

No. 18915

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**UNITED STATES OF AMERICA  
and  
EGYPT**

**Project Loan Agreement for telecommunications (with annex and financial plan). Signed at Cairo on 28 August 1978**

*Authentic text : English.*

*Registered by the United States of America on 12 June 1980.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
ÉGYPTE**

**Accord de prêt pour un projet relatif aux télécommunications (avec annexe et plan financier). Signé au Caire le 28 août 1978**

*Texte authentique : anglais.*

*Enregistré par les États-Unis d'Amérique le 12 juin 1980.*

PROJECT LOAN AGREEMENT<sup>1</sup> AMONG THE ARAB REPUBLIC OF EGYPT, THE UNITED STATES OF AMERICA, THE MINISTRY OF COMMUNICATIONS AND THE ARAB REPUBLIC OF EGYPT TELECOMMUNICATIONS ORGANIZATION FOR TELECOMMUNICATIONS

Dated: August 28, 1978

A.I.D. Loan Number 263-K-047  
Project Number 263-0054

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<sup>1</sup> Came into force on 28 August 1978 by signature.

<sup>2</sup> Not printed herein. For the text, see "Project Loan Agreement among the Arab Republic of Egypt, the United States of America and the Ministry of Irrigation for Canal Maintenance" in United Nations, *Treaty Series*, vol. 1169, p. 31.

## A.I.D. PROJECT NO. 263-0054

PROJECT LOAN AGREEMENT dated August 28, 1978, among the ARAB REPUBLIC OF EGYPT ("Borrower"), the MINISTRY OF COMMUNICATIONS, the ARAB REPUBLIC OF EGYPT TELECOMMUNICATIONS ORGANIZATION ("ARETO") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

*Article 1. THE AGREEMENT*

The purpose of this Agreement is to set out the understandings of the Parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

*Article 2. THE PROJECT*

*Section 2.1. DEFINITION OF PROJECT.* The Project, which is further described in annex 1 attached, will consist of the provision of materials, equipment and services in order to improve ARETO's telecommunication system and strengthen its management, operations, planning, training and financial functions. The Borrower will relend the funds to ARETO which will be the implementing agency for the Project. Annex 1 amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.2, without formal amendment of this Agreement.

*Article 3. FINANCING*

*Section 3.1. THE LOAN.* To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend to the Borrower under the terms of this Agreement not to exceed forty million United States ("U.S.") dollars (\$40,000,000.00) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "principal". The Loan may be used only to finance foreign exchange costs, as defined in section 7.1, of goods and services required for the Project.

*Section 3.2. BORROWER RESOURCES FOR THE PROJECT.* (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Borrower for the Project will not be less than seven million nine hundred and fifty thousand Egyptian pounds (L.E. 7,950,000), including costs borne on an "in-kind" basis.

*Section 3.3. PROJECT ASSISTANCE COMPLETION DATE.* (a) The "Project Assistance Completion Date" (PACD), which is March 31, 1982, or such other date as the Parties may agree in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan (1) in response to requests received by A.I.D. after September 30, 1981, or (2) for services

performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project implementation letters, are to be received by A.I.D. or any bank described in section 8.1 no later than six (6) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project implementation letters, were not received before the expiration of said period.

#### Article 4. LOAN TERMS

*Section 4.1. INTEREST.* The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in section 8.3) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

*Section 4.2. REPAYMENT.* The Borrower will repay to A.I.D. the principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semiannual installments of principal and interest. The first installment of principal will be payable nine and one-half (9 1/2) years after the date on which the first interest payment is due in accordance with section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this section after the final disbursement under the Loan.

*Section 4.3. APPLICATION, CURRENCY, AND PLACE OF PAYMENT.* All payments of interest and principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

*Section 4.4. PREPAYMENT.* Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of principal in the inverse order of their maturity.

*Section 4.5. RENEGOTIATION OF TERMS.* (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of the Arab Republic of Egypt, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to section 9.1 and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to section 9.1, the name and

address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of Borrower's Minister of Economy and Economic Development in the Arab Republic of Egypt.

*Section 4.6. TERMINATION ON FULL PAYMENT.* Upon payment in full of the principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. under it will cease.

#### *Article 5. CONDITIONS PRECEDENT TO DISBURSEMENT*

*Section 5.1. FIRST DISBURSEMENT.* Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of the Minister of Justice or of other counsel acceptable to A.I.D. that this Agreement and the Reloan Agreement have been duly authorized and/or ratified by, and executed on behalf of, the Borrower and ARETO, and that they constitute valid and legally binding obligations of the Borrower and ARETO, in accordance with all of their terms;
- (b) A statement of the names of the persons holding or acting in the offices of the Borrower specified in section 9.2 and of any additional representatives, together with a specimen signature of each person specified in such statement;
- (c) A Reloan Agreement satisfactory to A.I.D. for the Project between the Borrower and ARETO pursuant to the covenant described in section 6.2; and
- (d) An executed contract acceptable to A.I.D. for the consulting services for the project with a firm acceptable to A.I.D.

*Section 5.2. ADDITIONAL DISBURSEMENT — EQUIPMENT.* Prior to any disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, for equipment, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. a Procurement Plan, approved by the U.S. consultant funded under the Loan, for all procurement planned by ARETO through the end of calendar year 1981, showing specific items, quantities, estimated prices and timing of such procurement.

*Section 5.3. ADDITIONAL DISBURSEMENT — TRAINING.* Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for training, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., a proposed training program showing the categories and identities of the trainees, and the nature, length and purpose of the training.

*Section 5.4. NOTIFICATION.* When A.I.D. has determined that the conditions precedent specified in sections 5.1, 5.2 and 5.3 have been met, it will promptly notify the Borrower.

*Section 5.5. TERMINAL DATE FOR CONDITIONS PRECEDENT.* If all of the conditions specified in Section 5.1 have not been met by January 31, 1979, or such later

date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

*Article 6. SPECIAL COVENANTS.*

*Section 6.1. PROJECT EVALUATION.* The Parties agree to establish an evaluation program as part of the project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

*Section 6.2. RELOAN BY BORROWER TO ARETO.* In order to assist ARETO in carrying out the project, the Borrower shall relend to ARETO the proceeds of the Loan under a rel oan agreement ("Reloan Agreement") to be entered into between the Borrower and ARETO under terms and conditions satisfactory to A.I.D. Such terms and conditions shall include, but not be limited to, a repayment period not to exceed fifteen (15) years, including a 5-year grace period and an interest rate of seven and one-half per cent (7 1/2%) per annum, with principal amount and schedule of repayments, including interest, denominated in U.S. dollars, repayments to be made in Egyptian pounds calculated at the highest rate prevailing and declared for foreign currency by the competent authorities of the Borrower in effect on the date of each repayment.

*Section 6.3. PAYMENT FOR TELECOMMUNICATION SERVICE.* The Borrower shall take such steps as may be necessary to assure that its Ministries and other Governmental organizations make prompt payment to ARETO for telecommunication services rendered to them.

*Section 6.4. TARIFF RATE STRUCTURE.* Except as A.I.D. may otherwise agree in writing, within one year from the date of the Loan Agreement, Borrower and ARETO agree that ARETO shall prepare a tariff rate structure for the 1980-1985 period, taking into account the observations of A.I.D. and the IBRD on the subject. The proposed rate structure should show that the projected local currency and foreign exchange generations are sufficient to cover the costs of future operations, service local and foreign debt and provide an acceptable contribution to capital investment.

*Section 6.5. REORGANIZATION OF ARETO.* Except as A.I.D. may otherwise agree in writing, within one year from the date of the Loan Agreement, the Borrower and ARETO shall take the necessary legal action to reorganize ARETO under its own special charter as an autonomous entity, with the following authorities and rights:

- (a) To establish subsidiary companies able to participate in joint ventures under the provisions of Investment Law No. 43;
- (b) To establish a reasonable rate/tariff structure;
- (c) To establish a reasonable wage rate structure;
- (d) To be free from Egyptian Government employment quotas;
- (e) To discharge unproductive workers;

- (f) To eliminate the ARETO legal obligation to turn over all its profits to the Ministry of Finance and to depend upon the Government budgetary process to gain necessary operating and investment funds;
- (g) To appoint top managers, without prior Governmental approval;
- (h) To establish accounting, financial reporting and inventory disposal systems designed to serve the telecommunications industry, free of Governmental requirements.

*Section 6.6. ARETO ASSETS.* Except as A.I.D. may otherwise agree in writing, within one year from the date of this Agreement, Borrower and ARETO shall take all necessary actions such that ARETO will revalue the following asset accounts using replacement value less depreciation: (1) the assets acquired from the Borrower either as a donation or for nominal amounts; and (2) the assets acquired and recorded at the official exchange rate.

*Section 6.7. ARETO STAFFING.* Except as A.I.D. may otherwise agree in writing, within one year from the date of this Agreement, ARETO shall freeze the number of its staff at its then present level, and adopt a policy that the number of new hires cannot exceed the annual turnover rate.

*Section 6.8. ARETO EQUITY.* Except as A.I.D. may otherwise agree in writing, within one year from the date of this Agreement, Borrower and ARETO agree that ARETO will transfer LE 20 million of the monies owed by ARETO to the Borrower from a liability account to an equity account.

*Section 6.9. ARETO DEBT TO EQUITY RATIO.* Except as A.I.D. may otherwise agree in writing, within one year from the date of this Agreement, Borrower and ARETO agree that ARETO will maintain a debt to equity ratio no greater than 70:30.

*Section 6.10. ACTIONS OF BORROWER.* The Borrower shall not take or permit any of its political sub-divisions, or any of its agencies or instrumentalities, or any agency or instrumentality of any of its political sub-divisions, to take any action which would prevent or materially interfere with the performance by ARETO of any of its obligations under this Agreement or the Reloan Agreement, and shall take or cause to be taken all reasonable actions which shall be required on its part in order to enable ARETO to perform such obligations.

*Section 6.11. SERVICE IMPROVEMENT PLAN.* ARETO will take all reasonable steps to implement the Service Improvement Plan (SIP) as detailed in the Telecommunications Sector Study Report.

#### *Article 7. PROCUREMENT SOURCE*

*Section 7.1. FOREIGN EXCHANGE COSTS.* Disbursements pursuant to section 8.1 will be used exclusively to finance the costs of goods and services required for the project having their source, origin, and nationality in the United States (Code 000 of the AID Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, section C.1 (b), with respect to marine insurance.

#### *Article 8. DISBURSEMENTS*

*Section 8.1. DISBURSEMENT FOR FOREIGN EXCHANGE COSTS.* (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of

funds under the Loan for the foreign exchange costs of goods or services required for the project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

- (1) By submitting to A.I.D., with necessary supporting documentation as prescribed in project implementation letters, (A) requests for reimbursement for such goods or services or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or
- (2) By requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

*Section 8.2. OTHER FORMS OF DISBURSEMENT.* Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

*Section 8.3. DATE OF DISBURSEMENT.* Disbursements by A.I.D. will be deemed to occur on the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order.

#### *Article 9. MISCELLANEOUS*

*Section 9.1. COMMUNICATIONS.* Any notice, request, document, or other communication submitted by either Borrower or A.I.D. to the other under this Agreement will be in writing or by telegram or cable, and will be deemed given or sent when delivered to such Party at the following address:

To the Borrower:

Ministry of Economy and Economic Cooperation

8, Adly St.

Cairo, Egypt

or

ARETO

28, Ramses St.

Cairo, Egypt

Ministry of Communications

28, Ramses Street

Cairo, Egypt

To A.I.D.:

A.I.D.

U.S. Embassy

Cairo, Egypt

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

*Section 9.2. REPRESENTATIVES.* For all purposes relevant to this Agreement, the Borrower will be represented by the individuals holding or acting in the offices of



Minister of Economy and Economic Cooperation, Minister of Communications, Chairman of ARETO and Deputy Chairman of the General Authority for Arab and Foreign Investment and Free Zones, and A.I.D. will be represented by the individual holding or acting in the office of Director, U.S.A.I.D., each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under section 2.1 to revise elements of the amplified description in annex 1. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

*Section 9.3. STANDARD PROVISIONS ANNEX.* A "Project Loan Standard Provisions Annex" (annex 2)<sup>1</sup> is attached and forms part of this Agreement.

IN WITNESS WHEREOF, the Parties hereto, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

Arab Republic of Egypt:

*By:* [Signed]  
*Name:* Dr. HAMED EL-SAYEH  
*Title:* Minister of Economy and  
 Economic Cooperation

Ministry of Communications:

*By:* [Signed]  
*Name:* NAIM ABU TALEB  
*Title:* Minister

United States of America:

*By:* [Signed]  
*Name:* H. FREEMAN MATTHEWS  
*Title:* Chargé d'affaires a.i.

The Arab Republic of Egypt  
 Telecommunications Organization:

*By:* [Signed]  
*Name:* Eng. MAHMOUD M. ABDALLAH  
*Title:* Chairman

## ANNEX 1

### PROJECT DESCRIPTION

This project consists of activities designed to improve the telecommunications system of Egypt by strengthening the planning, management, operating and training functions of the Arab Republic of Egypt Telecommunications Organization (ARETO) and by rehabilitating some and replacing other obsolete components of the system. ARETO is the implementing agent for carrying out the project, and will be advised and assisted on all phases by a U.S. consultant. The loan will finance the services of the U.S. consultant and the foreign exchange costs of the telecommunications replacement, operating, maintenance, and related equipment required for the project.

The design of the project, which is based upon the recommendations contained in the Arab Republic of Egypt Telecommunications Sector Study of Continental Telephone Holdings Corporation, dated April 30, 1978 (CTC Study), consists of the following three principal elements:

<sup>1</sup> See footnote 2 on p. 280.

A. *Management, operations and training programs:*

1. Development of a revised organizational structure for ARETO and establishment of a schedule for implementing proposed changes;
2. Establishment of a central planning office and project control group;
3. Strengthening of financial management systems;
4. Improvement of commercial operations, i.e., activities involving contracts and relationships with customers;
5. Strengthening of purchasing and inventory management capabilities;
6. Establishment of organization, procedures and priorities for the standardization of purchased equipment, materials and services;
7. Technical and management training for ARETO personnel;
8. Preparation of an EDP plan for ARETO and the design and implementation of computer-based systems for the Telephone Research Center.

B. *Service improvement programs:*

1. Repair, modification, rehabilitation and replacement, as necessary, of air-conditioning and other equipment in Cairo exchange buildings in order to provide suitable operating environment for modern telecommunications switching and transmission equipment; institution of practices and procedures to provide continuous effective maintenance of such facilities;
2. Improvements in the overall administration, maintenance and performance of Cairo local exchange equipment;
3. Installation of measures to improve operation in the national toll center and to improve service on international toll calls;
4. Establishment of a central organization and the necessary records and procedures to improve the maintenance and utilization of Cairo junction facilities, and the implementation of a program to verify, test and repair junction cable facilities;
5. Replacement of the obsolete rotary exchange in, e.g., Zamalek with a 20,000-line electronic exchange, including equipment and installation for subscriber toll dialing and international telephone service; this will be accomplished under a "turnkey" contract and will serve as a discrete model of exchange modernization and training exercise for ARETO personnel;
6. Establishment of an organization and implementation of a program to improve service to major business and government telecommunication users.

C. *Systems expansion and modernization:*

1. Procurement and installation of PABX's (approximately 3,000 lines), and microwave links to the Cairo airport and other locations; subject to the U.S. consultants' recommendation, it is anticipated that this work will be accomplished on a "turnkey" basis;
2. Rehabilitation or replacement, as appropriate, of exchange outside plant;
3. Procurement of mobile exchange station vans, initially to maintain customer service during Zamalek modernization.

PROJECT FINANCIAL PLAN AS OF AUGUST 1978, PROJECT No. 263-0054  
 (source and application of funding 000s L.E. and U.S. \$)

<i>Project inputs</i>	<i>U.S. \$ (AID)</i>	<i>L.E. (A.R.E.)</i>
Technical services .....	\$7,500	L.E. 1,500
Planning		
Training		
Procurement		
Accounting, financial and administrative		
SIP		
Equipment and equipment-related services .....	28,500	3,750
a. Replacement of e.g. Zamalek Exchange:		
(i) Exchange equipment .....	8,000	
(ii) Outside plant .....	10,000	
b. PABXs (3,000 lines) .....	2,000	
c. Microwave links .....	1,000	
d. Mobile exchange station vans (3,000 lines) .....	1,500	
e. Relief equipment for customers using rotary exchanges .....	3,000	
f. Air-conditioning, vehicles, tools, test equipment and miscellaneous hardware .....	3,000	
A.R.E.T.O. personnel .....	0	1,950
Contingency and escalation .....	4,000	750
TOTALS	\$40,000	L.E. 7,950