

No. 18845

**UNITED STATES OF AMERICA
and
EGYPT**

**Project Grant Agreement for development decentralization
(with annexes). Signed at Cairo on 29 May 1978**

Authentic text: English.

Registered by the United States of America on 30 May 1980.

**ÉTATS-UNIS D'AMÉRIQUE
et
ÉGYPTE**

**Accord de don pour un projet visant à favoriser la décen-
tralisation (avec annexes). Signé au Caire le 29 mai 1978**

Texte authentique : anglais.

Enregistré par les États-Unis d'Amérique le 30 mai 1980.

PROJECT GRANT AGREEMENT¹ BETWEEN THE ARAB REPUBLIC OF EGYPT AND THE UNITED STATES OF AMERICA FOR DEVELOPMENT DECENTRALIZATION I

Dated: May 29, 1978

A.I.D. Project Number 263-0021

TABLE OF CONTENTS

PROJECT GRANT AGREEMENT

Article 1. The Agreement	Section 6.2. Local currency costs
Article 2. The Project	Article 7. Disbursement
Section 2.1. Definition of Project	Section 7.1. Disbursement for foreign exchange costs
Section 2.2. Incremental nature of Project	Section 7.2. Disbursement for local currency costs
Article 3. Financing	Section 7.3. Other forms of disbursement
Section 3.1. The Grant	Article 8. Miscellaneous
Section 3.2. Grantee resources for the Project	Section 8.1. Communications
Section 3.3. Project assistance completion date	Section 8.2. Representatives
Article 4. Conditions precedent to disbursement	Section 8.3. Standard Provisions Annex
Section 4.1. Initial disbursement	Annex I. Project Description
Section 4.2. Additional disbursement	Attachment. Project Budget
Section 4.3. Notification	Annex II. Objectives — policies for the Local Development Fund (LDF)
Section 4.4. Terminal date for conditions precedent	Annex III. Project Grant Standard Provisions Annex ²
Article 5. Special covenants	
Section 5.1. Project evaluation	
Article 6. Procurement source	
Section 6.1. Foreign exchange costs	

A.I.D. PROJECT No. 263-0021

PROJECT GRANT AGREEMENT dated May 29, 1978, between the ARAB REPUBLIC OF EGYPT (“Grantee”) and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT (“A.I.D.”).

Article 1. THE AGREEMENT

The purpose of this Agreement is to set out the understandings of the Parties named above (“Parties”) with respect to the financing of the Project by the Parties.

Article 2. THE PROJECT

Section 2.1. DEFINITION OF PROJECT. The Project, which is further described in annexes I and II, will assist the Grantee to develop financial viability and developmental capability of local administrations in order to further the decentralization process enun-

¹ Came into force on 29 May 1978 by signature.

² For the text of the annex, see “Project Grant Agreement between the United States of America and the Arab Republic of Egypt for applied science and technology research, signed at Cairo on 29 March 1977” in United Nations, *Treaty Series*, vol. 1116, p. 97.

ciated in 1975 by Egypt's Public Law 52. The Project will consist of the following components:

- a) Establishment of a Local Development Fund (LDF) within the Organization for Reconstruction and Development of the Egyptian Village (ORDEV) which will loan money to village councils for income-producing projects; the income produced will be used to augment the "account for local services and development," which was authorized in Law 52 for village councils to use for autonomously determined purposes;
- b) Establishment of an ORDEV Training Academy which will provide training for local ORDEV personnel, governorate, village council and executive committee personnel;
- c) Participant training for ORDEV, governorate, village council and executive committee personnel in the United States and third countries in Asia, Africa and Latin America;
- d) Evaluation and analysis of LDF operations, impact on the recipient villages of projects funded from the LDF, and the operations of the ORDEV Academy.

Annex I, attached, amplifies the above description of the Project and annex II, attached, describes the policies and objectives of the LDF. Within the limits of the above definition of the project, elements of annex I and annex II may be changed by written agreement of the authorized representatives of the Parties named in section 8.2 without formal amendment of this Agreement.

Section 2.2. INCREMENTAL NATURE OF PROJECT. a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

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

Article 3. FINANCING

Section 3.1. THE GRANT. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed one million four hundred thousand United States dollars (\$1,400,000) and one hundred twenty-five thousand Egyptian pounds (L.E. 125,000). The Grant may be used to finance foreign exchange costs, as defined in section 6.1, and local currency costs, as defined in section 6.2, of goods and services required for the Project, except that, unless the Parties otherwise agree in writing, local currency costs financed under the Grant will not exceed the Egyptian pound portion of the Grant, plus the Egyptian pound equivalent of five hundred eighty thousand dollars (\$580,000) purchased per attachment to annex I.

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

b) The resources provided by Grantee for the Project will be not less than two hundred seventy-four thousand Egyptian pounds (L.E. 274,000) in support of training, construction of the ORDEV Academy, operational costs of the ORDEV field staff associated with LDF-related operations and special costs associated with foreign advisory technical assistance. In addition, the ARE will provide at least two million five hundred thousand Egyptian pounds (L.E. 2,500,000) to ORDEV for grants to village councils for physical, social and economical projects.

Section 3.3. PROJECT ASSISTANCE COMPLETION DATE. a) The “Project assistance completion date” (PACD), which is January 31, 1982, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 4.1. INITIAL DISBURSEMENT. Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- a) A statement of the name of the persons holding or acting in the offices of the Grantee specified in section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;
- b) Such other documentation as A.I.D. may require.

Section 4.2. ADDITIONAL DISBURSEMENT. Capitalization of the Local Development Fund. Prior to any disbursement under the Grant for the establishment of the Local Development Fund (LDF) or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for the LDF, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- a) Evidence of the establishment of the Board of Directors for the LDF;
- b) The detailed procedures for the operation of the LDF established by the Board of Directors of the LDF;
- c) The procedures which will govern the selection of villages to participate in the LDF program;
- d) The detailed audit system and schedule developed by ORDEV to audit the financial accounts established under the LDF at the village level;
- e) Evidence of the establishment of the Loan Committee for the LDF;
- f) The written agreement by ORDEV, through the Board of Directors and the Loan Committee of LDF, to adhere to the A.I.D. requirement that all commodities procured for projects undertaken by village councils utilizing loans from the LDF will have as their source the Arab Republic of Egypt and will not have their origin in countries ineligible under A.I.D. Geographic Code 935;
- g) Such other documentation as A.I.D. may require.

Section 4.3. NOTIFICATION. When A.I.D. has determined that the conditions precedent specified in sections 4.1 and 4.2 have been met it will promptly notify the Grantee.

Section 4.4. TERMINAL DATE FOR CONDITIONS PRECEDENT. If all of the conditions specified in sections 4.1 and 4.2 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

Article 5. SPECIAL COVENANTS

Section 5.1. PROJECT EVALUATION. The Parties agree to establish an evaluation program as part of the Project. Except as the parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

- a) Evaluation of progress toward attainment of the objectives of the Project;
- b) Identification and evaluation of problem areas of constraints which may inhibit such attainment;
- c) Assessment of how such information may be used to help overcome such problems; and
- d) Evaluation, to the degree feasible, of the overall development impact of the Project.

Article 6. PROCUREMENT SOURCE

Section 6.1. FOREIGN EXCHANGE COSTS. Disbursements pursuant to section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) or in the Arab Republic of Egypt ("foreign exchange costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, section C.1 (b) with respect to marine insurance.

Section 6.2. LOCAL CURRENCY COSTS. a) Except as A.I.D. may otherwise agree in writing, disbursements pursuant to section 7.2 from U.S.-owned Egyptian pounds and, subject to subsection (b) below, disbursements from funds made available from the Egyptian pounds purchased with United States dollars will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the Arab Republic of Egypt.

b) Funds made available from the LDF shall be available for the purchase of goods, including motor vehicles, and services having as their source only the Arab Republic of Egypt. The provisions of this subsection (b) with regard to goods shall apply only to shelf items as specified by A.I.D. regulations.

Article 7. DISBURSEMENT

Section 7.1. DISBURSEMENT FOR FOREIGN EXCHANGE COSTS. a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the grant for the foreign exchange costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon;

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

more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

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

Section 7.2. DISBURSEMENT FOR LOCAL CURRENCY COSTS. a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for local currency costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project implementation letters, requests to finance such costs.

b) The local currency needed for such disbursements may be obtained by acquisition by A.I.D. with U.S. dollars by purchase or from local currency already owned by the U.S. Government.

Section 7.3. OTHER FORMS OF DISBURSEMENT. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

Article 8. MISCELLANEOUS

Section 8.1. COMMUNICATIONS. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Mail address:

Ministry of Local Government
Sharia Hussein Hegazi

Alternate address for cables:

Ministry of Local Government
Sharia Hussein Hegazi

To A.I.D.:

Mail address:

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

Alternate address for cables:

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

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

Section 8.2. REPRESENTATIVES. For all purposes relevant to this Agreement, the Grantee will be represented by the individuals holding or acting in the offices of *a)* Minister of Local Government, *b)* Deputy Minister of Local Government and Chairman of ORDEV and *c)* Under-Secretary and Director General of ORDEV, and A.I.D. will be represented by the individual holding or acting in the office of Director, U.S.A.I.D., Cairo, Egypt, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under section 2.1 to revise elements of the amplified description in annexes I and II. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly

authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 8.3. STANDARD PROVISIONS ANNEX. A "Project Grant Standard Provisions Annex" (annex III) is attached to and forms part of this Agreement.

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

Arab Republic of Egypt:
 By: [Signed]
 Name: MOHAMED HAMID MAHMOUD
 Title: Minister of Local Government

United States of America:
 By: [Signed]
 Name: DONALD S. BROWN
 Title: Director, U.S.A.I.D.

By: [Signed]
 Name: LABIB MOHAMED ZAMZAM
 Title: Deputy Minister of Local Government and Chairman of ORDEV

ANNEX I

PROJECT DESCRIPTION

This project aims to increase the autonomous revenues of village councils throughout Egypt in order to help develop financial viability and developmental capability of local administrations.

The decentralization process has its roots in the agrarian reform measures enacted 25 years ago in 1952. The following decade saw the introduction at the village level of social welfare, cooperatives and, finally, municipal government. In 1971 President Sadat reaffirmed and enunciated the determination of the Government of Egypt to bring change and modernization to the Egyptian village. Subsequently, in 1973, a special group was created within the Ministry of Local Government known as the Organization for Reconstruction and Development of the Egyptian Village (ORDEV). ORDEV was charged with planning and implementation of economic and social development of rural villages. In 1975, Public Law 52, the "Decentralization Law", was passed.

Under Public Law 52 each unit of local government — governorate, town, metropolitan district and village — is governed by a body of popularly elected members, known as the Representative Council (RC). In addition, a Head Executive Officer (HEO) is appointed for each level of government. HEOs have authority over local Executive Committees, which are composed of the representatives of line (technical) ministries. This project addresses filling basic village needs through programs adopted by elected councils working in coordination with village executive committees, the district and the governorate administrative structure.

The project aims at augmenting the revenues of village councils by strengthening the "account for local services and development". This "special account" was the first authorized in Law 52 and allows village councils to use funds collected and generated in the villages for autonomously determined purposes. Under this project a Local Development Fund (LDF) will be set up within ORDEV. It will be capitalized, initially, by AID. The LDF will loan money to village councils for income-producing projects. The income produced will be used to augment this special fund. The LDF will be governed by an Egyptian Board of Directors, and its operations will be executed by a Loan Committee. The Board will be composed of representatives from ORDEV, the governorate, district and village levels and the Ministry of Finance. The Loan Committee will be composed of ORDEV officials. The LDF will lend money to village councils for income-producing projects at 6 percent interest over a seven-year period with two years' grace period during which interest will be paid at 4 percent. Beginning with the third year, principal and interest payments will be made

in quarterly installments. Loans which have not had any disbursements during the first 90 days of the loan period will be cancelled and the funds returned to LDF. Loan payments may be in arrears for one quarter, after which measures will be taken to ascertain the causes and remedy them where possible.

Loan applications for projects showing the greatest possibility of profit will be given preference. Village councils will be urged to contribute a portion of their own funds to projects. The LDF will attempt to spread loans over a wide region of the country, taking into consideration regional and national development plans.

To assist in the effective implementation of the LDF, training will be provided for ORDEV, governorate and village council personnel. Key ORDEV personnel will be trained in the U.S., some for a full academic year, others for terms of around four months. Training will focus on managerial skills including financial management and reporting, auditing, project analysis and evaluation, public administration and rural development. In addition to training in the United States, there will also be observation tours in appropriate third countries in Africa, Latin America and Asia.

ORDEV will also receive assistance for its own Training Academy on which construction has already begun. This will take the form of technical assistance, provision of materials and equipment and special programs. The ORDEV Training Academy is expected eventually to be able to provide necessary training for local ORDEV personnel, governorate and village council and executive committee personnel.

Evaluation, monitoring and auditing of the LDF will be conducted by U.S. and Egyptian personnel. It will aim at identifying and remedying problems associated with LDF operations, establishing adequate audit provisions, improving and strengthening the ORDEV Academy, and analyzing the impact of the projects in the villages which benefit from the program.

ORDEV, headed by the Deputy Minister and Chairman of ORDEV, and supervised by the Minister of Local Government, will be the responsible entity for implementing the project. The Undersecretary of State and General Director of ORDEV will be the responsible official. The LDF will be governed by a Board of Directors and administered by a loan committee. The project manager within USAID will be the Assistant General Development Officer, assisted by a project committee drawn from various technical officers.

Long-term technical assistance will be provided by a Senior Technical Project Manager who should be a senior development economist, financial analysts under PASA, and by two technicians, one of whom should be experienced in small-scale production enterprises in developing countries. The Senior Technical Project Manager will serve for four years, and the two technicians for three years each. In addition, short-term consultants will be provided as necessary.

The Government of Egypt, through ORDEV, will provide the costs of construction of the ORDEV Training Academy; the costs of ORDEV training staff and other ORDEV training activities; the costs of ORDEV staff working in Cairo and at the governorate and district levels in activities related to the Local Development Fund operations; and backup costs associated with support of the various technical assistance personnel who will be working on the project. The Government of Egypt also will continue to provide funds to ORDEV annually for grants to village councils.

AID will provide the initial capital for the Local Development Fund; technical assistance, consisting of three long-term advisors and several short-term consultants; training for ORDEV officials, and elected and appointed personnel at the governorate and village levels; equipment and commodities for the ORDEV Academy and for support of the Local Development Fund operations; and funds for evaluation and applied research.

The project purpose is "to strengthen the financial viability and development capability of selected village councils". USAID and ORDEV expect certain conditions to exist at the end of the five-year planned implementation period that will indicate that the purpose has been achieved.

First, a Local Development Fund will have been established, staffed and initially capitalized by USAID grant funds with ORDEV.

Second, technical assistance capacity will be under development within ORDEV designed to provide advice on economic analysis, financial management, programming and small industries to ORDEV and village councils.

Third, loans, simplified operational procedures, loan project evaluation criteria and accounting, financial reporting, program analysis, performance budgeting, organizational and management systems will have been designed and applied, through the LDF, to at least 300 village councils during the five years of project life.

Fourth, training programs will have been planned and tested and be under way both at the ORDEV Academy and in the field for selected ORDEV officials at the Cairo, governorate and district levels, and for governorate and village-elected and executive personnel.

In addition to the above, which represent direct results of project operations, it is anticipated that two major evaluations will have been undertaken and completed, one at the midway point of the project and one at the end of the five-year period.

ANNEX 1. ATTACHMENT

PROJECT FINANCIAL PLAN, PROJECT NO. 263-0021
(*\$000 or LE000*)

<i>Project inputs</i>	<i>Cumulative obligations/ commitments as of May 31, 1978</i>						<i>Future year anticipated</i>			<i>Totals</i>		
	<i>AID</i>		<i>GOE</i>	<i>AID</i>		<i>GOE</i>	<i>AID</i>		<i>GOE</i>			
	<i>(\$)</i>	<i>(LE¹)</i>	<i>(LE)</i>	<i>(\$)</i>	<i>(LE¹)</i>	<i>(LE)</i>	<i>(\$)</i>	<i>(LE¹)</i>	<i>(LE)</i>			
1. Project management/training	692	114	—	2,141	345	—	2,833	459	—			
2. Commodities	70	—	274	282	—	1,426	352	—	1,700			
3. Local Development Fund	500	—	—	4,500	—	—	5,000	—	—			
4. Research and evaluation	25	—	—	275	—	—	300	—	—			
5. Contingency	113	11	—	562	72	—	675	83	—			
TOTAL	1,400²	125	274	7,760³	417	1,426	9,160⁴	542	1,700			

¹ U.S.-owned Egyptian pounds² Includes \$580,000 for purchase of LE 406,000, broken down as follows: \$500,000 as capitalization for the Local Development Fund and \$80,000 for evaluation and training.³ Includes \$4,865,000 for purchase of LE 3,405,000 broken down as follows: \$4,500,000 for capitalization of Local Development Fund and \$365,000 for evaluation and training.⁴ Includes \$5,445,000 for purchase of LE 3,811,000, broken down as follows: \$5,000,000 for capitalization of Local Development Fund and \$445,000 for evaluation and training.

ANNEX II

OBJECTIVES — POLICIES FOR THE LOCAL DEVELOPMENT FUND (LDF)

I. *Objectives*

The establishment of a "Local Development Fund" (LDF) as an entity within the Organization for Reconstruction and Development of Egyptian Villages (ORDEV) has the objective of increasing the funds available to village councils for discretionary spending on local development projects. To that end, the LDF will use funds available from AID and possibly from other sources for loans to Village Councils for the purpose of investment in revenue-producing projects, the profits of which will flow into the "special accounts" maintained by village councils for their discretionary use.

II. *Lending policies*

Policies governing LDF operations will be established by the LDF Board (see IV below); the policies are expected to incorporate the following principles which have been developed with ORDEV:

1. *Eligibility for loans.* All legally established village councils are eligible to apply for loans.
2. *Loan applications.* Any village council wishing to obtain a loan from the LDF will submit a loan application, in accordance with procedures to be established by the LDF Board, showing the amount and purpose of the loan and such other information which the LDF Board may decide upon as necessary for an LDF appraisal.
3. *Purposes of loans.* Loans will be made by LDF only if their purpose is an investment by the village council in a revenue-producing project. Village councils may establish joint ventures with individuals, but village councils will be the borrower and be solely responsible for repayment of the borrowed funds to the LDF. Loans will be made for the acquisition of fixed and moveable assets and may include an amount for working capital needed during the first two years of operations.
4. *Appraisal of loans.* Projects which village councils propose for financing by the LDF will be appraised by the LDF; the following factors will be considered by the LDF in its appraisal:
 - (a) *Profitability.* Projects should offer prospects of earning a reasonable profit within a short period after the start of operations;
 - (b) *Credit worthiness of applicant.* To the extent possible, LDF should assess the record established by the applying village council in meeting its financial obligations;
 - (c) *Financial contributions by applicant.* Village councils should be encouraged to contribute a percentage of project costs from their own resources; the inability of a Council to make such contribution should not, however, be considered a reason for rejecting an application if a project meets other criteria;
 - (d) *Security.* To minimize losses, the LDF should, where desirable, obtain security for its loans in the form of a lien on project assets or in other forms; the lack of desirable assets should, however, not be considered reason for rejecting an application if a project meets other criteria; in addition, the LDF should take into account (i) possible delays in project execution and the administrative workload caused by the establishment of liens and (ii) the likely value of assets in liquidation.
5. *Loan terms.* Unless the LDF Board authorizes exceptions in specific cases, loans should be made for a period of no more than seven years, including a grace period of no more than two years, at an interest rate of not less than 4 percent per annum during the grace period and not less than 6 percent per annum thereafter. Interest accruing during the period before the start of operations may be capitalized if the circumstances justify it.

6. *Maximum amount of loans.* Unless the LDF Board authorizes exceptions in specific cases, no loan made shall exceed LE 15,000, exclusive of capitalized interest, if any.

7. *Geographic distribution of loans.* To the extent the LDF Board considers it advisable, it shall establish guidelines for the distribution of LDF loans among the different governorates, other administrative units, or groups of such units.

8. *Reports from borrowers.* The LDF Board shall require from its borrowers periodic reports which reflect the use of funds disbursed by the LDF and the physical state of project implementation. The LDF Board will establish procedures and reporting formats designed to provide the LDF with the minimum volume of information which it needs to monitor its loans and the projects financed and which impose the least burden on its borrowers.

III. *LDF operational principles*

1. *Use of interest income.* LDF shall use its interest income, first, to cover its own operating expenses, such as the cost of its staff, offices, communications and the like; and, second, to increase the funds available for loans.

2. *Loss reserve.* The LDF shall establish a reserve for losses in amounts judged by the LDF Board to be commensurate with the risks incurred in its lending operations and revised from time to time on the basis of experience.

3. *Accounting.* The LDF will establish a system of financial accounting, recording and reporting adequate to meet its needs for accurate and timely information on its operations including, but not limited to, on the identity of borrowers; the amounts authorized and disbursed for each loan; the amount of interest capitalized, if any; interest due and interest paid; repayments made; delinquencies and losses; the volume of applications received; number of applications approved and disapproved and other relevant information.

4. *Funding.* The LDF shall examine from time to time the rate at which loans are authorized and disbursed in order to ascertain requirements for funds in addition to those initially provided by AID. To that end the LDF Board will, at the earliest possible time, establish procedures for protecting its cash position and the anticipated volume of loans at least one year in advance. The LDF shall then consult with ORDEV and other interested agencies on possible sources of additional funds and take all steps within its power to secure the funds needed for continued operation.

5. *Policy review.* The LDF Board will review its lending and operational policies at least annually, and make such revisions as appear necessary. In particular, the Board will review its loan terms and adjust its interest rate as desirable in the light of rates charged by other lending institutions and other sources of funds in Egypt.

IV. *Proposed organization of the Local Development Fund*

1. The LDF will be an operating entity within the Organization for Reconstruction and Development of Egyptian Villages (ORDEV).

2. There shall be a Board of Directors headed by the Deputy Minister for Local Government and Chairman of ORDEV. The Board will be composed of the Undersecretary of State and General Director of ORDEV, representatives of governorates, district and village levels and the Ministry of Finance. The Deputy Minister for Local Government and Chairman of ORDEV shall appoint two General Secretaries of Governorates, two Chairmen of District Councils and two Chairmen of Village Councils. Of these six appointed members, three shall be from Governorates in Upper Egypt and three from Governorates in Lower Egypt. Each of the six shall be from a different Governorate and each shall serve for a one-year term. The Deputy Minister for Local Government and Chairman of ORDEV shall nominate a representative from the Ministry of Finance with the approval of the Minister of Finance. The Board of Directors shall have the responsibility of setting lending policy and establishing operating and financial procedures.

3. There shall be a Loan Committee composed of three (3) General Directors of ORDEV Departments appointed by the Board of Directors. In addition, the Undersecretary of State and General Director of ORDEV shall be a member of the Committee and serve as its chairman. The Committee is charged with approving and such other responsibilities as the Board may assign to it. The Loan Committee shall prepare quarterly financial reports and submit these to the LDF Board of Directors for review.

4. The Head of the ORDEV Department in each Governorate and his staff shall assist Village Councils in the preparation and implementation of projects.
