

Public Disclosure Authorized

OFFICIAL DOCUMENTS

CREDIT NUMBER 6101-PK (Portion A)
CREDIT NUMBER 5989-PK (Portion B)

Project Agreement

(Financial Inclusion and Infrastructure Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

STATE BANK OF PAKISTAN

Dated

August 3, 2017

PROJECT AGREEMENT

Agreement dated August 3, 2017, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and STATE BANK OF PAKISTAN ("SBP" or "Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of the same date between ISLAMIC REPUBLIC OF PAKISTAN ("Recipient") and the Association. The Association and SBP hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. SBP declares its commitment to the objectives of the Project. To this end, SBP shall carry out Parts 1 and 3 of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts 1 and 3 of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and SBP shall otherwise agree, SBP shall carry out Parts 1 and 3 of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. SBP's Representative is its Governor, or any other authorized person who he or she may designate in writing.

3.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Facsimile:

+1-202-477-6391

3.03. SPB's Address is:

State Bank of Pakistan
I.I. Chundrigar Road
P.O. Box 4456
Karachi,
Pakistan

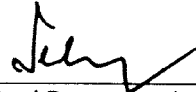
Facsimile:

+922199221606

AGREED at Islamabad, Islamic Republic of Pakistan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Patchamuthu Illangovan

Title: Country Director

STATE BANK OF PAKISTAN

By



Authorized Representative

Name: Syed Samar Hasnain

Title: Executive Director (Development Finance Group)

SCHEDULE

Execution of SBP's Respective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. SBP shall enter into the SBP Subsidiary Agreement in accordance with Section I.C.1 of Schedule 2 to the Financing Agreement.
2. SBP shall maintain throughout the period of implementation of the Project, a project implementation unit ("SBP PIU"), with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms to the Association, responsible for implementation of Parts 1 and 3 of the Project, with staff, functions and responsibilities as set out in the Project Operations Manual.
3. SBP shall: (a) carry out the Project in accordance with the Project Operations Manual; (b) except as the Association shall otherwise agree in writing, not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the Project Operations Manual or any provision thereof; and (c) in the event of a conflict between the provisions of the Project Operations Manual and those of this Agreement, the latter shall govern.

B. Anti-Corruption

SBP shall ensure that Parts 1 and 3 of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Sub-Loans under Part 3(a) of the Project

1. For purposes of carrying out of Part 3(a) of the Project, SBP shall:
 - (a) select Participating Financing Institutions ("PFI"s) in accordance with the selection procedures and eligibility criteria set out in the Project Operations Manual;
 - (b) make Sub-Loans to PFIs for the financing of Eligible Microfinance Investments under sub-loan agreements which shall include terms and conditions acceptable to the Association ("Sub-loan Agreements");
 - (c) maintain policies and procedures adequate to enable it to monitor and evaluate, on an ongoing basis, and in accordance with the Project Operations Manual, the Sub-loans;

- (d) take or cause to be taken all action necessary or appropriate on its part to enable the PFIs to perform in accordance with the provisions of their respective Sub-Loan Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and
 - (e) exercise its rights under the Sub-Loan Agreements in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such Sub-Loan Agreement or any provision thereof.
2. Sub-Loan Agreement shall include, *inter alia*, the following terms and conditions:
- (a) the obligation of the PFI to:
 - (i) on-lend the Sub-loan to one or more Micro-Borrowers under terms and conditions set forth in the Project Operations Manual (including those referred to in Section I.E of this Schedule);
 - (ii) maintain, throughout the period of implementation of the Eligible Microfinance Investment, the necessary organization, management and resources, for supervising the Eligible Microfinance Investment;
 - (iii) ensure that the Eligible Microfinance Investment is carried out with due diligence and efficiency, in conformity with appropriate economic, financial, administrative, technical, and social and environmental standards, as set forth in the Project Operations Manual, and the Anti-Corruption Guidelines;
 - (iv) comply with the provisions set forth in Section I.E of this Schedule;
 - (v) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition;
 - (vi) at the request of SBP or the Association, have such records and accounts audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements so audited to SBP and the Association;

- (vii) enable SBP and/or the Association, as the case may be, to examine any records, documents and/or facilities associated with the Eligible Microfinance Investments;
 - (viii) ensure that on-lending of a Sub-Loan is made on terms and conditions acceptable to the Association and;
 - (ix) promptly inform SBP of any condition which interferes and threatens to interfere with the purpose of the Sub-loan or with its performance; and
- (b) the right of SBP to: (i) suspend, terminate and/or accelerate upon failure of such PFI to perform any of its obligations under its respective Sub-Loan Agreement; and (ii) seek refund of all or any of the Sub-Loan in the event that the Sub-Loan is suspended, terminated and/or accelerated pursuant to the terms of the Sub-Loan Agreement.

D. Risk Sharing Facility under Part 3(b)(i) of the Project

For purposes of carrying out Part 3(b)(i) of the Project and in case the Association concurs with the Recipient and SBP to have SBP as the entity implementing the risk sharing facility, SBP shall operate such facility under terms and conditions and with operating principles set out in the Project Operations Manual, including, *inter alia*: (a) criteria for selecting PFIs and Eligible SME Investments, and (b) legal arrangements for engaging with PFIs and SMEs (including those referred to in Section I.E of this Schedule). If not, SBP shall submit to the Association in writing for its review and concurrence its Selected Entity prior to carrying out any activities under Part 3(b)(i) of the Project.

E. Environmental and Social Risk Management for Parts 3(a) and 3(b)(i) of the Project

1. For purposes of managing the environmental and social risks and impact associated with the implementation of Parts 3(a) and 3(b)(i) of the Project, SBP shall ensure that:
- (a) Credit proceeds are provided only for those PFIs and those proposed Eligible Microfinance Investments and Eligible SME Investments that meet the criteria detailed in the Project Operations Manual;
 - (b) all Eligible Microfinance Investments supported under Part 3(a) of the Project and all Eligible SME Investments supported under the facility referred to in Part 3(b)(i) of the Project are prepared and operated in accordance with the Applicable Environmental and Social Requirements through adequate implementation of the ESMS;

- (c) all PFIs, Micro-Borrowers, and SMEs fulfill their respective obligations with regards to environmental and social due diligence and monitoring for Eligible Microfinance Investments and Eligible SME Investments, in accordance with the ESMS and the CAPs; and
 - (d) all PFIs manage the working conditions of their workforce in accordance with relevant aspects of the World Bank Performance Standard 2 on Labor and Working Conditions.
2. SBP shall, and shall cause PFIs to:
- (a) (i) disclose (a) summary(ies) of the key elements of the ESMS; and (ii) issue written authorizations to the Association to disclose such summary(ies); and
 - (b) cause Micro-Borrowers and SMEs to promptly notify PFIs and, PFIs, in turn, notify SBP (who in turn shall promptly notify the Association), of any social, labor, health and safety, security or environmental incident, accident or circumstance which may have any material impact on the compliance of the Applicable Environmental and Social Requirements.
3. SBP shall take all measures necessary to regularly collect and compile, and submit to the Association, as part of the Project Reports, information on the status of compliance with environmental and social risk management requirements set forth in this Agreement, providing details on measures taken, conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Applicable Environmental and Social Requirements and the ESMS; and remedial measures taken or required to be taken to address such conditions. SBP shall furnish to the Association a consolidated annual environmental and social performance report within ninety (90) days after the end of each calendar year.
4. Prior to the carrying out of any activities under Parts 3(a) and/or Parts 3(b)(i) and (ii) of the Project, SBP shall establish, and thereafter maintain through the period of implementation of the Project, an easily accessible grievance redress mechanism acceptable to the Association, to address feedback and grievances relating to the Project.

Section II. Project Monitoring, Reporting and Evaluation.

A. Project Reports

1. SBP shall monitor and evaluate the progress of Parts 1 and 3 of the Project and prepare Project Reports for such Parts in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the

Association. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient and the Association not later than forty-five (45) days after the end of the period covered by such report.

2. SBP shall provide to the Recipient and the Association not later than forty-five (45) days after the end of each calendar semester, for incorporation in the report referred to in Section 4.08 of the General Conditions all such information as the Recipient and the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. SBP shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of SBP, including the operations, resources and expenditures related to Parts 1 and 3 of the Project.
2. Without limitation on the provisions of Part A of this Section, SBP shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for Parts 1 and 3 of the Project covering the respective semester, in form and substance satisfactory to the Association.
3. SBP shall have the financial statements for its respective Part of the Project referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of SBP. SBP shall ensure that the audited financial statements for each period shall be: (a) furnished to the Recipient and the Association not later than nine (9) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Association.

Section III. Procurement

All goods, works and services required for Parts 1 and 3 of the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.