	Number	Yes	
Reimbursements	Number	Yes	Amount of reimbursements received from the Lenders
Reimbursements receipt date	Date	Yes	
Excluded loans amount	Number	Yes	
Excluded loans number	Number	Yes	
Comments	Text	No	

Annex 6. Ineligible Businesses

A. The following activities will not be supported under the Guarantee Scheme:

1. in the case they may cause significant impacts for which it would be necessary a full EIA, according to national Law #86/2014;
2. any investments related to wood harvesting and/or those that might have impacts on the forest health;
3. production and processing of Genetically Modified Organisms (GMOs);
4. located in protected areas, critical habitats or culturally or socially sensitive areas recognized under national regulations (i.e., on natural areas protected by state, core areas of ecological network, national register of monuments etc.) (Ref.: ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources; ESS8 Cultural Heritage);
5. any activities that may cause permanent or temporary physical or economic displacement of owners or users of any plot of land resulting in loss of or damage to assets including standing crops, structures or other improvements to the land (Ref.: ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement);
6. any activities involving forced or child labor, reported or significant concern for sexual exploitation and abuse or sexual harassment (Ref.: ESS2 Labor and Working Conditions)
7. purchasing pesticides listed as “I, II or III of Moldova Toxicity Group” [1], “Ia, Ib or II of WHO Toxicity Class” [2] and/or “EU Banned or Severally Restricted” [3] (Ref.: ESS3 Resource Efficiency and Pollution Prevention and Management);
8. large scale irrigation systems [4] and sub-projects involving discharging waste waters directly in the international waterways, abstraction or diversion of international waters, sub-projects related to discharging waste materials in a location that could impact on international waters, construction of any dams that might affect international waters hydrological regime, etc. (Ref.: OP/BP 7.50 Projects on International Waterways).

B. The Guarantee Scheme will also not support other types of sub-projects that are specified in the IFC/WB Exclusion List:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES.
2. Production or trade in weapons and munitions.*
3. Production or trade in alcoholic beverages (excluding beer and wine).*
4. Production or trade in tobacco.*
5. Gambling, casinos and equivalent enterprises.*
6. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
7. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 percent.
8. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
9. Production or activities involving harmful or exploitative forms of forced labor**/harmful child labor.***
10. Production or trade in wood or other forestry products other than from sustainably managed forests.
11. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.

12. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Notes:

** This does not apply to Project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations. A MSME Beneficiary will not be regarded as substantially involved if the MSME Beneficiary has a cumulative portfolio exposure below 5% to investees/borrowers which generate more than 20% of their respective revenues from an Excluded Activity.*

Guidance note link:

<https://www.ifc.org/wps/wcm/connect/a6de7f69-89c8-4d4a-8cac-1a24ee0df1a3/Fl+Interpretation+Note+November+2018.pdf?MOD=AJPERES&CVID=msNA7rQ>

*** Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.*

**** Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.*

C. In accordance with art. 12 of Law no. 179/2016 regarding small and medium-sized enterprises, the following companies do not benefit from the support instruments, including financial guarantees issued by ODA:

1. Enterprises that hold a dominant position on the market, a fact established by the competent authority;
2. Enterprises in whose share capital the share of the founding member who is not a micro, small and medium-sized enterprise exceeds 25%, with the exception of non-commercial organizations; enterprises importing goods subject to excise duty;
3. Fiduciary companies and insurance companies;
4. Enterprises for collective investment in securities;
5. Financial institutions;
6. Non-bank lending organizations, savings and loan associations;
7. Foreign exchange enterprises and pawnshops;
8. Gambling enterprises;
9. Non-state pension funds;
10. Enterprises where state control has repeatedly revealed the same violations of the legislation.

Annex 7. Eligibility criteria and assessment procedures to be followed by Lenders for the loans included in the portfolio

This Annex establishes the general eligibility criteria and loan assessment procedures to be applied by the Lender when including loans in the guaranteed portfolios.

I. Only loans which at the time of the conclusion of the contract meet the requirements established in the Guarantee Scheme and the following conditions may be included in the portfolio:

1.1. Eligibility criteria for beneficiaries.

- a) The Beneficiary is a micro, small or medium-sized enterprise defined according to art. 4 of Law no. 179/2016 on small and medium-sized enterprises;
- b) The Beneficiary does not carry out activities or the purpose of the loan refers to ineligible activities listed in the Guarantee Agreement or the Guarantee Scheme;
- c) The Beneficiary has payment capacity, is considered viable for lending in accordance with the internal policies of the Lender, taking into account the Beneficiary assessment requirements in accordance with the present Annex;
- d) The Lender has identified the effective owners of the Beneficiary;
- e) The beneficiary has not registered arrears in the payment of loans of more than thirty (30) consecutive days in the last year and more than ninety days (90) consecutively in the last three years;
- f) The beneficiary confirms the lack of any overdue payments to the state budget;
- g) The beneficiary does not carry out illegal activities within his business;
- h) The Beneficiary, including the owners and shareholders, shall not be included in any financial sanctions lists observed by the Lender in accordance with the internal Anti-Money Laundering and Countering the Financing of Terrorism policy;

1.2. Eligibility criteria for loans included in the portfolio:

- a) The principal amount of the loan is used for the purchase / construction of tangible assets or financing the current activity;
- b) At most 30% of the principal amount of the loan may be used to refinance other loans from other financial institutions;
- c) The beneficiary contributes with own funds in the amount of at least the percentage specified in the lending product, in correspondence with the bank's lending policy, in case of investment loans;
- d) The principal amount of the loan is not used for speculative investment activities and speculative real estate transactions;
- e) The initial minimum duration of the loan agreement is 12 months;
- f) The collateral coverage rate of the loan is at least that specified in Annex no. 1 of the Guarantee Agreement for the respective portfolio, in the case of secured portfolios;
- g) The loan value is fully included in the portfolio up to the Agreed value of the portfolio, partial inclusion is not allowed.

II. The procedures for evaluating the Applicant and the requested Loan will include at least the following stages:

2.1 Eligibility check:

- a) Verification of the Applicant's eligibility in accordance with the exclusion list (ineligible activities). If the Applicant is on the exclusion list, he will be informed about the impossibility of granting the loan guaranteed by the Guarantor;
- b) Verification of the Credit Bureau History and confirmation of their lack of loan arrears of more than thirty (30) consecutive days in the last year and more than ninety (90) consecutive days (90) consecutive in the last three years;

- c) Verification and description of the Applicant's collaboration history with the Lender;
- d) On-site verification of the Applicant's activity, by conducting an interview with his legal representative.
- e) Verification of the applicant's compliance with the measures for the protection of the environment and social rights, in accordance with the law and their reflection in the questionnaire filled (Annex 10. Environmental and Social Due Diligence (Sample E&S assessment form) - E&S assessment form) in by the Lender, related to the assessment of environmental and social risks.

2.2 Verification of the capacity to repay the loan, which will include the following stages:

Cash Flow analysis – in case the Applicant submits Financial Statements.

- a) Depending on the argumentation obtained from the Applicant regarding the purpose of the requested loan, the Lender will analyze the repayment capacity of the loan, taking into account the cash flows based at least on the Financial Statements and the income statement.
- b) In the case of negative equity, the Lender will analyze how the requested loan will help the Applicant to obtain the profit that would allow the elimination of the negative equity.
- c) The lender will assess the repayment capacity of the loan, based on the monthly cash flows, as well as those forecasted at least for the period for which the loan is requested.
- d) The lender will ensure that the financial projections containing the income and expenses are realistic based on the specifics of the activity, the history available in the Financial Statements and the Income Statement.
- e) The Lender shall take into account the financial indicators regarding the applicant's economic performance, calculated in accordance with internal regulations and prudential practices.
- f) The Lender shall calculate the debt service coverage ratio. Specifically, after receiving the loan, a beneficiary enterprise should maintain a minimum debt service coverage ratio (defined as Earnings before Interest, Taxes, Depreciation and Amortization (EBIDTA) divided by principal and interest payments) until sub-loan maturity. A minimum of 1.25 to 1 is a good target.

Cash flow analysis – in case the Applicant is a newly created company.

- g) Depending on the argumentation obtained from the Applicant regarding the purpose of the requested loan, the Lender will analyze the repayment capacity of the loan, taking into account the business plan or the forecasted cash flows.
- h) In the case of negative equity, the Lender will analyze the circumstances that led to negative equity and how the requested loan will help the Applicant to obtain the profit that would allow the elimination of the negative equity.
- i) The lender will ensure that the financial projections containing the forecasted income and expenses are realistic based on the business plan and the specifics of the activity.
- j) During the active period of the loan, the Lender will monitor the implementation of the financed project in accordance with the business plan and, if necessary, will propose corrective measures.

2.3 Equity evaluation

- a) The Lender will analyze the structure, changes and sources of increase of the equity capital (net profit, contribution of the founders, increase of reserves, etc.).
- b) If the equity is negative, it will be analyzed the reason for its reduction and the losses occurred, as well as the fact how the requested loan will help the Applicant to obtain the profit that would allow the elimination of the negative equity capital.

2.4 Evaluation of real and personal guarantees

2.4.1. The Lender will analyze the real guarantees proposed by the Applicant for securing the loan, through the lens of the following aspects:

- a) assessment of the condition of the goods proposed as pledge and their market value, as well as their liquidity;
- b) the identification of the pledged debtors and the existence of their agreement regarding the pledge of their assets in favor of the Lender;
- c) the absence of encumbrances and restrictions applied by third parties or the assurance that all existing encumbrances and restrictions will be removed after the loan has been granted;
- d) priority when accepting collateral will be given to the collateral in good condition and with high liquidity.

2.4.2. In addition to real guarantees, the Lender will prioritize the acceptance of personal guarantees offered from the founders or persons affiliated to the Applicant.

2.4.3. Personal guarantees will be accepted in the security structure without establishing a value and will not be included when determining the rate of collateral coverage.

2.4.4. The Lender will monitor the compliance of securing the loan with real guarantees within the limits set in the Guarantee Scheme.

2.5 Evaluation of the conditions that could affect the Applicant's solvency

2.5.1. The Lender will ensure that it offers credit conditions that correspond to the needs of the Applicant and his development potential, also resulting from the situation of the economic sector to which the Applicant belongs, as well as the business management experience in the respective sector.

2.5.2. In addition to the general lending conditions, the Lender may include restrictions or limitations regarding:

- a) Obligation to increase equity;
- b) Prohibition or limitation of the amount of dividends that can be withdrawn;
- c) Prohibition or limitation of the amount of debts that can be reimbursed to the founders;
- d) Obligation to maintain certain profitability and revenue indicators.

2.5.3. When assessing the loan application, the impact of the activity carried out by the Applicant on the environment will also be analyzed, and in case of identification of certain risks, the Lender may establish corrective measures and additional prohibitions.

2.5.4. An important aspect to be taken into account by the Lender is the fact that the Applicant has no significant debts to the staff or to the payments related to the budget.

Annex 8. Template Guarantee Agreement

Loan Portfolio Guarantee Agreement

between

Public Institution

**Organization for Entrepreneurship Development
(ODA)**

and

[Lender Name]

The Public Institution Organization for Entrepreneurship Development, hereinafter referred to as the „Guarantor”, registered at the State Chamber of Registration, IDNO 1007600042792, which activates on the basis of the Regulation approved by Government Decision no. 538 from 17.05.2007, represented in the person of the Director Mr/Mrs _____ on one hand, and

[Lender Name], hereinafter referred to as „**Lender**”, registered at the State Chamber of Registration, IDNO _____, which operates on the basis of the Statute, represented in the person of the President Mr/Mrs _____, on the other hand, together called „**Parties**”

I. Preamble

Taking into account that one of the objectives of the Micro, Small and Medium Enterprises Competitiveness Project (MSME Project), implemented by the Project Implementation Unit, is to facilitate access to finance for micro, small and medium-sized enterprises, a fact for which on July 15,2022, between the Government of the Republic of Moldova and the International Bank for Reconstruction and Development (IBRD) has been signed the Loan Agreement (9423-MD) (“IBRD Loan Agreement”) in the amount of EUR 13.800.000, ratified by the Parliament of the Republic of Moldova, through Law no.203/2022, which provides for the implementation of a new mechanism to guarantee loan portfolios and strengthen the Lender's capacities to grant loans to micro, small and medium-sized enterprises (“MSMEs”) from the Republic of Moldova, thus creating positive premises by maintaining and creating new jobs and stimulating economic growth.

By mutual agreement, in full knowledge of the facts, under the Law on small and medium-sized enterprises no.179/2016 and the Government Decision no.709 of 19.10.2022 for the approval of the „Regulation on the organization, functioning and use of the Guarantee Fund for small and medium-sized enterprises" (hereinafter referred to as "Regulation"), hereby conclude this Loan Portfolio Guarantee Agreement (hereinafter the **Agreement**), taking into account the common objective of stimulating the establishment and development of micro, small and medium-sized enterprises by facilitating access to finance.

For the purposes of this Agreement, the following terms shall be used:

Portfolio guarantee – financial guarantee issued by ODA for a portfolio of Eligible Loans of the Lender, under the terms of this agreement, in order to share the credit risk between ODA and the Lender, associated with the loan portfolio;

Applicant – micro, small or medium-sized enterprise (*hereinafter - MSMEs*), as defined according to art. 4 of the Law no.179/2016 on small and medium-sized enterprises, which requests a loan from the Lender, guaranteed with financial guarantee;

Beneficiary - micro, small or medium-sized enterprise as defined according to art. 4 of the Law no.179/2016 on small and medium-sized enterprises, which obtained an Eligible Loan from the Lender, included in the Portfolio;

Lender - bank which concluded an Agreement with ODA for the purpose of granting loans, guaranteed with a portfolio guarantee;

Guarantor - Public Institution „Organization for Entrepreneurship Development”, which manages the activity of the Credit Guarantee Fund;

Creditworthiness of the Applicant/Beneficiary – the ability of the Applicant/Beneficiary to repay, at maturity, the loan, the interest and the related costs, according to the loan agreement;

Eligible Loan - any new loan granted by the Lender to a Beneficiary under a loan agreement, which complies with the requirements of the CGF Operations Manual and the Agreement signed between ODA and the Lender;

Guaranteed loan portfolio – the total of the principal amount of loans granted by the Lender to the Beneficiaries guaranteed by portfolio guarantees issued by ODA;

Guarantee cap rate – percentage rate used to determine the maximum guarantee cap value, which sets the limit of the aggregate loss assumed by the Guarantor for the portfolio guarantees;

Maximum Portfolio Value - the maximum value of the principal of the loan portfolio expressed in MDL and specified in Annex 1;

Agreed Portfolio Value - value expressed in MDL established in the Agreement, calculated as a percentage of the maximum value of the guaranteed loan portfolio. At the ODA's decision, the agreed value of the portfolio can be increased to the maximum portfolio value, depending on the successful use and compliance with the Portfolio Objectives, set out in the Agreement;

Actual Portfolio Value - The aggregate amount of the principal committed under loan agreements included in the Portfolio. The Actual Portfolio Value does not reduce with the decrease of the loan balance or with the Claims amount. The Actual Portfolio Value is reduced only by excluding loans from the Portfolio, canceling the Loans or reducing the value of the loans due to non-disbursement of the maximum amount of the loan or reducing the value of the credit line. The Actual Portfolio Value is limited to the Agreed Portfolio Value;

Guaranteed Loan Portfolio Balance - the sum of the following two amounts: (i) for simple term loans or similar facilities: the aggregate amount of all the balances of the principal amounts (outstanding) of all loans, included in the Portfolio, and (ii) for credit lines, loans granted in tranches (until their full disbursement thereof) and for overdrafts or similar facilities: the amount of credit limits and approved facilities (regardless of whether these overdrafts and credit facilities are effectively disbursed) from all the Loans included in the Portfolio;

Portfolio Objectives - Objectives to be achieved by the Lender, which may include risk parameters, sectoral shares, geographic shares or others. The objectives are set by ODA for each Portfolio and detailed in the Agreement;

Inclusion Period - Period that starts from the date specified in the Agreement signed with the Lender and ends after 2 years. During this period, the Lender may include new Loans in the portfolio, the aggregated amount of the principal amount of which will not exceed the Agreed Portfolio Value;

Termination date of the agreement – at the expiry of 7 years from the date of signing the Agreement with the Lender, except that the obligation of the Lender to reimburse payments in accordance with Section 9.14 of the CGF Operations Manual is valid after the expiration term of the Guarantee Agreement.

Claims – the value of the portfolio guarantees paid by ODA in relation to Losses incurred by the Lenders in respect of non-performing loans;

Guarantee rate – a percentage rate of the balance of the loan portfolio guaranteed by the Guarantor;

Non-performing loan – loan, the payment of which has not been paid by the Beneficiary to the Lender for more than 90 consecutive days, from the due date of the payments stipulated in the loan agreement and for which the Lender and the Beneficiary have not reached an agreement regarding remedial measures;

Loan restructuring – renegotiation (modification of loan value or purpose of the loan) and/or extension of the term of the loan agreement included in the portfolio;

Payment request – Report sent monthly by the Lender to ODA, regarding the payment of the guarantee (claim) in relation to non-performing loans. A model of the report is given in *Annex 6* of the present Agreement;

Request for final payment – The last payment request sent by the Lender to ODA, regarding the losses incurred, until the termination date of the agreement indicated in the Agreement. The final payment request may be submitted until the last day of the month following the month in which the termination of the agreement takes place;

Maximum exposure to a Beneficiary or to a group of affiliated Beneficiaries – The maximum cumulative value of the loans included in the portfolio, granted by the Lender to a Beneficiary or to a group of affiliated Beneficiaries. The Affiliated Beneficiary Group is defined based on the Regulation on Large Exposures, approved by Decision of the Executive Board of the National Bank of Moldova no.109 of April 5, 2019 (in force as of 19.06.2019).

Recoveries – Amounts recovered from the sale of the pledge, as well as of any other amounts collected on account of the payment of outstanding debts related to the loan agreement, from the Beneficiary (either as voluntary payment or as forced execution of real or personal guarantees, compensation or otherwise obtained), after deducting the costs of collection / enforcement expenses;

Repayments– All amounts transferred by the Lender to ODA after payment of the Claims (less recovery costs), divided in the same proportion of the Guarantee Rate (according to the pari-passu principle) between the Lender and ODA;

Event of non-fulfillment of obligations by the Lender – Events of non-fulfillment of obligations by the Lender stipulated in point 13.2;

Triggering Event – A triggering event of the Guarantee may occur if, at the monthly review during the inclusion period, the portfolio objectives have not been met or in case of non-fulfillment under the Agreement;

Information system for the management of financial guarantees for loans (SIGGF) – information system designed to digitize the processes of request, examination, issuance, monitoring, execution and recovery by the Guarantor of financial guarantees.

MSME Project - Micro, Small and Medium Enterprises Competitiveness Project (MSME Project), supported by the World Bank, which consists of the following five components: component 1 – Regulatory reform and Digitization; component 2 – Access to Finance; component 3 – MSME Development and Export Competitiveness; Component 4 – Project Management and Implementation Unit; Component 5 – Contingency Emergency Response;

IBRD Anti-Corruption Guidelines – means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

CGF Operations Manual – means the manual of the CGF that provides the mechanism for issuing, monitoring, executing and recovering portfolio guarantees, published on the Guarantor official website.

Environmental and Social Standards (or ESS) – means collectively the following standards: - 1: Assessment and Management of Environmental and Social Risks and Impacts”; 2: Labor and Working Conditions”; “3: Resource Efficiency and Pollution Prevention and Management”; “4: Community Health and Safety”; “5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; “6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; “7: Indigenous Peoples/Sub-Saharan Historically Underserved Traditional Local Communities”; “8: Cultural Heritage”;

“9: Financial Intermediaries”; and “10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the World Bank Group.

Lender ESMS - means the Environmental and Social Management System satisfactory to the World Bank, established by each Lender, for the purpose of identifying, assessing, managing and monitoring the environmental and social risks and impacts of the activities regarding the Guaranteed Loan Portfolio on an ongoing basis, and includes inter alia the following: (i) environmental and social policy; (ii) clearly defined procedures for the identification, assessment and management of the environmental and social risks and impacts of the activities; (iii) organizational capacity and competency; (iv) monitoring and review of environmental and social risks of the activities under the Guaranteed Loan Portfolio; and (v) external communications mechanism.

Environmental and Social Commitment Plan (or ESCP) – means the environmental and social commitment plan for the MSME Project, dated May 26, 2022, which sets out the material measures and actions that the Guarantor and the Lender shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.

II. Subject of the Agreement

2.1. This Agreement establishes and regulates the legal relations between the Guarantor and the Lender in the field of supporting MSMEs, by granting loans by the Lender and guaranteeing the portfolio of eligible loans by the Guarantor.

2.2. The Guarantor issues portfolio guarantees in favor of the Lender, for all the loans granted to the Beneficiaries and included in the guaranteed loan portfolio and which correspond to the eligibility criteria and conditions established in the Agreement, the Project Operations Manual, the CGF Operations Manual and the approved portfolios (Annex 1).

III. Rights and Obligations of the Parties

Rights and obligations of the Guarantor

3.1. The Guarantor has the right to monitor the fulfilment of the Lender's commitments according to the Agreement.

3.2. The Guarantor is obliged to pay Claims according to the payment requests submitted by the Lender, related to the loans included in the portfolio under the terms and conditions established in the Agreement.

3.3. The Guarantor's obligations towards the Lender under the Agreement will remain in force in relation to any loan included in the Portfolio, regardless of the fact that the Beneficiary is subject to a process of reorganization, insolvency, liquidation or suspension of the activity under the law.

Rights and obligations of the Lender

3.4. The Lender undertakes to carry out management activities of the Eligible Loans in the portfolio, according to the provisions of the Agreement, the IBRD Loan Agreement and the CGF Operations Manual including the following activities:

- a) undertake all necessary actions in order to achieve the objectives of the Guarantee Scheme in accordance with the purpose of this Agreement, including outreach and other forms of marketing and communication to potential clients interested in contracting loans with the support provided by the Guarantor;
- b) conduct due diligence to all applicant MSMEs;

- c) carry out activities in accordance with the IBRD Anti-Corruption Guidelines, the ESS and the ESCP;
 - d) conclude loan agreements with Beneficiaries in accordance with the provisions of the Agreement and in conditions satisfactory to ODA;
 - e) verify the compliance of the loans with the conditions for inclusion in the portfolio;
 - f) perform all necessary actions and communications with the Guarantor, including the provision of any relevant information and data regarding the loans included in the portfolio, at the request of the Guarantor;
 - g) submit reports to the Guarantor in accordance with the Agreement;
 - h) carry out all actions in order to reimburse the amounts paid by the Guarantor as a result of payment of Claims;
 - i) support the Guarantor in carrying out the campaign to promote the possibility of financing through the loan portfolio guarantee scheme;
 - j) actively promote the loan portfolio guarantee scheme, including through its own website;
 - k) perform with due care and in accordance with good banking practices, all functions and activities mentioned in the Agreement;
 - l) manage the loans included in the portfolio(s) listed in *Annex 1*, calculate and provide the reporting information to the Guarantor as described in *Annex 6*;
 - m) to not terminate, discharge or replace the collateral provided by the Beneficiaries, for securing the loans included in the Portfolio, without sending a request to the Guarantor about the changes made, and maintaining a minimum collateral coverage rate of that indicated in Annex 1 of the Agreement;
 - n) to comply with the regulations of the legislation and the lending procedures issued by the National Bank of Moldova;
 - o) undertake annual external audits by auditors acceptable to the National Bank and according to National Bank regulations and according to international financial reporting standards and international auditing standards;
 - p) appoint specific staff that will be responsible for the collaboration with CGF and the management of the guaranteed portfolio, to maintain adequately staffed credit and risk committee, and to join available staff training;
 - q) notify the Guarantor not less than thirty (30) days in advance of any change in the lending procedure, attaching the description of the modified processes or criteria.
- 3.5. The Lender also undertakes to:
- a) permanently comply with its internal rules and procedures regarding the granting of loans and the assessment of credit risks, that take into account at least the assessment criteria in *Annex 3*;
 - b) comply with the requirements of the World Bank's Environmental and Social Standard 9 for Financial Intermediaries and the Environmental and Social Management Arrangements (*Annex 4*);
 - c) implement its own Environmental and Social Management System (Lender ESMS), in compliance with the World's Bank ESS, ensuring the assessment of the environmental and social risks and impacts of the proposed guaranteed loans provided under the CGF and of the MSME activities that are financed by the Lender and benefit from a guaranteed loan, taking in consideration its own ESMS, as well as ODA's ESMS.
 - d) comply at all times with its internal rules and procedures regarding the management, monitoring and collection of debts related to the loans included in the Portfolio, unless this Agreement provides otherwise;
 - e) monitor the proper use of the loan resources by the Beneficiaries and submit, at the Guarantor's request, the supporting documents;
 - f) calculate and transfer the guarantee fee to the Guarantor under the terms and conditions of this Agreement;

- g) ensures the preservation and integrity of documents related to loan transactions in accordance with the internal rules and procedures throughout the term of the Agreement and for 10 years following the date of termination of the Agreement;
- h) Include in the content of the loan agreements signed with the Beneficiaries the following provisions:
 - i. The debtor is considered a beneficiary of a loan portfolio guarantee, granted by the Public Institution „Organization for Entrepreneurship Development” (PI ODA), under the *Law no. 179/2016 on small and medium-sized enterprises* and the *Government Decision No. 709 dated 19.10.2022, for the approval of the Regulation regarding to the organization, operation and use of the Credit Guarantee Fund for small and medium-sized enterprises*”.
 - ii. „The loan is included in the loan portfolio of the [Lender] guaranteed by PI ODA, under the Loan Portfolio Guarantee Agreement nr. of _____._____, concluded between PI ODA and the [Lender]”, supported by the World Bank, under the Micro, Small and Medium Enterprises Competitiveness Project;
 - iii. The support measure in the form of portfolio guarantees for loans granted to small and medium-sized enterprises under the Credit Portfolio Guarantee Scheme, managed by the Credit Guarantee Fund, constitutes state aid within the meaning of Article 3 of Law no. 139/2012 on state aid.
 - iv. „The debtor has given his consent and undertakes to allow persons expressly authorized by P.I. ODA or World Bank, to carry out verifications by field visits, including verifications of documents and data associated with this loan agreement”;
 - v. The debtor will not engage in any activity described in the Exclusion List during the term of the loan agreement;
 - vi. The debtor will report to the Lender if there is a substantial change in the nature of the underlying activities;
 - vii. The debtor will comply with all legal requirements;
 - viii. The debtor will be required to promptly report to the bank any actual or potential material adverse E&S event, immediately after becoming aware of it;
- i) Allows the Guarantor's and other authorized persons access to its headquarters or branches, in order to verify the records and documents related to the loans included in the portfolio.
- j) take in account, during the assessment of loan applications, the exclusion list and the risk assessment procedure, including the information gathered and reviewed based on the screening form included in *Annex 5*.
- k) Verify that the beneficiary MSMEs demonstrate compliance with applicable national laws and regulations, including through appropriate permits and approvals. Where compliance can't be demonstrated (for ex: expiring permits), an *E&S Action Plan (ESAP)* must be agreed with the beneficiary MSME in order to proceed with the application for the guaranteed loan. An example of a template is included in ODA ESMS for reference; Such ESAP should be put in place and its conditions fulfilled before signature of the loan.
- l) Report to ODA any material adverse E&S events. An example of a template is included in ODA ESMS for reference;

3.6. The rights and obligations of the parties that derives from Chapter IX will remain in force until the full repayment of the loans included in the portfolio, or, respectively, until the completion of the enforcement or recovery of the guarantees.

IV. Guarantee conditions

4.1. Eligible loans, included by the Lender in the loan portfolio, shall be considered guaranteed under the terms of the Agreement, without the prior consent of the Guarantor.

4.2. In accordance with the Regulation, depending on the type of guarantee (capped or uncapped) and the level of collateral security (secured or unsecured), the portfolio(s) listed in *Annex 1*, will be structured as follows:

- 1) Capped secured portfolio guarantees;
- 2) Capped unsecured portfolio guarantees;
- 3) Uncapped secured portfolio guarantees;
- 4) Uncapped unsecured portfolio guarantees.

4.3. For the capped portfolio guarantee, the Guarantor is obliged to honor all the payment commitments requested by the Lender regarding the Claims, until the maximum guarantee cap value, related to the guaranteed loan portfolio, has been reached, predetermined in *Annex 1*.

4.4. The requirements identified in paragraphs 4.5, 4.6, and 4.7 below may be revised from time to time by mutual agreement between the Government of Moldova and the World Bank and reflected in the CGF Operations Manual.

4.5. The maximum guarantee on an individual loan in a capped portfolio is 80% of the balance outstanding at the time of default. The maximum guarantee on an individual loan in an uncapped portfolio is 50% of the balance outstanding at the time of default.

4.6. The maximum amount of the individual loans to be covered by the portfolio guarantee is MDL 5,000,000 or EUR 250,000.

4.7. The maximum guarantee cap on a capped portfolio is 20%.

4.8. The maximum guarantee cap value is calculated for each portfolio in accordance with *Annex 1*, the following formula being applied:

$$PG = S * \frac{C}{100} * \frac{RP}{100}$$

where:

PG – the maximum guarantee cap value, expressed in MDL;

S – the maximum value of the guaranteed loan portfolio, expressed in MDL;

C – the guarantee rate;

RP – the guarantee cap rate for the guaranteed loan portfolio.

4.9. The maximum guarantee cap value shall be reduced by the value of the Claims paid by the Guarantor and shall be increased by the repayments received by the Guarantor from the Lender in accordance with the term and calculation from p. 9.5.

4.10. For the uncapped portfolio guarantee, the Guarantor is obliged to fully honor the payment commitments requested by the Lender, without setting a maximum guarantee cap rate, within the limit of the guarantee rate.

4.11. In the secured portfolios may be included only loans whose collateral coverage rate exceeds the minimum percentage rate established in *Annex 1*.

4.12. In order to determine the collateral coverage rate, the following formula shall be applied:

$$RG = \frac{VG}{C} * 100$$

where:

RG – collateral coverage rate;

VG - the value of collateral securing the loan (collateral value accepted by the Lender), except for the guarantee granted by the Guarantor. The calculation of the collateral value is based on the Lender's internal procedure;

C – the initial amount of the loan.

4.13. In the unsecured portfolios may be included loans whose collateral coverage rate is lower than the minimum percentage rate established in *Annex 1*.

4.14. In order to achieve the objectives of the Guarantee Fund and its own risk exposure assessments, the Guarantor may review the maximum value of the guaranteed loan portfolio, established in *Annex 1*

of the present Agreement, preventively informing the Lender within 30 days before the entry into force of the maximum values of the revised portfolios.

V. Eligibility criteria

5.1. The Portfolio may include only the loans that at the time of concluding the respective loan agreements, meet the requirements set out in *Annex 1* and the following conditions:

- 1) The Beneficiary is an MSME defined according to art. 4 of Law no. 179/2016 on small and medium-sized enterprises;
- 2) The Beneficiary has payment capacity, is considered viable for lending in accordance with the internal policies of the Lender, taking into account the Beneficiary assessment requirements in accordance with *Annexes 3 and 4*;
- 3) The Lender has identified the beneficial owners of the Beneficiary;
- 4) The beneficiary has not registered arrears in the payment of loans of more than thirty (30) consecutive days in the last year and more than ninety days (90) consecutively in the last three years;
- 5) The beneficiary confirms the lack of any overdue payments to the state budget;
- 6) The beneficiary does not carry out illegal activities within its business;
- 7) The Beneficiary, including the owners and shareholders, shall not be included in any financial sanctions lists observed by the Lender in accordance with the internal Anti-Money Laundering and Countering the Financing of Terrorism policy;
- 8) The beneficiary does not carry out activities or the purpose of the loan refers to the ineligible activities listed in *Annex 2*.

5.2. In the portfolio may be included only loans that during the activity of this Agreement meet the following conditions:

- a) The principal amount of the loan is used for the purchase / construction of tangible assets or financing the current activity;
- b) At most 30% of the principal amount of the loan may be used to refinance other loans from other financial institutions;
- c) The beneficiary contributes with own funds in the amount of at least the percentage specified in the lending product, in correspondence with the bank's lending policy, in case of investment loans;
- d) The principal amount of the loan is not used for speculative investment activities and speculative real estate transactions;
- e) The initial minimum duration of the loan agreement is 12 months;
- f) The collateral coverage rate of the loan is at least that specified in *Annex 1* for the respective portfolio, in the case of secured portfolios;
- g) The loan value is fully included in the portfolio up to the Agreed value of the portfolio, partial inclusion is not allowed.

5.3. The parties have reached the agreement that any modification of the eligibility criteria by the Guarantor will have legal effects, without concluding an additional agreement, if the Lender is informed in writing, 10 days before the entry into force of the new changes, at the address indicated in this Agreement. The newly approved eligibility criteria shall not have a retroactive effect on loans previously included in the portfolio.

VI. Loan inclusion process

6.1. The deadline for including loans in the Portfolio is 2 years from the date of signing the Agreement.

6.2. Only the loans that were included in the Portfolio during the inclusion period specified in 6.1, shall be considered guaranteed under this Agreement, provided that the loan agreement was signed with the Beneficiary after the date of signing this Agreement.

6.3. When approving the loan, the Lender will evaluate the Beneficiary according to its internal lending procedure, the norms of the National Bank of Moldova, and also taking into account the Beneficiary assessment requirements in accordance with *Annexes 3 and 4*.

6.4. The inclusion of loans in the Portfolio is carried out by the Lender only if the following conditions are cumulatively met:

- a) The loan corresponds to all the eligibility criteria set out in Chapter V;
- b) The Actual Portfolio Value does not exceed the Agreed Portfolio Value;
- c) The beneficiary and the loan requested meet the conditions established in this Agreement;
- d) The loan was recorded in the SIGGF and included in the monthly report described in Chapter XI;
- e) The maximum exposure on a Beneficiary or on a group of affiliated Beneficiaries included in the portfolio does not exceed the value set out in *Annex 1*.

6.5. The loans are considered to be included in the portfolio starting from the date of inclusion of the loan information in the SIGGF, provided that it was subsequently included in the monthly report according to *Annex 6*. In case any technical issues of SIGGF prevent the Lender to include the information on guaranteed loans, the loans will be considered included in the portfolio based on the monthly report. The technical issues will be notified by the bank, and in case they can't be fixed in a timely manner, ODA will send a notification regarding the fact that loans granted during the downtime of the software, will be considered included in the portfolio, if they were mentioned in the monthly report. As soon as the software is fixed, all new loans reported during the time of the problem will be reviewed to ensure that all loans submitted via the monthly report are eligible.

6.6. The term of inclusion of new loans in SIGGF is maximum 5 days from the moment of signing the loan agreement. Loans which were not entered in the SIGGF within the prescribed period, but were presented in the monthly report in accordance with *Annex 6* and subsequently entered in the SIGGF, are considered to be included in the portfolio.

6.7. Loans that were contracted and were not reported in the corresponding reference period, can't be included in the portfolio later.

6.8. In the portfolio may be included loans granted in MDL, EUR and USD. In order to determine the value of the loan, the value of the principal amount of loans granted in EUR and USD is converted into MDL, using the relevant exchange rate displayed by the NBM at the date of signing the loan agreement.

6.9. The maximum and agreed value of the portfolio is calculated only in MDL, and at any time the Lender must monitor the compliance with the values approved according to *Annex 1*.

6.10. The deadline for the Beneficiary to fully use the principal amount of the loan included in the portfolio, is 9 months from the date of signing the loan agreement, with the exception for revolving and overdraft loans.

6.11. The Guarantor has the right to monitor and verify the correct application of p. 6.4 during monitoring, in accordance with Chapter XI. If the Guarantor detects that the Lender has included in the Portfolio a loan that does not meet the requirements specified in p. 6.4, the Guarantor has the right to exclude this loan from the portfolio. The exclusion of the loan from the portfolio shall be made in accordance with Chapter XII.

6.12. If at any time after the first (1) year of the Agreement, the Lender has not achieved the objectives set out in Annex 1, the Guarantor may unilaterally reduce the maximum value of the portfolio, up to the limit of the Agreed value of the portfolio, initially set out in *Annex 1*.

6.13. The guarantor, by common agreement with the Lender, may agree on the reduction of the Agreed Portfolio Value.

6.14. At the Guarantor's discretion, the Agreed Portfolio Value may be increased to the maximum value, depending on the successful use and compliance with the portfolio objectives established by the Guarantor in *Annex 1*.

VII. Loan restructuring

- 7.1. The loans included in the portfolio may be restructured by the Lender in accordance with the internal rules and procedures of the Lender, only with the prior consent of the Guarantor.
- 7.2. Based on the request of the Beneficiary, the Lender may request in writing, the consent of the Guarantor, regarding the restructuring of the loan included in the portfolio.
- 7.3. The Guarantor shall examine the application submitted by the Lender in accordance with p. 7.2 and inform the Lender in writing within 5 working days about the approved decision.
- 7.4. In case of a positive decision of the Guarantor regarding the restructuring of the loan included in the portfolio, the Lender will make the necessary changes in the loan agreement, in this case the loan remains included in the portfolio.
- 7.5. In the event of a negative decision by the Guarantor, the Lender may withdraw in writing the requested changes, the loan remaining included in the portfolio or may request the exclusion from the portfolio of the loan for which the restructuring was requested.
- 7.6. In case of modification in the collateral structure of the guaranteed loan included in the secured portfolio, the Lender will be obliged to send a request about the changes willing to be made, and they will be considered accepted by the Guarantor by default without any written confirmation, in case the minimum collateral coverage rate of the loan complies with the rate specified in Annex 1 of the Guarantee Agreement.

VIII. Claims

- 8.1. The execution of the payment request by the Guarantor for a non-performing loan is carried out on the basis of the monthly report, duly completed by the Lender in accordance with *Annex 7*, only if the following conditions have been met cumulatively:
- The loan was eligible for inclusion in the portfolio in accordance with Chapter V of the Agreement and was not excluded from the portfolio;
 - The payment request has been submitted by the date of the final payment request;
 - The Lender is not in a state of non-fulfillment of the contractual obligations according to p. 13.2 of present Agreement.
- 8.2. The following documents relating to the loans for which payment is requested will be attached to the payment request:
- Statement of the Loan Account of the Beneficiary regarding the formation of the outstanding balance;
 - Confirmatory documents regarding the use of the loan in accordance with the purpose of the loan;
 - The copy of the pledge/mortgage/surety agreements and of the additional agreements (according to the case), recorded in the appropriate manner, that guarantees the loan, for which the payment is requested;
 - The information on the current status of the pledged/mortgaged assets (the integrity or partial or total absence of the pledge originally constituted by the Beneficiary and/or the pledge/mortgage debtor) confirmed by the Lender in accordance with the internal procedures, except for the unsecured loans.
- 8.3. If the Guarantor detects that the documents submitted by the Lender in accordance with p. 8.2 are not complete, the examination of the payment request is suspended until all the appropriate documents are submitted.
- 8.4. When determining the amount of the Claim, the outstanding balance of the loan included in the secured portfolio, shall be reduced by the value of the undrawn pledge agreements according to the loan agreement or/and of the excluded/modified real guarantees that wasn't requested in accordance with p. 7.6.

8.5. Within 7 days from the date of receipt of the payment request, which contains all the documents in accordance with p. 8.2, the Guarantor makes the payment for the Lender's Claim, the value of which is calculated according to the following formula:

$$GP = S * \frac{C}{100}$$

where:

GP – value of the claim, expressed in MDL;

S – the outstanding balance of the defaulted loans that are part of the guaranteed loan portfolio, expressed in MDL;

C – the guarantee rate.

8.6. The payment request is executed only in MDL.

8.7. The value of the payment request in MDL of any loan granted in EUR or USD may not exceed the initial value of the guaranteed portion of the loan equivalent in MDL, at the time of signing the loan agreement.

8.8. In order to determine the value of the outstanding balance of the loans granted in EUR or USD, the outstanding balance of the loan shall be converted into MDL, using the relevant exchange rate displayed by the NBM on the last day of the reporting period.

8.9. Payments under this Agreement may be made only until reaching the maximum guarantee cap value, determined in accordance with p. 4.8 and specified in *Annex 1*.

8.10. If the maximum guarantee cap value available is less than the value of the payment request, the payment request will be placed on hold until the maximum guarantee cap value is increased in accordance with p. 4.9.

IX. Recoveries and repayments of claims

9.1. The Lender undertakes all measures regarding the recovery of the outstanding debts related to the loan agreement included in the guaranteed loan portfolio, including the complete sale of the real guarantees that served as security for the repayment of the loan, within a reasonable period of time, according to its internal documents and normative acts.

9.2. At the request of the Guarantor, the Lender shall submit all the requested information regarding the progress of the collateral sale, the detailed information and receipts regarding the collection /enforcement expenses, as well as the measures taken by the Lender in order to recover the outstanding debts related to the loan agreement, for which the Guarantor made the payment.

9.3. The Lender is obliged to submit monthly reports on the recovery of overdue debts, as specified in *Annex 6*.

9.4. The Lender informs the Guarantor according to p. 9.3 until the full recovery of the outstanding balance of the loan or its recognition as loss (classified in the "Compromised" category in accordance with the Regulation on the classification of assets and conditional commitments, approved by the Decision of the Board of Directors of the National Bank of Moldova no. 231/2011).

9.5. Within 30 days from the date of receipt by the Lender of the amounts recovered from the sale of the collateral, as well as of any other amounts collected on account of the payment of the outstanding debts related to the loan agreement, after deducting the collection / enforcement expenses, the Lender shall repay the Guarantor the value of the amounts recovered, calculated proportionally to the guarantee rate, according to the following formula:

$$R = (P - E) * \frac{C}{100}$$

where:

R – the amount for repayment to ODA, expressed in MDL;

P – the amount recovered from the sale of the collateral and of any other amounts collected on account of the payment of the outstanding debts related to the loan from the guaranteed loan portfolio, expressed in MDL;

E – costs of collection/enforcement, expressed in MDL;

C – the guarantee rate.

9.6. The Lender shall reimburse the Guarantor any amount paid if it has been established by a final court decision, that the Lender has transmitted in bad faith to the Guarantor, information and documents relating to the loan operations.

9.7. In order to determine the value of the repayment to the Guarantor, for loans granted in EUR or USD, the amount recovered shall be converted into MDL, using the relevant exchange rate displayed by the NBM on the last day of the reporting period.

9.8. The deadline for the reimbursement obligation under p. 9.6 is 10 years from the date provided by the Civil Code.

X. Guarantee fees

10.1. For the loans included in the guaranteed portfolio, the Lender is obliged to calculate and transfer a guarantee fee to the Guarantor on a monthly basis, within 10 days from the end of the reporting month.

10.2. The guarantee fee is calculated for the balance of the guaranteed loan portfolio, recorded at the end of the calculation month, taking into account the guarantee fee rate specified in *Annex 1*, according to the following formula:

$$CG = S * \frac{C}{100} * \frac{R/12}{100}$$

where:

CG – guarantee fee for portfolio guarantees, expressed in MDL;

S – the balance of the guaranteed loan portfolio registered at the end of the calculation month, expressed in MDL;

C – the guarantee rate;

R – the annual rate of the guarantee fee.

10.3. In order to determine the amount of the guarantee fee, the balance of the guaranteed loan portfolio recorded at the end of the calculation month for loans granted in EUR or USD shall be converted into MDL, using the relevant exchange rate displayed by the NBM on the last day of the reporting period.

10.4. Failure to pay the guarantee fee is considered to be an event of non-fulfillment of contractual obligations by the Lender.

XI. Monitoring and reporting

11.1. The Guarantor monitors remotely, as well as on-site, the fulfillment of the Lender's commitments according to the Agreement.

11.2. For the purpose of representing the Lender's interests towards the Guarantor under this Agreement, the Lender shall designate authorized persons.

11.3. The Lender shall allow the Guarantor's employees and other authorized persons access to its headquarters or branches, in order to verify the records and documents related to the loans included in the Portfolio. For the purpose of the on-site visit for loan monitoring, the Guarantor shall notify the Lender in writing 5 days before the visit, inclusively by sending a list of the loans to be examined and the persons designated to carry out the on-site monitoring.

11.4. After completing the on-site monitoring, the Guarantor may come up with recommendations to improve the evaluation process of the loans included in the guaranteed portfolios.

11.5. By the 10th of the month following the management month, the Lender shall submit a report in electronic form, according to *Annex 6*.

11.6. The Lender undertakes to inform the Guarantor of any change in the internal lending policy (initial due diligence) that affects the assessment/decision/monitoring of loans under portfolio guarantees.

11.7. At the request of the Guarantor, the Lender shall submit in due time all the information in its possession regarding the conduct of the procedure for the sale of collateral and the measures taken by the Lender in order to recover the outstanding debts related to the loan agreement from the guaranteed loan portfolio, for which the Guarantor has made the payment.

11.8. The Lender will report to ODA/PIU within 48 hours in case of any material adverse incidents and will inform on the corrective action taken or to be taken according to a corrective action plan.

11.9. The Lender will report annually till the 15th of January, on the E&S aspects of the formed portfolios (an example template is included in *Annex 7 to ODA's ESMS*).

11.10. The Lender's failure to submit the information and/or reports, as specified in this Chapter, will be considered as a non-fulfillment of obligations by the Lender.

XII. Exclusion of loans from the portfolio

12.1. The Guarantor has the right to exclude from the portfolio the loans that do not meet the eligibility criteria identified during the remote or on-site monitoring with the prior notification of the Lender.

12.2. The Lender may submit objections regarding the exclusion from the portfolio of loans classified as ineligible within 30 days, presenting the necessary clarifications and explanations.

12.3. If the Lender has cancelled the loan agreement or has detected the inclusion in the Portfolio of an ineligible loan, it shall notify the Guarantor in due time and request the exclusion of that loan from the Portfolio.

12.4. The Guarantor will not reimburse the Lender the amounts of guarantee fees already paid in connection with the loans excluded from the portfolio.

12.5. The exclusion of loans from the portfolio does not affect the parties' rights and obligations under this Agreement, with respect to other loans included in the portfolio.

12.6. In case of exclusion of a loan from the portfolio, the Actual Portfolio Value shall be reduced by the value of that loan.

12.7. If after inclusion in the Portfolio, it is detected that the loan would not be eligible for inclusion due to circumstances beyond the Lender's control and the Lender would not have been able to know about them at the time of inclusion, the Lender may either:

a) immediately inform the Guarantor after becoming aware of the circumstances that have arisen and take the necessary actions to recover the loan. In this case, the Lender retains the right to submit the payment request to the Guarantor.

b) not take measures to recover the loan. In this case, the Guarantor will exclude the respective loan from the Portfolio.

XIII. Trigger events and non-fulfillment of contractual obligations

13.1. The Guarantor has the right to unilaterally suspend the inclusion of loans in the portfolio or to reduce the Maximum Portfolio Value by sending a written notification, if the portfolio objectives set out in *Annex 1* are not met, or in case of an event of non-fulfillment of contractual obligations by the Lender under the Agreement.

13.2. In accordance with the Agreement, it will be considered as non-fulfillment of the contractual obligations by the Lender:

a) Non-payment of the Guarantee Fee specified in Chapter X of the Agreement;

b) Failure to comply with the obligations to repay the amounts specified in Chapter IX;

c) Failure to comply with the obligations to present information and / or documentation in accordance with Chapter XI;

d) Failure to comply with the obligations stipulated in p. 3.5 h);

e) Loss or suspension of the Lender's license to operate as a bank, insolvency;

f) Engaging in illegal business activities such as terrorist financing or money laundering.

13.3. Upon the occurrence of an event of non-fulfillment of contractual obligations by the Lender, the Guarantor will send a written notification giving the Lender 15 days to remedy the situation.

13.4. If the event of non-fulfillment of contractual obligations by the Lender will continue after the period set out in p. 13.3, the Guarantor has the right to suspend unilaterally the inclusion of loans in the portfolio,

to reduce the maximum value of the portfolio according to p. 13.1 or to postpone the payment deadline set in. 8.5, until the event of non-fulfillment of contractual obligations has been remedied.

XIV. Transfer of rights

14.1. The Lender has no right to transfer to third parties the rights or obligations under the Agreement, except for the express consent of the Guarantor, expressed in writing.

14.2. Breach of p. 14.1 releases the Guarantor from the obligation to make payments for loans transferred from the portfolio.

14.3. In case of transfer of the Guarantor's rights/obligations to third parties, the Guarantor is obliged to inform the Lender within three (3) months before the date of transfer.

XV. Privacy

15.1. The Parties undertake not to disclose Confidential Information and not to disseminate and/or to allow access, in whole or in part, to any person or entity to confidential information provided or made available by the other Party except for Confidential Information disclosed by the Guarantor to the IBRD or its authorized representatives as may be required by the Loan Agreement between the Republic of Moldova and the IBRD.

15.2. Confidential Information shall mean any information disclosed, delivered, afforded access to or made available by the disclosing Party to the receiving Party. Confidential Information refers, but is not limited to the financial information, trade secret, personal data, and can appear in any form including but not limited to written, verbal, electronic, formal documents, factual information, reports, e-mails and other electronic communication, hand-written notes, information on display screens or in computer or other electronic memory storage devices and media. Confidentiality obligations shall not cover Information which (i) is in the public domain through no fault of the receiving Party, (ii) was possessed by the receiving Party prior to disclosure hereunder without being subject to the confidentiality obligation, (iii) is disclosed to the receiving Party by a third party not bound by confidentiality obligations; or (iv) is independently developed by the receiving Party without use of Confidential Information; or (v) the communication is made in response to a valid order by a court or is otherwise required by law. For all of the above, it is the responsibility of the receiving Party to provide evidence that the exception has been met and it is released from the obligation of confidentiality. If the receiving Party is requested to disclose any Confidential Information, it will, if possible, under the law, promptly notify the disclosing Party to permit the disclosing Party to seek a protective order or take other appropriate action.

XVI. Publicity

16.1. The Lender is committed through press releases, promotional materials and public information campaigns, information on its website and other alternative means of communication relating to the Agreement, to support the Fund and to promote the availability of funding through the Guarantee Scheme.

16.2. The Lender is obliged to include in advertising materials for MSMEs information on opportunities to receive funding with the support of the Guarantor.

16.3. The Lender is obliged to advertise a minimum 2 case studies of Beneficiaries who have benefited from a loan granted with the support of the Guarantee Scheme.

XVII. Notifications

17.1. Any notification submitted by a Party to the other Party shall have legal effect only if it is drawn up in written or electronic form and transmitted in accordance with the provisions of this Chapter.

17.2. For the purposes of this Agreement, "notice" by a Party to the other Party means: the transmission of any document, addresses, communications, notices, submission of requests, claims, notices, answers, regarding the fulfillment of the provisions of this Agreement and the related guarantees.

17.3. Verbal notifications invoked by the Parties shall be devoid of any legal effect.

17.4. Notifications shall be transmitted by a Party to the other Party by post, by means of registered letters with a notice of receipt or by depositing at the headquarters of that Party.

17.5. For the purposes of this Agreement, the Parties assimilate the notifications sent by electronic mail or through SIGGF to the usual postal dispatches with a receipt notice, provided that they will be sent from the e-mail addresses indicated in this Chapter. Submissions by electronic mail will be considered received within 1 (one) business day from the time of dispatch.

17.6. For the purpose of the efficiency of correspondence and exchange of documents under this Agreement, the parties will be able to use electronic documents and electronic signature, their validity being irrevocably recognized by both parties.

17.7. All notifications under this Agreement shall be made in the Romanian language and in writing and shall be addressed to the persons indicated below:

Notifications to ODA will be sent to the following address and to the indicated persons:

[ODA address – to be filled in]

E-mail for contract issues: [to fill in]

E-mail for operational aspects: [to fill in]

Notifications for [Lender] will be sent to the following address and to the person indicated:

[Lender address – to fill in]

E-mail for contract issues: [to fill in]

E-mail for operational aspects: [to fill in]

17.8. The addresses mentioned in p 17.7 are valid until a Party notifies a new address.

XVIII. Other provisions

18.1. The Parties shall inform each other in a timely manner of any facts and circumstances arising after the date of signing the Agreement and affecting the performance of the Parties' obligations under this Agreement.

18.2. The parties will perform in good faith their obligations under this Agreement and will comply with the legal requirements applicable in the Republic of Moldova.

18.3. The Lender shall consult with the Guarantor on any matter that would prevent the proper implementation of the Agreement.

18.4. The parties agree to make every effort to resolve disputes arising in connection with this Agreement through amicable negotiations. If the disputes cannot be settled amicably, the disputes will be settled by the competent Court of the Republic of Moldova.

18.5. Should any provision of this Agreement be or become invalid, ineffective or unenforceable as a whole or in part, the validity, effectiveness and enforceability of the remaining provisions shall not be affected thereby. Any such invalid, ineffective or unenforceable provision shall be deemed replaced by such valid, effective and enforceable provision as comes closest to the economic intent and the purpose of such invalid, ineffective or unenforceable provision as regards subject-matter, amount, time, place and extent. The aforesaid shall apply mutatis mutandis to any gap in this Agreement.

18.6. In the event of intervention of circumstances that totally or partially prevent the performance of the obligations stipulated in this Agreement, the contractual terms are changed proportionally to the term of occurrence of the intervened circumstances.

18.7. The party for which the justifying impediments occurred, shall inform the other Party in writing no later than 5 working days from the moment of the occurrence of these impediments.

18.8. Amendments and additions to this Contract shall be valid with the prior no objection of the World Bank, only if they are made in writing and signed by the Parties, except in the case specified in p.5.3.

18.9. The contract is drawn up and signed in two copies, one for each Party, both having the same legal force.

XIX. Bank details

All payments to the Guarantor under this Contract will be made in MDL by bank transfer to the following account:

Account holder:

Name of the bank:

Bank address:

Account number:

All payments to the Lender under this Agreement will be paid in MDL by bank transfer to the following account:

Account holder:

Name of the bank:

Bank address:

Account number:

By: [Name of the signatory on behalf of the Lender]

[Function of signatory]

[Lender name]

[Place, date, signature

_____]

By: [Name of the signatory on behalf of the ODA]

[Function of signatory]

ODA

[Place, date, signature

_____]

Annex 1 to the template Guarantee Agreement: Approved portfolios and guarantee conditions

Portfolio 1

Description of the portfolio –...

(type – Secured/Unsecured Capped/Uncapped).

MDL '000

Maximum Portfolio Value	
Agreed Portfolio Value	
Guarantee Cap Rate	
Maximum Guarantee Cap Value	
Minimum Collateral Coverage Ratio	
Maximum Loan Amount	
Minimum maturity of the Loans	
Type of the Transactions	
Guarantee rate	
Guarantee Fee Rate	
Portfolio Targets	
Utilization plan	
Additional Covenants	
...	

Portfolio 2

...

Annex 2 to the template Guarantee Agreement: Ineligible Businesses

A. The following activities will not be supported under the Guarantee Scheme:

1. in the case they may cause significant impacts for which it would be necessary a full EIA, according to national Law #86/2014;
2. any investments related to wood harvesting and/or those that might have impacts on the forest health;
3. production and processing of Genetically Modified Organisms (GMOs);
4. located in protected areas, critical habitats or culturally or socially sensitive areas recognized under national regulations (i.e., on natural areas protected by state, core areas of ecological network, national register of monuments etc.) (Ref.: ESS6 Biodiversity Conservation and Sustainable Management of Living Natural Resources; ESS8 Cultural Heritage);
5. any activities that may cause permanent or temporary physical or economic displacement of owners or users of any plot of land resulting in loss of or damage to assets including standing crops, structures or other improvements to the land (Ref.: ESS 5 Land Acquisition, Restrictions on Land Use and Involuntary Resettlement);
6. any activities involving forced or child labor, reported or significant concern for sexual exploitation and abuse or sexual harassment (Ref.: ESS2 Labor and Working Conditions)
7. purchasing pesticides listed as “I, II or III of Moldova Toxicity Group” [1], “Ia, Ib or II of WHO Toxicity Class” [2] and/or “EU Banned or Severally Restricted” [3] (Ref.: ESS3 Resource Efficiency and Pollution Prevention and Management);
8. large scale irrigation systems [4] and sub-projects involving discharging waste waters directly in the international waterways, abstraction or diversion of international waters, sub-projects related to discharging waste materials in a location that could impact on international waters, construction of any dams that might affect international waters hydrological regime, etc. (Ref.: OP/BP 7.50 Projects on International Waterways).

B. The Guarantee Scheme will also not support other types of sub-projects that are specified in the IFC/WB Exclusion List:

1. Production or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international bans, such as pharmaceuticals, pesticides/herbicides, ozone depleting substances, PCB, wildlife or products regulated under CITES.
2. Production or trade in weapons and munitions.*
3. Production or trade in alcoholic beverages (excluding beer and wine).*
4. Production or trade in tobacco.*
5. Gambling, casinos and equivalent enterprises.*
6. Production or trade in radioactive materials. This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded.
7. Production or trade in unbonded asbestos fibers. This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20 percent.
8. Drift net fishing in the marine environment using nets in excess of 2.5 km. in length.
9. Production or activities involving harmful or exploitative forms of forced labor**/harmful child labor.***
10. Production or trade in wood or other forestry products other than from sustainably managed forests.
11. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals. Hazardous chemicals include gasoline, kerosene, and other petroleum products.

12. Production or activities that impinge on the lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

Notes:

** This does not apply to Project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a Project sponsor's primary operations. A MSME Beneficiary will not be regarded as substantially involved if the MSME Beneficiary has a cumulative portfolio exposure below 5% to investees/borrowers which generate more than 20% of their respective revenues from an Excluded Activity.*

Guidance note link:

<https://www.ifc.org/wps/wcm/connect/a6de7f69-89c8-4d4a-8cac-1a24ee0df1a3/Fl+Interpretation+Note+November+2018.pdf?MOD=AJPERES&CVID=msNA7rQ>

*** Forced labor means all work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty.*

**** Harmful child labor means the employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development.*

C. In accordance with art. 12 of Law no. 179/2016 regarding small and medium-sized enterprises, the following companies do not benefit from the support instruments, including financial guarantees issued by ODA:

11. Enterprises that hold a dominant position on the market, a fact established by the competent authority;
12. Enterprises in whose share capital the share of the founding member who is not a micro, small and medium-sized enterprise exceeds 25%, with the exception of non-commercial organizations; enterprises importing goods subject to excise duty;
13. Fiduciary companies and insurance companies;
14. Enterprises for collective investment in securities;
15. Financial institutions;
16. Non-bank lending organizations, savings and loan associations;
17. Foreign exchange enterprises and pawnshops;
18. Gambling enterprises;
19. Non-state pension funds;
20. Enterprises where state control has repeatedly revealed the same violations of the legislation.

Annex 3 to the template Guarantee Agreement: Eligibility criteria and assessment procedures to be followed by Lenders for the loans included in the portfolio

This Annex establishes the general eligibility criteria and loan assessment procedures to be applied by the Lender when including loans in the guaranteed portfolios.

I. Only loans which at the time of the conclusion of the contract meet the requirements established in the Guarantee Scheme and the following conditions may be included in the portfolio:

1.1. Eligibility criteria for beneficiaries.

- a) The Beneficiary is a micro, small or medium-sized enterprise defined according to art. 4 of Law no. 179/2016 on small and medium-sized enterprises;
- b) The Beneficiary does not carry out activities or the purpose of the loan refers to ineligible activities listed in the Guarantee Agreement or the Guarantee Scheme;
- c) The Beneficiary has payment capacity, is considered viable for lending in accordance with the internal policies of the Lender, taking into account the Beneficiary assessment requirements in accordance with the present Annex;
- d) The Lender has identified the effective owners of the Beneficiary;
- e) The beneficiary has not registered arrears in the payment of loans of more than thirty (30) consecutive days in the last year and more than ninety days (90) consecutively in the last three years;
- f) The beneficiary confirms the lack of any overdue payments to the state budget;
- g) The beneficiary does not carry out illegal activities within his business;
- h) The Beneficiary, including the owners and shareholders, shall not be included in any financial sanctions lists observed by the Lender in accordance with the internal Anti-Money Laundering and Countering the Financing of Terrorism policy;

1.2. Eligibility criteria for loans included in the portfolio:

- a) The principal amount of the loan is used for the purchase / construction of tangible assets or financing the current activity;
- b) At most 30% of the principal amount of the loan may be used to refinance other loans from other financial institutions;
- c) The beneficiary contributes with own funds in the amount of at least the percentage specified in the lending product, in correspondence with the bank's lending policy, in case of investment loans;
- d) The principal amount of the loan is not used for speculative investment activities and speculative real estate transactions;
- e) The initial minimum duration of the loan agreement is 12 months;
- f) The collateral coverage rate of the loan is at least that specified in Annex no. 1 of the Guarantee Agreement for the respective portfolio, in the case of secured portfolios;
- g) The loan value is fully included in the portfolio up to the Agreed value of the portfolio, partial inclusion is not allowed.

II. The procedures for evaluating the Applicant and the requested Loan will include at least the following stages:

2.1. Eligibility check:

- a) Verification of the Applicant's eligibility in accordance with the exclusion list (ineligible activities). If the Applicant is on the exclusion list, he will be informed about the impossibility of granting the loan guaranteed by the Guarantor;
- b) Verification of the Credit Bureau History and confirmation of their lack of loan arrears of more than thirty (30) consecutive days in the last year and more than ninety (90) consecutive days (90) consecutive in the last three years;

- c) Verification and description of the Applicant's collaboration history with the Lender;
- d) On-site verification of the Applicant's activity, by conducting an interview with his legal representative.
- e) Verification of the applicant's compliance with the measures for the protection of the environment and social rights, in accordance with the law and their reflection in the questionnaire filled (Annex 5 to the *template Guarantee Agreement*. Environmental and Social Due Diligence (Sample E&S assessment form)) in by the Lender, related to the assessment of environmental and social risks.

2.2. Verification of the capacity to repay the loan, which will include the following stages:

Cash Flow analysis – in case the Applicant submits Financial Statements.

- a) Depending on the argumentation obtained from the Applicant regarding the purpose of the requested loan, the Lender will analyze the repayment capacity of the loan, taking into account the cash flows based at least on the Financial Statements and the income statement.
- b) In the case of negative equity, the Lender will analyze how the requested loan will help the Applicant to obtain the profit that would allow the elimination of the negative equity.
- c) The lender will assess the repayment capacity of the loan, based on the monthly cash flows, as well as those forecasted at least for the period for which the loan is requested.
- d) The lender will ensure that the financial projections containing the income and expenses are realistic based on the specifics of the activity, the history available in the Financial Statements and the Income Statement.
- e) The Lender shall take into account the financial indicators regarding the applicant's economic performance, calculated in accordance with internal regulations and prudential practices.
- f) The Lender shall calculate the debt service coverage ratio. Specifically, after receiving the loan, a beneficiary enterprise should maintain a minimum debt service coverage ratio (defined as Earnings before Interest, Taxes, Depreciation and Amortization (EBIDTA) divided by principal and interest payments) until sub-loan maturity. A minimum of 1.25 to 1 is a good target.

Cash flow analysis – in case the Applicant is a newly created company.

- g) Depending on the argumentation obtained from the Applicant regarding the purpose of the requested loan, the Lender will analyze the repayment capacity of the loan, taking into account the business plan or the forecasted cash flows.
- h) In the case of negative equity, the Lender will analyze the circumstances that led to negative equity and how the requested loan will help the Applicant to obtain the profit that would allow the elimination of the negative equity.
- i) The lender will ensure that the financial projections containing the forecasted income and expenses are realistic based on the business plan and the specifics of the activity.
- j) During the active period of the loan, the Lender will monitor the implementation of the financed project in accordance with the business plan and, if necessary, will propose corrective measures.

2.3. Equity evaluation

- a) The Lender will analyze the structure, changes and sources of increase of the equity capital (net profit, contribution of the founders, increase of reserves, etc.).
- b) If the equity is negative, it will be analyzed the reason for its reduction and the losses occurred, as well as the fact how the requested loan will help the Applicant to obtain the profit that would allow the elimination of the negative equity capital.

2.4. Evaluation of real and personal guarantees

2.4.1. The Lender will analyze the real guarantees proposed by the Applicant for securing the loan, through the lens of the following aspects:

- a) assessment of the condition of the goods proposed as pledge and their market value, as well as their liquidity;
- b) the identification of the pledged debtors and the existence of their agreement regarding the pledge of their assets in favor of the Lender;
- c) the absence of encumbrances and restrictions applied by third parties or the assurance that all existing encumbrances and restrictions will be removed after the loan has been granted;
- d) priority when accepting collateral will be given to the collateral in good condition and with high liquidity.

2.4.2. In addition to real guarantees, the Lender will prioritize the acceptance of personal guarantees offered from the founders or persons affiliated to the Applicant.

2.4.3. Personal guarantees will be accepted in the security structure without establishing a value and will not be included when determining the rate of collateral coverage.

2.4.4. The Lender will monitor the compliance of securing the loan with real guarantees within the limits set in the Guarantee Scheme.

2.5. Evaluation of the conditions that could affect the Applicant's solvency

2.5.1. The Lender will ensure that it offers credit conditions that correspond to the needs of the Applicant and his development potential, also resulting from the situation of the economic sector to which the Applicant belongs, as well as the business management experience in the respective sector.

2.5.2. In addition to the general lending conditions, the Lender may include restrictions or limitations regarding:

- a) Obligation to increase equity;
- b) Prohibition or limitation of the amount of dividends that can be withdrawn;
- c) Prohibition or limitation of the amount of debts that can be reimbursed to the founders;
- d) Obligation to maintain certain profitability and revenue indicators.

2.5.3. When assessing the loan application, the impact of the activity carried out by the Applicant on the environment will also be analyzed, and in case of identification of certain risks, the Lender may establish corrective measures and additional prohibitions.

2.5.4. An important aspect to be taken into account by the Lender is the fact that the Applicant has no significant debts to the staff or to the payments related to the budget.

Annex 4 to the template Guarantee Agreement: Environmental and Social Management Arrangements

Introduction

The main goal of The Credit Guarantee Fund (hereinafter referred to as the **CGF**) is to facilitate access to finance for SMEs, by issuing financial guarantees for bank loans. In order to achieve a higher coverage of supported SMEs and to reduce the time of accessing a guaranteed loan, CGF aims to offer portfolio guarantees, a new guarantee scheme that is supported by the *MSME Competitiveness Project* (hereinafter **Project**). The Project's objective is to reduce the regulatory burden, increase access to finance, and increase the export competitiveness of Moldovan enterprises.

The **Project** applies the World Bank's Environmental and Social Framework (ESF). ODA and Participating Financial Institutions (PFI) will adopt Environmental and Social Management Systems (ESMS) as condition of their participation under Component 2 of the Project. The purpose of these systems is to establish the resources, responsibilities and process to ensure that the projects funded by the World Bank and the financial guarantees issued by ODA, are environmentally and socially sound and not likely to cause significant environmental, social, health, or safety risks.

Implementing Arrangements

For the purpose of implementing the environmental and social management requirements of the Project, ODA carries the responsibility to monitor the management of environmental and social (E&S) risks by PFIs participating in the CGF. It undertakes due diligence and monitors the systems established by PFIs for screening and monitoring of loan recipient activities for environmental and social performance. ODA will ensure that PFIs have adequate institutional arrangements and procedures for meeting the requirements of the national legislation of Moldova and the ESSs of the World Bank relevant for the Project.

- ODA will prepare and maintain an ESMS and ensure that PFIs prepare and maintain subsequent corresponding ESMS to cover loans under the CGF under Component 2. ODA and each PFI will hire or appoint (as part of their ESMS) E&S specialist focal points, trained in the ESF requirements, ensuring that these requirements are implemented as part of the decision-making process for each loan.
- ODA will monitor the integration of E&S considerations into the lifecycle of loans to eligible MSMEs in the guaranteed portfolios and will ensure that E&S risks and impacts are consistently identified, screened, and managed by PFI.

Role of Environmental and Social Specialists

ODA will hire or appoint (no later than 60 days after effectiveness) and maintain throughout Project implementation an E&S focal point to be responsible for the implementation of its ESMS and hire a consultant to assist with training and establishing the PFI and ODA ESMS.

The E&S consultant of ODA and the focal points' main responsibility will be to review the PFIs ESMS in place and ensure that the banks policy covers all the E&S requirements and have a clear appraisal procedure.

Also, the consultant and focal points will have the role to advise PFIs and other project participants on environmental and social questions. ODA E&S consultant, jointly with World Bank specialists will also assist PFIs in reviewing, if needed, environmental and social management plans, monitoring their implementation, advising and guiding PFIs on specific environmental and social issues and management options, and ensuring that cumulative environmental and social impacts are addressed.

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They will also advise PFIs on measures to maximize opportunities for social inclusion, particularly for women-led businesses, new starters or those without access to information or awareness of the program, as well as measures to support entrepreneurs from culturally or geographically remote communities.

Tasks and responsibilities

- ODA E&S focal points in collaboration with World Bank specialists will provide technical advice to PFIs to finalize and formally adopt their ESMS and to ensure that they are acceptable to the World Bank;
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- ODA shall review its HR policies for consistency with ESS2 and apply measures to strengthen its Labor Management Procedures (LMP), including worker Grievance Mechanism (GM) where necessary;
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Screening

The CGF guaranteed loans will be subject to environmental and social screening, that will be conducted by the PFIs. In cases where CGF sub-projects and other Project activities cause significant risks and impacts that may require a full Environmental and Social Impact Assessment (ESIA) under national legislation, such sub-projects or activities will not be financed under the Project. The Project will apply an exclusion list to screen for activities funded under credit guarantees. These exclusions are described in the Environmental and Social Commitment Plan (ESCP) and are to be included in the ESMS of PFIs under Component 2.

The following type of activities shall not be eligible for finance under the Project and won't be able to be included under the portfolio guarantee:

- a. Any activities which may be associated with significant risks and impacts on the environment, community health and safety, labor and working conditions, biodiversity or

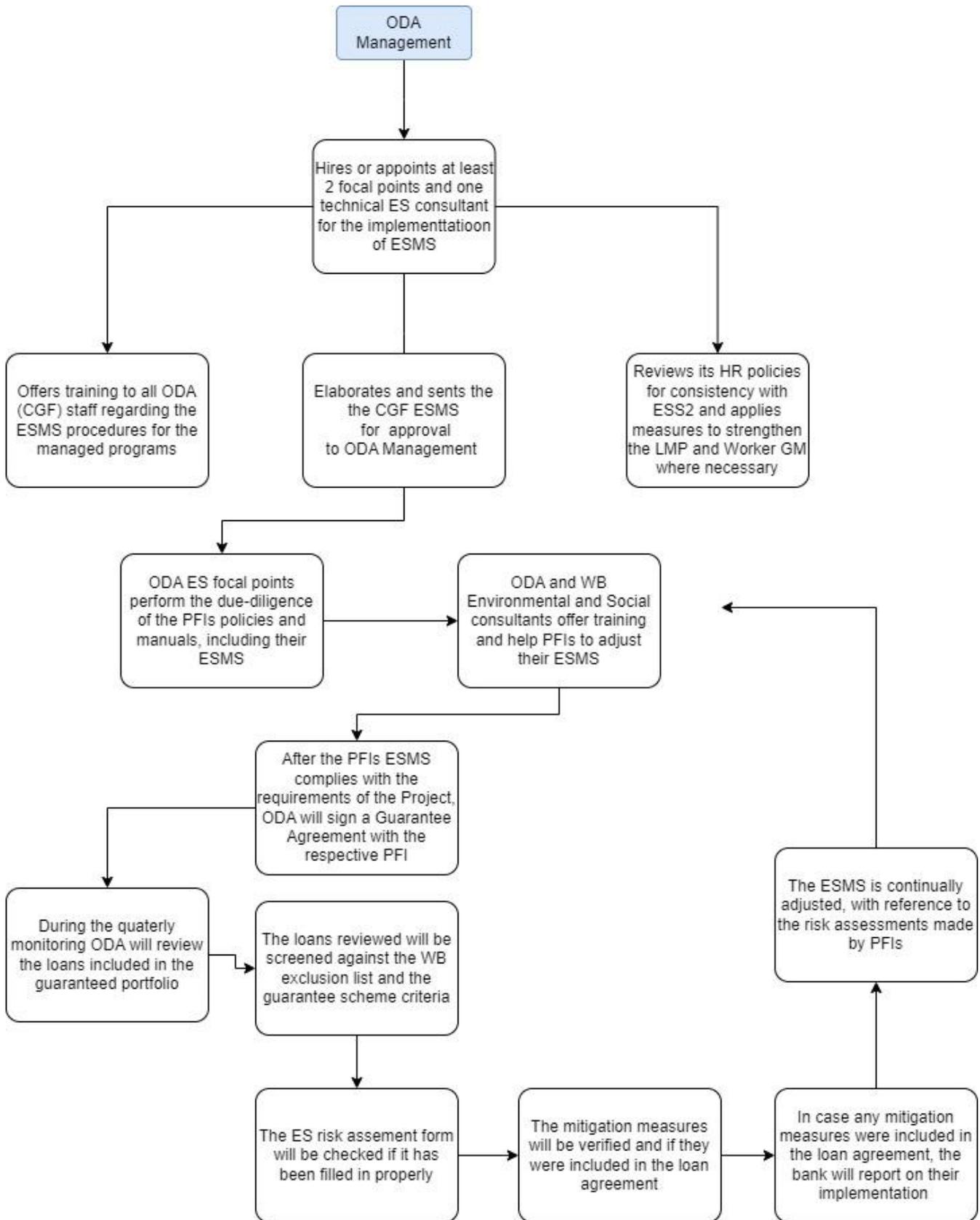
cultural heritage will be rated as high or substantial risk and will be considered ineligible for Project financing.

- b. Any activities located in protected areas, critical and non-critical habitats or culturally or socially sensitive areas, along with subprojects that might have impacts on international waterways, including River Prut, Dniester, or Danube Delta.
- c. Any activities that involve physical or economic displacement. Should any land or property be acquired by beneficiaries, it will be on a willing buyer-willing seller basis as documented by legal transaction records.
- d. Any activities screened as involving significant risks to labor rights, health and safety of employees, and harmful child or forced labor.

Procedures applicable to the component Access to Finance

ODA will ensure that PFIs receiving credit guarantees under Component 2 have ESMS in place consistent with the requirements of ESS9. ODA will assign dedicated E&S focal points and provide capacity-building in order to implement its activities under the Project in accordance with ESF requirements for financial intermediation. When accepting new PFIs, ODA will provide these PFIs with a due diligence questionnaire to review and demonstrate that their ESMS are in place and consistent with ESS9. According to the agreed ESCP, ODA ESMS is to be prepared, disclosed and adopted no later than sixty (60) days after Project effectiveness. ODA shall cause each PFI to prepare and adopt its own ESMS prior to their participation under Component 2. Following ESS9, PFIs under the Project will maintain an ESMS including at a minimum: (i) an environmental and social policy; (ii) clearly defined procedures for the identification, assessment, and management of the environmental and social risks and impacts of sub-projects; (iii) organizational capacity and competency; monitoring and review of environmental and social risks of subprojects and the portfolio; and (iv) an external communications mechanism.

The diagram describing the process within ODA is presented below:



Initial E&S due diligence screening of PFI

At the initial stage of due-diligence of the PFIs, ODA will assess the risks and benefits of working with a potential PFI.

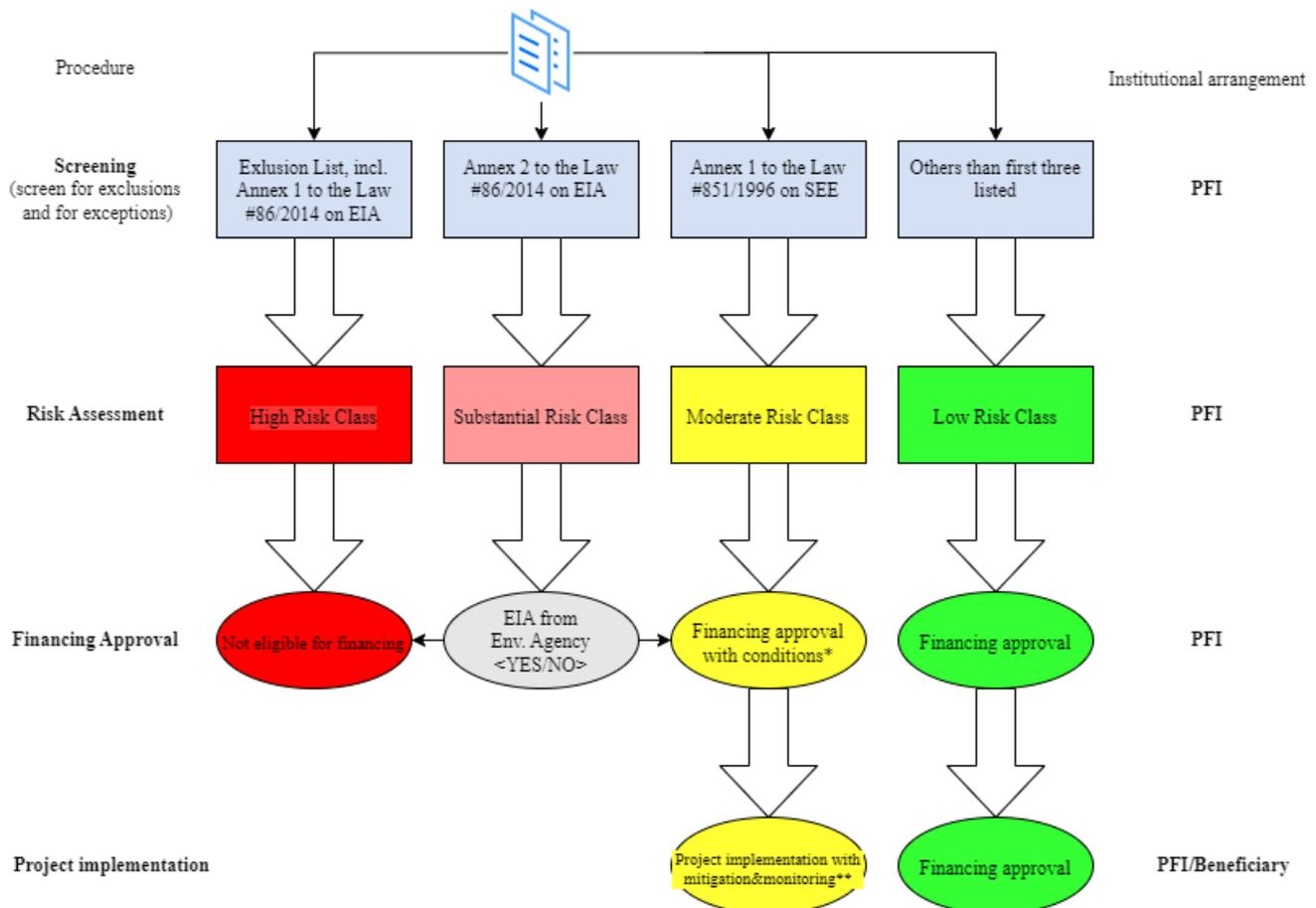
The essential areas of a due diligence investigation that can be performed both remotely and on-site will include:

- 1) The image of the PFI on the market based on an external investigation (review of the PFI website for transparency and disclosure of the services offered, publications in media, social media presence and image, review of PFI and third-party sources for reputation risk associated with E&S aspects) and also during the on-site visit;
- 2) Environmental and social risk management framework such as: policy, procedures, trained technical resources, labor policies, code of conduct, participation in social responsibility activities, requirements for companies receiving funding and others. For environmental and social responsibility, the review will focus on these management systems, as well as requirements for Beneficiaries and loans, also taking into account the requirements of donors of financial sources.
- 3) Corporate Governance aspects relevant to E&S risk management – Corporate Governance Code, Structure and Functioning of the Board of Directors, Control Environment (Internal Audit, Risk Management and Compliance Function), Transparency and Disclosure of Information, Grievance Mechanism and Stakeholders relation policy.

During the due-diligence ODA will verify that each PFIs ESMS include, inter alia, the following elements:

- a) Identification of the credit guarantees and associated sub loans to MSMEs;
- b) An E&S policy endorsed by PFI senior management;
- c) An exclusion list with the activities and types of subprojects that are not eligible for financing;
- d) Clearly defining procedures for identification, assessment and management of the E&S risks and impacts of subprojects including for:
 - ✓ Screening against the WBG Exclusion List and the national E&S laws of Moldova;
 - ✓ Verification if the Beneficiary has permissive acts from the corresponding local authorities regarding his main activity and their validity;
 - ✓ Screening, reviewing and categorizing the subprojects according to their potential environmental and social risks and impacts within the defined eligibility criteria for the loan included in the guaranteed portfolio;
 - ✓ Applying any relevant requirement of the ESSs through the use of environmental and social assessments and plans where necessary;
 - ✓ Monitoring and corrective actions proposed for the subproject financed by a guaranteed loan; Any necessary assessments and plans will be prepared and implemented by MSME beneficiaries after review and approval by PFIs and consulted with ODA;
- e) An organizational capacity and competency for implementing the ESMS with clearly defined roles and responsibilities;
- f) Monitoring and reporting of environmental and social performance of subprojects and the effectiveness of the ESMS;
- g) Incidents and accidents notification and subsequent reporting requirements;
- h) An external communications mechanism, including measures to respond to public enquiries and concerns in a timely manner.

PFI's environmental and social assessment process



Monitoring

The procedures for monitoring E&S performance of MSME beneficiaries are approved and managed by PFIs. The designated specialist from ODA will monitor if the PFI has complied with WB standards and E&S requirements specified in their ESMS. ODA will conduct the monitoring remotely, and it will be carried out monthly on the basis of the submitted reports, and once in the quarter at least 10 loans will be checked, which will be selected according to the report from the last month of the reporting quarter. If any incompliance or higher risk is identified, the monitoring specialist will request additional information from the PFI in order to clarify the incompliance and present the justification for the situation. The specialist in charge of monitoring has the task of sending informing letters, memorandums, electronic messages if necessary, and perform on-site visits to a sample of loan activities to verify information provided through the remote monitoring.

Reporting

ODA will report to the Ministry of Finance and World Bank semi-annually on the implementation of its ESMS and the E&S performance of PFIs and MSME beneficiaries. The reports will include information on the number of loan applications and subprojects screened and reviewed by each PFI, risk categorization of these applications/subprojects, the status of the PFIs ESMS, including the environmental and social performance of PFIs.

PFIs will report to ODA on a quarterly basis and these reports will include information on the environmental and social risk management performance. The templates for regular reports and ad-hoc notifications on incidents will be developed by the environmental and social focal points of ODA and disseminated to all PFIs. These templates will be included in the ODA ESMS.

GRIEVANCE REDRESS SERVICES

Stakeholders who believe that they are adversely affected by the guaranteed loans under Component 2 shall have access to multiple channels to submit concerns and receive redress.

ODA and PFIs will ensure awareness of relevant stakeholders of the existence of the ESMS, which supports its implementation, including all relevant personnel at the ODA and PFIs. Each PFI will ensure that the PFI's ESMS is disclosed and available to relevant staff and stakeholders.

ODA will have a Grievance Mechanism for direct and contracted workers incorporated in the ODA HR policy.

ODA will facilitate dissemination and access for potentially affected and interested stakeholders to the Project Grievance Mechanism which is maintained by the PIU under the Ministry of Finance and described in the Project Stakeholder Engagement Plan (SEP).

In addition, each PFI receiving credit guarantees under Component 2 shall establish ESMS including provision of their own mechanisms for receiving feedback from stakeholders. Complaints and concerns received and managed by ODA, PFIs will be reported on to the PIU as part of their regular reports.

ODA and PFIs will ensure that all project-affected parties will have equal opportunity to submit their grievance in accessible ways. The Project beneficiaries and suppliers may use a range of contact options (telephone number, e-mail address and postal address, etc.).

The timeline for response will not exceed 14 working days.

All correspondence on the procedure for resolving a complaint is carried out only in writing.

**Annex 5 to the template Guarantee Agreement: Environmental and Social Due Diligence
(Sample E&S assessment form)**

ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT FORM FOR LOAN BENEFICIARIES	
Firm Name	
Description of Client's Activities	
Project Description	
Type of transaction	
Loan Amount (USD/MDL/EUR)	
Loan Duration (in Month)	
Date	
E&S Specialist (filled out by)	
List of Documents provided for E&S Assessment <ul style="list-style-type: none"> • (eg. Capacity Report • EIA Decision Letter • Commercial Opening and Operating License • Temporary Operating Certificate • Waste Management Plan and Waste Declaration Form • Occupational Health and Safety (OHS) Internal Regulation and OHS Risk Assessment Report • ISO Certificates • Human Resources Procedure • Sample of employment contract • Emergency Response Plan 	
General E&S Assessment for the financed Project and the Firm (Describe Project E&S risks and compliance with WB E&S requirements and assess firm's capability of managing relevant E&S risks)	

QUESTIONS	ANSWER (Yes/No/Comments) AND SUPPORTING DOCUMENTS
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	(Where applicable)
1. Is the business activity on the Project Exclusion list? *	
2. Summary Info about main business activity / the investment project	
3. Does the firm have required environmental license and permits (EIA, environmental permit etc.) according to national legislations?	
4. Does the firm have Commercial Opening and Operating License?	
5. Does the firm employ child labor (below the age of 16) in its operations, including through contractors or in the primary supply chain?	
6. Does the firm engage forced labor, including trafficked persons, in its operations, including through contractors or in the primary supply chain?	
7. Are there any risks related to land acquisition through expropriation / physical or economic involuntary resettlement in the Project?	
8. Is there any building construction, or additional construction works which require land acquisition through expropriation?	
9. Is the Project area located near Nationally/ Internationally recognized Nature Protection Areas?	
10. Does the firm have E&S unit / external E&S consultants?	
11. Does the firm have environmental / social management system?	
12. Is hazardous/nonhazardous waste being generated by business activity / the financed	

project and/or does firm activity produce exceptional amounts and types of waste?	
13. Does the firm have waste management plan?	
14. Does business activity / the financed project lead to an exceptional amount of waste water?	
15. Will / might business activity / the sub-project cause pollution to soil pollution?	
16. Will / might business activity / the financed project cause pollution to air or create other nuisances such as dust, traffic, noise or odor?	
17. Does the business activity / the financed project lead to significant increases of greenhouse gas emissions?	
18. Does the business activity / the financed project result in loss of habitat/negative effects to biodiversity species (flora / fauna)?	
19. Does the business activity / the Project affect geological conditions?	
20. Does the business activity / the financed project lead to cumulative negative environmental and social impacts on the nearby communities?	
21. Does the business activity / the financed project cause negative impacts on health and safety of local communities, including vulnerable groups?	
22. Does business activity / the financed project cause negative impacts on cultural heritage resources?	
23. Number of occupational accidents (including the details of death-injury statistics) in the past two years (include data for each year and how were these addressed):	

23. Does the firm have occupational health and safety plan?	
24. Does the firm provide its workers with a safe and healthy work environment and personal protective equipment (PPE)??	
25. Does the firm ensure that young workers (under the age of 18) are not employed in dangerous work and regularly monitor their health, working conditions and hours of work?	
26. Does the firm have a worker's grievance mechanism?	
27. Number of grievances recorded in the last 2 years (include information if these grievances were addressed)?	
28. Have there been any non-compliances with the Labor Law and employment regulations in the past two years? If yes, please, explain how these were addressed.	
29. Did any penalties/lawsuits occur regarding labour and working conditions in the past two years?	
30. Does the firm support the workers' rights to freedom of association?	
31. Does the firm employ informal migrant and temporary workers?	
32. Do all workers have signed employment contracts?	
33. Does the firm provide two rest days per week?	
34. Does the firm apply the principle of non-discrimination in the process of hiring,	

compensation, and terms of employment including to the vulnerable groups of employees?	
35. Does the firm provide appropriate welfare facilities (e.g. potable drinking water, toilets, washing facilities, canteens, and separate facilities for men and women, changing room, rest areas)?	
36. Is the firm compliant with the legal ceiling of 240 hours of overtime work per year?	
Environmental and social risk category of the financed project (Only Low and Moderate risk category are eligible)	

Eligible for Financing

Yes/No

Stamp-Signature (Environmental and Social Impact Analysis Unit)

Date of Approval:

Annex 6 to the template Guarantee Agreement: Lenders' reporting requirements

The prepared reports must include:

1. Information on New Loans (for the reported month)

Field	Format	Mandatory	Comments
Borrower ID	Number	Yes	Company register
Loan ID	Number	Yes	
Reporting period	List	Yes	month 1, month 2
Lender ID No.	Number	Yes	
Lender Branch ID No.	Number	Yes	
Portfolio ID	Number	Yes	
Loan type	List	Yes	Credit, revolving type, Overdraft
Loan Currency	MDL/EUR/USD	Yes	
Loan principal amount	Number	Yes	
Date of signing the loan agreement	Date	Yes	
Date of first disbursement	Date	Yes	
Loan amount not used	Number	Yes	
Date of the first instalment of payment (principal)	Date	Yes	
Maturity date of the loan agreement	Date	Yes	
Tenor	Number of months	Yes	
Collateral coverage rate, MV	Percentage	Yes	Market value
Collateral coverage rate, LV	Percentage	Yes	Liquidation value
Annual interest rate	Percentage	Yes	
Guarantee rate	Percentage	Yes	
Date of currency conversion	Date	Yes	
Currency conversion rate	Number	Yes	National Bank of Moldova
Guarantee amount in MDL	Number	Yes	Loan principal amount*Currency conversion rate* guarantee rate
Date of approval of the security	Time	Yes	

2. Information on Beneficiaries of guarantees (for the reported month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	Month 1, month 2
Beneficiary's ID No.	Number	Yes	Company register
Name of the Beneficiary	Text	Yes	
Type of Beneficiary	Text	Yes	Specify Micro, Small or Medium enterprise
Legal form	List	Yes	
Date of establishment	Date	Yes	
Address	Text	Yes	
Postal code	Number	Yes	
Sector (CAEM code)	List	Yes	

Email:	Text	Yes	
Mobile phone:	Text	Yes	
Female-owned/female-managed company	Yes/No	Yes	
Founded or managed by a young person (maximum 35 years)	Yes/No	Yes	
Exporting company	Yes/No	Yes	
Annual value of exports for the previous fiscal year in MDL	Number	Yes	
The value of exports of new products or to new markets/customers after the date of disbursement of the guaranteed loan, in MDL equivalent. (data is updated quarterly)	Number	Yes	
New beneficiary	Yes/No	Yes	New borrower for the Lender
Number of employees: Women Men	Number Number Number	Yes	Employees, owners-managers
Total turnover in MDL	Number	Yes	
Total assets in MDL	Number	Yes	
Internal Classification of the Beneficiary /Internal Scoring	Text	Yes	
Comments	Text	Not	

3. Loan balance data (for all loans in the portfolio)

Field	Format	Mandatory	Comments
Lender ID No.	Number	Yes	
Reporting period	List	Yes	M1, M2...
Loan ID No.	Number	Yes	Mandatory
Cumulative disbursements	Number	Yes	
Loan balance (currency)	Number	Yes	
Days of delay	Number	Yes	If any
Date of currency conversion	Time	Yes	
Currency conversion rate	Number	Yes	NBM
Balance of loans in MDL	Number	Yes	
Guarantee rate	Percentage	Yes	
The balance of the guarantee in MDL	Number	Yes	
Guarantee fee rate per year	Percentage	Yes	
Amount of the guarantee fee	Number	Yes	
Comments	Text	Not	Optional

4. Loans due/paid in advance (for the reported month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	M1, M2, etc.
Loan ID No.	Number	Yes	Mandatory
Date of repayment	Date	Yes	Mandatory
Comments	Text		Optional

5. Restructured loans (for the reporting month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	M1, M2...
Loan ID	Number	Yes	Mandatory
Type of restructuring	List	Yes	Mandatory (List:
Date of restructuring	Date	Yes	Mandatory
Comments	Text	No	Optional

6. Claims (for the reporting month)

Field	Format	Mandatory	Comments
Lender ID	Number	Yes	
Transaction ID	Number	Yes	
Reporting period	List	Yes	M1, M2...
Defaulted principal amount	Number	Yes	
Currency	MDL/EUR/USD	Yes	
Date of default	Date	Yes	
Outstanding Principal amount	Number	Yes	
Date of currency conversion	Date		
Currency conversion rate	Number		NBM
Payment request	Number	Yes	Claim amount

7. Recoveries (for the reported month)

Field	Format	Mandatory	Comments
Transaction ID No.	Number	Yes	
Reporting period	List	Yes	L1, L2...
Date of recovery		Yes	
Amount of recovery		Yes	Minus recovery costs
Currency			
Date of currency conversion	Date		
Currency conversion rate	Number		NBM

The amount in MDL to be transferred to CGF	Number		
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8. Excluded transactions (for the reported month)

Field	Format	Obligatory	Comments
Lender ID	Number	Yes	
Reporting period	List	Yes	M1, M2...
Loan ID No.	Number	Yes	
Date of exclusion	Date	Yes	
Comments	Text	Yes	Optional

Annex 9. Environmental and Social Management Arrangements

Introduction

The main goal of The Credit Guarantee Fund (hereinafter referred to as the **CGF**) is to facilitate access to finance for SMEs, by issuing financial guarantees for bank loans. In order to achieve a higher coverage of supported SMEs and to reduce the time of accessing a guaranteed loan, CGF aims to offer portfolio guarantees, a new guarantee scheme that is supported by the *MSME Competitiveness Project* (hereinafter **Project**). The Project's objective is to reduce the regulatory burden, increase access to finance, and increase the export competitiveness of Moldovan enterprises.

The **Project** applies the World Bank's Environmental and Social Framework (ESF). ODA and Participating Financial Institutions (PFI) will adopt Environmental and Social Management Systems (ESMS) as condition of their participation under Component 2 of the Project. The purpose of these systems is to establish the resources, responsibilities and process to ensure that the projects funded by the World Bank and the financial guarantees issued by ODA, are environmentally and socially sound and not likely to cause significant environmental, social, health, or safety risks.

Implementing Arrangements

For the purpose of implementing the environmental and social management requirements of the Project, ODA carries the responsibility to monitor the management of environmental and social (E&S) risks by PFIs participating in the CGF. It undertakes due diligence and monitors the systems established by PFIs for screening and monitoring of loan recipient activities for environmental and social performance. ODA will ensure that PFIs have adequate institutional arrangements and procedures for meeting the requirements of the national legislation of Moldova and the ESSs of the World Bank relevant for the Project.

- ODA will prepare and maintain an ESMS and ensure that PFIs prepare and maintain subsequent corresponding ESMS to cover loans under the CGF under Component 2. ODA and each PFI will hire or appoint (as part of their ESMS) E&S specialist focal points, trained in the ESF requirements, ensuring that these requirements are implemented as part of the decision-making process for each loan.
- ODA will monitor the integration of E&S considerations into the lifecycle of loans to eligible MSMEs in the guaranteed portfolios and will ensure that E&S risks and impacts are consistently identified, screened, and managed by PFI.

Role of Environmental and Social Specialists

ODA will hire or appoint (no later than 60 days after effectiveness) and maintain throughout Project implementation an E&S focal point to be responsible for the implementation of its ESMS and hire a consultant to assist with training and establishing the PFI and ODA ESMS.

The E&S consultant of ODA and the focal points' main responsibility will be to review the PFIs ESMS in place and ensure that the banks policy covers all the E&S requirements and have a clear appraisal procedure.

Also, the consultant and focal points will have the role to advise PFIs and other project participants on environmental and social questions. ODA E&S consultant, jointly with World Bank specialists will also assist PFIs in reviewing, if needed, environmental and social management plans, monitoring their implementation, advising and guiding PFIs on specific environmental and social issues and management options, and ensuring that cumulative environmental and social impacts are addressed.

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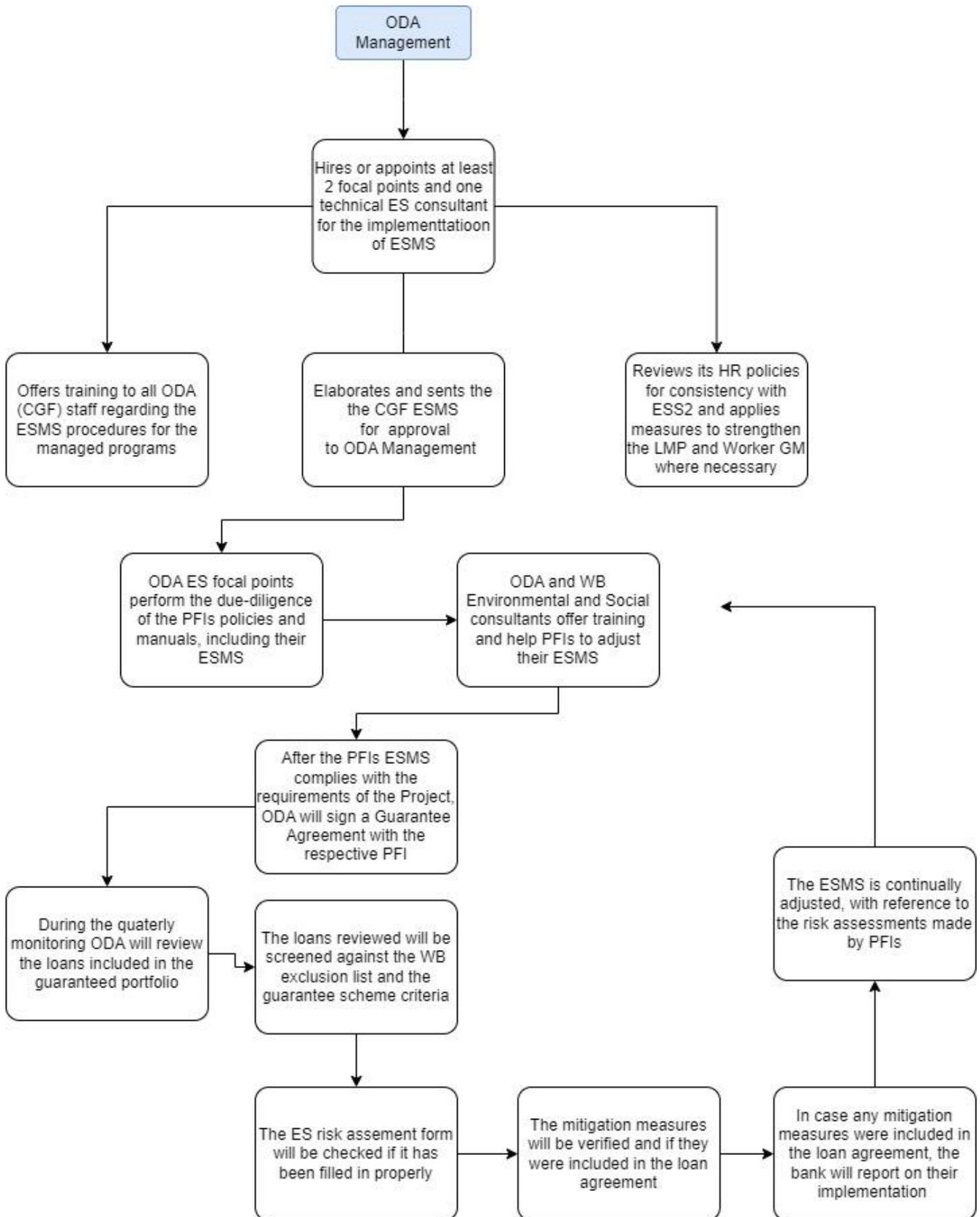
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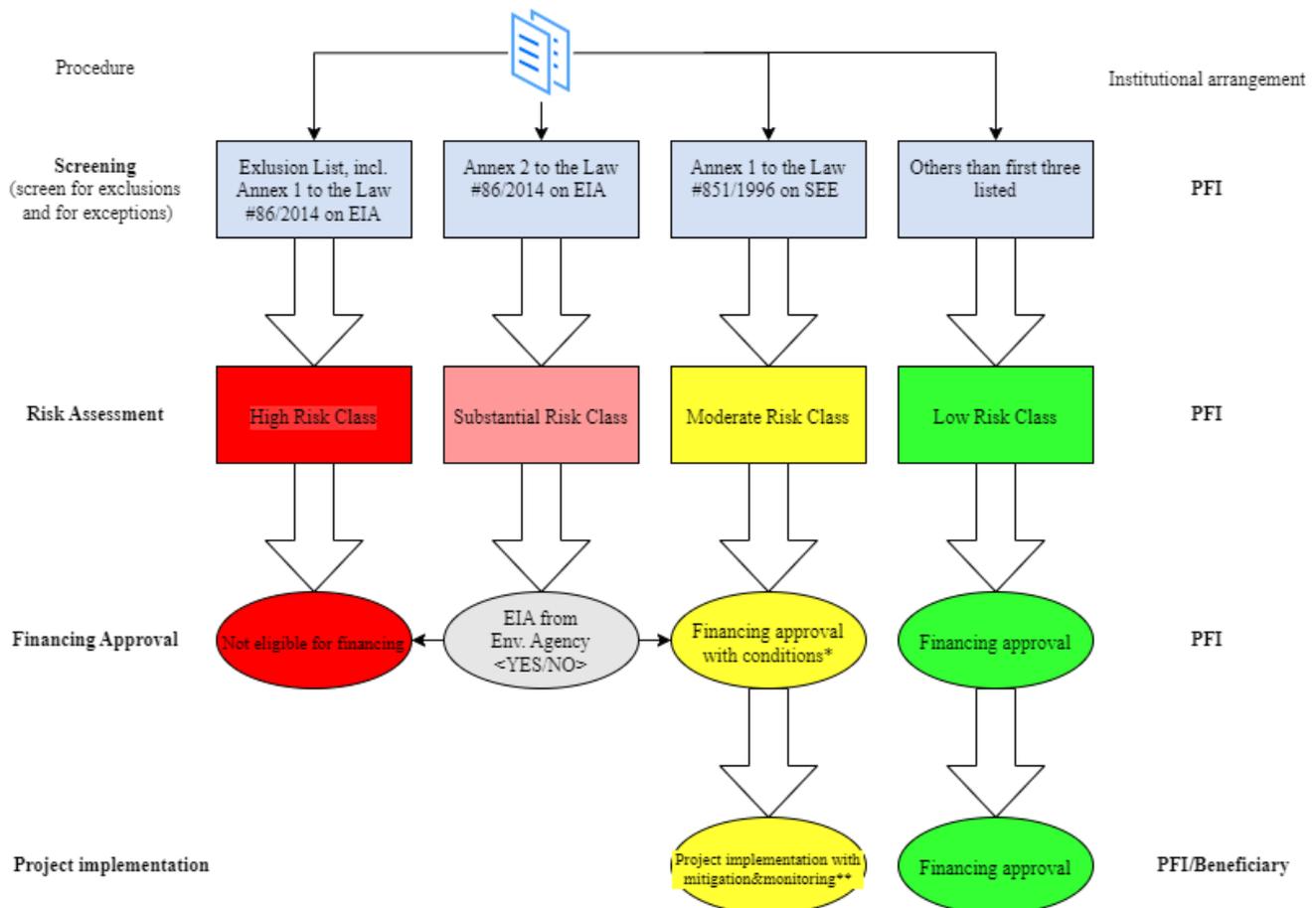
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- 4) The image of the PFI on the market based on an external investigation (review of the PFI website for transparency and disclosure of the services offered, publications in media, social media presence and image, review of PFI and third-party sources for reputation risk associated with E&S aspects) and also during the on-site visit;
- 5) Environmental and social risk management framework such as: policy, procedures, trained technical resources, labor policies, code of conduct, participation in social responsibility activities, requirements for companies receiving funding and others. For environmental and social responsibility, the review will focus on these management systems, as well as requirements for Beneficiaries and loans, also taking into account the requirements of donors of financial sources.
- 6) Corporate Governance aspects relevant to E&S risk management – Corporate Governance Code, Structure and Functioning of the Board of Directors, Control Environment (Internal Audit, Risk Management and Compliance Function), Transparency and Disclosure of Information, Grievance Mechanism and Stakeholders relation policy.

During the due-diligence ODA will verify that each PFIs ESMS include, inter alia, the following elements:

- i) Identification of the credit guarantees and associated sub loans to MSMEs;
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- l) Clearly defining procedures for identification, assessment and management of the E&S risks and impacts of subprojects including for:
 - ✓ Screening against the WBG Exclusion List and the national E&S laws of Moldova;
 - ✓ Verification if the Beneficiary has permissive acts from the corresponding local authorities regarding his main activity and their validity;
 - ✓ Screening, reviewing and categorizing the subprojects according to their potential environmental and social risks and impacts within the defined eligibility criteria for the loan included in the guaranteed portfolio;
 - ✓ Applying any relevant requirement of the ESSs through the use of environmental and social assessments and plans where necessary;
 - ✓ Monitoring and corrective actions proposed for the subproject financed by a guaranteed loan; Any necessary assessments and plans will be prepared and implemented by MSME beneficiaries after review and approval by PFIs and consulted with ODA;
- m) An organizational capacity and competency for implementing the ESMS with clearly defined roles and responsibilities;
- n) Monitoring and reporting of environmental and social performance of subprojects and the effectiveness of the ESMS;
- o) Incidents and accidents notification and subsequent reporting requirements;
- p) An external communications mechanism, including measures to respond to public enquiries and concerns in a timely manner.

PFI's environmental and social assessment process



Monitoring

The procedures for monitoring E&S performance of MSME beneficiaries are approved and managed by PFIs. The designated specialist from ODA will monitor if the PFI has complied with WB standards and E&S requirements specified in their ESMS. ODA will conduct the monitoring remotely, and it will be carried out monthly on the basis of the submitted reports, and once in the quarter at least 10 loans will be checked, which will be selected according to the report from the last month of the reporting quarter. If any incompliance or higher risk is identified, the monitoring specialist will request additional information from the PFI in order to clarify the incompliance and present the justification for the situation. The specialist in charge of monitoring has the task of sending informing letters, memorandums, electronic messages if necessary, and perform on-site visits to a sample of loan activities to verify information provided through the remote monitoring.

Reporting

ODA will report to the Ministry of Finance and World Bank semi-annually on the implementation of its ESMS and the E&S performance of PFIs and MSME beneficiaries. The reports will include information on the number of loan applications and subprojects screened and reviewed by each PFI, risk categorization of these applications/subprojects, the status of the PFIs ESMS, including the environmental and social performance of PFIs.

PFIs will report to ODA on a quarterly basis and these reports will include information on the environmental and social risk management performance. The templates for regular reports and ad-hoc notifications on incidents will be developed by the environmental and social focal points of ODA and disseminated to all PFIs. These templates will be included in the ODA ESMS.

GRIEVANCE REDRESS SERVICES

Stakeholders who believe that they are adversely affected by the guaranteed loans under Component 2 shall have access to multiple channels to submit concerns and receive redress.

ODA and PFIs will ensure awareness of relevant stakeholders of the existence of the ESMS, which supports its implementation, including all relevant personnel at the ODA and PFIs. Each PFI will ensure that the PFI's ESMS is disclosed and available to relevant staff and stakeholders.

ODA will have a Grievance Mechanism for direct and contracted workers incorporated in the ODA HR policy.

ODA will facilitate dissemination and access for potentially affected and interested stakeholders to the Project Grievance Mechanism which is maintained by the PIU under the Ministry of Finance and described in the Project Stakeholder Engagement Plan (SEP).

In addition, each PFI receiving credit guarantees under Component 2 shall establish ESMS including provision of their own mechanisms for receiving feedback from stakeholders. Complaints and concerns received and managed by ODA, PFIs will be reported on to the PIU as part of their regular reports.

ODA and PFIs will ensure that all project-affected parties will have equal opportunity to submit their grievance in accessible ways. The Project beneficiaries and suppliers may use a range of contact options (telephone number, e-mail address and postal address, etc.).

The timeline for response will not exceed 14 working days.

All correspondence on the procedure for resolving a complaint is carried out only in writing.

Annex 10. Environmental and Social Due Diligence (Sample E&S assessment form)

ENVIRONMENTAL AND SOCIAL RISK ASSESSMENT FORM FOR LOAN BENEFICIARIES	
Firm Name	
Description of Client's Activities	
Project Description	
Type of transaction	
Loan Amount (USD/MDL/EUR)	
Loan Duration (in Month)	
Date	
E&S Specialist (filled out by)	
List of Documents provided for E&S Assessment <ul style="list-style-type: none"> • (eg. Capacity Report • EIA Decision Letter • Commercial Opening and Operating License • Temporary Operating Certificate • Waste Management Plan and Waste Declaration Form • Occupational Health and Safety (OHS) Internal Regulation and OHS Risk Assessment Report • ISO Certificates • Human Resources Procedure • Sample of employment contract • Emergency Response Plan 	
General E&S Assessment for the financed Project and the Firm (Describe Project E&S risks and compliance with WB E&S requirements and assess firm's capability of managing relevant E&S risks)	

QUESTIONS	ANSWER (Yes/No/Comments) AND SUPPORTING DOCUMENTS (Where applicable)
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6. Is the business activity on the Project Exclusion list? *	
7. Summary Info about main business activity / the investment project	
8. Does the firm have required environmental license and permits (EIA, environmental permit etc.) according to national legislations?	
9. Does the firm have Commercial Opening and Operating License?	
10. Does the firm employ child labor (below the age of 16) in its operations, including through contractors or in the primary supply chain?	
6. Does the firm engage forced labor, including trafficked persons, in its operations, including through contractors or in the primary supply chain?	
7. Are there any risks related to land acquisition through expropriation / physical or economic involuntary resettlement in the Project?	
8. Is there any building construction, or additional construction works which require land acquisition through expropriation?	
9. Is the Project area located near Nationally/ Internationally recognized Nature Protection Areas?	
10. Does the firm have E&S unit / external E&S consultants?	
11. Does the firm have environmental / social management system?	
12. Is hazardous/nonhazardous waste being generated by business activity / the financed	

project and/or does firm activity produce exceptional amounts and types of waste?	
13. Does the firm have waste management plan?	
14. Does business activity / the financed project lead to an exceptional amount of waste water?	
15. Will / might business activity / the sub-project cause pollution to soil pollution?	
16. Will / might business activity / the financed project cause pollution to air or create other nuisances such as dust, traffic, noise or odor?	
17. Does the business activity / the financed project lead to significant increases of greenhouse gas emissions?	
18. Does the business activity / the financed project result in loss of habitat/negative effects to biodiversity species (flora / fauna)?	
19. Does the business activity / the Project affect geological conditions?	
20. Does the business activity / the financed project lead to cumulative negative environmental and social impacts on the nearby communities?	
21. Does the business activity / the financed project cause negative impacts on health and safety of local communities, including vulnerable groups?	
22. Does business activity / the financed project cause negative impacts on cultural heritage resources?	
23. Number of occupational accidents (including the details of death-injury statistics) in the past two years (include data for each year and how were these addressed):	

23. Does the firm have occupational health and safety plan?	
24. Does the firm provide its workers with a safe and healthy work environment and personal protective equipment (PPE)??	
25. Does the firm ensure that young workers (under the age of 18) are not employed in dangerous work and regularly monitor their health, working conditions and hours of work?	
26. Does the firm have a worker's grievance mechanism?	
27. Number of grievances recorded in the last 2 years (include information if these grievances were addressed)?	
28. Have there been any non-compliances with the Labor Law and employment regulations in the past two years? If yes, please, explain how these were addressed.	
29. Did any penalties/lawsuits occur regarding labour and working conditions in the past two years?	
30. Does the firm support the workers' rights to freedom of association?	
31. Does the firm employ informal migrant and temporary workers?	
32. Do all workers have signed employment contracts?	
33. Does the firm provide two rest days per week?	
34. Does the firm apply the principle of non-discrimination in the process of hiring,	

compensation, and terms of employment including to the vulnerable groups of employees?	
35. Does the firm provide appropriate welfare facilities (e.g. potable drinking water, toilets, washing facilities, canteens, and separate facilities for men and women, changing room, rest areas)?	
36. Is the firm compliant with the legal ceiling of 240 hours of overtime work per year?	
Environmental and social risk category of the financed project (Only Low and Moderate risk category are eligible)	

Eligible for Financing

Yes/No

Stamp-Signature (Environmental and Social Impact Analysis Unit)

Date of Approval:

Annex 11. Guarantee Scheme

LOAN PORTFOLIO GUARANTEE SCHEME

INDICATIVE TERMS

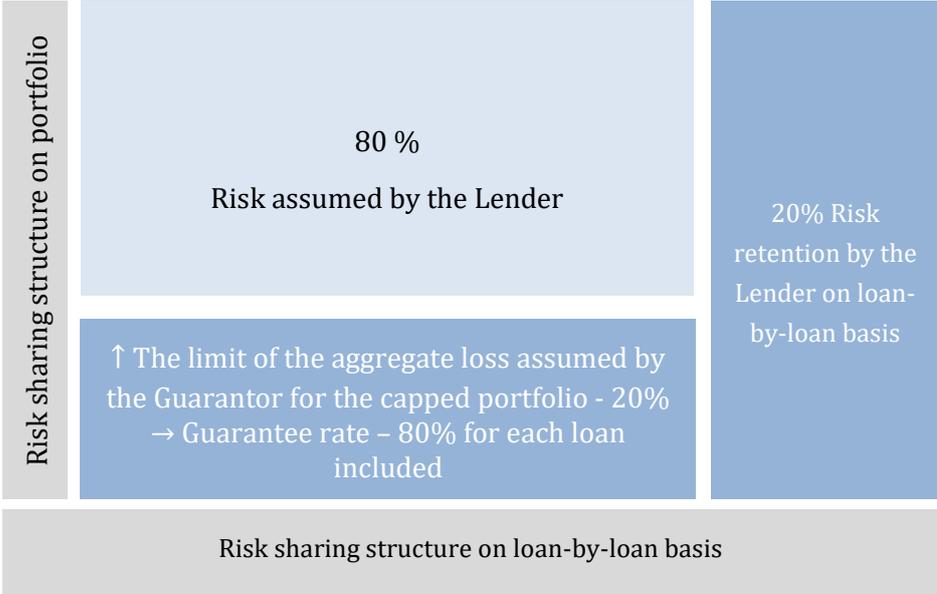
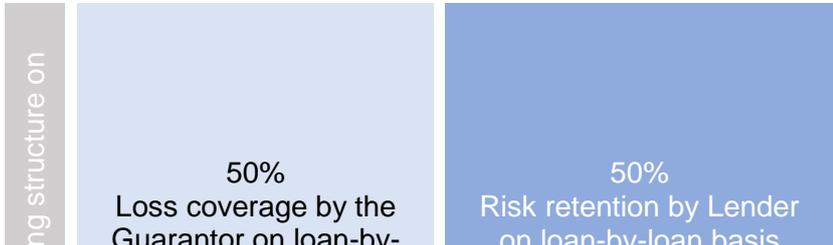
The loan portfolio guarantee (hereinafter „Guarantee”) is issued by the Public Institution „Organization for Entrepreneurship Development” (hereinafter „Guarantor”), through the Credit Guarantee Fund, in the context of implementation of Component 2 „Access to Finance”, related to the Micro, Small and Medium Enterprises Competitiveness Project (hereinafter the „Project”) in favor of B.C. „_____” S.A. (hereinafter „Lender”), based on a Loan Portfolio Guarantee Agreement (hereinafter „Agreement”). The Guarantee will partially cover the credit risk associated with the new loans granted to MSMEs and included in the guaranteed loan portfolio (hereinafter „Portfolio”).

This summary term sheet is an outline of the principal terms and conditions of the Guarantee Scheme. It provides the description of the main objective of the Guarantee Scheme, the Portfolio Objectives, the values for the maximum guaranteed portfolio value, the agreed portfolio value, the guarantee fees value, as well as the maximum loan amount depending on the level of collateral (secured or unsecured).

The support measure in the form of portfolio guarantees for loans granted to small and medium-sized enterprises under the Credit Portfolio Guarantee Scheme, managed by the Credit Guarantee Fund, constitutes state aid within the meaning of Article 3 of Law no. 139/2012 on state aid.

<p>Applicable Law</p>	<p>The terms of the Loan Portfolio Guarantee Scheme and the Agreement will be governed by the applicable Laws of the Republic of Moldova, including Government Decisions/Ordinances/International Agreements, including but not limited to:</p> <ol style="list-style-type: none"> 1) The Loan Agreement (9423-MD of July 15, 2022) signed between the Government of the Republic of Moldova and the International Bank for Reconstruction and Development (IBRD), in order to implement the Micro, Small and Medium Enterprises Competitiveness Project. 2) Law no.179/2016 on small and medium-sized enterprises; 3) Government Decision no.709 of 19.10.2022 for the approval of the „Regulation on the organization, functioning and use of the Guarantee Fund for small and medium-sized enterprises”; 4) CGF Operations Manual regarding portfolio guarantees, approved by P.I. ODA Council by Protocol no.4 of 13 June 2023.
<p>The main objective of the Guarantee Scheme</p>	<p>The objective of the Loan Portfolio Guarantee Scheme is to provide MSMEs from all areas of the economy with increased access to finance, especially those who have difficulty in obtaining finance due to the lack of credit history or the lack of available guarantees, by offering Lenders a capital relief and sharing the credit risk, through capped (or uncapped) guarantees for the newly created loan portfolio (secured or unsecured).</p> <p>Resulting from the amount of financing within the Project, intended for the Capitalization of CGF, in a total amount of EUR 13.8 million, which is divided into two installments of EUR 9.5 million and EUR 4.3 million, respectively, during the implementation of the present guarantee scheme, loans equivalent to at least USD 100 million are to be guaranteed and access to financing for at least 900, micro, small and medium-sized enterprises.</p>
<p>Portfolio Objectives</p>	<p>The lender shall form a loan portfolio in which:</p> <ol style="list-style-type: none"> 1) Loans with more than 30 days in delay shall be less than 10% of the formed Portfolio balance; 2) Share of loans granted to female-owned/female managed MSMEs represent at least 30% of the formed Portfolio; 3) Share of medium and long term loans (> 24 months) represent at least 60% of the formed Portfolio.
<p>Guarantor</p>	<p>Public Institution „Organization for Entrepreneurship Development”, which manages the activity of the Credit Guarantee Fund (hereinafter CGF).</p>
<p>Lender</p>	<p>Bank which concluded an Agreement with the Guarantor for the purpose of granting loans, guaranteed with a portfolio guarantee.</p>
<p>Beneficiary</p>	<p>Micro, small or medium-sized enterprise as defined according to art. 4 of the Law no.179/2016 on small and medium-sized enterprises, which obtained an Eligible Loan from the Lender, included in the Portfolio.</p>

Portfolio Guarantee	Financial guarantee issued by the Guarantor for a portfolio of Eligible Loans of the Lender, in order to share the credit risk between the Guarantor and the Lender, associated with the respective loan portfolio.
Guarantee capacity	At the time of launching the Guarantee Scheme, P.I. ODA has MDL 187.8 million, which represents the first tranche of World Bank financing. With the application of a maximum leverage of five, the total value of the guarantee capacity resulting from the financing available at the time of launch is MDL 939 million.
Maximum Guaranteed Loan Portfolio Value for the entire guarantee scheme	MDL 1 500 million
Type of guaranteed loan portfolio	<p>The Guarantee Scheme provides for two types of guarantees:</p> <ol style="list-style-type: none"> 1) Capped portfolio guarantee – for the capped portfolio guarantee, the Guarantor is obliged to honor all the payment commitments requested by the Lender regarding the Claims, until the maximum guarantee cap value, related to the guaranteed loan portfolio, has been reached; 2) Uncapped portfolio guarantee – for the uncapped portfolio guarantee, the Guarantor is obliged to fully honor the payment commitments requested by the Lender, without setting a maximum guarantee cap rate, within the limit of the guarantee rate; <p>Depending on the type of the level of collateral coverage (with real guarantees), the following types of portfolios are distinguished:</p> <ol style="list-style-type: none"> 1) capped secured portfolio; 2) capped unsecured portfolio; 3) uncapped secured portfolio; 4) uncapped unsecured portfolio.
Minimum collateral coverage rate	<p>In order to determine the collateral coverage rate, the following formula shall be applied:</p> $RG = \frac{VG}{C} * 100$ <p>where:</p> <p><i>RG</i> – collateral coverage rate;</p> <p><i>VG</i> - the value of collateral securing the loan (collateral value accepted by the Lender), except for the guarantee granted by the Guarantor. The calculation of the collateral value is based on the Lender's internal procedure;</p> <p><i>C</i> – the initial amount of the loan.</p> <p>Only loans whose RG is greater than 50% can be included in secured portfolios, loans with an RG less than or equal to 50% are considered unsecured and can only be included in unsecured portfolios.</p> <p>The pledge value of the future goods is not included in the value of real guarantees at the time of concluding the loan agreement.</p>

	<p>Loans on which the RG is greater than 100% on the date of conclusion of the loan agreement, cannot be included in the guaranteed portfolios.</p> <p>*In case of modification in the collateral structure of the guaranteed loan, the Lender will be obliged to send a request about the changes willing to be made, and they will be considered accepted by the Guarantor by default without any written confirmations, in case the minimum collateral coverage rate of the loan complies with the rate specified above.</p>
<p>Real guarantees (Collateral securing the loan)</p>	<p>Real estate, fixed assets and current assets (raw material, finished products or merchandise) whose values has been verified by a licensed appraiser or other appraisal method acceptable to the Guarantor, with the exception of accounts receivable or other patrimonial rights.</p>
<p>Guarantee rate for capped portfolio</p>	<p>80% of the maximum Guaranteed Loan Portfolio Value. The maximum guarantee on an individual loan in a capped portfolio is 80% of the balance outstanding at the time of default.</p>
<p>Guarantee rate for uncapped portfolio</p>	<p>50% of the maximum Guaranteed Loan Portfolio Value. The maximum guarantee on an individual loan in an uncapped portfolio is 50% of the balance outstanding at the time of default.</p>
<p>Chart of risk sharing within a capped portfolio</p>	 <p>Within the capped portfolio, the first losses related to non-performing loans will be covered by the Guarantor, within the limit of the guarantee rate for each individual loan, until reaching the level of 20% of the portfolio, applying the formula for the maximum guarantee cap value. The other losses and the risk of non-performance of the formed loan portfolio are assumed by the Lender.</p> <p>Including, given the fact that the guarantee rate is 80% for each individual loan, the bank will retain its credit risk no less than 20% of the balance of each loan.</p>
<p>Chart of risk sharing within an uncapped portfolio</p>	

	<p>Within the uncapped portfolio, the sharing of credit risk between the Lender and the Guarantor is carried out according to the <i>pari passu</i> principle for the entire value of the loan portfolio, each individual loan being guaranteed in a 50% rate.</p>
<p>Guarantee Cap Rate</p>	<p>The guarantee cap rate for a capped portfolio will be 20% from the guaranteed portfolio, which sets the limit of the aggregate loss assumed by the Guarantor for the respective portfolio.</p> <p>The guarantee cap rate for the uncapped portfolio will be 100% from the guaranteed portfolio</p>
<p>Maximum guarantee cap value</p>	<p>The maximum guarantee cap value is calculated for each portfolio, where the following formula is being applied:</p> $PG = S * \frac{C}{100} * \frac{RP}{100}$ <p>where:</p> <p><i>PG</i> – the maximum guarantee cap value, expressed in MDL;</p> <p><i>S</i> – the maximum value of the guaranteed loan portfolio, expressed in MDL;</p> <p><i>C</i> – the guarantee rate;</p> <p><i>RP</i> – the guarantee cap rate for the guaranteed loan portfolio</p> <p>The maximum guarantee cap value shall be reduced by the value of the Claims paid by the Guarantor and shall be increased by the repayments received by the Guarantor from the Lender in accordance with the terms set out in the Agreement.</p>
<p>Application Procedure for the Lender</p>	<p>The bank that intends to become a Lender under the guarantee scheme, shall submit an application form to the Guarantor, before the application deadline, to which shall be attached the statement regarding the meeting and the commitment to comply with the eligibility conditions stipulated in point 15 of Government Decision 709/2022.</p> <p>Potential Lenders can apply for one or more portfolios.</p>
<p>Lenders Selection Procedure</p>	<p>The Lenders' selection procedure consists of the examination stage of the received applications and the due-diligence stage.</p> <p>The Guarantor selects eligible Lenders for collaboration in the context of financial guarantees, based on a transparent procedure of selection and evaluation methodologies, non-discriminatory and objective, avoiding conflicts of interest. Access to participation will be open for all licensed banks that are interested in participation, providing that they are able to meet the eligibility criteria indicated in the Government Decision 709/2022, the CGF Operations Manual on portfolio guarantees and the requirements of the World Bank as a</p>

	<p>financier. All banks wishing to participate will be required to meet the criteria specified in Section 5.2 of the CGF Operations Manual:</p> <ol style="list-style-type: none"> 1) provide a written confirmation allowing the Guarantor's and the World Bank's representatives, on a need-to-know basis, access to privileged and confidential information necessary to appraise whether a bank meets and/or continues to meet the set qualification criteria; 2) undertake annual external audits by auditors acceptable to the National Bank and according to National Bank regulations and according to international financial reporting standards and international auditing standards; and 3) appoint specific staff that will be responsible for the collaboration with CGF and the management of the guaranteed portfolio, to maintain adequately staffed credit and risk committee, and to join available staff training.
<p>Agreed Portfolio Value</p>	<p>Value expressed in MDL, calculated as a percentage of the maximum value of the guaranteed loan portfolio. At the Guarantor's decision, the agreed value of the portfolio can be increased to the maximum portfolio value, depending on the successful use and compliance with the Portfolio Objectives, set out in the present scheme.</p> <p>The agreed portfolio value constitutes 50% of the maximum portfolio value.</p> <p>Upon reaching the agreed portfolio value, the Lender will suspend the inclusion of loans in the portfolio, until the decision of the Guarantor to unlock the remaining cap.</p> <p>The guarantor analyzes the quality of the loan portfolio formed, the fulfillment of the general objectives of the Scheme and of a particular portfolio, and in the absence of objections, will inform the Lender about the possibility of further inclusion of loans, within the limit of the new approved value, but no more than the maximum portfolio value.</p> <p>In order to achieve the objectives of the Scheme and its own assessments regarding risk exposure, if the objectives of the portfolio have not been achieved by the Lender, under the terms of the Guarantee Agreement, the Guarantor may reduce the maximum value of the portfolio for the Lender.</p> <p>At the Guarantor's decision, the unutilized value of the portfolio can be allocated to another Lender.</p>
<p>Actual portfolio Value</p>	<p>The aggregate amount of the principal committed under loan agreements included in the Portfolio. The Actual Portfolio Value does not reduce with the decrease of the loan balance or with the Claims amount. The Actual Portfolio Value is reduced only by excluding loans from the Portfolio, canceling the Loans or reducing the value of the loans due to non-disbursement of the maximum amount of the loan or reducing the value of the credit line. The Actual Portfolio Value is limited to the Agreed Portfolio Value.</p>
<p>Guaranteed Loan Portfolio Balance</p>	<p>The sum of the following two amounts: (i) for simple term loans or similar facilities: the aggregate amount of all the balances of the principal amounts (outstanding) of all loans, included in the Portfolio, and (ii) for credit lines, loans granted in tranches (until their full disbursement thereof) and for overdrafts or</p>

	similar facilities: the amount of credit limits and approved facilities (regardless of whether these overdrafts and credit facilities are effectively disbursed) from all the Loans included in the Portfolio.	
The maximum amount of a loan in national currency	<u>Secured Portfolio</u> MDL 5 million	<u>Unsecured Portfolio</u> MDL 2 million
The maximum amount of a loan in foreign currency	EUR 250,000 or USD 250,000 but not more than MDL 5 million, according to the official NBM exchange rate on the date of conclusion of the loan agreement.	EUR 100,000 or USD 100,000 but not more than MDL 2 million, according to the official NBM exchange rate on the date of conclusion of the loan agreement.
Minimum term of the loan	12 months	
Maximum term of the loan	<i>For investment purposes – no maximum term</i> <i>For working capital – 36 months</i>	
Loan Type	<i>Investment</i> - the principal amount of the loan will be used for the procurement/construction of tangible assets. <i>or</i> <i>Working capital</i> - the principal amount of the loan will be used to finance the current activity.	
Maximum Exposure on Beneficiary or Group of affiliated beneficiaries	<p>The maximum cumulative value of the loans included in the portfolio, granted by the Lender to a Beneficiary or a group of affiliated Beneficiaries. The group of affiliated Beneficiaries is defined based on the Regulation on large exposures, approved by the Decision of the Executive Committee of the National Bank of Moldova, no. 109 of April 5, 2019 (in force since June 19, 2019).</p> <p>N.B! In order to determine the value of the maximum exposure, the balance of the loans granted to a Beneficiary or a group of affiliated Beneficiaries are taken into account, so that the value of the balances does not exceed the value of 5 million MDL.</p> <p>When granting loans, the Guarantor's exposure related to individual financial guarantees is also taken into account, so that the total value of the balance of guarantees within the portfolio and individually issued for the beneficiary and the group of affiliated beneficiaries does not exceed the maximum limit established by the ODA and published on its official web page.</p>	

<p>Guarantee fee</p>	<p>The Lender is obliged to calculate and transfer a guarantee fee to the Guarantor on a monthly basis.</p> <p>The guarantee fee is calculated for the balance of the guaranteed loan portfolio, recorded at the end of the calculation month, taking into account the guarantee fee rate, according to the following formula:</p> $CG = S * \frac{C}{100} * \frac{R/12}{100}$ <p>where:</p> <p><i>CG</i> – guarantee fee for portfolio guarantees, expressed in MDL;</p> <p><i>S</i> – the balance of the guaranteed loan portfolio registered at the end of the calculation month, expressed in MDL;</p> <p><i>C</i> – the guarantee rate;</p> <p><i>R</i> – the annual rate of the guarantee fee.</p> <p>In order to determine the amount of the guarantee fee, the balance of the guaranteed loan portfolio recorded at the end of the calculation month for loans granted in EUR or USD shall be converted into MDL, using the relevant exchange rate displayed by the NBM on the last day of the reporting period.</p> <p>Guarantee fee rate (% of the guaranteed loan portfolio balance) constitutes:</p> <table border="1" data-bbox="528 1039 1370 1205"> <thead> <tr> <th>Portfolio</th> <th>Secured</th> <th>Unsecured</th> </tr> </thead> <tbody> <tr> <td>Capped</td> <td>0.5% annually</td> <td>1% annually</td> </tr> <tr> <td>Uncapped</td> <td>1% annually</td> <td>1.5% annually</td> </tr> </tbody> </table>	Portfolio	Secured	Unsecured	Capped	0.5% annually	1% annually	Uncapped	1% annually	1.5% annually
Portfolio	Secured	Unsecured								
Capped	0.5% annually	1% annually								
Uncapped	1% annually	1.5% annually								
<p>Eligible Loan</p>	<p>Any new loan granted by the Lender to the Beneficiary under a loan agreement, which complies with the requirements of CGF Operations Manual and the Guarantee Agreement signed between P.I. ODA and the Lender.</p>									
<p>Transfer of Benefit</p>	<p>The Lender shall transfer the benefit of sharing the risk with the Guarantor to the underlying Beneficiary. The benefits may include: reduced collateral requirements or reduced interest rates or fees normally charged to SMEs by Lenders.</p> <p>The benefit transfer mechanism will be described in the Bank's application form and subsequently transposed into the Guarantee Agreement.</p>									
<p>Portfolio Guarantee Currency</p>	<p>MDL</p>									
<p>Loan Currency</p>	<p>MDL, EUR or USD</p>									
<p>Currency conversion aspects</p>	<p>Regarding loan agreements offered in foreign currency, the following currency conversion mechanism will apply:</p> <ul style="list-style-type: none"> - <u>Inclusion</u>: for the purpose of determining the value of the loan, the value of the principal amount of the loans granted in EUR and USD is converted into MDL using the relevant exchange rate displayed by the NBM on the date of conclusion of the loan agreement. 									

	<p>N.B! The maximum and agreed value of the portfolio is calculated only in MDL, and at any moment of time the Lender must monitor compliance with the values approved according to this Guarantee Scheme.</p> <p>- <u>Payment request</u>: The value of the payment request in MDL of any loan granted in EUR or USD cannot exceed the initial value of the equivalent loan in MDL, at the time of concluding the loan agreement.</p> <p>In order to determine the value of the outstanding balance of loans granted in EUR or USD, the outstanding balance of the loan is converted into MDL, using the relevant exchange rate displayed by the NBM on the last day of the reporting period.</p> <p>- <u>Recoveries</u>: In order to determine the value of the amount to be reimbursed for loans granted in EUR or USD, the value of the recovered amount is converted into MDL, using the relevant exchange rate displayed by the NBM on the last day of the reporting period.</p>
<p>Inclusion of a loan</p>	<p>Only the loans that were included in the Portfolio during the inclusion period, shall be considered guaranteed, provided that the loan agreement was signed with the Beneficiary after the date of signing the Agreement.</p> <p>The loans are considered to be included in the portfolio starting from the date of inclusion of the loan information in the Information System for the Management of Financial Guarantees (SIGGF), provided that it was subsequently included in the monthly report according to the Agreement. In case any technical issues of SIGGF prevent the Lender to include the information on guaranteed loans, the loans will be considered included in the portfolio based on the monthly report</p> <p>The technical issues will be notified by the bank, and in case they can't be fixed in a timely manner, ODA will send a notification regarding the fact that loans granted during the downtime of the software, will be considered included in the portfolio, if they were mentioned in the monthly report. As soon as the software is fixed, all new loans reported during the time of the problem will be reviewed to ensure that all loans submitted via the monthly report are eligible.</p>
<p>Inclusion period</p>	<p>The deadline for including loans in the Portfolio is 2 years from the date of signing the Agreement.</p> <p>During this period, the Lender may include new Loans in the portfolio, the aggregate value of the principal amount of which will not exceed the Agreed Portfolio Value.</p>
<p>Trigger event</p>	<p>A trigger event may occur if, on monthly review during the Inclusion Period, the Portfolio Objectives are not reached or in case of non-fulfilment of contractual obligations according to the Agreement.</p>
<p>Events of non-fulfillment of contractual obligations by the Lender</p>	<p>Standard events of non-fulfillment of obligations, in accordance with the Guarantee Agreement, which may include non-payment of the guarantee fee, failure to meet the obligations to reimburse the amounts specified in the Agreement, insolvency, suspension of the license to operate, as well as other events specified in the Agreement.</p> <p>In case of non-fulfillment of contractual obligations by the Lender under the Guarantee Agreement or in the sole opinion of the Guarantor the Lender is</p>

	<p>failing to comply with the criteria given in Section 5.2 of the CGF Operations Manual, the Guarantor has the right to suspend unilaterally the inclusion of loans in the portfolio, to reduce the maximum value of the portfolio or to postpone the payment deadline of the guarantees, until the event of non-fulfillment of contractual obligations has been remedied.</p>
Termination date of the Agreement	<p>At the expiry of 7 years from the date of signing the Agreement, except for the existence of payment obligations in accordance with the terms of the CGF Operations Manual and the Guarantee Agreement.</p> <p>The termination date of the Agreement does not represent the due date of the loans included in the guaranteed portfolios, respectively the loans may have a longer maturity than the termination date of the Agreement</p>
Losses	<p>The value of the losses incurred by the Lender in the context of the guaranteed portfolio, means any amount of the outstanding loan principal, related to a non-performing loan. The guarantee covers the losses incurred by the Lender in accordance with the guarantee rate, up to the available guarantee cap amount.</p>
Non-performing loan	<p>Loan, the payment of which has not been paid by the Beneficiary to the Lender for more than 90 consecutive days, from the due date of the payments stipulated in the loan agreement and for which the Lender and the Beneficiary have not reached an agreement regarding remedial measures.</p>
Loan restructuring	<p>Renegotiation (modification of loan value or purpose of the loan) and/or extension of the term of the loan agreement included in the portfolio.</p> <p>The loans included in the portfolio may be restructured by the Lender in accordance with the internal rules and procedures of the Lender, only with the prior consent of the Guarantor.</p>
Payment request	<p>Report sent monthly by the Lender to ODA, regarding the payment of the guarantee (claim) in relation to non-performing loans.</p> <p>The following documents relating to the loans for which payment is requested will be attached to the payment request</p> <ol style="list-style-type: none"> 1) Statement of the Loan Account of the Beneficiary regarding the formation of the outstanding balance; 2) Confirmatory documents regarding the use of the loan in accordance with the purpose of the loan; 3) The copy of the pledge/mortgage/surety agreements and of the additional agreements (according to the case), recorded in the appropriate manner, that guarantees the loan, for which the payment is requested; 4) The information on the current status of the pledged/mortgaged assets (the integrity or partial or total absence of the pledge originally constituted by the Beneficiary and/or the pledge/mortgage debtor) confirmed by the Lender in accordance with the internal procedures, except for the unsecured loans. <p>Within 7 days from the date of receipt of the payment request, which contains all the documents in accordance with conditions of the Agreement, the</p>

	<p>Guarantor makes the payment for the Lender's Claim, the value of which is calculated according to the following formula:</p> $GP = S * \frac{C}{100}$ <p>where:</p> <p><i>GP</i> – value of the claim, expressed in MDL;</p> <p><i>S</i> – the outstanding balance of the defaulted loans that are part of the guaranteed loan portfolio, expressed in MDL;</p> <p><i>C</i> – the guarantee rate.</p>
<p>Request for final payment</p>	<p>The last Payment Request sent by the Lender to P.I. ODA, until the termination date of the Agreement, regarding the losses incurred related to non-performing loans. The final payment request may be submitted until the last day of the month following the month in which the termination of the agreement takes place.</p>
<p>Recoveries of claims</p>	<p>The Lender undertakes all measures regarding the recovery of the outstanding debts related to the loan agreement included in the guaranteed loan portfolio, including the complete sale of the real guarantees that served as security for the repayment of the loan, within a reasonable period of time, according to its internal documents and normative acts.</p>
<p>Reimbursements</p>	<p>Within 30 days from the date of receipt by the Lender of the amounts recovered from the sale of the collateral (real guarantees), as well as of any other amounts collected on account of the payment of the outstanding debts related to the loan agreement, after deducting the collection / enforcement expenses, the Lender shall repay the Guarantor the value of the amounts recovered, calculated proportionally to the guarantee rate, according to the following formula:</p> $R = (P - E) * \frac{C}{100}$ <p>where:</p> <p><i>R</i> – the amount for repayment to ODA, expressed in MDL;</p> <p><i>P</i> – the amount recovered from the sale of the collateral and of any other amounts collected on account of the payment of the outstanding debts related to the loan from the guaranteed loan portfolio, expressed in MDL;</p> <p><i>E</i> – costs of collection/enforcement, expressed in MDL;</p> <p><i>C</i> – the guarantee rate.</p>

<p>Exclusion of loans from the Portfolio</p>	<p>The Guarantor has the right to exclude from the portfolio the loans that do not meet the eligibility criteria identified during the remote or on-site monitoring with the prior notification of the Lender.</p> <p>If the Lender has cancelled the loan agreement or has detected the inclusion in the Portfolio of an ineligible loan, it shall notify the Guarantor immediately and request the exclusion of that loan from the Portfolio.</p>
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Eligibility Criteria

<p>Beneficiary Eligibility Criteria</p>	<p>Only loans which at the time of the conclusion of the respective loan agreement meet the requirements established in the Agreement as well as the following conditions, may be included in the portfolio:</p> <ol style="list-style-type: none"> 1) The Beneficiary is a micro, small or medium-sized enterprise defined according to art. 4 of Law no. 179/2016 on small and medium-sized enterprises; 2) The Beneficiary has payment capacity, is considered viable for lending in accordance with the internal policies of the Lender, taking into account the Beneficiary assessment requirements in accordance with the Agreement; 3) The Lender has identified the ultimate beneficial owners of the Beneficiary; 4) The Beneficiary has not registered arrears in the payment of loans of more than thirty (30) consecutive days in the last year and more than a total of ninety days (90) in the last three years, and the Beneficiary is current in payments of all its debts as of the date of its inclusion in the portfolio; 5) The Beneficiary confirms the lack of any overdue payments to the state budget; 6) The Beneficiary does not carry out illegal activities within his business; 7) The Beneficiary doesn't have ultimate beneficial owners registered and/or residents in jurisdictions that do not implement the international standards of transparency established according to the normative acts of the National Bank of Moldova, as well as of the Office for Prevention and Fight against Money Laundering, and are not included in any list of financial sanctions; 8) The Beneficiary does not carry out activities or the purpose of the loan refers to ineligible activities listed in Annex 2 of the Guarantee Agreement; 9) The Beneficiary will not be a "company in difficulty" (EU Commission Regulation C (2014) 3292/3 of 21 May 2014).
<p>Eligibility criteria for loans included in the portfolio</p>	<p>In the portfolio can only be included loans that, during the course of the Agreement, correspond to the following conditions:</p> <ol style="list-style-type: none"> 1) The principal amount of the loan is used for the purchase/ construction of tangible assets or financing the current activity; 2) At most 30% of the principal amount of the loan may be used to refinance other loans from other financial institutions;

	<p>3) The beneficiary contributes with own funds in the amount of at least 10% from the value of the investment project, in case of investment loans;</p> <p>4) The principal amount of the loan is not used for speculative investment activities and speculative real estate transactions;</p> <p>5) The initial minimum duration of the loan agreement is 12 months;</p> <p>6) The maximum duration for loans intended to finance current activity is 36 months, and for investment loans, the maximum loan duration will correspond to the Lender's loan products;</p> <p>7) The collateral coverage rate of the loan is at least that specified in the present Scheme for the respective portfolio, in the case of secured portfolios;</p> <p>8) The loan value is fully included in the portfolio up to the Agreed Portfolio Value, partial inclusion is not allowed;</p> <p>9) The loans included in the portfolio will not be granted for the financing of construction projects of residential buildings, the leasing of own premises, the covering or granting of loans to individuals and legal entities, the financing of company acquisition transactions or the procurement of passenger cars, with the exception of enterprises operating in the field of taxi transport, investment refinancing;</p> <p>10) When the loans are included in the portfolio, they will correspond to the "Standard" or "Supervised" risk category according to the regulations of the National Bank of Moldova.</p> <p>Any modification of the eligibility criteria by the Guarantor will have legal effects, without concluding an additional agreement, if the Lender is informed in writing, 10 days before the entry into force of the new modifications, at the address indicated in the Guarantee Agreement. The newly approved eligibility criteria do not have a retroactive effect on the credits previously included in the portfolio.</p> <p>The Guarantee Scheme will not cover loans intended for projects that are specified in the IFC/WB exclusion list, activities with increased risk of impact on the environment and human rights, as well as loans granted to companies that cannot benefit from support instruments, according to art. 12 of Law 179/2016 on small and medium enterprises.</p> <p>The list of excluded activities can be found in Annex 2 to the Guarantee Agreement.</p>
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Other

<p>Reporting</p>	<p>By the 10th of the month following the management month, the Lender shall submit a report in electronic form, according to the annex specified in the Agreement.</p> <p>The Lender undertakes to inform the Guarantor of any change in the internal lending policy (after the initial due diligence evaluation) that affects the procedures of assessment/decision/monitoring of loans included in the guaranteed portfolios.</p>
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Publicity	<p>The Lender is committed through press releases, promotional materials and public information campaigns, information on its website and other alternative means of communication relating to the Agreement, to support the Guarantor and to promote the availability of funding through the Guarantee Scheme.</p> <p>The Lender is obliged to advertise a minimum 2 case studies of Beneficiaries who have benefited from a loan granted with the support of the Guarantee Scheme.</p>
Notifications	<p>Any notification submitted by a Party to the other Party shall have legal effect only if it is drawn up in written or electronic form and transmitted in accordance with the provisions of the Agreement.</p>
Monitoring and Audit	<p>The Guarantor monitors remotely, as well as on-site, the fulfillment of the Lender's commitments according to the Agreement.</p> <p>The Lender shall allow the Guarantor's employees and other authorized persons access to its headquarters or branches, in order to verify the records and documents related to the loans included in the Portfolio. For the purpose of the on-site visit for loan monitoring, the Guarantor shall notify the Lender in writing 5 days before the visit, inclusively by sending a list of the loans to be examined and the persons designated to carry out the on-site monitoring</p>
Technical Assistance	<p>During the inclusion period CGF will provide free of charge technical assistance and trainings to Lenders experts involved in the implementation of the Guarantee Agreement.</p>
Transfer of rights	<p>The Lender has no right to transfer to third parties the rights or obligations under the Agreement, except for the express consent of the Guarantor, expressed in writing.</p>
Lender's Commitment	<p>The lender undertakes to carry out the loan management activities included in the portfolio, according to the provisions of the Guarantee Agreement, the IBRD Loan Agreement and the CGF Operations Manual, including through the following activities:</p> <ul style="list-style-type: none"> - permanently comply with its internal rules and procedures regarding the granting of loans and the assessment of credit risks, that take into account at least the assessment criteria specified in the Agreement; - comply with the regulations of the legislation and the lending procedures issued by the National Bank of Moldova; - comply with the requirements of the World Bank's Environmental and Social Standard 9 (ESS9) for Financial Intermediaries and the Environmental and Social Management Arrangements, as well as Lender's own ESMS and ODA's ESMS regarding the E&S aspects of the Project; - ensuring the preservation and integrity of documents related to loan transactions in accordance with the internal rules and procedures throughout the term of the Agreement and for 10 years following the date of termination of the Agreement; - monitor the proper use of the loan resources by the Beneficiaries and submit, at the Guarantor's request, the supporting documents;

Annex to the Loan Portfolio Guarantee Scheme

Mister _____

Director of Public Institution

„Organization for Entrepreneurship Development”

APPLICATION FORM

for the Loan Portfolio Guarantee Scheme

Hereby, B.C. „_____” S.A., IDNO code _____, with
legal address

at _____

represented by _____

(Surname, first name of the head of the executive board of the bank)

(name of the position according to the Statute)

E-mail: _____ Phone: _____

in response to the open call for applications for the Loan Portfolio Guarantee Scheme, in the context of the implementation of component 2 „Access to Finance”, related to the micro, small and medium-sized enterprises Competitiveness Project, carried out with the support of the World Bank, we express our interest in participation and request the examination of the application, for admission as an eligible Lender, with the allocation of the following values for the loan portfolios:

1. Capped Secured Portfolio - million MDL;
2. Uncapped Secured Portfolio - million MDL;
3. Capped Unsecured Portfolio - million MDL;
4. Uncapped Unsecured Portfolio - million MDL.

We have been informed about the eligibility criteria for participating in the Loan Portfolio Guarantee Scheme, in accordance with Government Decision no. 709 of 19.10.2022 for the approval of the "Regulation on the organization, functioning and use of the Guarantee Fund for small and medium-sized enterprises", the Operations Manual regarding portfolio guarantees, approved by the ODA Council, Protocol no. 4 of 13.06.2023, as well as the standards of the World Bank's Environmental and Social Framework, which are to be reflected in the bank's environmental and social management system.

I declare, on behalf of the bank, under my own responsibility, the following:

1. The bank is not in the process of liquidation and is not subject to the resolution procedure, as well as it is not subject to measures related to the prohibition of granting loans, imposed by the supervisory authority.
2. The bank undertakes the annual external audits of the financial statements, the most recent audit being carried out by _____ for the period _____.
3. The bank undertakes to present at the request of the P.I. ODA, the additional information needed for the eligibility analysis under the Competitiveness Project, and will allow employees of P.I. ODA and the World Bank designated for this purpose, to verify the banking procedures and the necessary documents within the due-diligence procedure.

Signature _____

Date _____

Annex 1 to the application form

General information about B.C. „_____” S.A. :

1. Bank description (short history):

2. Description of SME service points (branch network, electronic channels) and SME lending capabilities (number of SME experts, SME departments)

3. Banking products granted to the SME sector, a brief description and their conditions:

4. Description of key shareholders:

5. Summary of the bank's development strategy:

6. Key financial indicators:

Indicators	Year	Penultimate year	Last year	Last closed quarter of the current year
Total assets (thousand MDL)				
Total amount of risk exposure* (thousand MDL) (risk-weighted assets (RWA)) <i>*NBM Decision no. 109 of 24 May 2018 on approval of Regulation on own funds of banks and capital requirements</i>				
Tier 1 capital (thousand MDL)				
Tier 2 capital (thousand MDL)				
Total capital ratio (Capital Adequacy Ratio (CAR) = (tier 1 capital + tier 2 capital)/total amount of risk exposure)				
Total equity (thousand MDL)				
Total liabilities (thousand MDL)				
Total attracted deposits (thousand MDL)				

Additional capital raised (thousand MDL) – in case it was raised during the reference period			
Return on assets (ROA)			
Return on equity (ROE)			
Long-term liquidity ratio			
Liquidity on maturity bands (over 12 months) (Principle III of liquidity)			
The value of the provisions formed for the total loan portfolio (thousand MDL)			
Interest income			
Interest expense			
Total income recorded			
Total expenses recorded			
Net profit			
Provisions formed for credit risk (impairments) according to IFRS			
Provisions formed for loans from Step 1 (thousand MDL)			
Provisions formed for loans from Step 2 (mii MDL)			
Provisions formed for loans from Step 2 (mii MDL)			
Currency risk			
Currency risk exposure (overall position) (thousand MDL)			
Currency risk exposure (individual position): (thousand MDL)			
EURO			
USD			
Currency risk exposure (overnight exposure – by case) (thousand MDL)			
Loan Portfolio Structure			
Total Loan Portfolio			
Balance of the total loan portfolio (thousand MDL)			
Total Loan Portfolio (as number of loans)			
Portfolio at risk ¹ > 90 days (%)			

¹ Refers to loans with overdue payments for more than 90 days (non-performing). (PaR90)

Loan Portfolio granted to SME sector ² (by total balance)			
Balance of the total loan portfolio granted to the SME sector (thousand MDL)			
Total loan portfolio granted to the SME sector (as number of active loans)			
Balance of the guaranteed loan portfolio ³ , granted to the SME sector (thousands of MDL)			
Guaranteed loan portfolio granted to the SME sector (as number of active loans)			
Portfolio at risk of loans granted to SME sector > 90 days (%)			
Loan portfolio granted to big companies (total balance)			
Balance of the total loan portfolio granted to big companies (thousand MDL)			
Total loan portfolio granted to big companies (as number of active loans)			
Balance of the guaranteed loan portfolio ⁴ , granted to big companies (thousands of MDL)			
Guaranteed loan portfolio granted to big companies (as number of active loans)			
Portfolio at risk of loans granted to big companies > 90 days (%)			
<i>Consumer loans</i>			
The loans value granted during the management period (thousands of MDL)			
Number of loans granted during the management period			
Balance of the total loan portfolio at the end of the management period (thousands of MDL)			
The balance of non-performing loans at the end of the management period (thousands of MDL)			

² Classification of SMEs according to Law 179/2016 regarding small and medium-sized enterprises

³ Loan portfolio guaranteed with any loan guarantee scheme (national or international scheme).

⁴ Loan portfolio guaranteed with any loan guarantee scheme (national or international scheme).

The balance of non-performing loans for loans granted in the last 2 years (thousands of MDL)			
The balance of provisions formed for consumer loans at the end of the (thousands of MDL) management period (thousands of MDL)			
The value of total recoveries ⁵ during the management period (thousands of MDL)			
<i>Mortgage loans</i>			
The loans value granted during the management period (thousands of MDL)			
Number of loans granted during the management period			
Balance of the total loan portfolio at the end of the management period (thousands of MDL)			
The balance of non-performing loans at the end of the management period (thousands of MDL)			
The balance of non-performing loans for loans granted in the last 2 years (thousands of MDL)			
The balance of provisions formed for mortgage loans at the end of the management period (thousands of MDL)			
The value of total recoveries during the management period (thousands of MDL)			
New loans granted to big companies during the management period			
The loans value granted during the management period (thousands of MDL)			
Number of loans granted during the management period			
Balance of the total loan portfolio at the end of the management period (thousands of MDL)			
The balance of non-performing loans at the end of the management period (thousands of MDL)			

⁵ Total recoveries refer to the amounts collected in the reference period from the execution of the pledge or voluntary payments for non-performing loans.

The balance of non-performing loans for loans granted in the last 2 years (thousands of MDL)			
The balance of provisions formed for loans granted to big companies at the end of the management period (thousands of MDL)			
The value of total recoveries during the management period (thousands of MDL)			
New loans granted to the SMEs sector during the management period			
The loans value granted during the management period (thousands of MDL)			
Number of loans granted during the management period			
Balance of the total loan portfolio at the end of the management period (thousands of MDL)			
The balance of non-performing loans at the end of the management period (thousands of MDL)			
The balance of non-performing loans for loans granted in the last 2 years (thousands of MDL)			
The balance of provisions formed for loans granted to SME sector at the end of the management period (thousands of MDL)			
The value of total recoveries during the management period (thousands of MDL)			
The value of new loans granted to the SME sector during the management period, by economic sector (<i>thousand MDL</i>)			
Loans granted to agriculture			
Loans granted to food industry			
Loans granted to constructions			
Loans granted to energy industry			
Loans granted to productive industry			
Loans granted to trading			
Loans granted for transport, telecommunications, and network development			
Loans granted to services sector			
The value of new loans granted to big companies during the management period, by economic sector (<i>thousand MDL</i>)			

Loans granted to agriculture			
Loans granted to food industry			
Loans granted to constructions			
Loans granted to energy industry			
Loans granted to productive industry			
Loans granted to trading			
Loans granted for transport, telecommunications, and network development			
Loans granted to services sector			

7. Principles of operation withing the bank for the SME segment:

7.1. The classification of SMEs within the bank's internal policy, the internal segmentation of SMEs (if any) and the list of credit products intended for the SME sector:

7.2. Description of risk assessment procedures (internal assessment / scoring system):

7.3. Description of pledge requirement and pledge evaluation methodology:

7.4. Procedures for approving loans granted to SMEs (at branch/ Central Office, visits to the territory, etc.) and pricing policy:

7.5. Monitoring and recovery procedures (what steps are taken and when, which departments are involved):

7.6. Description of social and environmental policies regarding loans granted to SMEs:

7.7. Description of the quality of the portfolio on the last day of the month before the submission of the application (non-performing loans - delay in payment of installments for more than 90 days) for new loans granted to SMEs in the last 24 months (% balance of non-performing loans/ balance of SME portfolio granted in the last 24 months), with a brief description of the causes that led to the SMEs' inability to pay the installments during this period:

7.8. Description of concentrations in the loan portfolio by region (according to the number of loans granted at the level of administrative districts: Chisinau municipality, Balti municipality, etc.):

4. Loans granted to the SME sector, during the management period

	Penultimate year	Last year	Last closed quarter of the current year
The value of the portfolio of new loans granted to the SME sector			
Secured loans ⁶			
Unsecured loans ⁷			
Loans secured only with current assets			
The balance of the loan portfolio granted to the SME sector			
Secured loans			
Unsecured loans			
Loans secured only with current assets			
The balance of total loans granted to the SME sector, by economic sectors (<i>thousand MDL</i>), at the end of the management period			
Loans granted to agriculture			
Loans granted to food industry			
Loans granted to constructions			
Loans granted to energy industry			
Loans granted to productive industry			
Loans granted to trading			

⁶ Secured with a coverage rate of at least 100% of the loan, with real guarantees (real estate, fixed assets and current assets (raw material, finished products or merchandise), with the exception of accounts receivable or other patrimonial rights);

⁷ Secured only with personal guarantees.

Loans granted for transport, telecommunications, and network development			
Loans granted to services sector			
The balance of total loans granted to the SME sector (<i>thousand MDL</i>), at the end of the management period			
Female owned/female-managed companies			
Exporting companies or oriented for export			
Balance of non-performing loans			
Secured loans			
Unsecured loans			
Loans secured only with current assets			
The balance of new loans granted to the SME sector in the reference period, which became non-performing in the same reference period			

Annex 2 to the application form

Information on loans to be included in

Loan Portfolios guaranteed by CGF

I Portfolio: Select one of the requested portfolios to be guaranteed: Capped Secured Portfolio, Uncapped Secured Portfolio, Capped Unsecured Portfolio, Uncapped Unsecured Portfolio.

1. Portfolio objectives – priority segments

Description of the selected portfolio - standard conditions of the included loans (maximum loan amount, interest, commissions, collateral requirements)

2. For informational purpose: The implementation strategy of the requested portfolio values (how the FGC portfolio guarantee will be used to improve SMEs' access to finance, including but not limited to lowering collateral requirements, lowering the interest rate or commissions, the substantial increase in the volume of credits granted for the SME sector).

3. Quarterly implementation plan (The total value of the loans included in the requested portfolio)

Year	1 st Year				2 nd Year			
Period	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Objectives for the inclusion of new loans (thousand MDL)								
Number of beneficiaries SMEs								

List of supporting documents and required information

for the due diligence analysis according to the requirements of the CGF Operations Manual:

1. Copy of the activity license.
2. Copy of the organizational chart of the bank.
3. List of directors and authorized representatives.
4. Copy of the annual reports for the last two available years (or link to the report), as well as the last closed management quarter.
5. Copy of the audit report for the last management year;
6. Summary of the lending procedures and the loan approval procedures, including:
 - ✓ summarizing the role of the Supervisory Board in establishing credit risk management policy and its role in approving credit committees and competence limits;
 - ✓ confirming that the bank's credit risk management structure is in compliance with regulatory requirements;
 - ✓ description of the bank's credit committees and their approval limits;
 - ✓ description of the relationship between the credit committees and the credit risk assessment department;
 - ✓ description of the organizational structure of the credit department, including the number of specialists, the qualifications and experience of the staff within the department;
 - ✓ description of the evaluation of loan applications (online, visits to the place of activity, scoring assignment, checking credit histories, etc.).
7. Summary of risk assessment procedures, including:
 - ✓ Risk management requirements imposed by the main shareholder;
 - ✓ Description of the decision-making independence of the risk department in performing the risk management functions;
 - ✓ Description of the organizational structure of the risk management department, including the number of specialists, the qualifications and experience of the department's staff, as well as the average number of loans examined during the last year by the risk management department;
 - ✓ Confirmation that the bank has an Assets and Liabilities Committee (ALCO) or equivalent;
 - ✓ Describe the role of the Supervisory Board (SB) in approving the financial risk limits and the need for reporting from ALCO to the SB, regarding these types of risks. If applicable, describe the role of the bank's parent in management of financial risks;
 - ✓ Summary of compliance with regulatory requirements regarding liquidity and currency risks;
 - ✓ Describe any additional liquidity support/ support for managing foreign currency risks (hedging) available from the bank's parent.
8. Summary of the operational risk management, including:
 - ✓ Describe the role of the SB in monitoring and setting policies on operational risks, especially regarding the IT department, information and communication systems of the bank, as well as digital security.

9. Summary regarding the internal audit and control mechanisms, including:

- ✓ Describe the independence of these functions within the bank and the reporting relationship between the internal audit and SB;
- ✓ What is the number of specialists within the internal audit department and by whom is appointed the head of department;
- ✓ Describe the qualifications and experience of the staff in the internal audit department;
- ✓ By whom is performed the audit of the IT department and digital security compliance (internal or outsourced audit).

10. Describe the annual audit plan and the role of the SB in approving and monitoring the implementation of the plan, including the follow-up, to ensure compliance with internal audit recommendations.

11. Describe the composition of the Supervisory Board, including:

- ✓ The number of independent members, qualifications and experience in evaluating and monitoring the banking activity;
- ✓ The structure and composition of SB committees responsible for credit risk management, other risk management and internal audit;
- ✓ Confirmation that the bank's governance structures are in compliance with regulatory requirements.

12. Summary of the pledge evaluation procedure, including the periodicity of collateral integrity checks;

13. The summary of the bank's information and communication systems, as well as the description of the processes that are digitized, including credit evaluation, verification of debtors through the available registers, reporting and monitoring;

14. Confirmation regarding the lack of warnings from the NBM regarding the non-compliance with banking regulations. In case of the existence of regulatory warning from the NBM, describe the type and nature of the violation committed, the sanction applied and the time required for remediation.