LOAN NUMBER 8345-EG

Project Agreement

(Promoting Innovation for Inclusive Financial Access Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

SOCIAL FUND FOR DEVELOPMENT

Dated April 12, 2014
PROJECT AGREEMENT

AGREEMENT dated April 11, 2014, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") and SOCIAL FUND FOR DEVELOPMENT (SFD, the "Project Implementing Entity") ("Project Agreement") in connection with the Loan Agreement ("Loan Agreement") of same date between ARAB REPUBLIC OF EGYPT ("Borrower") and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II - PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article V of the General Conditions and this Agreement, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity’s Representative is its Secretary General.

3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: Telex: Facsimile:
INTBAFRAD 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)

3.03. The Project Implementing Entity’s Address is:

Social Fund for Development
Mohy El Din Abou El Ezz Street,
Mohandeseen
Giza
Arab Republic of Egypt

Facsimile:
20-2-333-61854

AGREED at Washington DC, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Authorized Representative

Name: Jørgen Andersen

Title: Regional Vice President

SOCIAL FUND FOR DEVELOPMENT

By

Authorized Representative

Name: Hanaa Hilaly

Title: Secretary General
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutionnel Arrangements

Project Management

1. The Project Implementing Entity shall maintain throughout the period of implementation of the Project adequate staff with appropriate qualifications, experience and resources agreed with the Bank for the purposes of carrying out the Project.

2. The Project Implementing Entity shall maintain the Project Implementation Unit with adequate staff, resources and terms of reference in order to manage, monitor and evaluate the Project. The Project Implementation Unit shall meet on a regular basis and follow up on monitoring and progress of the Project.

B. Project Implementation

1. Operational Manual

The Project Implementing Entity:

(a) shall carry out the Project, and cause the Project to be carried out, in accordance with the Operational Manual, which includes, *inter alia*:

(i) criteria and procedures for the selection of PFIs, MSEs and Subprojects;

(ii) the terms and conditions to be included in each Participation Agreement, which Agreements shall include eligibility criteria and procedures for the selection of MSEs and Subprojects and the signing of a Subfinancing Agreement between each PFI and a MSE for implementation of a Subproject;

(iii) procurement procedures as set forth in Section III of this Schedule;

(iv) monitoring and reporting requirements and financial management procedures, including audit procedures for the PFIs and MSEs; and
the Environmental and Social Management Framework which will be implemented when carrying out the Project and each Subproject; and

(b) shall not amend, delete, suspend, or waive any part of the Operational Manual, without the mutual prior agreement of the Bank and the Project Implementing Entity.

2. **PFI Financing**

The Project Implementing Entity shall:

(a) for purposes of carrying out the Project, select PFIs which comply with eligibility criteria for PFIs satisfactory to the Bank including those set forth and contained in the Operational Manual and in the Annex to this Agreement;

(b) evaluate and provide PFI Financing to PFIs for financing Subprojects in accordance with procedures agreed with the Bank, including those set out in the Operational Manual and in the Annex to this Agreement;

(c) enter into a Participation Agreement with each PFI on terms and conditions agreed with the Bank including those set forth in the Operational Manual and in the Annex to this Agreement; monitor compliance by each PFI with the terms and conditions of each Participation Agreement; and exercise its rights under each Participation Agreement in such manner as to protect the interests of the Borrower, the Bank and the Project Implementing Entity and to accomplish the purposes of the Loan; and

(d) except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any Participation Agreement or any of its provisions.

**C. Anti-Corruption Guidelines**

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines. Each Participation Agreement shall contain a provision that the respective PFI shall observe the provisions of the Anti-Corruption Guidelines and shall ensure that each respective MSE shall observe the provisions of the Anti-Corruption Guidelines.
D. Subprojects

The Project Implementing Entity shall ensure that each PFI: (a) selects MSEs and Subprojects in accordance with the criteria and procedures satisfactory to the Bank including those set forth in the Operational Manual and in the Annex to this Agreement; and (b) enters into a Subfinancing Agreement with each MSE for the purpose of providing Subfinancing to such MSE, in accordance with terms and conditions satisfactory to the Bank including those set forth in the Operational Manual and in the Annex to this Agreement.

E. Safeguards

The Project Implementing Entity shall, and shall cause the PFIs and MSEs to carry out, all Subprojects in compliance with the requirements of the Environmental and Social Management Framework, including preparing and implementing environment and social management plans as may be necessary pursuant to said Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of indicators agreed with the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank and the Borrower not later forty-five (45) days after the end of the period covered by such report.

2. The Project Implementing Entity shall provide to the Borrower and the Bank not later than three months after the closing date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and shall prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance
with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be: (a) furnished to the Borrower and the Bank not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner satisfactory to the Bank.

3. Without limitation on the provisions of this Section, the Borrower shall cause the Project Implementing Entity to prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

Section III: Procurement

A. General

1. Goods and Non-consulting Services. All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines.

B. Particular Methods of Procurement of Goods and Non-consulting Services

Goods and non-consulting services to be financed out of the proceeds of a Subfinancing for a Subproject may be procured under contracts awarded pursuant to paragraph 3.13 of the Procurement Guidelines (Procurement in Loans to Financial Intermediary Institutions and Entities).
ANNEX

I. Eligibility Criteria for PFIs

1. In order to be eligible for a PFI Financing, a PFI shall be a bank, as such term is defined under the Borrowers Central Bank, Banking Sector and Money Law 88 of 2003, or NGO or microfinance institution or venture capital company established according to the Borrowers Companies and/or Investment Laws numbers 159 of 1981 and/or 8 of 1998, respectively or financial leasing company operating under the Borrowers Law 95 for 1995. The Project Implementing Entity shall make PFI Financings to PFIs in accordance with eligibility criteria and procedures acceptable to the Bank, which shall include the following, which terms may be varied or modified by mutual agreement between the Project Implementing Entity and the Bank from time to time:

A. Eligibility Criteria for Selection of NGOs and microfinance institution

(i) Loan up to LE 5 Million

(a) Registration: Validity of official registration, and availability of a documented charter and bylaws endorsed by the Department of Social Solidarity.

(b) Inclusion of “microfinance” in the services/activities identified in the NGO’s charter.

(c) Portfolio at Risk (PAR) more than 90 days should not be more than five percent (5%).

(d) Charge of sufficiently high interest rate to allow to pay the cost of funds and operational and financial expenses over time.

(e) A letter from the Ministry of Social Solidarity (MoSS) that the Ministry has no objection to the PFI Financing to the NGO.

(f) The entity has at least two (2) years of externally audited financial statements.

(g) The entity has a minimum A or B in a GIRAFE rating done by SFD staff, or the potential to achieve this rating within two (2) years.

(h) The entity has a good potential to grow including having a good market potential.

(ii) Loans from LE 5 million to LE 25 million
(a) All the eligibility criteria set out in A.i above of this Section I.

(b) The entity either specializes in microcredit or microcredit composes at least 75 percent of its activities.

(c) PAR more than 90 days should not be more than five percent.

(d) Has an updated business plan for at least the coming three years.

(e) Has a minimum A in GIRAFE rating done by SFD staff. (a) Has been operationally sustainable for at least the last three years and financially sustainable for at least the last year of its operations.

(f) Has submitted audited reports from a certified auditor prior to receiving the Subfinancing.

(g) The entity reports to a credit information system.

(iii) Loans above LE 25 million

(a) All of the Eligibility Criteria set out in A.i and A.ii of this Section I:

(b) NGOs to demonstrate that they are funded under an SFD-supported bank wholesale initiative.

B. Eligibility Criteria for Selection of Banks

(i) Direct Retail

(a) Substantial compliance with all prudential and regulatory requirements of the Central Bank of Egypt (CBE), acceptable to the Bank.

(b) Be registered/licensed in Egypt to undertake banking operations.

(c) Have an appropriate governance structure with independence and capacity to provide adequate supervision to management and control over the bank's lending decisions to shareholders.

(d) Have financial statements for the past two years, audited by a reputable auditing firm that is acceptable to the Bank, in accordance with Egyptian auditing standards.
(e) Agree to establish a separate MSE finance department or separate cost center, with the necessary staff, physical and other resources, to manage and implement lending operations under this Project.

(f) Experience and track record of financing MSEs.

(g) The loan portfolio in the MSE segment has sufficient quality (i.e. non-performing loans (NPLs) and provisioning, actual versus planned loans, loan average, ratio of arrears, customer segment).

(h) Large outreach capacity through its branch network.

(i) Adoption of the MSE strategy of CBE.

(j) Be in compliance with CBE regulations.

(k) Have and maintain an IAS calculated risk weighted capital adequacy ratio of not less than eight percent.

(l) A positive net income for the current and previous fiscal years, as reflected in the audited financial statements.

(ii) Wholesale to microfinance institutions

(a) All the eligibility criteria listed under B.i of this Section I.

(b) Willingness to match funds provided by the SFD and pool in a separate dedicated account from which the bank will provide lines of credit to eligible MFls.

(c) Commitment to developing competitive products for MFls (i.e. local currency lines of credit) in the market that will ensure maximum uptake of this additional source of financing.

C. Eligibility Criteria for Selection of Venture Capital Companies (VCC)

(a) Be a joint stock company incorporated according to Egyptian laws, while its bylaws and statutes explicitly permits investment in other companies.

(b) Have an appropriate governance structure with independence and capacity to provide adequate supervision to management and control over the VCC investment decisions.
(c) Unless it is a newly established company, the VCC should have financial statements for the past two years, audited by an acceptable audit firm that has not been sanctioned by the Auditors Oversight Board (established as per the Law No. 123/2008) during the past 12 months. In the case that the VCC is a newly established Egyptian subsidiary from an already established off shore VCC, financial reports of the off shore VCC should be submitted to the SFD.

(d) Submit its investment criteria, including diversification targets.

(e) Have sufficient operational and management experience and track record in financing MSEs.

D Eligibility Criteria for Selection of Financial Leasing Company (FLC)

(a) Be a registered and a licensed FLC by EFSA. It could be an already established FLC or an established subsidiary by the parent FLC.

(b) Be in substantial compliance with all the prudential and regulatory requirements of EFSA.

(c) FLC was not suspended nor sanctioned due to any violations by EFSA within the past 12 months.

(d) Have an appropriate governance structure with independence and capacity to provide adequate supervision to management and control over the FLC leasing decisions to shareholders. Additionally the FLC should have set in place the policies and procedures regarding the shareholder and ownership structure to ensure that no conflict of interest cases arise.

(e) Have financial statements for the past two years audited by an acceptable audit firm that has not been sanctioned by the Auditors Oversight Board (established as per the Law No. 123/2008) during the past 12 months. In case the subsidiary FLC has not been in operation for two years, the parent FLC’s financial reports are to be submitted instead.

(f) In case the applying FLC is a subsidiary it must:
   - Provide proof of commencing operations
   - Accounts to be separate from the parent FLC

(g) Experience and track record of financing MSEs.
(h) Have a distribution policy and network.

(i) Have a comprehensive credit policy and submit the FLC’s guidelines regarding the approach for dealing with:

- Risk management in terms of portfolio risk management, and internal credit controls

- Non-performing loans, loan-loss provisioning, delinquencies, defaults, write-offs, and repossessed assets

(j) To be amongst the operating/active FLC’s as reported by EFSA.

II. Terms and Conditions of Participation Agreements, PFI Financings and Subfinancing Agreements and Subfinancings

A. Participation Agreements and PFI Financings

1. The Project Implementing Entity shall provide PFI Financings to each PFI under a Participation Agreement with the respective PFI in accordance with procedures and on terms and conditions approved by the Bank, and which shall include those set out in the Operational Manual and the following:

(a) The PFI Financing shall be: (i) denominated and repayable in Egyptian Pounds, unless the PFI and the Project Implementing Entity agreed otherwise; and (ii) charged interest on the principal amount withdrawn and outstanding from time to time at a rate which shall not be less than the prevailing interest rate, when applicable.

(b) The ProjectImplementing Entity shall obtain rights adequate to protect its interests and those of the Bank, including:

(i) the right to suspend or terminate the right of the PFI to use the proceeds of the Loan, or declare to be immediately due and payable all or any part of the amount of the Loan then withdrawn, upon the PFI’s failure to perform any of its obligations in respect of the Loan;

(ii) requiring each PFI to: (A) carry out its Subfinancing operations with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including those set out in the Operational Manual; (B) ensure compliance with the Environmental and Social Management Framework and with the provisions of the Anti-Corruption Guidelines applicable
to recipients of loan proceeds other than the Borrower; (C) make available such financial information as may be requested by the Bank or the PIE from time to time; (D) enable the PIE and the Bank to review its operation and any relevant records and documents; (E) maintain a financial management system and prepare financial statements in accordance with consistently applied auditing standards acceptable to the Bank; (F) at the Bank’s or the Borrower’s request, have such financial statement audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements so audited to the Borrower and the Bank; and (G) prepare and furnish to the Project Implementing Entity and the Bank all such information as the Project Implementing Entity or the Bank shall reasonably request relating to the foregoing;

(iii) requiring each PFI to provide Subfinancing for Subprojects in accordance with procedures, criteria, and terms and conditions set out in the Operational Manual and satisfactory to the Bank, including those referred to in Sub-sections B and C of this Section II; and

(iv) requiring each PFI to not assign, amend, abrogate or waive any Participation Agreement or any of its provisions, except as the PIU and the Bank shall otherwise agree.

2. All Participation Agreements (above 10 million EGP) will be subject to prior review by the Bank.

3. In order to be eligible to receive PFI Financings, each relevant PFI shall continue to remain in compliance with applicable laws and regulations issued by the Egyptian authorities as well as in compliance with prudential eligibility criteria set out in the Operational Manual, including those set out in Section I of this Annex.

4. Interest rates from the Project Implementing Entity to PFIs will be set in accordance with market principles, to promote the sustainability of the PFIs.

B. Subfinancing and Subfinancing Agreements

1. Each PFI shall provide each Subfinancing under a Subfinancing Agreement with the respective MSE in accordance with procedures and on terms and conditions approved by the Bank, and which shall include those set out in the Operational Manual and the provisions of this Section II.B.
2. The PFI shall obtain rights under the Subfinancing Agreement adequate to protect its interests and those of the Bank, including the right to: (i) suspend or terminate the right of the MSE to use the proceeds of the Subfinancing, or declare to be immediately due and payable all or any part of the amount of the Subfinancing then withdrawn, upon the MSE’s failure to perform any of its obligations in respect of the Subfinancing; and (ii) require each MSE to: (A) carry out its Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank including those set out in the Operational Manual; (B) ensure compliance with the Environmental and Social Management Framework and with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower; (C) procure the goods to be financed out of the Subfinancing in accordance with procedures set out in the Operational Manual and in Section III of the Schedule to the Project Agreement; (D) make available such financial information as may be requested by the PFI from time to time; (E) maintain a financial management system and prepare financial statements in accordance with consistently applied auditing standards acceptable to the Bank; (F) at the Bank’s or the Borrower’s request, have such financial statement audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements so audited to the Borrower and the Bank; (G) enable the PFI, the PIE and the Bank to review the Subproject, its operation and any relevant records and documents; and (H) prepare and furnish to the Project Implementing Entity; the PFI and the Bank all such information as the PFI; the Project Implementing Entity or the Bank shall reasonably request relating to the foregoing.

3. The PFI shall obtain and exercise its rights under each Subfinancing Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, including the right to suspend or terminate the right of the MSE to use the proceeds of the Subfinancing, or all or any part of the amount of the Subfinancing then withdrawn, upon the MSE’s failure to perform any of its obligations under the Subfinancing Agreement. Except as the Bank shall otherwise agree, the PFI shall not assign, amend, abrogate or waive any Subfinancing Agreement or any of its provisions.

C. Subproject Criteria

Subfinancings shall only be made for the acquisition of goods, working capital and fixed assets, not for works and not for the acquisition of land or rights in respect of land. Subfinancings shall not be made by PFIs for Subprojects that involve goods, or goods used as inputs in the production of such goods, which are intended for a military or paramilitary purpose or are included in the following groups or subgroups:
Description of Items

Alcoholic beverages;
Tobacco, unmanufactured, tobacco refuse, tobacco processing machinery;
Tobacco, manufactured (whether or not containing tobacco substitutes);
Radioactive and associated material;
Armaments and military and paramilitary materials; and
Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
APPENDIX

Definitions


2. “Environmental and Social Management Framework” means the Environmental and Social Management Framework which is an assessment framework dated December 17, 2013, adopted by the Project Implementing Entity for evaluation of environmental impacts and which sets forth policies and procedures for the screening of proposed Subprojects for potential positive and negative environmental and social impacts, generic mitigating and monitoring measures and the legal and institutional framework for the preparation of environmental assessment and environment and social management plans as may be during the implementation of the Project, including public consultations/participation techniques to identify potential impacts, and the establishment of a grievance redress mechanism, as said framework may be amended from time to time with the prior concurrence of the Bank.


4. “MSE” means a micro enterprise or a small enterprise established and operating within the territory of the Borrower, which meets the eligibility criteria satisfactory to the Bank, including those contained in the Operational Manual and in the Annex to this Agreement; and the term “MSEs” means, collectively all such MSEs.

5. “NGO” means a non-governmental organization operating within the territory of the Borrower, and the term “NGOs” means, collectively, all such non-governmental organizations.

6. “Operational Manual” means the Project Implementing Entity’s operational manual and guidelines dated December 4, 2013 to be followed by the Project Implementing Entity and used for the purposes of providing subfinancing under this Project and which includes, inter alia, financial management guidelines; as such Manual may be amended with the prior approval of the Bank.

7. “Participation Agreement” means an agreement entered into between the Project Implementing Entity and a Participating Financial Intermediary (PFI) for providing PFI Financing on the terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual and in the Annex to this
Agreement and the term “Participation Agreements” means, collectively, all such Participation Agreements.

8. “Participating Financial Intermediary” and “PFI” means banks, NGO’s, microfinance institutions, venture capital companies and financial leasing companies which meet the eligibility criteria for such financial intermediary satisfactory to the Bank, including those set forth in the Operational Manual and in the Annex to this Agreement; and the terms “Participating Financial Intermediaries” and “PFIs” means collectively all Participating Financial Intermediaries.


10. “Project Implementing Entity” and “PIE” means the Social Fund for Development, an entity established and operating in the territory of the Borrower under Presidential Decree No. 40 of 1991.

11. “PFI Financing” means a loan made by the Project Implementing Entity to a PFI out of the proceeds of the Loan for the purpose of providing Subfinancing pursuant to the provisions of a Participation Agreement and in accordance with the Operational Manual and this Agreement, under terms and conditions acceptable to the Bank; “PFI Financings” means, collectively, all such PFI Financings, or means the Project Implementing Entity provides equity financing alongside PFIs in MSEs in the case of venture capital.

12. “Project Implementing Unit” and “PIU” means the Unit established by PIE for the purposes of managing, monitoring and evaluating the implementation of the Project.

13. “Subfinancing” means financing in the form of a loan, and/or equity made by a PFI to, or in, a MSE out of the proceeds of a PFI Financing to finance goods under a Subfinancing Agreement for a Subproject pursuant to and in accordance with the provisions of the Operational Manual and this Agreement and under terms and conditions satisfactory to the Bank.

14. “Subfinancing Agreement” means an agreement entered into between a PFI and a MSE for carrying out a Subproject on the terms and conditions satisfactory to the Bank including those set forth in the Operational Manual and referred to in the Annex to this Agreement; and the term “Subfinancing Agreements” means, collectively, all such Subfinancing Agreements.

15. “Subproject” means an investment project (including working capital and asset investments) to be carried out by a MSE, using financing in part from the
proceeds of a Subfinancing in accordance with the provisions of the Operational Manual and this Agreement and under terms and conditions satisfactory to the Bank; and the term “Subprojects” means, collectively, all such Subprojects.