

CONFORMED COPY

CREDIT NUMBER 2504 EGT

Development Credit Agreement

(Matruh Resource Management Project)

between

ARAB REPUBLIC OF EGYPT

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 13, 1993

CREDIT NUMBER 2504 EGT

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated August 13, 1993, between ARAB REPUBLIC OF EGYPT (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General

Conditions) constitute an integral part of this Agreement.

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

- (a) "Project Area" means the north-west coastal area, extending from the Libyan border in the west to El-Hikma in the east;
- (b) "MALR" means the Ministry of Agriculture and Land Reclamation of the Borrower;
- (c) "PCU" means the Project Coordination Unit, established under the Minister of MALR's Decree No. 60 of the year 1993;
- (d) "PCC" means the Project Coordination Committee, established under the Minister of MALR's Decree No. 60 of the year 1993;
- (e) "NCC" means the National Coordination Committee for the Project, established under the Minister of MALR's Decree No. 60 of the year 1993;
- (f) "MRMC" means the Matruh Resource Management Center, to be established under Part B.1 of the Project;
- (g) "SWMU" means the Soil and Water Management Unit, to be established under Part B.1 of the Project;
- (h) "PBDAC" means the Principal Bank for Development and Agricultural Credit of the Borrower;
- (i) "Participating Banks" means PBDAC and any other banking institution of the Borrower, with which MALR may conclude arrangements, according to the provisions of paragraph B.4 (b) of Schedule 4 to this Agreement, for the provision of credit under Part C of the Project;
- (j) "CAP" means a Community Action Plan to be developed and implemented according to the provisions of paragraph B.1 of Schedule 4 to this Agreement;
- (k) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (l) "Annual Work Program" means the annual work program to be prepared pursuant to the provisions of paragraph A (3) of Schedule 4 to this Agreement;
- (m) "SRSC" means a Sub-regional Support Center to be established under Part B (3) (b) of the Project; and
- (n) "CG" means a Community Group to be established in the Project Area in accordance with the provisions of paragraph B (1) (a) of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifteen million nine hundred thousand Special Drawing Rights (SDR 15,900,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable

cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2001 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each March 1 and September 1 commencing September 1, 2003 and ending March 1, 2028. Each installment to and including the installment payable on March 1, 2013 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from

time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

Section 2.09. The Borrower represents that it has designated MALR for the purpose of handling, on behalf of the Borrower, debt service payments with respect to the Credit.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MALR with due diligence and efficiency and in conformity with appropriate financial, technical and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall cause MALR to carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

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 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with 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 nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to

time reasonably request.

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

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

ARTICLE V

Termination

Section 5.01. The date 120 days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of State for International Cooperation or the First Undersecretary for International Finance of said Ministry of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

Telex:

MINISTRY OF
INTERNATIONAL
COOPERATION
Cairo

927-23348

For the Association:

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

Cable address:Telex:

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

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

ARAB REPUBLIC OF EGYPT

By /s/ Ahmed Maher El Sayed
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ram Chopra
Regional Vice President
Middle East and North Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works (including rangeland establish- ment and watershed management)	4,000,000	85%
(2) Goods	3,900,000	100% of foreign expenditures, 100% of local expendi- tures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Credit	2,100,000	100% of amounts disbursed by the Participating Banks on account of credit under Part C of the

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Project % of Expenditures to be Financed
(4) Technical services, land surveys, studies and training	3,700,000	100%
(5) Operating expenses	1,100,000	100% for the fiscal years ending on June 30, 1995, 90% for the fiscal years ending on June 30, 1997, 80% for the fiscal years ending on June 30, 1999 and 70% for subsequent fiscal years
(6) Unallocated	1,100,000	
TOTAL	15,900,000 =====	

2. For the purposes of this Schedule:

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

(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) disbursement under Category (5) of the table in paragraph (1) of this Schedule shall be made on the basis of itemized statements of expenditures certified by PCU. Such statements shall include expenditures incurred for purposes of Project management and administration only with respect to the following items: (i) consumable, (ii) operation and maintenance costs of transport and operating equipment, and (iii) field related expenditures for Project staff. During the month of July in each year, the Borrower shall furnish to the Association a statement as to whether total disbursements under said Category (5) during the fiscal year ending on the preceding June 30 has been made within the disbursement percentage specified for such fiscal year, and appropriate adjustment in disbursement shall be made by the Association on the basis thereof.

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are (a) to conserve, through a program for sustainable natural resource management, the water, land and vegetative resources in the Project area, and (b) to alleviate poverty and improve the quality of life in the Project Area. 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: Natural Resource Management

1. Carrying out of environmentally sound water harvesting works, comprising:
 - (a) construction of underground cisterns and reservoirs;
 - (b) construction of small earth dikes and stone dikes on arable land; and
 - (c) construction of small cemented dikes to retard flood flows across wadis in the Project area.
2. Carrying out of measures for soil conservation and erosion control, including surveys of vulnerable areas and remedial works of structural and vegetative nature.
3. Carrying out a program for planting trees and shrubs on communal lands and for overseeding of range lands.

Part B: Adaptive Research and Extension

1. Construction, equipping, furnishing and staffing of the Matruh Resource Management Center (MRMC), to be responsible for developing, testing and dissemination of technologies designed for conservation of the Project area's natural resources. MRMC shall also include (a) a Soil and Water Management Unit (SWMU) and (b) a center for training of Project staff and beneficiaries.
2. Provision of technical assistance to MRMC in relevant areas such as range management, agronomy and farming systems research.
3. Carrying out of measures to strengthen agricultural extension service in the Project area, including:
 - (a) establishment of a multi-media unit, to be responsible for dissemination of improved agricultural techniques and of marketing information;
 - (b) establishment, equipping and staffing of four Sub-Regional Support Centers (SRSC) at Ras El-Hikma, Marsa Matruh, El-Negela and Sidi Barrani; and
 - (c) provision to MALR's Directorate of Extension Services in Matruh of (i) technical assistance in relevant areas such as extension management and women in development, (ii) staff training, and (iii) vehicles and equipment.

Part C: Rural Finance

1. Provision, through the Participating Banks, of credit for on-farm and off-farm rural investments.
2. Provision to the Participating Banks of technical assistance and staff training required for conducting credit operations under the Project.
3. Carrying out of a rural finance and marketing study.

Part D: Project Management; Monitoring and Evaluation

1. Provision to PCU of office equipment, technical assistance and staff training.
2. Monitoring and evaluation of Project activities, and the utilization for this purpose of satellite imagery and technical assistance.

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Goods estimated to cost the equivalent of more than \$250,000 per contract shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

Part B: Preference for Domestic Manufacturers

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

Part C: Other Procurement Procedures

1. Contracts for the construction of buildings, estimated to cost in the aggregate the equivalent of not more than \$800,000 and contracts for water harvesting, estimated to cost in the aggregate the equivalent of not more than \$1,700,000, and for watershed management, estimated to cost in the aggregate the equivalent of not more than \$1,300,000, may be awarded on the basis of competitive bidding advertised locally, in accordance with procedures satisfactory to the Association. Such procedures shall ensure, inter alia (a) public opening of bids, (b) equal treatment of all bidders in terms of the requirement of furnishing bid or performance bonds, and (c) eligibility of representatives of foreign bidders for bidding.

2. Works for watershed management, estimated to cost the equivalent of not more than \$50,000 per contract and not more than \$250,000 in the aggregate, may be executed by appropriate agencies of the Matruh Governorate under force account procedures satisfactory to the Association.

3. Items of goods estimated to cost the equivalent of not more than \$30,000 per contract and not more than \$100,000 in the aggregate, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of not less than three suppliers from not less than two different countries eligible under the Guidelines, in accordance with procedures satisfactory to the Association.

4. Work for range development, estimated to cost in the aggregate the equivalent of not more than \$350,000, may be carried out under direct contracting procedures satisfactory to the Association.

5. Items of goods or works estimated to cost the equivalent of not more than \$30,000 per contract and not more than \$250,000 in the aggregate, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of not less than three suppliers or contractors in accordance with procedures satisfactory to the Association.

6. Spare parts, costing in the aggregate the equivalent of not

more than \$150,000, may be procured under contracts to be directly negotiated with the suppliers thereof on terms satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract estimated to cost the equivalent of \$250,000 or more for works or \$100,000 or more for goods, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

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

2. The figure of 20% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Implementation Program

A. Project Management

1. MALR shall have the overall responsibility for Project implementation. MALR shall, until the completion of the Project, maintain the existence of NCC under a National Coordinator and with such operating procedures as shall enable NCC to provide support in the planning of Project activities, facilitate the taking of

measures required, at the national level, for carrying out such activities and assist in ensuring the adequate and timely allocation of funds required therefor.

2. MALR shall (a) until the completion of the Project, maintain the existence of PCU, under a properly qualified and experienced Project Director, and with qualified staff in adequate numbers to perform under the Project the functions of planning, procurement, financial control, monitoring and reporting; (b) ensure that the PCC will continue throughout the period of Project implementation to assist PCU in the review of CAPs and the Annual Work Programs and in the conduct of periodic evaluation of Project activities; and (c) ensure the assignment of properly qualified persons to the position of Director of MALR's Directorate of Extension Services by December 31, 1993, and to the position of Director of MRMC by June 30, 1994.

3. PCU shall prepare, starting in September, 1993, an Annual Work Program, specifying the activities to be carried out under the Project during the year concerned, the procurement arrangements thereunder and the resource requirements thereof.

B. Project Implementation

1. Community Action Plan (CAP)

In recognition of the fact that the Project area is inhabited mainly by a tribal population with its distinct customary rules concerning rights to water, and to grazing and cultivation areas, the concept of the CAP is adopted to maximize the benefits of investment for natural resource management, adaptive research, extension and credit under the Project. For purposes of the formulation and implementation of CAPs, the following procedures, as they may be amended from time to time, shall apply:

(a) the tribal community in each part of the Project area shall select from its members a Community Group (CG) not to exceed ten individuals;

(b) each CG shall develop the elements of its CAP, defining aspects such as the present state of the local resources, its existing customary rules for resource utilization, its needs in terms of investments included under Parts A, B and C of the Project and the forms of possible collateral that may be provided for credit;

(c) the validity of proposals included in a CAP shall be reviewed by the CG preparing it with the relevant SRSC;

(d) upon such review, the CAP shall be prepared in a written form and submitted to the PCU for further review and incorporation in the Annual Work Program;

(e) a detailed plan for the carrying out of activities included in any approved CAP shall be drawn, specifying the responsibilities of the relevant CG (and members of its community, if necessary);

(f) the CG shall be adequately involved in the implementation of the CAP;

(g) the relevant SRSC shall keep records pertaining to the implementation of the CAPs;

(h) procedures shall be established for evaluation of progress in implementation of the CAPs and for introducing necessary revisions thereto; and

(i) with the exception of the first two CAPs, which shall be prepared by PCU in coordination with other agencies involved in Project implementation and the concerned communities, no activities shall be approved for implementation under Parts A and C of the Project, unless such activities shall constitute part of a CAP

prepared in accordance with the preceding paragraphs.

2. Project Institutions:

MALR shall ensure the establishment of MRMC (including its SWMU and training center), the four SRSCs and the multi-media unit, referred to in Part B (3) (a) of the Project, in accordance with time schedules satisfactory to the Borrower and the Association.

3. Specific Measures for Project Implementation:

(a) In order to assist MRMC in its adaptive research activities, MALR shall establish, by June 30, 1994, an advisory panel of internationally reputed specialists in dryland farming systems.

(b) Not later than December 1993, MALR shall establish, through the PCU, procedures and criteria satisfactory to the Association for selection of the beneficiaries of water harvesting works under Part A (1) of the Project, and shall make available to such beneficiaries (under the relevant CAPs) an amount equivalent to up to 40% of the estimated cost of such works in the form of a grant financed from the proceeds of the credit.

(c) MALR shall ensure (i) the furnishing to the Association of each Annual Work Program, promptly upon the preparation thereof; and (ii) the preparation by PCU, in coordination with other agencies involved in Project implementation, starting in July 1994, and the furnishing to the Association, of semi-annual reports on progress in the carrying out of the Project.

(d) MALR shall conduct the rural finance and marketing study, referred to in Part C.3 of the Project, and the monitoring and evaluation and satellite imagery, referred to in Part D.2 of the Project under terms of reference and in accordance with time schedules agreed upon between the Borrower and the Association.

(e) MALR shall conduct, jointly with the Association, by December 31, 1996, and by December 31, 1998, or such other dates as the Association may agree, a detailed evaluation of the status of Project implementation, including a review of the procedures and terms for credit extended under the Project to determine the adjustments required thereto in order to ensure effective utilization of such credit.

4. Credit under Part C of the Project is designed as a pilot program aiming at increasing income and generating employment in the Project area while enhancing the capacity of rural households to manage risk. For the extension of such credit the following arrangements and procedures shall be followed:

(a) credit services under the Project shall be extended by (i) the Matruh branch of PBDAC, and (ii) any other banking institution of the Borrower which operates in Matruh and which desires to extend such credit services (the Participating Banks).

(b) MALR shall sign with every Participating Bank an agreement on terms satisfactory to the Association, which shall include, inter alia: (i) the amount to be made available for credit through such Participating Bank; (ii) the guidelines (satisfactory to the Association) for extension of credit, including the maximum limit for credit for investment for individuals and CG and the collateral arrangements, (iii) the transport and office facilities to be made available for use by the Participating Bank to facilitate its conduct of credit operation under the Project, (iv) the requirement that credit be charged by the Participating Bank, interest (or other equivalent service charges) at rates conforming to market rates, and (v) the right of the Participating Bank to charge for its credit services in the Project area (A) on an annual basis, a fee equivalent to 4-1/2% of the average outstanding amount over the preceding quarter of credit extended by such Participating Bank, and (B) an amount equivalent to 1-1/2% of principal credit

amount repaid to such Participating Bank, and (vi) the requirement that the Participating Bank furnish quarterly reports to PCU on the status of its credit activities in the Project area.

(c) To facilitate the extension of credit, MALR shall establish a special fund in a commercial bank in Matruh (the Account). The Account shall be operated as follows:

- (i) the Account shall be fed by advances from the Special Account, equivalent to projected disbursement under credit for a future six-month period;
- (ii) each Participating Bank shall have access to amounts advanced to the Account, within the total amount approved for such Participating Bank according to paragraph (b) above;
- (iii) withdrawal from the Account shall be made by the Participating Banks only to meet actual disbursement under credit operation;
- (iv) a statement as to the status of the Account shall be prepared by PCU, (A) on a quarterly basis, and (B) at any time a replenishment of the Special Account is requested;
- (v) each Participating Bank shall be paid from the proceeds of the Account, upon the approval of PCU, the fee amount due annually to them, pursuant to paragraph (b) (iv) (A) above, at the rate of 4-1/2% of outstanding credit amount extended by it;
- (vi) each Participating Bank shall deposit into the Account all amounts received by it in debt service payments on credit extended by it, after deducting therefrom, only with respect to repayment of principals of such credit, the amount referred to in paragraph (b) (iv) (B) above, and representing 1-1/2% of such repayment of principals; and
- (vii) amounts due to the Participating Banks pursuant to the preceding paragraph shall be reduced by an amount equivalent to 15% of loan losses. Loan losses shall mean, for purposes of this paragraph, any overdue debt service payment on credit extended by the Participating Bank which remains in arrears for more than three years.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means all Categories, except Category (6), set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$600,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special 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 shall furnish to the Association a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the 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 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 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 Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in 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.

