

CONFORMED COPY

LOAN NUMBER 7850-EG

Project Agreement

(Enhancing Access to Finance for Micro and Small Enterprises Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

THE SOCIAL FUND FOR DEVELOPMENT

Dated March 25, 2010

PROJECT AGREEMENT

Agreement dated March 25, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and THE SOCIAL FUND FOR DEVELOPMENT (SFD, the “Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between THE 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 Loan Agreement or 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 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 - EFFECTIVENESS; TERMINATION

- 3.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.
- 3.02. This Agreement and all obligations of the Bank and of the Project Implementing Entity thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the Project Implementing Entity thereof.
- 3.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE IV - REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity's Representative is its Secretary General.

4.02. 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 Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

4.03. 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 Cairo, Arab Republic of Egypt, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shamshad Akhtar

Authorized Representative

SOCIAL FUND FOR DEVELOPMENT

By /s/ Hani Seif El Nasr

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional 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 acceptable to the Bank for the purposes of carrying out the Project.
2. The Project Implementing Entity shall maintain the Project Committee to manage, monitor and evaluate the Project. The Project Committee shall meet on a regular basis and follow up on monitoring and progress of on-lending under Parts 1 and 2 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 for inclusion in each Participation Agreement, which agreements shall include eligibility criteria and procedures for the selection of MSEs and Subprojects and the signing of a Subloan 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

(v) the Environmental Management Plan 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 agreement of the Project Implementing Entity and Bank.

2. PFI Loans

The Project Implementing Entity shall:

(a) select PFIs which comply with the eligibility criteria for PFI's set forth and contained in the Operational Manual; and

(b) enter into a Participation Agreement with each PFI on the terms and conditions set forth in the Operational Manual and 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.

C. 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 set forth in the Operational Manual; and (b) enters into a Subloan Agreement with each MSE for the purpose of making a Subloan to such MSE, in accordance with the terms and conditions set forth in the Operational Manual.

E. Safeguards

The Project Implementing Entity shall, and shall cause the PFIs and MSEs to carry out the Project in compliance with, and shall ensure that all Subprojects comply with, the requirements of the Environmental Management Plan.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

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 Borrower not later two weeks after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.

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 furnished to the Borrower and the Bank not later than six months after the end of the period.
3. Without limitation on the provisions of this Section, the Borrower shall cause the PIE 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.** All goods 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 the Procurement Guidelines, and with the provisions of this Section.

2. **Definitions.** 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 the Procurement Guidelines.

B. Particular Methods of Procurement of Goods

Goods to be financed out of the proceeds of a Subloan for a Subproject may be procured under contracts awarded pursuant to paragraph 3.12 of the Procurement Guidelines (following commercial practices acceptable to the Bank).

C. Review by the Bank of Procurement Decisions

MSEs shall be subject to Post Review by the Bank on a random basis.

ANNEX

A. Eligibility Criteria for PFIs

1. In order to be eligible for a PFI Loan a PFI shall be a bank, as such term is defined under the Borrowers Banking Law 88 of 2001, or NGO or microfinance institution. The Project Implementing Entity shall make loans 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:

Eligibility Criteria for Selection of NGOs

- 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 30 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 expenses over time.
- e. At least two (2) years of externally audited financial statements.
- f. A minimum A or B in a GIRAFE rating done by SFD staff, or the potential to achieve this rating within two (2) years.

Eligibility Criteria for Selection of Banks

- 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 reports 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. Compliance with CBE regulations.
- k. A positive net income for the current and previous fiscal years, as reflected in the audited financial statements.

B. Terms and conditions of Participation Agreements, PFI Loans and Subloan Agreements and Subloans

Participation Agreements and PFI Loans

The Project Implementing Entity shall lend to each PFI under a Participation Agreement with the respective PFI on terms and conditions approved by the Bank, and which shall include the following:

- (a) The PFI Loan shall be (i) denominated and repayable in Egyptian Pounds; and (ii) charged interest on the principal amount withdrawn and outstanding from time to time at the rate of not less than prevailing interest rate.
- (b) The Project Implementing Entity shall obtain rights adequate to protect its interests and those of the Bank, including the right to:
 - (i) 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; and
 - (ii) require each PFI to: (A) carry out its lending 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 compliance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower; (B) make available such financial information as may be requested by the PIE from time to time; (C) enable the PIE and the Bank to review its operation and any relevant records and documents all in compliance with prevailing applicable legislation; (D) maintain a financial management system and prepare financial statements in accordance with consistently applied auditing standards acceptable to the Bank; (E) at the Bank or 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 (F) 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.

- (c) All Participation Agreements (above 10 million EGP) will be subject to prior review by the Bank.
- (d) The PFI is and will remain in compliance with applicable laws and regulations issued by the Egyptian authorities as well as in compliance with prudential eligibility criteria.
- (e) Interest rates from the Project Implementing Entity to PFIs will be set in accordance with market principles, to promote the sustainability of the PFIs.
- (f) Except as the Bank shall otherwise agree, the PFI shall not assign, amend, abrogate or waive any Participation Agreement or any of its provisions.

C. Subloans and Subloan Agreements

Each PFI shall make each Subloan under a Subloan Agreement with the respective MSE on terms and conditions approved by the Bank, and in accordance with the Operational Manual.

The PFI shall obtain rights 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 Sub-loan, or declare to be immediately due and payable all or any part of the amount of the Sub-loan then withdrawn, upon the MSE's failure to perform any of its obligations in respect of the Sub-loan; and (ii) require each MSE to: (A) carry out its Sub-project 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 compliance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower; (B) procure the goods, services to be financed out of the Sub-loan; (C) make available such financial information as may be requested by the PFI from time to time; (D) enable the PFI and the PIE and the Bank to review the Sub-project, its operation and any relevant records and documents all in compliance with prevailing applicable legislation; and (E) prepare and furnish to the Project Implementing Entity and PFI and the Bank all such information as the PFI and the Project Implementing Entity or the Bank shall reasonably request relating to the foregoing.

The PFI shall obtain and exercise its rights under each Subloan 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 Subloan, or all or any part of the amount of the Subloan then withdrawn, upon the MSE's failure to perform any of its obligations under the Subloan Agreement. Except as the Bank shall otherwise agree, the PFI shall not assign, amend, abrogate or waive any Subloan Agreement or any of its provisions.

D. Subproject Criteria

Subloans 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. Subloans 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**

1. “Subloan Agreement” means an agreement entered into between a PFI and a MSE on the terms and conditions set forth in the Operational Manual and referred to in the Annex to the Project Agreement; and the term “Subloan Agreements” means, collectively, all such Participation Agreements.
2. “NGO” means a non-governmental organization operating within the territory of the Borrower, and the term “NGOs” means, collectively, all such non-governmental organizations.
3. “Project Committee” means the Committee established by Decree No. 4 of 2010 for the purposes of managing, monitoring and evaluating the implementation of the Project.
4. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.