CONFORMED COPY

CREDIT NUMBER 2402 EGT

(Technical Assistance Project for Privatization and Enterprise and Banking Sector Reforms)

between

ARAB REPUBLIC OF EGYPT

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 29, 1992

CREDIT NUMBER 2402 EGT

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 29, 1992, between ARAB REPUBLIC OF EGYPT (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

 $\mbox{(B)}$ to assist in financing the Project, the Borrower intends to obtain grants or concessionary loans from other external sources of finance; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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) "PEO" means the Public Enterprise Office established under the Decree of the Borrower's Prime Minister No. 1741 of 1991;
- (b) "Public Enterprise Sector" means all companies operating under the Borrower's Law No. 203 of the year 1991;
- (c) "Cofinanciers" means the sources for Project financing referred to in Recital (B) of the Preamble to the Agreement;
- (d) "Cofinancing Agreements" means the agreements to be entered into between the Borrower and each of the Confinanciers;
- (e) "Cofinancing Amount" means the grants and loans to be provided for purposes of the Project under the Cofinancing Agreements;
- (f) "Special Accounts" means the PEO Special Account and the CBE Special Account, collectively, and "Special Account" means any of the Special Accounts;
- (g) "Fiscal Year" and the sign "FY" mean any fiscal year of the Borrower covering the period from July 1 in any calendar year to June 30 in the following calendar year;
 - (h) "CBE" means the Central Bank of Egypt;
 - (i) "Implementing Agencies" means PEO and CBE; and
- (j) "PEO Special Account" and "CBE Special Account" mean the accounts referred to in Section 2.02(b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to six million six hundred thousand Special Drawing Rights (SDR 6,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars two separate special deposit accounts in CBE on terms and conditions satisfactory to the Association, to be known as the CBE Special Account and the PEO Special Account, respectively. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1998 or such later date as the Association shall establish. The Association shall

promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

- (b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.
- (c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on March 1 and September 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 1 and September 1 commencing September 1, 2002, and ending March 1, 2027. Each installment to and including the installment payable on March 1, 2012 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

- Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from $\,$ time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.
- (c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. Each of the Director and the Deputy Director of PEO, acting severally, is designated in respect of Parts A, B and C of the Project and each of the Governor and the Deputy Governor of CBE, acting severally, is designated in respect of Part D of the Project as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

Section 2.10. The Borrower represents that it has designated its Ministry of Finance for the purposes of handling on behalf of the Borrower debt service payments with respect to the Credit.

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 with due diligence and efficiency and in conformity with appropriate financial, managerial and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall (i) except as the Borrower and the Association shall otherwise agree, carry out the Project through the Implementing Agencies and in accordance with the Implementation Program set forth in Schedule 4 to this Agreement; and (ii) ensure the availability to PEO of all funds (currently estimated at the equivalent of about \$5,000,000 for the period from FY 1992/93 through FY 1996/97) required for the carrying out of its operations and for securing its staffing needs in accordance with the Action Program referred to in paragraph 2 of Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project and of the Implementing Agencies.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with internationally accepted auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than three months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to

time reasonably request.

- (c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:
 - (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - (iii) enable the Association'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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (a) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution of PEO or for the suspension of its operation; and
 - (b) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of any grant made by any Cofinancier to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Cofinancing Agreement providing therefor.
 - (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, the event specified in paragraph (a) of 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 this Credit Agreement

within the meaning of Section 12.01 (b) of the General Conditions:

- (a) all conditions precedent to the effectiveness of Cofinancing Agreements providing for a total Cofinancing Amount of not less than \$6,000,000 equivalent (other than conditions related to the effectiveness of this Agreement) have been fulfilled; and
- (b) PEO has acquired the staff referred to in paragraph (1) (b) of Schedule 4 to this Agreement.

Section 6.02. The date one hundred and twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Borrower's Minister of State for International Cooperation or the First Undersecretary for International Finance in said Ministry 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 Borrower:

Ministry of International Cooperation (International Finance Sector) 8 Adly Street Cairo, Egypt

Cable address: Telex:

MINISTRY OF 227-23348
INTERNATIONAL
COOPERATION

For the Association:

International Development Association 1818 H Street, N.W. Washington, D.C. 20433 United States of America

Cable address: Telex:

INDEVAS 197688 (TRT),
Washington, D.C. 248423 (RCA),
64145 (WUI) or
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

By /s/ Ahmed Maher El Sayed Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Harinder Kohli

Acting Regional Vice President

Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

	Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	
(1)	Office equipment for PEO	185,000	100% of foreign expenditures and 85% of local expenditures
(2)	Consultants' services:		100%
	(a) for Part A of the Project	2,015,000	
	(b) for Part C(1) of the Project	1,835,000	
	(c) for Part C(2) of the Project	365,000	
	(d) for Part D of the Project	1,465,000	
(3)	Training under Part B of the Project	735,000	100%
	TOTAL	6,600,000	

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and
- (b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.
- 3. Notwithstanding the provisions of paragraph 1 above: (a) no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not to exceed \$700,000 equivalent may be made in respect of Categories 1, 2(a), 2(b), 2(c) and 3 on account of payments made for expenditures before that date but after January 1, 1992; and (b) no withdrawals shall be made in respect of expenditures under Category 2(d) until the Borrower has submitted to the Association an action plan satisfactory to the Association covering the banking sector reform program.

Description of the Project

The objective of the Project is to provide the Borrower with the technical assistance required to enable it to carry out the enterprise sector reform and privatization components of the structural adjustment and economic reform program, namely, (a) strengthening the capacity of PEO and CBE to design and implement the public enterprise reform and privatization programs and the banking sector reform program, respectively, (b) training, and (c) preparation of strategies and plans to privatize or restructure public enterprises and assistance with specific transactions for privatization of some public enterprises.

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

Part A: Institutional Development of PEO

Provision of advisory services to PEO to assist in conducting its activities in the areas of privatization, enterprise restructuring, financial planning and management, business management, and manpower development and labor redeployment.

Part B: Training

Carrying out by PEO, with the assistance of experts and a qualified professional training management specialist employed by the PEO, of a training program for (1) the staff of PEO and (2) senior managers and members of boards of directors and general assemblies of holding and affiliated companies in the Public Enterprise Sector.

Part C: Professional Advisory Services for Privatization and Restructuring

Provision of professional advisory services to assist (1) in the design and implementation of specific transactions to privatize affiliated companies in the Public Enterprise Sector and public shareholdings in economic enterprises governed by the Borrower's Investment Law No. 230 of the year 1989, and (2) in the design of plans to restructure entities in the Public Enterprise Sector.

Part D: Banking Sector Reform

Provision of advisory services to CBE to assist in the design and implementation of a comprehensive banking sector reform program.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Procurement and Consultants' Services

A. Procurement of Goods

Items of equipment shall be procured under contracts awarded, in accordance with procedures acceptable to the Association, on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines for Procurement under IBRD Loans and IDA Credits, published by the Bank in May 1985.

B. Employment of Consultants

In order to assist in the carrying out of the Project, the Borrower shall cause the Implementing Agencies and any other entity employing consultants for the Project to employ only consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and

procedures satisfactory to the Association 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.

SCHEDULE 4

Implementation Program

- 1. PEO shall be responsible for the carrying out of Parts A, B and C of the Project and CBE shall be responsible for the carrying out of Part D of the Project. For that purpose, PEO shall: (a) at all times be managed by a Director with experience and qualifications acceptable to the Association, and (b) prepare in consultation with the Association, and thereafter implement a plan for engaging a deputy director, a manpower development specialist, a procurement specialist and a training management specialist with experience and qualifications acceptable to the Association.
- 2. PEO and CBE shall prepare, in consultation with the Association, an Action Program for the carrying out of their respective Parts of the Project.
- 3. PEO and CBE shall prepare and furnish to the Association, in a format acceptable to the Association (a) by December 31st of each year or such other date as may be agreed, an Annual Work Plan which shall include a description of the activities to be carried out under their respective Parts of the Project in the ensuing year, together with the budgetary requirements and implementation arrangements thereof, and (b) quarterly progress reports on the status of their respective Parts of Project implementation.
- 4. PEO shall establish, by June 30, 1992, a Training Advisory Committee, consisting of representatives from PEO, the Public Enterprise Sector and the private sector, to advise the Director of PEO on (i) annual training programs to be carried out under Part B of the Project, (ii) selection criteria of consultants to carry out such programs, (iii) financial arrangements for carrying out of such programs, and (iv) progress in carrying out such programs.
- 5. PEO and CBE shall carry out, in participation with the Association, by January 31st of each year or such other date as may be agreed, an annual evaluation for the preceding year of their respective parts of the Project with a view to reviewing progress in carrying out the Project on the basis of indicators acceptable to the Borrower and the Association. The third such annual evaluation shall be a detailed mid-term review of the Project.
- 6. PEO shall arrange for the carrying out of advisory services for privatization and restructuring transactions included in Part C of the Project in accordance with procedures satisfactory to the Association. Such procedures shall, in particular, include the following:
- (a) adherence to the guidelines to be formulated by PEO for use by holding companies and affiliated companies in the Public Enterprises Sector for, inter alia, the carrying out of privatization and restructuring transactions;
- (b) procedures satisfactory to the Association for the selection of companies for technical assistance and for the approval by PEO of funding for such technical assistance on behalf of selected companies;
- (c) only affiliated companies in the Public Enterprise Sector may be subject to restructuring; and
- (d) a privatization transaction shall be defined as one in which majority ownership of assets or a company is to be transferred from the government or a government-controlled entity to the private sector.

SCHEDULE 5

Special Account

- 1. For the purposes of this Schedule:
- (a) the term "eligible Categories" means: (i) for the CBE Special Account, Category 2(d); and (ii) for the PEO Special Account, Categories (1) (2)(a), 2(b), 2(c) and (3), all as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
- (c) the term "Authorized Allocation" means an amount equivalent to: (i) for the CBE Special Account, \$100,000; and (ii) for the PEO Special Account, \$500,000, all to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
- 2. Payments out of the Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
- 3. After the Association has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish said Special Account shall be made as follows:
- (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in said Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of said Special Account, the Borrower shall furnish to the Association requests for deposits into said Special Account at such intervals as the Association shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into said 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 said Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, 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 a Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into a Special Account:
- (a) if, at any time, the Association shall have determined that all further withdrawals in respect of the respective Parts of the Project should be made by the Borrower directly from the Credit 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 Credit allocated to the eligible Categories for said Special Account, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the respective Parts of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for said Special Account shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in said Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.
- 6. (a) If the Association shall have determined at any time that any payment out of a 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into said 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 Association shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.
- (c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in a Special Account.
- (d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.