

CONFORMED COPY

CREDIT NUMBER 3127-EGT

LDF Project Agreement

(Sohag Rural Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

LOCAL DEVELOPMENT FUND

Dated November 4, 1998

CREDIT NUMBER 3127-EGT

PROJECT AGREEMENT

AGREEMENT, dated November 4, 1998 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and Local Development Fund (LDF).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Arab Republic of Egypt (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to eighteen million six hundred thousand Special Drawing Rights (SDR 18,600,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that LDF agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary loan agreement to be entered into between the Borrower and NIB part of the proceeds of the Credit provided for under the Development Credit Agreement will be made available to NIB for further on-lending to LDF on terms and conditions set forth in the NIB Subsidiary Loan Agreement and the LDF Subsidiary Loan Agreement; and

WHEREAS LDF in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project; Management and Operations of LDF

Section 2.01. LDF declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out part C of the Project and conduct its operations and affairs, in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Statutes.

Section 2.02. (a) Without limitation upon the provisions of Section 2.01 of this Agreement and except as the Association and LDF shall otherwise agree, LDF shall: (a) carry out Part C of the Project and ensure that Sub-loans under subpart (2) thereof, including the arrangements for the making of sub-loans thereunder through non-governmental organizations, shall be made, in accordance with the requirements and other details set forth or referred to in Part C Operations Manual, as said Manual shall be reviewed with the Association at such intervals as the Association or LDF shall request, and as the same may be updated with the agreement of the Association; (b) employ consultants, with qualifications and terms of reference satisfactory to the Association, to assist in carrying out the same; (c) complete, by December 30, 1999, the implementation of the program to strengthen its financial performance referred to in Part C (1) of the Project; and (d) provide the Borrower with the information required by the Borrower for the purpose of preparing the reports referred to in Section 3 of Schedule 4 of the Credit Agreement.

Section 2.03. Except as the Association shall otherwise agree, procurement of the goods by Beneficiary under Part C (2) of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.04. (a) LDF shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the LDF Project Agreement and Part C of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, LDF shall:

(i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and LDF, a plan for ensuring the continued achievement of the objectives of Part C of the Project; and

(ii) afford the Association reasonable opportunity to exchange views with LDF on said plan.

Section 2.05. LDF shall duly perform all its obligations under the LDF Subsidiary Loan Agreement. Except as the Association shall otherwise agree, LDF shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the LDF Subsidiary Loan Agreement or any provision thereof.

Section 2.06. (a) LDF shall, at the request of the Association, exchange views with the Association with regard to the progress of Part C of the Project, the performance of its obligations under this Agreement and under the LDF Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) LDF shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part C of the Project, the

accomplishment of the purposes of the Credit, or the performance by LDF of its obligations under this Agreement and under the LDF Subsidiary Loan Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) LDF shall maintain procedures and records adequate to monitor and record the progress of the Project and of each subproject (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of LDF.

(b) LDF shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

ARTICLE IV

Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of LDF thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate; or

(ii) a date 10 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify LDF of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such

request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Local Development Fund

Local Development Fund
1, Nadi El Seid St.
Dokki
Cairo
Arab Republic of Egypt

Fax:

337-4734

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of LDF or by LDF on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Chairman of the Board, or by such other person or persons as LDF shall designate in writing, and LDF shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Khalid Ikram

Acting Regional Vice President
Middle East and North Africa

LOCAL DEVELOPMENT FUND

By /s/ Ibrahim Muharram

Authorized Representative

