

~~A. J. Carter~~
PB-AACW-949

U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROJECT PAPER
AMENDMENT #1

EGYPT: Local Development II
(263-0182)

August 31, 1987

U N C L A S S I F I E D

PROJECT DATA SHEET

1. TRANSACTION CODE

A

A = Add
C = Change
D = Delete

Amendment Number
(1)

DOCUMENT CODE
3

2. COUNTRY/ENTITY

Egypt

3. PROJECT NUMBER

263-0182

4. BUREAU/OFFICE

Cairo

5. PROJECT TITLE (maximum 40 characters)

LOCAL DEVELOPMENT II

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09 30 92

7. ESTIMATED DATE OF OBLIGATION
(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY **85**

B. Quarter **A**

C. Final FY **90**

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
ADP Appropriated Total						
(Grant)	(14,120)	(46,880)	(61,000)	(57,760)	(173,240)	(231,000)
(Loan)	()	()	()	()	()	()
Other						
U.S.						
1.						
2.						
Host Country		29,844	29,844		52,716	52,716
Other Donor(s)						
TOTALS	14,120	76,724	90,844	57,760	225,760	283,716

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECIL CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESE	280	720				\$ 75,000			
(2) ESE	240	840							
(3) ESE	720	867							
(4) ESE	760	246							
TOTALS				156,000		\$ 75,000			231,000

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

033 050 790 920 252 968

11. SECONDARY PURPOSE CODES (maximum 7 codes of 4 positions each)

243,289,663,723

A. Code **BR BU PART TNG PVON ENV DEL**

12. SPECIAL CONCERNS CODES (maximum 480 characters)

To improve the capacity of local government to plan, implement and maintain locally chosen basic services projects; and to improve their capacity to mobilize local resource to sustain the provision of services, through both the public and private sectors.

13. SCHEDULED EVALUATIONS

Interim **02 88 02 90** Final **02 90**

14. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

15. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a **16** page PP Amendment)

THE USAID CONTROLLER CONCURS WITH THE METHODS OF IMPLEMENTATION AND FINANCING

William Miller
William Miller, CONTROLLER

17. APPROVED BY

Signature *Marshall D. Brown*
Marshall D. Brown
Title Director

Date Signed **31 MAR 1987**

18. DATE DOCUMENT RECEIVED BY AID, OR FOR AID/ADJ DOCUMENTS, DATE OF DISTRIBUTION
MM DD YY



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

PROJECT AUTHORIZATION

AMENDMENT NO. 1

Name of Country: Arab Republic of Name of Project: Local Development II
Egypt

Number of Project: 263-0182

1. Pursuant to Sections 531 and 532 of the Foreign Assistance Act of 1961, as amended, the Local Development II Program for Egypt was authorized on August 15, 1985. That authorization is hereby amended as follows:

A. Section 1 is amended to read as follows:

1. Pursuant to Sections 531 and 532 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Local Development II Program (the "Program") for the Arab Republic of Egypt ("Cooperating Country") involving planned obligations not to exceed Two Hundred Thirty-One Million United States Dollars (\$231,000,000) in grant funds over a three (3) year period from the date of authorization, subject to the availability of funds in accordance with A.I.D. OYB allotment process, to help in financing the foreign-exchange and local-currency costs of goods and services required for the Program. Of the amount authorized for the Program, up to Seventy-Five Million Dollars (\$75,000,000) is authorized for obligation in FY 1987. The planned life of the Program is approximately seven (7) years from the date of initial obligation.

B. Section 3(C)(1) is deleted and Sections 3(C)(2), (3), (4) and (5) are renumbered as Sections 3(C)(1), (2), (3) and (4), respectively.

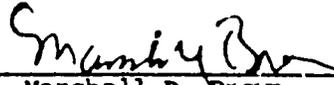
C. Section 3(E) is re-numbered as Section 3(F) and a new section 3(E) is added as follows:

Requirement Precedent to Disbursements of Block Grant and PVO Funds. Prior to any disbursement of Block Grant or PVO funds after December 31, 1987, the Grantee shall, except as the Parties may otherwise agree in writing, establish and staff an office for the LD II AMANA. Such office shall be established, staffed and operating in the Ministry of Local Government under the direct supervision of the Minister of Local Government.

a

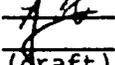
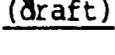
D. Section 3(F) is amended to add the following new covenant:
Salary Incentives and Supplements. None of the resources provided by AID and no Special Account resources shall be used for the payment of salary incentives or supplements to employees of the Grantee.

2. The authorization cited above remains in full force except as hereby amended.



Marshall D. Brown
Director, USAID/Egypt
8/31/87

Date

Clearances: AD/PPP: JPatterson 
AD/DR: FZobrist 
AD/PM: WMiller 
OD/DR/LAD: GKerr (draft)

DRAFTER:  MJWilliams:mf:9 July 1987:AUTH0182

FY1987 LOCAL DEVELOPMENT PROGRAM AMENDMENT

I. PURPOSE OF PROPOSED AMENDMENT

The FY1987 amendment to the Local Development II (LD II) Program will add incremental financing of \$75.0 million from A.I.D. and LE 42.5 million from the Government of Egypt (GOE). With this obligation life of project financing will total \$231 million from A.I.D. and the LE equivalent of \$67.8 million from the GOE. The amendment will also extend the PACD of the LD II Program to 1992, increasing the life of the program to seven years. Minor program changes, intended to further deepen the Government's policy of administrative and fiscal decentralization, have been incorporated into the amendment and are explained in the accompanying text. Finally, the Governorate of South Sinai, not included in the initial phase of the LD II Program, will join the program. With the addition of South Sinai all 26 of Egypt's governorates will be full participants in the program.

II. BACKGROUND AND IMPLEMENTATION STATUS

Since 1978, A.I.D. has supported the efforts of the GOE to articulate and implement its announced policy of administrative and fiscal decentralization of government services. USAID's initial support to the GOE took place within the framework of five separate activities:

- Basic Village Services (BVS): The BVS activity provided \$375.0 million to village councils in 22 provincial governorates to construct locally chosen basic service infrastructure.

- Neighborhood Urban Services (NUS): The NUS activity provided \$89.0 million to 23 urban districts in greater Cairo and Alexandria to construct locally chosen basic services in low income communities as well as provide financing to local PVOs delivering basic services.

- Decentralization Support Fund (DSF): The DSF activity provided \$100.0 million to 22 provincial governments to finance public utility operations and maintenance vehicles and equipment.

- Sector Development and Support (SDS): The SDS activity provided \$10.0 million for policy related research and pilot activities related to fiscal and administrative decentralization, local resource mobilization and training.

-Development Decentralization I (DD I): The DD I activity provided \$26.2 million to the Local Development Fund, which made loans to village councils so they could undertake income generating projects for the village and also make small loans to private businesses. This project has been successfully completed and no further funds will be used for this activity.

These activities were merged into the Decentralization Sector Support Program (DSS I) in 1982. A total of \$600.0 million was committed to the DSS I Program (\$525.0 million ESF and \$75.0 million Title III). As of July, 1987 only small balances remain to be disbursed from this Program. The DD I activity has been completed. The BVS and NUS activities will conclude in March, 1988, while the SDS and DSF activities will be continued until September, 1989.

In 1985 the Local Development II Program (LD II) was authorized to build upon the experience of the DSS I Program and address the constraints which presently impede full realization of the GOE local development objectives. These objectives are addressed through a decentralized local development strategy which has evolved through a series of five local government laws, starting in 1960. This proposed amendment will continue to address key constraints presented by the GOE and A.I.D. in the 1985 LD II Program Paper. The key constraints and the status of the Program are as follows:

POLICY FORMULATION:

At the national level there is an absence of an effective policy forum with adequate staff to analyze policies and programs which affect local development.

Progress to Date:

The GOE has created two administrative entities responsible for policy formulation and execution as specified in the Local Development II Program Paper. The Interministerial Local Development Committee (ILDC) and its staff organization, the Local Development Technical Secretariat (Amana), have been in operation for almost two years. These sub-cabinet interministerial organizations were created by the GOE to ensure overall program management, to study such issues as fiscal decentralization and those affecting the efficient operation of local government, and to address jurisdictional and institutional conflicts between central and local government.

The Technical Secretariat is responsible for overall program management, interministerial coordination, policy related research and analysis, and the testing of innovative local development initiatives.

While the ILDC and the Amana have functioned well as fora for discussion of issues, both organizations have been slow to translate these discussions into written guidance to the governorates and pertinent central ministries. This weakness stems from the Amana's lack of full time professional staff to carry out this function for the ILDC. This situation will be addressed, in part, through inclusion of a Requirement Precedent under this project amendment requiring secondment of full time staff to the Amana by March, 1988. Additionally, the Amana will be supported by a technical assistance contractor effective mid-August 1987.

PLANNING PROCESSES:

The local development planning and budgeting process, which is based on popular participation, is not working fully in all governorates.

Progress to Date:

This constraint is being addressed as the local elected and executive council staff "learn the ropes" through successive implementation of the annual planning, budgeting and project implementation cycles. This process, known as the Basic Services Delivery System (BSDS), forms the heart of the Local Development II Program.

By 30 September, 1987, 866 village councils in 22 provincial governorates will have completed an average of four planning cycles and five or six projects. The 23 urban councils of Greater Cairo and Alexandria have planned and implemented an average of 60-70 projects over five planning cycles. The district councils of Port Said and Suez have just completed their first planning cycle. When this amendment is executed the LD II agreement will provide enough capital and recurrent financing for an additional three implementation cycles. Technical assistance will be available throughout this period to further refine the BSDS process, continue training of local government personnel and monitor program implementation throughout Egypt.

Proposed Improvements to the Local Development Process:

Under the proposed amendment the GOE and AID will jointly determine the feasibility of selectively expanding the list of eligible basic service projects in provincial governorates to include primary schools, health activities, and youth and sports facilities similar to those already financed under the urban component of the LD II Program. Should a positive determination be made by both A.I.D. and the GOE, the agreement will be recorded in implementation letters.

Additionally, joint consideration will be given to the possibility of allowing Markaz towns in 22 provincial governorates to receive financing under the program for basic services in low income communities similar to that already made available to urban districts in Cairo, Alexandria, Port Said and Suez City. Should a positive decision be made the terms and conditions as well as the types of projects eligible will be spelled out through implementation letters.

PROJECT DESIGN CAPACITY:

The capacity of local governments to design and construct basic services projects is limited and not adequate for more complex service systems, particularly larger water and sanitation investments.

Progress to Date:

Through the repetition of the annual program cycle the planning and management capacity of local governments is steadily improving. Intensive training provided under the program through the technical assistance contractors is focused on improving the basic services design capacity of local government. In 1986 the Special Project Activity was added to the LD II Program. It assists local governments to design and implement innovative or more cost effective basic services. These special projects provide local governments with examples of well designed and appropriate technologies which they can replicate. At present 20 pilot waste water projects are underway in two governorates. A pilot solid waste management program for Alexandria is in the design stage. RFPs have been issued for the construction of four provincial maintenance centers to be managed under lease or contract arrangements by the private sector. Finally, a non-subsidized, village based credit program is being implemented in two governorates.

OPERATIONS AND MAINTENANCE:

There is a large imbalance between investment financing and recurrent cost financing of basic services and equipment. There is not an effective link between the capital planning and budgeting process and the comparable O&M process. This imbalance and the general institutional weakness of local governments with respect to operations and maintenance has led to premature deterioration of basic services and associated equipment.

Progress to Date:

Operations and maintenance of basic services constitutes one of the key themes of the LD II Program. The imbalance between capital investment and recurrent cost financing is directly addressed under the LD II Program through substantial increases in local governments' recurrent cost budgets. Under the original LD II Grant Agreement and this amendment, the GOE, through the Ministry of Finance, has committed the LE equivalent of \$44.0 million in local government recurrent cost financing for A.I.D. financed basic services under the DSS I and LD II Programs and the Mission's Basic Education Project. This O&M financing will be made available over three fiscal years (FY1987-1989).

Effective linkages are presently being forged between investment and O&M planning through the previously mentioned BSDS planning and budgeting process. All local government units must prepare an annual operations and maintenance plan and budget as well as their capital plan and budget. A.I.D. capital financing is contingent upon successful completion of the O&M planning, budgeting and implementation process.

The ILDC and Amana have approved vehicle maintenance centers which will be financed under the program, and turned over to private sector management. The first four provincial centers have been approved and the RFP has been issued.

Finally, under the LD II technical assistance program scheduled to begin in January, 1988 a focused program of O&M training and assistance will be available to all 26 participating governorates.

FISCAL DECENTRALIZATION:

Local governments are vested with limited authority to generate and retain revenues. Approximately 85% of each local government's budget is derived from central sources. Without substantially greater fiscal decentralization the prospects for continued development of an effective and locally responsive system of local government in Egypt is limited.

Progress to Date:

The GOE and A.I.D. have designed a program of research, pilot activities and training focused on local resource mobilization. The technical assistance contractor selected to work with the Ministries of Finance and Local Government will mobilize in August, 1987. The project's first year action agenda will be formulated in the fall of 1987 when the Ministries of Finance and Local Government will host a seminar to which recognized experts from both central and local governments, the university community and overseas will be invited to participate.

PRIVATE SECTOR:

At present there is little encouragement of the private sector in local development and virtually no local financial institutions provide investment and working capital required by small private enterprises.

Progress to Date:

A pilot non-subsidized small scale enterprise credit program. The pilot project is being implemented by the National Bank for Development (NBD) in two governorates. A.I.D. has entered a cooperative agreement with ACDI to assist the NBD in implementing this project. If successful, the credit program will be expanded under subsequent GOE-A.I.D. agreements to all 18 semi-autonomous regional development banks associated with the NDB.

Local Private Voluntary Organizations (PVOs) in greater Cairo and Alexandria received A.I.D. financing under the DSS I Program. \$11.4 million was disbursed to over 1,300 PVOs. Based on the documented success of this program, the LD II Program expanded the PVO activity into a national program. All governorates are now actively participating in the program. With the authorization of this amendment a total of \$15.1 million of A.I.D. and GOE resources will be committed to this nation wide effort.

III. PROGRAM ORGANIZATION AND MANAGEMENT:

The LD II organization and management structure and process as outlined in the 1985 LD II Program Paper (pp.48-58) remains valid. The GOE has issued all the required decrees to establish the ILDC, the Technical Amana, and the Provincial and Urban Local Development Committees. The Minister of Local Government has appointed extremely able leadership, drawn from the ranks of Egypt's 26 governors, to oversee management of the Technical Amana, and the Provincial and Urban Committees. The Ministry of Finance approved and allocated the first year's operating budget for the Amana and is committed to continue to provide operating expenses for all component management units of the program under the original agreement and the proposed amendment.

The single management deficiency, as noted in Section II, has been the long delay in appointing middle management staff to full time positions on the Amana and Provincial and Urban Sub-committees. Extensive discussions on this matter have been held with the Minister of Local Government. We expect prompt resolution on this issue and by mutual agreement will include a "Requirement Precedent" in the proposed amendment as follows:

"Requirement Precedent to Disbursements of Block Grant and PVO Funds. Prior to any disbursements of Block Grant or PVO funds after December 31, 1987, the Grantee shall, except as the Parties may otherwise agree in writing, establish and staff an office for the LD II Amana. Such office shall be established, staffed and operating in the Ministry of Local Government under the direct supervision of the Minister of Local Government."

IV. TECHNICAL ASSISTANCE REQUIREMENTS:

Under the original grant agreement and first amendment, four technical assistance contracts have been mutually agreed to by the GOE and A.I.D. The contract for support to the Technical Amana has been concluded and the contractor will mobilize in August, 1987. The Provincial and Urban contracts will be concluded in December, 1987. The fourth technical assistance contract, for the Sakkara Training Center, is pending. A.I.D. has notified the MLG that we will not proceed with this technical assistance effort until the Center's Board of Directors and Director are appointed. We expect these GOE actions to be concluded during FY1988 so the technical assistance effort can proceed.

V. FINANCIAL PLAN:

A. A.I.D. and GOE Obligations to the LD II Program.

Under the 1985 original LD II grant agreement and the 1986 LD II amendment A.I.D. has obligated a total of \$156 million to the LD II Program. Under these two agreements the GOE has obligated, in cash, the LE equivalent of \$67.8 million. With the proposed amendment A.I.D. would obligate an additional \$75.0 million and the GOE the LE equivalent of \$19.2 million.

Table I (page 12) presents total financing under the proposed amendment and its allocation. Table II (page 13) presents the combined obligations since the inception of the program including the proposed FY1987 obligation. Table III (page 14) presents the specific LE contributions of the Ministry of Finance which account for the majority of GOE contributions to the program.

The proposed \$75.0 million obligation will be allocated as follows:

Matching Block Grants	\$55.95 million
PVO Fund	\$4.80 "
Special Projects Fund	\$7.50 "
Policy Analysis/Research	\$2.25 "
Contingency	\$4.50 "
Total	<u>\$75.00 million</u>

The Matching Block Grants will finance both urban and village basic services, with approximately 78% of all grant funds going to provincial governorates and villages. Approximately 50% of the funds will finance rural water and waste water projects. The remaining 50% will finance, among others, farm to market roads, urban and rural primary schools and sports facilities, urban and rural health services, post and telecommunication services and operations and maintenance facilities. Since each unit of local government determines their respective development priorities it is impossible to predict in advance the exact mix of investments that will be financed under the program.

The PVO incremental financing will enable this component of the LD II Program to assume a national scope. The present level of financing (\$10.0 million) is less than that disbursed under the phase one urban PVO activity even though all governorates, both urban and provincial, have joined the program.

The Special Projects incremental financing will be used, among others, to finance up to eleven slow sand water filtration projects on a pilot basis and a solid waste management program in Alexandria.

The Policy Analysis/Research/Evaluation incremental financing will be used to finance a range of research and pilot activities associated with the LD II Local Resource Mobilization activity. Illustrative examples include the Giza Tax Improvement Project and the Matrouh Water Utility Development activity.

B. ESTIMATED OBLIGATION AND EXPENDITURE SCHEDULE:

Tables IV, V, and VI (page 15) present the estimated pipeline at the end of FY1987, the proposed FY1987 obligation of \$75.0 million and the estimated expenditure schedule through FY1992, (the proposed PACD).

It is clear from this presentation, that the original A.I.D. financing of \$156 plus the FY1987 increment of \$75.0 million will fully fund the program only through FY1988. Beginning in FY1989 expenditures would drop well below the levels realized in FY1987 and estimated for FY1988 without additional financing.

These projections are on the conservative side for a number of reasons. First, the initial phase of the LD II Program has been complicated by the need to run two parallel financial and monitoring systems, the new LD II system and the system employed under the DSS I Program. Now that the residual DSS I disbursements are largely complete and the GOE is familiar with the LD II financial system, we expect the planning and budgeting process to accelerate.

Second, the latter stage of the DSS I Program and the initial stage of the LD II Program operated at greatly reduced levels of technical assistance. This serious implementation constraint has now been resolved. One contractor will mobilize in August, 1987 and the Provincial and Urban contractors will mobilize in January, 1988. In the interim, the GOE has approved substantial increases in the existing technical assistance levels to ensure relatively smooth implementation of the second year planning and budgeting cycle. Additionally, the GOE has approved RFPs for the Maintenance Center Pilot Project, the Matrouh Water Institution Pilot Project, and the DSS I Water Assessment. With these approvals and the recent signing of the ACDI Cooperative Agreement to implement the pilot credit projects we can expect accelerated disbursements in these areas as well.

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Finally, should the GOE and the Mission decide to proceed with the proposed expansion of the program, as discussed in Section II, to serve low income communities of Markaz towns and to expand the types of eligible projects financed under the program, expenditures rates will necessarily increase.

C. METHODS OF FINANCING:

The method of financing employed under the LD II Program as spelled out in the 1985 LD II Program Paper (pp.64-69) remains valid. The initial year of LD II capital and O&M disbursements has gone smoothly and represents a marked improvement over the DSS I financial system. The three "Requirements Precedent to Block Grant Fund Disbursement" which require both local governments and the Ministries of Plan and Finance to put their money "up front" before A.I.D. disburses its Block Grant Funds has helped to institutionalize, within the GOE's own budgetary process, a central-local government revenue sharing program. The full acceptance by the GOE of this revenue sharing concept is an important end of project indicator.

D. INCENTIVE FUNDS:

The payment of incentives to local government officials who participate in special projects such as the LD II Program is an accepted practice of the GOE and constitutes one of the few means to augment the extremely low compensation received by all government officials.

The LD II Project budget provides for an incentive fund to pay incentives to governorate and selected central government employees working on various LD II components. The LD II Project budget includes the Egyptian Pound equivalent of \$ 4.5 million for the incentive fund. All of the incentive funds will be paid out of funds provided by the Ministry of Finance and the GOE will manage the incentive fund in accordance with GOE regulations. A.I.D. resources or Special Account funds shall not be used for incentive payments and the following covenant shall be included in the grant agreement amendment:

"None of the resources provided by AID and no Special Account resources shall be used for the payment of salary incentives or supplements to employees of the Grantee."

VI. PROGRAM IMPLEMENTATION PLAN:

The proposed amendment would extend the PACD to 1992 for a total life of project of seven years. This extension is required to enable every governorate and subordinate local councils to participate in the program for at least three annual planning, budgeting and project implementation cycles. This is the absolute minimum required for the institutional changes introduced through the program to "take hold". Should additional financing be made available to the program an additional two or three years of experience could be acquired by local governments within the proposed PACD.

The program implementation plan presented in the 1985 LD II Program Paper (pp.72-74) remains generally valid. The implementation process has been greatly refined and elaborated through LD II guidance manuals prepared by the technical assistance contractors for the three major elements of the program (i.e. provincial, urban and PVO). These manuals constitute the principal guidance followed by all local government units participating in the LD II Program.

VII. MONITORING AND EVALUATION PLAN:

The LD II Monitoring and Evaluation Plan presented in the 1985 Program Paper (pp.75-76) remains valid.

VIII. SUMMARY OF PROJECT ANALYSES:

The overall project analyses presented in the LD II Program Paper (pp. 77-82 and Annexes 2A-2D) remain valid. These analyses addressed the generic problems faced by local government in promoting local development. As noted in the introduction to this amendment concerted and sustained GOE and USAID action is required to overcome the structural problems confronting local governments in Egypt. The existing project analyses continue to serve as a useful guide and reference point for GOE and USAID managers as the LD II Program moves into its second full year of implementation.

IX. ASSESSMENT OF LD II - METHODS OF IMPLEMENTATION AND FINANCING.

This analysis is presented on the pages 16 - 18.

TABLE 1: LOCAL DEVELOPMENT II FY 87 AUTHORIZATION AND OBLIGATION

(US \$ 000)

MAJOR PROJECT ELEMENT	USAID V1			MPIC	GRANTEE V2			PROJECT TOTAL
	FX	LC	TOTAL		MCF	LSDF V3	TOTAL	
BLOCK GRANT FUND								
URBAN	3,040	9,118	12,158	608		608	1,216	13,374
PROVINCIAL	10,948	32,844	43,792	2,190		2,190	4,379	48,171
SUBTOTAL	13,988	41,962	55,950	2,798		2,798	5,595	61,545
PVO FUND								
URBAN	0	1,440	1,440	0		72	72	1,512
PROVINCIAL	0	3,360	3,360	0		168	168	3,528
SUBTOTAL	0	4,800	4,800	0		240	240	5,040
SPECIAL PROJECTS	1,878	5,622	7,500	0		375	375	7,875
MAINTENANCE FUND			0	0	11,200		11,200	11,200
STAFF SUPPORT								
TECHNICAL AID	0	0	0	0	26		26	26
INDENTURE FUND			0	0	1,500		1,500	1,500
SUBTOTAL			0	0	1,776		1,776	1,776
TECHNICAL ASSISTANCE			0	0			0	0
TRAINING			0	0			0	0
EVALUATION FEEDBACK	1,025	1,025	2,050	0				2,050
CONTINGENCY	2,050	2,050	4,500	0			0	4,500
TOTAL	19,028	55,762	75,000	2,798	12,176	3,410	19,170	94,170

- 1/ FX: Foreign Exchange LC: Local Currency
- 2/ Part or all of this amount may be financed by local government as per Covenant 5.10. The MCF will, however, guarantee the availability of the entire amount.
- 3/ Local Services and Development Fund (LSDF) of each participating government.

Note: Grantee totals will vary with exchange rate changes as follows:

1. MPIC and Local Government contributions, in LE terms, will vary to equal 5% of the USAID contributions.
2. The MCF contributions for FY 87 are fixed at LE 28,512,000 (\$12,961,000 @ LE 2.20). When expressed in dollar terms the amount will vary with exchange rate changes. This contribution includes LE 24,540,000 for maintenance of LE 245,375,000 of SOE investments, and LE 1,359,000 to maintain LE 27,177,000 of investment in the Basic Education Program.
3. The SOE contribution is exclusively cash. No in-kind contributions are included in this budget.

TABLE II: LOCAL DEVELOPMENT II: TOTAL OBLIGATIONS FY 05-07

(US \$ 000)

MAJOR PROJECT ELEMENT	USAID /1			GRANTEE /2				PROJECT TOTAL
	FX	LC	TOTAL	MPIC	MOF	SDF	TOTAL	
BLOCK GRANT FUND								
. URBAN	9,216	27,647	36,863	1,843	0	1,843	3,686	40,549
. PROVINCIAL	33,194	99,583	132,777	6,639	0	6,639	13,278	146,055
SUBTOTAL	42,410	127,230	169,640	8,482	0	8,482	16,964	186,604
PVD FUND								
. URBAN	0	4,320	4,320	0	0	216	216	4,536
. PROVINCIAL	0	10,080	10,080	0	0	504	504	10,584
SUBTOTAL	0	14,400	14,400	0	0	720	720	15,120
SPECIAL PROJECTS	4,125	12,375	16,500	0	0	825	825	17,325
MAINTENANCE FUND			0	0	43,910	0	43,910	43,910
STAFF SUPPORT								
. TECHNICAL ASSISTANCE	0	0	0	0	1,090	0	1,090	1,090
. INCENTIVE FUND	0	0	0	0	4,460	0	4,460	4,460
SUBTOTAL	0	0	0	0	5,550	0	5,550	5,550
TECHNICAL ASSISTANCE	9,460	9,460	18,920	0	0	0	0	18,920
TRAINING	1,040	2,080	3,120	0	0	0	0	3,120
EVALUATION/RESEARCH	1,905	1,905	3,810	0	0	0	0	3,810
CONTINGENCY	2,305	2,305	4,610	0	0	0	0	4,610
TOTAL	61,245	169,755	231,000	8,482	49,460	10,027	67,969	298,969

1/ FX= Foreign Exchange LC= Local Currency

2/ Part or all of this amount may be financed by local government as per Covenant 5.10. the MOF will, however, guarantee the availability of the entire amount.

Note: Grantees total will vary with exchange rate changes as follows:

1. MPIC and Local Government contributions, in LE terms, will vary to equal 5% of the USAID contribution.
2. The MOF cash contributions are fixed at LE 77,787,000 and will vary when expressed in dollars, as the exchange rate changes. Contributions prior to FY87 are calculated at the LE 1.35 = \$1.00. The contributions in FY87 use the LE2.20 rate.
3. The BOE contribution is cash. No in-kind contributions are included in this budgets.

08/19/87
 MOFCOMT:gbk/hs

TABLE III
 LD II MOF CONTRIBUTIONS

(LE MILLION)

MAJOR PROJECT ELEMENT	86/87	87/88	88/89	TOTAL
A. OPERATION & MAINTENANCE				
1. 1985 LD II GRANT AGREEMENT #1	14.70	14.70	14.70	44.10
2. 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	8.14	16.50	24.64
SUB-TOTAL	14.70	22.84	31.20	68.74
B. STAFF SUPPORT				
1- TECHNICAL AMANA				
1. 1985 LD II GRANT AGREEMENT #1	0.44	0.34	0.33	1.11
2. 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	0.29	0.29	0.58
SUB-TOTAL	0.44	0.63	0.62	1.69
2- INCENTIVE FUNG				
1. 1985 LD II GRANT AGREEMENT #1	1.40	1.30	1.30	4.00
2. 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	1.65	1.65	3.30
SUB-TOTAL	1.40	2.95	2.95	7.30
TOTAL				
1. 1985 LD II GRANT AGREEMENT #1	16.54	16.34	16.33	49.21
2. 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	10.08	18.44	28.52
GRAND TOTAL	16.54	26.42	34.77	77.73

Note :

- 1/ All 1986 Grant Amendment #1 figures are calculated using the LE1.35 = \$1.00 rate.
- 2/ All 1987 Grant Agreement #2 figures are calculated using the LE 2.20 = \$1.00.

TABLE IV.

EXISTING BUDGET, NEW OBLIGATION AND TOTAL BUDGET (US\$ 000S)

ITEMS	Obligations to date	New Obligation	Total Budget
- URBAN BLOCK GRANT	24,705	12,158	36,863
- PROVINCIAL BLOCK GRANT	88,985	43,792	132,777
- URBAN PVD GRANT	2,880	1,440	4,320
- PROVINCIAL PVD GRANT	6,720	3,360	10,080
- SPECIAL PROJECTS	9,000	7,500	16,500
- TECHNICAL ASSISTANCE	18,920	0	18,920
- TRAINING	3,120	0	3,120
- POLICY ANALYSIS & EVAL	1,560	2,250	3,810
- CONTINGENCY	110	4,500	4,610
TOTAL	156,000	75,000	231,000

TABLE V. ESTIMATED EXPENDITURES FOR LIFE OF PROJECT (US \$ 000)

ITEMS	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92	TOTAL
- URBAN BLOCK GRANT	5,903	10,651	13,865	6,405	0	0	36,863
- PROVINCIAL BLOCK GRANT	41,172	61,757	29,848	0	0	0	132,777
- URBAN PVD GRANT	400	1,000	1,100	1,200	620	0	4,320
- PROVINCIAL PVD GRANT	1,000	2,571	3,000	3,000	510	0	10,080
- SPECIAL PROJECTS	1,700	4,200	6,000	4,800	0	0	16,500
- TECHNICAL ASSISTANCE	800	9,500	8,620	0	0	0	18,920
- TRAINING	100	1,500	1,520	0	0	0	3,120
- POLICY ANALYSIS & EVAL	0	1,500	1,500	810	0	0	3,810
- CONTINGENCY	0	2,000	2,000	610	0	0	4,610
TOTAL	51,075	94,511	67,453	16,825	1,130	0	231,000

TABLE VI. ESTIMATED PIPELINE AT END OF FISCAL YEAR (US \$ 000)

ITEMS	FY 86	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
- URBAN BLOCK GRANT	24,705	30,961	20,270	6,405	0	0	0
- PROVINCIAL BLOCK GRANT	88,985	91,605	29,848	0	0	0	0
- URBAN PVD GRANT	2,880	3,921	2,920	1,820	620	0	0
- PROVINCIAL PVD GRANT	6,720	9,571	6,510	3,510	510	0	0
- SPECIAL PROJECTS	9,000	14,500	10,800	4,800	0	0	0
- TECHNICAL ASSISTANCE	18,920	19,121	8,620	0	0	0	0
- TRAINING	3,120	3,621	1,520	0	0	0	0
- POLICY ANALYSIS & EVAL	1,560	3,211	2,310	810	0	0	0
- CONTINGENCY	110	4,611	2,610	0	0	0	0
TOTAL	156,000	179,922	85,408	17,345	1,130	0	0

assessment of LD II - Methods of Implementation and Financing

in accordance with the requirements of the Sixteen Payment Verification Policy Statements the following table illustrates the methods of implementation and financing currently in use and to be continued in this project paper amendment.

<u>ACTIVITY</u>	<u>METHOD OF IMPLEMENTATION</u>	<u>METHOD OF FINANCING</u>	<u>APPROXIMATE COST (\$000)</u>	<u>HC OR AID CONTRACT</u>	<u>HOST COUNTRY IMPLEMENTING AGENCY</u>
<u>Local Grant Fund</u>					
<u>Local and Provincial</u>					
Local currency matching grants	PIL	Direct Disbursement	\$127,230	HC	Governorates, Districts, Village Councils
Foreign exchange equipment purchases	HC Contract using AID Reg. 1	AID/W Direct L/Comm	\$ 42,410	HC	Governorates
<u>Fund</u>					
<u>Local and Provincial</u>					
Local currency matching grants	PIL	Direct Disbursement	\$ 14,400	HC	Governorates,
<u>Local Projects</u>					
Local currency grants re Wastewater and Maintenance Projects	PIL	Direct Disbursement	\$ 11,871	HC	MLG, Technical Amara and Governorates
Foreign exchange funding of Technical Assistance and Local currency financing Pilot credit fund	AID Cooperative Agreement and PIL	Treasury Letter of Credit and Direct Disbursement	\$ 879 \$ 750	AID HC	MLG, Technical Amara and National Bank for Development
<u>Technical Assistance</u>					
Consulting Services (U.S. Company)	AID Direct Contract	Direct Payment	\$ 18,920	AID	
<u>Training</u>					
Participant Training - In country	PIL	Direct Disbursement	\$ 2,080	HC	AMANA
Participant Training - U.S.	PIO/P	Direct Payment	\$ 520	AID	
Local and U.S. Consultants (Training)	AID Direct Contracts	Direct Payment	\$ 520	AID	
<u>Education and Research</u>					
Research Services	PIL	Direct Disbursement	\$ 1,905	HC	AMANA
Local and U.S. Consultants-Research	AID Direct Contract	Direct Payment	\$ 952	AID	
Universities-Research	AID Cooperative Agreement	Direct Payment	\$ 953	AID	

Annex 2 the justification for using Direct L/Comms is that the host country does not have the financial resources to make payment and seek daily reimbursement from AID.

Methods of Implementation and Financing

1. Chart of Methods of Implementation and Financing

Payment Verification Policy Implementation Guidance (PVPIG) statement 5.B.2.a. requires an assessment by the Mission Controller of the proposed methods of implementation and financing. The assessment should justify the use of methods differing from AID's preferred methods. The chart on the following page lists the current and proposed methods for the entire project. Narrative justification is provided where required, and explanations are given where necessary. The narrative is keyed to the item numbers provided in the leftmost column of the chart.

2. Narrative on Methods of implementation and Financing

Item Nos. 1, 3, 4

See Section V. C., page 15.

Direct Disbursement, considered as a financing method, is essentially similar to Direct Payment, wherein AID pays the vendor directly for goods and services. Direct Payment is an AID-preferred financing method.

Item No. 5

Both Treasury Letter of Credit, used here to finance the cooperative agreement, and Direct Disbursement (see above) used to finance the capitalization of the credit fund, are AID-preferred financing methods.

Item No.2

Use of AID Direct L/Comm's to finance commodities is justified because the host country does not have the foreign exchange resources to pay for commodities and subsequently seek reimbursement.

3. Detailed Assessments

PVPIG 5.B.2.c requires a detailed assessment of the host country implementing agency's specific procedures for contracting, commodity procurement and payment verification.

The only host country contracting proposed is for the procurement of commodities under AID Regulation 1 Procedures. These procurements are well supported by the mission and by AID/W SER/CP/COMS & SER/CP/OS/ANE. This system has been tried and proven in the first year of LD II.

Most of the remainder of the project consists of block grants, managed by local governments. One of the purposes of making such block grants is to improve the technical capability of the local governments to plan, finance, implement and maintain basic service projects. An assessment of technical capability was carried out in the course of the Neighborhood Urban Services Project (NUS) Evaluation, Final Report. Since N.U.S. was one of the predecessor projects to LD II, the evaluation of local governments performance in that project constitutes an assessment for the purposes of LD II. That evaluation concluded that there was evidence of improved local government capability to carry out small infrastructure service activities, but that it was premature to test most indicators of improved technical capability.

However, evaluation and assessment is a continuing feature of this project, and two evaluations are planned by the summer of 1988. The first, beginning in September of 1987, will be conducted by Water and Sanitation for Health and review the water and wastewater subprojects, which comprise more than half of the total uses of block grant funding. A second and major evaluation of the block grants will be completed prior to writing the LD III project paper.

4. Audit Coverage

PVPIG 6. requires an evaluation of the need for audit coverage, and a description of planned contract and project audit coverage by the host government, AID, and/or independent public accountants. Project funds should be budgeted for independent audits unless adequate coverage by the host country is reasonably assured, or unless audits by third parties are not warranted as, for example, in the case of direct AID contracts or direct placement of participants by AID.

In accordance with this guidance no project funds need be allocated for financial audits. Most of the contracts are AID Direct and auditable by the AID Inspector General's Office. The Regional Inspector General will also audit the block grant activity under this project. The only host country contracts are for commodity procurement, and are such low-risk items that they do not require audit.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE DIRECTOR

DATE: August 23, 1987
FROM: DR/LAD/OD: Graham B. Kerr *G. Kerr*
SUBJECT: FY 1987 Authorization and Obligation for Local Development II Project No. 263-0182
THRU: AD/DR: Fred Zobrist *F. Zobrist*

I. PROBLEM: Your approval is required to authorize:

(a) obligation of incremental funding in the amount of \$75.0 million from FY 1987 funds for the Local Development II Program (LD II) increasing the total project authorization and obligation from \$156.0 million to \$231.0 million; and,

(b) extension of the PACD from September 30, 1989 to September 30, 1992. This extends the life of the project to a total of seven years, which is within your authority to approve.

II. THE PROJECT AMENDMENT AND CURRENT STATUS:

The Executive Committee met on 4 June 1987 to consider the Local Development Concept Paper. The concept paper presented a proposed strategy and program for the Local Development Program over the life of the GOE's Second Five Year Plan. The concept paper was approved by the Executive Committee for further development during FY1988 (Annex I).

The Executive Committee also reviewed DR/LAD's proposed design strategy for the FY1987 amendment to the Local Development II Program. Consistent with the Executive Committee's guidance, outlined in the attached Decision Memorandum, DR/LAD and the LD II Project Committee have prepared the attached Project Paper Amendment for your approval.

In the course of the concept paper review and project paper design the GOE Local Development Secretariat (Amana) met twice in June and July with USAID staff in attendance. The Secretariat approved both the FY 1987 amendment and in the longer term program strategy as laid out in the concept paper. Dr. Ahmed Salama, Minister of Local Government and Chairman of the Interministerial Local Development Committee, conveyed these decisions to Minister of Planning, Dr. Kamal El-Ganzouri in his letter # 5/494 of July 28, 1987.

The FY 1987 amendment to the LD II Program will add \$75.0 million from A.I.D. and LE 42.2 million from the GOE. With this obligation life of project financing will total \$231.0 million from A.I.D. and the LE equivalent of \$ 67.8 million from the GOE. The amendment will also extend the LD II PACD to 1992, increasing the life of the program to seven years. Minor program changes, intended to further deepen the Government's policy of fiscal and administrative decentralization, have been incorporated into the amendment, consistent with the Executive committee's guidance. Finally, the Governorate of South Sinai, not included in the initial phase of the LDII Program, will join the program. With this addition all of Egypt's 26 governorates will be full participants in the program.

By September 30, 1987 all governorates, with the exception of South Sinai, will have completed their first year of plan and budget preparation and begun implementation of more than 1,500 sub-projects. In support of this effort, A.I.D. will have disbursed \$49.0 million in capital financing and the GOE will have contributed the LE equivalent of \$4.9 million in capital and \$10.9 million in recurrent cost financing. In addition, A.I.D. and the GOE will have disbursed from residual balances of the MUS, BVS, and DSF projects respectively \$35.7 million and the LE equivalent of \$3.6 million by 30 September 1987. The combined DSS I/LD II disbursements for FY1987 are projected to total approximately \$84.7 million from A.I.D. and the LE equivalent of \$19.4 million from the GOE.

Significant progress has been made during FY1987 in advancing the program's policy and institutional development dialogue. Foremost among these has been the GOE's approval for three major technical assistance contracts in support of the program.

Additionally, two pilot projects have been started by the GOE. They are a village waste water project and a non-subsidized, village based enterprise credit program. They will provide local governments with working examples of well designed and appropriate technologies which can be replicated.

III. USE OF PROPOSED INCREMENTAL FUNDING:

The proposed \$75.0 million obligation will be allocated as follows:

Matching Block Grants	\$	55.95 million
PVO Fund	\$	4.80 "
Special Projects Fund	\$	7.50 "
Policy Analysis/Research	\$	2.25 "
Contingency	\$	4.50 "
Total	\$	<u>75.00 million</u>

The Matching Block Grants will finance both urban and village basic services, with approximately 78% of all grants going to provincial governorates and villages. Approximately 50% of the funds will finance rural water and waste water projects. The remaining 50% will finance, among others, farm to market roads, urban and possibly provincial schools and sports facilities, urban and possibly provincial health services, post and telecommunication facilities and operations and maintenance facilities. Since each unit of local government determines their own investment priorities it is impossible to predict in advance the exact mix of projects.

The PVO incremental financing will enable this component of the LD II Program to assume a national scope. The present level of financing (\$10.0 million) is less than that disbursed to six urban governorates in the Neighborhood Urban Services Project and now the program operates in all 26 governorates.

The Special Projects incremental financing will be used, among others, to finance up to eleven slow sand water filtration projects on a pilot basis, and a solid waste management program in Alexandria.

The Policy Analysis/Research/Evaluation incremental financing will be used largely to finance a range of research and pilot activities associated with the Local Resource Mobilization component of the LD II Program. Illustrative examples include the proposed Giza Tax Improvement Activity and the Matrouh Water Utility Development activity.

IV. METHOD OF FINANCING: The method of financing specified in the original LD II Project Paper and Grant Agreement remains valid and will be employed under this amendment. Under this method A.I.D. disbursements are made after: a. the successful completion and approval of sub-project plans and budgets; b. "matching" investment funds have been deposited in governorate project accounts by the Ministry of Planning and International Cooperation and the governorates; and c. O&M funds have been disbursed to the governorates by the Ministry of Finance. This method of disbursement will be followed with respect to each of the four major components of the LD II Program (i.e. the provincial and urban matching block grants, the PVO block grants and the Special Projects Activity). This method of disbursement has been successfully applied under the phase one DSS I Program and has been fully supported by the Comptroller General through the Comptroller's decision of 28 November, 1984.

V. ISSUES: During the course of project amendment design and negotiation three issues have been identified:

TECHNICAL SECRETARIAT (AMANA) STAFF SUPPORT: As explained in the PP Amendment, the Local Development Program's Technical Secretariat has not been provided the staff support required to efficiently administer a program of this magnitude. This situation will be addressed, in part, through the inclusion of a Requirement Precedent under this amendment requiring secondment of adequate, full time staff to the Secretariat by March, 1988. Additionally, the Secretariat will be supported by a technical assistance contractor effective mid-August, 1987.

GOE COUNTERPART FINANCING: During the initial year of the LD II Program the Mission experienced some difficulty with the timely and full disbursement of GOE counterpart funds to the project, notwithstanding several Requirements Precedents that were included in the original LD II Program Grant Agreement for this purpose. This issue, which is fully elaborated in the attached Handly to Razzaz letter (Annex II), has been discussed with both the Ministers of Finance and Local Government as well as with MPIC. We have been assured, by all parties, that the GOE will honor the provisions of the original LD II Grant Agreement requiring full "up front" disbursement of the GOE counterpart contributions at the beginning of the GOE fiscal year. Adherence by the GOE to this procedure, as opposed to the tranching disbursements that occurred this past year, will resolve this issue. To ensure that GOE funds are disbursed on a full and timely basis, the Mission will require evidence, in the form of bank deposit verification statements from the recipient governorates, that GOE funds have actually been transferred in full to participating governorates before disbursing A.I.D. funds.

Given the substantial counterpart requirements of the LD II Program we have encouraged the GOE to utilize the Special Account if other budget sources are not adequate. We expect that the GOE will finance all, or at least a significant portion, of these requirements from the Special Account. As spelled out specifically below, the Grant Agreement will specify that Special Account funds will not be used for payment of GOE staff incentives.

INCENTIVE FUNDS: In the previously referenced letter to the Minister of Finance we advised the Minister that the Incentive Fund, called for under the LD II Program Agreement, must be financed from regular GOE funds and cannot be financed by A.I.D., either directly or through the use of Special Account funds. This prohibition will be formally included in the Grant Agreement Amendment in the form of a covenant.

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VI. CONTINUED VALIDITY OF PROGRAM DESIGN AND IMPLEMENTATION REQUIREMENTS: The overall design of the LD II Program, as presented in the 1985 Program Paper as well as the supporting project analyses, remain valid. The project design and analyses addressed the generic problems faced by local government in promoting local development. These problems are structural in nature and, as noted in the project paper, will take several years of concerted action to overcome.

The program implementation plan presented in the 1985 LD II Program Paper remains generally valid. The implementation process has been greatly refined and deepened through LD II guidance manuals that have been developed for the three major elements of the program (i.e. provincial, urban and PVO).

Since the original project authorization in 1985, there have been no changes in technology, host country law, legal procedures or host country capabilities that would adversely affect project implementation.

VII. RECOMMENDATION:

That you sign below and on the enclosed PP facesheet and Authorization Amendment, thereby authorizing:

(a) FY1987 incremental funding for the Local Development II Program in the amount of \$75.0 million, bringing the total project authorization to \$231.0 million; and,

(b) extension of the PACD to September 30, 1992.

APPROVED: _____

DISAPPROVED: _____

DATE: _____

- Att.: I. Executive Committee Memorandum, dated 10 June 1987
II. Handly to Razzaz letter dated 19 July 1987
III. Project Paper Amendment

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

August 20, 1987

MEMORANDUM:

TO : John Patterson, AD/PPP

FROM : Graham B. Kerr, OD/LAD *G. Kerr*

THRU : Fred A. Zobrist, AD/DR *F. Zobrist*

SUBJECT : Local Development II
Project No. 263-0182

Project Document Project Paper Amendment

- The attached project document has been prepared by DR/LAD and reviewed by the Executive Committee on June 4, 1987.

The Project Committee named below have reviewed the document and agree with the format, analysis and presentation.

- There are no concerns or issues which need discussion or resolution. The issues identified for the Project Committee and Executive Committee reviews were thoroughly discussed and resolutions/comments have been incorporated in the PP amendments (See Action Memo attached).

<u>Project Committee</u>	<u>Clearance</u>	<u>Date</u>
Tom Johnstone, FM/FA	<i>TJ</i>	<u>8/20/87</u>
Michael Williams, LEG	<i>MW</i>	<u>8/22/87</u>
Theresa Ware, PPP/P	<i>TW</i>	<u>8/20/87</u>
Adele Abadir, HRDC/ET	<i>Adil</i>	<u>8/24/87</u>
Tarek Selim, DR/PS	<i>TS</i>	<u>8/20/87</u>
Graham Kerr, DR/LAD	<i>GK</i>	<u>8/19/87</u>
John Starnes, DR/PS (Environmental Officer)	<i>JS</i>	<u>20 AUG 87</u>

ID#3334D

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