

Public Disclosure Authorized

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**LOAN NUMBER 7161-EGT**

# **Loan Agreement**

**(Second Matruh Resource Management Project)**

**between**

**ARAB REPUBLIC OF EGYPT**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated March 21, 2003**

Public Disclosure Authorized



**LOAN NUMBER 7161-EGT**

**LOAN AGREEMENT**

AGREEMENT, dated March 21, 2003, between the ARAB REPUBLIC OF EGYPT (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) by the Global Environment Facility Trust Fund Grant Agreement (the GEF Grant Agreement) of even date herewith between the Bank, acting as an implementing agency of the Global Environmental Facility, and the Borrower, the Bank has agreed to make a grant (the GEF Trust Fund Grant) to the Borrower (in such capacity, the Recipient) in an amount equal to five million one hundred seventy thousand United States Dollars (US\$5,170,000) to assist in financing Part G of the Project on the terms and conditions set forth in the GEF Grant Agreement;

(C) the Borrower intends to contract from the International Fund for Agricultural Development (IFAD) a loan (the IFAD Loan) in an amount equivalent to nine million six hundred thousand Special Drawing Rights (SDR 9,600,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the IFAD Loan Agreement) to be entered into between the Borrower and IFAD; and

WHEREAS (D) 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. (a) The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement.

(b) Paragraph 22 of Section 2.01 of the General Conditions shall be modified as follows:

“22. “Fixed Spread” means the Bank’s fixed spread of 0.50% in respect of the initial Loan Currency, provided, that upon a Currency Conversion of all or any portion of the unwithdrawn principal amount of the Loan, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines.”

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) “Annual Work Program and Budget” or “AWPB” means the annual work program and budget for determining the LC Activities (as this term is hereinafter defined) to be prepared pursuant to the provisions of paragraph B of Schedule 5 to this Agreement, and the criteria and procedures set out in the PIP (as this term is hereinafter defined);

(b) “BOT” means the Board of Trustees to be established by the Borrower’s MALR (as this term is hereinafter defined), in accordance with the provisions of paragraph D.1 (f) of Schedule 5 to this Agreement;

(c) “CAP” means a community action plan to be developed and implemented by each local community in the Project Area (as this term is hereinafter defined) in accordance with the provisions of paragraph B of Schedule 5 to this Agreement and the criteria and procedures set out in the PIP (as this term is hereinafter defined);

(d) “EEAA” means the Egyptian Environmental Affairs Agency established by virtue of Presidential Decree No. 631, dated December 30, 1982, or any successor thereto;

(e) “EMP” means the Borrower’s environmental management plan for the Project submitted by MALR (as this term is hereinafter defined) and EEAA to the Bank on June 12, 2002 which: (i) sets out appropriate mitigation, monitoring, institutional and management measures required for the implementation of the Project to eliminate adverse environmental impacts, offset such impacts, or reduce them to acceptable levels; (ii) summarizes the procedures for the environmental screening, basic design, implementation and monitoring of the mitigating measures under the Project; and (iii) constitutes an integral part of the PIP (as this term is hereinafter defined);

(f) “EMU” means the environmental management unit, established within the Governorate of Matruh by virtue of the Borrower’s Central Agency of Organization and Administration Circular No. 8, of 1982, or any successor thereto;

(g) “End-user” means any individual or group of individuals from the local communities within the Project Area (as this term is hereinafter defined) to whom MALR (as this term is hereinafter defined) proposes to make or has made an LC Grant under Parts A.1(b), A.2(a), B.1(a), B.2(a), C.1, or D of the Project or a Micro-finance Sub-loan (as both these terms are hereinafter defined);

(h) “Environmental Guidelines Manual” means the Borrower’s manual submitted by MALR (as this term and hereinafter defined) and EEAA to the Bank on June 12, 2002, which: (i) sets out the procedures for the environmental screening, environmental mitigation measures, basic design, implementation and environmental monitoring under the Project; and (ii) constitutes an integral part of the PIP (as this term is hereinafter defined);

(i) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “LC Activity” means a project consisting of the carrying out of an activity described under Parts A.1(b), A.2(a), B.1(a), B.2(a), C.1 or D of the Project;

(k) “LC Grant” means a local community grant made by the Borrower, through MALR (as this term is hereinafter defined), to an End-user to finance, in whole or in part, the carrying out of an LC Activity under Parts A.1(b), A.2(a), B.1(a), B.2(a), C.1 or D of the Project;

(l) “MALR” means the Borrower’s Ministry of Agriculture and Land Reclamation, or any successor thereto;

(m) “Micro-finance Sub-loan” means a loan made by the Borrower, through MALR, to an End-user to finance Micro-finance Sub-projects (as this term is hereinafter defined), under Part E.1 of the Project, pursuant to the provisions of paragraph D of Schedule 5 to this Agreement;

(n) “Micro-finance Sub-project” means an activity carried out under Part E.1 of the Project;

(o) “Micro-finance Sub-loan Agreement” means an agreement entered into by MALR and an End-user for the purpose of making a Sub-loan under Part E.1 of the Project, pursuant to the provisions of paragraph D of Schedule 5 to this Agreement;

(p) “MOF” means the Borrower’s Ministry of Finance or any successor thereof;

(q) “NCC” means the National Coordination Committee for the Project, to be established and maintained within MALR, in accordance with the provisions of paragraph A.1 of Schedule 5 to this Agreement;

(r) “PCC” means the Project Coordination Committee to be maintained within MALR in accordance with the provisions of paragraph A.2 of Schedule 5 to this Agreement;

(s) “PCU” means the Project Coordination Unit to be maintained within MALR in accordance with the provisions of paragraph A.3 of Schedule 5 to this Agreement;

(t) “PIP” means the Project implementation plan to be prepared by the Borrower’s MALR and EEAA and to be submitted to the Bank pursuant to the provisions of Section 6.01(d) of this Agreement, setting out the principles and procedures governing the implementation of the Project, such plan to, *inter alia*: (i) define the respective roles and responsibilities of the agencies involved in the implementation of the Project; (ii) set forth the timetable of actions required to be carried out under the Project; (iii) identify the procedures to be used for monitoring and evaluating progress towards the achievement of the objectives of the Project; (iv) set out the details of the EMP; (v) set out the details of the Environmental Guidelines Manual; (vi) set out details for the implementation of adaptive research activities under Part C.3 of the Project; and (vii) set forth the Process Framework (as this term is hereinafter defined), including the principles governing the participation of the local communities in biodiversity conservation and resource management in the Project Area (as this term is hereinafter defined);

(u) “POM” means the Project operation manual to be prepared by the Borrower’s MALR and to be submitted to the Bank pursuant to the provisions of Section 6.01(d) of this Agreement, setting out the detailed procedures for procurement and financial management of the Project, including, *inter alia*, the auditing, accounting and financial reporting arrangements for the Project;

(v) “Process Framework” means the framework, prepared by the Borrower’s MALR and EEAA and submitted to the Bank on June 12, 2002, which establishes a process by which members of potentially affected local communities participate in the design of Activities or Sub-projects, the determination of measures necessary to achieve resettlement policy objectives, and the implementation and monitoring of relevant Project activities;

(w) “Project Area” means the Northwest Coastal Zone of the Borrower’s territories, extending from the Libyan border in the West to Ras El-Hikma in the East;

(x) “Protected Area” means any of the two areas designated for conservation within Al Qasr and Saloum at the Northwest Coastal Zone of the Borrower’s territories, the boundaries of which shall be defined during the course of the Project by EEAA, in accordance with the laws of the Borrower;

(y) “Research Grant” means a grant under Part C.3 of the Project made by the Borrower through MALR by virtue of a Research Grant Agreement (as this term is hereinafter defined) to a Research Operator (as this term is hereinafter defined) pursuant to the provisions of paragraphs E and F of Schedule 5 to this Agreement;

(z) “Research Grant Agreement” means an agreement entered into between the Borrower’s MALR and a Research Operator (as this term is hereinafter defined) pursuant to the provisions of paragraphs E and F of Schedule 5 to this Agreement;

(aa) “Research Operator” means a research entity eligible to receive a Research Grant for a Research Sub-project (as this term is hereinafter defined) prepared under Part C.3 of the Project, pursuant to the provisions of paragraphs E and F of Schedule 5 to this Agreement;

(bb) “Research Sub-project” means a specific research activity to be carried out by a Research Operator, utilizing the proceeds of a Research Grant, pursuant to the provisions of paragraphs E and F of Schedule 5 to this Agreement; and

(cc) “Special Accounts” means the accounts referred to in Section 2.02(b) of this Agreement; each a “Special Account”.

## **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 this Agreement, an amount equal to twelve million three hundred fifty thousand United States Dollars (US\$12,350,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 (i) amounts paid (or, if the Bank shall so agree, amounts to be paid) on account of withdrawals made by an End-user under a Micro-finance Sub-project, an LC Activity or a Research Sub-project, to meet the reasonable cost of works, goods and services required for such Activity or Sub-project in respect of which the withdrawal from the Loan Account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for Parts A through F of the Project and to be financed out of the proceeds of the Loan and in respect of interest and other charges in respect of the Loan, the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar referred to in Section 2.09 of this Agreement, payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

(b) The Borrower may through MALR, for the purposes of each of: (i) Parts A, B, C, D, and F; and (ii) Part E of the Project, open and maintain in dollars a separate special deposit account in the National Bank of Egypt on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure, or attachment. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2009 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate as defined in paragraph 47 of Section 2.01 of the General Conditions; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on March 1<sup>st</sup> and September 1<sup>st</sup> in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7)



of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

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

Section 2.11. MALR is designated as the 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.

### **ARTICLE III**

#### **Execution of Parts A, B, C, D, E and F of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall through MALR, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, agricultural, economic, engineering, environmental, financial, management and technical 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 and except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through MALR, carry out Parts A through F of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement and with the EMP, Environmental Guidelines Manual, PIP, POM and Process Framework.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A through F of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall, through MALR:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be

agreed for this purpose between the Borrower and the Bank, a plan for the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. The Borrower shall: (a) through MALR: (i) ensure that LC Activities and Micro-finance Sub-projects are appraised and implemented in accordance with the provisions of the PIP, the EMP, the Environmental Guidelines Manual and the Process Framework; and (ii) ensure that any land or right of way required for the carrying out of the proposed LC Activities or Micro-finance Sub-projects shall not involve the involuntary acquisition of land or involuntary resettlement of occupants or owners of such land and that such land shall be provided in a voluntary manner pursuant to a memorandum of understanding between the owner/occupant of such land and MALR; and (b) through EEAA: (i) ensure that the environmental screening of any LC Activities or Micro-finance Sub-projects shall be conducted in accordance with the provisions of the PIP, the EMP, the Environmental Guidelines Manual and the Process Framework in order to ensure that any required environmental assessment shall be carried out in a manner satisfactory to the Bank; and (ii) supervise the preparation of environmental assessments and ensure that environmental mitigating and monitoring measures of LC Activities and Micro-finance Sub-projects are properly implemented as outlined in the EMP and the Environmental Guidelines Manual.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall, through MALR, maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall, through MALR:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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, through MALR:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) 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. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 5 to this Agreement, the Borrower shall, through MALR, prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first

calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional event is specified, namely, that:

- (i) subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw the proceeds of the IFAD Loan or the GEF Trust Fund Grant made to the Borrower for the financing of Part G of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the IFAD Loan Agreement or the Grant Agreement as the case may be, or
  - (B) the IFAD Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank 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(k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (i)(B) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (ii) of that Section.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement in accordance with Article XII of the General Conditions:

- (a) the financial management system referred to under Section 4.01 of this Agreement has been established;

(b) the Borrower's MALR has appointed individuals, whose qualifications and experience shall be acceptable to the Bank, to assume the responsibilities of director general, deputy director general, head of the procurement unit and head of each of community development unit, natural resources management unit and productive activities development unit referred to in paragraph A.3(a) of Schedule 5 to this Agreement;

(c) The Borrower's EEAA has established within the PCU the Biodiversity Conservation Unit referred to in paragraph A.3(b) of Schedule 5 to this Agreement, with staff in adequate numbers and with qualifications satisfactory to the Bank and in accordance with the PIP;

(d) the Borrower has, through MALR, submitted to the Bank, the PIP and the POM in form and in substance satisfactory to the Bank;

(e) all conditions precedent to the effectiveness of the IFAD Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement; and

(f) the GEF Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals thereunder, except only the effectiveness of the Loan Agreement, have been fulfilled.

Section 6.02. The date one hundred and eighty (180) 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 Minister of State for Foreign Affairs 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 Borrower:

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

Cable address:	Facsimile:
Ministry of Foreign Affairs (International Cooperation Sector) Cairo, Arab Republic of Egypt	(202) 578 9711 (202) 391 5167

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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/ Nabil Fahmy

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jean-Louis Sarbib

Regional Vice President  
Middle East and North Africa

## 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 amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in United States dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods under Parts A through F of the Project	1,112,600	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of other items procured locally
(2) Consultants' services and training under Parts A through F of the Project	1,662,900	85%
(3) Micro-finance Sub-loans	1,500,000	50% of amounts disbursed by MALR
(4) LC Grants under Parts A.1(b), A.2(a), B.1(a), B.2(a), C.1 or D of the Project	6,294,100	85% of amounts disbursed by MALR
(5) Research Grants Part C.3 of the Project	503,400	100% of amounts disbursed by MALR
(6) Incremental Operating Costs	625,000	50%
(7) Front-end fee	123,500	Amount due under Section 2.04 of this Agreement
(8) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09(c) of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in United States dollars)</u>	<u>% of Expenditures to be Financed</u>
(9) Unallocated	528,500	
<b>TOTAL</b>	<u>12,350,000</u> =====	

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;

(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; and

(c) the term “Incremental Operating Costs” means expenditures incurred by the PCU in connection with the carrying out of Parts A through F of the Project, on account of office furniture and supplies, audit costs, local transportation and the costs of PCU staff selected in accordance with Part C.3(a) in Section II of Schedule 4 to this agreement, excluding salaries and/or allowances of officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$250,000 equivalent each; (ii) Micro-finance Sub-loans, LC Grants and Research Grants costing less than \$250,000 equivalent each; (iii) services of consulting firms under contracts costing less than \$100,000 equivalent each; (iv) services of individual consultants under contracts costing less than \$50,000 equivalent each; and (v) Incremental Operating Costs, 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: (i) to improve the livelihood of the disadvantaged rural population living in the Project Area, through community development and capacity building to access services for their welfare and increase their incomes while strengthening their capacity to conserve, rehabilitate and use natural resources in a sustainable manner; and (ii) to address global environmental concerns in a day-to-day management of resources, as well as mainstream environmental dimensions into overall planning and implementation of development activities in the Project Area.

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: Community Development

##### 1. Capacity Building of Community

(a) Provision of technical advisory services and training to local community representatives and other community members for: (i) designing CAPs and Annual Work Programs and Budgets; (ii) acquiring negotiating skills and management capacities; (iii) establishing the process of monitoring the implementation and evaluating the results; (iv) developing internal and external information and communication systems; and (v) establishing a suitable legal framework for local communities to become legal entities in charge of community development.

(b) Provision of LC Grants on a cost-sharing or full-cost basis for demand driven community development initiatives.

(c) Provision of goods, training and advisory services for the implementation of this Part A.1 of the Project.

##### 2. Strengthening of Women's Development Capacity

(a) Provision of LC Grants to finance:

(i) the carrying out of: (A) workshops for integrating women in the participatory planning process; (B) a five-year program supporting literacy classes for women and education for girls; and (C) workshops for women on nutrition, hygiene and health sensitization;

(ii) the carrying out of a program to assist women in reducing work load for domestic chores, through the provision of labor-saving assets such as hand-pumps and carts;

- (iii) the construction, equipping and furnishing of social centers to serve as venues for literacy classes, training programs, promoting environment awareness and other related community activities; and
- (iv) the construction of latrines and sanitation facilities.

(b) Provision of goods, training and advisory services for the implementation of this Part A.2 of the Project.

Part B: Natural Resource Management

1. Land and Water Resource Management

(a) Provision of LC Grants to finance:

- (i) the carrying out of environmentally sound water harvesting and storage techniques and infrastructure works, including the construction of underground cisterns and reservoirs; and
- (ii) the design and implementation of sustainable watershed management plans, including the construction of small earth, stone and cemented dikes.

(b) Carrying out a program for the maintenance of water harvesting structures, including the preparation of user-friendly maintenance manuals through the provision of consultants services and training to local communities.

(c) Provision of goods, training and advisory services for the implementation of this Part B.1 of the Project.

2. Rangeland Management

(a) Provision of LC Grants to finance the development and implementation of a strategy for the sustained use of communal resources, based on a community-managed approach to rangeland rehabilitation and utilization, including the establishment of pilot grazing management units and training community-selected facilitators for managing vegetation as well as animals, with selected reseeding and shrub plantations.

(b) Provision of goods, training and advisory services for the implementation of this Part B.2 of the Project.

Part C: Productive Activities Development

1. Agriculture and Livestock Services

Provision of LC Grants to finance:

- (a) the carrying out of a program for training community-selected facilitators in each of the 38 local communities to serve as resource persons within their community to handle agriculture and livestock advisory and training demands; and
- (b) the carrying out of on-farm demonstrations, workshops and field trips on improved farm technologies related to field crops, horticulture and tree crops and livestock.

2. Off-farm Income-generating Activities

Provision of goods, technical advisory services and training to increase and diversify rural household income and develop a handicraft and cottage agro-processing industry through the provision of access to market information, improving the quality of the products, facilitating the provision of raw materials for the producers, connecting producers to markets, and promoting community-based and economically viable organizations for the sustainability of these activities after Project completion.

3. Adaptive Research

Support to carry out adaptive research activities to develop appropriate technologies for barley, home garden vegetables, livestock production, horticulture and tree crops, land and water management, range management and post-harvest and agro-processing, through the provision of Research Grants.

Part D: Rural Roads

Provision of LC Grants to finance the surfacing of about 135 km unpaved existing feeder roads to connect the coastal zones and the inland areas with the existing network of roads.

Part E: Rural Micro-finance

- 1. Carrying out of Micro-finance Sub-projects consisting of a range of income-generating activities within the local community, through the provision of Micro-finance Sub-loans.
- 2. Provision of technical advisory services and training for the setting up of a micro-finance credit retailing system.

Part F: Project Management

Support, through the provision of equipment, technical advisory services and training, for the efficient and effective management of the Project in the following areas: (i) Project administration, promotion and coordination; (ii) setting up an information and communication system; (iii) carrying out monitoring and evaluation exercises for the Project; and (iv) preparing a feasibility study for the extension of participatory approaches to areas such as the Siwa oasis.

Part G: Environmental Development Activities

1. Capacity Building of Community

(a) Provision of technical advisory services and training to carry out integration of environmental awareness into community capacity building activities through: (i) community orientation, mobilization and participation; and (ii) introduction of environmental education in schools and at 38 local community centers.

(b) Provision of LC Grants on a cost-sharing or full-cost basis for environmental-related, demand driven community development initiatives.

(c) Provision of goods, training and advisory services for the implementation of this Part G.1 of the Project.

2. Strengthening of Women's Development Capacity

(a) Provision of goods, training and technical advisory services to carry out an environmental awareness program by assisting women to achieve sustainable management of community resources, including carrying out of an energy consumption and kitchen practices survey to improve the kitchen environment and ensuring sustainability of energy supply.

(b) Provision of LC Grants to provide alternative and efficient energy technologies for cooking.

(c) Provision of goods, training and advisory services for the implementation of this Part G.2 of the Project.

3. Land and Water Resource Management

(a) Provision of LC Grants to finance the carrying out of a program for the protection of the watershed upper catchment areas with seeding or plantation of vegetative cover or water and soil retention devices.

(b) Support to carry out adaptive research to establish water run-off coefficients and to investigate water utilization techniques, through the provision of Research Grants.

(c) Provision of goods, training and advisory services for the implementation of this Part G.3 of the Project.

4. Rangeland Management

(a) Provision of Research Grants to finance the carrying out of adaptive research activities for the rehabilitation and efficient utilization of rangeland resources.

(b) Provision of LC Grants to carry out grazing management planning, and establishing four (4) protected plots for managing vegetation with selected reseeding and shrub plantation.

(c) Provision of goods, training and advisory services for the implementation of this Part G.4 of the Project.

5. Bio-diversity Conservation and EMP Implementation

(a) Provision of technical advisory services, goods and training for: (i) implementation of the EMP and the Environmental Guidelines Manual; (ii) monitoring and updating records on the status of biodiversity in the Project Area; (iii) enhancing local capacity, including capacity of the Matruh Governorate, to undertake cross-sectoral ecosystem planning and management and increase local knowledge and awareness of biodiversity conservation; and (iv) the carrying out of a program for the establishment of two Protected Areas through integration of local communities in the management plans, including activities related to protection and management of the Protected Areas and activities related to the Process Framework.

(b) Carrying out the construction of visitors centers, through the execution of works, to serve as venues for literacy classes, training programs, promoting environmental awareness and other related community activities.

(c) Provision of LC Grants to finance the creation of community managed biodiversity hotspots and promote eco-tourism activities in the Project Area.

6. Support for Off-farm Income Generating Activities

Provision of technical advisory services to investigate global environmental benefits and environmental sustainability related activities, including access to market information to develop appropriate technologies for medicinal and herbal plants, through the provision of Research Grants.

\* \* \*

The Project is expected to be completed by June 30, 2009.

### SCHEDULE 3

#### Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each March 1 and September 1 Beginning September 1, 2008 through September 1, 2019	4.17%
On March 1, 2020	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two (2) calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## **SCHEDULE 4**

### **Procurement and Consultants' Services**

#### Section I. Procurement of Goods and Works under Parts A through F of the Project

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

1. National Competitive Bidding

Works under Parts A.1(b), A.2(a), B.1(a), B.2(a), C.1 and D of the Project, estimated to cost \$50,000 equivalent per contract or more, up to an aggregate amount not to exceed \$400,000 equivalent, and goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, including the clarifications set forth in the Annex to this Schedule 4 required to comply with the provisions of the Guidelines.



2. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures, all in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Works estimated to cost less than \$100,000 equivalent per contract which should be procured as an extension of an existing contract, and costing \$400,000 equivalent or less in the aggregate, and goods which are of a proprietary nature or must be purchased from the original supplier to be compatible with existing equipment, or procured from a particular supplier as a condition of a performance guarantee and costing \$250,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement of Small Works

Works under Parts A.1(b), A.2(a), B.1(a), B.2(a), C.1 and D of the Project, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

5. Community Participation

Works required for Parts A.1(b), A.2(a)(iv), B.1(a) and B.2(a) of the Project to be undertaken by community members shall be procured in accordance with the provisions of paragraph 3.15 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods to be procured in accordance with the procedures referred to in paragraph 1 under Part B of this Section; (ii) the first five contracts for works to be procured in accordance with the procedures referred to in paragraphs 1 and 4 under Part C of this Section; and (iii) each contract for works estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract to be procured in accordance with the procedures referred to in paragraphs 2 and 3 under Part C of this Section, and estimated to cost less than \$100,000 equivalent, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures or the execution of any contract under direct contracting procedures, the Borrower shall, through MALR, provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Borrower shall, through MALR, provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants under Parts A through F of the Project

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services which are estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services of individual consultants for: (a) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and PCU staff shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) Part A, B, C and E of the Project may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 12 months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost less than \$100,000 equivalent, terms of reference, short lists and the first five contracts shall be furnished to the Bank for its prior review and approval.

(c) With respect to each contract for the employment of individual consultants: (i) to be selected on a sole source basis; (ii) estimated to cost the equivalent of \$50,000 or more; or (iii) for PCU staff, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than \$50,000 equivalent, terms of reference, short lists and the first five contracts shall be furnished to the Bank for its prior review and approval.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

**Annex  
to  
Schedule 4**

**National Competitive Bidding**

Contracts for goods and works procured under the National Competitive Bidding procedure shall comply with the following:

1. Any prospective bidder from a country eligible under the Guidelines who proposes to provide goods produced in, or services supplied from, any such country shall be eligible to bid for such contracts.
2. Tenders shall be advertised with no less than thirty (30) days for bid preparation.
3. Government-owned enterprises shall be eligible provided they are legally and financially autonomous, operate under commercial law, and are not selected or hired by the supervising or reporting authority, and shall be subject to the same bid and performance security requirements as other bidders.
4. Bidders shall be allowed to deliver their bid by hand or by mail.
5. Bids shall be opened in public; that is, bidders or their representatives shall be allowed to be present at the place where bids are to be opened and both envelopes, if two are submitted, shall be opened at the same time. The time for the bid opening shall be the same as for the deadline for receipt of bids or promptly thereafter; and shall be announced, together with the place for bid opening, in the invitation to bid.
6. Bids shall be evaluated based on price and on other criteria disclosed in the bid documents and quantified in monetary terms, and no provision for preferential treatment for national companies shall be applied.
7. The contract shall be awarded to the bidder having submitted the lowest evaluated responsive bid, and no negotiation shall take place.
8. Arabic translation of the Bank's standard bidding documents may be used.

## SCHEDULE 5

### Implementation Program for Parts A through F of the Project

#### A. Overall Project Implementation and Coordination

1. The Borrower shall vest MALR with the overall responsibility of Parts A through F of the Project implementation. MALR shall, not later than six (6) months after the Effective Date, establish and thereafter maintain the NCC, which shall be chaired by the National Coordinator to be appointed by MALR and shall include, as members, representatives from the EEAA and the director of foreign agriculture relations of MALR. The NCC shall *inter alia*: (i) provide support and guidance on policy and strategy issues consistent with national programming concerns; (ii) facilitate, at the national level, the measures required to be taken for carrying out activities under Parts A through F of the Project; and (iii) monitor the progress in the implementation of the Project.

2. At the Governorate level, the Borrower's MALR shall maintain the PCC, whose membership shall, in addition to the existing members, include the Project Director General (Chair), the head of the Biodiversity Conservation Unit, representatives of the health, education and social services, the EMU and the local communities. The PCC shall be responsible for: (i) providing a forum for sharing information with the relevant agencies of the Borrower covering the Project Area; (ii) ensuring coordination in planning and implementation between CAPs and Project activities, and the Governorate investment and sectoral plans; (iii) resolving issues which may arise during implementation; and (iv) monitoring the performance of the Project.

3. (a) A PCU which the Borrower shall maintain within MALR, with professional staff in adequate numbers and with qualifications, experience and terms of reference acceptable to the Bank, shall be responsible for assisting MALR in the implementation of the Project. The PCU shall ensure the proper implementation of the Project in accordance with the provisions of this Agreement, the PIP, the POM, the EMP, Environmental Guidelines Manual and the Process Framework. The PCU shall, *inter alia*, be responsible for planning, procurement, financial control, monitoring the progress in the implementation of the Project, and reporting in accordance with indicators agreed upon with the Bank.

(b) The PCU shall coordinate the Project activities through five Sub-Regional Support Centers supported by research carried out by a Research Operator and six (6) implementing units to be established within the PCU, to be regrouped as follows: (i) Community Development and Gender Unit (CDU) under the director of Community Development; (ii) Land and Water Management Unit, Range Management Unit, and Biodiversity Conservation Unit under the director of Natural Resources Management; and (iii) Agricultural and Livestock Services Unit and a supervisor in charge of monitoring the implementation of off-farm productive activities and the micro-finance Sub-loan scheme, under the director for Productive Activities Development.

4. For the purpose of ensuring consistency of unit work programs with AWPBs, reviewing unit programs reports, and ensuring facilitation, mediation and conflict

resolution among units, MALR shall establish a Project Management Committee (PMC) comprising the managers of each unit, the head of the financial management unit and the directors of the Sub-Regional Support Centers.

B. CAP and AWPB

1. The Borrower's MALR, shall cause each of the local communities within the Project Area to prepare in consultation with the CDU, a CAP outlining the general framework for the activities to be carried out in a given local community within the Project Area. For the execution of the CAP, an AWPB shall be prepared by each local community in consultation with the CDU, in form and substance satisfactory to the Bank, and in conformity with the PIP, Process Framework, EMP and Environmental Guidelines Manual.

2. For purposes of the formulation and implementation of CAPs and AWPBs, the local communities shall follow the procedures and criteria set forth in the PIP, as the same may be amended from time to time.

C. LC Grants: Procedures, Criteria and Technical Audit

1. The Borrower, through MALR, shall ensure that an LC Grant: (i) shall be made in accordance with the criteria and procedures set forth in the PIP and in conformity with the Bank's social and environmental safeguard policies as specified in the Process Framework, the EMP and the Environmental Guidelines Manual; and (ii) involves a community for which the Borrower's MALR has submitted to the Bank a CAP and an AWPB.

2. MALR shall ensure that:

(a) the proceeds of the loan, allocated from time to time to Category (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement shall be made available to each local community on the basis of criteria acceptable to the Bank including: (i) the percentage of low income households in the community; (ii) the total population of the community; (iii) the total amount of previous investments in the community; (iv) the location of the community; and (v) the community's growth potential;

(b) any land or right of way required for the carrying out of the proposed LC Activities shall not involve the involuntary acquisition of land or involuntary resettlement of occupants or owners of such land; and that such land shall be provided in a voluntary manner pursuant to a memorandum of understanding between the owner/occupant of such land and MALR;

(c) the AWPBs of a local community are prepared by the End-users in accordance with the guidelines for AWPB preparation defined in the PIP, and constitute the annual implementation of the CAPs prepared by the local community; and

(d) the said AWPB shall be reviewed and approved by the local community's representatives pursuant to the eligibility criteria defined in the PIP.

3. In accordance to the PIP, a technical audit of the LC Activities shall be carried out on an annual basis not later than November 30 of each year, by an independent professional, acceptable to the Bank, to cover a random sample of not less than 25% of the cost of LC Activities. The objective of the technical audit is to seek a professional opinion on: (i) the use of the LC Grants; (ii) the quality of the works; (iii) the supporting documents; (iv) the use of works and equipment; (v) the reliability of the unit cost data base; and (vi) the transparency of the procurement process.

D. Micro-Finance Sub-loans

1. For the purpose of providing Micro-finance Sub-loans under Part E of the Project, the Borrower shall:

(a) through MALR, make arrangements, satisfactory to the Bank, with a technical assistance provider for a four-year period to set up the pilot credit retailing scheme provided under Part E.2 of the Project;

(b) through MALR, ensure that Micro-finance Sub-loans shall be made in accordance with criteria and the procedures specified in the PIP including, *inter alia*, that: (i) a Micro-finance Sub-loan shall be made in kind or in cash; (ii) a Micro-finance Sub-loan shall directly benefit home-bound Bedouin women and economically disadvantaged rural population; (iii) only management fees, exclusive of interest, shall be charged as in a revolving fund; (iv) a guaranteed repayment shall be ensured through means other than land title or other physical collateral; and (v) ensure that any land or right of way required for the carrying out of the proposed Micro-finance Sub-projects shall not involve the involuntary acquisition of land or involuntary resettlement of occupants or owners of such land; and that such land shall be provided in a voluntary manner pursuant to a memorandum of understanding between the owner/occupant of such land and MALR;

(c) cause MALR, not later than six (6) months after the Effective Date, to enter into an agreement with a technical assistance provider, whose terms of reference shall include the obligation to assist MALR in the carrying out of Part E.1 of the Project, on terms satisfactory to the Bank which shall include, *inter alia*, provisions regarding: (i) the amount of the Micro-finance Sub-loans to be made available; (ii) disbursement mechanisms to be followed; (iii) the guidelines for the extension of Micro-finance Sub-loans, including the maximum limit for Micro-finance Sub-loans for individuals and End-user groups, and the type of repayment guarantees; (iv) the amount of funding to cover operating costs, including salaries of the personnel of the retailing scheme to be established under Part E.2 of the Project, as well as the transport and office facilities to be made available to carry out the operation; (v) the estimated time frame for the retailing scheme to reach the break-even point (based on an estimated minimum number and amount of Micro-finance Sub-loans); (vi) the operating costs of the retailing scheme at that point, including provision for default guarantee, but excluding the cost of capital through a revolving fund; (vii) the management fees to be charged to the End-users on the basis of the operating costs; (viii) the requirement of



setting up, by the technical assistance provider, of a fund for repayment-default guarantee and the identification of institutional options to continue the making of Micro-finance Sub-loans after the break-even point has been reached; and (ix) furnishing quarterly reports to the PCU on the status of activities under Part E of the Project;

(d) cause MALR to establish, not later than six (6) months after the Effective Date, an account in the National Bank of Egypt on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure, or attachment (the Account), to be managed by the technical assistance provider. The Account shall be operated as follows:

- (i) MALR shall cause the technical assistance provider to deposit into the Account all amounts received by it in debt service payments on Micro-finance Sub-loans extended by it, after deducting therefrom the management fees which shall be deposited in a separate account to contribute to the establishment of a guarantee or insurance fund against repayment default;
- (ii) withdrawal from the Account shall be for the purpose of financing Micro-finance Sub-loans;
- (iii) the technical assistance provider shall be responsible for identifying credit-worthy End-users with whom it shall enter into Micro-finance Sub-loan Agreements; and
- (iv) a statement as to the status of the Account shall be prepared, on a quarterly basis, by the National Bank of Egypt where the Account shall have been opened.

(e) cause the technical assistance provider to: (i) prepare the records, accounts and financial statements in connection with Part E.1 of the Project for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank; (ii) furnish to the Bank, through the PCU, as soon as available, but in any case not later than six (6) months after the end of each such year, certified copies of the financial statements referred to above for such year as so audited, and an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; (iii) furnish to the Bank, through the PCU, such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request; and (iv) ensure that such records and accounts are included in the annual audit referred to above; and

(f) cause MALR to establish, not later than six (6) months after the Effectiveness Date, a Board of Trustees (BOT), with membership, functions and responsibilities, and terms of reference satisfactory to the Bank, for the overall

management and oversight of the credit retailing operation. The BOT shall consist of representatives of the Borrower's MALR, the Matruh Governorate and the National Bank of Egypt holding the Account, the technical assistance provider, representatives of the local communities and/or the End-user groups.

E. Eligibility Criteria for Research Sub-projects

MALR shall ensure that no expenditures shall be made under Category (5), set out in the table in paragraph 1 of Schedule 1 to this Agreement, unless the Borrower's MALR is satisfied that the Research Sub-project sought to be financed meets the eligibility criteria specified below and the procedures, terms and conditions specified in Section F of this Schedule:

(a) the Research Sub-project shall be financially and technically viable and shall meet the criteria specified in the PIP; and

(b) the Research Sub-project shall comply with the standards set forth in the applicable laws of the Borrower relating to health, safety and environmental protection, as well as the applicable social and environmental policies of the Bank.

F. Terms and Conditions of Research Grants

1. Research Sub-projects shall be carried out pursuant to Research Grant Agreements to be entered into between the Borrower's MALR and a Research Operator under terms and conditions satisfactory to the Bank which shall, *inter alia*, include:

(a) the obligation to carry out the Research Sub-project in accordance with the Research Grant Agreement and the PIP, with due diligence and efficiency and in accordance with sound environmental, agricultural, technical, financial, and managerial standards, and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Research Sub-project;

(b) the right of the Borrower's MALR to inspect by itself, or jointly with the Bank, if the Bank shall so request, the equipment, experimentation plots and laboratories, sites, services and training included in the Research Sub-project, the operations thereof and any relevant records and documents;

(c) the right of the Borrower's MALR to obtain from the Research Operator all information, as the Borrower or the Bank shall reasonably request, regarding the administration, operation and financial conditions of the Research Sub-project; and

(d) the right of the Borrower's MALR to suspend or terminate the right of the Research Operator to use the proceeds of the Research Grant for the Research Sub-project upon the failure by the Research Operator to perform any of its obligations under its Research Grant Agreement, such failure to be determined by internal and external evaluations carried out in accordance with the procedures set forth in the PIP.

G. Progress Reports and Mid-Term Review

1. The Borrower shall, through MALR:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about December 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by January 31, 2007, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

## **SCHEDULE 6**

### **Special Accounts**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (4), (5), and (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts A, B, C, D and F of the Project and Category (3) set forth in said table in respect of Part E of the Project;

(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 Loan 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 the amount of \$800,000 in respect of the Special Account (A) for Parts A, B, C, D and F of the Project and an amount equivalent to \$200,000 in respect of the Special Account (B) for Part E thereof, to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$400,000 in respect of the Special Account (A) for Parts A, B, C, D and F of the Project and an amount equivalent to \$150,000 in respect of the Special Account (B) for Part E thereof, until (i) in respect of the Special Account (A) for Parts A, B, C, D and F of the Project, the aggregate amount of withdrawals from the Loan Account allocated to Categories (1), (2), (4), (5), (6), (7) and (8) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts A, B, C, D and F of the Project shall be equal to or exceed the equivalent of \$2,000,000 , and (ii) in respect of the Special Account (B) for Part E of the Project, the aggregate amount of withdrawals from the Loan Account allocated to Category (3) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Part E of the Project shall be equal to or exceed the equivalent of \$500,000.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall through MALR furnish to the Bank a request or requests for deposit into the respective 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 Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective Special Account such amount or amounts as the Borrower’s MALR shall have requested.

- (b) (i) For replenishment of the respective Special Account, the Borrower shall through MALR furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall through MALR 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 respective Special Account such amount as the Borrower's MALR shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan 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 through MALR out of the respective Special Account, the Borrower shall through MALR, 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 any 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;

(b) if the Borrower's MALR shall have failed to furnish to the Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Bank 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 Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective Special Account for Parts A, B, C, D, E and F of the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts A, B, C, D, E and F of the Project, 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 allocated to the eligible Categories for Parts A, B, C, D, E and F of the Project 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.

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