

CONFORMED COPY

LOAN NUMBER 3719 EGT

Loan Agreement

(Agricultural Modernization Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

and

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT

Dated October 9, 1994

LOAN NUMBER 3719 EGT

LOAN AGREEMENT

AGREEMENT, dated October 9, 1994, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT (the Borrower).

WHEREAS (A) Arab Republic of Egypt (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) the Guarantor has also requested the International Development Association (the Association) to provide additional assistance towards the financing of the Project, and the Association has agreed, under the Development Credit Agreement of even date herewith, to provide such assistance in the amount of forty-eight million seven hundred thousand Special Drawing Rights (SDR 48,700,000); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MALR" means the Guarantor's Ministry of Agriculture and Land Reclamation;

(b) "BDAC" means any of the Banks for Development and Agricultural Credit, fully-owned subsidiaries of the Borrower operating at the regional level;

(c) "Village Bank" means any of the village banks established as fully-owned subsidiaries of the Borrower to operate at the village level;

(d) "ARC" means the Agricultural Research Center of MALR;

(e) "RRES" means a Regional Research and Extension Station of MALR;

(f) "Participating Bank" means any banking institution of the Guarantor with which the Borrower shall conclude a Subsidiary Loan Agreement (as such term is defined in paragraph (g) below);

(g) "Subsidiary Loan Agreement" means a subsidiary loan agreement to be concluded between the Borrower and a Participating Bank pursuant to the arrangements and on the terms referred to in Part B of Schedule 5 to this Agreement;

(h) "Sub-loan" means a loan made by the Borrower or a Participating Bank to a Beneficiary (as such term is defined in paragraph (i) below);

(i) "Beneficiary" means any individual or enterprise to which the Borrower or a Participating Bank proposes to make or has made a sub-loan, or proposes to provide or has provided the foreign exchange required for the carrying out of an Investment (as such term is defined in paragraph (j) below);

(j) "Investment" means a specific investment for purposes of Part A or Part B of the Project eligible for financing from the proceeds of the Loan and/or the Credit;

(k) "PMD" means the Project Management Department of the Borrower;

(l) "PSC" means the Project Steering Committee established by the Borrower to guide and monitor the implementation of the Project;

(m) "IAC" means the Implementation Advisory Committee established by the Borrower of representatives of groups with interest in the Project to advise on measures for ensuring effective Project Implementation;

(n) "EIDU" means an Extension Information and Demonstration Unit to be established under Part C (6) of the Project;

(o) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(p) "Development Credit Agreement" means the Development Credit Agreement of even date herewith between the Guarantor and the Association;

(q) "Credit" means the Credit in the amount of forty-eight million seven hundred thousand Special Drawing Rights (SDR 48,700,000, provided by the Association to the Guarantor under the Development Credit Agreement;

(r) "Financing Agreements" means the two financing agreements to be entered into between the Guarantor and the Borrower pursuant to the provisions of Section 3.01 (a) of the Development Credit Agreement, whereby the proceeds of the Credit will be made available to the Borrower;

(s) "Statutes" means Law No. 117 for the year 1976 of the Guarantor pertaining to the regulation of the Borrower's activities, as amended from time to time;

(t) "Business Plan" means the Business Plan of the Borrower, dated October 25, 1993, as the same may be amended from time to time;

(u) "Project Coordinator" means the full-time Project Coordinator designated by the Borrower to be responsible for day-to-day management of the Project;

(v) "Sale Option" means the sale by the Borrower or a Participating Bank to a Beneficiary, for local currency and in accordance with the legally applicable exchange rate, of such portion of the proceeds of the Loan or Credit as shall be required for financing import by such a Beneficiary of goods required for the carrying out of an Investment; and

(w) "Guidelines" means the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of fifty-four million dollars (\$54,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower or a Participating Bank to a Beneficiary to meet the foreign exchange payments required for the carrying out of the Investment in respect of which the withdrawal from the Loan Account is requested.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings

determined in respect of the preceding Semester, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may have been made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project and conduct its operations and affairs in accordance with sound financial standards and practices and in accordance with the Statutes and Business Plan.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the Borrower shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall exercise its rights under the

Financing Agreements in such manner as to protect the interest of the Guarantor, the Bank and the Borrower, comply with its obligations under this Agreement and achieve the purposes of the Project.

(b) Except as the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Financing Agreements or any provisions thereof.

(c) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Part C of the Project and to be financed out of the proceeds of the Credit made available to the Borrower under the Financing Agreements shall be governed by the provisions of Schedule 4 to this Agreement.

#### ARTICLE IV

##### Financial and Other Covenants

Section 4.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) starting with the Borrower's fiscal year beginning on July 1, 1994, have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), and the records and accounts for the Special Account and the consolidated accounts for the Project for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine months after the end of each such year: (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower shall: (a) furnish to the Bank by October 31 in each year, starting in the Year 1994, an analysis of the Borrower's loan recovery and aging of arrears; and (b) take measures adequate to ensure, by June 30, 1997, the reduction of the Borrower's operating expenses and the maintenance of the level of such expenses at the equivalent of not more than 60% of the Borrower's net interest income.

Section 4.03. The Borrower shall ensure compliance of its Policies and Procedures for loan classification and for provisioning with the prudential regulations of the Guarantor's Central Bank.

Section 4.04. The Borrower shall continue to prepare and furnish to the Bank, by March 31 of each year, an annual business plan, including the Borrower's financial targets for the following fiscal year and a projection of the Borrower's financial performance for the following five fiscal years.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.01 (1) of the General Conditions, the following additional event is specified, namely, that the Statutes or the Business Plan shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial conditions of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions

(a) all conditions precedent to the effectiveness of the Development Credit Agreement, save for conditions requiring the effectiveness of this Loan Agreement, have been fulfilled; and

(b) the Financing Agreements have been concluded between the Guarantor and the Borrower.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Financing Agreements have been duly concluded between the Guarantor and the Borrower and are legally binding upon the Guarantor and the Borrower in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Chairman of the Board of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for  
Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433

United States of America

Cable address:

Telex:

INTBAFRAD  
Washington, D.C.

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

For the Borrower:

110 Kasr El-Eini Street  
Cairo  
Egypt

Cable address:

Telex:

TASLEEF BANK  
Cairo

3540940

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Cairo, Arab Republic of Egypt, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Caio Koch-Weser

Authorized Representative

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT

By /s/ Hassan A. Khedr

Authorized Representative

#### SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amount of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
Machinery, equipment and other goods under Parts A and B of the Project	54,000,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local ex- penditures for other items pro- cured locally

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

(b) the term "local expenditures" means expenditures in the currency of the Guarantor or for goods or services supplied from the territory of the Guarantor.

3. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for such expenditures for goods, works and services under contracts not exceeding \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are: (a) to increase agricultural productivity through the promotion of appropriate technological packages at the farm level, (b) to increase rural income through the creation of off-farm job opportunities in farm-related enterprises; and (c) at the institutional level, to strengthen the capacity of the Borrower as a rural financial institution, encourage wider participation by banking institutions in the financing of rural investments and improve coordination among agencies responsible for the provision of agricultural services in the areas of credit, marketing and technology transfer.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A: On-farm Technological Improvement

Provision by the Borrower and the Participating Banks to Beneficiaries of the foreign exchange (under Sale Option and/or under Sub-loans) required for financing the procurement of agricultural inputs, machinery, equipment, components and spare parts.

#### Part B: Rural Based Investment

Provision by the Borrower and the Participating Banks to Beneficiaries of the foreign exchange (under Sale Option and/or under a Sub-loan) required for the carrying out of (a) Investments in agriculture-based activities, such as extraction, agro-processing, post-harvest activities, fish farming and dairying, and (b) Investments in agriculture-related services such as handling, storage, transport, other marketing activities, information and technology dissemination and veterinary.

#### Part C: Institutional Development

1. Provision to the Borrower of expert services to upgrade its planning, auditing and lending capacities, including its capacity to assess the environmental impact of investments submitted for its financing.
2. Preparation and implementation by the Borrower of a training program for its staff (including staff of BDACs and village banks) and the staff of the Participating Banks in key areas of their operations.
3. Carrying out of studies of rural financial markets and rural savings.
4. Formulation and implementation by the Borrower of a staff rationalization plan to ensure, through streamlining, retraining and redeployment, compatibility of the staffing of the Borrower with its operational needs.



5. Establishment or upgrading of about 20 village banks.

6. Implementation of a Pilot Program to facilitate the use of proven agricultural technology, including (a) upgrading of the facilities and staffing of three RRES so as to ensure their operation as effective links between farmers and agents for agricultural services in the areas of research, extension, credit and input supply, and (b) strengthening the link between the above RRES and extension services through the formation of 33 Extension Information and Demonstration Units (EIDUs), to be staffed by appropriate specialists in technology transfer, and (c) provision of training.

\* \* \*

The Project is expected to be completed by June 30, 2001.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
December 15, 1999	1,025,000
June 15, 2000	1,060,000
December 15, 2000	1,100,000
June 15, 2001	1,140,000
December 15, 2001	1,180,000
June 15, 2002	1,225,000
December 15, 2002	1,265,000
June 15, 2003	1,315,000
December 15, 2003	1,360,000
June 15, 2004	1,410,000
December 15, 2004	1,460,000
June 15, 2005	1,515,000
December 15, 2005	1,570,000
June 15, 2006	1,625,000
December 15, 2006	1,685,000
June 15, 2007	1,750,000
December 15, 2007	1,810,000
June 15, 2008	1,875,000
December 15, 2008	1,945,000
June 15, 2009	2,015,000
December 15, 2009	2,090,000
June 15, 2010	2,165,000
December 15, 2010	2,245,000
June 15, 2011	2,325,000
December 15, 2011	2,410,000
June 15, 2012	2,500,000
December 15, 2012	2,590,000
June 15, 2013	2,685,000
December 15, 2013	2,780,000
June 15, 2014	2,880,000

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

#### Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment

Premium

The interest rate (expressed as a percentage per annum) applicable to the Loan on

	the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services Under Part C of the Project

#### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

1. (a) Vehicles, and office and laboratory equipment and (b) all other items of goods estimated to cost per contract the equivalent of more than \$200,000, shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the Guidelines.

2. In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A (1) hereof, goods manufactured in Egypt may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Other Procurement Procedures

1. Items of works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Items or groups of items of goods (other than vehicles and office and laboratory equipment) estimated to cost the equivalent of not more than \$200,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

##### Part D: Review by the Bank of Procurement Decisions

Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of more than \$200,000, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

## Section II. Employment of Consultants

1. In order to assist the Borrower in the carrying out of Part C of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$100,000 equivalent or above.

### SCHEDULE 5

#### Implementation Program

Except as the Borrower and the Bank shall agree upon from time to time, the Borrower shall carry out the Project in accordance with the following arrangements:

##### Part A: Project Management

1. The Chairman of the Borrower, acting as Project Director, shall assume the overall responsibility for Project implementation. He shall maintain the existence of PSC under his chairmanship and convene it when needed to utilize its expertise in guiding Project implementation.

2. The Project Coordinator shall (a) assist the Project Director in all matters related to Project administration; (b) head the PMD; and (c) act as the secretary of PSC. In addition to the Project Coordinator, the Project Director shall be assisted by two Project deputies, one to be responsible for banking-related matters under Parts A and B of the Project, and the other to be responsible for technology transfer and institutional coordination under Part C of the Project.

3. In carrying out Part C of the Project, the Borrower shall act in close coordination and cooperation with the extension service of MALR and ARC.

Part B: Participating Banks

1. The Borrower shall continue to implement an information campaign to contact major Egyptian commercial banks and to inform them of the objectives and components of the Project and to adequately explain to them the conditions for their becoming Participating Banks for the purpose of extending financing for Investments under Parts A and B of the Project.

2. The Borrower shall determine the eligibility of a commercial bank to become a Participating Bank under the Project in accordance with criteria satisfactory to the Borrower and the Bank, including the compliance of such bank with the prudential regulations of the Central Bank of Egypt and its agreement to have its accounts audited by private external auditors, in accordance with internationally accepted auditing practices and to submit a copy of the audit report to the Bank.

3. Upon determination of the eligibility of a commercial bank to become a Participating Bank under the Project, the Borrower shall conclude with such bank, on terms and conditions satisfactory to the Bank, a Subsidiary Loan Agreement which shall include, in addition to provision reflecting the requirement stated in paragraph 2 above:

(a) the amount lent by the Borrower to the Participating Bank out of the Loan and Credit proceeds;

(b) an amortization schedule for repayment of the principal amount of the Subsidiary Loan over a period not exceeding 15 years;

(c) the obligation of the Participating Bank (i) to pay on the amount of the Subsidiary Loan not withdrawn from time to time a commitment charge at a rate equal to that applicable to the Loan, and (ii) to pay on the amount of the Subsidiary Loan withdrawn and outstanding from time to time interest at a rate which shall equal the interest rate and other charges applicable to the outstanding amount of the Loan, plus an administration fee at a rate of not more than one-half of one percentage point;

(d) the obligation of the Participating Bank in case it utilizes the Sale Option for financing Investments (i) to prepay to the Borrower, without penalty, an amount of the subsidiary loan corresponding to the amount used in the Sale Option, or (ii) to use the proceeds of the Sale Option for financing further Investments;

(e) appropriate remedies to ensure the use by the Participating Bank of the proceeds of the Subsidiary Loan in the purposes for which it was provided and to protect the interest of the Borrower;

(f) the obligation of the Participating Bank to finance Investment and to provide Sub-loans in accordance with the conditions set forth in Part C of this Schedule;

(g) the application by the Participating Bank of an appropriate methodology and procedures in the appraisal of Investments proposed for its financing; and

(h) (i) the maintenance by the Participating Bank of separate records and accounts adequate to reflect in accordance with sound accounting practices its operations under the Subsidiary Loan Agreement; (ii) the audit of said records and accounts for each fiscal year, in accordance with appropriate auditing principles, by independent auditors acceptable to the Borrower and the Bank, and (iii) the furnishing to the Borrower and the Bank of the report of such audit by said auditors.

Part C: Financing of Investments

1. The Borrower or the Participating Bank, as the case may be, shall

obtain the concurrence of the Bank prior to approving a financing for an Investment, whether under the Sale Option or under a Sub-loan, in an amount exceeding \$1,000,000 equivalent. For this purpose, the Borrower or the Participating Bank, as the case may be, shall furnish to the Bank an application containing: (a) a description and an appraisal of the Investment, including, whenever relevant, an assessment of the environmental impact thereof; (b) the proposed terms and conditions of the sub-loan, and (c) such other information as the Bank shall reasonably request.

2. Except as the Bank may otherwise agree, no financing for a single Investment or to a single Beneficiary from the Proceeds of the Loan and the Credit shall be provided in an amount exceeding \$3,000,000 equivalent.

3. Sub-loans shall be made on terms whereby the Borrower or the Participating Bank, as the case may be, shall obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the Borrower or the Participating Bank, including, with respect to Investments financed under Sub-loans, the right to:

(a) require the Beneficiary to carry out and operate the Investment with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require that: (i) the goods and services to be financed out of the proceeds of the Sub-loan shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them, and (ii) such goods and services shall be used exclusively in the carrying out of the Investment;

(c) inspect such goods and the sites, works, plants and construction included in the Investment, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Loan or Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) obtain all such information as the Bank, or the Borrower or the Participating Bank, shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment and to the benefits to be derived therefrom; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Sub-loan upon failure by such Beneficiary to perform its obligations under its contract with the Borrower or the Participating Bank, as the case may be.

4. Any contract to be concluded by Beneficiaries for the purchase of agricultural inputs in an amount exceeding the equivalent of more than \$3,000,000 shall be awarded under procedures consistent with those set forth in Sections I and II of the Guidelines.

5. Sub-loans shall be charged interest and other charges at such rates as shall ensure a reasonable return on the Borrower's or the Participating Bank's lending operations.

6. The Borrower shall: (a) prepare, with the assistance of the environmental expert assigned to its environmental function and on the basis of principles satisfactory to the Bank, environmental screening guidelines for use by its staff, the staff of BDACs and of the Participating Banks in assessing the environmental impact of

agricultural investments; (b) carry out during the period of Project implementation, a program of staff training on environmental screening, analysis and monitoring; and (c) ensure, and cause the Participating Banks to ensure, that Investments in agro-processing and land reclamation shall be subject to environmental analysis to be included in their appraisal, that such analysis shall include mitigation measures as necessary and that no financing shall be provided for Investments whose environmental impact shall be considered as unacceptable under the environmental screening guidelines referred to in sub-paragraph 5 (a) above.

7. The Borrower shall employ (a) by October 31, 1994, for a period of two years, a development banking expert and a loan administration and recovery specialist with qualifications and terms of reference satisfactory to the Bank; and (b) such other experts on ad hoc basis as may be required for the purposes of Investments.

Part D: Institutional Development under Part C of the Project

1. The Borrower shall: (a) prepare and furnish to the Bank, for its comments, by September 30, 1994, a plan for the carrying out of training under Part C (2) of the Project; and (b) carry out such training in accordance with the arrangements and time-schedule indicated in such plan, taking into account the Bank's comments thereon.

2. The Borrower shall: (a) furnish to the Bank, by September 30, 1994, its proposed measures for implementing the staff rationalization plan, referred to in Part C (4), including the budgetary requirements thereof; and (b) implement such plan through annual programs, each to be furnished to the Bank, for its comments, by April 30 of each subsequent year.

3. The Borrower shall furnish to the Bank, by September 30, 1994, the justifications for the establishment of new village banks under Part C (5) of the Project, including the arrangements for site acquisition and the estimated costs of and expected benefits from such village banks.

4. The Borrower shall ensure the assignment by October 31, 1994 (a) to each RRES referred to in Part C (6) of the Project of four specialists in the areas of farm mechanization, on-farm water use, production economics and marketing, and agro-processing, and (b) to each of about 13 selected EIDUs of an experienced extensionist and four specialists in technology transfer.

5. The Borrower shall: (a) carry out the studies of rural financial markets and savings, referred to in Part C (3) of the Project, under terms of reference and time-schedule satisfactory to the Bank; (b) ensure, by December 31, 1994, the completion of said studies and the furnishing to the Bank of their findings and recommendations; (c) develop on the basis thereof, and of the Bank's comments thereon, and furnish to the Bank, by March 31, 1995, a plan and targets for rural deposit mobilization for the Borrower's fiscal year 1995/96; and (d) establish such targets for each succeeding fiscal year and furnish the same to the Bank by March 31 of each year.

Part E: Review

The Borrower and the Bank shall carry out a mid-term review of Project progress in December 1997.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Parts A and B of the Project and to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not

eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

