

Public Disclosure Authorized

OFFICIAL DOCUMENTS

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

Financing Agreement

(Financial Inclusion and Infrastructure Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *August 3*, 2017

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

FINANCING AGREEMENT

AGREEMENT dated August 3, 2017, entered into between ISLAMIC REPUBLIC OF PAKISTAN ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — CREDIT

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit (variously, "Credit" or "Financing") in two portions to assist in financing the project described in Schedule 1 to this Agreement ("Project"):
 - (a) A first portion in an amount equivalent to seventy two million eight hundred Special Drawing Rights (SDR 72,800,000) ("Portion A"); and
 - (b) A second portion in an amount equivalent to twenty-seven million five hundred thousand Special Drawing Rights (SDR27,500,000) ("Portion B").
- 2.02. The Recipient may withdraw the proceeds of the Credit in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The financial terms applicable to the Portion A of the Credit are the following:

- (a) The Front-end Fee payable by the Recipient shall be equal to one quarter of one percent ($\frac{1}{4}$ of 1%) of the Credit amount.
- (b) The Commitment Charge payable by the Recipient shall be one-quarter of one percent ($\frac{1}{4}$ of 1%) per annum on the Unwithdrawn Credit Balance.
- (c) The Interest Charge payable by the Recipient for each Interest Period shall be at a rate equal to three point thirty six percent (3.36 %) per annum.
- (d) The Payment Dates are April 15 and October 15 in each year.
- (e) The principal amount of the Portion A of the Credit shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- (f) The Payment Currency is Dollar.

2.04. The financial terms applicable to the Portion B of the Credit are the following

- (a) The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent ($\frac{1}{2}$ of 1%) per annum.
- (b) The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum.
- (c) The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
- (d) The Payment Dates are April 15 and October 15 in each year.
- (e) The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- (f) The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall: coordinate the overall Project implementation through its Finance Division; shall cause State Bank of Pakistan ("SBP") to carry out Parts 1 and 3 of the Project; and shall carry out Part 2 of the Project through its Central Directorate of National Savings ("CDNS"); all in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:
- (a) SBP's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SBP to perform any of its obligations under the Project Agreement; and
 - (b) The Recipient and/ SBP has/have issued the rules of business for Part 3(a) of the Project in a way that materially affects the agreement of the Association and SBP over the terms and conditions of issuance of such rules.
- 4.02. The Additional Event of Acceleration consists of the following: the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: the SBP Subsidiary Agreement has been executed in substance and form satisfactory to the Association.
- 5.02. The Additional Legal Matter consists of the following: the SBP Subsidiary Agreement has duly authorized or ratified by the Recipient and SBP and is legally binding upon the Recipient and SBP in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Secretary, Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer of the Economic Affairs Division of the Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization, each such person acting individually.
- 6.02. The Recipient's Address is:

The Secretary to the Government of Pakistan
Economic Affairs Division
Ministry of Finance, Revenue, Economic Affairs, Statistics and
Privatization Islamabad
Pakistan

Facsimile: +92-51-921-8976

- 6.03. The Association's Address is:


International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

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

ISLAMIC REPUBLIC OF PAKISTAN

By



Authorized Representative

Name: Aarif Ahmad Khan

Title: Secretary, EAD

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Patchamuthu Illangovan

Title: Country Director

SCHEDULE 1

Project Description

The objective of the Project is to contribute to increasing access and usage of digital payments and other financial services for households and businesses in Pakistan.

The Project consists of the following parts:

Part 1: Direct Support to the National Financial Inclusion Strategy Implementation

- (a) Supporting improvement of financial and market infrastructure to facilitate the uptake of digital transaction accounts, including through: (i) improvement of the payments and market infrastructure; and (ii) capacity building for internal risk management, oversight, supervision and improvement of the legal framework in line with the national payment system strategy.
- (b) Improvement of access and usage of digital payments and financial services, including through digitization of government payments and payment to governments.
- (c) Enhancement of the capacity of the National Financial Inclusion Strategy Secretariat, and for Project management and monitoring and evaluation.

Part 2: Support Expansion of Access Points for Financial Services

Automation and modernization of the Central Directorate of National Savings ("CDNS") to link national savings schemes with the rest of the formal financial sector and facilitate the expansion of digital transaction accounts.

Part 3: Improve Access to Microfinance and to Financial Services for Micro, Small and Medium Enterprises

- (a) Improvement of access to microfinance and to financial services for microenterprises, through the provision of Sub-Loans to Participating Financial Institutions ("PFIs").
- (b) Improvement of access to financial services for Small and Medium Enterprises ("SMEs"), including through: (i) capitalization of a risk sharing facility; and (ii) provision of technical assistance and analyses to improve access to financial services to SMEs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Project Operations Manual

The Recipient 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

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Subsidiary Agreement for Parts 1 and 3 of the Project

1. For purposes of carrying out Parts 1 and 3 of the Project, the Recipient shall enter into a subsidiary agreement with SBP to make part of the proceeds of the Credit available to SBP ("SBP Subsidiary Agreement"), in accordance with the provision of this Agreement and the Recipient's on-lending policies and budgetary procedures, acceptable to the Association, which shall include, *inter alia*:
 - (a) the right of SBP to withdraw the proceeds of the Credit on behalf of the Recipient (and proceeds so withdrawn shall be considered to be withdrawn by the Recipient); and
 - (b) the obligation to carry out and ensure that all PFIs carry out Parts 3(a) and (b)(i) of the Project with the terms and conditions set forth in the Project Agreement (including those set forth in Section E of this Schedule 2).
2. The Recipient shall exercise its rights under the SBP Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the SBP Subsidiary Agreement, or any of its provisions. In the event of a conflict between the provisions of any of the SBP Subsidiary Agreement and the provisions of any of this Agreement or the Project Agreement, the provisions of this Agreement or the Project Agreement shall prevail.

D. Project Implementation Unit for Part 2 of the Project

For purposes of carrying out Part 2 of the Project, the Recipient shall maintain throughout the period of implementation of the Project, a project implementation unit within CDNS ("CDNS PIU"), with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association.

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 Part 3(b)(i) of the Project, the Recipient shall ensure, and cause SBP to 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 Project under 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 regard 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. For purposes of Parts 3(a) and 3(b)(i) of the Project, the Recipient shall cause SBP to ensure that PFIs:

- (a) (i) disclose (a) summary(ies) of the key elements of their ESMS; and (ii) issue written authorizations to the Association to disclose such summaries; and
- (b) cause Micro-Borrowers and SMEs to promptly notify PFIs and, cause PFIs, in turn, notify SBP (which 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. The Recipient shall cause SBP 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. The Recipient shall cause SBP to 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 Part 3 of the Project and/or Parts 3(b)(i) and (ii) of the Project, the Recipient shall cause SBP to 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

The Recipient shall, and shall cause SBP to, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall, and shall cause SBP to, prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.
3. The Recipient shall, and shall cause SBP to, have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year

of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than nine (9) months after the end of such period.

Section III. Procurement

All goods, works, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Credit shall be procured in accordance with the requirements set forth or referred to in the Procurement Regulations, the provisions of the CDNS Procurement Plan and/or the SBP Procurement Plan, as the case may be.

Section IV. Withdrawal of the Proceeds of the Credit

A. General

1. The Recipient may withdraw the proceeds of the Credit in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "Disbursement Guidelines for Investment Project Financing" dated February 2017, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Credit ("Category"), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Portion A of the Credit Allocated (expressed in SDR)	Amount of the Portion B of Credit Allocated (expressed in SDR)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) For SBP:			
(a) Goods, non-consulting services, consulting services, Training and Workshops and Incremental Operating Costs under Part 1 and Part 3(b)(ii) of the Project	0	14,400,000	100%
(b) Sub-Loans under Part 3(a) of the Project	54,700,000	0	100%
(c) Capitalization of risk sharing facility under Part 3(b)(i) of the Project	17,918,000	6,200,000	75% for Portion A and 25% for Portion B

(2) For CDNS: Goods, non-consulting services, consulting services, Training and Workshops and Incremental Operating Costs under Part 2 of the Project	0	6,900,000	100%
(3) Front-end Fee	182,000		Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 3.01 (a) of the General Conditions
TOTAL AMOUNT	72,800,000	27,500,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR5,470,000 equivalent may be made for payments made prior to this date but on or after August 1, 2016, for Eligible Expenditures under Categories (1)(a) and (2);
 - (b) under Category (1)(b) until: (a) the Recipient and/or SBP has/have prepared rules of business for Part 3(a) of the Project under terms and conditions acceptable to the Association, and with operating principles set forth in the Project Operations Manual in a manner acceptable to the Association; and (b) SBP has prepared and disclosed an ESMS for Part 3(a) of the Project in a manner acceptable the Association; and

- (c) under Category (1)(c) until: (a) the risk sharing facility has been established under terms and conditions acceptable to the Association, and with operating principles set forth in the Project Operations Manual in a manner acceptable to the Association; and (b) if SBP is not operating the risk sharing facility, the Selected Entity is acceptable to the Association and has entered into an agreement with the Association and/or SBP as determined by the Association under terms and conditions acceptable to the Association.
2. The Closing Date is December 31, 2022.

SCHEDULE 3

Repayment Schedule for Portion A of the Credit

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15 commencing on October 15, 2022, to and including April 15, 2031	2.5%
and on October 15, 2031, to and ending on April 15, 2041	2.75%

* The percentages represent the percentage of the principal amount of the Credit to be repaid.

Repayment Schedule for Portion B of the Credit

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 15 and October 15:	
commencing October 15, 2022 to and including April 15, 2032	1.65%
commencing October 15, 2032 to and including April 15, 2042	3.35%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loan and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
2. "Applicable Environmental and Social Requirements" means the technical requirements applicable to Eligible Microfinance Investments and Eligible SME Investments using the proceeds of the Credit under Part 3(a) and (3)(b)(i) of the Project and which are comprised of: (a) in the case of Eligible Microfinance Investments: (i) applicable environmental and social national and local laws and regulations of the Recipient; and (ii) List of Excluded Activities set forth in Annex 1 of this Agreement, and (b) in the case of Eligible SME Investments: (i) applicable environmental and social national and local laws and regulations of the Recipient; (ii) List of Excluded Activities set forth in Annex 1 of this Agreement; and (iii) in the case of higher risk Eligible SME Investments as defined in the Project Operations Manual, the World Bank Performance Standards.
3. "Category" means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
4. "Central Directorate of National Savings" and the "acronym "CDNS" means the agency under the Recipient's Ministry of Finance responsible for domestic retail borrowing in the territory of the Recipient.
5. "CDNS PIU" means the unit referred to in Section I.D of Schedule 2 to this Agreement.
6. "CDNS Procurement Plan" means the CDNS' procurement plan for the Project, for Part 2 of the Project, dated February 13, 2017 which plan includes the agreed special provisions for National Competitive Bidding and provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Association.
7. "Corrective Action Plan" and the acronym "CAP" means each plan prepared by Micro-Borrowers and SMEs in accordance with the ESMS if required. Such plan shall include, *inter-alia*: (a) a summary of the necessary actions to implement corrective actions to be undertaken; (b) prioritization of said actions; (c) timeline for implementation of said actions; and (d) disclosure mechanisms to affected communities, where necessary.

8. "Eligible Microfinance Investment" means a specific investment project in selected sectors to be carried out by a Micro-Borrower utilizing the proceeds of a Sub-Loan from lines of credit to be set up under Part 3(a) of the Project.
9. "Eligible SME Investment" means a specific investment in the manufacturing and/or services sector to be made by a SME utilizing the proceeds of the Sub-Loan and/or guaranteeing such investment with proceeds from the risk sharing facility to be set up under Part 3(b)(i) of the Project.
10. "Environmental and Social Management System" and the acronym "ESMS" means systematic process for identifying, assessing and managing environmental and social risks and impacts associated with activities under Parts 3(a) and 3(b)(i) of the Project and managing exposure to such risks and impacts by SBP and PFIs in a manner that enables the Eligible Microfinance Investments and the Eligible SME Investments to meet Applicable Environmental and Social Requirements; which systematic process contains the following core elements: (a) adequate environmental and social policies and procedures prepared by SBP, as amended from time to time; (b) a customized ESMS prepared and implemented at the PFI's level; (c) adequate environmental and social assessment and management systems implemented by Micro-Borrowers and SMEs in accordance with the relevant regulations of the Recipient and the Applicable Environmental and Social Requirements; and (d) adequate capacity within SBP, PFIs, Micro-Borrowers and SMEs to develop and maintain adequate policies, procedures, organizational structure, budget, and capacity for identifying, managing, monitoring, and reporting on risks and impacts of activities under Parts 3(a) and 3(b)(i) of the Project.
11. "Finance Division" means the Recipient's Division within its Ministry of Finance, Revenue, Economic Affairs, Statistics and Privatization, responsible for overall coordination under the Project.
12. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Sections II and II of this Appendix.
13. "Incremental Operating Costs" means the reasonable costs of incremental expenditures required for the Project, including the implementation of the NFIS, consumable material and supplies; office rental costs; utilities fees; insurance; communications, advertising and newspaper subscriptions; printing and stationary costs; vehicle and/or office equipment operation and maintenance; charges for opening and operating bank accounts required for the Project, travel, lodging and per diems for Project staff, excluding salaries of the Recipient's civil servants or Project top-offs and allowances or salaries of the National Financial Inclusion Strategy Secretariat's staff.

14. "IFC" means International Finance Corporation.
15. "Interest Period" means the initial period from and including the date of this Agreement to but excluding the first Payment Date occurring thereafter, and after the initial period, each period from and including a Payment Date to but excluding the next following Payment Date.
16. "Micro-Borrower" means a private sector entity or individuals selected in accordance with the criteria set forth in the Project Operations Manual to which a PFI proposes to make or has made a loan out of the proceeds of a Sub-Loan to finance an Eligible Microfinance Investment.
17. "National Financial Inclusion Strategy" and the acronym "NFIS" means the Recipient's strategy dated May 2015 setting forth its strategy for financial inclusion throughout the territory of the Recipient, as amended from time to time.
18. "National Financial Inclusion Strategy Secretariat" means the secretariat responsible for the implementation of the National Financial Inclusion Strategy.
19. "Participating Financial Institution" and the acronym "PFI" mean a microfinance institution/bank and/or commercial bank that meets the eligibility criteria for participating in the Project as set forth in the Project Operations Manual.
20. "Project Agreement" means the agreement between the Association and SBP relating to the implementation of Parts 1 and 3 of the Project.
21. "Procurement Regulations" means the "World Bank Procurement Regulations for Borrowers under Investment Project Financing", dated July 1, 2016.
22. "Project Implementing Entity" means: (a) for Parts 1, 3(a) and 3(b)(ii): SBP; and (b) for Part 3(b)(i): SBP or the Selected Entity.
23. "Project Operations Manual" means the manual dated May 10, 2017, adopted by SBS, CDNS and the Selected Entity, if applicable, acceptable to the Association, setting forth implementation, organizational, administrative, monitoring and evaluation, financial management, disbursement, and procurement arrangements for purposes of implementation of the Project, and the criteria and requirements for selecting and appraising PFIs, Eligible Microfinance Investments and Eligible SME Investments, and the terms and conditions for Sub-Loans (including the ones for using commercial practices under the Sub-Loans), as said manual may be revised from time to time with the prior written agreement of the Association.
24. "SBP's Legislation" means the Recipient's State Bank of Pakistan Act, 1956 (Act No. XXXII of 1956).

25. "SBP Subsidiary Agreement" means the agreement referred to in Section I.C.1 of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Credit available to SBP.
26. "SBP PIU" means the unit referred to in Section I.A.1 of the Schedule to the Project Agreement with SBP.
27. "SBP Procurement Plan" means the SBP's procurement plan for the Project, for Parts 1 and 3(b) of the Project, dated February 13, 2017 which plan includes the agreed special provisions for National Competitive Bidding and provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Association.
28. "Selected Entity" means the entity referred to in Section I.A.3 of the Schedule to the Project Agreement with SBP that has complied with all the disbursement conditions set forth under Category (1)(d) of the table set forth in Section IV.B.1 of Schedule 2 to this Agreement.
29. "Small and Medium Enterprise" and the acronym "SME" mean an enterprise selected in accordance with the criteria set forth in the Project Operations Manual to which a PFI proposes to make or has made a loan to finance an Eligible SME Investment
30. "State Bank of Pakistan" and the acronym "SBP" means the Recipient's central bank established and existing under the Recipient's State Bank of Pakistan Act, 1956 (Act No. XXXII of 1956), as the same may be amended from time to time, and such term includes all subsidiaries and agencies of SBP.
31. "Sub-Loan" means the investment loan made available by a PFI out of the proceeds of the Loan for financing Eligible Microfinance Investments and Eligible SME Investments, all in accordance with criteria, requirements, and procedures set out in the Project Operations Manual.
32. "Training and Workshops" means the reasonable costs of training, workshops and conferences conducted in the territory of the Recipient or attended overseas (subject to the prior approval of the Association), including the purchase and publication of materials, rental of facilities, course fees, and travel and subsistence of trainees.
33. "World Bank Performance Standards" means the eight IFC Performance Standards that have been adopted by the Association as the World Bank Performance Standards for Projects supported by the private sector for application to Association support for projects (or components thereof) that are designed, owned, constructed and/or operated by a private entity, in lieu of the World Bank's safeguard policies.

Section II. Modifications to the General Conditions applicable to Portion A of the Credit

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified, as necessary, to reflect the modifications set forth in the paragraphs below.
2. Section 2.07 (*Refinancing Preparation Advance*) is retitled as "*Refinancing Preparation Advance; Capitalizing Front-end Fee*", amended by adding a new paragraph (b), and modified to read as follows:

"Section 2.07. *Refinancing Preparation Advance; Capitalizing Front-end Fee*

(a) If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Bank or the Association ("Preparation Advance"), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.

(b) Except as otherwise provided in the Financing Agreement, the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date and pay to itself the amount of the Front-end Fee payable pursuant to Section 3.01 (a)."

3. Section 3.01 (*Commitment Charge*) is retitled as "*Front-end Fee; Commitment Charge*", amended by adding a new paragraph (a), and modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Recipient shall pay the Association a front-end fee on the Credit amount at the rate specified in the Financing Agreement (the "Front-end Fee").

(b) The Recipient shall pay the Association a commitment charge on the Unwithdrawn Credit Balance at the rate specified in the Financing Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Financing Agreement to the respective dates on which amounts are withdrawn by the Recipient from the Credit Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."

4. Section 3.02 (*Service Charge*) is retitled as "*Interest Charge*" and modified to read as follows:

"Section 3.02. *Interest Charge*

The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest Charges shall be computed on the basis of a 360-day year of twelve 30-day months."

5. Section 3.03 (*Repayment of the Credit*) is modified by deleting paragraph (b) in its entirety and amending the remaining paragraph (a) to read as follows:

"Section 3.03. *Repayment of the Credit*

The Recipient shall repay the Withdrawn Credit Balance to the Association in installments as provided in the Financing Agreement."

6. In the Appendix, **Definitions**, all relevant references to Sections, numbers and paragraphs are modified, as necessary, to reflect the modifications set forth in paragraphs 1 through 5 above.

7. Paragraph 28 of the Appendix ("Financing Payment") is modified to read as follows:

"28. "Financing Payment" means any amount payable by the Recipient to the Association pursuant to the Financing Agreement or these General Conditions, including (but not limited to) any amount of the Withdrawn Credit Balance, interest, the Front-end Fee and the Commitment Charge."

8. A new paragraph 30 is inserted in the Appendix with the following definition of "Front-end Fee", and the subsequent paragraphs are renumbered accordingly:

"30. "Front-end Fee" means the fee specified in the Financing Agreement for the purpose of Section 3.01 (a)."

9. A new paragraph 33 is inserted in the renumbered Appendix with the following definition of "Interest Charge", and the subsequent paragraphs are renumbered accordingly:

"33. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02."

10. Renumbered paragraph 38 (originally paragraph 36) of the Appendix ("Payment

Date”) is modified by deleting the words “Service Charges” and inserting the words “Interest Charges”.

11. Renumbered paragraph 51 (originally paragraph 49) of the Appendix (“Service Charge”) is deleted in its entirety, and the subsequent paragraphs are renumbered accordingly.]

Section II. Modifications to the General Conditions applicable to Portion B of the Credit

The General Conditions are hereby modified as follows:

1. Section 3.02 is modified to read as follows:

“Section 3.02. *Service Charge and Interest Charge*

(a) *Service Charge.* The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) *Interest Charge.* The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment

(c) *Date.* Interest shall be computed on the basis of a 360-day year of twelve 30-day months.”

2. Paragraph 28 of the Appendix (“Financing Payment”) is modified by inserting the words “the Interest Charge” between the words “the Service Charge” and “the Commitment Charge”.

3. The Appendix is modified by inserting a new paragraph 32 with the following definition of “Interest Charge”, and renumbering the subsequent paragraphs accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02 (b).”

4. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".
5. Renumbered paragraph 50 (originally paragraph 49) of the Appendix ("Service Charge") is modified by replacing the reference to Section 3.02 with Section 3.02 (a).

Annex 1

List of Excluded Activities

1. Production or trade in any product or activity deemed illegal under Pakistan's laws or regulations or international conventions and agreements
2. Production or trade in pharmaceuticals, pesticides/herbicides, ozone depleting substances, polychlorinated biphenyls (PCBs) subject to international phase outs or bans
3. Trade in wildlife or wildlife products regulated under Convention on International Trade in Endangered Species
4. Production or trade in weapons and ammunitions¹
5. Production or trade in alcoholic beverages¹
6. Production or trade in tobacco¹
7. Gambling, casinos, and equivalent enterprises¹
8. Production or trade in radioactive materials (this does not apply to the purchase of medical equipment, quality control measurement equipment, and any equipment where the radioactive source is considered to be trivial and/or adequately shielded.)
9. Cross-border trade in waste and waste products, unless compliant with the Basel Convention and the underlying regulations
10. Production or trade in or use of unbounded asbestos fibers
11. Unsustainable fishing practices, such as drift net fishing in the marine environment using nets in excess of 2.5 km length, electric shocks, or explosive materials
12. Production or trade in wood or other forestry products other than from sustainably managed forests²
13. Production or activities involving harmful or exploitative forms of forced labor³ or harmful child labor⁴
14. Activities involving land acquisition and/or restrictions on land use resulting in involuntary resettlement or economic displacement⁵
15. Any activities involving significant degradation or conversion of natural⁶ and/or critical habitats⁷ and/or any activities in legally protected areas

16. Production, trade, storage, or transport of significant volumes of hazardous chemicals, or commercial scale usage of hazardous chemicals (gasoline, kerosene, other petroleum products, textile dyes, and so on)
17. Production or activities that have adverse impacts, including relocation, on the lands, natural resources, or critical cultural heritage subject to traditional ownership or under customary use by Indigenous Peoples⁸
18. Activities involving significant adverse impacts on critical cultural heritage⁹
19. Production or trade in or use of non-biodegradable packaging material such as polythene bags and Styrofoam.

Notes:

1. This does not apply to enterprises that are not substantially involved in these activities. 'Not substantially involved' means that the activity concerned is ancillary to an enterprise's primary operations.

2. Sustainable forest management may be demonstrated by the application of industry-specific good practices and available technologies. In some cases, it may be demonstrated by certification/ verification or progress towards certification /verification under a credible standards system.

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

4. 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.

5. Land acquisition and/or restrictions on land use may result in the physical displacement of people (involuntary resettlement), as well as their economic displacement (as loss of assets and/or means of livelihood, regardless of whether or not the affected people are physically displaced). Land must be bought on willing-buyer, willing-seller basis.

6. Natural habitats are areas composed of viable assemblages of plant and/or animal species of largely native origin, and/or where human activity has not essentially modified an area's primary ecological functions and species composition.

This includes HCV forests. HCV areas do not directly correspond with definitions for modified, natural, and critical habitat. The HCV Resource Network, an internationally recognized group, provides information and support on the evolving usage of HCV to ensure a consistent approach. <https://www.hcvnetwork.org/>.

7. Critical habitat is a subset of both natural and modified habitats that deserves particular attention. Critical habitat includes areas with high biodiversity value that meet the criteria of the World Conservation Union (IUCN) classification, including habitats of significant importance for required for critically endangered or endangered species as defined by the IUCN Red List of Threatened Species; habitats of significant importance for endemic or restricted-range species; habitats supporting globally significant concentrations of migratory species and/or congregatory species; and areas with unique assemblages of species or which are associated with key evolutionary processes. Primary forests or forests of High Conservation Value (HCV) shall be considered Critical Habitats. This includes HCV forests. HCV areas do not directly correspond with definitions for modified, natural, and critical habitat. The HCV Resource Network, an internationally recognized group, provides information and support on the evolving usage of HCV to ensure a consistent approach. <https://www.hcvnetwork.org/>.

8. The term 'Indigenous Peoples' is used in a generic sense to refer to a distinct social and cultural group possessing the following characteristics in varying degrees:

- Self-identification as members of a distinct cultural group and recognition of this identity by others
- Collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories
- Customary cultural, economic, social, or political institutions that are separate from those of the mainstream society or culture
- A distinct language or dialect, often different from the official language or languages of the country or region in which they reside.

In Pakistan, Indigenous Peoples meeting the above definition are found in the Chitral Valley in Pakistan. Where financing schemes involve Indigenous Peoples (e.g. they are one of the key target groups for lending), such groups will be meaningfully consulted and their special concerns taken on board. Screening criteria will include IPs location as an indicator and ensure that if they are involved, requisite IP Plan is developed for the involved SMEs.

9. Critical cultural heritage consists of (a) the internationally recognized heritage of communities who use, or have used, within living memory the cultural heritage for long-standing cultural purposes and (b) legally protected cultural heritage areas, including those proposed by host governments for such designation. Additionally, borrowers will not engage in cultivation, processing, and sale of poppy and/ or other illegal addictive substances (for example, heroin, hashish, opium, bhang, alcohol). Sale of addictive substances such as tobacco, gutka, niswar, cigarettes, beeri, hukka, paan parag, sheesha and any other products containing such substances to persons under the age of 18; Illegal wood extraction; hunting, poaching and fishing in protected areas; informal cross-border trade; smuggling or sale and handling of smuggled goods.