

Dr. Kazim Niaz
Secretary
Ministry of Economic Affairs
Government of Pakistan
Islamabad

Re: Pakistan: Financial Inclusion and Infrastructure Project
(Credit Number 6101-PK (Portion A) and Credit Number 5989-PK (Portion B))
Amendments to the Financing Agreement

Dear Dr. Niaz:

We refer to the: (a) Financing Agreement dated August 03, 2017, between the Islamic Republic of Pakistan (“Recipient”) and the International Development Association (“Association”), as amended (“Financing Agreement”); and (b) the Project Agreement of the same date between the International Development Association (“Association”) and the State Bank of Pakistan (“SBP” or “Project Implementing Entity”) (“Project Agreement”), for the above-mentioned Project (“Project”). We also refer to your letter dated November 24, 2022, requesting for extension of closing date and restructuring of the Project.

We are pleased to inform you that the Association agrees to your request and consequently the Financing Agreement is amended as set forth below:

1. Section 3.01 of Article III of the Financing Agreement is amended to read as follows:

“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; all in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.”

2. Part 2 (“**Support Expansion of Access Points for Financial Services**”) of Schedule 1 to the Financing Agreement is deleted in its entirety.

3. Part 3(b) of Schedule 1 to the Financing Agreement is amended to read as follows:

“(b) Improvement of access to financial services for Small and Medium Enterprises (“SMEs”), through provision of technical assistance and analyses to improve access to financial services to SMEs.”

4. Section I.C.1.(b) of Schedule 2 to the Financing Agreement is amended to read as follows:

“(b) the obligation to carry out and ensure that all PFIs carry out Parts 3(a) of the Project with the terms and conditions set forth in the Project Agreement (including those set forth in Section D of this Schedule 2).”

5. Section I.D. (**Project Implementation Unit for Part 2 of the Project**) is deleted in its entirety and the subsequent Section “E” is renumbered as Section “D”.
6. Section I.E. (**“Environmental and Social Risk Management for Part 3(a) and 3(b)(i) of the Project”**) of Schedule 2 to the Financing Agreement is renumbered as “Section I.D.” and amended to read as follows:

“D. Environmental and Social Risk Management for Part 3(a) of the Project

1. For purposes of managing the environmental and social risks and impact associated with the implementation of Part 3(a) 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 that meet the criteria detailed in the Project Operations Manual;
 - (b) all Eligible Microfinance Investments supported under Part 3(a) 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, 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) 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, 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.”
7. Section III (“**Procurement**”) of Schedule 2 to the Financing Agreement is amended to read as follows:

“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, and the SBP Procurement Plan.

8. The table under Section IV.A.2. (“**Withdrawal of the Proceeds of the Credit**”) of Schedule 2 to the Financing Agreement is amended and attached as Annex-1 to this Amendment Letter.
9. Section IV.B. (“**Withdrawal Conditions: Withdrawal Period**”) of Schedule 2 to the Financing Agreement is amended to read as follows:

“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 Category (1)(a); and
 - (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.

2. The Closing Date is June 30, 2025.”

10. Section I. (“**Definitions**”) of Appendix to the Financing Agreement is amended and attached as Annex-2 to this Amendment Letter.

Except as specifically amended in this amendment letter, all other terms and conditions of the Financing Agreement shall remain in full force and effect.

The Association will disclose this amendment letter and related information on this Financing Agreement in accordance with the World Bank’s Policy on Access to Information. By entering into this amendment letter, the Recipient consents to disclosure of this amendment letter and related information.

Please confirm your agreement to the foregoing on behalf of the Recipient by countersigning and dating the form of confirmation set forth below and returning one fully countersigned original of this amendment letter to us and retaining one original for your records. This Amendment Letter shall become effective upon receipt by the Association of: (a) duly countersigned original of this amendment letter.

Sincerely,
INTERNATIONAL DEVELOPMENT ASSOCIATION

Najy Benhassine

Najy Benhassine
Country Director, Pakistan

CONFIRMED AND AGREED:
ISLAMIC REPUBLIC OF PAKISTAN

By: 
Name: Kazim Niaz
Title: Secretary Ministry of Economic Affairs
Date: 27-Jun-2023

Annex-1

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)
<p>(1) For SBP:</p> <p>(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</p> <p>(b) Sub-Loans under Part 3(a) of the Project</p> <p>(c) Capitalization of risk sharing facility under Part 3(b)(i) of the Project</p> <p>(This activity is being dropped upon effectiveness of this amendment letter)</p>	<p>0</p> <p>72,618,000</p> <p>0</p>	<p>14,400,000</p> <p>12,988,000</p> <p>0</p>	<p>100%</p> <p>100% for Portion A up to December 31, 2022; 85% for Portion A and 15% for Portion B after December 31, 2022</p>

(2) For CDNS : Goods, non-consulting services, consulting services, Training and Workshops and Incremental Operating Costs under Part 2 of the Project	0	112,000	100% up to June 30, 2023
(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	

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 using the proceeds of the Credit under Part 3(a) of the Project and which are comprised of: (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, as defined in the Project Operations Manual, and 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. “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.
5. “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.
6. “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) of the Project and managing exposure to such risks and impacts by SBP and PFIs in a manner that enables the Eligible Microfinance 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) of the Project.
7. “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.

8. “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.
9. “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.
10. “IFC” means International Finance Corporation.
11. “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.
12. “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.
13. “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.
14. “National Financial Inclusion Strategy Secretariat” means the secretariat responsible for the implementation of the National Financial Inclusion Strategy.
15. “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.
16. “Project Agreement” means the agreement between the Association and SBP relating to the implementation of Parts 1 and 3 of the Project.
17. “Procurement Regulations” means the “World Bank Procurement Regulations for Borrowers under Investment Project Financing”, dated July 1, 2016.
18. “Project Implementing Entity” means “SBP” or State Bank of Pakistan.
19. “Project Operations Manual” means the manual dated May 10, 2017, adopted by SBP, 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 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.

20. "SBP's Legislation" means the Recipient's State Bank of Pakistan Act, 1956 (Act No. XXXII of 1956).
21. "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.
22. "SBP PIU" means the unit referred to in Section I.A.1 of the Schedule to the Project Agreement with SBP.
23. "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.
24. "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.
25. "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.
26. "Sub-Loan" means the investment loan made available by a PFI out of the proceeds of the Loan for financing Eligible Microfinance Investments, all in accordance with criteria, requirements, and procedures set out in the Project Operations Manual.
27. "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.
28. "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.