

**FINANCIAL AGREEMENT
BETWEEN**

THE UNITED NATIONS OFFICE FOR PROJECT SERVICES (UNOPS)

**THE CONTINENTAL BANKA a.d.
And**

ALMA MONS

**FOR
THE CREATION OF A GUARANTEE FUND
UNDER
THE UNDP CITY TO CITY PROGRAMME –YUG/01/R51/CC/31-**

This Agreement is made on the between:

The United Nations Office for Project Services (UNOPS henceforth), in its capacity as Implementing Agency for the City to City Programmed, represented by Mr. Antonio Luzi, City to City Programme CTA

The CONTINENTAL Banka a.d. (branch office Novi Sad, Serbia and Montenegro), in its capacity of Fund Manager represented by Mr Aleksandar Dejanovic – Deputy General Manager (Hereinafter referred to as the “BANK”).

Alma Mons, in capacity of Local Economic Development Agency of the South Backa District, represented by Mrs. Miroslawa Filipovic Director

All Parties in their legal capacity to contract have decided to subscribe to this Agreement, subject to the following considerations and clauses:

CONSIDERATIONS

I

UNOPS is a UN self-financing organization, which provides project management services for development and humanitarian projects under the United Nations system.

UNOPS, as implementing agency, in partnership with the Government of Serbia, through the Ministry of Labour and Social Affairs, and the Municipality of Novi Sad, and the City of Modena, as decentralized cooperation partner, have committed to promote local economic development in the South Backa District under the City-to-City Programme.

II

The City-to-City Programme is a UNDP Programme funded by the Government of Italy through the UNDP Trust Fund for Sustainable Development, Peace and Support to Countries in Special Situations, implemented by UNOPS, in cooperation with the Government of Serbia represented by the Ministry of Labour and Social Affairs acting as national counterpart.

The main objectives of the Programme are:

- To help re-establish normal conditions for economic growth and job creation, and to strengthen local managerial and delivery capacities in the social and economic sectors;
- To support the reconstruction process at the local level, through enhancement of decision-making capacities in a context of economic recovery;
- To support the efforts of governmental authorities in promoting decentralization policies by strengthening local economic and administrative capabilities and promoting local participation.

III

The local economic development component of the City-to-City Programme includes activities both at national level and at local level to support enterprise development and finance.

In order to implement this commitment, UNOPS has facilitated the establishment of a Local Economic Development Agency (LEDA) in Novi Sad (Alma Mons), with the objectives of promoting sustainable growth and employment generation in South Backa District.

IV

Under the general objective of the City-to-City Programme, Alma Mons' specific objectives are to:

- Create an enabling local business environment;
- Promote economic and entrepreneurial development;
- Facilitate access to finance and credit;
- Support capacity building and training;
- Support the vulnerable groups in self-employment,
- Contribute to the integration of the South Backa district into domestic and international markets through decentralized cooperation.

Through:

- Access to financial services
- Capacity building and training
- Technical assistance to SMEs, potential entrepreneurs and vulnerable persons and local institutions of the public and private sectors
- Information and research

- Implementation of Local Economic Development projects ,and
- Market linkages and business development.

Alma Mons has taken concrete steps to achieve the above-mentioned objectives by initiating a fruitful collaboration with the Italian City of Modena and by identifying suitable local banks interested in participating in a Guarantee Fund scheme that should be applied in Novi Sad.

V

The BANK is duly licensed for credit activities in Serbia and Montenegro and has adequate experience in dealing with small-scale credit operations. It is interested in extending permanently its own portfolio in a secure way, in order to attend small and medium entrepreneurs in the South Backa district who normally have no access to the financial system, but who present economically and financially feasible and sustainable business plans.

The BANK has shown a sound track record in providing financial services to micro-small and medium enterprises in Novi Sad. With this experience, the BANK is committed to managing the overall distribution of the funds to viable small and medium enterprise projects under the City to City Programme.

In addition, The BANK has expertise in managing funds of the magnitude provided by UNOPS and carries out business in the aforementioned Region.

VI

In May 2003 UNOPS presented a work plan with activities to be carried out during phase II of the City to City Programme, including *the design of a sustainable credit scheme for the provision of financial support to local entrepreneurs in the South Backa region* which was approved at the central level by the Government of Italy as Donor and by the Ministry of Labour and Social Affairs as national counterpart.

The Bank, UNOPS and Alma Mons will promote access to credit for start-ups, potential entrepreneurs, SMEs and vulnerable groups of the South Backa Region (henceforth the Clients) through the establishment of the Guarantee Fund (GF), and participation with other members in a Guarantee Fund Review Committee (henceforth to be referred as the Review Committee) deciding on the use of the funds deposited in the GF and supervising the overall financial scheme.

In consideration of the above, the Parties have agreed on the following:

CLAUSES

1. PURPOSE OF THE AGREEMENT

- 1.1 The purpose of this Agreement is to establish a guarantee mechanism in support of loans to small, and medium enterprises (SMEs), identified by Alma Mons, in order to provide them with access to the local banking system to finance local development projects on a sustainable basis (Annex I).
- 1.2 The loans granted by the BANK under the Program will be secured by a Guarantee Fund established under the present Agreement. This mechanism will be implemented according to the conditions given in the following clauses and in its Operational Rules (Annex II).

2. FINANCIAL RESOURCES

- 2.1 The financial resources of the GF under the Program are constituted by deposits representing financial commitments. The funds shall be transferred by UNOPS on a special Non resident account opened with the Bank called the "City to City Guarantee Fund", which will be managed by the BANK (Contract on Opening and Managing a Non-Residential Account attached as Annex III).
- 2.2 Upon signature of the present Agreement, UNOPS shall make an initial deposit representing a total amount of US\$ 500,000.00 (Five Hundred Thousand United States Dollars)
- 2.3 Additional resources may be deposited under this Agreement either by UNOPS directly or by new donors/institutions, under separate sub accounts; which shall be recorded as an amendment to the present Agreement in accordance with article 14 below .
- 2.4. After deposit of the funds in the Guarantee Fund, the BANK shall issue Loans to the Clients from its own resources, as stated in the present agreement.

3. GUARANTEES

- 3.1 UNOPS shall deposit its contributions in a Guarantee Fund to be used as collateral to guarantee the Loans issued by the BANK for the purpose of financing enterprise development projects identified and presented by the ALMA MONS to the Bank and UNOPS.
- 3.2 The Guarantee Fund will be used to secure credit operations of the BANK to Clients indicated by Alma Mons, according to the article 7.1. When the Client is unable to provide sufficient collateral, a suitable guarantee should be obtained to back up the Loan in a proportion as defined in Annex II.
- 3.3 The BANK agrees that this Guarantee Fund shall serve to cover the risk of default that can be expected from a credit portfolio and is willing to promote

- credit operations for an amount that is superior to the Guarantee Fund itself.
- 3.4 During the first twelve (12) months period of this Agreement, the Parties agree to apply a ratio of two (2) by one (1) between the credit and the guarantee fund. After this period, and within 24 months from the signature, based upon performance of the credit delivery, the Parties agree about the eventual increase of the above ratio.

4. INVESTMENT OF THE GUARANTEE FUND

- 4.1 The BANK proposes to UNOPS the optimal type of investments by which to maximize returns on these funds.
- 4.2 Upon authorization of UNOPS, the Bank manages the GF for and on its behalf.
- 4.3 Interests and other incomes generated by the GF shall be deposited at the BANK in a special savings account, whose use will be decided by UNOPS and indicated to the Bank. The GF shall yield an interest at current market rate as shown in, Annex II, Operational Rules

5. LOAN MECHANISM

- 5.1 The business plans will be submitted by Alma Mons to the Bank, that will evaluate them according to its internal credit procedures. Alma Mons will also inform UNOPS about its business plans submissions to the Bank.
- 5.2 The Bank will submit to UNOPS its decision regarding the concession of the credit in a written way, and inform it about the motivations for the eventual rejection of the business plans. The Bank will also inform Alma Mons about its decisions.
- 5.3 UNOPS will authorize the Bank to release the credit.
- 5.4 The Bank will release and recover the credit according to its internal rules and inform UNOPS and Alma Mons about the results of the procedures.

6. LOAN CONDITIONS

- 6.1 The conditions in terms of amounts (from Euro 5,000 to Euro 50.000 per enterprise / loan), interest rates and guarantees shall be applied by the BANK, according to what established in annex 2. The extent of the risk and the size of the loans will be the determinant factors for the requirement of security .
- 6.2 Conditions on reimbursement and grace period shall be those established by the BANK regulations, with the monetary standards established by the Central Bank in accordance with the operational guidelines.
- 6.3 The Clients are to use the loans as specified in their loan applications and shall make repayments to the BANK on due date, and according to the terms

and conditions of the individual loan agreements between the BANK and the Client .

7. LOAN GUARANTEE AND RECOVERY

- 7.1 Each loan financed by the BANK, and approved by UNOPS, shall be covered by deposits from the Guarantee Fund up to a maximum of 80 % of the amount of each individual loan with an average of 50% depending on the category of Client (Annex II). The balance shall be covered from other sources, in accordance with the type of collateral offered by the client as per regulations set by the BANK.
- 7.2 In case of a default loan, the Bank will inform UNOPS and initiate the normal procedures for the loan recovery based on the Rules and Procedures set by the Central Bank and national legislation.
- 7.3 If a loan falls overdue as doubtful loan, during the grace period the BANK shall initiate the normal procedure for the execution of the client's collateral to obtain reimbursement of the loan from the Client.
- 7.4 If after the grace period and exhaustion of all legal remedies the loan has not been reimbursed, the BANK shall send a notification indicating loan references and exact amount due to UNOPS, who shall immediately authorize the BANK to activate the GF in order to obtain reimbursement from the GF.
- 7.5 The BANK shall take the decision for the provisioning following the Central Bank regulations and shall keep UNOPS informed of progress made during the whole collection process.

8. PROJECTS ELIGIBLE FOR LOANS

- 8.1 Projects seeking funds should be financially and economically viable and should conform to the typology of eligible clients as indicated by Alma Mons and to the definition of small and medium enterprises as defined in the national law (Annex I).
- 8.2 Business proposals will be considered provided they comply with the basic following criteria:
- Geographical Coverage: the South Backa District, i.e. clients which are headquartered or have permanent/temporary residence within the Region of South Backa (Autonomous Province of Vojvodina, Republic of Serbia, Serbia and Montenegro);
 - Sector of Activity : all economic sectors excluding trade, real-estate business and certain subsectors of tourism (restaurants and bars).

9. RESTRICTIONS ON USE OF CREDIT

Only credit applications with the following Loan purposes will be taken into consideration:

- Category A Purchasing fixed assets: machinery, equipment, parts of machinery and equipment, tools (up to 25% of the loan for working capital);
- Category B Purchasing fixed assets: machinery, equipment, parts of machinery and equipment, tools – for current and future exporters (up to 25% of the loan for working capital);
- Category C Technological improvements projects, leading to compliance with international standards, EUR norms, industry and corporate standards (up to 25% of the loan for working capital);
- Category D Agricultural projects: purchasing fixed assets, as described (up to 25% of the loan for working capital);
- Category D1 Agricultural projects: purchasing fixed assets for intensive production and/or irrigation systems vegetable
- Category E Vulnerable persons' start-up projects – purchasing; equipment and tools (up to 50% of the loan for working capital) for the establishment of a shop;
- Category E1 Vulnerable persons' projects – purchasing equipment and tools (up to 50% of the loan for working capital) for supporting economic activities.

10. ELIGIBLE CLIENTS

10.1 Eligible clients of the BANK are:

- a) small and medium enterprises;
- b) Start-ups and potential entrepreneurs;
- c) Individual agricultural producers; and
- d) Vulnerable groups, as defined in Annex I

10.2 Other cumulative conditions:

- a) submission of economically and financially feasible business plans, prepared with and cleared by ALMA MONS ;
- b) locally registered firms, with legal capacity to contract;
- c) lack collateral for normal access to credit resources; and
- d) compliance with the other requirements as spelt out in the Operational Rules of this Agreement under Annex II.
- e) only projects with complete documentation as described in the present agreement will be taken into consideration.

11. NON FINANCIAL SERVICES

11.1 Non financial services will be provided by Alma Mons under regulations defined by a specific agreement with UNOPS.

11.2 These services will regard technical assistance in reviewing and evaluating

business ideas and assisting the most vulnerable eligible candidates in the preparation of a business plan and submission of a loan application. During the evaluation process, eligible projects will be selected for application according to specific financial, technical, social and environmental criteria agreed upon with UNOPS.

- 11.3 More generally ALMA MONS shall inform the beneficiaries in cooperation with UNOPS and the BANK, about the criteria, rules and regulations of the Guarantee Fund mechanism, on how to access the loans in order to ensure the best possible use of the financial resources.

12. GUARANTEE FUND REVIEW COMMITTEE

- 12.1 The Parties to this Agreement shall constitute a Review Committee at local level with the participation of the representatives of UNOPS, Bank, Alma Mons, Donors and other Funding Institutions, Private Sector of the District. The Review Committee will be coordinated by UNOPS.

- 12.2 The Committee will meet at least every three months, with the following tasks:

- 1) Analyse the performance of the loans released under the agreement Bank-Unops-Alma Mons, through internal exchange of information, and consultations with the clients.
- 2) Formulate recommendations for the future optimal functioning of the credit scheme.
- 3) Analyse the performance of the Guarantee Fund Deposit and provide advice.
- 4) Provide suggestions about eventual modification of the agreement.
- 5) Approve new representatives in the Committee, under proposal of the members.
- 6) Provide advice about the possible relationships between the Guarantee Fund established through the agreement and other financial instruments aimed at sustaining Smme's in the district.

13. OBLIGATIONS OF THE PARTIES

- 13.1 UNOPS shall:

- a) Deposit the funds with the BANK as provided under article 2 of this Agreement;
- b) Authorize the Bank for releasing the credit, according to the procedures illustrated in article 5;
- c) Ensure the training of its staff and that of the Alma Mons on the methodology used for selection and evaluation of business proposals;
- d) When necessary, provide assistance and advice on particular aspects of

the implementation of this Agreement, primarily related to:

- Defining guidelines for the classification of vulnerable persons;
 - Participation in defining procedures for extending loans to vulnerable persons, as described in Article 5, including the assessment of their creditworthiness, evaluation of their business plans and other lending parameters;
- e) Prepare with the assistance of Alma Mons and submit to the Review Committee every three (3) months an evaluation report on the progress and impact of the enterprise development finance components of the City to City Programme with regard to the GF scheme;
 - f) Participate to the Guarantee Fund Review Committee with the BANK, ALMA MONS, and other members (see article 10);
 - g) Assign a representative responsible for the follow-up of the City to City Programme and for any information UNOPS has to submit to the Review Committee;
 - h) Approve the proposals of the Bank concerning the management of the Guarantee Fund deposit

13.2 The BANK shall:

- a) Propose the investment options of the Guarantee Fund to UNOPS
- b) Place Funds in an interest bearing account (in Euro, US\$ and Dinar as applicable) and open a savings account for the interests;
- c) Manage the GF with due care, and ensure overall management and accountability for the use of all the Financial resources ;
- d) Use the Funds deposited in the Guarantee Fund solely for the purpose of providing collateral for Loans issued to Clients, considering that the Program should strictly benefit Eligible Clients as described above;
- e) Process applications of eligible candidates identified by ALMA MONS and review financial credit worthiness following its own mechanisms of loan approval and credit committee ;
- f) Issue loans to clients approved by the UNOPS
- g) Recover the credit according to its internal procedures, as stated by article 13.
- h) Participate in the Guarantee Fund Review Committee
- i) Inform the Guarantee Fund Review Committee about any misuse, deviation or problems concerning the loans;
- j) Maintain clear, accurate and complete records in respect of all the Deposits received under this Agreement, and submit to UNOPS a monthly financial report on the status of the GF and a report on the performance of the Loans disbursed with the rate of reimbursement;
- k) Facilitate the inspection of accounts, at any time, of the Fund by any person/organization authorized by the Committee;
- j) Conduct an external audit on the use of the funds annually, as part of its normal function or upon request of UNOPS; and send a copy to the members of Committee for comments as necessary;
- j) Assign a representative responsible for the follow-up and for any information the BANK has to submit to the Guarantee Fund Review

Committee as stated in this agreement and its corresponding Operational Rules.

The BANK shall be solely liable for claims by third parties arising from the Bank's acts or omissions in the course of performing this Agreement and under no circumstances shall UNOPS be held liable for such claims by third Parties.

13.3 Alma Mons shall, under the regulations established by a specific agreement with Unops:

- (1) Provide the non-financial services as described in art. 11.
- (2) Provide evaluation reports to the GFRC.
- (3) Advise UNOPS about the financial use of the Guarantee Fund deposit.
- (4) Sensitise and support the vulnerable group for using the credit scheme as approved with this agreement.
- (5) Identify and select the eligible clients
- (6) Participate to the GFRC

14. DURATION OF AGREEMENT

14.1 This Agreement will come into effect immediately upon signature by the Parties for a period of thirty six (36) months renewable, and shall expire with the closing of the Programme, unless the parties decide otherwise.

14.2 If the parties decide to extend the Agreement and the GF after the closing of the Programme, UNOPS may be substituted by ALMA MONS that guarantees a sustainable follow-up to the financial and technical assistance towards the target population chosen under this Agreement as Eligible Clients. UNOPS and other donors will decide on the ownership of the deposits in the Guarantee Fund, considering Alma Mons as priority. UNOPS decision will be anyway subject to the approval of the Tripartite Review Meeting (Government of Serbia, Government of Italy and UNOPS).

15. AMENDMENTS

15.1 This Agreement and the Annexes attached hereto shall form the entire Agreement between the Parties, superseding the contents of any other negotiations and/or agreements, whether oral or in writing, pertaining to the subject of this Agreement.

15.2 No modification or change in this Agreement, waiver of any of its provisions or additional contractual provisions shall be valid or enforceable unless previously approved in writing by the parties to this Agreement or their duly authorized representatives in the form of an amendment to this Agreement duly signed by the parties hereto.

16. TERMINATION

16.1 This Agreement may be terminated by any of the Parties, before the completion date by giving sixty (60) days written notice to the other Parties.

17. DISTRIBUTION OF FUNDS

17.1 Upon expiry or termination of this Agreement, or its rescission, the BANK commits itself to return to UNOPS the balance of the deposits in money and values, which were deposited by UNOPS along with the interest generated, deducting the amounts charged for default payments, upon justification by the BANK.

17.2 Deposits in the Guarantee Fund that are still tied to guarantee outstanding Loans will be temporarily withheld by the BANK until such Loans are fully reimbursed by the Clients.

17.3 The Bank will progressively release these funds from the Guarantee Fund and transfer them to UNOPS bank account, except for the amounts charged for default payments, if any.

18. SETTLEMENT OF DISPUTES

18.1 Any controversy or claim arising out of, or in accordance with, this Agreement or any breach thereof, as well as any claims on amount and mode of recuperation of the contribution made by UNOPS, including interests, shall unless it is settled by direct negotiation, be settled in accordance with the UNCITRAL Arbitration Rules as at present in force.

18.2 Where, in the course of such direct negotiation referred to above, the Parties wish to seek an amicable settlement of such dispute, controversy or claim by conciliation, the conciliation shall take place in accordance with the UNCITRAL Conciliation Rules as at present in force.

18.3 The Parties shall be bound by any arbitration award rendered as a result of such arbitration as the final adjudication of any such controversy or claim.

19. PRIVILEGES AND IMMUNITIES

19.1 Nothing in this Agreement or relating thereto shall be interpreted as constituting a waiver of the privileges or immunities of the United Nations, UNDP or UNOPS.

IN WITNESS WHEREOF, the undersigned, duly appointed representatives of UNOPS, the BANK and Alma Mons, respectively, have signed the present Agreement on the dates indicated below their respective signatures.

On behalf of the BANK:

On behalf of UNOPS:

On behalf of ALMA MONS:

Signed in Novi Sad on the

ANNEXES

- I. Definitions of Clients
- II. Operational Rules
- III. Non residential bank account (Bank form)
- IV. UNCITRAL Rules.