

No. 19690

**UNITED STATES OF AMERICA
and
EGYPT**

**Agreement for sales of agricultural commodities (with
annexes). Signed at Cairo on 20 March 1979**

Authentic text: English.

Registered by the United States of America on 27 March 1981.

**ÉTATS-UNIS D'AMÉRIQUE
et
ÉGYPTE**

**Accord relatif à la vente de produits agricoles (avec annexes).
Signé au Caire le 20 mars 1979**

Texte authentique : anglais.

Enregistré par les États-Unis d'Amérique le 27 mars 1981.

AGREEMENT¹ BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT FOR SALES OF AGRICULTURAL COMMODITIES

The Government of the United States of America and the Government of the Arab Republic of Egypt,

Recognizing the desirability of expanding trade in agricultural commodities between the United States of America (hereinafter referred to as the exporting country) and the Arab Republic of Egypt (hereinafter referred to as the importing country) and with other friendly countries in a manner that will not displace usual marketings of the exporting country in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with friendly countries;

Taking into account the importance to developing countries of their efforts to help themselves toward a greater degree of self-reliance, including efforts to meet their problems of food production and population growth;

Recognizing the policy of the exporting country to use its agricultural productivity to combat hunger and malnutrition in the developing countries, to encourage these countries to improve their own agricultural production, and to assist them in their economic development;

Recognizing the determination of the importing country to improve its own production, storage, and distribution of agricultural food products, including the reduction of waste in all stages of food handling;

Desiring to set forth the understandings that will govern the sales of agricultural commodities to the importing country pursuant to Title I of the Agricultural Trade Development and Assistance Act, as amended (hereinafter referred to as the Act), and the measures that the two Governments will take individually and collectively in furthering the above-mentioned policies;

Have agreed as follows:

PART I. GENERAL PROVISIONS

Article I

A. The Government of the exporting country undertakes to finance the sale of agricultural commodities to purchasers authorized by the Government of the importing country in accordance with the terms and conditions set forth in this agreement.

B. The financing of the agricultural commodities listed in part II of this agreement will be subject to:

1. The issuance by the Government of the exporting country of purchase authorizations and their acceptance by the Government of the importing country; and

¹ Came into force on 20 March 1979 by signature, in accordance with part III (A).

2. The availability of the specified commodities at the time of exportation.

C. Application for purchase authorizations will be made within 90 days after the effective date of this agreement, and, with respect to any additional commodities or amounts of commodities provided for in any supplementary agreement, within 90 days after the effective date of such supplementary agreement. Purchase authorizations shall include provisions relating to the sale and delivery of such commodities, and other relevant matters.

D. Except as may be authorized by the Government of the exporting country, all deliveries of commodities sold under this agreement shall be made within the supply periods specified in the commodity table in part II.

E. The value of the total quantity of each commodity covered by the purchase authorizations for a specified type of financing authorized under this agreement shall not exceed the maximum export market value specified for that commodity and type of financing in part II. The Government of the exporting country may limit the total value of each commodity to be covered by purchase authorizations for a specified type of financing as price declines or other marketing factors may require, so that the quantities of such commodity sold under a specified type of financing will not substantially exceed the applicable approximate maximum quantity specified in part II.

F. The Government of the exporting country shall bear the ocean freight differential for commodities the Government of the exporting country requires to be transported in United States flag vessels (approximately 50 percent by weight of the commodities sold under the agreement). The ocean freight differential is deemed to be the amount, as determined by the Government of the exporting country, by which the cost of ocean transportation is higher (than would otherwise be the case) by reason of the requirement that the commodities be transported in United States flag vessels. The Government of the importing country shall have no obligation to reimburse the Government of the exporting country for the ocean freight differential borne by the Government of the exporting country.

G. Promptly after contracting for United States flag shipping space to be used for commodities required to be transported in United States flag vessels, and in any event not later than presentation of vessel for loading, the Government of the importing country or the purchasers authorized by it shall open a letter of credit, in United States dollars, for the estimated cost of ocean transportation for such commodities.

H. The financing, sale, and delivery of commodities under this agreement may be terminated by either Government if that Government determines that because of changed conditions the continuation of such financing, sale, or delivery is unnecessary or undesirable.

Article II

A. Initial payment

The Government of the importing country shall pay, or cause to be paid, such initial payment as may be specified in part II of this agreement. The amount of this payment shall be that portion of the purchase price (excluding any ocean transportation costs that may be included therein) equal to the percentage specified

for initial payment in part II and payment shall be made in United States dollars in accordance with the applicable purchase authorization.

B. Currency use payment

The Government of the importing country shall pay, or cause to be paid, upon demand by the Government of the exporting country in amounts as it may determine, but in any event no later than one year after the final disbursement by the Commodity Credit Corporation under this agreement, or the end of the supply period, whichever is later, such payment as may be specified in part II of this agreement pursuant to section 103(b) of the Act (hereinafter referred to as the Currency Use Payment). The currency use payment shall be that portion of the amount financed by the exporting country equal to the percentage specified for currency use payment in part II. Payment shall be made in accordance with paragraph H and for purposes specified in subsection 104(a), (b), (e) and (h) of the act, as set forth in part II of this agreement. Such payment shall be credited against (a) the amount of each year's interest payment due during the period prior to the due date of the first installment payment, starting with the first year, plus (b) the combined payments of principal and interest starting with the first installment payment, until the value of the currency use payment has been offset. Unless otherwise specified in part II, no requests for payment will be made by the Government of the exporting country prior to the first disbursement by the Commodity Credit Corporation of the exporting country under this agreement.

C. Type of financing

Sales of the commodities specified in part II shall be financed in accordance with the type of financing indicated therein. Special provisions relating to the sale are also set forth in part II.

D. Credit provisions

1. With respect to commodities delivered in each calendar year under this agreement, the principal of the credit (hereinafter referred to as principal) will consist of the dollar amount disbursed by the Government of the exporting country for the commodities (not including any ocean transportation costs) less any portion of the initial payment payable to the Government of the exporting country.

The principal shall be paid in accordance with the payment schedule in part II of this agreement. The first installment payment shall be due and payable on the date specified in part II of this agreement. Subsequent installment payments shall be due and payable at intervals of one year thereafter. Any payment of principal may be made prior to its due date.

2. Interest on the unpaid balance of the principal due the Government of the exporting country for the commodities delivered in each calendar year shall be paid as follows:

a. In the case of dollar credit, interest shall begin to accrue on the date of last delivery of these commodities in each calendar year. Interest shall be paid not later than the due date of each installment payment of principal, except that if the date of the first installment is more than a year after such date of last delivery, the first payment of interest shall be made not later than the anniversary date of such date of last delivery and thereafter payment of interest shall be made annually and not later than the due date of each installment payment of principal.

b. In the case of convertible local currency credit, interest shall begin to accrue on the date of dollar disbursement by the Government of the exporting country. Such interest shall be paid annually beginning one year after the date of last delivery of commodities in each calendar year, except that if the installment payments for these commodities are not due on some anniversary of such date of last delivery, any such interest accrued on the due date of the first installment payment shall be due on the same date as the first installment and thereafter such interest shall be paid on the due dates of the subsequent installment payments.

3. For the period of time from the date the interest begins to the due date for the first installment payment, the interest shall be computed at the initial interest rate specified in part II of this agreement. Thereafter, the interest shall be computed at the continuing interest rate specified in part II of this agreement.

E. Deposit of payments

The Government of the importing country shall make, or cause to be made, payments to the Government of the exporting country in the currencies, amounts, and at the exchange rates provided for in this agreement as follows:

1. Dollar payments shall be remitted to the Treasurer, Commodity Credit Corporation, United States Department of Agriculture, Washington, D.C. 20250, unless another method of payment is agreed upon by the two governments.
2. Payments in the local currency of the importing country (hereinafter referred to as local currency), shall be deposited to the account of the Government of the United States of America in interest bearing accounts in banks selected by the Government of the United States of America in the importing country.

F. Sales proceeds

The total amount of the proceeds accruing to the importing country from the sale of commodities financed under this agreement, to be applied to the economic development purposes set forth in part II of this agreement, shall be not less than the local currency equivalent of the dollar disbursement by the government of the exporting country in connection with the financing of the commodities (other than the ocean freight differential), provided, however, that the sales proceeds to be so applied shall be reduced by the currency use payment, if any, made by the government of the importing country. The exchange rate to be used in calculating this local currency equivalent shall be the rate at which the central monetary authority of the importing country, or its authorized agent, sells foreign exchange for local currency in connection with the commercial import of the same commodities. Any such accrued proceeds that are loaned by the government of the importing country to private or non-governmental organizations shall be loaned at rates of interest approximately equivalent to those charged for comparable loans in the importing country. The government of the importing country shall furnish, in accordance with its fiscal year budget reporting procedure, at such times as may be requested by the government of the exporting country but not less often than annually, a report of the receipt and expenditure of the proceeds, certified by the appropriate audit authority of the government of the importing country, and in case of expenditures the budget sector in which they were used.

G. *Computations*

The computation of the initial payment, currency use payment and all payments of principal and interest under this agreement shall be made in United States dollars.

H. *Payments*

All payments shall be in United States dollars or, if the Government of the exporting country so elects,

1. The payments shall be made in readily convertible currencies of third countries at a mutually agreed rate of exchange and shall be used by the government of the exporting country for payment of its obligations or, in the case of currency use payments, used for the purposes set forth in part II of this agreement; or
2. The payments shall be made in local currency at the applicable exchange rate specified in part I, article III, G of this agreement in effect on the date of payment and shall, at the option of the Government of the exporting country, be converted to United States dollars at the same rate, or used by the Government of the exporting country for payment of its obligations or, in the case of currency use payments, used for the purposes set forth in part II of this agreement in the importing country.

Article III

A. *World trade*

The two Governments shall take maximum precautions to assure that sales of agricultural commodities pursuant to this agreement will not displace usual marketings of the exporting country in these commodities or unduly disrupt world prices of agricultural commodities or normal patterns of commercial trade with countries the Government of the exporting country considers to be friendly to it (referred to in this agreement as friendly countries). In implementing this provision the Government of the importing country shall:

1. Insure that total imports from the exporting country and other friendly countries into the importing country paid for with the resources of the importing country will equal at least the quantities of agricultural commodities as may be specified in the usual marketing table set forth in part II during each import period specified in the table and during each subsequent comparable period in which commodities financed under this agreement are being delivered. The imports of commodities to satisfy these usual marketing requirements for each import period shall be in addition to purchases financed under this agreement.
2. Take steps to assure that the exporting country obtains a fair share of any increase in commercial purchases of agricultural commodities by the importing country.
3. Take all possible measures to prevent the resale, diversion in transit, or transshipment to other countries or the use for other than domestic purposes of the agricultural commodities purchased pursuant to this agreement (except where such resale, diversion in transit, transshipment or use is specifically approved by the Government of the United States of America); and

4. Take all possible measures to prevent the export of any commodity of either domestic or foreign origin, which is defined in part II of this agreement, during the export limitation period specified in the export limitation table in part II (except as may be specified in part II or where such export is otherwise specifically approved by the Government of the United States of America.)

B. Private trade

In carrying out the provisions of this agreement, the two Governments shall seek to assure conditions of commerce permitting private traders to function effectively.

C. Self-help

Part II describes the program the Government of the importing country is undertaking to improve its production, storage, and distribution of agricultural commodities. The Government of the importing country shall furnish in such form and at such time as may be requested by the Government of the exporting country, a statement of the progress the Government of the importing country is making in carrying out such self-help measures.

D. Reporting

In addition to any other reports agreed upon by the two governments, the Government of the importing country shall furnish at least quarterly for the supply period specified in part II, item I of this agreement and any subsequent comparable period during which commodities purchased under this agreement are being imported or utilized.

1. The following information in connection with each shipment of commodities under the agreement: the name of each vessel; the date of arrival; the port of arrival; the commodity and quantity received; and the condition in which received.
2. A statement by it showing the progress made toward fulfilling the usual marketing requirements;
3. A statement of the measures it has taken to implement the provisions of sections A 2 and 3 of this article; and
4. Statistical data on imports by country of origin and exports by country of destination, of commodities which are the same as or like those imported under the agreement.

E. Procedures for reconciliation and adjustment of accounts

The two Governments shall each establish appropriate procedures to facilitate the reconciliation of their respective records on the amounts financed with respect to the commodities delivered during each calendar year. The Commodity Credit Corporation of the exporting country and the Government of the importing country may make such adjustments in the credit accounts as they mutually decide are appropriate.

F. Definitions

For the purposes of this agreement:

1. Delivery shall be deemed to have occurred as of the on-board date shown in the ocean bill of lading which has been signed or initialed on behalf of the carrier,

2. Import shall be deemed to have occurred when the commodity has entered the country, and passed through customs, if any, of the importing country, and
3. Utilization shall be deemed to have occurred when the commodity is sold to the trade within the importing country without restriction on its use within the country or otherwise distributed to the consumer within the country.

G. *Applicable exchange rate*

For the purposes of this agreement, the applicable exchange rate for determining the amount of any local currency to be paid to the Government of the exporting country shall be a rate in effect on the date of payment by the importing country which is not less favorable to the Government of the exporting country than the highest exchange rate legally obtainable in the importing country and which is not less favorable to the Government of the exporting country than the highest exchange rate obtainable by any other nation. With respect to local currency:

1. As long as a unitary exchange rate system is maintained by the Government of the importing country, the applicable exchange rate will be the rate at which the central monetary authority of the importing country, or its authorized agent, sells foreign exchange for local currency.
2. If a unitary rate system is not maintained, the applicable rate will be the rate (as mutually agreed by the two Governments) that fulfills the requirements of the first sentence of this section G.

H. *Consultation*

The two Governments shall, upon request of either of them, consult regarding any matter arising under this agreement, including the operation of arrangements carried out pursuant to this agreement.

I. *Identification and publicity*

The Government of the importing country shall undertake such measures as may be mutually agreed prior to delivery for the identification of food commodities at points of distribution in the importing country, and for publicity in the same manner as provided for in subsection 103 (1) of the Act.

PART II. PARTICULAR PROVISIONS

Item I. COMMODITY TABLE

<i>Commodity</i>	<i>Supply period (U.S. fiscal year)</i>	<i>Approximate maximum quantity (metric tons)</i>	<i>Maximum export market value (million dollars)</i>
Wheat/wheat flour (grain equivalent basis)	1979	105,000	\$15.0

Item II. PAYMENT TERMS: (CONVERTIBLE LOCAL CURRENCY CREDIT—CLCC)

1. Initial payment: none.
2. Currency use payment: none.
3. Currency use offset: up to one hundred percent (100%) of the value of financing provided under this agreement, to support the Food for Development Program identified in item VII.

4. Number of installment payments: thirty-one (31).
5. Amount of each installment payment: approximately equal annual amounts.
6. Due date of first installment payment: ten (10) years after date of last delivery of commodities in each calendar year.
7. Initial interest rate: two percent (2%).
8. Continuing interest rate: three percent (3%).

Item III. USUAL MARKETING TABLE

<i>Commodity</i>	<i>Import period (U.S. fiscal year)</i>	<i>Usual marketing requirement (metric tons)</i>
Wheat and/or wheat flour (grain equivalent basis)	1979	2,000,000

Item IV. EXPORT LIMITATIONS

A. The export limitation period shall be U.S. fiscal year 1979 or any subsequent U.S. fiscal year during which commodities financed under this agreement are being imported or utilized.

B. For the purpose of part I, article III A (4) of the agreement, the commodities which may not be exported are: for wheat/wheat flour—wheat, wheat flour, rolled wheat, semolina, farina and bulgar (or the same product under a different name).

Item V. SELF-HELP MEASURES

A. In accordance with part I, article III (c), paragraph B below describes the program that the GOE is undertaking to improve its production, storage and distribution of agricultural commodities. In implementing these self-help measures specific emphasis will be placed on contributing directly to development progress in poor rural areas and enabling the poor to participate actively in increasing agricultural production through small farm agriculture.

B. The Government of Egypt will undertake the following programs and provide adequate financial, technical and managerial resources for their implementation:

1. To encourage establishment of self-sufficient private sector agricultural co-operatives and encourage the use of improved technologies. Emphasis should initially be placed on planning, management and training.
2. Construct modern storage facilities for agricultural commodities such as grains, tallow and fats, including specific quantitative targets for port areas, inland terminal locations, market towns and other storage as needed.
3. Further improvement of the present irrigation system through drainage, rehabilitation and better management of the existing water supply with special attention devoted to decreasing the salinity of the soils.
4. To have completed by September 30, 1979, a review and analysis of pricing policies for agricultural inputs, e.g., fertilizer, and for agricultural outputs that provides a basis for possible changes in the system of output incentives and in systems for the allocation and the use of inputs.

5. To develop firm plans by June 30, 1979, for improving the GOE's capacity within the agricultural sector for data collection, analyses and the use of results in planning developmental programs and in determining production, pricing and marketing policies.
6. Within the framework of the five-year plan to have completed for use in the 1980 budget process, a reassessment of agricultural sector investment levels, with particular focus on investment level targets for improvement of existing agricultural lands as well as development of marginal lands. This includes, as part of this process, the study of alternative options for land use in those lands presently under cultivation such as use of improved seeds, fertilizers or a change in the cropping patterns at the same time encouraging pilot projects in marginal lands not yet under cultivation.
7. Utilizing the results of the agricultural mechanization feasibility study, and other relevant information that may be available, to undertake the initial steps for the formulation of a national agricultural mechanization policy which would encourage the identification, development and application of appropriate small farm machinery.
8. To undertake a comprehensive review of subsidies on food items with a view toward developing a plan by September 30, 1979 for gradual rationalization of subsidies that will protect lower-income groups from harmful price increases on basic food items.
9. To undertake an analysis of the present public and private family planning program with the aim of identifying key bottlenecks and developing a strategy for overcoming these by September 30, 1979.

Item VI. ECONOMIC DEVELOPMENT PURPOSES FOR WHICH PROCEEDS ACCRUING TO IMPORTING COUNTRY ARE TO BE USED

A. The proceeds accruing to the importing country from the sale of commodities financed under this agreement will be used for financing the Food for Development Program identified in Annex B. To the extent that the proceeds are not used for such purposes, they may be used for the self-help measures set forth in item V and for the following economic development sectors: agriculture and rural development. However, only currencies used for the Food for Development (Title III) Program will be eligible for credit for Title I loan indebtedness as set forth in Annex A, item III.

B. In the use of proceeds for these purposes emphasis will be placed on directly improving the levels of the poorest of the recipient country's people and their capacity to participate in the development of their country.

Item VII. FOOD FOR DEVELOPMENT PROGRAM TO WHICH CURRENCY USE OFFSET APPLIES

Annexes A and B set forth the understandings of the parties concerning the Food for Development Program to be undertaken by the GOE with the proceeds from the sale of agricultural commodities financed by this agreement; in the event of any inconsistencies between the provisions of parts I, II and III of this agreement and Annexes A and B, such annexes shall be controlling.

Annexes A and B are incorporated in the agreement. Annex A is intended to be applicable to the Food for Development Program for Egypt. Annex B describes the specific Food for Development Program of the GOE.

PART III. FINAL PROVISIONS

A. This agreement may be terminated by either Government by notice of termination to the other Government for any reason, and by the Government of the exporting country if it should determine that the self-help program described in the agreement is not being adequately developed. Such termination will not reduce any financial obligations the Government of the importing country has incurred as of the date of termination.

This Agreement shall enter into force upon signature.

B. IN WITNESS WHEREOF, the respective representatives, duly authorized for the purpose, have signed the present agreement.

DONE at Cairo, in duplicate, this twentieth day of March, 1979.

For the Government
of the United States of America:

[Signed — Signé]¹

For the Government
of the Arab Republic of Egypt:

[Signed — Signé]²

Minister of Supply
and Home Trade

[Signed — Signé]³

Minister of Economy,
Foreign Trade and Economic Affairs

[Signed — Signé]⁴

Minister of State
for Cabinet Affairs
and Local Government

ANNEX A

FOOD FOR DEVELOPMENT PROGRAM

The Government of the United States of America (USG) and the Government of the Arab Republic of Egypt (GOE),

Recognizing the policy of the USG to use its agricultural productivity in a manner which will establish a strong relationship between food assistance and efforts by the GOE to increase the availability of food for the poor, and to improve in other ways the quality of their lives; and

Having agreed upon a proposal for the intended use of commodities or funds generated from the sale of such commodities to increase the access of the poor in Egypt to a growing and improving food supply through activities designed to improve the production, protection and utilization of food, and to increase the well-being of the poor in the rural sector of Egypt; and

¹ Signed by Hermann Fr. Eilts — Signé par Hermann Fr. Eilts.

² Signed by Nasef Tahun — Signé par Nasef Tahun.

³ Signed by Hamed A. El Sayeh — Signé par Hamed A. El Sayeh.

⁴ Signed by Soliman Metwalli — Signé par Soliman Metwalli.

Desiring to set forth the understandings that will govern the sale of agricultural commodities in Egypt in order to carry out the above-mentioned proposal pursuant to the authority of the Agricultural Trade Development and Assistance Act of 1954, as amended (hereinafter referred to as the Act), and the measures the two governments will undertake to further the above-mentioned policies;

Agree as follows:

Item I. RESPONSIBILITIES OF THE USG

A. Subject to the availability of funds and commodities, the USG agrees to furnish credit under authority of Title I of the Act to the GOE for the purchase of agricultural commodities over the life of the Food for Development Program as set forth in Annex B of this agreement.

B. On receipt of satisfactory evidence of disbursements from the special account for eligible uses by the GOE described below for the activities and/or programs described in Annex B, the USG will apply such disbursements against the Title I payment obligation incurred under this agreement as set forth in items II and III below.

Item II. RESPONSIBILITIES OF THE GOE

A. The GOE agrees to carry out the program detailed in Annex B. In carrying out such program, the GOE agrees that it will:

1. Use the proceeds generated from the sale of agricultural commodities financed under this agreement to finance the development activities specified in Annex B in accordance with its provisions.
2. Submit on or before November 1 of each year during the period of this agreement a comprehensive report to the USG on the activities and progress achieved under the Food for Development Program, for the United States fiscal year ending September 30 including, but not limited to, a comparison of results with program targets, a specific accounting for commodities and funds generated, their uses, the outstanding balances at the end of the most recent fiscal year, and any recommendations of the GOE for modification and improvement of the Food for Development Program.
3. Maintain adequate records for not less than three years after completion of the program to permit review and audit by the USG of measures taken to implement the Food for Development Program.

B. The Government of Egypt agrees to establish a special account in which it will deposit the proceeds in accordance with article II F of this agreement, and to maintain the special account subject to the following conditions:

1. The local currency equivalent of each dollar disbursement by CCC will be deposited not later than six calendar months after the date of disbursement by CCC, using the exchange rate specified in article II F, as of the date of disbursement by CCC.
2. Local currency deposited will be disbursed for the program set forth in Annex B of this agreement.

Item III. CREDIT FOR TITLE I LOAN INDEBTEDNESS

The USG and the GOE agree that:

A. The dollar equivalent of local currency disbursed for eligible uses identified in Annex B shall be calculated at the exchange rate specified in part I, article III G of the agreement, applicable on the date of disbursement from the special account. The dollar equivalent of local currency disbursed for the eligible uses identified in Annex B shall be credited towards the payment of earliest installments coming due according to part I, article II H of this agreement.

B. For the period during which disbursements are made in accordance with paragraph A above, the GOE will furnish the USG a quarterly report of the deposits and disbursements made, certified by the appropriate audit authority of the GOE and a description of the activities for which the disbursements were made.

C. The government of the exporting country will provide a schedule showing application of disbursements from the special account to Title I payment obligations. As may be appropriate, an initial schedule and a schedule(s) reflecting any additions or other changes thereto, will be provided as timely as possible with respect to applicable Title I loan installment due dates.

D. The USG reserves the right to review use of disbursements and to determine eligibility for application against Title I payment obligations under this agreement. If the USG determines that a disbursement was made for an ineligible use, notice of such ineligibility shall be given by the USG to the GOE and the two governments shall, upon request of either, consult regarding such ineligibility. If the notice of ineligibility is not rescinded by the USG within 90 days of receipt of such notice by the GOE, disbursements for the ineligible uses shall not be eligible for application to any indebtedness, and, at the option of the USG the equivalent amount shall be restored to the special account. To the extent that any installment is determined to be past due as a result of disbursements from the special account having been determined to be ineligible for application to any Title I indebtedness interests shall accrue on the obligation from the originally scheduled due date until paid.

E. The USG shall have the right at reasonable times to inspect activities under the FFD Program and inspect and audit records, procedures, and methods pertaining to the disbursements made from the special account.

F. If currencies have not been deposited or remain in the special account two years after completion of the five-year program as set forth in Annex B, the GOE shall use the remaining currencies for the self-help measures specified in item V of Part II of the agreement or for such economic development purposes as the two governments may agree.

G. Annually at such time as the two governments may agree, representatives of the parties will meet in a place mutually agreed upon, to discuss and review the progress of the Food for Development Program to consider modifications and improvements, and to review the amounts and kinds of commodities financed under this agreement during that year of the Food for Development Program.

Item IV. IMPLEMENTATION OF THE FOOD FOR DEVELOPMENT PROGRAM

A. The Food for Development Program, which is further described in Annex B, will consist of a five-year program that enables village councils in eleven of the twenty rural governorates of Egypt to implement agricultural productivities and rural services infrastructure projects (basic village services—BVS) in the decentralized local planning and implementation mode now favored by the Government of Egypt.

B. The Food for Development Program will consist of the following activities to be carried out under the basic village services program: standpipe potable water; inter-village dirt roads; village storage facilities; main village sewage drains; sanitation facilities; village abattoirs and meat markets; irrigation and canals; household water connections; etc. Annex B amplifies the above description of the FFD activities.

C. From time to time, the parties may use jointly agreed-upon implementation letters to confirm and record their mutual understanding of aspects of the implementation of this agreement. Implementation letters will not be used to amend the text of this agreement but can be used to record revisions or exceptions which are permitted by the agreement.

D. For the purpose of negotiating and executing implementation letters, the government of the importing country will be represented by the individual holding or acting in

the office of the Minister of State for Local Government, and the government of the exporting country will be represented by the individual holding or acting in the office of the U.S. Ambassador, each of whom, by written notice, may designate additional representatives. Each party will provide the other party with the names of its representatives and their specimen signatures, and may accept as duly authorized any implementation letter signed by any one of such representatives of the other party prior to receipt of written notice of revocation of their authority.

Item V. SUSPENSION OF THE AGREEMENT

The USG shall annually review the performance and implementation of this agreement by the GOE. If the USG finds that the provisions of this agreement are not being substantially met upon prior written notice to the government of the importing country, no further financing under this agreement shall be extended until the end of the following United States fiscal year or until the situation is remedied, whichever occurs first, unless the failure to meet the provisions is due to unusual circumstances beyond the control of the GOE.

A N N E X B

PROGRAM DESCRIPTION

Item I. GOAL

The goal of this Food for Development Program is to reinforce and strengthen decentralized local government in Egypt so that it more effectively supports agricultural and rural development. The Government of Egypt (GOE) has proposed a multi-year effort to enable village councils in 11 of the 20 rural governorates of Egypt to select and implement agricultural productivity and rural services infrastructure projects (Basic Village Services—BVS).

Item II. PROGRAM OBJECTIVES

The following objectives will be met:

A. Public Law 52 will be implemented in such a way that the physical, social, and economic components of a rural development strategy will be effectively supported among all levels of government.

B. Government inter-ministerial coordination will effectively ensure that all policy, technical, and management inputs mesh in support of village council Basic Village Services needs.

C. Popular participation in local economic development and the provision/distribution/operation of services and infrastructure will be effectively promoted through the village councils.

D. The Organization for Reconstruction and Development of the Egyptian Village (ORDEV) will be organized and operated in a manner that will effectively support the operations of the Title III supported Basic Village Services program.

E. Basic Village Services projects will be defined, designed and implemented in ways which most expeditiously meet village needs using available Egyptian technical advice and locally obtainable materials.

F. GOE will develop opportunities during the various stages of the Title III program so that World Bank foreign exchange inputs and USG-funded special technical assistance can be programmed into the operations, where appropriate.

G. The GOE will continue to provide financing of Basic Village Services activities during the period of the Title III program and thereafter.

Item III. BACKGROUND AND SETTING

A. History of Egyptian rural development policy

Egypt's rural development process began 26 years ago when major agrarian land reform measures were adopted. In subsequent years, the GOE has fostered rural development through various means. These have included creation and widespread distribution of government-provided technical and social services in rural areas, agricultural development, administrative reorganization, tax reforms and a gradual expansion of roads, potable water, and other infrastructural facilities in rural areas.

As a result, Egypt has developed one of the more advanced rural development programs and sets of research and development (RD) policies among the less developed countries of the world. But considering the fact that there are now 38 million Egyptians and, by the year 2000 there will be 70 million, present and projected rural facilities and programs require speeded expansion.

B. Rural development in the Five-Year Plan

Egypt's new 1978/1982 Five-Year Plan reflects this situation and reasserts long-term rural development priorities: "... the Plan gives rural development sector investments capable of raising the farmers' economic and social standards, and of promoting village development and related services..."

C. Basic Village Services (BVS)

Even with the resources which will be made available under the Five-Year Plan, much remains to be accomplished in RD, including expansion and delivery of BVS. These are public in nature and ownership, highly visible and accessible to almost all people residing within the territory of the public unit which owns or supplies such services, and include both agricultural production-related infrastructure and rural public utilities infrastructure.

The basic system of local government in Egypt is increasingly geared to decentralization. The GOE expects this to foster RD. Each village governorate comprises a popularly elected council, an appointed chief executive and representatives from the technical ministries. Each village council has jurisdiction over (and representatives from) one main village and several satellite villages. Each council is legally empowered to plan technical projects (with the help of technical ministries), contract for services, purchase equipment, and make payment. Furthermore, enactment of Public Law 52 has provided certain additional revenues to village councils for local use in addition to 75 percent of the central government taxes levied on agricultural land. Governorates and districts are organized along similar lines with emphasis placed upon encouraging these various entities to plan, organize and implement RD activities including BVS.

Item IV. PROGRAM DESCRIPTION

The P.L. 480, Title III, Food for Development Program calls for:

A. A five-year program with an approximate annual value of \$15,000,000 in Egyptian pounds to carry out the BVS program described in Annex A, IV, B above.

During the first year, the inter-agency committee will concentrate on Title III activities among three governorates chosen from Upper, Middle and Lower Egypt. Based on experience earned and comparative evaluation criteria developed during that year, additional governorates will be chosen for programming in subsequent years.

Recently, the GOE instituted a decentralization plan that enables governorates, districts and village councils to select and implement agricultural productivity and rural infrastructure activities.

However, this requires a wide range of technical and administrative services to support the installment of a program of Basic Village Services. The GOE has entrusted the

responsibility of mobilizing the physical, financial, social and economic resources to ORDEV. Because of the many technical issues involved in expanding the infrastructural facilities, it will be necessary to engage and coordinate a large number of ministries and local administrations under the Inter-Ministerial Council, which has been established to carry out this rural development strategy.

B. *Inter-Agency Committee action*

The Inter-Agency Committee is charged with formulating basic Title III planning and implementation procedures. It is chaired by a representative of ORDEV and contains representatives from the Ministries of Local Governments, Finance, Planning, Economy and Agriculture. After consultation with governorates the Inter-Agency Committee will approve a list of BVS categories that will be eligible for Title III funding.

C. *Village council action*

Upon being notified by the governorate of the approved list of eligible projects, village councils will submit detailed proposals to the governorate for review against governorate technical and policy criteria.

Once approved, the funds will be transferred from the Title III special account to the village council. This transfer mechanism is explained in detail elsewhere in Annex B.

Item V. IMPLEMENTATION PROCEDURES

A. *General*

Early in each U.S. fiscal year throughout the life of the FFD agreement, the GOE and the USG will agree on the specific quantity and value of P.L. 480 commodities to be supplied during that year and the program of development to be undertaken.

This Agreement will provide that the GOE capitalize a discrete Title III project account with the proceeds from the sales in Egypt of commodities financed under Title III. However, the GOE may elect to capitalize the account from general revenues in the amount to be financed under Title III, in which event the proceeds will be used to repay the General Revenue Account from which the Title III account has been capitalized. No disbursements to village accounts under subparagraph G below will be made prior to the delivery of the commodities as defined in part I, article III F, of this agreement. The amount of disbursements from the account shall not exceed at any time the value of CCC/USDA disbursements for the commodities which have been delivered.

B. *Selection of governorates*

The initial three governorates in which BVS will take place have been designated. It is anticipated that new governorates will be added through subsequent agreements at the approximate rate of two per year, as selected by the Inter-Agency Committee of the GOE and the USG.

C. *Selection of eligible sub-project categories*

Each year the USG and the Inter-Agency Committee will develop an agreed-upon list of the BVS categories eligible for funding within each governorate covered by the agreement. The lists may differ for each locality. These lists will form the parameters of the annual BVS program in each governorate and will be consistent with governorate, regional and national planning guidance. An initial sum will be identified against each category for planning purposes, but governorates will be free to redistribute funds among the accepted categories. In the development of these lists emphasis shall be given to those projects which are directed at improving the access of the poor to an increased food supply and to improving the well-being of the poor.

D. *Amendments to sub-projects lists and governorates BVS budgets*

Additions to the list of BVS categories for any governorate can be amended upon written agreement among the governorate, the Inter-Agency Committee and USG. Unless

agreed upon by the USG, annual budget totals for governorates will not be subject to amendment, but unspent balances can be carried forward to the following year. Unless agreed upon by the USG, annual governorate budgets will be uniform, with all governorates receiving the same total budget figure.

E. *Governorate procedures*

When the Title III agreement is signed and the funds deposited in the central bank, each eligible governorate will be notified. Notification will take the form of a stated budget total for the year and a list of the eligible BVS categories against which village council planning and design can proceed.

Each eligible governorate will inform all village councils in that governorate and solicit detailed proposals. Using its own technical policy and priority criteria each governorate will then review the village council proposals and decide which should be funded, up to the annual budget limit. Insofar as practicable, each village council should receive some funds for projects in order that benefits from Title III programming may be as widespread as feasible.

The governorate will present its budget with the technically reviewed list of projects to be funded to the Inter-Agency Committee. The latter, as the central government's committee charged with formulating basic Title III planning and implementation procedures, will review for adherence to criteria of eligibility and budget. It will then forward approvals to the Ministry of Finance and the Ministry of Planning. ORDEV will release funds from the special account to the governorates, earmarked according to project and village council. The governorate will notify the village councils that have received approval and those councils together with their support village executive units will begin implementation of the projects.

F. *Village council operations*

The village council will be the implementing agent for each basic village service project. Under existing laws and regulations the council has full power to handle all contracting, purchasing, etc. Technical specification of tenders, procurement documentation, etc., are approved or rejected by the government technical representative located in the village council, unless required at a higher level.

G. *Disbursement for credit of offset against indebtedness*

Village councils will make requests for funding of specified projects under this program. When technically reviewed and administratively approved, the GOE will transfer necessary funds from the Title III special account to the bank account of the village council against a signed project agreement. This transfer will be considered a disbursement in furtherance of the goals of the Food for Development Program and will be eligible for offset against Title III indebtedness. The Ministry of Finance will provide documented evidence to the USG of such disbursement from the special account and deposit into the village council account. In no event will credit of offset against indebtedness occur prior to the sale of commodities provided under this agreement in the importing country.

H. *Funding eligibility*

Funds from the Title III special account are restricted in their use. Funds from this account can only be used to pay for costs in connection with approved BVS projects. ORDEV will certify to USG that advances to village councils are made in accordance with this policy.

I. *Reporting*

Village councils will submit monthly progress and completion reports to the ORDEV representative at the governorate level. The governorate will prepare quarterly reports and certifications of completion of work on projects which will be forwarded to ORDEV with copies to the Ministries of Planning, Economy, Finance and Agriculture. ORDEV will send the reports, after review and approval, to the USG.

*Item VI. EVALUATION BENCHMARKS AND AUDITS**A. Evaluation benchmarks*

1. By the end of the first year of the Title III program, the GOE and the USG shall have developed an evaluation methodology and associated quantifiable benchmarks which will provide the basis for annual evaluations of the progress in achieving the program objectives identified in section II of Annex B. Development and putting into operation of the evaluation methodology and associated benchmarks will be a key benchmark for the evaluation of the first year's progress of the Title III program.

2. The benchmarks to be utilized in reviewing progress by the end of the first year of the program will include:

- a.* Development of the list of BVS categories that will be eligible for Title III funding. This list will include the categories suggested by the village councils that are appropriate for inclusion in the final BVS list.
- b.* The number and quality of specific project proposals and associated funding levels submitted by village councils for approval.
- c.* The number and quality of village council projects approved by the Inter-Agency Committee.
- d.* The amount of funds transferred from the Title III account to village council accounts for approved projects.

3. The evaluation methodology and associated benchmarks established and made operational by the end of the first year shall be incorporated into the second and subsequent years' program agreements. The benchmarks will include the general criteria presented below.

- a.* The GOE is continuing to make adequate levels of funding available to the project during the life of the project, and to the quantifiable degree to which the GOE has committed itself to increasing funding levels both during and after the project as defined in item II(G) of this Annex.
- b.* Reinforce and strengthen decentralized local governments in a manner that will develop operational projects in support of agricultural and rural development.
- c.* BVS projects undertaken at the initiative of village councils are firmly planned, designed, engineered and operational under field conditions.
- d.* Special or regular institutional mechanisms are providing funds, technical support and policy actions for village projects.
- e.* Annual progress made towards (a) extending BVS operations to other governorates and to, at least, 11 governorates by the end of the fifth year, and (b) citing selection and funding systems that will insure at least 80 percent of rural village councils in targeted governorates are benefitting from BVS activities.
- f.* To assure that performance monitoring comparative evaluation reports are regularly carried out on BVS projects.

B. Audits

Should audits reveal that a project has not been completed or is not up to prevailing acceptable standards of construction and progress, the GOE will be formally notified of the deficiency. Based on the audits, the USG reserves the right to disallow forgiveness in cases of gross or persistent deficiency.

*Item VII. OTHER PROVISIONS**A. Multiyear programming*

Although the Food for Development (Title III) agreements will be signed on a year-by-year basis, the proposal includes language indicating a commitment on the part of both

governments that these annual agreements will form a multi-year program covering the basic village service project. The quantity and value to be promoted each year will be subject to P.L. 480 funding and commodity availabilities.

B. Monitoring

The monitoring and audits of the basic village service programs will be based on benchmarks, guidelines and goals set up to evaluate programs made in carrying out the village projects. Each project will be evaluated not less than annually in accordance with requirements covered in item II A(2) and (3), and item III E of Annex A. Additional review and evaluation requirements of item III (B), item III (D) and item III (G) of Annex A will be covered by the monitoring system.