

CONFORMED COPY

LOAN NUMBER 7468-EGT

Loan Agreement

(West Delta Water Conservation and Irrigation Rehabilitation Project)

between

ARAB REPUBLIC OF EGYPT

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 1, 2008

LOAN NUMBER 7468-EGT

LOAN AGREEMENT

Agreement dated September 1, 2008, between ARAB REPUBLIC OF EGYPT (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred forty five million United States dollars (US\$145,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty (60) days after the Effective Date.
- 2.04. The interest payable by the Borrower on the principal amount of the Loan withdrawn and outstanding from time to time for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. For purposes of paragraph 43 of the General Conditions, the “Fixed Spread” for the initial Loan currency in effect at 12:01 a.m. Washington, D.C time, one calendar day prior to the date of the Loan Agreement is 0.05%.

- 2.05. The Payment Dates are April 1 and October 1 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (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 the 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 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 for 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 the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.08. The Ministry of Water Resources and Irrigation is designated as the representative of the Borrower for the purpose of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article II of the General Conditions.
- 2.09. 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 of the Loan.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project through the Ministry of Water

Resources and Irrigation in accordance with the provisions of Article V of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely that MWRI shall have established the PMU, with organization, staffing and terms of reference acceptable to the Bank.
- 4.02. The Effectiveness Deadline is the date one hundred and eighty (180) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Minister of International Cooperation of the Borrower and the First Under Secretary for International, Regional and Arab Financing Organizations of the Ministry of International Cooperation of the Borrower are severally designated as representatives of the Borrower.
- 5.02. The Borrower's Address is:

Ministry of International Cooperation
8 Adly Street,
Cairo, Arab Republic of Egypt
Cable address:

Facsimile:

Ministry of International Cooperation
Cairo, Arab Republic of Egypt

(202) 2391-2815
(202) 2391-5167

- 5.03. The Bank's Address is:

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)	1-202-477-6391

AGREED at Cairo, Arab Republic of Egypt, as of the day and year first above written.

ARAB REPUBLIC OF EGYPT

By: /s/ Fayza Aboulnaga

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By: /s/ Emmanuel Mbi

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to improve the livelihood and increase the income of people in the Project Area through: (i) mitigating further environmental degradation caused by excessive drawdown of the groundwater resources; and (ii) establishing a framework for financial sustainability of irrigation infrastructure in the use of water resources.

The Project consists of the following parts:

Part 1: Design, Construction and Operation of Surface Water System and Connection Program

Design, construction and operation of a surface water irrigation system and connection program within the Project Area, taking into consideration the specific environment and social requirements as stated in the ESMP and the RPF.

Part 2: Market-driven Technical Support to Small and Medium Scale Farmers

Providing market-driven technical support to small and medium scale farmers in the Project Area to increase their market share, at the national and international level.

Part 3: Institutional Development and Capacity Building

- (a) Institutional development and capacity building of the Regulatory Office to ensure effective economic regulatory oversight and equitable treatment of interests between farmers and the Private Operator.
- (b) Supporting the operational capacity of the PMU to assist it in the implementation of the Project, the carrying out of the ESMP and the RPF and the monitoring and evaluation of the Project.
- (c) Capacity building of the Project Area's water user council to enhance its capacity to oversee the relationship between farmers regarding usage of surface and ground water resources, and to represent the farmer's interest with the Private Operator, the PMU and the Regulatory Office.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Borrower shall vest the overall responsibility for the implementation of the Project in MWRI and shall cause MWRI to implement the Project in accordance with the ESMP and the RPF. Except as the Bank shall otherwise agree, the Borrower shall not amend or waive any provision of the ESMP or RPF if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.
2. The Borrower, shall through MWRI, establish by no later than December 31, 2008, and thereafter maintain, the Regulatory Office within MWRI with organization, staffing and terms of reference satisfactory to the Bank.
3. For the purpose of ensuring the proper supervision of the execution of the Project, the Borrower shall, through MWRI, maintain the PMU until the completion of the Project with organization, staffing and terms of reference satisfactory to the Bank. The PMU shall be responsible for supervising the procurement and financial management processes under the Project, the environment and social aspects and the monitoring and evaluation processes for the Project.
4. The Borrower shall cause MWRI to carry out the Project pursuant to the provisions of the Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006.

B. Safeguards

The Borrower shall, through MWRI, ensure that: (i) remedial measures are taken during the implementation and operation of the Project to offset or reduce adverse environmental impacts, to levels acceptable to the Bank and in accordance with the provisions set forth in the ESMP; and (ii) all land acquisition required for the purposes of carrying out works under Part 1 of the Project, and activities related to the resettlement and rehabilitation of Project affected people in connection with such works, shall be completed prior to commencing the carrying out of such works, and in accordance with the provisions set forth in the RPF.

Section II. Project Monitoring Reporting and Evaluation**A. Project Reports**

1. The Borrower shall, through MWRI, monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.
2. For purposes of Section 5.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than June 30, 2012.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall, through MWRI, maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall, through MWRI, prepare and furnish to the Bank not later than forty five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower shall, through MWRI, have the Financial Statements related to the Project audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement**A. General**

1. **Works.** All works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular

contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Works

International Competitive Bidding. Works shall be procured under contracts awarded on the basis of International Competitive Bidding.

C. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (exclusive of Taxes)
(1) Works	145,000,000	70%
(2) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07(c) of this Agreement
TOTAL AMOUNT	<u>145,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or
 - (b) for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2011.

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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 1 and October 1 Beginning October 1, 2015 through October 1, 2026	4.17%
On April 1, 2027	4.09%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn within two 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the 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 Withdrawn Loan Balance is 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.

APPENDIX**Definitions**

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Co-financiers” means the *Agence Française de Développement* and the Netherlands Ministry for Development Cooperation, respectively, referred to in paragraph 15 of the Appendix to the General Conditions.
3. “Co-financing” means: (a) a loan in an amount of thirty million United States dollars and a grant in an amount of two million United States dollars to be provided by the *Agence Française de Développement*; and (b) a grant in an amount of six million United States dollars to be provided by the Netherlands Ministry for Development Cooperation, to assist in financing the Project.
4. “Co-financing Agreements” means the agreement between the Borrower and the Co-financiers providing for the Co-financing.
5. “DBO Contract” means the design, build and operate contract entered into between MWRI, on the one part, and a private sector operator, on the other part, in accordance with terms and conditions satisfactory to the Bank, pursuant to which said operator shall carry out the activities under Part 1 of the Project.
6. “Environmental and Social Management Plan” or “ESMP” means the Borrower’s environmental and social management plan for the Project, furnished to the Bank on April 30, 2007, as such ESMP may be updated from time to time by agreement between the Borrower and the Bank, setting forth the remedial measures to be taken during the implementation and operation of the Project to offset or reduce adverse environmental impacts, including air and water pollution and waste to levels acceptable to the Bank.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).
8. “Ministry of Finance” means the Borrower’s ministry of finance or any successor thereto.
9. “Ministry of Water Resources and Irrigation” or “MWRI” means the Borrower’s ministry of water resources and irrigation or any successor thereto.
10. “Private Operator” means the operator referred to under paragraph (5) of this Section.

11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
12. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 19, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
13. “Project Area” means an area of about 190,000 feddans (79,800 ha.) located on both sides of the Cairo-Alexandria desert highway road between Cairo and Sadat City, approximately 60 kilometers north of Cairo to the west of the Nile Delta.
14. “PMU” means the Project Management Unit, referred to in Section I.A.3 of Schedule 2 to this Agreement.
15. “Regulatory Office” means the office referred to in Section I.A.2 of Schedule 2 to this Agreement.
16. “Resettlement Policy Framework” or “RPF” means the Borrower’s resettlement framework for the Project furnished to the Bank on March 30, 2007, setting forth the rules, procedures and guidelines for the acquisition of land and/or other assets from Project affected persons and/or the resettlement and rehabilitation of such persons and the compensation thereof.