

AGENCY FOR INTERNATIONAL DEVELOPMENT <b>PROJECT DATA SHEET</b>	1 TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete <input checked="" type="checkbox"/> A	Amendment Number 3	DOCUMENT CODE 3
2. COUNTRY/ENTITY Egypt	3. PROJECT NUMBER 263-0182		
4 BUREAU/OFFICE Europe and Near East (ENE) 03	5. PROJECT TITLE (maximum 40 characters) Local Development II		
6 PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 93	7 ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY - 85 B. Quarter 4 C. Final FY 92		

8 COSTS (\$000 OR EQUIVALENT \$1 = )						
A. FUNDING SOURCE	FIRST FY 85			LIFE OF PROJECT		
	B FX	C. L/C	D Total	E. FX	F. L/C	G Total
AID Appropriated Total	14,120	46,880	61,000	219,387	261,614	481,000
(Grant)	( )	( )	( )	( )	( )	( )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.	1					
	2					
Host Country		29,844	29,844		301,007	301,007
Other Donor(s)						
<b>TOTALS</b>	14,120	76,844	90,844	219,387	562,621	782,008

9 SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. 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) ESF	200	200		341,000		140,000		481,000	
(2)									
(3)									
(4)									
<b>TOTALS</b>				341,000		140,000		481,000	

10 SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)	11. SECONDARY PURPOSE CODE
12 SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)	
A. Code	
B. Amount	

13 PROJECT PURPOSE (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 resources to sustain the provision of services, through both the public and private sectors.

14. SCHEDULED EVALUATIONS	15. SOURCE/ORIGIN OF GOODS AND SERVICES
Interim MM YY   MM YY   Final MM YY       09 89   07 93	<input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify)

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

This Project Amendment adds a sector grant component to support policy reform and continues technical assistance to strengthen local institutional capacity.

17. APPROVED BY	Signature 	Date Signed MM DD YY 19 30 93	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
	Title Director, USAID/CAIRO		



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

PROJECT AUTHORIZATION

AMENDMENT NO. 3

Name of Country: Arab Republic  
of Egypt

Name of Project: Local  
Development II

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 Four Hundred Eighty-One Million United States Dollars (\$481,000,000) in grant funds over an eight (8) year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB allotment process. These funds are authorized to help in financing the foreign-exchange and local currency costs of goods and services required for the Program, and to provide sector assistance to the Government of Egypt to encourage related policy reform. Of the amount authorized for the Program, up to Fifty-Seven Million Dollars (\$57,000,000) is authorized for obligation as sector assistance in FY 1990. The planned life of the Program is approximately eight (8) years from the date of initial obligation.

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

Marshall D. Brown  
Director, USAID/Egypt

9/30/90  
Date

**Clearances:**

AD/DR: PThorn	
OD/DR/LAD: DWadley	
DR/LAD: KKertson	
AD/PDS: CCrowley	
FM/FA: CCrane	
D/DIR: CWeden	

**DRAFTED: LEG:VMoore:mf:9/18/90:AUTH0182**

**LOCAL DEVELOPMENT II AMENDMENT**  
**263-0182**

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## LOCAL DEVELOPMENT II AMENDMENT

### I. PURPOSE OF THE AMENDMENT

The purpose of this Amendment is to support a renewed commitment by the Government of Egypt (GOE) to implement policy reforms that will increase local resource mobilization by local government entities and enhance long term sustainability of their basic services. An October 1989 mid-term assessment of project progress concluded that the Local Development II Program\* (LD II) had achieved considerable progress in developing the technical and institutional capabilities of governorates to carry out basic services projects and improve physical infrastructure. However, it also pointed out that little progress had been made toward a key objective -- that of local revenue generation to cover recurring operation and maintenance costs of basic services at the local level.

While Egyptian regulations and policy governing the local generation and retention of revenues to support and maintain these services still have a restrictive effect, the GOE has now indicated its intent to pursue a number of actions that will lead to a more favorable policy environment for the financial sustainability of locally-provided basic services. Foremost among these are: (1) a proactive stance by the GOE in instructing all 26 governorates to take advantage of existing decrees that allow them to generate and retain more local revenues than they now raise; and (2) a commitment to develop and introduce predictable revenue sharing with local government.

The Amendment proposes to incorporate a sector grant in support of the emphasis on policy reform by the GOE. It will add an additional \$140 million in grant funds including \$65 million in the first tranche and \$75 million in the second. (The increase in GOE contribution for the period covering the amendment will total the LE equivalent of nearly \$180 million.) The first year funding will increase life of project obligations to \$406 million. (The LOP authorization will be increased to \$481 million). The \$65 million provided in the first year will include a sector grant of \$57 million in support of reforms to enhance cost recovery for, and sustainability of, basic services, and \$8 million to finance continuing technical assistance. A second tranche of approximately \$75 million is also planned, \$63 million of which will be obligated as a sector grant to support additional reforms. The PACD will be

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\* The formal title of this project is the "Local Development II Program". It is not to be confused with non-project or program assistance.

extended by one year to 9/30/93 to allow time to monitor institutional capacity building which has resulted from the provision of block grants to governorates.

Section II of this amendment sets forth the basis for the proposed Sector Grant component of LD II and describes the disbursement and tracking procedures applicable to this component. Sections III and IV amplify and clarify how the on-going investment block grant program and technical assistance activities are being implemented. Note: The inclusion of the Sector Grant component does not change the way in which these activities are implemented. Section V describes the project's monitoring and evaluation arrangements. Section VI contains the environmental certification related to the additional funding for the project.

## **II. SECTOR GRANT COMPONENT**

### **A. Background and Present Status**

The LD II Program was initiated in September, 1985 to assist local governments in increasing their capacity to plan and implement local basic services projects, and to mobilize the resources necessary to sustain these services. The central feature of LD II is a program of provincial and urban block grant investments, in which basic services projects are financed with a combination of AID, central and local government funds, and often times beneficiary contributions. Other project activities include operations and maintenance and a program of technical assistance and training that supports development of local institutional capabilities such as project design capacity, organization and management, and local resource mobilization.

In general, LD II has been very successful in assisting local governments carry out a large number of projects to provide basic services such as water/wastewater systems, roads, schools and clinics to the rural and urban poor. Through the experience gained through implementation of the project during four GOE budget cycles (1986/87 through 1990/91), the institutional capacity of local councils at the governorate, district and village levels has been strengthened considerably.

To achieve these objectives, the project has built on a strategy of progressive administrative and fiscal decentralization, which has been promulgated by the GOE through a series of laws begun in 1960. USAID has supported this effort with a wide range of local government development activities since AID project assistance was resumed in Egypt in 1979. In addition to financing local infrastructure, training and institutional development, USAID has urged the Government of Egypt to strengthen the capability of local governments to finance a greater portion of their resource needs, particularly the costs of operation and maintenance. To date these funds have been provided by central government special allocations.

In February 1990, USAID offered to amend the present Local Development II Program to provide a sector grant if the government indicated its willingness to take policy actions to improve local government finance. The government expressed its interest in this approach and the Prime Minister appointed a senior policy committee to initiate discussions. USAID has met and held extensive discussions with the government's policy committee on measures which would strengthen the financial capacity of local government. As an outcome, the government, in a letter dated July 8, 1990, stated its commitment to four key policy actions. Three of these (implementation of government decree to recover costs of local services projects; instruction on increasing local revenues to finance these services; and a study to plan for long term revenue requirements for meeting O&M costs) provide the basis for the policy reform component of this Amendment. A fourth reform, which is collateral to but supportive of the goals of this project, has been agreed by the GOE. Proceeds from the sales of local government and project assets, which the GOE had planned to retain at the national level, will now be retained for use by the local governments.

As the project has progressed, the need for the central government to adjust policies in ways that improve local government prospects for sustainable provision of local services, notably operations and maintenance of existing facilities and equipment, has become clear. In spite of the increased authority to raise local revenues that various ministerial decrees have granted governorates, obstacles remain to effecting a workable cost recovery system for the provision and long term sustainability of local basic services. At present, the budgets to meet recurrent costs of local governments are subsidized by the central government. Where an increased level of local revenues is retained, the result has been that financial support from the central government is reduced accordingly. There has thus been little incentive for local governments to raise user fees and taxes. Without a known GOE commitment, or formula that gives the local government predictability in knowing how much money will come from the central budget, local administrations are reluctant to exercise their revenue raising authority.

#### **B. Relationship to AID Strategy**

The strategy of LD II is anchored in the agenda of the ANE Bureau for Open Markets and Open Societies. A keystone of this agenda is that public policy be subject to the influence of those whose lives are affected by it. Operationally, this means that citizens direct those who govern them, and that governments have the institutional capacity to receive and respond to public demands.

One of the Mission's strongest and most directed efforts towards strengthening democratic pluralism in Egypt is the Local Development II program. The LD II Program actively promotes the politically difficult process of decentralization through a wide range of activities that address the multiple needs of such an

effort: development of local government capacity to plan and carry out basic services projects; greater utilization of private voluntary organizations for community services; and mobilization of the local resources necessary to sustain these services over the long term. The result of this endeavor has been a notable shift of governance from the central GOE to the local government level with regard to decisions for basic services and responsibility for the provision of these services. Further, through the voluntary contributions of project beneficiaries and the participation of the IVO community, there has been direct encouragement for private provision of public services.

This Amendment interjects an additional level of support for the policy reforms necessary to shift greater fiscal responsibility and accountability from central to local governments. Policy areas that are addressed in the sector assistance component of the Amendment include decentralization of revenue management, improved tariff administration, and reduction in uneconomic subsidization. The Amendment is consistent with the Mission's Strategy Statement, updated in 1989, to use project assistance in support of policy progress, and to apply this approach in the area of local development. LD II is directly linked to two of the Mission's Program Objectives: increasing delivery of sustainable services, and increasing popular participation in development decision-making, implementation and funding.

### C. Description of Sector Grant Component

#### 1. Economic Background

The Egyptian economy has been very fragile as a result of a long period of subsidies, price distortions and government controls. The balance of payments and the government's budget are in substantial deficit. There is a very large external debt and related annual debt service payment. Real economic growth has essentially stopped. In addition, inflation and unemployment have eroded real incomes and introduced a source of potential social instability and discontent.

A GOE priority of present economic policy is to change the system from central management and control to a greater reliance on markets in order to achieve sustainable growth in real income and employment. To accomplish this economic transformation without a serious disruption in the social order, Egypt needs temporary relief from external debt service payments and a substantial infusion of external resources during the period of general structural reforms.

The LD II sector grant will help to eliminate some of the negative impacts of the current economic decline by making available badly needed foreign exchange resources for commodity imports and debt payment. Further, the sector grant affords USAID a voice in policy discussions with the GOE to advise on the needed direction of

reform in the important area of decentralization. To encourage the commitment and reforms necessary for local governments to more fully assume the responsibility for financing capital and O&M costs of basic services, sector assistance will be tied to central government actions that help to clarify the central/local government fiscal relationship and strengthen the local governments' role in increasing and retaining locally generated revenues.

## 2. Policy Reform for Local Government Sector

The sector grant component of the amendment will be disbursed in two tranches, based on performance towards an agreed set of benchmarks for each tranche. The benchmarks will also serve as conditions precedent to dollar disbursement. The first tranche benchmarks will promulgate and actualize ministerial decrees and initiate studies for substantive reforms. Those for the second tranche will promote additional policy reform in the area of fiscal management. The benchmarks associated with each tranche are as follows:

### First Tranche - FY 1990 (\$57 million)

Disbursement of the first tranche will be conditioned on three key policy benchmarks plus financial arrangements for the block grant program. These will support strengthening of local government capabilities to finance the operation and maintenance costs of local basic services. Policy related reforms include central GOE instruction and guidance on implementation of relevant ministerial decrees and studies leading to appropriate cost recovery. In order to plan the levels of revenue and budget needed for O&M sustainability, local governments will also need to be able to anticipate the amount of central budget support that will be provided. The following benchmarks are proposed for these purposes:

- (1) Local Project Cost Recovery from Users: The GOE will provide instructions to all governorates to apply Prime Ministerial Decree No. 578 (1986) to maximize to the extent possible operations and maintenance cost recovery for local services projects.

In 1986 Prime Ministerial Decree No. 578 was issued authorizing the governors to open secondary accounts in Local Services and Development Fund (LSDF) accounts for local projects. Funds so deposited from popular contributions (including contributions for services being rendered), when approved by the local unit popular council, would be used only for projects within that jurisdiction. With few exceptions, local government units have not acted on this decree. One of the conditions precedent to disbursement will require that the GOE provide all governorates with instructions to

maximize the use of this decree for the purpose of financing O&M costs of basic services provided by local units. It is clear from the decree that the generations deposited in these accounts will be retained by the respective local units. All provincial governorates are being required to implement one or two local pilot projects to raise local revenues using this decree during the coming fourth block grant funding cycle. The revenue impact of this measure cannot be estimated at this time.

(2) Increase in Local Fees: The GOE will request that each governorate increase local user fees and charges enumerated in Ministerial Decree No. 239, up to the allowable ceiling authorized by Local Government Law 145 in order to begin to cover the recurrent costs of local services projects.

The provisions of Ministry of Local Administration Decree No. 239 (1971) and Law 43 (1979), amended in Law 145 (1988), enumerated the fees and charges that may be levied and the ceilings that apply (200% on a one time basis). However, most governors have not raised these fees and charges because of the absence of a clear government directive to do so. The revenue impact of this measure is estimated in the neighborhood of LE 100 million per year (1991).

(3) Local Resource Mobilization Policy Analysis Study: The GOE will approve a Scope of Work (SOW) and adequate funding from LD II for a study and analysis: (a) to estimate actual expenditure and revenue needs, and recommend a schedule for increasing and retaining in LSDF accounts, local fees, user charges and applicable taxes to cover the recurrent costs of local services projects; and (b) to develop a feasible grants system or revenue sharing formula for the allocation of central government budget support to local government units.

A condition precedent to disbursement will require that a scope of work for this study be completed and approved by the GOE, and that the GOE approve the use of LD II project funds for this purpose. Both the central government and local governorates agree that user fees or charges, including those described in (2) above for local services, need to be increased to cover the cost of providing and adequately maintaining these services. The next step is to analyze related expenditures and revenues including actual and projected costs of such services, the legislative/regulatory framework enabling increased local revenue generation and retention, and determine a reasonable schedule for increasing such fees or raising applicable taxes.

In order to develop a reasonable structure of user fees or charges, local government units need to be able to anticipate the level of grant budget support they will receive from the central government, and the revenues they must generate to adequately meet local needs. This is a key reform because the present practice of

discretionary allocations have in practice tended to undermine local governments' incentives to exercise their revenue raising authority. Local governments which make an effort to raise revenues locally have their central grants reduced by approximately the same amount. A grants system or revenue sharing formula would provide predictability in the level of central budget support and be a positive reinforcement for greater local revenue generation.

The GOE agrees to a joint USAID/GOE study which will provide the needed analysis and recommendations, described in (3)(a) above, to significantly increase generation and retention of local revenues to sustain local government investments in basic services. Prior to completion of part (b) of the study, it is expected that the GOE will submit a preliminary GOE budget plan for the 1991-92 budget year which would not reduce central government budget allocations from prior year levels as a result of intended increases in local revenues and retention where unmet needs are documented by governorates. Part (b) of the study would recommend a firm plan and implementation schedule incorporating a revenue sharing formula establishing a predictable, intergovernmental grant system to be implemented for the 1992-93 budget year. Budget guidance is required by October 1991 to implement such a grant system.

A final CP deals with financial arrangements by the GOE to ensure full and timely funding of block grant investments to governorates. The block grant component, which, together with contributions from the MOP and governorates, finances the local basic services projects, is financed by the GOE counterpart contribution (the LE equivalent of \$57 million).

- (4) Host Country Contribution for Block Grants: the GOE will deposit in a designated USAID trust fund account, the Egyptian pound equivalent of \$57 million for disbursement of investment block grants to governorates based on established LD II procedures.

#### Second Tranche - FY 1991 (\$63 million)

Additional benchmarks related to disbursement of a second tranche will be developed based on the results of the LRM Policy Analyses Study and continuing joint GOE-U.S. policy dialogue over the first year of this Amendment. Two critical areas will be examined, in depth, and will form the basis for subsequent performance indicators:

- 1) Estimate of expenditure and revenue needs in order to develop a schedule for increasing and retaining in the Local Services Development Fund account, local fees, user charges and applicable taxes to cover the recurrent costs of local services projects; and

- 2) Development and implementation for the 1992-1993 GOE budget year of a feasible grants system or revenue sharing formula

for the allocation of central government budget support to local government units.

The GOE and USAID will mutually agree on the specific performance targets for the second tranche prior to its obligation. The agreed-upon benchmarks will constitute conditions precedent to disbursement of that tranche.

**D. Summary Financial Plan**

The planned obligations for the \$140 million in AID assistance described in this amendment are as follows (in \$ million):

	1990-91		1991-92		Amendment Total
	USAID	GOE LE Equiv	USAID	GOE LE Equiv	
Sector Grant Performance Disbursements	57		63		120
Provincial Block Grants		52		48	100
Urban Block Grants		5		15	20
TA and Training	8		12		20
	65	57	75	63	260

The GOE contribution for the block grant program does not include the matching funds provided by the MOP and the governorates. These numbers, along with other Host Country contributions, are provided in the Detailed Budget tables found in Attachment 1.

**E. Uses of Sector Assistance Dollars**

Grant proceeds may be used by the Government of Egypt for any or all of the following purposes:

(1) Financing the import of capital goods, raw materials and other goods and related services deemed essential by the GOE. The source and origin will be AID Geographic Code 000 unless otherwise requested by the Government and agreed to by AID;

(2) Servicing of US Government or US Government guaranteed debt\* except Foreign Military Sales and other military or

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\* The AID/W policy guidance does not explicitly equate debt guaranteed by the USG with debt owed to the USG. However, the policy purposes seem very similar and we are, in fact, equating the two for this purpose.

"ineligible" debt. "Ineligible" debt refers to debt arising from, for example, police related equipment or other items considered by AID to be inappropriate for AID financing. (A Grant Agreement covenant will prohibit such "ineligible" expenditures); and

(3) Other purposes or uses as subsequently agreed between the parties (e.g., payment of non-U.S. debt or non-U.S. guaranteed debt or procurement of commodities from non-U.S. source/origin).

In negotiating the above uses, we note that AID has a policy (87 State 325792) that countries receiving ESF cash transfer assistance use the proceeds for purposes (1) and (2) noted above (imports from the U.S. and debt service to the U.S.) in that order of preference.\*\* In that regard, the GOE has indicated its intention to use the sector assistance grant for items (1) and (2). USAID considers that any combination of these two uses would be appropriate under the circumstances and that we need not require a specific justification for the combination which the GOE in fact chooses. Also, we believe the GOE should be encouraged to use sector assistance resources, within the parameters of the two specified eligible uses, for purposes which the GOE determines for itself are most effective and efficient. In sum, we believe the above-outlined arrangements concerning use of proceeds - arrangements which will permit the GOE to make its own choices within two categories of eligible uses - reflect a due appreciation for AID's policy preferences within the Egyptian context. Thus we do not plan to carry the concept of an "order of preference" over into the Grant Agreement -- since to do so would raise, undesirably we believe, issues for still further negotiation, justification and documentation subsequent to Grant Agreement execution. Therefore, the Grant Agreement will not reflect any "order of preference" between the two specified eligible uses. However, should the GOE later wish to use cash transfer proceeds for other purposes, then AID would request the GOE to provide us with evidence that no pressing requirements exist under the two specified uses before AID would concur in alternative uses.

Also, we note from the AID/W cash transfer policy guidance (STATE 325792) that any use of cash transfer proceeds to service debt owed to any institution (U.S. or otherwise) is permissible only where a showing can be made that such debt service requirement "is a significant barrier to growth and development". In the case of Egypt, the critical element is that continuation by the GOE of debt service payments to U.S. and other official creditors is

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\*\* Although the sector grant in this Amendment is provided as project assistance, the financial management guidance for non-project sector assistance is being applied because of the program nature of the policy reform component.

necessary to maintain sufficient credit worthiness to gain access to new loans and grants from those creditors. Such loans and grants are, in turn, required to finance a major portion of the foreign exchange and investment expenditures needed to facilitate a resumption of economic growth.

#### F. Special Account

A separate account will be established solely for the receipt of the sector assistance grant from AID. The proceeds will not be co-mingled with other funds from any other source. Interest earned on such account will be treated as though it were grant proceeds received under the terms of the cash transfer agreement. Any required redeposits (from hypothetical misuse of funds) will be similarly treated.

The FY 1990 Appropriation Act added further elaboration of separate account requirements for cash transfers and non-project sector assistance. AID issued guidance for the financial management of dollar separate accounts in STATE 194322 (June 17, 1990) and the implementation arrangements for this program are in conformance with that guidance.

#### G. Local Currency

FAA Section 531(d) requires that, as to Commodity Import Programs and "other program assistance", AID funding be used, "to the maximum extent feasible", to generate local currencies for support of AID funded Basic Human Needs activities.

The grant agreement will not require local currency generations for sector assistance dollars used to pay eligible debt service payments. Given the current budget deficit situation, such generations would necessitate the creation of local currency. Requiring the government to print new money introduces inflationary pressure. The inflation arises because the payment of external debt does not bring new, real resources to Egypt to satisfy the local demand generated by the spending of the new money deposited in the local currency account. For the next several years, a principal macroeconomic goal will be to find ways by which the government can reduce the rate of monetary expansion. Forgoing local currency generations when the sector assistance dollars pay eligible debt service supports this macroeconomic objective.

In the event that commodity imports are purchased and local currency is generated under the LD II Program as amended, deposits will be required. AID/W has confirmed that such deposits may be co-mingled under CIP documentation (89 State 185485), jointly programmed by the GOE and USAID, and expenditures monitored according to the same procedures currently used for the CIP Special Account. FM will be responsible for ensuring that deposits are made to the special account as required by the agreement.

## H. Special Account Monitoring and Audit

USAID/FM will be responsible for ensuring compliance with the financial requirements that result from the sector assistance disbursement. FM will establish procedures to ensure that :

- 1) All dollar proceeds are deposited in an interest bearing Special Account and interest earned is accumulated and used for project purposes. It is anticipated that the dollars will be electronically transferred from the U.S. Treasury in Washington, D.C. to the account of the Central Bank (CB) (or other commercial bank selected by the CB);
- 2) All CP's have been met prior to the release of grant funds;
- 3) Financial and other statements as deemed appropriate to monitor the use of all funds in the special account, inclusive of interest earned, have been obtained. Reimbursements shall be required in the event that funds have been used for unauthorized purposes.

The grant agreement and implementation letters will contain provisions for audit rights and accounting, reporting and monitoring of the grant proceeds in conformance with dollar special account guidance issued in State 194322 dated 6/15/90. Specifically in regard to this guidance and the need to assure the capability of the implementing agency (GOE Central Bank) to adequately manage the special non-comingled account, the Mission has reached a positive determination. This judgment is based on the Bank's excellent management of last year's cash transfer special account, the fact that this authorization is for a similar use of funds, and the fact that the Regional Inspector General/Cairo conducted an assessment of last years' special account transactions with no adverse findings on the bank's management. The capability of the implementing agency is therefore, reasonably assured.

RIG/A/C shall conduct any audit with respect to the sector assistance component of this project. As dollar costs are not envisioned, and as RIG/A/C is provided a budget out of the CIP generated Special Account for locally conducted non-Federal audits, project funds have not been allocated for this purpose.

## III. THE INVESTMENT BLOCK GRANT PROGRAM

### A. Description

The block grant is the centerpiece of the LD II Program and is designed to promote decentralization and enhance the development of local government institutional capabilities. Block grants finance local project development activities and improvements by local

government units. The block grant funds are comprised of host country local currency contributions which are equivalent to the USAID Sector Grant to be disbursed, plus additional MOP and local governorate contributions which amount to 5% (each) of the Sector Grant. In addition, project financing normally includes host country popular contributions as either in cash or in kind from the beneficiaries of the projects. Popular contributions are managed by local government units and are collected with local council support.

The block grant system is a performance based financing mechanism designed to enhance the decentralization and local government capacity building objectives of the LD II Program. The governorates develop annual investment block grant plans according to locally identified development needs. Proposals requesting block grant funding are developed by village or district communities based on locally identified needs and are reviewed by Governorate Local Development Committees (GLDC). These proposals, developed by local communities with governorate assistance, describe the designs, budgets, management systems and implementation schedules. The governorates review these locally identified development plans and activities and confirm that projects are consistent with block grant guidelines and governorate development objectives and priorities.

Block grant guidelines are jointly developed and agreed to by the central GOE and USAID and form a means of improving and guiding the decentralization performance of governorates. Guidelines are tools for improving the institutional and technical capacity of governorates and the governorate capacity to plan, design, manage, implement and monitor effective, decentralized development activities. Capacity development issues, problems and strategies for enhancing governorate institutional development are addressed in the guidelines and other communications with the GOE.

Governorates develop investment block grant plans, projects and activities according to jointly established guidelines for LD II and according to their development priorities. Governorates and sub-local government units will be authorized and encouraged, where appropriate, to collectively carry out selected master sector planning using their block grant project funds. USAID will provide technical assistance when requested through existing and specialized contractors.

The original average project size for LD II is LE 55,000 to LE 60,000, based on the exchange rate of US \$1.00 = LE .83, in effect in 1985 when the Program began. Due to exchange rate fluctuations, an increase in the local unit planning capacity, and changes in local level needs, projects in the range of LE 55,000 to LE 1,000,000 have been approved. A determination has been made by USAID/Cairo that, given the current status of LD II, projects should be limited to a maximum level of approximately \$500,000. These will

include projects which local units have decided to jointly finance out of their block grants, such as domestic water, wastewater, solid waste, maintenance facilities, etc., especially for rehabilitated and/or new systems that cover multiple villages/marakaz or cities in provincial governorates, and districts/neighborhoods in urban governorates.

These larger, joint projects will facilitate the development of planning, management and administrative skills at the local level in the same manner as smaller projects, but they will also foster the type of cooperation and coordination between local units which is necessary for effective decentralized services delivery to occur.

Project decisions in cases where local government units pool their block grant funding from GOE contributions for larger system projects will be made by the respective Provincial or Urban Local Development Committee, with prior consultation with USAID to assure the adequacy of their technical design, and subsequent contracting and monitoring by governorates. Where required, USAID is providing additional technical resources to assist local governments for this purpose, in keeping with the decentralized institution building objectives of LD II. Further, as provincial and urban planning guidelines are revised for subsequent funding cycles by the PLDC and ULDC, based in part on project experience over the coming year, the selection, design and approval criteria for larger, multiple unit projects will be spelled out.

The review process for projects not exceeding \$500,000 requires that Governorates submit investment plans annually to their respective Provincial or Urban Local Development Committee (PLDC or ULDC), to justify and request block grant financing at a level consistent with the governorate block grant allocation. Governorate block grant plans are reviewed by the PLDC/ULDC, the technical assistance contractors and USAID. If the governorate plans conform to established conditions and the planning guidelines and adequately address project design, budgeting, management and implementation issues, these block grant funds are disbursed to the governorates. The guideline development process, the monitoring of local government technical and institutional capacity and the implementation of project activities is an iterative process which is designed to identify decentralization and local government capacity issues and improvement opportunities.

We recognize, however, that in rare cases, local government units will consider and request that USAID provide funding for plans to finance projects which exceed this \$500,000 limitation. Such exceptions will be considered by USAID on a case-by-case basis, and approved based on a determination that: (1) the project is the local unit's highest development priority; (2) no other funding source is available in a timely manner; (3) the proposed project is the most

appropriate technical response to the development problem; and (4) the project meets LD II Program objectives. An example is the planned Qena-Hurghada water transmission pipeline rehabilitation which was requested by the Red Sea Governorate and which will be jointly financed by the 16 local units of the Red Sea Governorate from their block grant allocations for FY 1989 and 1990. In cases such as this, LD II local project costs will be divided among, and attributed to, each local unit participating in and benefiting from the joint project. In these rare instances, USAID will provide appropriate technical assistance to the Governorate to assist in the design and implementation of these larger projects.

In the case of all projects, regardless of size, upon receipt of block grant funds by governorates, the governorates will implement project activities according to their identified and approved implementation plans. Governorates organize staff, contract for services, and procure equipment and supplies necessary to implement their project plans. Governorate development staff are supported by central GOE technical offices and by project funded technical support contractors. Governorates monitor projects through site visits, internal reports and through regular LD II Quarterly Progress Reports (QPR). QPRs are prepared for governorate management and copies are submitted to USAID. All project plans and activities must conform to GOE accounting, procurement and contracting rules and regulations, e.g. funds must be in place according to procurement regulations, before contracts can be advertised for bid. The GOE confirms that financial audits of LD II Program activities at the governorate level are regularly carried out.

Once LD II block grants are disbursed to governorates, management of the funds and implementation of local projects are the responsibility of the central GOE and governorates. The block grants are wholly owned GOE funds. Hence, interest, penalties, fees and other revenues generated from block grants are retained by local governments for project use. Block grant funds are pooled with funds from central GOE, local government units and popular contributions at the governorate level. Assistance from other donors is handled as parallel project financing.

USAID monitoring of LD II Program activities and block grants deal with the delivery of inputs, the implementation of the strategy to produce outputs and progress toward program outputs. Hence USAID monitoring addresses the institutional, technical capacity and decentralization progress at the governorates. USAID staff monitor the adequacy of block grant plans, the development of management and implementation skills, financial management, monitoring and other technical support systems and policy measures necessary for effective, efficient decentralized local government operations. The focus of USAID monitoring activities is the development of local

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government institutional and technical capabilities, and the policy and management systems necessary to implement decentralized development programs; not individual projects funded by the GOE local currency contribution. USAID monitoring activities are complemented by central GOE and governorate monitoring and reporting systems. In addition, LD II technical assistance contractors assist the GOE and USAID oversee project activities, planning, funding and institutional capabilities. The monitoring and review process by the GOE, TA contractor and USAID provide the input for improvement in the institutional capacity and guidelines for annual block grant planning.

In addition to LD II capacity development monitoring activities, USAID monitors the performance of technical assistance contractors working with local governments. The Mission reviews their effectiveness, the level of oversight given to project activities, and training and technical assistance provided to local governments to implement block grant projects.

#### B. Host Country Contribution

Under the current LD II Program, the local currency funds provided for the block grants are distributed directly by USAID, which exchanges project dollars for pounds. Under the proposed LD II Amendment, the GOE will provide its counterpart contribution for the block grant investment program (the local currency equivalent of \$57 million) prior to disbursement by USAID of the first tranche of the sector grant. These funds will be deposited directly into the Mission's Trust account for use in the block grant program corresponding to the GOE's 1991/1992 budget cycle. This mechanism will continue to ensure timely disbursement of block grant funds to the governorates. Since the use of the trust fund account for project activities has staffing implications for the Mission, the level of personnel resources required has been carefully examined. The rationale and justification for this arrangement is discussed in a waiver, approved by the AA/ANE, enabling use of the trust account for this purpose. (See Attachment 2.)

USAID will distribute block grant funds to the governorates after the following conditions have been met: (1) satisfactory completion of all conditions outlined in the provincial or urban block grant guidelines and relevant PILs; (2) provision of matching funds by the MOP and local government; and (3) review and approval by the Provincial or Urban Local Development Committees of the governorates' annual block grant investment plans.

The MOP and governorates provide matching funds equal to 5% of that contributed by the GOE. An existing prerequisite for LE block grant disbursements to individual governorates requires verification that the MOP 5% contribution has been deposited in the governorate

LD II account for block grant investments. Contributions from the beneficiaries of local projects are encouraged, and are provided either in cash or in-kind.

An estimated LE equivalent to \$63 million will be provided by the GOE to support the block grant program for the GOE's 1992/93 budget cycle.

#### **IV. TECHNICAL ASSISTANCE**

##### **A. Description of Activities**

Technical assistance provided under LD II is aimed at increasing the capacity of the local government to plan, implement and maintain basic services and other project activities. AID finances TA to improve local government investment plans, monitoring inputs and progress in capacity building. Accordingly, AID does not finance specific local projects.

The LD II Program currently finances a number of technical assistance, training and related support activities to assist in the following:

- (a) Establishing a block grant system to institutionalize processes for GOE matching funds for basic services, PVO projects, and local training;
- (b) Improving local capability for capital investment planning;
- (c) Strengthening local capability for delivering basic services, including operations and maintenance; and
- (d) Increasing revenues, generated and retained at the local level, for the continued provision of basic services.

To date under LD II, approximately \$221 million has been disbursed to improve institutional capacity to provide basic services and equipment at the local government level. Continued technical assistance will help governorates improve, operate and maintain these services. Since 1986, technical assistance has helped to build institutional capacity at the local level through developing planning, management and administration systems, organizational structures and management information systems. In addition to these functions, continued TA will emphasize technical skills such as local government budgeting, local resource mobilization, and management of basic services such as water and wastewater systems. Building both institutional and technical capacity is also critical for ensuring that past local government investments financed by USAID will be sustained.

The technical assistance requirements of the local development program are as follows:

(1) Provincial Basic Services

The technical assistance for the provincial component helps build institutional capacity enabling governorates to plan, design and monitor basic service delivery projects at the village, district and governorate levels. The contractor monitors implementation progress at local government levels and provides guidance on issues such as sector planning, local project implementation and operation and maintenance. TA emphasis is also given to improving Management Information Systems (MIS). In addition, technical assistance provides expertise to help pilot new and innovative technologies and organizational systems, such as rural wastewater plants and management systems in the rural areas, and for testing private sector managed maintenance centers at the governorate level. Special attention is given to training and to building training capacity.

(2) Urban Basic Services

Technical assistance for the urban component helps build institutional capacity enabling the urban governorates to plan, operate and maintain basic service delivery projects at the district and governorate levels. In addition, TA is provided for the institutional aspects of land management, solid waste management, governorate level budgeting, MIS and long range economic development planning. Special emphasis is given to training and to building training capacity.

(3) Private Voluntary Organization Block Grant

Technical assistance for the PVO component of the program helps build institutional capacity enabling the local governorates and the Ministry of Social Affairs (MSA) to establish and carry out a system of block grant funding to PVOs in order to meet community needs in low income areas. Like urban and provincial components, TA helps MSA and PVOs in planning, operating and maintaining community based services. In addition, TA helps to strengthen the Government of Egypt MIS. The TA and training provided is a combination of management and technical expertise.

(4) Training

Technical assistance under the training component helps the Ministry of Local Administration (MLA) develop and establish a block grant system to provide training to local government officials in management and technical skill areas. The TA assists MLA in the planning, implementing and monitoring of training programs selected and implemented at the local level.

## **B. Scope of Amendment**

Under the project as amended, the schedule for block grant project activities will be extended. Assuming an obligation of a second tranche in late FY 91 (and the concomitant contribution of an equivalent amount of local currency by the GOE), the approval of subsequent block grant investment plans and distribution of funds to local governorates would probably take place in FY 1993. In order to continue providing the TA needed to assist in project planning and finance requisite training needs, the PACD will be extended by 12 months to 9/30/93.

The technical assistance requirements for the Amendment are quantified below. Eight million dollars of this Amendment will be used to finance these costs through September 1991. An additional \$12 million will be obligated in conjunction with the sector grant in order to finance technical assistance and training needs through the revised PACD.

Detailed budgets for the Amendment and life of project totals are contained in Attachment 1.

## **V. Monitoring and Evaluation**

### **A. Monitoring.**

Monitoring of LD II local projects and activities is carried out by central GOE level entities (the ORDEV, the General Amana of the Ministry of Local Administration) and by selected local government units. In addition, the LD II technical assistance contractors review and monitor local projects. Monthly and quarterly Status of Implementation reports are provided by the TA contractors which are reviewed with the GOE and USAID. LD II project implementation status reports, such as the Quarterly Progress Report, Equipment Status Report and other progress reporting mechanisms, are prepared and compiled by the governorates and the central GOE to provide management information to project implementation staff. Financial audits of the LD II local projects are carried out by the GOE on a regular basis and are reviewed at the governorate level.

As indicated in the description of the Investment Block Grant component, USAID monitoring of LD II activities and block grants deal with the delivery of inputs, the implementation of the strategy to produce outputs and progress toward accomplishing LD II program level objectives. The focus of USAID monitoring activities is the development by local government units of the technical and institutional capability necessary to implement decentralized development activities. USAID monitors the institutional capacity of local government units, reviews institutional development progress and develops planning and management guidelines for improving the program management capabilities of local governments.

USAID monitoring is an iterative process that involves the: 1) review of investment block grant plans and development processes, (2) monitoring of progress in carrying out these plans, (3) analysis of issues and problems encountered by local government units, and (4) review of block grant guidelines and procedures for improving the institutional development of local government units. Guidelines for block grant plans are jointly developed and agreed to by central GOE and USAID to orient the institutional development and decentralization progress.

For the Sector Grant USAID will also monitor compliance with performance targets established for the disbursement of funds obligated under this component of the Project.

In addition, USAID monitors the effectiveness of technical assistance contractors working with local governments. USAID reviews their oversight of project activities, training and technical assistance to local government units.

#### B. Evaluation.

An end of project evaluation is scheduled for July, 1993. This will conform to the Evaluation Program described in Section 5.1 of the Grant Agreement. The final evaluation will gauge the project's ultimate success in meeting its objective of improving the capacity of local governments to plan, implement and maintain the provision of basic services. Particular attention will be given to measuring progress toward the Mission Program Objective of increasing popular participation in development decision making, implementation and funding. Indicators of achievement in this area will include the extent to which decentralized planning and implementation of local projects was accomplished, and the degree to which systems were put in place to mobilize local resources for these activities.

#### VI. Environmental Certification

The Mission Environmental Officer was delegated approval authority for the environmental review of the LD II Program in 1985 when the project was originally authorized. A categorical exclusion based on the provisions of AID Handbook 3, App. 2D Environmental Procedures 216.2(c)(1)(ii) was approved at that time.

The proposed Amendment is largely composed of a sector assistance grant to the GOE (\$57 million), and will not be used for project activities. A smaller portion (\$8 million) will be used to continue technical assistance activities which were already granted a categorical exclusion in the initial environmental certification. The findings of the original environmental certification therefore still apply to the activities described in the Amendment, and will not require an additional IEE.

TABLE I: LOCAL DEVELOPMENT II FY 90 OBLIGATION

(US \$ 000)

MAJOR PROJECT ELEMENT	USAID \1			GRANTEE					TOTAL
	FX	LC	TOTAL	MOP	MOF \2	LSDF \3	TOTAL \4		
BLOCK GRANT FUND									
. URBAN	0	0	0	250	5,000	250	5,500	5,500	
. PROVINCIAL	(2,250)	(6,750)	(9,000)	2,150	52,000	2,150	56,300	47,300	
SUBTOTAL	(2,250)	(6,750)	(9,000)	2,400	57,000	2,400	61,800	52,800	
PVO FUND									
. URBAN	0	0	0	0	0	0	0	0	
. PROVINCIAL	0	0	0	0	0	0	0	0	
SUBTOTAL	0	0	0	0	0	0	0	0	
SPECIAL PROJECTS	(500)	(1,500)	(2,000)	0	0	(100)	(100)	(2,100)	
MAINTENANCE FUND	0	0	0	0	22,272	0	22,272	22,272	
STAFF SUPPORT									
. TECHNICAL AMANA	0	0	0	0	340	0	340	340	
. INCENTIVE FUND	0	0	0	0	1,820	0	1,820	1,820	
SUBTOTAL	0	0	0	0	2,160	0	2,160	2,160	
TECHNICAL ASSISTANCE	9,500	9,500	19,000	0	0	0	0	19,000	
TRAINING	0	0	0	0	0	0	0	0	
EVALUATION/RESEARCH \5	0	0	0	0	0	0	0	0	
PERFORMANCE DISBURSEMENT	57,000	0	57,000	0	0	0	0	57,000	
CONTINGENCY	0	0	0	0	0	0	0	0	
TOTAL	63,750	1,250	65,000	2,400	81,432	2,300	86,132	151,132	

1/ FX= Foreign Exchange LC= Local Currency

2/ Part or all of the amount for the Maintenance Fund and Staff Support may be financed by local government as per Covenant 5.10 The MOF will, however, guarantee the availability of the entire amount.

3/ Local Services and Development Fund (LSDF) of each participating governorate.

4/ The GOE contribution is exclusively cash No in-kind contributions are included in this budget. No local voluntary cash contributions are included in this budget.

5/ Includes Program management assessments and non-federal audits

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

a. MOP and Local Government contributions, in LE terms, each will vary to equal 5% of the USAID contribution:

b The MOF contributions for FY 90 are fixed at LE 64,989,120 (\$24,432,000 @ LE 2.66).

When expressed in dollar terms the amount will vary with exchange rate changes.

This contribution includes LE 59,244,000 for maintenance of LE 991,900,000 in local development program investments since FY 1980

TABLE II: LOCAL DEVELOPMENT II: TOTAL OBLIGATIONS TO DATE

(US \$ 000)

MAJOR PROJECT ELEMENT	USAID \1			GRANTEE				PROJECT TOTAL
	FX	LC	TOTAL	MOP	MOF \2	LSDF \3	TOTAL \4	
BLOCK GRANT FUND								
. URBAN	14,919	44,757	59,676	3,234	5,000	3,234	11,468	71,144
. PROVINCIAL	46,750	140,249	186,998	11,950	52,000	11,950	75,900	262,898
SUBTOTAL	61,669	185,006	246,674	15,184	57,000	15,184	87,367	334,041
PVO FUND								
. URBAN	0	8,480	8,480	0	0	424	424	8,904
. PROVINCIAL	0	19,720	19,720	0	0	986	986	20,706
SUBTOTAL	0	28,200	28,200	0	0	1,410	1,410	29,610
SPECIAL PROJECTS	4,158	12,475	16,633	0	0	832	832	17,465
MAINTENANCE FUND	0	0	0	0	106,142	0	106,142	106,142
STAFF SUPPORT								
. TECHNICAL AMANA	0	0	0	0	2,100	0	2,100	2,100
. INCENTIVE FUND	0	0	0	0	9,690	0	9,690	9,690
SUBTOTAL	0	0	0	0	11,790	0	11,790	11,790
TECHNICAL ASSISTANCE	24,627	24,627	49,253	0	0	0	0	49,253
TRAINING	1,040	2,080	3,120	0	0	0	0	3,120
EVALUATION/RESEARCH \5	1,905	1,905	3,810	0	0	0	0	3,810
PERFORMANCE DISBURSEMENT	57,000	0	57,000	0	0	0	0	57,000
CONTINGENCY	655	655	1,310	0	0	0	0	1,310
TOTAL	151,053	254,947	406,000	15,184	174,932	17,425	207,541	613,541

1/ FX= Foreign Exchange LC= Local Currency

2/ Part or all of the amount for the Maintenance Fund and Staff Support may be financed by local government as per Covenant 5.10. The MOF will, however, guarantee the availability of the entire amount.

3/ Local Services and Development Fund (LSDF) of each participating governorate.

4/ The GOE contribution is exclusively cash. No in-kind contributions are included in this budget. No local voluntary contributions are included in this budget.

5/ Includes Program management assessments and non-federal audits.

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

1. MP and Local Government contributions, in LE terms, will vary to equal 5% of the USAID contributions:

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TABLE III: LOCAL DEVELOPMENT II: TOTAL AUTHORIZATIONS TO DATE

(US \$ 000)

MAJOR PROJECT ELEMENT	USAID \1			GRANTEE				PROJECT TOTAL
	FX	LC	TOTAL	MOP	MOF \2	LSDF \3	TOTAL \4	
BLOCK GRANT FUND								
. URBAN	14,919	44,757	59,676	3,984	20,000	3,984	27,968	87,644
. PROVINCIAL	46,750	140,249	186,998	14,350	100,000	14,350	128,700	315,698
SUBTOTAL	61,669	185,006	246,674	18,334	120,000	18,334	156,668	403,342
PVO FUND								
. URBAN	0	8,480	8,480	0	0	424	424	8,904
. PROVINCIAL	0	19,720	19,720	0	0	986	986	20,706
SUBTOTAL	0	28,200	28,200	0	0	1,410	1,410	29,610
SPECIAL PROJECTS	4,158	12,475	16,633	0	0	832	832	17,465
MAINTENANCE FUND			0	0	128,147	0	128,147	128,147
STAFF SUPPORT								
. TECHNICAL AMANA	0	0	0	0	2,440	0	2,440	2,440
. INCENTIVE FUND	0	0	0	0	11,100	0	11,510	11,510
SUBTOTAL	0	0	0	0	13,950	0	13,950	13,950
TECHNICAL ASSISTANCE	28,627	28,627	57,253	0	0	0	0	57,253
TRAINING	2,373	4,747	7,120	0	0	0	0	7,120
EVALUATION/RESEARCH \5	1,905	1,905	3,810	0	0	0	0	3,810
PERFORMANCE DISBURSEMENT	120,000	0	120,000	0	0	0	0	120,000
CONTINGENCY	655	655	1,310	0	0	0	0	1,310
<b>TOTAL</b>	<b>219,387</b>	<b>261,614</b>	<b>481,000</b>	<b>18,334</b>	<b>262,097</b>	<b>20,576</b>	<b>301,007</b>	<b>782,007</b>

1/ FX= Foreign Exchange LC= Local Currency

2/ Part or all of the amount for the Maintenance Fund and Staff Support may be financed by local government as per Covenant 5.10. The MOF will, however, guarantee the availability of the entire amount.

3/ Local Services and Development Fund (LSDF) of each participating governorate.

4/ The GOE contribution is exclusively cash. No in-kind contributions are included in this budget. No local voluntary contributions are included in this budget.

5/ Includes Program management assessments and non-federal audits.

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

1. MP and Local Government contributions, in LE terms, will vary to equal 5% of the USAID contribution.

TABLE IV  
Ministry of Finance Contributions  
to FY 90 LD II Amendment

(LE MILLION)

MAJOR PROGRAM ELEMENT	86/87	87/88	88/89	89/90	90/91	91/92	TOTAL
<b>IA OPERATION &amp; MAINTENANCE</b>							
11 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	14.72	14.72	14.72	0.00	0.00	0.00	44.16
12 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	8.14	16.50	0.00	0.00	0.00	24.64
13 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	40.00	0.00	0.00	40.00
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	50.64	0.00	50.64
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	59.24	59.24
<b>SUB-TOTAL</b>	<b>14.72</b>	<b>22.86</b>	<b>31.22</b>	<b>40.00</b>	<b>50.64</b>	<b>59.24</b>	<b>218.68</b>
<b>IB. STAFF SUPPORT</b>							
<b>1- TECHNICAL AMANA</b>							
11 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	0.42	0.35	0.35	0.00	0.00	0.00	1.12
12 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	0.29	0.29	0.00	0.00	0.00	0.58
13 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	0.75	0.00	0.00	0.75
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	0.78	0.00	0.78
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	0.90	0.90
<b>SUB-TOTAL</b>	<b>0.42</b>	<b>0.64</b>	<b>0.64</b>	<b>0.75</b>	<b>0.78</b>	<b>0.90</b>	<b>4.13</b>
<b>2- INCENTIVE FUND</b>							
11 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	1.40	1.30	1.30	0.00	0.00	0.00	4.00
12 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	1.65	1.65	0.00	0.00	0.00	3.30
13 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	3.50	0.00	0.00	3.50
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	4.23	0.00	4.23
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	4.84	4.84
<b>SUB-TOTAL</b>	<b>1.40</b>	<b>2.95</b>	<b>2.95</b>	<b>3.50</b>	<b>4.23</b>	<b>4.84</b>	<b>19.87</b>
<b>TOTAL</b>							
11. 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	16.54	16.37	16.37	0.00	0.00	0.00	49.28
12. 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	10.08	18.44	0.00	0.00	0.00	28.52
13. 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	44.25	0.00	0.00	44.25
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	55.65	0.00	55.65
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	64.99	64.99
<b>GRAND TOTAL</b>	<b>16.54</b>	<b>26.45</b>	<b>34.81</b>	<b>44.25</b>	<b>55.65</b>	<b>64.99</b>	<b>242.69</b>
<b>CUMULATIVE TOTAL</b>	<b>16.54</b>	<b>42.99</b>	<b>77.80</b>	<b>122.05</b>	<b>177.70</b>	<b>242.69</b>	

## Note

- 1/ All 1985 Grant Amendment #1 figures are calculated using the LE 1.35 = \$1.00 rate.
- 2/ All 1987 Grant Amendment #2 figures are calculated using the LE 2.20 = \$1.00 rate.
- 3/ All 1988 Grant Amendment #3 figures are calculated using the LE 2.20 = \$1.00 rate.
- 4/ All 1989 Grant Amendment #4 figures are calculated using the LE 2.32 = \$1.00 rate.
- 5/ All 1990 Grant Amendment #5 figures are calculated using the LE 2.66 = \$1.00 rate.

TABLE V  
US\$ Equivalent of Ministry Finance  
Contribution to FY 90 LD II Amendment

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(US\$ MILLION)

MAJOR PROGRAM ELEMENT	86/87	87/88	88/89	89/90	90/91	91/92	TOTAL
<b>IA OPERATION &amp; MAINTENANCE</b>							
11 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	10.89	10.89	10.89	0.00	0.00	0.00	32.67
12 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	3.70	7.50	0.00	0.00	0.00	11.20
13 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	18.18	0.00	0.00	18.18
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	21.82	0.00	21.82
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	22.27	22.27
<b>SUB-TOTAL</b>	<b>10.89</b>	<b>14.59</b>	<b>18.39</b>	<b>18.18</b>	<b>21.82</b>	<b>22.27</b>	<b>106.14</b>
<b>IB STAFF SUPPORT</b>							
<b>1- TECHNICAL AMANA</b>							
11 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	0.33	0.25	0.24	0.00	0.00	0.00	0.82
12 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	0.13	0.13	0.00	0.00	0.00	0.26
13 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	0.34	0.00	0.00	0.34
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	0.34	0.00	0.34
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	0.34	0.34
<b>SUB-TOTAL</b>	<b>0.33</b>	<b>0.38</b>	<b>0.37</b>	<b>0.34</b>	<b>0.34</b>	<b>0.34</b>	<b>2.10</b>
<b>2- INCENTIVE FUND</b>							
11 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	1.04	0.96	0.96	0.00	0.00	0.00	2.96
12 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	0.75	0.75	0.00	0.00	0.00	1.50
13 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	1.59	0.00	0.00	1.59
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	1.82	0.00	1.82
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	1.82	1.82
<b>SUB-TOTAL</b>	<b>1.04</b>	<b>1.71</b>	<b>1.71</b>	<b>1.59</b>	<b>1.82</b>	<b>1.82</b>	<b>9.69</b>
<b>TOTAL</b>							
11 1985 LD II GRANT AGREEMENT+AMENDMENT # 1	12.26	12.10	12.09	0.00	0.00	0.00	36.45
12 1987 LD II GRANT AGREEMENT AMENDMENT # 2	0.00	4.58	8.38	0.00	0.00	0.00	12.96
13 1988 LD II GRANT AGREEMENT AMENDMENT # 3	0.00	0.00	0.00	20.11	0.00	0.00	20.11
14 1989 LD II GRANT AGREEMENT AMENDMENT # 4	0.00	0.00	0.00	0.00	23.98	0.00	23.98
15 1990 LD II GRANT AGREEMENT AMENDMENT # 5	0.00	0.00	0.00	0.00	0.00	24.43	24.43
<b>GRAND TOTAL</b>	<b>12.26</b>	<b>16.68</b>	<b>20.47</b>	<b>20.11</b>	<b>23.98</b>	<b>24.43</b>	<b>117.93</b>
<b>CUMULATIVE TOTAL</b>	<b>12.26</b>	<b>28.94</b>	<b>49.41</b>	<b>69.52</b>	<b>93.50</b>	<b>117.93</b>	

## Note :

- 1/ All 1985 Grant Agreement/Amendment #1 figures are calculated using the LE 1.35 = \$1.00 rate.
- 2/ All 1987 Grant Amendment #2 figures are calculated using the LE 2.20 = \$1.00 rate.
- 3/ All 1988 Grant Amendment #3 figures are calculated using the LE 2.20 = \$1.00 rate.
- 4/ All 1989 Grant Amendment #4 figures are calculated using the LE 2.32 = \$1.00 rate.
- 5/ All 1990 Grant Amendment #5 figures are calculated using the LE 2.66 = \$1.00 rate.

AUG 17

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR, BUREAU FOR  
ASIA, NEAR EAST AND EUROPE

FROM: ANE/MENA, Vivikka Mollidrem *Vivikka Mollidrem*

SUBJECT: Establishment of Trust Fund Account for Local  
Development II Project (263-0182), Egypt

Problem: Your approval is required to authorize use of a trust fund account by USAID/Cairo for deposit of host country contributions under the Local Development II Project (263-0182). According to Handbook 1, Part IV.B.1 ("Supplemental Guidance on Programming Local Currencies"), the cognizant Regional Assistant Administrator must approve the use of local currencies held by A.I.D. in a trust fund account for project activities.

Discussion: In accordance with the Bureau's commitment to move toward a program increasingly focused on sector-oriented, policy based assistance, USAID/Cairo has undertaken a revision in the design of the Local Development II Project (LD II). The Mission intends to amend the project this fiscal year via an incremental obligation of \$65 million, of which \$57 million will be provided as sector assistance and disbursed in response to policy reforms to be undertaken by the Government of Egypt (GOE).

The purpose of the LD II Project is to increase the capacity of local government entities to plan, finance, implement, and maintain locally chosen basic services projects, and to improve their capacity to mobilize local resources to sustain provision of these services. Presently there is no sector grant component to the project.

The central feature of LD II is an annually recurring planning cycle and system of decentralized local currency block grants which finance basic services projects through a combination of USAID, central GOE, and local government funds. USAID purchases local currency with project dollars for disbursement of block grant funds to local government entities. This occurs once (a) a detailed plan for use and monitoring of the block grant funds have been approved and, and (b) central and local GOE cash contributions have been placed on deposit. This arrangement has

enabled USAID to ensure full and timely disbursement of funds for block grant projects.

Under the proposed amendment, the GOE counterpart contribution will provide the major portion of local currency to finance these block grants. The GOE will provide the Egyptian pound equivalent of \$57 million sector assistance for block grants. This local currency will be provided from the CIP/cash transfer generated local currency special account.

In order to ensure continuance of USAID's ability to direct the release and distribution of local currency block grant funds, it is proposed that the GOE's host country counterpart contribution be deposited directly into a mission trust fund account. A trust fund account is the only viable mechanism by which USAID can maintain control over the timely release and equitable distribution of block grant funds to participating local government entities participating in the Local Development Program.

The supplemental guidance on programming local currency indicates that the principal concern about the use of trust fund local currencies for project activities is the potential impact of project monitoring and accountability responsibilities on mission staff. Use of the trust fund account in this instance will not result in additional burdens on mission staff, however, as disbursement of AID dollars as sector assistance does not change basic design and implementation of the local currency aspects of the project. Therefore, USAID staffing requirements will not be affected, but A.I.D. will gain additional leverage to influence sector-wide reforms. The same staff that monitored local government compliance with the conditions precedent to disbursement of block grants, and directed and oversaw the conversation of dollars to local currency, will now be utilized to monitor local government compliance with the conditions precedent to disbursement of block grants and direct grant disbursement from the trust fund account.

Handbook 1, Part IV requires that USAID, as trustee for the funds, account for and periodically report to the GOE on the use of the funds. This is presently accomplished through routine reports to the GOE, and will continue under the amended project. Reporting can thus be handled as efficiently as under procedures previously utilized.

- 3 -

Recommendation: That you approve the use of a trust fund account for local currency block grants to participating local government entities under the Local Development II Project.

Approve: Carol Adelman

Disapprove: \_\_\_\_\_

Date: 8/20/90

Attachment: Cairo i6202

Clear: ANE/DP, PDavis  
ANE/PD, RNachtrieb  
GC/ANE, JSilverstone  
A-DAA/ANE, PDavis

PD  
RM  
HSM  
PC

Draft: ANE/MENA/E:CDoggett:8/16/90:94160:X79114

**IMPLEMENTING AND FINANCING METHODS**  
**PROJECT 263-0182**  
**LOCAL DEVELOPMENT II**  
**PROJECT PAPER AMENDMENT**  
**SEPTEMBER 1990**

**USAID FINANCING ONLY**  
**NEW FUNDS ONLY**

New Funding	Implementation Method	Financing Method	Approx Cost (\$ Millions)	Contract Method	Implementing Agency
Sector Assist	AID Direct	Direct Pay	\$57	N/A	USAID
Tech Assist	AID Direct	Direct Pay	\$ 8	AID Direct	USAID

- 22 -



Handwritten notes in Arabic script, including the date 19/9/90.

ARAB REPUBLIC OF EGYPT

MINISTRY OF INTERNATIONAL COOPERATION

DEPARTMENT FOR ECONOMIC COOPERATION

WITH U. S. A

00755

AIDIR  
FM  
DR

Mr. Charles F. Weden  
Acting Director  
USAID/Cairo

DESIGN TO	PBS	DATE	9/18
DESIGN TAKEN		DATE	9/18
DATE		DATE	

Dear Mr. Weden:

This is to request A.I.D. funding in the amount of \$481 million for the Local Development II project (263-0182). Of this amount \$65 million is proposed for obligation in FY 90.

The Government of Egypt (GOE) contribution to this project totals 301.007 million Egyptian Pounds.

This project will improve the capacity of local government to plan, implement and maintain locally chosen basic services projects and to improve their capacity to mobilize local resources to sustain the provision of services, through both the public and private sectors.

Sincerely yours,

*Handwritten signature of Dr. Hassan Selim*

Dr. Hassan Selim  
Administrator.

received C&R  
9/18/90  
SUZAN  
32-