Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 02-Aug-2016 | Report No: ISDSC18098

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Pakistan	P159428		Pakistan Financial Inclusion and Infrastructure Project (P159428)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
SOUTH ASIA	Oct 18, 2016	Feb 23, 2017	Finance & Markets
Lending Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Economic Affairs Division, Government of Pakistan	Development Finance Group, State Bank of Pakistan,Pakistan Poverty Alleviation Fund	

Financing (in USD Million)

Financing Source	Amount
International Bank for Reconstruction and Development	80.00
International Development Association (IDA)	50.00
Total Project Cost	**130.00**

Environmental Assessment Category	Concept Review Decision
F-Financial Intermediary Assessment	Track II-The review did authorize the preparation to continue

Have the Safeguards oversight and clearance functions been transferred to the Practice Manager? (Will not be disclosed)

No

Other Decision (as needed)

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B. Introduction and Context

Country Context

1. Pakistan's economy posted GDP growth of 4.2 percent in FY2014/15 compared to 4 percent in the previous year. A mild growth recovery is underway and external account pressures have subsided. On the demand side, investment and government consumption posted strong growth. Private consumption was supported by record high remittances in the order of USD 18.7 billion in FY2014/15. The share of investment in GDP remains relatively small, at 15.1 percent of GDP in FY2014/15 (about half of the South Asian average at 30 percent), down from 19.2 percent of

GDP in FY2007/08. More worryingly, private investment as a share of GDP has been declining and stood at 9.7 percent of GDP in FY2014/15 compared to 12.9 percent of GDP in FY2007/08. The outlook for FY16 to FY19 anticipates a moderately higher economic growth driven by investment and productivity gains in services and manufacturing. These sectors should benefit from the structural reform agenda leading to decreased electricity load-shedding and improvements in the business climate. In the near term, investments under the China Pakistan Economic Corridor (CPEC) and low international oil prices would also support growth. Increasing reserves continue to contribute to stability in foreign exchange markets, which contributed to low inflation. The Pakistan Rupee (PKR) remained largely stable with a small depreciation of about 3 percent against the US Dollar during FY2014/15.

2. Modest growth will, however, not be sufficient to create jobs for the large number of youth joining the workforce every year and make a significant contribution to poverty reduction. To further revive economic growth, it is critical that the Government addresses structural challenges like poor electricity availability, narrow fiscal space and also inadequate access to credit (Pakistan Economic Update, 2016).

3. On the political front, Pakistan successfully completed its first transition of power between democratically elected civilian governments in the country's 66 year history. Pakistan Muslim League-Nawaz (PML-N) has emerged as the leading political party with a simple majority in the lower house of the parliament.

Sectoral and Institutional Context

4. In the last 25 years, Pakistan financial sector went from being dominated by underperforming state-owned banks to a modern and sound financial sector dominated by private banks. The banking sector, consisting of 36 commercial banks and 10 microfinance banks, accounts for about 74.7 percent of total assets in the entire financial sector, while the remaining is held by 45 nonbank finance corporations (NBFCs), including insurance companies, stock exchanges, pension funds and development banks. The microfinance sector is still relatively small, holding about 0.5 percent of the total financial sector assets, although it has considerable significance from the lens of financial access. The financial soundness indicators indicate that the banking sector remains profitable with the return on asset ratio and the return on equity ratio, respectively, at 1.5 percent and 15.6 percent for 2015. System wide liquidity also has been improving as shown by the increase in the liquid assets to deposit ratio to 73.3 percent in December 2015, up from 64.5 percent in December 2014. Banks are also well capitalized with an overall capital adequacy ratio of 17 percent, well above the minimum regulatory requirement of 10 percent. A notable feature of the Pakistani banking sector is the relative importance of Islamic banks. Currently, there are six full-service Islamic banks, while 14 conventional banks have Islamic finance windows.

5. Pakistan has also been championing reforms for financial inclusion for over a decade with significant milestones achieved, including on the regulatory framework, credit information, payment and settlement systems and financial literacy. Pakistan's efforts have been recognized internationally. In 2011 and 2012 its microfinance regulations were ranked best in the world by the Global Microscope report anchored by a strong and separate legal framework for microfinance banks (MFBs) and branchless banking regulations that significantly increased the number of financial transactions. Pakistan was also ranked recently in the top ten internationally for its enabling environment for financial inclusion, in particular with the rapid growth of mobile transactions supported by conducive regulation. (Global Microscope 2014).

6. The microfinance sector and branchless banking landscape has indeed grown rapidly, led by the Pakistan Poverty Alleviation Fund (PPAF) and SBP. With 10 regulated Microfinance Banks (MFBs) and 38 unregulated microfinance institutions (MFIs), which are members of the Pakistan Microfinance Network (PMN), the sector registered a 10.9 percent increase in active borrowers, 28.2 percent growth in gross loan portfolio (PKR 92 billion

(USD 920 million) in December 2015), 42.5 percent increase in savers and 25 percent in value of savings in 2014. Portfolio at Risk (>30 days) remains low at 1.7 percent (MicroWatch, Issue 35, Q1). Three main sectors are served: trade (29 percent of borrowers), agriculture (23 percent), and livestock/poultry (16 percent) with a geographic concentration between Punjab and Sindh province.

7. Pakistan has also been leading the way in South Asia in digital finance and branchless banking. A proactive regulator (SBP) and widespread computerized national identity cards (NADRA) have contributed to significant growth in digital transaction accounts (DTA) in Pakistan. Banks and MFBs are involved in branchless banking, in partnership with mobile network operators (MNOs). As a result, Pakistan has the highest penetration of mobile accounts in South Asia at 5.8 percent of the adult population, compared to the South Asian average of 1.9 percent. Moreover, mobile accounts are showing promising signs of addressing the gender gap more effectively than traditional accounts with the gap between male and female mobile accounts (7.1 percent) being much narrower than the gap for overall accounts (16.1 percent).

8. The State Bank of Pakistan (SBP) and the Government of Pakistan (GoP) have also sponsored a number of guarantee facilities and subsidized lending schemes aimed at encouraging lending to the underserved.

9. Despite these initiatives and achievements, the level of financial access remains low. According to Word Bank Global Financial Inclusion Database (FINDEX), only 13 percent of adults have access to a formal account in 2014 and despite their potential, some market segments are significantly excluded from the formal financial sector.

i. There is a significant untapped market for microfinance, which is suffering from liquidity constraints. Despite significant growth since 2000, and its significance relative to credit outreach to low income customers by banks, the microfinance is only serving 3.1 million active borrowers. This is equivalent to only 11.5 percent of the potential market of 27 million borrowers (PMN, Microfinance Growth Strategy 2020). In order to fund future accelerated growth and reach up to 10 million active borrowers by 2020 with the prevailing growth in loan sizes and outreach, the industry would require additional debt for on-lending of up to PKR 300 billion (USD 3 billion). In addition, to continue to mobilize most of their needs through deposits, MFBs need to develop innovative savings products and use branchless banking solutions. Microfinance Providers (MFPs) would need to diversify their sources of funding and their corporate governance standards, internal controls and transparency also need to improve for them to grow and expand.

ii. Despite constituting about 25 percent of Pakistan's labor force, women are largely financially excluded. Only 4.8 percent women are included in the formal financial sector compared to the South Asian average of 37.4 percent according to the Global Findex (2014), loans to women account for less than 3 percent of the total bank loan volume and women represent less than 15 percent of the SME borrowers.

iii. Similarly, even though SMEs constitute 90 percent of all enterprises in Pakistan, credit provided to SMEs are at just 7 percent of total bank credit to the private sector, which represents only 14.7 percent of GDP in 2014 (according to SBP regulations, the parameters for definition of an SME include employment size up to 250, and annual sales up to PKR 400 million (USD 3.9 million), with a difference between small and medium and by sector. Nonetheless, revisions in the definition are under consideration). Only 188,305 SME loans are outstanding on banks' books, out of approximately 3.2 million SMEs in Pakistan (as of June 2015, banks were lending to a total of 152,495 SMEs, representing approximately 4.7 percent of the estimated total number of SMEs in the country). Banks have limited appetite to serve the SMEs sector for the risk it entails. The share of non-performing loans in total portfolio of SME lending reached 30.5 percent at the end of 2014, partly because of the challenging economic and business environment given the severe energy shortages and security concerns and partly reflecting the weak appraisal capacity to undertake such lending. Thus, despite thin margins in the overcrowded corporate banking market segment, instead of lending to SMEs, banks favor more attractive alternative investment options, such as the relatively high yielding low-risk government securities. Commercial banks hold about PKR. 6.1 trillion of government domestic debt as of December 2015 (about 43 percent of total assets) and investments in government securities constitute approximately 90 percent of total banking system investments (which has largely explained the robustness of the banking sector, Pakistan Economic Update, 2016). As a result, self-financing is prevalent in SMEs. It is estimated that SMEs use their own sources for approximately 89 percent of working capital and 75 percent of investment needs and these figures go up to 90 and 81 percent, respectively, for microenterprises (NFIS, Technical note, 2015). Studies estimated the untapped SME demand for credit at over PKR 277 billion (USD 2.7 billion) in 2009 compared with a total SME portfolio of PKR 265 billion (USD 2.6 billion).

iv. The risk-sharing facilities operated by SBP and GoP such as the Credit Guarantee Scheme (CGS) operating with some financing support from DFID's Financial Inclusion Program (FIP) and covering 40 percent of loans to fresh borrowers such as small and rural enterprises lacking traditional collateral, have not yet stimulated sustained growth and expansion of SMEs. As of December 2013, only 6,268 SME loans (out of a total of 188,305 outstanding SME loans) have been covered. CGS's additionality in bringing loans from fresh borrowers is also being questioned. Further, banks have noted that the main reason for not using the available coverage CGS is the "low-level" of risk-sharing and their own lack of expertise.

10. In addition, with the development of branchless banking, the access and usage of transaction accounts can be significantly enhanced by addressing several priority issues enabling the infrastructure and ecosystem for Digital Transaction Accounts (DTAs)'s growth and use in the next few years.

i. In Pakistan, Over-the-Counter (OTC) transactions dominate the landscape for branchless banking (80 per cent to 14 percent for wallet-based transactions), which implies high cost to customers per transaction and limited scope for further product development (NFIS, technical note, 2015). Access to digital transactional accounts linked to services that affordably and conveniently meet client needs is at the core of a modern inclusive financial services sector. The building blocks of digital transaction accounts are basic electronic payment services and stored electronic value functioning on communications networks in real time.

ii. There are also several key gaps in the National Payments System (NPS) which have an impact on the overall efficiency of the financial system and hamper financial inclusion initiatives, as well as broader financial sector development. These include some weaknesses in the legal framework, the payments infrastructure, fair and transparent access to settlement systems, integration of the innovative payment mechanisms and large payment flows like Government payments with the overall NPS, and overall oversight framework for the NPS. A NPS strategy is being developed under a World Bank technical assistance through the Financial Inclusion country support program. Significant investment support is needed to implement the next generation of financial infrastructure reforms to upgrade payments, settlements and information technology systems.

11. In May 2015, Pakistan launched its National Financial Inclusion Strategy (NFIS) to achieve its financial inclusion goals. The NFIS framework and governance structure aims to foster a collaborative approach to financial inclusion contributing to the vision for financial inclusion in the NFIS, i.e. 'individuals and firms can access and use a

range of quality payments, savings, credit and insurance services which meet their needs with dignity and fairness'. Pakistan's goal is to expand financial access to at least 50 percent of adults, and to increase the percentage of SME loans in bank lending to 15 percent by 2020. In addition, other headlines targets of the NFIS include by 2020 an increase in the percentage of adults living within 5 kilometers of an access point, 25 percent of women with a transaction account and 10 percent of adults saving at a formal financial institution in the past year.

12. The proposed project aims to support the authorities' efforts in moving towards universal financial access and implementation of its NFIS. By supporting the NFIS, the project is expected to achieve better outcomes than the various financial inclusion initiatives over the past few years, which while important, were not implemented in the context of a comprehensive and coordinated strategy. The project will help move away from subsidy programs, which can lead to distortions, to more systemic approaches in line with the NFIS. It will also support the holistic NFIS approach which builds on the legal/regulatory/infrastructure which have been put in place and explore the use of digital technologies (such as the development of a digital platform for sharing digital transaction data) for an integrated ecosystem facilitating financial inclusion.

13. The project will complement but also factor in lessons learnt from previous and ongoing work in Pakistan and elsewhere, in particular on supporting reforms in the financial sector. These include the nine technical notes of the NFIS (such as MSME finance, Digital Transaction Accounts, Payment systems and so forth), the ongoing technical assistance to support NFIS implementation through the Financial Inclusion Support Framework (FISF) funded Country Support Program, the DfID funded Private Sector Development Trust Fund supporting financial infrastructure and the recently completed Financial Sector Assessment Program (FSAP). The project will also complement other parallel efforts of the Government of Pakistan (GOP) and SBP, including those focusing on the development of the insurance sector. The project is an action and outcome oriented activity complemented in parallel by the Bank-financed policy credit that unlocks various other constraints in the financial sector including financial sector actions on improvement of credit infrastructure. The project will coordinate with on-going IFC activities, more particularly in the SME finance sector and gender finance, and with other development partners also engaged in complementary financial inclusion initiatives such as Gates, CGAP and DFID.

Relationship to CPF

14. The WBG's engagement on financial inclusion is driven by the global commitment towards achieving Universal Financial Access. Pakistan accounts for 5.2 percent of the world's unbanked adults and is a priority country for WBG. This is also reflected in WBG's Country Partnership Strategy (2015-19) in which one of the target outcomes is improving financial inclusion of MSMEs, women and youth.

15. The strategic approach of the WBG's engagement in the financial sector is a combination of financial, advisory and knowledge, and convening services, complemented by investments and private sector engagement through IFC. The WBG engagement with the Government of Pakistan in supporting the development of the National Financial Inclusion Strategy (NFIS) has provided a comprehensive framework for reform efforts on financial inclusion and the WBG is now providing a comprehensive package of support to enable Pakistan to achieve its national financial inclusion targets. This includes a combination of a) data and analysis to underpin more effective reforms (the NFIS technical notes, the Consumer Protection and Financial Literacy (CPFL) diagnostic, and the FSAP), b) technical assistance and capacity-building support to build implementation and supervisory capacity (FISF), c) support for critical improvements to the enabling environment (FISF, this proposed project), and d) other financing instruments The NFIS also proposed a governance structure which aligns political commitment, institutional capacity, private sector participation, and donor coordination.

C. Proposed Development Objective(s)

The development objective of the project is to contribute to financial inclusion by opening up access to financial services for the unbanked and under-banked and by modernizing the financial infrastructure. For the purposes of this project, the unbanked and under-banked include women, MSMEs, and other groups of clients.

Key Results (From PCN)

16. Key results indicators include

i. Number of adults with access to financial services
ii. Number of women with access to financial services
iii. Number of SME borrowers
iv. Number of adults using digital transaction accounts for receipts/payments

D. Concept Description

17. In order to open up access to financial services available to women and MSMEs in Pakistan and modernize financial infrastructure, the project will provide direct support to the implementation of the NFIS. It will also provide a credit facility for the microfinance sector and financing support, which could be in the form of a risk sharing facility, for increased lending to SMEs. Three broad project components are proposed and described below along with the tentative allocations by component:

Component 1: Direct Support to the NFIS Implementation (USD 50 million)

18. The Pakistan NFIS provides a framework of actions that will contribute to increased access and usage of a diverse set of tailored and responsible financial products to all. This component will provide direct support to the implementation of the NFIS with a focus on the following areas:

i. Improving financial infrastructure. A robust inter-connected payments is one of the critical enablers of financial inclusion. This component will implement the investments needed in upgrading the national payments system. In particular, there is a need to upgrade the retail payment systems so that they can support increasing levels of financial access and usage such as for low value inter-bank credit and debit transfers, bulk payments and instant transfers. The payment systems strategy currently developed through the FISF (Bank supported TA) will inform the identification of activities to be supported under the component.
ii. Improving access and usage of Digital Transaction Accounts (DTA). Expanding access to DTA and reaching scale and viability through digitization of bulk payments is one driver of Pakistan's financial inclusion strategy. This component will support GoP in developing and piloting new approaches that are promoting DTAs and helping reach scale through bulk payments, including through social transfers, government to person payments (G2P), corporate payments and so forth. The design/development of a digital platform for sharing digital transaction data could also be explored. Awareness campaigns on DTAs will also be supported as needed.
iii. Supporting an inclusive financial sector through piloting and implementing new approaches. As such this component will seek to support investments and pilots that will drive financial inclusion and that will be identified within the ongoing parallel TA support (FISF and DFID). This could include activities that will

provide more diverse, sustainable and efficient access points for financial inclusion, notably through the Pakistan Post (which has currently 12,000 branches) or state-owned financial institutions.

iv. Enhancing NFIS Secretariat capacity. The NFIS Secretariat is providing an effective national coordination structure for the NFIS, which is key for the implementation and monitoring of the NFIS action plan. This component will support the Secretariat's capacity in conducting its roles and functions as part of the NFIS, including policy and advocacy as it is taking on more responsibilities and work as NFIS implementation progresses

Component 2: Improving Access to Microfinance and to Financial Services for Micro Enterprises (USD 50 million)

19. Financial institutions catering to economically marginalized groups/entities in Pakistan face substantial liquidity and capacity constraints (NFIS, 2015 and Pakistan Microfinance Network's (PMN) Microfinance Growth Strategy). The aim of the component is to facilitate access to microfinance in Pakistan with a credit facility for microfinance including microenterprises. This component will provide a line of credit (LOC) to Participating Financial Institutions (PFIs) to refinance eligible loans to microfinance borrowers including microentrepreneurs. The LOC is proposed to be channeled through Pakistan Poverty Alleviation Fund for onlending to Pakistan Microfinance Investment Company (PMIC), the spin-off of PPAF with PPAF, DfID and KfW, to then on-lend to microfinance institution (MFIs) and microfinance banks (MFBs).

20. PPAF have a strong track record with onlending and supported the development of several PFIs including MFBs. The LOC will seek to expand the range and strength of PFIs operating in the microfinance space and as such the project will seek to focus on MFIs' lending. Through project implementation arrangements and eligibility criteria, participation in the LOC will lend against covenants and performance measures to promote good practices for PFIs for example those related to corporate governance standards, internal controls, transparency, consumer protection and code of conduct. A particular focus will be on loans using innovative financing mechanisms and delivery channels, microloans to women and to micro enterprises and new products such as agriculture loans will be considered. In order to support initial on-ramp to financial services through the credit line an additional criteria to assess the quality of the proposals from candidate PFIs will be for new loans granted to first time borrowers who did not have an account before.

21. On-lending rates for the line of credit will reflect the cost of intermediating the funds including an appropriate credit risk margin in compliance with World Bank OP10.00 policy that covers financial intermediation aspects and in line with market rates.

Component 3: Improving Access to Financial Services for Small and Medium Enterprises (USD 30 million)

22. Credit to the private sector is very low and SMEs are particularly excluded with only 7 percent of bank lending. Banks' reluctance to SME lending is primarily due to higher risk perception, notably compared to investments in government securities, higher transaction costs for small ticket sizes and banks' lack of expertise catering to this segment. The aim of this component is to increase bank lending to SMEs, thereby reducing SMEs' financing constraints and promotion of employment generation. This will help contribute to the NFIS headline target aiming to increase bank lending to SMEs by 8 percentage point by 2020. To reduce banks' risk of lending to SME borrowers, this component will consider supporting a Risk Sharing Facility (RSF) offering a guarantee scheme. The RSF is expected to demonstrate a good practice guarantee product that includes leverage and measures to protect against moral hazard and adverse selection risks. In that light it will support commercial banks' downscaling to SME lending and more particularly to the "small" segment which is particularly underserved. The RSF will also provide coverage to

microfinance banks' lending to the lower end of the SME market (also referred as "upscaling") and as such provide increased focus to the "small" segment. An assessment of the ongoing RSF effectiveness, interrelation and impact will inform the design of the RSF that will be operated under this component. Based on this, participation in the current CGS operated by SBP with DFID support for its expansion will be considered with revised design parameters as appropriate and in compliance with World Bank OP10.00 policy. The development of a RSF that operates additionally in compliance with Islamic banking principles will also be explored and implemented, depending on market demand.

23. As for the credit line, in order to support initial on-ramp to financial services and to ensure additionality of the RSF, an additional criteria to assess the quality of the proposals from candidate PFIs for the guarantee scheme will be loans to first time borrowers, who did not have an account before. A particular focus will be on women owned SMEs. The project will support working capital loans and other loans such as those for equipment purchases (no loans will be for land acquisition).

24. This component will also provide technical assistance (TA) to the PFIs benefitting from the RSF. It will support technical assistance to commercial banks to strengthen their SME lending capacity/expertise (downscaling) and technical assistance to microfinance banks for lending to the SME market (upscaling). The TA objective will be to foster the development of accessible and lower risk products, supporting the design, uptake, and spread of financial products which better fit the needs and preferences of SMEs, in a sustainable manner. Technical assistance activities could include TA for new product development for instance based on the extension of accessible and lower risk credit products for SME financing, including products based on intangible or light assets and using alternative data for credit appraisal and risk assessment (for example, invoices or purchase orders linked to factoring and/or to value chain finances) small enterprise finance, agricultural credit, savings, sharia-compliant products, etc.) as well as the use of technology and digital transaction accounts to improve access to financial services.

25. Parallel/co-financing on the above TA will be explored with development partners such as IFC but also from PFIs, including on capacity enhancement for PFIs (for example: support to PFIs' management information system (MIS), strengthening of human resources (training) and systems, reporting and planning capacity as well as risk management such as portfolio rating and credit scoring). One particular focus will be to develop institutional development plans as appropriate for SME Bank and First Women Bank, which are state owned and have a mandate to serve project's target segments: women and SME.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project is expected to cover Micro Small and Medium Enterprises (MSMEs) across Pakistan. The specific locations of MSMEs are not known at present and would be determined later at implementation stage. MSMEs in the manufacturing and services sector will be the primary beneficiaries of the project and a majority of MSMEs under the project are expected to be service sector firms (such as in the trade and service sector - including transport, communication, insurance, hotels and restaurants).The project will support working capital loans and other loans such as those for equipment purchases (no land acquisition will be supported).

The project will not support any activity which results in (i) land acquisition and displacement of people or lead to an adverse impact on livelihoods of local people and (ii) forced/child labor. Since most MSMEs are expected to be located in Industrial Estates, they will not impact Indigenous People (IP) found in Chitral Valley in Pakistan. Screening criteria will include IPs location as an indicator and ensure that if they are involved, requisite IP Plan is developed for the involved MSME. Recipient MSMEs will also be expected to comply with Labour Laws and Pakistan's commitment on Labour Conventions under GSP Plus status.

No project is expected in environmentally sensitive locations. It is expected that most of MSMEs will be in industrial estates/zones, areas designated for commercial activities.

Environmental sensitivities related to a specific MSME will be determined from case to case basis as a part of lending appraisal process.

B. Borrower's Institutional Capacity for Safeguard Policies

PPAF is well aware of the World Bank policies and has established Environment and Social Management Unit for environmental and social safeguards related work. PPAF has been undertaking safeguards implementation for its projects over several years. They have also prepared an Indigenous People's Planning Framework in compliance with Bank's OP 4.10 for PPAF Phase 4.

SBP has Financial Inclusion initiatives Division which is responsible for GRM and public awareness campaigns. Similarly, SBP also have CSR unit.

A detailed capacity assessment of PPAF and SBP will be undertaken as part of appraisal with recommendations and plan for improvement where required. Further strengthening of the Unit's environmental capabilities to address issues highlighted in Environmental and Social Management Framework (ESMF) would be assessed during the pre-appraisal mission.

The capacity of SBP for implementation of ESMF will also be assessed during the pre-appraisal mission.

Environmental and social management systems (ESMS) for identifying, assessing and managing environmental risks will be assessed for PPAF and SBP during the pre-appraisal mission. If such systems are found deficient, the Bank will recommend improvements in their systems to bring it at par with the Bank requirements.

C. Environmental and Social Safeguards Specialists on the Team

Salma Omar, Rahat Jabeen, Ahmad Imran Aslam

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The Project is expected to provide line of credit and guarantees to FIs through SBP and PPAF for onward lending to MSMEs. The project is expected to cover range of businesses across sectors which may include businesses with environmental impacts. While all MSMEs considered for sub-loans/guarantees will have to comply with environmental and social

		requirements (especially on labour), there is a need to undertake environmental and social assessment from SBP and PPAF perspective as final selection of MSMEs is yet to be made. Therefore, Environmental and Social Management Framework (ESMF) will be developed. A Social and Gender Assessment will be undertaken by appraisal to help provide focus to the Project on inclusion of marginalized groups such as women, minorities and those otherwise excluded from access to finance. SBP/PPAF will ensure that projects that affect natural habitats, forests and pest management are not funded. Projects requiring land acquisition will be excluded. PPAF already has an Indigenous People's Plan in place and this will be reviewed and endorsed to ensure that it covers any additional activities that may involve Indigenous People.
Natural Habitats OP/BP 4.04	No	The project will ensure that MSMEs units located near natural habitats or sensitive ecological areas are excluded from the list of projects to be financed.
Forests OP/BP 4.36	No	The project will not finance any project that are located in forests or may have an impact on forests.
Pest Management OP 4.09	No	The project will not finance any activity which requires pest management.
Physical Cultural Resources OP/BP 4.11	No	A screening criteria will be in place to ensure that no Physical Cultural Resources (PCRs) are impacted by the project. Any projects in sites with PCR will not be approved.
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	No land acquisition and resettlement is envisaged under the Project.
Safety of Dams OP/BP 4.37	No	All types of dams will be excluded from the list of activities to be finance by the Project.
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Oct 18, 2016

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

Environmental and Social Management Framework (ESMF) will be developed as per requirements of EA as proposed in OP 4.01.
Most of the subprojects will be category FI-3. Furthermore, subprojects would be evaluated on standalone basis. For any high risk category subproject, appropriate EA instruments and necessary risk mitigation measures would be adopted. ESMF will be prepared by 16 September 2016.

All requirements of OP 10 will be complied with. More specifically, OPs 10.00 requires compliance with 4.00, 4.01, 4.02, 4.03, 4.04, 4.09, 4.07, 4.09, 4.10, 4.11, 4.12, 4.36 and 4.37. Requirements of all relevant Ops will be complied with as some of these Ops are not applicable for this project.

Both PPAF and SBP will be required to implement ESMS that is commensurate with the level of social and environmental risks associated with subprojects. As mentioned above the Bank with assess ESMS of both implementing partners and if found deficient, the Bank will recommend improvements in their systems to bring it at par with the Bank requirements.

Co-financing arrangements under discussion with IFC and other development partners will be considered.

CONTACT POINT

World Bank

Gabi George Afram, Mihasonirina Andrianaivo
Program Leader

Borrower/Client/Recipient

Economic Affairs Division, Government of Pakistan
Tariq Bajwa
Secretary
secretary@ead.gov.pk

Implementing Agencies

Development Finance Group, State Bank of Pakistan
Samar Hasnain
Executive Director
samar.husnain@sbp.org.pk

Pakistan Poverty Alleviation Fund
Qazi Azmat Isa
CEO

Qisa@ppaf.org.pk

FOR MORE INFORMATION CONTACT

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop

APPROVAL

Task Team Leader(s):	Gabi George Afram, Mihasonirina Andrianaivo

Approved By

Safeguards Advisor:	Maged Mahmoud Hamed	01-Aug-2016
Practice Manager/Manager:	Niraj Verma	01-Aug-2016
Country Director:		