

CONFORMED COPY

CREDIT NUMBER 3230-EGT

Development Credit Agreement

(Third Social Fund for Development Project)

between

ARAB REPUBLIC OF EGYPT

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 9, 1999

CREDIT NUMBER 3230-EGT

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 9, 1999, 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;

(B) the Project will be carried out by the Social Fund for Development (SFD), established and operating under the Laws of the Borrower, with the Borrower's assistance, and as part of such assistance, the Borrower will make available to SFD the proceeds of the Credit as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Association and SFD.

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 (as amended through December 2, 1997), with the modifications set forth below (the General Conditions) constitute an

integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. "Participating Country" means any country that the Association determines meets the requirements set forth in Section 10 of Resolution No. 183 of the Board of Governors of the Associations, adopted on June 26, 1996; and "Participating Countries" means, collectively, all such countries."

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "By-Laws" means the by-laws dated June 17, 1991, as amended in August 8, 1993, governing the organization and functioning of SFD, as the same may be amended from time to time;

(b) "CDP" means the Community Development Program of SFD;

(c) "MOF" means the Borrower's Ministry of Finance or any successor thereto.

(d) "Project Agreement" means the agreement between the Association and SFD, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(e) "PWP" means the Public Works Program of SFD;

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

(g) "Statement of Policy" means the statement of operational policy approved by the Board of Directors of SFD on June 17, 1992, as amended to the date of this Agreement;

(h) "Statutes" means Presidential Decree No. 40 of 1991 pertaining to the establishment and operation of SFD, as amended to the date of this Agreement;

(i) "Sub-grant" means a grant made or proposed to be made by SFD out of the proceeds of the Credit for a Sub-project under the Project;

(j) "Sub-project" means a specific project to be carried out under the Project utilizing the proceeds of a Sub-grant; and

(k) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SFD pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan 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 the Development Credit Agreement, an amount in various currencies equivalent to thirty six million and nine hundred thousand Special Drawing Rights (SDR36,900,000).

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 amounts paid (or, if the Association shall so agree, amounts to be paid) by SFD on account of withdrawals made under Sub-grants to meet the reasonable cost of works, goods and services required for Sub-projects in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower, through SFD, may, for the purposes of the Project, open and maintain in dollars a special deposit account in the Central Bank of Egypt on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002, or such later date as the Association shall establish. The Association shall promptly notify the Borrower and SFD 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 (60) 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 or 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 payment 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 February 1 and August 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 February 1 and August 1 commencing August 2009 and ending February 2034. Each installment to and including the installment payable on February 1, 2019 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.

(b) Whenever (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment

date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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. SFD is designated 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 (MOF) for the purposes of handling, on behalf of the Borrower, debt service payments with respect of the Credit.

ARTICLE III

Execution of the Project; Use of Proceeds of the Credit

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, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause SFD to perform, in accordance with the provisions of the Project Agreement, all the obligations of SFD therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources necessary or appropriate to enable SFD to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without any limitation or restriction upon any of its obligations under this Agreement, the Borrower shall make available the proceeds of the Credit to SFD under a Subsidiary Loan Agreement to be entered into between the Borrower and SFD under terms and conditions which shall have been approved by the Association, including (i) payment of a commitment and service charge at rates identical to those applicable to the Credit pursuant to the provisions of Sections 2.04 and 2.05 of this Agreement; and (ii) repayment of such amount over a period identical to that specified for the repayment of the Credit, pursuant to the provisions of Section 2.07 of this Agreement.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works 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 2 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations

set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of Article IX of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by SFD pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall, through SFD:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall, through SFD:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate 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 six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

(a) SFD shall have failed to perform any of its obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that SFD will be able to perform its obligations under the Project Agreement.

(c) The Statutes, By-Laws or the Statement of Policy shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of SFD or its ability to carry out the Project or to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of SFD or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (d) of Article VII of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower and SFD; and

(b) any event specified in paragraph (c) or (d) 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 the Development Credit Agreement within the meaning of Section 12.01 (b) of Article XII of the General Conditions:

(a) that SFD shall have established the financial management system referred to in Section 3.01 of the Project Agreement in a manner satisfactory to the Association;

(b) that the Subsidiary Loan Agreement has been entered into by the Borrower and SFD respectively;

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of Article XII of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) the Project Agreement has been duly authorized and approved by SFD's Board of Directors and is legally binding upon SFD according to its terms; and

(b) the Subsidiary Loan Agreement has been duly authorized and approved by, and legally binding upon, the Borrower and SFD in accordance with its terms.

Section 6.03. 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 Article XII of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of the Agreement, the Minister of State for Planning and International Cooperation and the Head of the Sector for International and Regional Finance Organizations of said Ministry of the Borrower are designated severally 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
(Sector for International and Regional
Finance Organizations)
8 Adly Street
Cairo, Arab Republic of Egypt

Cable address:

Fax:

Ministry of International Cooperation (20-2) 391-5167

Cairo, Arab Republic of Egypt

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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.

ARAB REPUBLIC OF EGYPT

By /s/ Zafer El-Bishry

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Khalid Ikram

Acting Regional Vice President
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The proceeds of the Credit may be withdrawn from the Credit Account to finance 100% of payments made by SFD on account of Sub-grants.
2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments by SFD prior to the date of this Agreement.
3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for payments made by SFD on account of Sub-grants each not exceeding \$500,000, equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is, in building upon the accomplishments of the previous Social Development Fund Projects, to help create employment opportunities and provide community infrastructure and services.

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: Employment Creation

Provision, in the context of the Public Works Program established under the

Social Development Fund, of grants for the carrying out by small local private enterprises, in partnership with regional authorities, local communities and non-governmental organizations, of specific projects to support small scale public works programs.

Part B: Development of Community Support Infrastructure and Services

Provision, through the Community Development Program established under the Social Development Fund, of grants for the carrying out by regional authorities, local communities and non-governmental organization of specific projects for community support infrastructure, education, training, and health programs.

* * *

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible expenditures" means expenditures in respect of amounts paid by SDF, as designated by the Borrower under Section 2.09 of this Agreement, on account of Sub-grants to be financed out of the proceeds of the Credit in accordance with the provisions of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to ten million dollars (US\$10,000,000) to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to five million dollars (US\$5,000,000) until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of twenty million dollars (US\$20,000,000).

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 Association 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, through SFD, shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts 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 into the Special Account such amount or amounts as the Borrower, through SFD, shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower, through SFD, 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 the Special Account such amount as the Borrower, through SFD, 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

Association from the amounts, as shall have been other evidence.

Credit Account under the respective equivalent justified by said documents and

4. For each payment made by the Borrower, through SFD, out of the Special Account, the Borrower, through SFD, 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 the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals 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;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to 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 shall follow the 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 the 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 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the 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 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 Association 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 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 the 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.



