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PROJECT
GRANT AGREEMENT
BETWEEN
THE ARAB REPUBLIC OF EGYPT
AND THE
UNITED STATES OF AMERICA
FOR
PUBLIC FINANCE ADMINISTRATION

Dated: **MAR 24 1988**

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Project Grant Agreement

Dated **MAR 24**, 1988.

Between

The Arab Republic of Egypt ("Grantee")

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 Grantee 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, will assist the Grantee to improve the administration of the public finances by improving, standardizing and computerizing the procedures and operations of the income tax, customs, and excise tax departments, as well as general management of the Ministry of Finance. The Project will consist of a Phase I, during which Egyptian tax policies will be examined and procedural reforms will be field-tested, and Phase II, during which policy and procedural reforms which have been approved by the Grantee will be implemented.

Annex 1, attached, 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 8.2, without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed Five Million United States ("U.S.") Dollars (\$5,000,000) ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2. Grantee Resources for the Project.

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Grantee for the Project will be not less than Eight Million Eight Hundred Fifty-Seven Thousand One Hundred Twenty-Seven Egyptian Pounds (LE 8,857,127), including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is November 30, 1993, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant 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 Grant 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 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., by giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant 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: Requirements Precedent to Disbursement.

SECTION 4.1. First Disbursement. Prior to any disbursement or to the issuance by A.I.D. of any commitment documents under this Agreement, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) a statement of the names and titles of the persons authorized pursuant to Section 8.2 to act as the representatives of the Grantee, together with a specimen signature of each person specified in such statement.

SECTION 4.2. Additional Disbursements. Prior to disbursements for Phase II under this Agreement or to the issuance by A.I.D. of any commitment documents under this Agreement to finance such disbursements, the Grantee shall, except as the Parties may otherwise agree in writing, furnish A.I.D., in form and substance satisfactory to A.I.D.:

(a) evidence of agreement to implement the policy and procedural reforms recommended for Phase II.

SECTION 4.3. Notification. When A.I.D. has determined that the conditions precedent specified above have been met, it will promptly notify the Grantee.

SECTION 4.4. Terminal Dates for Requirements Precedent. If all of the requirements specified in Section 4.1 have not been met within 60 days from the date of this Agreement, 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 Grantee.

Article 5: Special Covenants.

SECTION 5.1. Project Evaluation. The Parties agree to conduct a formal assessment at the end of Phase I of the Project to review the policy agenda and the commitment of the Grantee to proceed to Phase II. The Parties agree to establish an evaluation program as part of the Project, which, among other things, will require two comprehensive project evaluations, the first to be finalized prior to mid-way through implementation in year three of the Project and the second in the final year 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, especially in policy and procedural areas, which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems;

(d) collection and analysis of the data needed to assess, to the degree feasible, the overall development impact of the Project; and

(e) suggested changes which should be made to the Project's implementation plan in order to meet the Project's overall objectives.

SECTION 5.2. Ratification. The Grantee will take all necessary action to complete all legal procedures necessary to ratification of this Agreement and will notify A.I.D. as promptly as possible of the fact of such ratification.

SECTION 5.3. Salary Supplements and Incentives. At the present time, the Project does not provide for salary supplements or incentives to employees of the Grantee. If, at some future time, the parties agree that Grant proceeds or funds derived from the Special Account may be used to pay such supplements and incentives, such payments will be made only in accordance with mutually agreed guidelines.

SECTION 5.4. Local Currency and In-Kind Contribution. The Grantee, through the implementing organization, will provide A.I.D., on a quarterly basis with reports on its local currency and in-kind contributions provided for the Project. The format of such reports shall be described in a Project Implementation Letter.

SECTION 5.5. Discussions. The Grantee shall undertake periodic discussions, not less than once a year, with A.I.D. and public and private sector business groups, such as the Egyptian Businessman's Association, for the following purposes:

(a) to assess the performance of the Project components, especially the income tax awareness program, the simplification of customs import and export procedures, and operational aspects of the excise tax as it affects domestic procedures; and

(b) to discuss further interventions that might be taken to improve the operations of the various tax departments as they have impact on the private sector.

Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States (Code 000 of the A.I.D. 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 Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as the Parties may otherwise agree in writing, their origin in Egypt ("Local Currency Costs").

Article 7: Disbursement

SECTION 7.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of requirements precedent, the Grantee may obtain disbursements of funds under the Grant 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 on Grantee'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 Letters 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 Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

Section 7.2 Disbursement for Local Currency Costs.

(a) After satisfaction of requirements precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary support documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained by A.I.D. by purchase with U.S. dollars.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into Egypt by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that funds may be converted into currency of the Arab Republic of Egypt at the highest rate of exchange prevailing and declared for foreign exchange currency by the competent authorities of the Arab Republic of Egypt.

Article 8: Miscellaneous

SECTION 8.1. Communications. Any notice, request, document, or other communication submitted by A.I.D. or the Grantee to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Ministry of International Cooperation
8 Adly Street
7th Floor
Cairo, Egypt
To A.I.D.:

A.I.D.
U.S. Embassy
Cairo, Egypt

To the Implementing Organization:

Ministry of Finance
Magles El Sha'ab Street
Midan Lazogli
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 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Minister of State for International Cooperation and/or the Administrator of the Department for Economic Cooperation with U.S.A., and A.I.D. will be represented by the individual holding or acting in the office of Director, USAID, 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 Grantee, 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 8.3. Language of Agreement. This agreement is prepared in both English and Arabic. In the event of ambiguity or conflict between the two versions, the English language version shall control.

SECTION 8.4. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Grantee and the United States of America, 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 : M. W. M. Salah

NAME : Dr. Maurice Makram Allah

TITLE: Minister of State for International Cooperation

UNITED STATES OF AMERICA

BY : Frank G. Wisner

NAME : Frank G. Wisner

TITLE: American Ambassador

BY : Ahmad Abdel Salam

NAME : Mr. Ahmad Abdel Salam Zaki

TITLE: Administrator of the Department for Economic Cooperation with U.S.A.

BY: Marshall D. Brown

NAME: Marshall D. Brown

TITLE: Director, USAID/Egypt

Implementing Organization

In acknowledgement of the foregoing Agreement, the following representative of the implementing organization has subscribed his name:

MINISTRY OF FINANCE

BY : M.A. ElRazaz

NAME : Mohamed Ahmed Razaz

TITLE: Minister of Finance

Amplified Project Description

I. Background

The Public Finance Administration Project will provide the resources necessary to examine and field test policy and procedural changes in the Egyptian tax system. During the Project's Phase I (first 36 project months), policies will be critically examined and procedures necessary to support an array of different policies will be field tested. As a result of these two activities, a set of policy and procedural reforms will be proposed by the end of Phase I.

If the proposed changes are accepted and approved for implementation, the project will continue for an additional 36 months (Phase II) subject to the availability of funds and mutual agreement to proceed. The minimum changes that must be accepted in order to proceed to Phase II will be identified in subsequent Project Implementation Letters. During Phase II, the new policies and procedures will be implemented.

The Project is divided into four components, two implementation phases and a 12-month mobilization period. The mobilization period and the four components, the Administrative and Policy Analysis Component, the Income Tax Administration Component, the Customs Administration Component and the Excise Taxation Component, will be described in detail below.

II. Project Components

A. Mobilization

During the first 12 project months, a team of two individuals will begin preparations for the arrival of the technical assistance teams in the four functional areas. The scope of activities for the mobilization team will be to:

1. secure office space;
2. purchase office equipment and supplies;
3. lease housing; and
4. establish counterpart employee support personnel.

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In addition to the activities of the mobilization team, three person months of short term technical assistance will be available for use by the Minister of Finance in order to address any urgent assistance need that arises before the arrival of the long term technical assistance teams.

B. Administration and Policy Analysis Component

The centerpiece of the new project is the Administration and Policy Analysis Component. This component will be staffed by a coordinating Administrative and Policy Analysis Unit (to be located in the Financial Research, Statistics and Administrative Development Office of Minister of Finance). The unit will report directly to the Minister of Finance and will be staffed with experienced US and Egyptian tax analysts and public finance management specialists. As appropriate, research requirements on administrative, operational and procedural problems will feed into this staff office for analysis and policy or administrative action by the Minister. In addition, this key staff office will be responsible for developing information and education programs on tax issues for government officials and the public. The office will also be responsible for special studies such as on property and estate taxes. For its part, the Ministry of Finance will have to prepare itself for its expanded role in analysis and for the pressures for efficiency and equity that should result from the actions resulting from the analyses. This will call for adoption of modern administrative practices and strengthening of management.

C. Income Tax Administration Component

USAID has provided technical assistance to the Ministry of Finance's Income Tax Department (ITD) under a Participating Agency Service Agreement (PASA) with the US Internal Revenue Service (IRS). Assistance was initiated in 1975 with short-term advisors working in various operational areas. In 1980 the Tax Administration Project (TAP) was organized to provide structured technical assistance through the IRS. The goal of the TAP was to assist in the mobilization of domestic

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resources for development, with a secondary goal to improve taxpayer equity and to enhance efficiency with the ITD.

The Public Finance Administration Project will continue the initiatives begun under the Tax Administration Project. The Income Tax Administration Component of the new project will concentrate on administrative, operational and procedural improvements in the Income Taxation Department's internal operations. As a corollary to this, it will also focus on increased training and increased training capacity.

The MOF effort to develop a solid cadre of trained personnel and managers at all levels will continue and be expanded to handle the 17,000 Income Tax Department employees. A system for the identification, selection and training of new managers will be expanded and improved with a goal of improving overall management efficiency. In addition to technical and management course work, training will also focus on new policies and procedures developed and tested under the "Policy and Administrative Analysis" component and the standardization of procedures and regulations nationwide.

Currently all income tax returns in Egypt are individually audited creating a large unworkable backlog of cases. Service to the taxpayer will be improved. The pilot examination process begun under the Tax Administration Project will be further refined by: (a) statistical data collection and analysis; (b) implementation of a technical time and reporting system in the districts for examination personnel; and (c) implementation of classification procedures using guidelines established by the ITD. Examination administration and operational systems will also be computerized by incorporating appropriate ADP equipment, e.g., microcomputers at the regional and district level.

As a result of the TAP, there is some operational experience to improve policy and to create a field test of a more efficient and uniform (equitable) collection system. The Collection Sector will be given full operational authority and a collections procedure manual will be prepared.

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The MIS is an important general support system aimed at (1) standardizing procedures, (2) improving communication and information flows within ITD and to the public, and (3) analysis of revenue variables. As implementation proceeds and lessons from the pilot programs in collection and examination are learned, additional management support procedures and operations will be created and/or up-dated.

Currently a compilation of taxation documents does not exist outside of the main Ministry of Finance building. A modern central Data Information Center will be established that will allow quick access to important items such as all current taxation laws, Ministerial decrees, technical procedure manuals, and relevant Egyptian and foreign periodicals, books, and other papers relating to income taxation.

The initial planning and training for an automated data processing (ADP) unit has been completed. A core unit is now operating within the Income Tax Department and must be expanded. Establishment of a full service ADP unit has been delayed mainly due to the lack of a computer facility in the Ministry of Finance. This necessitates the purchase of computer time from another organization. An expanded computer system will be developed to handle the recording of withholding taxes from sales and purchases, the preparation of taxpayers' returns and various reporting and auditing functions to support the management information and procedure effort.

D. Customs Administration Component

Improved customs policies, regulations and administrative procedures are of critical importance to the private sector. Efficiency and predictability of customs tax application on imports and exports has direct impact on business expansion and overall productivity.

The objective of this component is to improve the efficiency and equity in the incidence, assessment and collection of customs duties. Project

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emphasis will be on improved efficiency and improved procedures for both import and export processing. Management and procedural systems will be introduced to: (1) reduce the average time for customs clearance; (2) improve the consistency and reliability of customs classification and valuation; (3) improve the efficiency in handling of perishable export items; and (4) improve procedures for expeditious release of critical imports for industry.

The project will assist the Customs Department to strengthen their automated data processing (ADP) systems for: administration, (e.g., personnel, budget and logistics); warehouse inventory and cargo controls; and finance and accounting, (e.g., entry declarations, cargo clearance and tax collection).

The project will also assist in the development of a National Customs Taxation Training Institute. The Institute could be modeled after the Income Tax Department's training program and, to the extent possible, generic type training, e.g., general management training, will be coordinated with the Income Tax Department as a cost-saving measure. Technical assistance will be provided in the development of standardized training curricula and course materials as well as assistance in the management operations of the Institute. Training courses will be constantly up-dated and be based on lessons learned and changes made during pilot efforts and policy changes. Although it must still be investigated, it is intended that the National Customs Training Center will undertake its activities within the physical facilities of the Tax Training Institutes.

E. Excise Tax Administration Component

Efficient and equitable excise tax administration is of considerable importance to both private and public sector enterprise. Excise tax is levied when goods are transferred from the producer to the retailer or when goods are imported. The tax is legally incident on producers; however, ultimately, it is passed on to the consumer in the price of the end product.

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Technical advisors will conduct an in-depth analysis of the current excise taxation system. The analysis will document: current operation environment from the perspective of the client and the Excise Tax Department; formal and informal systems employed; and the process of administration. Based on the analysis, improved processes and procedures will be recommended to reduce the number of steps and reporting burdens of the private and public sector firms and to improve the consistency and reliability of excise tax rules and regulations and their administration.

Functional improvements to be implemented in this area would be developed and tested in a series of pilot activities. Successful pilot activities would be expanded nationwide as appropriate through training and preparation of manuals of operation. As a result of field operations and pilot testing, issues of a policy nature would be channeled to the Policy and Administrative Analysis unit for their action and review with the Minister of Finance and other GOE officials as appropriate. It is anticipated that existing legislation will need to be revised to adjust the fee structure. Such legislation would be a part of the Policy Agenda developed by the project by year three.

The project will assist the Excise Department to develop expertise in the operation of automated data processing (ADP) systems to improve both its administrative procedures (personnel, budget and logistics) as well as systems to enhance the processing of duty collection and data sharing with other revenue departments (Customs). The ADP unit will be critical as the Department increases its scope of operations to cover new enterprises and as more efficient billing procedures are developed. Over time, the ADP unit would be important as pilot activities explore opportunities of developing a sales tax collected at the retail unit on certain luxury items. Other efficiencies in processing will serve to eliminate existing irritants now experienced in working with private enterprise.

III. Illustrative Financial Plan

Tables I and II provide summary cost estimates for the Project. The total Project cost is \$20,226,000. Of the projected A.I.D. contribution of \$16,200,000, approximately \$14,696,000 is for foreign exchange costs and approximately \$1,504,000 is for local currency costs.

The Grantee contribution of the Egyptian pound equivalent of approximately \$4,026,000 will fund Egyptian salaries and in-kind contributions. Changes of plus or minus 20% among line items may be made to the financial plan by written agreement of the representatives of the Parties identified in Section 8.2 without formal amendment of the Agreement, provided such changes do not cause: (1) A.I.D.'s Grant contribution for the Project to exceed the amount set forth under Section 3.1; or (2) the Grantee's contribution for the Project to be less than the amount set forth under Section 3.2.

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TABLE I
SUMMARY OF TOTAL PROJECT COST ESTIMATES BY PROJECT COMPONENTS
(US\$ 000)

| COMPONENTS | AID ^{1/} | | | HOST COUNTRY ^{2/} | | | Component Total |
|--|-------------------|---------------|---------------|----------------------------|--------------|---------------|-----------------|
| | LC | FX | Subtotal | LC | Subtotal | | |
| 1. Mobilization | 53 | 45 | 98 | - | - | 98 | |
| 2. Administration & Policy Analysis Component | 517 | 4,749 | 5,266 | 409 | 409 | 5,675 | |
| 3. Income Tax Administration Component | 296 | 4,024 | 4,320 | 1,790 | 1,790 | 6,110 | |
| 4. Customs Administration Component | 348 | 3,531 | 3,879 | 1,381 | 1,381 | 5,260 | |
| 5. Excise Tax Administration Component | 70 | 997 | 1,067 | 446 | 446 | 1,513 | |
| 6. Evaluation & Conferences | 220 | - | 220 | - | - | 220 | |
| 7. Overall Project Contingency | - | 1,350 | 1,350 | - | - | 1,350 | |
| | <u>1,504</u> | <u>14,696</u> | <u>16,200</u> | <u>4,026</u> | <u>4,026</u> | <u>20,226</u> | Project Total |

1. The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

2. The GOE contribution will be only in-kind.

TABLE II

SUMMARY OF TOTAL COST ESTIMATES BY PROPOSED CONTRACTS

| PROJECT ELEMENT | (\$000) |
|---|------------|
| 1. <u>Mobilization Contract(s)</u> | 98 |
| 2. <u>Public Finance Administration Team Contract.</u> (covering technical assistance, training, local consultants, local staff, procurement services, and commodities for the Policy Administration Component, the Income Tax Component, the Excise Tax Administration Component, and covering commodities only for Customs Taxation Component.) | 12,728 |
| 3. <u>Customs Taxation-PASA</u> | 3,154 |
| 4. <u>Evaluation Contract(s)</u> | <u>220</u> |
| TOTAL | \$16,200 |

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Project Grant StandardProvisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters.

To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1 Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2 Execution of Project. The Grantee will:

- (a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and
- (b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3 Utilization of Goods and Services.

- (a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.
- (b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4 Taxation.

- (a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.
- (b) To the extent that: (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts; and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

SECTION B.5. Reports, Records, Inspections, Audit.

The Grantee will:

- (a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;
- (b) maintain or cause to be maintained, in accordance with generally-accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally-accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

- (c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records and other documents relating to the Project and the Grant.

SECTION B.6. Completeness of Information.

The Grantee confirms:

- (a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement; and
- (b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments

Grantee confirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes or similar payments legally established in the country of the Grantee.

SECTION B.8. Information and Marking.

The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions.

SECTION C.1. Special Rules.

- (a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.
- (b) Premiums for marine insurance placed in the territory of the Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

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- (c) Any motor vehicles financed under the Grant will be of United States manufacture, except as A.I.D. may otherwise agree in writing.
- (d) Transportation by air, financed under the Grant, of property or persons (and their personal effects) will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2 Eligibility Date

No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3 Plans, Specifications and Contracts.

In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

- (a) The Grantee will furnish to A.I.D. on preparation,
 - (1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;
 - (2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Grant, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters;
- (b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;
- (c) Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

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(d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the Grant, shall be acceptable to A.I.D.

SECTION C.4 Reasonable Price.

No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers.

To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6 Shipping

(a) Goods which are to be transported to the territory of the Grantee may not be financed under the Grant if transported either:

- (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or
- (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or
- (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried:

- (1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or

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(2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately-owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels,

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately-owned United States-flag commercial vessels; and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately-owned United States-flag commercial vessels.

Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided:

(1) such insurance is placed at the lowest available competitive rate, and

(2) claims thereunder are payable in U.S. Dollars, or as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency.

If the Grantee (or government of Grantee), by statute, decree, rule, regulation or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

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(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacements will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property.

The Grantee agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Termination

Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payments which they are committed to make pursuant to non-cancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Guarantee's country, are in a deliverable state and have not been offloaded in ports of entry of Guarantee's country.

SECTION D.2. Refunds

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement,

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A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. written sixty (60) days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b); or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will: (A) be made available first for the cost of goods and services required for the Project, to the extent justified; and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

SECTION D.3. Nonwaiver of Remedies.

No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.4. Assignment.

The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.