MIDDLE EAST AND NORTH AFRICA TRANSITION FUND

Grant Agreement

INCLUSIVE REGULATIONS FOR MICROFINANCE PROJECT

between

ARAB REPUBLIC OF EGYPT

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as Implementation Support Agency for the Transition Fund

Dated August 26, 2014
GRANT NUMBER TF017864

TRANSITION FUND

GRANT AGREEMENT

AGREEMENT dated August 26, 2014, entered into between:

THE ARAB REPUBLIC OF EGYPT ("Recipient"); and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as Implementation Support Agency (ISA) of the Trust Fund (TF072021) for the Transition Fund (the "Trust Fund").

The World Bank and the Recipient hereby agree as follows:

Article I

Standard Conditions; Definitions

1.01. The Standard Conditions (as defined in Appendix I to this Agreement), with the modification set forth in Appendix II 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 Standard Conditions or in this Agreement, or in Appendix I to this Agreement.

Article II

The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall cause the Project to be carried out by the Egyptian Financial Supervisory Authority (EFSA) in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank 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 III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to four million United States Dollars (US$4,000,000) ("Grant") to assist in financing the Project.

3.02. The Recipient through EFSA may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the Trust Fund for which the World Bank receives periodic contributions from the Trustee of the Trust Fund, in accordance with the Financial Procedures Arrangement (FPA) between the International Bank for Reconstruction and Development and International Development Association, acting jointly as Implementation Support Agency (ISA), and the International Bank for Reconstruction and Development, as Trustee, dated November 21, 2012, concerning the Trust Fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Trustee under the abovementioned Trust Fund, in accordance with the FPA, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds.

Article IV
Additional Remedies

4.01. The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following, namely, that the EFSA Legislation has been amended, changed, abrogated or repealed in a manner which in the opinion of the World Bank adversely affects the ability of the EFSA to implement the Project or any part thereof.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until the World Bank receives from the Recipient formal notification satisfactory to the World Bank of a competent official of the Recipient, showing that the Recipient has duly entered into this Agreement and the Recipient and EFSA have entered into the Subsidiary Agreement and that the terms and conditions of this Agreement and the Subsidiary Agreement are fully valid and binding and all the necessary internal procedures have been completed by the Recipient.
5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the formal notification sent in accordance with Section 5.01 of this Agreement ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date one hundred twenty (120) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI

Recipient's Representative; Addresses

6.01. The Minister of International Cooperation of the Recipient and the Assistant to the Minister for International, Regional and Arab Financing Organizations of the Ministry of International Cooperation are severally designated as the Recipient’s Representative referred to in Section 7.02 of the Standard Conditions.

6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of International Cooperation
8 Adly Street,
Cairo, Arab Republic of Egypt

Cable address: Ministry of International Cooperation (202) 2391-2815
Facsimile: (202) 2391-5167

6.03. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development and
International Development Association
1818 H Street, N.W. Washington, D.C. 20433
United States of America
AGREED at Cairo, Arab Republic of Egypt, as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

By

Naglaa EL Ehwany

Authorized Representative

Title: Minister of International Cooperation

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION (acting as Implementation Support Agency of the Trust Fund for the Transition Fund)

By

[Signature]

Authorized Representative

Name: [Signature]

Title: Country Director
The development objective of the Project is to strengthen the regulatory and institutional framework of the microfinance sector in Egypt.

The Project consists of the following parts:

**Part I  Developing the Regulatory Framework for Microfinance:** (i) developing and finalizing the executive regulations of the draft microfinance law of the Recipient, setting out the arrangements to enforce and implement the Microfinance Law; (ii) drafting and finalizing the directives of the NGO Microfinance Oversight Board established under the Microfinance Law; (iii) conducting study tours on legal and regulatory framework for microfinance institutions; and (iv) provision of advisory services to strengthen the regulatory framework for non-bank financial institutions (NBFI).

**Part II Establishing and Operationalizing the Microfinance Unit at EFSA:** (i) establishing a microfinance unit, responsible for: licensing, monitoring, oversight, inspection and audit, financial reporting, and consumer protection, and complaints; (ii) providing training and building capacity of the relevant staff to undertake key operational and strategic functions within the unit, conducting study tours to countries with well-developed systems for microfinance regulations and supervision, and providing on the job training; and (iii) strengthening the institutional infrastructure, with the required equipment and IT (software and hardware) to enhance the information dissemination mechanisms internally and externally aiming at improving the governance structure and transparency.

**Part III Promoting Accountability, Governance and Consumer Protection:** (i) enhancing consumer protection and financial literacy, through training workshops, publishing materials, social media and public awareness campaigns; (ii) conducting study tours and on the job training in countries which have well-developed systems for financial consumer protection; and (iii) providing training and building the capacity of the NGO Microfinance Oversight Board in the areas of consumer protection and financial literacy oversight.
SCHEDULE 2

Project Execution

Section I. Institutional and Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall carry out the Project through EFSA and ensure that EFSA is maintained at all times during Project implementation with functions, staffing and resources, satisfactory to the World Bank.

2. The EFSA shall, not later than two months after the Effective Date, establish, and thereafter maintain throughout the period of Project implementation a Project Management Unit (PMU), with qualified staff in adequate numbers and with qualifications and experience and terms of reference satisfactory to the World Bank.

3. The EFSA shall, not later than six months after the Effective Date, hire an independent external auditor to conduct semi-annual reviews on the Project IFRs, and conduct audits of the Project’s annual Financial Statements before submission to the World Bank, and issue a management letter reporting on any internal control and/or accountability issues.

B. Subsidiary Agreement

1. In order to facilitate the implementation of the Project, the Recipient shall make the proceeds of the Grant available to EFSA under a subsidiary agreement to be entered into between the Recipient and EFSA (the “Subsidiary Agreement”), under terms and conditions approved by the World Bank, including, inter alia, requiring EFSA to carry out the Project in accordance with the provisions of this Agreement, the Operational Manual, and the Anti-Corruption Guidelines, and to take all actions and measures which shall enable the Recipient to fulfil the obligations of the Recipient under this Agreement.

2. The Recipient shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interest of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Implementation Arrangements

1. The Recipient shall cause EFSA to carry out the Project in accordance with the Operational Manual approved by the World Bank, which includes, inter alia:
(i) implementation arrangements; (ii) the procurement procedures and standard procurement documentation; (iii) reporting requirements, financial management and audit procedures; and (iv) monitoring and evaluation arrangements.

2. The Recipient shall cause EFSA not to assign, amend, abrogate or waive the Operational Manual or any provisions thereof if, in the opinion of the World Bank, such assignment, amendment, abrogation or waiver will materially and adversely affect the implementation of the Project. Any amendments to the said manual shall be made with the prior agreement of the World Bank. In case of any conflict between the provisions of the Operational Manual and the provisions of this Agreement, the provisions of this Agreement shall govern.

3. Without any limitation to the provisions of Section 3.06 of the Standard Conditions, the Recipient shall ensure that the Grant funds are used exclusively for their intended purposes and not diverted to persons or entities, or utilized for activities, prohibited under the FPA, in particular under Section 4 of the FPA.

D. Anti-Corruption

The Recipient shall cause EFSA to carry out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

E. Donors Visibility and Visits

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Trust Fund donors' support for the Project.

2. For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank's request, take or cause to be taken all measures required on its part to enable the representatives of the Trust Fund donors to visit any part of the Recipient's territory for purposes related to the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient shall cause EFSA to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators reflected in the Operational Manual, acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.
2. The Recipient shall cause EFSA to prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

B. **Financial Management; Financial Reports; Audits**

1. The Recipient shall cause EFSA to maintain a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. Without any limitation to the provision of Part A of this Section, the Recipient shall ensure that EFSA prepares interim unaudited financial reports for the Project covering each calendar semester during implementation of the Project, in form agreed with the Bank and substance satisfactory to the World Bank, and the Recipient shall ensure that EFSA furnishes such reports to the World Bank not later than forty-five (45) days after the end of each calendar semester.

3. The Recipient shall ensure that EFSA shall have the Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient or any other period agreed upon with the World Bank. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

C. **Other Reports**

Without any limitation to the provisions of Section II.A and Section II.B of this Schedule 2, upon request from the World Bank, the Recipient shall, within a reasonable time, provide or cause to be provided all information and reports relating to the Project and the use of the proceeds of the Grant, in order to enable the World Bank to fulfill its obligations under the FPA.

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 Grant 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. **Consultants' Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding; (b) Shopping; and (c) Direct Contracting.

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (a) Single-source Selection of consulting firms; (b) Selection of Individual Consultants; and (c) Single-source procedures for the Selection of Individual Consultants.

D. **Review by the World Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. **Withdrawal of Grant Proceeds**

A. **General**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional arrangements as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods, non-consulting services, consultants’ services,</td>
<td>4,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>Training, and Operating Costs under the Project</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>4,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

B. Weighted Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for the payments made prior to the date of this Agreement.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is October 31, 2018.
APPENDIX I
Definitions


(b) “EFSA” means the Egyptian Financial Supervisory Authority.

(c) “EFSA Legislation” means Law No. 10 of 2009 of the laws of the Recipient.


(e) “MFIs” or “Microfinance Institutions” means non-banks microfinance institutions including but not limited to for-profit companies, not-for-profit companies, and non-governmental organizations, as referred to in Part I of schedule I of the Grant Agreement. “NGO Microfinance Oversight Board” means the “sounding board” to be established as stipulated by the Microfinance Law, to support the effective supervision and regulation of NGO-MFIs through coordination and cooperation with EFSA, as referred to in part III of Schedule I to the Grant Agreement.

(f) “NBFI” means non-Bank financial institutions in the Recipient’s territory, as referred to in Part I of schedule I of the Grant Agreement.

(g) “Operating Costs” means Project related incremental costs incurred by the EFSA on account of communication, translation and interpretation, printing, procurement-related advertising, office supplies, banking charges, local transportation, and other miscellaneous costs directly associated with Project implementation, subject to prior written approval by the World Bank, excluding salaries of the Recipient’s civil servants.


(i) “Procurement Plan” means the procurement plan dated July 9, 2014 prepared and updated from time to time by EFSA for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines.

(j) “Operational Manual” means the manual for the Project prepared by the Recipient and approved by the World Bank, and referred to in Section I.C.1 of
Schedule 2 to the Grant Agreement, as the same may be amended from time to time with the prior written agreement of the World Bank.


(l) “Steering Committee” or “SC” means the Transition Fund’s decision making body, established in accordance with the procedures set out in the Trust Fund Operations Manual.

(m) “Training” means the expenditures incurred on account of Grant implementation such as workshops, transportation and per diem of trainers and trainees, rent of training facilities; preparation, acquisition, reproduction and distribution of training materials; and fees for trainers and other reasonable expenditures as agreed upon in writing with the World Bank.

(n) “Transition Fund Operations Manual” means the Manual approved by the Steering Committee, which sets out the detailed procedures applicable to the operation of the Trust Fund, as said Manual may be amended from time to time by the Steering Committee in accordance with procedures set out in the said Manual.

(o) “Trustee” means the International Bank for Reconstruction and Development in its capacity as a trustee of the Trust Fund.
APPENDIX II

Modifications to the Standard Conditions

The Standard Conditions are modified as follows:

The first sentence of Section 4.05(a) of the Standard Conditions have been revised as follows: “If the World Bank or the Steering Committee (as defined in the Grant Agreement) determines or an audit conducted under the FPA (as defined in the Grant Agreement) indicates that an amount of the Grant has been used in a manner inconsistent with any provision of the Grant Agreement, the Standard Conditions, or the FPA, the Recipient shall, upon notice by the World Bank to the Recipient, promptly refund such amount to the World Bank.”