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PD-AAD-970-B1

165p

PROJECT PAPER

DEVELOPMENT DECENTRALIZATION I - EGYPT

January 15, 1978

Approved by: Near East Advisory Committee

January 23, 1978

NE/TECH/SP-RD

Development Decentralization I

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AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT PAPER FACESHEET

1. TRANSACTION CODE: A ADD, C CHANGE, D DELETE

PP

2. DOCUMENT CODE: 3

3. COUNTRY ENTITY: EGYPT

4. DOCUMENT REVISION NUMBER:

5. PROJECT NUMBER (7 digits): 263-0021

6. BUREAU/OFFICE: A. SYMBOL: NE; B. CODE: 03

7. PROJECT TITLE (Maximum 40 characters): Development Decentralization

8. ESTIMATED FY OF PROJECT COMPLETION: FY 82

9. ESTIMATED DATE OF OBLIGATION: A. INITIAL FY 78; B. QUARTER 2; C. FINAL FY 82 (Enter 1, 2, 3, or 4)

10. ESTIMATED COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY B. FX	FIRST FY C. L/C	FIRST FY D. TOTAL	LIFE OF PROJECT E. FX	LIFE OF PROJECT F. L/C	LIFE OF PROJECT G. TOTAL
AID APPROPRIATED TOTAL	1,400		1,400	9,160		9,160
(GRANT)	(1,400)	( )	(1,400)	(9,160)	( )	( )
(LOAN)	( )	( )	( )	( )	( )	( )
OTHER U.S. 1. U.S. owned LE		125	125		542	542
OTHER U.S. 2.						
HOST COUNTRY					2,432	2,432
OTHER DONOR(S)						
TOTALS	1,400	125	1,525	9,160		12,134

11. PROPOSED BUDGET APPROPRIATED FUNDS ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE C. GRANT	PRIMARY TECH. CODE D. LOAN	E. 1ST FY 78 F. GRANT	E. 1ST FY 78 G. LOAN	H. 2ND FY 79 I. GRANT	H. 2ND FY 79 J. LOAN	K. 3RD FY 80 L. GRANT	K. 3RD FY 80 M. LOAN
(1) SA	284	246		1,400		2,100		1,900	
(2)									
(3)									
(4)									
TOTALS									

A. APPROPRIATION	N. 4TH FY 81 O. GRANT	N. 4TH FY 81 P. LOAN	Q. 5TH FY 82 R. GRANT	Q. 5TH FY 82 S. LOAN	LIFE OF PROJECT T. GRANT	LIFE OF PROJECT U. LOAN
(1) SA	1,760		1,500		9,160	
(2)						
(3)						
(4)						
TOTALS						

12. IN-DEPTH EVALUATION SCHEDULED: MM 06 YY 80

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 (1 = NO, 2 = YES) No formal PID on this project

14. ORIGINATING OFFICE CLEARANCE

SIGNATURE: Donald S. Brown

TITLE: USAID Director

DATE SIGNED: MM DD YY

15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-6 (3-78)

B. Recommendations

Grant:

- AID Dollar Obligation $9,160,000

  (Including up to $5,445,000 for purchases of LE 3,808,000)

- Excess Local Currency Obligation 775,000

  (Equivalent of LE 542,000)

- Based on Mission determination (Annex F), it is recommended that an exemption be granted with respect to Policy on Contracting Mode for Project Assistance.

- Based on Mission Request (Annex G), it is recommended that it be determined that U. S. dollars may be used to purchase local currency, notwithstanding the fact that Egypt is an excess currency country.

- Based on Mission Request (Annex H), it is recommended that Section 636(i) of the Foreign Assistance Act to permit procurement of vehicles not manufactured in the U. S. be waived and a waiver of normal origin requirements to permit procurement of commodities with any original (Egyptian source) also be authorized for all procurement under the Local Development Fund.

Total $9,935,000

C. Brief Description of the Project

1. What will take place:

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. HEO's are designated by the Ministry of Local Government and 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 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 and 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 a 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.

Loan applications for projects showing the greatest possibility of profit will be given preference. Village councils will be expected 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 local personnel. Key ORDEV personnel will be trained in the U.S., some for a full academic year, others for terms of around six 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 to appropriate third countries in Asia, Africa, and Latin America.

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.

2. Management and Organization

The Ministry of Local Government is the responsible entity within the GOE for implementing the project. ORDEV, within the Ministry, will be the responsible agency and the Undersecretary of State in charge of ORDEV 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 analyst under a PASA, and by two technicians, one of whom will be experienced in local government management and finance and one of whom should be experienced in small-scale production and marketing 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.

3. How Inputs will be Financed

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 advisers 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.

A detailed description of project inputs will be found in Part III A (8) of this paper, and in Annex E, the detailed project budget.

4. End of Project Status

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, simplified loan operational procedures, 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 underway 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.

The logical framework is contained in Annex D; a detailed description of the project is in Section II, and Annex B contains the policies governing the Local Development Fund.

D. Summary of Findings

The Government of Egypt is committed to decentralization of local administration. In furtherance of this policy, in 1973 a special agency was created within the Ministry of Local Government charged with modernizing and developing the Egyptian village. This agency, the Organization for Reconstruction and Development of the Egyptian Village, known as ORDEV, was given a mandate to plan and implement economic and social development of rural villages. To strengthen decentralization further, in 1975 Law 52 was passed which provides for election of representative councils at every level of local government, i.e. the governorate, town, metropolitan district and village. To assist the council in developing the local area, a Head Executive Officer is appointed by the Ministry of Local Government who has authority over the representatives of the line or technical ministries serving in the village. Law 52 also provides for an "account for local services and development" which is known as the "special account" and is composed of funds collected and generated in the villages. Village councils are empowered to use funds in this account for autonomously determined purposes.

The Ministry of Local Government desires to expedite the process of decentralization and considers that an

effective means of achieving this objective is to increase the funds available in the special accounts. To this end, the Ministry believes that village councils should be encouraged to engage in income producing activities to augment these revenues. It also believes that since ORDEV is the channel through which village development is implemented, assistance to villages through ORDEV will be the best means of attaining the objectives. Accordingly, it has been decided that a Local Development Fund should be established within ORDEV which will loan money to village councils for income producing projects. The income generated will go into the special account and be used for purposes autonomously determined by the village. It is expected that basic needs of villages, such as increased social services and infrastructure, will be addressed in programming the funds in the special account. The impact of the projects undertaken under the Local Development Fund will be analyzed during the life of the project. USAID will capitalize the fund initially.

The Ministry and ORDEV recognize that in order to ensure effective implementation of the Local Development Fund and effective undertaking of development projects with the proceeds, training in financial management, managerial skills, auditing, project design and analysis,

public administration, and rural development is necessary. ORDEV is establishing a Training Academy for imparting necessary skills to ORDEV personnel and governorate and village level elected and appointed officials. In addition, ORDEV desires training of its officials who will be responsible for implementation of the Local Development Fund and those who will be conducting the training at the Academy. These personnel will receive training both in the United States and, as appropriate, in third countries. The entire project will be under the supervision of ORDEV. The Undersecretary of State, who is also the Director-General of ORDEV, will be the official responsible for overseeing project operations. In addition, there will be a Board of Directors appointed to govern the Local Development Fund and a Loan Committee to carry out the policies determined by the Board. There will be a U.S. Project Management Team consisting of three long-term advisors, one of whom will be the Technical Project Manager, the other two being advisors to ORDEV and the Local Development Fund in local government management and small scale production enterprises. There will also be U.S. short-term consultants as needed over the life of the project.

There will be two major evaluations; one at about the halfway mark, or 30 months into the project, and the other at the completion of the five year period of project implementation.

This project meets all applicable statuatory criteria (Annex C).

E. Issues:

Issue: Why is the LDF being placed within ORDEV rather than an existing credit institution, i.e. a bank?

Discussion: ORDEV is the agency designated by the GOE to promote development in the village and to assist the village councils in economic activities. It is the only agency in Egypt who has experience handling funds designed to generate income producing activities by village councils. ORDEV has had experience over the past 3 years in assisting these kinds of activities through grants to village councils for economic projects. It is closely associated with village councils in other ways and has staff at the governorate and district levels. In view of ORDEV's close relationship with village council structure in Egypt, its mandate to develop the Egyptian village and its experience to date in assisting village councils; the Government of Egypt considered ORDEV to be the proper organization in which to establish the LDF. Other Egyptian financial institutions were examined to see if they were potential vehicles for delivery of loan capital to villages; but because of their narrow charters and the needs that they are presently filling, they were not judged to be the proper kinds of institutional mechanisms for delivery of unique loan capital to villages. Those institutions include: the Development Industrial Bank; and the Organization of Artesans and Productive Coops. This issue is treated in greater detail in the Technical Analysis Section (Pages III-6 to 11) of this paper.

Discussion: Concern has been expressed that the proceeds from the

village income producing projects will be used exclusively for reinvestment in other income producing projects and not for community social development and service projects, since there will be no conditions placed on the utilization of proceeds of these projects by the Government of Egypt or USAID.

Interviews with ORDEV personnel, village council members, village executive committees and others indicate that it is reasonable to expect that proceeds from these income producing projects will be used for both other income producing projects and for socially oriented projects. Some of the proceeds will have to be invested if the special account is to continue to grow. In order to encourage entrepreneurship at the village level and small business activity in the rural setting it is important that recipients of loans are free to utilize the profits generated by these projects in ways they feel will most benefit their villages and constituents. This and the following issue are treated in more detail in the Social Analysis Section of this paper.

Issue: How will villages be chosen to participate in LDF sponsored programs?

Discussion: ORDEV prefers that villages participating in this program be those which are not now and have not been part of ORDEV's program. It can be argued that villages with some experience in income producing projects, such as those which have participated in ORDEV's regular grant program, would be better able to utilize funds under this project and that perhaps a mix of villages should be tried. ORDEV has not decided

yet what eligibility criteria to use in selecting villages. They have asked for help in analyzing the options open to them and the costs and benefits of these options. The technical advisory committee will assist ORDEV management with this analysis and a selection system acceptable to AID will be a condition precedent to the capitalization of the loan fund.

Issue: To what degree and what kinds of technical assistance and participant training be provided?

Discussion: As may be noted in the text concerning training the ORDEV establishment needs as well as the overall training needs related to decentralization are very large. At the same time, the prospects for early development of major additional projects concerning decentralization also appear to be very good. Under these circumstances, it seems prudent not to focus narrowly only on the technical assistance and participant training requirements of the Loan Development Fund. Instead, the approach should be one of building up the Egyptian training capacities and experience as rapidly as possible for LDF-related matters, while at the same time laying the foundations for expanded training and development decentralization in later projects.

Issue: Can the technical assistance and participant training required be provided under host country contracting or some institutional mode of contracting?

Discussion: The Mission argues the following:

> ". . . . We believe it is essential that USAID maintain a close collaborative relationship with ORDEV throughout the life of this project and, concurrently, during the design stage of related

projects. This is not only to provide the supervision and monitoring that will be necessary but also so that project initiatives can be responded to promptly and effectively. We have established a close and effective working relationship with ORDEV over the past two years during the gestation period of this project. This is the first in what we hope will be a series of rural development projects to be undertaken with ORDEV in furtherance of the decentralization process and we need to participate in project implementation as much as possible to be able to evaluate on a continuous basis the strengths and weaknesses of ORDEV and of this approach to local development. Further, this will be the first rural development project undertaken by AID in Egypt and for that reason also close attention will be required. Under an institutional contract, direct control, close monitoring and the maintenance of an ongoing relationship and dialogue with ORDEV would be much more difficult. . . ."

(Cairo #4081)

While expressing willingness to consider a contractor that will handle certain logistical and managerial functions vis-a-vis the handling of long-term and short-term technical assistance and participant training, (apart from the technical project manager), the Mission points out that it would prefer a key role in selecting the technical assistance and planning participant training. It also observes that the use of a contractor as suggested above would add to the cost of the project.

Part II -- PROJECT BACKGROUND AND DETAILED DESCRIPTION:

A. Background:

Soon after the re-establishment of a bilateral AID program in Egypt attention was focussed on Rural Development and what AID might be able to do to assist the GOE in expanding and improving their rural development efforts. Egypt has an impressive record of rural development achievements. Over the last 20 years considerable infrastructure has been created to facilitate economic and social development in the rural areas of Egypt. A large staff of Egyptians are located in rural areas, working in this development effort, and a significant amount of funds have been expended to achieve basic growth and an equitable distribution of the benefits of this growth in rural areas. However, as the cost of this development has geometrically expanded over the last 10 years and since available funds have been in short supply, the GOE has looked to various different methods and systems of rural development to maximize the impact of their expenditures and manpower in rural areas.

AID developed a concerned interest in this effort shortly after establishing a Mission in Egypt in 1973. It has been looking for a rural development activity which would allow AID to assist the Egyptians with their rural development effort and provide AID with a first stage intervention into the rural development sector in order to allow the gathering of more information from which to develop other rural development oriented activities.

Toward this end AID, in conjunction with ORDEV, undertook a series of studies starting in January of 1976 designed to identify a project which

met both the criteria mentioned in the above paragraph. The detailed background and findings of those studies are contained in the following documents which are available in NE/TECH, AID/W:

1. The Development Alternatives Inc. Report of March 21, 1976
2. The Mayfield Report on "Local Government in Egypt", 1976
3. Mayfield's "The Budgetary System in the Arab Republic of Egypt, Its Role in Local Government Development", August, 1977
4. Harik's "Decentralization and Development in Rural Egypt: A Description and Assessment", October, 1977

These studies describe and analyze the governmental administrative and physical infrastructure which is now in place, particularly among the "old lands" of Egypt or the Nile Valley. It is from these studies that a project idea emerged.

President Sadat has steadily expressed an interest, since 1971, in bringing change and modernization to traditional Egyptian villages.[1/] In July, 1973, he authorized the creation of a special group within the Ministry of Local Government to foster the necessary changes. Entitled the "Organization for Reconstruction and Development of the Egyptian Village" (ORDEV), this group has a special responsibility to:

> ". . . Elaborate a General Policy and plan for construction and development of the village in the economic, social and urbanization planes within the scope of the general policy of the State."[2/]

1/ Development Alternatives Report, p.1
2/ ORDEV Authorization of July 16, 1973, p.1

Consistent with this desire to bring change to the traditional village, popular local elections were held in 1975 in the Egyptian rural countryside. Public Law 52 promulgated at this time requires each unit of local government to be governed by popularly selected local councils or Representative Councils (RC's). These comprise 24 Governate Councils; 755 Village Councils; 153 Town Councils; and 14 Metropolitan District Councils. Each category of council has differing numbers of members. There are 19,896 elected members in total of which 12,086 are in Village Councils.[3/]

Public Law 52 also defines the policy, organizational and local finance framework for each level of local governance. Each Governor is appointed by President Sadat, and ". . . The Governor shall have the powers of Minister in the financial and administrative matters relating to the local units, their budgets, and the utilities transferred to it . . ."[4/]

Similarly, Head Executive Officers (HEO's) are designated for each level of governance. These are appointed and controlled by the Ministry of Local Government and they act as Chairmen of local Executive Committees (EC's) which are comprised of personnel representing the various "line" Ministries and posted within the village. These EC's are to assist the elected local representative councils in, among other things, seeing to it that ". . . The revenues of the Village (District, Town) are to be utilized in the manner to be decided by the local council . . ."[5/]

3/ Mayfield Report of 1976, p. 10
4/ DAI Report, Public Law 52, Article 30, p.C-19
5/ Ibid. Article 52, Page C-42

This alteration in roles for the HEO's is of particular significance, as observed by Professor Harik:

> ". . . Authority of the Head Executive Officer (Ra'is al Qariyah) over all line Ministries officials in the village including those of the cooperatives and village bank has been unequivocally established. He also is invested with authority equivalent to that of a department head (in the line ministries at the province level). This expands his authority, increases his prestige, places him above any other village official in rank and enables him to bear responsibilities of local development called for in the new law. Such authority makes the Head Executive Officer better able to coordinate developmental activities and obtain the cooperation of other officials working with him. It should be mentioned here that one of the major problems the executive head faced under the old system was the ambiguity of his authority vis-avis other officials working in the village council and employees of the line ministries . . ."[6/]

Finally, Public Law 52 introduces another major change in the whole system of local governance because it:

> ". . . Provides for a new source of revenues for the local councils, unique to the traditional system of Egyptian finance, which potentially may become the basis for truly independent local government

6/ Harik Report of October, 1977, p. 6-7

systems. By Articles 37, 43, 54 and 70 local councils may establish an 'account for local services and development.' This 'special account' is completely separate from the central budget and does not devolve to the public treasury (central government) if it is not spent . . ."[7/]

The introduction of the "special account" may be of much significance to village councils in the future. Presently, as noted by Mayfield, local tax revenues only cover 25 percent of village council approved budgets. The remainder comes from central government grants-aid. Public Law 52 provides that village councils have seven sources of revenue including: 75 percent of the land tax and the add-on land taxes for all lands within the jurisdiction of the village council area; taxes and duties of a local character imposed by the village council; revenues from utilities managed by the village; funds assigned to the village council by the governorate council; central government grants-in-aid; loans contracted by the village council; and funds within "a special account for local services and development."[8/] It should be noted, in connection with the land tax, that it does not apply to peasants with less than three feddan (3 acres) of land. Since a considerable proportion of the peasantry own less land than this, the effect of this restriction is to considerably lower the village council tax base.

The "special account" may be of much value in providing village councils

7/ Mayfield Report, "The Budgetary System in the Arab Republic of Egypt: Its Role in Local Government Development", August, 1977, p.iii and iv

8/ Ibid. Mayfield Report, p. 8-9

with important additional sources of revenue to expend on services and development, and should be noted that the special account represents the totality of the discretionary budget available to village councils.

There is a constant and growing discrepancy between the capital project and services requests (BAB 3) for budget by village councils and the very limited amounts of funds allocated by the central government to meeting such requests. Mayfield observes that the annual discrepancy as between village requests and budgeted funds for BAB 3 activities is about at a 5:1 ratio with, in many instances, village requests almost totally ignored.[9/]

Yet, there are critical problems -- at the village level -- which village councils wish to address. These include:

- -- Building additional classroom space
- -- Improving local drainage
- -- Extending/improving existing water supplies
- -- Extending/metering local electricity distribution
- -- Building local warehouses and shop areas
- -- Repairing and improving local roads
- -- Improving garbage disposal and local sanitation
- -- Improving local health clinics and pharmacies
- -- Improved fire fighting and ambulance services
- -- Housing for Village Councils and executive committee personnel resident in villages
- -- Income producing projects of all types and kinds.

9/ Ibid. p. 19

In November, 1975, popular elections were held for all of the 19,896 local council positions in Egypt, and the system of local government described above has now been functioning approximately two years.

Progress is under way at local levels. For example, in matters concerning each village's "special account", Dr. Mayfield notes:

> ". . . During the summer of 1976, I was unable to locate a single village council that had a functional 'special account.' But in the three Districts surveyed this year (summer of 1977), all the village councils visited had at least some funds in their accounts."[10/]

Separately observing the same subject during the summer of 1977 in a different set of villages, Dr. Harik found numerous examples of new activities taking place:

> ". . . Some head executives of MC's (municipal councils) have been emboldened by the promise of the law regarding raising and controlling funds. They, therefore, proceeded to take loans from banks purely as a business deal. These loans were used to start income generating projects and, in some cases, have already been paid off from the returns of the projects . . . in all the MC's I have visited . . . I have noticed an attitude of expectation and readiness to use funds for developmental projects . . ."[11/]

Meanwhile, the ORDEV located under the central Ministry of Local Government has developed special policies and a small staff aimed at assisting the

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10/ Ibid. p. 53

11/ Harik, "Decentralization and Development in Rural Egypt, a Description and Assessment", October, 1977, p. 10

village councils. ORDEV provides grants to assist village councils to develop income-generating physical infrastructure and social welfare projects and the services relevant to such projects. During the period 1974-77, ORDEV has expended LE 6,272,159 on these activities (Annex A). As may be noted, 63 percent of these activities concern productive or economical matters with the remaining 37 percent distributed between physical and social categories.

Dr. Harik, in the summer of 1977, examined some of the ORDEV operations as did Mayfield and a DAI team earlier. As an Arabic-speaking, political scientist, Harik observes:

> ". . . The fact that ORDEV is directly linked to the cabinet minister gives it power and assures that it receives a reasonable budget to perform its functions. Its administrative staff is formed at the national and provincial levels, and they work directly with municipal councils at the village level but with no village staff of their own, as indeed they should not . . ."[12/]

ORDEV makes available to municipal councils capital funds on a grant basis with which they can start productive, social, and infrastructure activities or expand already existing ones. A small part of ORDEV grants are applied to financing infrastructure projects usually referred to as social services and physical structures. ORDEV makes grants in the amount of about ten thousand Egyptian pounds (about $15,000) on the average. The grant is made only after the Village Council submits a long term development plan, and

12/ Ibid. Harik, p. 8-9

identifies the projects for which it is requesting loan funds. (Approximately 400 Village Councils have become so-called "ORDEV Villages" through this process.) These funds are monitored by the Government Accounting Office and ORDEV. The monitoring is a relatively simple reporting procedure involving generally only the amount of money which has been spent by the grantee. ORDEV serves also as a vehicle to channel foreign aid and grants to village councils without any other bureaucratic intermediary. This is a very effective mechanism for making the most productive use of A.I.D. funds, because a defined national agency with a clear, direct mandate is designated by law to perform the task and is, therefore, clearly accountable.

B. Detailed Project Description

In developing this program it was decided that the core activity would be targeted at strengthening the financial viability and development capability of selected village councils.

This will be attained through creation of a Local Development Fund (LDF) located within ORDEV (see policy description as outlined Annex B). The Fund, operated according to sound fiscal and management principles, will extend medium-term loans to village councils. The loans will assist carefully appraised council-owned, council-private enterprise, joint ventures or other arrangements with private enterprise by which councils can earn sustained revenues for the "Account for Special Services and Development." (Hereafter referred to as "Special Account.")

Detailed features of the proposed Development Loan Fund are outlined in

Annex B. Details of the Logical Framework are outlined in Annex D.

ORDEV has had considerable experience finding income producing projects operated at the village level. These projects have enjoyed favorable analysis and comment throughout the two years of background studies undertaken in preparation for this project. Strengthening this capability and changing the mode of financing these projects appears to have a number of benefits. Principal among these are:

a) Increasi , the amount of money available to ORDEV would allow greater numbers of villages to participate in this income producing activity. As these projects produce an income stream, the village councils will be able to augment their Special Account and increase the discretionary activity which flows from this account. This process is seen as having a positive impact on the decentralization process which is increasing in Egypt at the present time. Another benefit would be that the provision of this LDF would free up ORDEV grant money and allow ORDEV to finance greater numbers of social and physical projects. It would also have a positive effect on the development of entrepreneural activity in rural villages.

b) Changing the mode of financing (grant to loan) would also have dynamic benefits. It would require a more detailed village based and level analysis and activity. This has a positive effect to the extent that it allows project funds to flow smoothly and to those projects which will indeed provide added

income to the Special Account; and perhaps, even more important, it acts as a teaching tool. By using techniques which are slightly more sophisticated than those actually required by the size of the sub-project, this project attempts to familiarize the village officials with modern financial and management operations which they will need as they undertake more complex programs and investments. As the decentralization process continues it is expected that increasing numbers of village councils will take over activities like the installation of water systems and running village electrical distribution systems. Project managers will have to be exceptionally careful, however, when they develop the detailed LDF procedures that they insure that the procedures are simple enough to meet the primary purpose of the project "that of increasing the number of these projects actually funded in the village."

A secondary expected effect of this project would be that as the level of direct involvement and interaction increases, AID will be able to assist ORDEV in developing companion and complementary rural development strategies to help implement the legally defined decentralization concept. It is to this end that at least a part of the technical advice and training will be targeted. Therefore the level of technical advice and training which would support this long-term goal much exceeds those required to minimally operate the LDF project. Since USAID/Cairo attaches real importance to this underlying and long-term expectation, it has designed moderate

additional levels of Technical Assistance and Training into this project in order to help in laying the basis for an expanded future.

Strengthening the financial capability of the rural villages however remains the central focus of the project. The secondary effects however important will remain subserviant to the central focus of the project. To accomplish this strengthening process, the LDF will be created and capitalized at $5,000,000 with funds provided under AID grant assistance. In order to assure evolution of practical and effective LDF policies, as well as systems of management which support the multi-level goals and objectives of this project, special technical assistance, training and formative and summative evaluation assistance will be provided. An advisory team will include a development economist, a basic local government finance/management specialist, and a production/marketing analyst.

Training will be focused on business, managerial, and financial analysis skills. This will be accomplished through participant training and observation programs, special programs at a training academy operated by ORDEV, and on-site activities by the project management team.

Formative and summative evaluation will be aimed at iteratively identifying and remedying management, beneficiary, and participative problems associated with operation of the LDF. Such work will be performed by Egyptian academicians or specialists and foreign evaluators operating under applied research guidelines and scopes of work developed by the project management team and special consultants. Results, where appropriate, will be utilized to modify macro and micro policies and operations of the LDF.

Part III. Project Analyses

A. Technical Analysis Including Environmental Assessment

1. Organization

ORDEV staff now comprises 50 personnel in Cairo and 266 stationed permanently at Governorate levels. During the outset of LDF operations this staff is considered to be adequate in size.

The principal need will be to upgrade their overall technical caliber in order that they can handle different kinds of LDF financial and project operations.

Beginning at the level of Village Councils it will be the task of Governorate-based ORDEV personnel to assist in appraising village needs and specific profit-making potentials. This assistance may include: preparation of Project Loan Requests for submission to the Loan Committee of the LDF; loan project evaluation; technical assistance; monitoring of project accounting; and project analysis reporting.

These various activities will be directed by a policymaking Board of Directors situated within ORDEV. It, in turn, will supervise an ORDEV Loan Committee which will be responsible for the day-by-day conduct of LDF business.

At the Village Council level, Head Executive Officers (HEO's) and selected members of the Village Councils will be expected to learn how to identify, prepare and appraise proposed loan projects, implement approved projects, and comply with all reporting requirements.

In particular, because of the importance attached to increased developmental decentralization, the Village Councils and HEO's will

concentrate on increasing financial capacity to undertake more economically productive projects either on their own or through utilization of the LDF. Through this means it is expected that the financial autonomy and well-being of the Village Councils may be increased.

The present ORDEV structure, accompanied as it is by the authority given to HEO's and the Village Councils, is judged to provide an adequate framework permitting responsible exercise of prudent local discretion.

2. Local Government Budgetary Process

The present system of local financial management and budgeting does not support prospects for village council autonomy. Special actions will have to be taken. As noted by Mayfield: ". . . the bureaucracy stresses the traditional budget functions of control and accountability; the locally elected councils, interested in meeting the needs of their constituents, stress accelerating public expenditures . . ." 13/

Under these circumstances, innovations like the "special account" as introduced under Public Law 52 for Village Councils can be vitiated unless special measures are gradually adopted to overcome difficulties generated by the traditional systems. Within the limits of existing business practices and to the extent feasible, these special measures should ultimately include: provision of full estimates of project costs over time including depreciation; loan repayment and other expenses; descriptions of social as well as economic benefits earned; consideration of program or project alternatives — supported by comparative empirical data; and an analysis of interrelationships among projects and programs being planned or implemented in the same local areas.

13/ Op. Cit. Mayfield, August 1977, p. 65

The LDF can gradually introduce these forms of elementary program analysis and performance budgeting. It is judged that, in so doing, the chances for undergirding the financial autonomy of participating Village Councils would be considerably enhanced.

3. Entrepreneurial Expansion and Social Services

Both Harik and Mayfield note successful village councils in which there is a determination to utilize profits from current investments in order to support more and expanded future investments. In these cases, expenditures on social services may be delayed or minimized. Mayfield, after applying an interview technique on a very limited basis, observes:

". . . There is a slight tendency for village officials to perceive the special fund as a mechanism for generating surplus income and profit while the village council members themselves are more apt to feel that the special account funds should be used to extend services and to provide low-priced food to the villagers . . . but there appears to be some willingness to divide the fund into both productive projects and extended services." 14/

These differences in perception could have serious consequences for the development and utilization of "special accounts." But the LDF system, as proposed, introduces training and engagement of village council members in the processes of project appraisal, costing and implementation. When accompanied by effective forms of program analysis and performance budgeting, this can help to establish a balance between necessary entrepreneurial expansion activities by village councils and the maintenance/development of essential social services.

14/ Ibid. Page 56

4. Leadership

In the previous study written in 1976 Mayfield observes that there are two elements crucial to the growth of rural development work in Egypt. One has to do with the effectiveness of the local official. " . . . Only if he truly understands and empathizes with the peasants and is skilled in communicating and working with them will his efforts be productive and useful . . ." 15/ The other concerns the effectiveness of the Village Council Chairmen. When examining this matter in 1976, Mayfield notes that the recently elected Chairmen are generally college graduates. He observes that " . . . this solid group of college trained local council chairmen may provide the leadership needed to direct and guide these local councils into becoming the kind of institution Egypt needs to implement the program and policies of development and modernization . . ." 16/

Subsequent observations by Harik and Mayfield in 1977 modify the foregoing in several ways. Harik notes that the content of the village council membership has also altered:

" . . . The appearance in large numbers of salaried villagers as RC members. Those are usually employees who come from rural backgrounds but work in public or semi-public organizations at the village or province level. They include teachers, agronomists, assistant agronomists, accountants, clerks and technical specialists of one kind or another . . . While these salaried cadres are experienced and educated, they do not constitute an economically advantaged group. They tend,

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15/ Mayfield: Local Government in Egypt: Some New Change Strategies and Training Opportunities, 1976. p. 4

16/ Ibid. p. 31

however, to be entrepreneurial and those who can establish their own business on the side or express their talents in their official work . . ." 17/

Both Harik and Mayfield note that the quality of the HEO's seem to be generally upgraded and comprise people who have had experience in village councils or as agronomists. 18/ Of even greater interest, related to the effectiveness of HEO's, is Harik's observation:

" . . . A striking phenomenon currently is that most officials now come from village and provincial backgrounds and serve in their own district or province. Evidently, it is a deliberate policy of the government to facilitate life for officials and avoid posting them in remote places away from their homes . . ." 19/

While these various alterations and improvements hold much promise in matters concerning local leadership, the management and oversight provisions of the LDF proposal, together with special training, should exploit this situation and build additional strength/confidence into local leadership.

5. Credit Institutions and Replicability

There are 17 Governorate-level Village Banks, which took over the financial functions and staff and supplies of the former Agricultural Credit and Cooperative Banks, under Law 117 of 1976. The transfer of functions occurred in early 1977. The fundamental reason for creating a new institution was to rectify the problem of non-collection of large

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17/ Harik, Op. Cit. p. 16

18/ Ibid. p. 16

19/ Ibid. p. 17

loan balances from delinquent borrowers. Under the Coop Banks, farmers were not pressed to repay their loans when they became delinquent. Medium-term loans comprise only 1 percent of the total and were used mostly for orchard establishment, purchase of farm machinery, and cattle breeding. The interest rate to farmers for all loans was 4-5 percent which was lower than the average borrowing rate of the credit system by about 2 percent. Loan recovery rates were fairly constant at about 60 percent, and further loans were available to defaulters. 20/

In other words, under the Coop Banks there was a serious dimunition of assets and funds available to other farmers. The Coop system now continues to perform the role of supplier of production inputs, marketing, and technical production assistance, and enforcer of acreage allotment laws for farm production.

The Village Banks provide credit for seasonal and farm/production needs, and to a minor extent, for medium term capital goods and general expansion. About 95 percent of the Bank's loans are for seasonal farm production needs. Loan terms are similar as under the former Coop Banks, except that they are now strictly enforced. On production loans, the Bank provides a 100 percent loan, and demands assets, the minimum of which is a lien on the crop.

Interest is charged at the rate of 4.5 percent per annum, with the difference between the commercial market rate (7 percent) for such loans made up by a subsidy differential paid to the Banks by the Ministry of Finance. For medium-term loans, the Bank provides a 75 percent loan for a tractor, with the borrower putting up the balance. In the case

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20/ FAO/World Bank, Cooperative Program Report, 1975 EGT 8 of May 21, 1975 (Vol. 5)

of other machinery, the Bank loans 100 percent of the cost. Interest rate for these loans is usually 9 percent. A key requirement for a borrower is that he is credit worthy, and that a prior loan from the Bank has been paid back at maturity. Unless this requirement is met, no loan is extended.

The Village Banks operate outside the jurisdiction of the banking laws and of the Central Bank. Although they appear to be a much stronger institution than the former Coop Banks, the Village Banks are likely to have a limited impact on village financial autonomy, village-wide development, expansion of economic activities within villages and promoting greater economic exchange between sectors in the villages. The Village economy in Egypt does require continuation of a credit institution which supplies seasonal production credit and small amounts of medium-term credit. In this context, with its new emphasis on repayment of loans by borrowers, and a policy not to extend loans to delinquent borrowers, the Village Banks will meet a need. Since the Village Bank system inherited the physical plant, equipment, supplies, and some 20,000 nation-wide employees, as well as all outstanding loans from the AG-credit and Coop Bank, its new mandate of better financial management in the seasonal production credit field presents a management challenge which will demand much attention. Moreover, its financial resources are limited. Some 12.8 million LE have been allocated for so-called medium-term projects in 1977. (Data on actual expenditures are unavailable.) In reality, only 1.7 million LE were budgeted for real medium-term projects, comparable to the kinds contemplated under the LDF. Of this amount, a full 1.0 million was budgeted for farm mechanization, which is heavily subsidized,

tends to displace workers, and may represent a misuse of scarce resources. This leaves then, projected for 1977, about 700,000 LE for projects of the same type as planned under the LDF; this includes, in the case of the Village Banks, poultry, orchards and beekeeping. Moreover, there is no indication of any sustained effort on the part of the Village Banks to continue a program of so-called medium-term loans beyond 1977.

There are two other financial institutions in Egypt which provide credit to so-called small industries. One is the Development Industrial Bank (DIB), and the other is the Organization of Artesans and Productive Cooperatives. In the case of the DIB, it has made very few loans to small industry because: (1) their risk factors are high; (2) asset bases are too low; (3) loan amount needs are below what the DIB considers a profitable loan for the Bank; (4) collection of principal and interest is difficult and time-consuming; and (5) repossession of DIB-financed goods from small borrowers is virtually impossible. Loans made by DIB, generally, are not less than 50,000 LE, which is far in excess of the loan levels required in the villages. Most village productive projects are rarely in excess of 15,000 LE, and the majority are much lower.

The Organization of Artesans and Productive Coops focuses primarily on urban artesans in the larger cities and towns. Three forms of assistance are provided to the artesans: marketing; finance; and raw material inputs. The Organization channels most of its assistance in the form of marketing and raw material inputs. For example, the artesans can market their output through the Coop, which functions as a central marketing board. Goods are turned over to the Coop on a consignment basis, and whatever is not sold is returned to the artesan.

The second major form of assistance is the provision of central purchasing of raw material inputs and training related to the conversion of the raw materials to finished products. About 3.6 million LE are available annually to make central purchases of raw materials and supplies, which are then re-sold to the artesans. The third area of assistance is in cooperation with the Nasr Bank. By agreement with the Coop, the Nasr Bank makes loans to individual artesans or small local cooperatives at a percent annual interest, with a repayment period of 3-10 years. The Bank usually takes a 15 percent share in the project, thereby reducing the debt burden of the borrower(s). Profits in such ventures are shared according to the share of ownership in the project. No data are available on the extent of this type of financing done by Nasr Bank; however, discussions with leaders of the Coop indicate amounts are quite small.

The present and prospective roles of these three financial institutions preclude any one or all serving early needs for loan capital on a small scale for village-wide revenue-producing, profit-making projects contributing to the financial autonomy of Village Councils. The Village Banks, for example, must continue to meet the needs for farmer seasonal production capital and operate with the inherited staff and resources of the former Coop Banks. The DIB mandate does not include very small loans to relatively high risk, low asset farmers, and Village Councils. The Organization for Artesans is urban-oriented, and devotes most of its resources toward marketing assistance and provision of inputs for a relatively narrow sector.

The proposed LDF will not compete with this system. It is structured to fill a need not met or expected to be met in the Near

Future by other financial institutions in Egypt. The LDF is aimed at medium-term loans for all kinds of entrepreneurial activities capitalized at interest rates somewhat comparable to the going rates in the commercial market. By employing prudent lending policies and enforcing them, and judicious portfolio management, the LDF should ultimately reach into every village in Egypt. The villages should become less dependent upon the Central Government by operating within the bounds of their own project income and operating costs. Eventually, the Village Councils will be less dependent upon the Central Government for budget revenues by expanding the size of their "Special Accounts" and determining themselves how to allocate such funds among competing village needs. The LDF operations will be village-wide, and include substantial technical assistance and training to accelerate the financial, management, local government and technical independence of the Village Council, the Executive Committee, and individual villagers. The projects to be financed will be small-scale ones, which can impact directly on value added, jobs, income, and increased village commerce between its own residents and with other villages. The LDF will foster the expansion and fuller development of entrepreneurial activity at the grass roots levels in Egypt. Through financing productive projects in any economic sector, the LDF will increase the vertical and horizontal development of agriculture, industry, and commercial activities. The LDF will train Village Councils, Executive Committees and villagers in the application of program budgeting, and evaluation for each village. These inputs will enable the villages to better identify and appraise productive projects and to coordinate planning productive projects and their implementation on a regional

basis, leading to greater profits and better allocation of scarce resources.

The LDF can evolve into a financial institution of several potential dimensions. It is impossible to predict at this time its future scale and configuration. However, at the outset, the LDF plans to use the Village Banks as a depository for its loan funds to village borrowers and possibly as a screening device to perform a first-level evaluation of loan applications in the villages. Continual review will be carried out during the five years of this project with a view toward maximizing LDF efficiency, output and integration with the total Egyptian economy.

6. Typology of Loans

Each project assisted under the LDF must produce a good or service which yields a direct income flow to the Village Council concerned or yields an indirect income stream in the form of fees or taxes levied on the use of the good or service produced by the project. In addition, there are certain commonalities for all loans. These include a limit of LE 15,000 on each, interest rates at 6 percent, adequate security, a financial internal return of at least 15 percent and time limitations on capital loans of seven years and two years for working capital loans.

While it is not possible to predict all possible usages for loans defined under the foregoing conditions, it is probable that they will be utilized in support of activities like the following:

— Trucking or taxi fleet;

— Agricultural processing;

— Tractor, pump, motor maintenance;

— Tractor, harvesting machinery purchase/operation;

— Livestock and horticultural development;

— Poultry rearing and hatchery;

— Consumer goods manufacture;

— Food processing and manufacture;

— Aquaculture development;

— Construction industry supplies;

— Carpet manufacture;

— Apiary and silk development;

— Carpentry and general repair shops;

— Marketing, packaging and handling;

— Handicrafts

Provision of specialized technical assistance to the LDF is planned to meet advisory needs generated by some or all of the foregoing types of projects. Where needed skills are not immediately available, the project proposes to utilize short-term consultants to meet such needs.

7. Environmental Implications

A completed Impact Identification and Evaluation Form is attached, Annex I.

It is probable that there will be a limited land use impact under this project because of land clearing. Existing ARE laws regarding land use together with village council sensitivities concerning the conversion of

agricultural lands to non-agricultural uses are sufficient to minimize this impact. Some loans will concern the conversion of lands to small industries, poultry production, etc.

Impact on the diversion of the use of water is also expected to be limited. Additional use may be made of existing developed water resources in support of loanable projects such as poultry and duck raising or for beef cattle and dairy cattle production. Such usages will utilize existing water more efficiently and convert nutrients into food and food by-products for the Egyptian village population and potentially for export to urban areas.

No effects upon atmospheric or cultural conditions are anticipated under this project. Socio-economic impacts are expected to be moderate to high and should be contributory and positive. For example, in the case of changes in economic/employment patterns, it is anticipated that some LDF loan projects will create temporary construction jobs. Other more productive and long-term projects will create a number of specialized, permanent jobs. Villagers will be taught new skills and these will be utilized in both temporary and permanent jobs in the villages. Opportunities for challenging and remunerative jobs for professional, managerial and technical workers at the village level will be enlarged.

8. Technical Design/Cost

Details of the costs of the project are provided in Annex E. The principal components of the project include:

a. Loan Capitalization:

$5,000,000 from the United States starting in Year 1 of the project.

b. Technical Assistance and Training:

$2,833,000 and LE 459,000 (US owned) from the United States starting in Year 1 of the project

INPUTS: (Aid-financed)

* Long-term Resident Technical Assistance:	3
1 for 4 years	
2 for 3 years	
* Short-term technical assistance	50 Man/Months
* Participant Training:	
1 academic year	20
6 months	25
Third Country Observation Tours	150

1. Introduction:

Presently, in its grant development program for economic, social development, and village planning, ORDEV confronts some formidable assistance tasks. It needs to develop technical assistance capabilities and training among the following target groups:

30 to 40 Central ORDEV employees

24 Governorate employees assiciated with ORDEV

120 to 140 District employees associated with ORDEV

300 to 400 Village Head Executive Officers in villages where ORDEV operations are taking place or projected

900 to 1,200 Village Executive committee members in villages where ORDEV operations are taking place or projected

300 to 450 Village Council Chairmen in villages where ORDEV operations are taking place or projected

1,500 to 2,250 Village Council members in villages where ORDEV operations are taking place or projected.

Total:

3,174 to 4,480 individuals requiring training during the next five-year period

While it is now constructing a physical site for an ORDEV Training Academy, ORDEV currently follows the same training and staffing patterns as most other Egyptian Governmental agencies. That is, it annually operates a few seminars - using co-opted short-term staff drawn from various Departments, Ministries, and Universities. Stress is on providing very general information about development, some attention to existing Ministry of Local Government regulations on budgeting; and descriptive treatment of ORDEV goals, methods of village selection, and reporting.

Currently, these efforts reach approximately 100 individuals per year with only a few Village Executive Committee, Council Chairmen, or Village Council members affected. Present ORDEV plans for the operation of the Training Academy envisage an ideal training intake of about 500 individuals per year. But budgetary considerations, lack of trained teaching staff at the proposed Academy, and lack of a developed curriculum indicate that in the first three or four years Egyptian efforts, if unassisted from abroad, will not be able to handle more than about 150 individuals annually.

Now the founding, development, and operation of the Local Development Fund must be appreciated in the context of this generally deficient training and technical assistance situation within ORDEV. The LDF cannot be

operated by inexperienced and untrained Egyptian staff either at the Center, the Governorate, or the Districts. Neither can it exist and gain acceptance among Village Councils and Head Executive Officers unfamiliar with loan requirements, methods of assessing loanable enterprises, and managing/monitoring profit-seeking operations. Similarly, if expanded Special Accounts are not managed dynamically and responsibly so that invested funds are cost/effectively used in supporting/encouraging essential physical and social services in the villages, what value is to be attached to the profit-making gains achieved under the LDF?

The answer lies, in very large part, in the specialized quality, intent, kinds, and amounts of technical assistance and training that ORDEV will concentrate behind the operations of the LDF.

Currently, ORDEV receives little technical assistance or training support from any foreign donor. The following chart indicates the kinds of technical assistance and training that is required by ORDEV as a whole. Items marked with an asterisk are directly related to the foundation and operations of the LDF.

PROJECTED CHART OF ORDEV

Technical Assistance and Training Needs

Category:

A. Training:

*1 Training Needs: Assessment

*2 Training Facility: Assessment & Design

*3 Training Methods and Techniques

*4 Training Curricula: Design and Evaluation

5 Training Staff: Development, Management, Evaluation

6 Training Product: Evaluation of Impact

7 Training Organization: Center and Field

B. Manpower:

8 Interviewing Skills

*9 Formulating and Issuing Personnel Policy

*10 Recruitment, Selection and Placement

*11 Job Description and Analysis

12 Compensation: Pay and Benefits

*13 Performance Appraisal

14 Work Measurement

*15 Career Development and Promotion

16 Comparative Personnel Management

C. Finances:

17 Cost Accounting

*18 Project Accounting

19 Auditing

*20 Public Finance and Banking

*21 Basic local government finance and management

*22 Budgeting including performance budgeting

*23 Financial and economic analysis of projects

*24 Quantitative Methods

*25 Financial reporting

D. Project Analysis:

*26 Social Benefit/Cost Analysis

27 Organizational Goal Definition

28 Program goal and category definition

*29 Resource needs inventorying and assessment

*30 Methodologies for planning and implementing projects

*31 Analysis of Market Opportunities

*32 Management Process and Techniques for Local Development

*33 Monitoring methodologies

*34 Evaluation

E. Information:

35 Systematic analysis of alternatives (Systems Analysis)

*36 Interviews and Surveys

*37 Information flows- management

*38 Records Management

39 Data organization/retrieval

F. Logistics and Physical Planning:

40. Physical inventorying and stock control

41 Standards formulation and design

*42 Purchasing and contracting procedures

*43 Maintenance and repair standards and systems

44 Estimating and scheduling plant/equipment/material inputs

45 Quality control

G. Participation:

*46 Resource mobilization and goal setting

47 Integration of services

48 Organizational channels

49 Linkages and relevance

*50 Team cooperation/coordination

*51 Communication

H. Appropriate Applied Business, Production, and Marketing Skills:

*52 Investment and profitability

*53 Production technology analysis

*54 Harvesting, processing, and packaging

*55 Storage, handling, and transportation

*56 Marketing and distribution

*57 Labor costs/efficiency/organization analysis

2. Long-term Technical Assistance:

The foregoing list, which is by no means definitive, was developed with ORDEV officials during November 1977. They desired AID technical assistance and participant training for virtually all categories and items listed. Ultimately, they agreed to 37 varied sets of skills as important to the creation and effective introduction of the Local Development Fund within the context of future soundly based Special Account operations. It was agreed that long-term resident technical assistance provided to ORDEV should be concentrated, in particular, on the following points of emphasis:

aa. Technical Project Manager/Development Economist:

The incumbent should be qualified to provide:

management of AID-supplied resources; loan fund policy advice at the highest ORDEV level; advice on the kinds and scheduling of short-term technical assistance required; and plan the training of Egyptian trainers as well as personnel associated with the project. Matters of particular concern would be: training systems and methods; resource allocation; economic and financial accounting/analysis; market analysis; cost/benefit analysis; and financial information flow/management. (See detailed Job Description attached.)

bb. Basic Local Government Finance/Management:

The incumbent should be qualified to provide: analysis of local village finance conditions; advice on the kinds and scheduling of short-term technical assistance required; and plan the training of Egyptian trainers as well as personnel associated with the project. Matters of particular concern would be training systems and methods; short and long-term financial planning; local government revenue management; scheduling and managing public debt; taxation and public utility revenues; logistics; and performance budgeting. (See detailed Job Description attached.)

cc. Production and Marketing Analysis:

The incumbent should be qualified linguistically and in

skills so that work in Egyptian field conditions is easily performed. The incumbent should be able to analyze local production/marketing conditions/ opportunities, define necessary short-term technical assistance required, and train Egyptian trainers or directly train personnel associated with Village Councils and Executive Committees. Subjects of emphasis would be: assessment of economic potentials of alternative production possibilities; analysis of specific production potentials/problems; market evaluation as a prelude to production design; assessment of production complementarities fostering regional or sectoral development in a District or Governorate; and design of accounting, costing, reporting, and evaluation procedures appropriate to the scale and type of village-financed profit-oriented enterprises under development. (See detailed Job Description attached.)

Technical assistance and training targets for this three-person long-term residency team vary according to the level of action assigned to the individual and the skills to be imparted. All will work directly with the LDF unit that will be created within ORDEV. A portion of their time, approximately 30%, will be spent in assisting the development of LDF-oriented training courses as well as teaching skills at the ORDEV Training Academy and in gearing participant training to help meet LDF-related Academy needs. This should provide Academy capacity, in the first year of operations, to handle about 60 LDF trainees drawn from the 3,174 to 4,480

individuals who are the ultimate target group. In the second year, assuming that some ORDEV-employed trainers have returned from learning assignments abroad and are assigned to training, this figure should increase to about 100 LDF trainees per year. In the third year, assuming that a soundly conceived and operated participant training program is producing trainers who are employed at the Academy, the annual output may rise and stabilize at about 200 trainees per year.

Another 30% of the long-term technical assistance team would be spent in devising methods, training staff, and experimenting in the field with on-the-job modes of training aimed at District ORDEV, Village Council, and Head Executive Officer personnel. The third year target in this area would be an ORDEV capacity to handle another 300 trainees per year through such means.

Thus, after the long-term technical assistance advisory team departs at the end of three years (in the case of the local government finance/management specialist and the production/marketing analyst) or four years (in the case of the development economist/management analyst), ORDEV should be in a position to train between 300 to 400 individuals per year in matters related to LDF operations and the longer term developmental activities arising out of strengthened Special Account funds. At the end of five years, an Egyptian-trained cadre of 1,000-plus individuals should be of sufficient magnitude to generate continuing and growing momentum in constructive use of the LDF as well as Special Account funds.

Finally, 40% of the long-term technical assistance team time will be utilized in developing policy advice, and providing detailed technical assistance to the LDF during the first years of its founding, installation, and operation. Here, the team will work in tandem with ORDEV staff specially assigned to the LDF unit within ORDEV as the policy-makers and technical staff of the Fund.

3. Short-term Technical Assistance:

The amount of short-term technical assistance required in order to meet the needs of ORDEV among the 37 items listed is a function of the competency of the long-term resident team, the pace and character of project development, and the extent to which soundly conceived and staffed training programs can be introduced at the ORDEV Training Academy. This Project Proposal estimates the amount at 50 man/months over a five-year period, subject to the understanding that experience earned during the first thirty months of the project may require an upward or downward adjustment of short-term man/months at the end of the thirty-month evaluation.

4. Participant Training:

As may be noted from the foregoing, including a list of training needs, the present elementary state of the ORDEV Training Academy, the size of the target group that is to be trained, and the varied demands that are to be placed upon the small

long-term technical assistance team assigned to the LDF all signal the importance attached to an appropriate participant training program of sufficient size and specialized character.

In terms of levels, the participant training needs are fourfold:

(a) training Egyptian trainers to staff the LDF-training emphasis of the ORDEV Academy as well as field training operations mounted in support of the LDF;

(b) higher-order skills for the ARE agency technically backstopping the LDF project (ORDEV);

(c) skills related to the developmental use of Special Account Funds; and

(d) practical, applied skills for officials, elected councilors, and in some selected cases, entrepreneurs at the village level.

These should all be attacked through employing a mix of participant training and observation experiences for individuals drawn from the numbers listed in the target audience outlined at the beginning of this entire portion of the PP, e.g., "Technical Assistance and Training."

The functional areas of training, to which the participant studies and observation tours should be addressed in particular include:

aa. <u>Training needs, facilities assessment, methods, curricula, and evaluation</u>:

The ORDEV Academy, in particular, needs at least four

Egyptian personnel who are trained in course work aimed at equipping them to handle overall training and manpower development functions related to ORDEV and the LDF activities. This will demand, at a minimum, at least 400 class contact hours per individual in an institution specially organized and staffed to provide training in such matters as: training needs assessment and curricula design; training methods and techniques; training facility appraisal and coordination; training evaluation; and performance appraisal.

bb. Project identification and analysis:

There is need for training ORDEV trainers as well as LDF staff, ORDEV field staff, and selected Head Executive Officers and Village Council personnel in the standard techniques of project development including identification, costing, design, planning, technical, and financial analysis of projects and project proposals. This training should be aimed at three targets:

(i) Development of an internal ORDEV training capacity located in the Academy to teach and extend project development skills (both in courses at the Academy and in the field) as well as to modify and adapt standard project development techniques to Egyptian conditions. At least two ORDEV staff should have 400 class contact hours of training in these skills so

that they might become trainers and research specialists in the entire spectrum of activities comprising this area. In addition, and in order to speed the initial introduction of LDF operations at a time when ORDEV's training capacity is limited, at least six ORDEV field staff should be provided with 200 class contact hours each in certain of the skills associated with this area.

(ii) Creation of a small, but skilled, core of project analysts within the LDF staff. While much of this will have to be done, initially, with the help of the long-term resident technical assistance team at least two LDF Egyptian staff should be provided with 200 class contact hours each in certain of the skills associated with this area.

(iii) Creation of a small group of trained village Head Executive Officers who can be used as a training resource in each governorate in matters concerning project identification and analysis. While this training should, in large part, be provided through the ORDEV Academy, there is need in the initial stages of the LDF development to situate some specially trained HEOs in those governorates where a particularly high rate of loan applications and activities are anticipated. These will probably

comprise about five Governorates and at least one HEO each coming from villages among those five Governorates should be provided with 200 class contact hours of training each in certain of the skills associated with this area. Later, such HEO's should be used as field training resource persons for ORDEV Academy-sponsored programs.

cc. Basic local government finance/financial management: Present governorate/local capacities in this area have been noted by Dr. Mayfield and other authorities as limited to financial monitoring and record-keeping for audit/accountability purposes. There is need for training in the kinds of skills of public finance management required to underpin decentralized, developmentally oriented, municipal/village investment and financial planning implicit in Public Law 52. While the number of participants would be small and the training quite technical, the focus would be upon public finance, taxation, performance budgeting, and budget planning skills as these are now taught in the finance component of professional programs for U.S. town, city, and country managers. This training would be aimed at two targets:

(i) Development of an internal ORDEV training capacity located in the Academy to teach these skills. A single individual would require 400 class contact hours in the necessary training.

(ii) In order to speed developmentally oriented financial planning and management at the village levels, and as an assist to the resident long-term technical advisor in this field, at least two ORDEV staff should be provided early but limited training in this area. This would comprise 200 class contact hours at a suitable training institution with special emphasis devoted to performance budgeting and budget planning skills.

dd. Public finance and banking:

At least three members of the ORDEV headquarters staff, two of whom should be assignable to the ORDEV LDF unit, will require basic banking skills required to operate and administer the LDF. These individuals should be given sufficient technical training in portfolio management, loan administration, and entrepreneurial credit-lending analysis to permit them to assume a major element of both training and technical staff responsibilities concerning these matters within the Academy and the LDF unit. This will require at least 400 class contact hours for one individual and 200 class contact hours each for two others.

ee. Applied Business Skills:

The long period of state-dominated enterprise in Egypt, at all levels of the society, has seriously affected the growth of basic business/entrepreneurial skills among the rural and urban populace. Similarly the bureaucracy, so long conditioned by centralist as well as statist and socialist ideals,

sometimes perceives private enterprise and related skills in ways that do not result in favoring or, at least, neutral policies. These matters will affect the LDF operations at all times; and various ways must be developed by which new skills can be encouraged and attitudes altered.

Training under this rubric would have as its goal: the development of business advisory skills within ORDEV; means of providing qualified Egyptian small enterprise advice to village entrepreneurs; and fostering perceptions among government officials, village counsellors, and enterprisers alike about what private initiative can accomplish in rural settings.

This training would be aimed at four targets and accomplished in several ways:

(i) Development of at least one central ORDEV staff member who has received special training in the principles of small business organization and management, with a view to imparting these skills as a trainer employed on a part-time basis at the ORDEV Academy. Such an individual would require at least 400 class contact hours of specialized training.

(ii) Development of at least four ORDEV central/Governorate personnel as technical assistance resource persons and trainers in matters concerning small business organization and management.

Those individuals would require at least 400 class contact hours of training each in appropriately specialized institutions.

(iii) Training of at least six carefully selected Head Executive Officers in matters concerning private enterprise management and development so that such individuals can be used as resource persons in technical assistance and local training in LDF-sponsored programs aimed at particular areas. Each would require 200 class contact hours of training in specialized institutions.

(iv) Observation travel in carefully selected third countries where development of rural-based private productive enterprise can be examined at sites. Such travel should be arranged for about 80 Village Counsellors, ORDEV officials, and Head Executive Officers during the next five years.

ff. Information Flow and Data Management:

As pointed out in the DAI study of ORDEV, that organization already generates approximately 10,000 applications, appraisals, and reports annually in presently handling its grants programming. These records are inadequately designed in many cases and/or demand the input of far more data requirements than is necessary for good management. Furthermore, because of inadequacies in the present analytical, storage, and retrieval

systems, much of the material is never utilized. When the LDF begins to operate, even assuming that new procedures are held to a minimum, there will be an additional imposition of demand for background, appraisal, and reporting information.

Obviously, there will be a need for training specialized ORDEV staff in the techniques of developing and operating simplified, effective management information systems capable of supporting the LDF, grant-funded activities of ORDEV, and reporting on developmentally-oriented projects that will be funded by expanded Special Account Funds.

At least two ORDEV staff should be provided with 400 class contact hours of training each in the special subjects associated with this function. Another two ORDEV field staff, trained as resource persons for technical assistance, should be provided with 200 class contact hours of training each.

gg. Local Participation:

Acceptance of the LDF system, as well as establishing the procedures and attitudinal changes essential to a dynamic developmental role for villages, will require effective mechanisms for mobilizing elected officials, government officials, and the populace. Presently, the village council is not a community structure. It is an amalgamation of several local communities. Under these conditions there

may be a need to build supporting organizational, programmatic, and other kinds of processes or institutions that will foster mobilization and maintain continuity in development.

Special skills in organizational design, role formulation, goal setting, and communications will be required in order to foster local participation in the LDF, ORDEV-sponsored activities, and the sound evolution of village special account-financed developmental growth. Additionally, altered perspectives among village council and village executive committee personnel may be an important factor in supporting participatory developments.

Training and observational experiences aimed at attaining these skills and perspectives should concentrate on the following targets and ways of accomplishment:

(i) At least one central ORDEV member should be trained as a resource person for use in analyzing participatory situations, mobilizing and directing necessary research, and developing ways by which culturally relevant participatory institutions and practices are advanced in the context of LDF and ORDEV interests. This will require at least 400 class contact hours of special training for a person that is already well grounded in sociology, anthropology, or some related social science discipline. The training would have to take place at an institution which is suitably oriented towards Egyptian societal conditions.

(ii) Similarly, at least ten ORDEV officials, village counsellors, and members of village executive committees should be enrolled in special programs that will provide each with 200 class contact hours of training designed to develop them as supportive resources in local participatory processes.

(iii) Observation tours of selected third country where varied local participatory organizations/processes have developed can lend important weight to alteration of Egyptian perspectives. At least eighty village counsellors, Village Executive Committee officials, Head Executive Officers, and field ORDEV staff should be provided with such experiences during the next five years.

hh. Evaluation and Research:

Presently, nearly one-fourth of the current ORDEV central staff operations are addressed to what is called "evaluation and follow-up." Their intent is to match the costs of projects supported by ORDEV with the benefits derived from each project as well as examining the results (i.e. impact, effects) of projects on the community. These might include increases in income among individuals, overall increases in income for the village considered as an economic unit, redistribution of income on an equitable basis, improved village self-help capabilities, improved social services, and increases in employment, agricultural productivity, etc.

The current systems, installed by ORDEV, reflect lack of trained staff both in the design of evaluative criteria, execution of survey and in-depth research needed to test evaluative criteria and systems, and in the diagnostic analysis of incoming data. All of these matters relate directly to the operations of the LDF and, ultimately, to improved local capacity to developmentally utilize expanded funds accruing from growing Special Accounts.

Special skills are needed as well as far more cooperative perspectives among the Village Council and Village Executive Committee personnel who must participate in the operation of any evaluation system. The targets for training and suggested ways of accomplishing same include:

(i) Development of at least one ORDEV trainer and research specialist at the Academy, skilled in the design of evaluation research, evaluation systems and the diagnosis of evaluation results. The individual will require at least 400 class contact hours of specialized training in a suitably equipped institution.

(ii) Development of at least two ORDEV field staff as resource persons to work on the necessary research for design of evaluation systems, design of evaluation systems, and test/operation of the necessary systems. While, ultimately, this kind of training should be provided through the ORDEV Academy in the initial

stages and to speed developments the first two individuals should obtain 400 class contact hours of training each.

(iii) Establishment of an initial cadre of six ORDEV officials, Head Executive Officers, and Village Counsellors who are skilled in some aspects of evaluation and trained to play supportive roles in the testing and introduction of evaluation systems. Each of these individuals should be provided with 200 class contact hours of training.

(iv) At least forty Village Counsellors and Village Executive Committee personnel should be provided with opportunities to observe how evaluation systems are designed and operated in a number of representative third-country settings.

This is an important component in overall training, particularly with reference to the LDF, because local personnel attitudes about evaluation and evaluation data can materially affect the quality of the product.

There are countries where evaluative systems have been introduced and functioned successfully with the help of local participation by officials and populace.

ii. <u>Appropriate Production and Marketing Systems/Skills</u>:

Local enterprise in Egypt is currently hamstrung by the absence of contemporary, small to medium-scaled industrial

and marketing systems and skills. In almost all areas of production from food processing to rope making the potential entrepreneur has the choice of either a crude "cottage industry" technology and accompanying set of village based skills or highly capital intensive industrial technologies which formerly have been the sole domain of state enterprise. In the former case, the current market conditions no longer favor most such industries. In the latter case, the amount of capital required and the limited managerial/technical skills available tend to militate against private investments of this kind.

Under these circumstances, no single entity -- such as the ORDEV establishment of the LDF -- can hope to bring about substantive changes concerning such matters. But, an operation like the LDF cannot ignore these circumstances. It must seek to build up planning, training, and analytical skills both within its own establishment and in conjunction with other Egyptian agencies in order to consequently affect the technical/managerial skills gaps in small-scale industry production and marketing. Similarly, it must endeavor to affect local entrepreneurial perspectives about what may be possible as well as the necessary analysis required when designing a locally based productive enterprise.

In this connection, the LDF needs both a training and analytical capacity of its own and the means to link its

needs into other Egyptian institutional resources helpful in addressing this gap. Similarly, it needs means by which it can help to inform and develop village level perspectives on the whole subject. Training and observation activities addressed to these maters should focus on the following targets and ways of accomplishment.

(i) Development of one ORDEV Academy trainer who is highly skilled in: analysis of small-scale productivity and marketing problems; marshalling of Egyptian analytical resources to look at such problems and development of workshops, seminars, and special training venues which foster study of these matters by policy makers, technically qualified personnel, entrepreneurs, and officials. Such an individual will require at least 400 class contact hours of highly specialized training.

(ii) Development within the ORDEV central and field establishment of at least six individuals who can act as technical resource personnel to the ORDEV Academy trainer mentioned in (a) above, and also provide technical assistance concerning these matters to Head Executive Officers and Village Councils. Each of these individuals will require at least 400 class contact hours of highly specialized training.

(iii) Development of ten ORDEV, HEO's, and Village Council personnel who can act as initial resource persons and technical assistants to analyze particular types of LDF-supported small industry and marketing loan possibilities. Each of these individuals should have at least 200 class contact hours of training in a specialized institution.

(iv) Observation tours of third country successful as well as unsuccessful experiences in this area seems a vital necessity for selected Village Council Executive Committee and private entrepreneur individuals. During the first five years at least one hundred such individuals should be provided with opportunities to make such observations through a carefully arranged and programmed series of tours.

In summary, participant training and observation tour needs of the LDF as related directly to that entity and indirectly to some of the needs of ORDEV and Special Account Fund Development are identified as:

400 class contact hours (1 academic year)	26
200 class contact hours (6 months)	51
Third Country Observation Tours	300
	377

This figure excludes those Egyptians undergoing LDF related training at an expanding rate within the ORDEV Academy or in field training situations within Egypt during the first five years. As indicated earlier, such individuals would number about 1,000-plus, in addition to the 377 described above.

This project proposes to only care for the following levels of participant training and observation tours during the first five years:

400 class contact hours (1 academic year)	20
200 class contact hours (6 months)	25
Third Country Observation Tours	150
	195

5. The ORDEV Academy and Kinds of Training

While the ORDEV Academy will be an important part of this project, it is not the focus for the activity and, therefore, the Academy should be assisted and supported only to the extent that its improvement lends strength to the development of the managerial/production skills central to LDF and this project. For example, the first tranche of returning participants should probably be divided between two operational tasks: staffing the LDF and staffing a LDF-focussed training unit or program within the Academy. Since there may be need for some kinds of training equipment, as well as some additional flexibility for utilization of training funds, a sum of $245,000 in LE is set aside in the budget for these purposes, with cautionary note that such monies should be invested in training inputs directly related to project objectives.

In this connection, three obvious candidates for utilization of some of the $490,000 mentioned above should be noted here. The first is the need for training institute design and administration. This would include curriculum design, preparation of teaching aids and use of vocational equipment. A second concerns the need to build in a Case Study component to the training. Existing local government/rural development training in Egypt is excessively theoretical and academic.

Project-supported training should center on the development of Egyptian case material based on recent field experience in ORDEV and other Egyptian programs. 21/ The resident advisory staff will be expected to work on the development of such materials. In addition, there may be a need to bring in short-term consultants to assist in this work. Funds to cover this need could be drawn from the $490,000 rather than technical assistance short-term consultancy funds. Another kind of need is development of an ORDEV capacity to carry out low-cost, in-the-field training programs as they may relate to the LDF operations. Some additional funds may be required to assist in developing pilot efforts of this kind, and a portion of the $490,000 might be utilized for supplementing ORDEV inputs in this area.

LE 118,881 from the ARE starting in Year 1 of the project.

These funds will be utilized by the ARE to cover costs of ORDEV training staff, special in-the-field kinds of training programs, development of case study materials, etc. It is estimated that as the training activities mount in scale, the average annual expenditure for ORDEV on such matters pertaining to LDF training will approximate LE 23,600 annually.

21/ For fuller discussion of case-method training for rural development, see: Blackton, J. S., and Dalton, J. D. Professional Training for Rural Development, World Bank, 1976.

d. Commodities-Equipment:

$352,000 from the United States starting in Year 1 of the project.

Office equipment, calculators, furniture, special tools and some vehicles will be needed to support the central LDF operations.

There will be no contributions from the ARE in this area.

e. Evaluation/Applied Research:

$100,000 and $200,000 in LE from the United States starting in year 1 of the project.

These funds will be utilized to commission the kinds of evaluative studies required to identify where LDF policies, management systems, etc., need improvement. Such work will be an ongoing part of the project from the outset. The funds will be used to commission Egyptian and foreign-conducted special studies, surveys and evaluations from time to time.

There will be no contributions from the ARE in this area.

f. Construction Cost - ORDEV Training Academy:

LE 1,171,810 from the ARE Starting with LE 200,000 in Year 1 of the project.

These funds are for use in covering costs of erecting those physical elements of the Academy that will be used by LDF-related training activities.

g. Operational Costs of Field ORDEV Staff:

LE 251,748 from the ARE starting in Year 1 of the project.

These are funds used to cover the extraordinary costs of ORDEV staff in the 20 Governorates associated with establishing and managing the LDF system during the five years of the project. The average annual extraordinary expenditure is calculated at about LE 2.142 per Governorate per year.

h. In addition to direct project inputs, the ARE will continue to allocate at least LE 2,500,000 per year to ORDEV for grants to village councils for physical, social and economic projects.

9. Project Length

The five-year period for this project is based on an analysis of ORDEV's growth since 1973 and its success in managing the activities of that organization. Currently, it is delivering advice and assistance to about 100 new projects per year. This pace will continue and perhaps expand.

Utilizing a five-year period for the development of the LDF system will not interfere in marked degree with the other activities of ORDEV. At the same time, it is recognized that introducing a new system, the Local Development Fund, will generate new complications and require much training, monitoring and management in the early stages. The five-year span should permit solution of these various problems in a timely manner.

It is envisaged that, if the LDF proves successful in increasing the incomes of village councils, the Government of Egypt may wish to contribute capital to it from its own resources within the next few years. It is also considered likely that USAID will wish to continue supporting the LDF,

particularly if it is seen that not only do village incomes grow, but also services and infrastructure in those villages which have undertaken successful loan projects. USAID might wish to broaden its assistance to include applied research into such questions as citizen participation and specific ways in which women can be integrated more effectively into village decision making, local government and private enterprise at the village level. In addition, the LDF mechanism perhaps could be used to further other GOE priorities such as family planning, e.g., preference given to village councils who are taking active roles in promoting family planning, preference for projects involving women in income producing projects.

10. FAA Section 611 (a) and (b)

All conditions under referenced Section are met in this project.

Job Descriptions

I. Technical Project Manager/Development Economist

Duties:

The incumbent will provide overall project management for all resources supplied by USAID, including resident team, consultants, equipment, supplies, and training systems.

— Working in close and continuing association with the Under-secretary of ORDEV will serve as the senior advisor/manager for the project effort.

— Will be responsible for determining/scheduling, and coordinating, with the advice of the team's other resident advisers, short term consultants, and GOE officials, all inputs from USAID to DDI.

— Will provide guidance to the Board of Directors of the LDF, the LDF Loan Committee, and the secretariat of the Loan Committee, on issues dealing with the policies and operations of the LDF.

— Will be expected to spend considerable time in Cairo with ORDEV and LDF staff in the execution of these general advisory duties.

— Will be expected to spend about a quarter of his time in the field, at the Governorate and the village levels assisting Egyptian counterparts to promote awareness and acceptance of the LDF at the local levels.

— Will advise the Undersecretary of ORDEV on policy and operational policy issues at the ORDEV Academy as they pertain to DDI.

— Will have managerial responsibility over the other members of the resident team including short-term consultants.

— Will advise ORDEV on some or all of the following generic kinds of development economics areas: resource allocation; economic and financial accounting analysis; market analysis; cost-benefit analysis; financial information flow/management; and such other matters as may be deemed essential in the goals of DDI.

Qualifications:

— Broad training and experience in development planning and implementation experience in the project cycle including cost benefit analyses.

-- Experience in the creation and operations of local development finance institutions; a sufficient background in quantitative analysis and applications.

— Experience in determining training needs and candidate selection procedures.

— If possible, familiarity with AID project management procedures, and a sufficient background in financial and economic accounting to provide advice and select suitable short-term experts.

— It would be desirable to speak Arabic or, at least, to be able to learn the language in the early months of the project.

II. Basic Local Government Finance/Management

Duties:

The incumbent will advise ORDEV Governorate and village level officials on local government administration and finance as it relates to the operation of the LDF and, in a more general sense, as it relates to the overall concept of decentralization which the GOE has adopted as a rural development strategy.

— Will analyze the on-going procedures of the LDF and other local government procedures related to ORDEV programs to insure that they are consistent with existing finance management requirements, the socio-economic environment of rural Egyptian villages and are relevant to the decentralization goals of the GOE.

— Will develop new techniques and procedures relevant to the LDF and other ORDEV programs consistent with the analysis described above, and including local government revenue management; scheduling and managing public debt; short and long-term financial management, taxation and public utility revenues, logistics, and performance budgeting.

— Will advise ORDEV and the ORDEV Training Academy on curriculum development for LDF and other ORDEV programs.

— Will assist ORDEV to organize its evaluation of LDF related effects such as management of LDF sponsored projects, impact of LDF generated revenues on village special accounts, etc.

— Will assist ORDEV develop operation manuals, program analysis systems and budgetary systems which support the LDF and would support a greater role for village descretionary economic activity.

— Will assist in the selection of short-term advisors.

— Will assist in identifying participants and suggesting relevant training programs for these participants.

Qualifications:

— Practical experience in financial planning for short and medium term local development.

— Have practical-based background in local government revenue management, tax policy, public utility revenue management, scheduling and managing public debt and planning and operating public service programs.

— Have organizational and operational experience with local government personnel management.

— Have some teaching experience in general public administration policy.

— It would be desirable for the incumbent to speak Arabic or be able to learn the language during the early phase of the project.

III. Production/Marketing Analysts:

Duties: The incumbent will assist ORDEV in its efforts to help village councils with productive project identification, preparation, appraisal, and implementation.

— Will assist village council programs which aim at sharpening concepts of projects and becoming better equipped to identify productive projects with high marketing potentials, thus making better use of their time and talents at this stage of the project cycle.

— Will train and work with ORDEV officials to familiarize them with the principles of the project cycle.

— Will develop appropriate methods for assessing the economic potentials of alternative production possibilities, design, accounting, costing, and evaluation techniques appropriate to the scale of the village enterprises.

— Will advise on approaches to market evaluation prior to undertaking production activities, looking for production complementarities which would foster regional economic development at the district or governorate level.

— Under the supervision of the Technical Project Manager will provide substantial input to modifications and adjustments to LDF operating procedures and policies.

— Will provide advice and assistance in designing curriculum in areas of his competency at the ORDEV Academy, and training of trainers at the Academy.

Qualifications:

— Practical experience with small-scale production enterprise and marketing and experience with small-industry operations in developing countries.

— Experience based in his background in the project cycle principles and applications especially in small industry marketing.

— Have knowledge of financial management and accounting, including as many specific industries relevant to the Egyptian experience as possible.

— Background should include some teaching and, if possible, curriculum design experience in the developing countries training institutes.

— Should be competent in Arabic or be able to learn the language during the early months of the project.

B. Financial Analysis and Plan

The attached two Tables, together with a statement on Assumptions, provide the necessary financial data concerning the LDF operations.

LDF LOAN OPERATIONS: SCHEDULE

(See Assumptions on Following Page)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Loans						
Loans Authorized	500,000	1,000,000	1,000,000	1,000,000	1,500,000	--
Disbursements						
- Against Current Year's Loans	150,000	300,000	300,000	300,000	450,000	--
- Against Previous Year's Loans	--	350,000	700,000	700,000	700,000	1,050,000
- Total Disbursements (Cumulative)	150,000	800,000	1,800,000	2,800,000	3,950,000	5,000,000
Interest Income						
Amount on which interest due:						
- at 4% (grace period)	150,000	800,000	1,650,000	2,000,000	2,150,000	2,200,000
- at 6% (after grace period)	--	--	150,000	800,000	1,800,000	2,800,000
- Total Interest on Loans	6,000	32,000	75,000	128,000	194,000	256,000
Less 6% of Repayments	--	--	(6,000)	(24,000)	(54,000)	(96,000)
Plus Interest on Reserve Account (8%)	--	4,000	12,000	20,000	28,000	40,000
Total Interest Earned	6,000	36,000	81,000	124,000	168,000	200,000
Repayments	--	--	100,000	300,000	500,000	700,000
Loss Reserve	50,000	100,000	100,000	100,000	150,000	--
Expenses	25,000	25,000	25,000	25,000	25,000	25,000
Available Loan Funds						
From AID Grant	4,500,000	3,500,000	2,500,000	1,500,000	- 0 -	- 0 -
From Interest Income	6,000	36,000	81,000	124,000	168,000	200,000
From Repayments	--	--	100,000	400,000	900,000	1,600,000
Total	4,506,000	3,536,000	2,681,000	2,024,000	1,068,000	1,800,000
Less:						
Expenses and Loss Reserve	75,000	125,000	125,000	125,000	175,000	25,000
Net Total	4,431,000	3,411,000	2,556,000	1,899,000	893,000	1,775,000

LDF Loan Operations

A. Assumptions reflected in the schedule on the preceding page are as follows:

1. AID will disburse $5,000,000 grant as required to meet demand for loan funds. The demand is assumed to be $500,000 in the first year, $ 1 million in each of the following three years and $1.5 million in the fifth year.
2. Loan disbursements are assumed, on the average, to be spread over two years, with 30 percent disbursements occurring in the year in which the loan is made and 70 percent in the following year.
3. Loan terms are assumed to average 7 years with a 2-year grace period and interest at 4 percent during the grace period and 6 percent thereafter, (known as the authorization period). Interest is assumed to be payable from the date of disbursement.
4. Loss reserves will be set aside in a separate interest bearing account at the time loans are established; initially 10 percent of the loan amount will be so deposited; the account will earn interest at 8 percent per annum.
5. Loan repayments will be made in level installments so that 20 percent of the principal is repaid in each of the 5 years of the authorization period following expiration of the 2-year grace period.
6. LDF's administrative expenses are assumed to average $25,000 per year.
7. Interest income will initially be accummulated rather than used for additional lending.

B. Some of the foregoing assumptions have been made solely for the purpose of simplifying the presentation or because more reliable figures are not available.

C. Social Analysis:

There are a number of social issues surrounding this project. Three are singled out here, not in order to provide definitive answers but to chart the dimensions of the kinds of ongoing study that is required during the life of the project.

1. Beneficiaries:

Just whom will the projects funded under the LDF system benefit? This question has to be judged in the context of the project's goal that is, to promote decentralization through enhancing the autonomous revenues of village councils. The local revenue issue, therefore, is paramount. As observed by one of the designers of this project, Mr. John Blackton:

"...We want the LDF to be enabled and encouraged to make loans to those enterprises which show the greatest promise of economic return. The individual enterprises do not have to be 'ideal types for integrated rural development projects;' they should be sound business ventures. Either through joint equity arrangements or through contract or employment aspects of these enterprises, some may produce strong positive benefit streams to a few individuals and may not directly benefit more than perhaps a dozen or two dozen people. This is not necessarily a problem. The purpose of the enterprise is to produce profits which become the collective property of the whole village (through the council) and are spent in ways responsive to overall community needs. It is at this level that the benefit incidence of the project is important..." 22/

It is assumed that this project will benefit the entire village through generation of additional money for the "special account" which can be used for either further income-producing activities or community development, infrastructure and social services. It is further assumed that village councils,

22/ J. Blackton Memo, "Key Issues in the Project Design," July 1977, p. 1

as elected officials, are responsive to community "felt needs" and that, therefore, funds generated through income-producing activities will be used to address the needs of institutions which can include both sound types of projects or reinvestment in other income-producing activities. Beneficaries cannot be measured in individual terms but must be viewed in the aggregate, as whole villages. Whether funds are reinvested or used directly for development purposes benefits flow to all the villages. To the extent to which the village council is elected through a genuine democratic process (it is supposed that this is the case) it will be answerable to the electorate for the use of monies accruing to the special account. This does not necessarily mean that all funds will be used in such a way as to benefit the whole village or that all funds will be used for social purposes, but it does mean that funds will be used <u>responsively</u>, which may in fact mean that they will be reinvested, depending on the circumstances. It also means that at certain times, e.g., election time, there are likely to be more services or infrastructure projects undertaken that will benefit more people than at other times, but this, after all, is the essence of the democratic system.

In terms of beneficiaries, moreover, it is a system that by and large historically probably has benefitted more people than others because it is responsive to the will of the people. It is new to Egypt and together with private enterprise is being encouraged by Egyptian leadership, particularly President Sadat, as being the necessary <u>sine qua non</u> for development of the country's potential.

In addition to the above factors, Harik has found that "one of the interesting things about officials and representatives at various levels

is their egalitarian attitude and keen awareness of the need to ameliorate the conditions of the village poor." 23/ This would indicate that elected and appointed officials alike will be anxious to undertake services activities using the proceeds from revenue-producing projects.

2. Selection of Villages

In the operation of the LDF there are certainly some villages which would benefit more than others by virtue of their being more active, enterprising, having more educated inhabitants, more expert officials, etc. It is also likely that Middle and Lower Egypt will enjoy an advantage since areas in these regions have already benefitted more from public service and infrastructure in general than Upper Egypt.

While villages in these categories should not be penalized, since this could have the effect, in the once case, of lessening the entrepreneurial spirit which already exists and in the other of discouraging further development, nevertheless there should be some effort made to ensure that villages be encouraged to participate which have not had a chance to show their capabilities for one reason or another or who have been neglected with respect to infrastructure and services. In this regard, ORDEV officials have indicated that their preference in selecting villages to be invited initially to submit projects to the LDF is for those villages which heretofore have not received any ORDEV funds. This would mean that these villages would have "first crack" at LDF money; as the operations of the Fund build up and more money accrues to it from loan and interest repayments, more villages will become eligible.

It should be borne in mind, however, that in speaking of villages which already enjoy more advantages than others, we are speaking relatively and in the context of the Egyptian situation. There are very few, if any, Egyptian

23/ Harik Report of October 1977, p. 20

villages which would be called well-to-do in U.S. terms.

3. Participation:

The degree to which new or different groups of local leadership participate in village councils remains an unknown. Nor is it known what the alterations in origin of village council members may mean in terms of better reflecting the needs of all villagers, including those from more remote satellite villages, and improving the dedication or efficiency of the village councils. If one contrasts the content of Mayfield's work in 1973 entitled "Local Institutions and Egyptian Rural Development" and his observations as well as those of Ilya Harik in the summer of 1977, there emerges a sense that the membership, motivation and quality of village councils have altered significantly during the past four years.

Harik's observations concerning the number of salaried villagers who are now members of village councils have already been noted. Mayfield observes, after elections of 1975, that:

> "...A careful analysis of the data collected from various districts in both the Delta and Upper Egypt suggests that this past election provides a sharp contrast in that only a limited percentage of the newly elected council members had served in the former councils..." 24/

Again, what this may mean concerning equitable distribution of services or meeting the needs of various elements in the villages remains to be determined. It is, obviously, a matter for continuing study and evaluation as a project like the LDF proceeds.

It is also important to note that the GOE and AID are in the process of and plan to undertake a number of studies over the next one to two years which will shed additional light on the subject of participation in the

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24/ Mayfield, "Local Government in Egypt," 1976, p. 16

process of local government. We would expect that the results of these studies would have a major impact on planning further developments of Egyptian villages.

D. Economic Analysis:

Materials useful to this section have been developed by a World Bank team; and will be utilized when available sometime in March or April 1978.

Part IV. Implementation Arrangements:

A. Analysis of the Recipient's and AID's Administrative Arrangements:

1. Recipients:

a. Organization and Staff:

The attached Chart A provides a layout of the existing organization, together with an indication of staffing strength.

At the technical staff and administrative level ORDEV currently consists of 26 technicians and 16 support staff in the Cairo office. These individuals operate five Divisions: Financial and Administrative Affairs: Evaluation and Follow-up: Social Development: Physical Planning: and Economic Development. They are supported by eight other permanent staff handling such matters as public relations, training, legal affairs, contracting, etc., and 14 part-time technicians utilized on assignment from other government Departments from time to time.

There are six major committees acting as advisory panels and providers of technical services to ORDEV. Some, such as the Supreme Consultative Committee, operate at a policy level and provide policy advice and assistance. Another, the Committee for Rural Services Coordination, provides a means by which inter-ministerial and inter-departmental cooperation can be fostered. Four committees (Social Development, Physical Development, Economic Development and Administrative Development) are comprised of senior engineers, economists, social scientists and subject matter specialists drawn from Egyptian universities, ministries, retired personnel, etc.

The ORDEV Cairo technical and administrative staff supervise and support an ORDEV staff of 266 individuals in 20 Governorates. These are supervised, in each Governorate, by an ORDEV Director who reports to the Governor and to the General Director of ORDEV at Cairo.

b. Duties:

The field and Cairo staff implement a three-pronged ORDEV strategy. This involves promotion of physical improvement of villages, development of new social and vocational skills in villages, and provision of capital investment funds to villages in order to develop various kinds of productive economic enterprises. In each June, ORDEV requests each of the 20 Governorates to select at least two villages from each markaz (District) as candidates for possible support. Criteria are provided for the initial selection. Reports on each candidate village, together with details about prospective projects, must be prepared by ORDEV governorate staffs working with village officials. From the two villages selected in each District, and based on the evidence assembled, ORDEV then selects one for funding of projects in all three strategic areas, in two, or only one. ORDEV staff then continue to monitor and report on performance until the project is completed.

The foregoing operations, and staff participation, will continue when the LDF system is introduced. ORDEV staff at the Cairo, Governorate levels will be trained, additionally, to assist in the identification, appraisal and management/reporting on loans. It is anticipated that, initially, the LDF system can handle about 70 loans per year. Thus compared to the regular 140-village project load of ORDEV

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business in physical planning, social affairs and economics per year, the the LDF will add an additional 70 loans during the first two years. Current thinking within ORDEV emphasizes that as the LDF loan operation grows, the ORDEV project funds will gradually be shifted towards physical and social services types of projects.

c. Training:

Technical members of ORDEV, both at Cairo and in the field, are generally young and graduates of Egyptian universities in agriculture, business and commerce, engineering and sociology. Virtually all need training in LDF operations; and many are interested in obtaining additional training. A number are working now on Diplomas in the Rural Development Program at Ein-Shams University; five are under training either at Utah or the University of Connecticut; three are scheduled for training in the United States, and six have received training in rural sociology, community development, engineering, etc., in recent years in England.

Nonetheless, as indicated earlier, much of the staff needs additional training and, in this connection, ORDEV already operates a series of short-term training courses for its staff and members of village councils. It has received approval to construct and staff an ORDEV Academy outside Cairo. Work on the physical construction is under way. In the meantime, ORDEV utilizes physical training facilities borrowed from other agencies within Cairo.

Ultimately, a portion of the LDF project will affect training since the American technical assistance team is to instruct ORDEV training staff in the principles of teaching LDF operations to ORDEV field staff, line ministry personnel and village council members. Also, the project

addresses a considerable degree of attention to participant training and third-country observation activities. All of this is to both build up skills capacities in matters concerning LDF operations, e.g., statistics, financial analysis, documentation, reporting, loan management, small enterprise analysis, etc., and to broaden awareness of what could be accomplished under decentralization in both productivity and social services by village-planned and managed activities.

d. Logistics:

ORDEV staff at Cairo is housed in an 80-year old Palais in downtown Cairo. The building is soon to be destroyed, and ORDEV will be housed in about 1,000 square meters of space in a larger and newer building belonging to the Ministry of Local Government. The new space will not be adequate to properly house the existing ORDEV staff at Cairo. By the time that the ORDEV Academy is completed in 1979, it is expected that some of that space can be used for housing some ORDEV operations. Also, it is expected that in mid-1979 additional space will be provided to ORDEV within the Ministry of Local Government.

Field staff at ORDEV is housed at the Governorate level and receives logistic, equipment maintenance and other forms of support from the Governor's Office in each Governorate.

Presently, ORDEV has 30 vehicles deployed in the Governorates (20 Datsun trucks; 10 Microbuses) and 8 vehicles at Cairo (4 Microbuses, 4 Sedans).

2. USAID:

a. Organization and Staff:

Presently, responsibilities for development and management of this project rest with a project committee drawn from different elements of USAID. Principal work is done by the Assistant General Development Officer and the Deputy Assistant General Development Officer. When the project is approved, it is assumed that these two will continue to be the project managers and no additional AID staff will be required.

b. Management and Back-Up Responsibilities:

The project will generate increased workload demands on USAID staff including the following:

- Planning and arranging for the participant training and U.S. and third-country observation tour programs. This will probably be a continuing load over time requiring about two man/months of staff time annually. It is estimated that the business of writing PIO/T's and handling the processing of requested equipment should require another two man/months per year.
- Monitoring, evaluation and research concerning the operations of the LDF will also require additional time annually. It is estimated that this will demand an average of about one man/month per year.

In summary, USAID staff will be involved to the extent of at least three to five man/months per year.

B. Implementation Plan

1. Housing of Advisory Team/Consultants:

The initial size of the LDF unit at Cairo will comprise one

full-time Egyptian Director, three part-time Egyptian specialists, three American technical assistance advisory, and an average of two short-term American consultants at any one time. This work force will require a physical area comprising about 400 square meters. Chart B, attached, provides an illustrative layout.

ORDEV plans to house this work force, during an initial 18-month interval, in rented quarters within Cairo. It estimates that such quarters can be obtained and renovated within three months after the grant agreement is signed. Ultimately, once the ORDEV Academy construction is completed, it is probable that some of the LDF unit work force may be housed at that facility. Also, by that time (18 months) ORDEV should have moved into new quarters to be provided by the Ministry of Local Government at Cairo.

2. Office Equipment - LDF

As noted above, ORDEV holdings of essential office equipment leave much to be desired. It is believed that the LDF unit and its support operations in the various Governorates should be provided with sufficient equipment to enable it to perform well. An equipment and furnishings list has been developed for the LDF unit at Cairo. In addition, an average of $800 per Governorate is set aside in the budget for essential office equipment required at those locations when performing LDF-related work.

Average lead time for procurement and obtaining equipment in Egypt is estimated at 12 months. This can be reduced, in some degree, if some portions of the equipment are obtained within Egypt, but, in general, that time interval seems realistic.

Since the ORDEV office equipment stock is very limited and ORDEV desires that this project get into loan operations within seven months of grant agreement, some funds are set aside in the budget in order to permit short-term (9 to 12 months) rental of equipment or services or both on a local basis.

3. Vehicles

Present ORDEV vehicle strength both at Cairo and in the Governorates is just about sufficient to enable performance of current workloads. Additional business generated by LDF will impose increased vehicle demands both by ORDEV staff in the Governorates who are working on LDF activities and by LDF staff and foreign technical advisory staff in Cairo.

Considering this situation, it is advisable to build in a "core" vehicle input to the LDF project. It is proposed that this include four vehicles at the Cairo level and 20 for the Governorates. An additional sum is set aside for possible further use in equipment acquisition after the advisory team has been in place for about 18 months and sufficient experience has been earned concerning mobility needs/demands.

Average lead time for procuring, shipping, clearning, customs and readying motor vehicles for the road in Egypt is estimated at 14 months. ORDEV officials estimate that during this interval they could make at least one vehicle available from the existing fleet so that it could be used by the foreign technical advisors. Since this may not be sufficient at times when portions of the team are traveling in the field and others are in Cairo, some funds have been budgeted for use in rental of an additional unit during a 12-month period.

4. Training

This project proposes participant training, observational tours and third-country observation tours for 195 Egyptians or an average of 39 individuals per year over five years.

As noted elsewhere, this will also impose an additional management burden on USAID/Cairo and AID/W. This burden however is manageable. USAID Cairo has a highly trained fully staffed training office comprised of these full time direct-hire U.S. personnel and a full staff of local employees. They presently handle one of AID's largest bilateral training programs. The USAID Cairo Training Office does not anticipate that the added work load would create a problem. Washington support for the training program would be handled by DS/IT. They have indicated that the work load generated by this project would not overburden their staff.

5. Technical Advisory Assistance

This project assumes that the three-man team will be on hand at the outset of project operations. However, as the systems are developed and training occurs, there will be a simultaneous utilization of short-term consultants and a gradual diminution of resident advisors. Thus, the project leader will remain at post four years, while the two specialized advisors will each serve three years. (note detailed budget attached).

6. The attached Implementation Schedule (C) indicates the time frame contemplated.

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7. Contracting Arrangements

a) Method: It is proposed that technical advisory series be provided through a combination of a PASA arrangement for the Project Technical Advisor; two personal Service Contracts for the basic Local Government

Finance/Management and the Productivity/Market Analyst; and an institutional contract for the short term technical advisory services request for this project. The reason that this mode of contracting has been proposed is that both ORDEV and USAID/Cairo believe that it will be advantageous in maintaining the close working relationship which has been developed as this project design has evolved. This relationship is considered a necessary factor to the succesful implementation of the project. To the extent that this project also acts as the first in a series of activities related to rural development, local government development and decentralization it is very important to use this close relationship to evaluate ORDEV's role in this process and to maximize opportunities for new activities as they develop.

b) Logistic Support:

In accord with Mission policy the following logistic support will be provided:

1. The Project Technical Manager who will be a PASA employee will receive, as a Direct Hire person, all privileges accorded to other direct hire employees under the Bilateral Agreement between the United States and Egypt, including FPO, Pouch, medical facilities, housing and housing services, customs clearance, shipping and travel arrangements, expeditor service, commissary, access to the motor pool and assistance in obtaining a driver's license.

2. The two long-term technicians (PSCs) will have access to the medical facilities, will receive housing allowances, expeditor services, and will be provided assistance with customs clearance, shipping and travel and obtaining drivers' licenses. They will not have FPO or

Pouch privileges, assistance in locating housing or housing services, commissary or motor pool privileges.

3. The short-term consultants (PSCs) will have the same privileges as the two long-term technicians, except that they will receive per diem in lieu of a housing allowance and assistance with customs clearance is not applicable.

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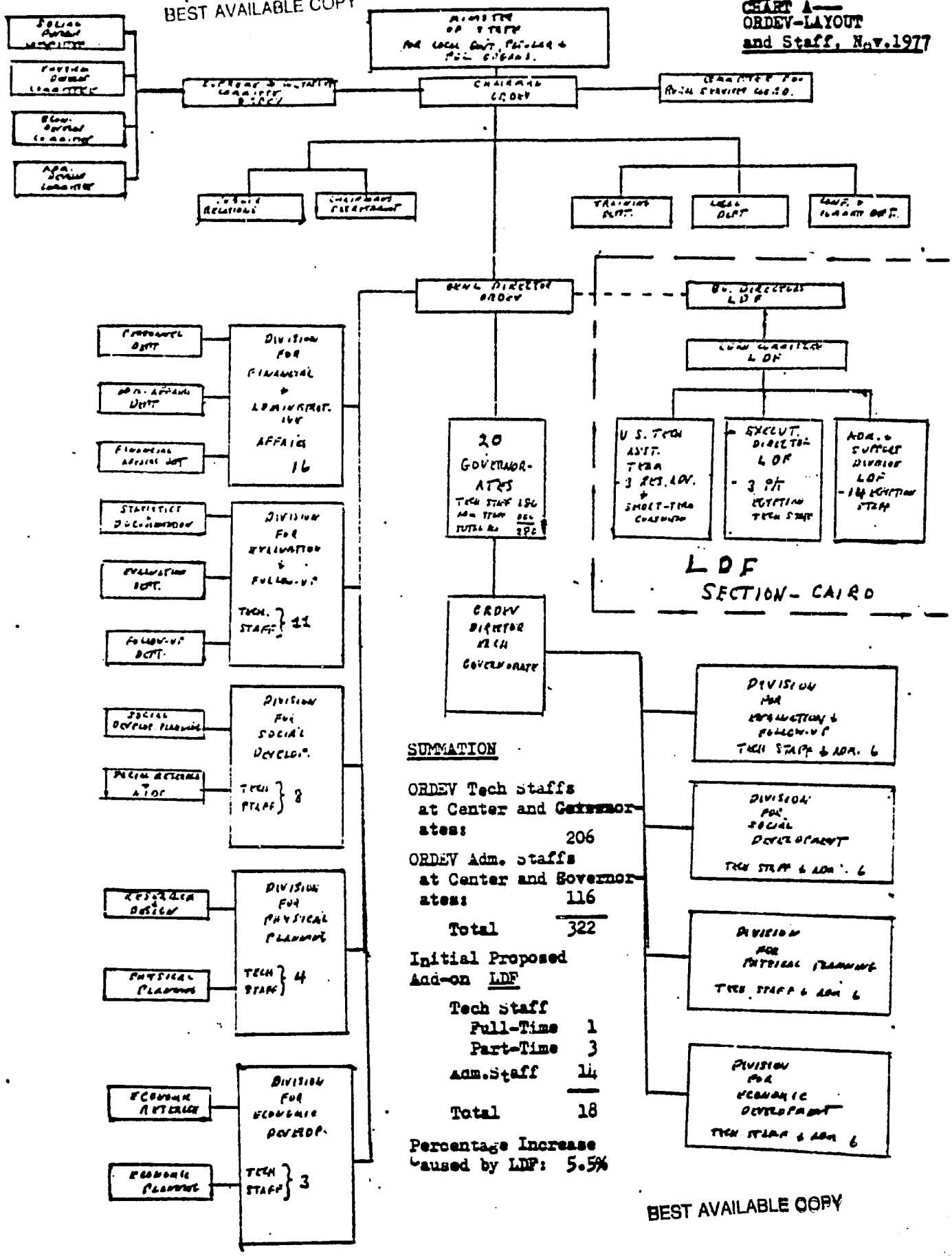
CHART A—
ORDEV-LAYOUT
and Staff, Nov.1977



SUMMATION

ORDEV Tech Staffs at Center and Governorates:	206
ORDEV Adm. Staffs at Center and Governorates:	116
Total	322

Initial Proposed Add-on LDF

Tech Staff	
Full-Time	1
Part-Time	3
Adm. Staff	14
Total	18

Percentage Increase caused by LDF: 5.5%

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IV CHART B —

Initial Site & Equipment List - LDP

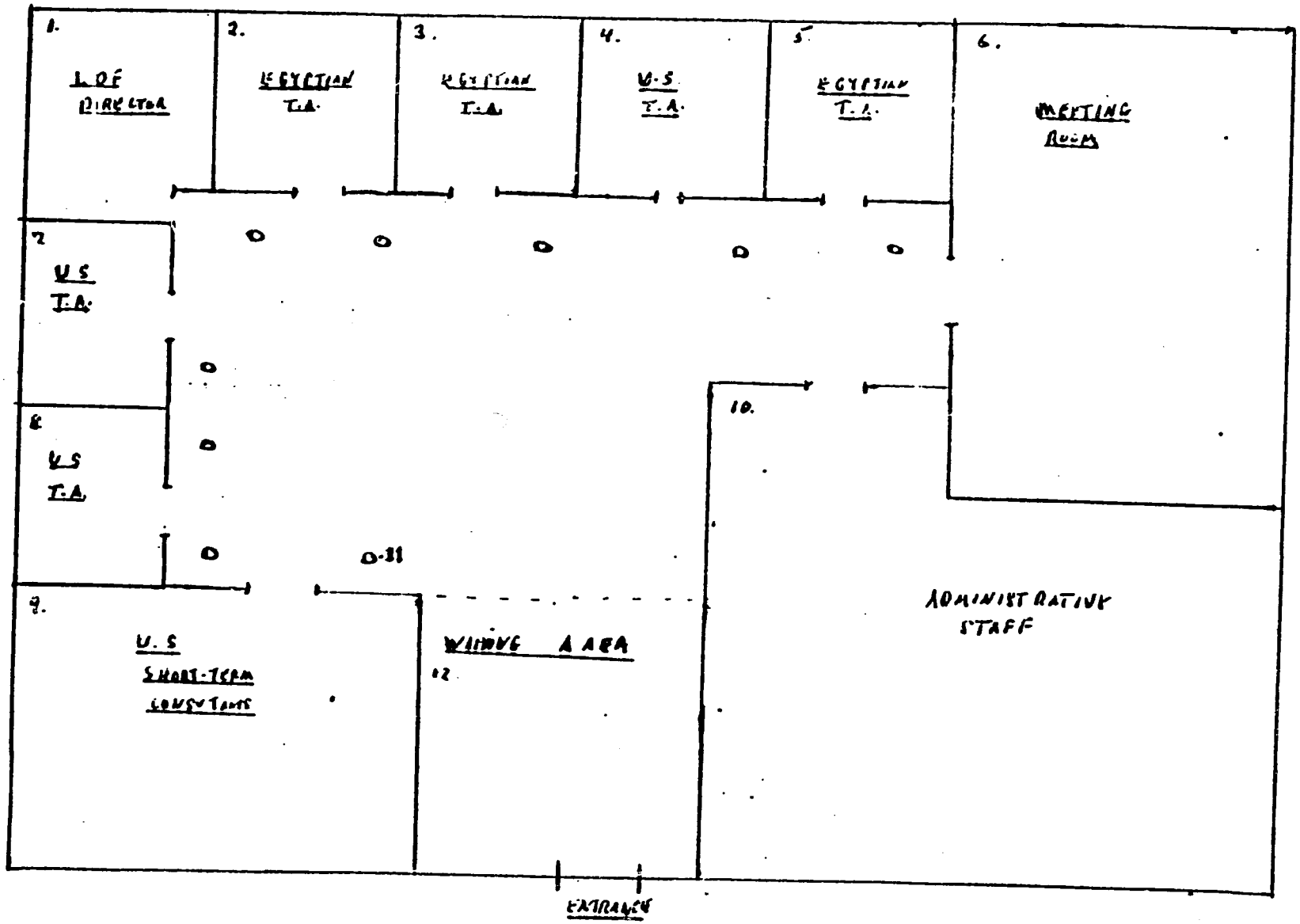

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CHART C IMPLEMENTATION SCHEDULE

1978:

Feb. 15	Preimplementation PASA negotiated and PASA technician arrives Cairo.
March 1	Initial PIO/Ts for PASA, Advisory Team, and consultants completed and delivered for action AID/W.
March 1	Initial documentation and procurement schedule for equipment/vehicle needs completed and delivered for action AID/W.
May 1	AID PASA and resident technical advisory staff arrive and begin work with ORDEV.
May 1	ORDEV staff assigned to LDF and in place, Bd. Directors created, etc.
June 1	Detailed Design of Procedures completed for LDF.
June 1	Detailed description of program disseminated to Governorates and through them to village councils.
June 1	Briefings of Governorates, LDF staff, and ORDEV staff in field.
June 1	Criteria adopted for selection of first tranche of U.S. and third-country visitation candidates.
June 15	Selection of first tranche of U.S. and third-country visitation candidates.
July 1	Submission of first set of Loan Project Requests.
July 1	First tranche of visitation observers depart for 3rd country observation.
July 15	Final determination of initial skills of short-term consultant needs.
August 1	Selection for first set of Loans.
August 1	Criteria adopted for selection of candidates for U.S. 1-year and 6-month participant training, and selections begin.
August 1	Criteria reviewed for selection of second tranche of third-country visitation candidates.
August 1	Initial review of kinds of evaluation and studies needed, identification of possible candidates, and schedule detailed.

Sept. 1	First set of loans issued.
Sept. 1	First U.S. 1-Year and 6-month participant trainees depart.
Sept. 1	Second tranche of visitation observers depart for U.S. and third-country observation.
Oct. 1	Submission of second set of Loan Project Requests.
Oct. 1	First Quarterly Board of Directors Report completed.
Oct. 1	Short-term consultants begin to arrive.
Oct. 1	Continuous process of selecting and sending 1-year and 6-month U.S. participants begins steadily.
Oct. 1	Outline and possible content of first Quarterly Formative Evaluation - under design.
Nov. 1	Selection for second set of Loans.
Nov. 1	Third tranche of visitation observers depart for third-country observation.
Dec. 1	Submission of third set of Loan Project Requests.
Dec. 1	Second set of loans issued.
Dec. 1	Operation of visitation observer program third-countries reviewed and further travel ceases for 3-month interval, allowing adoption of revised criteria and travel planning based on previous experience.

1979:

Jan. 1	Selection for third set of Loans.
Feb. 1	Submission of fourth set of Loan Project Requests.
Feb. 1	Third set of loans issued.
Feb. 1	Second Quarterly Board of Directors Report issued.
March 1	Delivery of office equipment for LDF.
March 1	Selection for fourth set of loans.
March 1	Resumption of 3rd country observation travel as a continuious process.
April 1	Submission of fifth set of Loan Project Requests.

April 1	Fourth set of loans issued.
April 1	Preparations begin for review of "Impact on Village Special Account."
May 1	Selection for fifth set of loans.
May 1	Review of "Impact on Village Special "Account."
June 1	Vehicle support for LDF arrives.
June 1	Fifth set of loans issued.
June 1	Third Quarterly Board of Directors Report issued.
July 1	Selection for sixth set of loans.
August 1	Sixth set of loans issued.
Sept. 1	Submission of seventh set of Loan Project Requests.
Oct. 1	Selection for seventh set of loans.
Oct. 1	Fourth Quarterly Board of Directors Report issued.
Nov. 1	Submission of eighth set of Loan Project Requests.
Nov. 1	Seventh set of loans issued.
Dec. 1	Selection of eighth set of loans.

1980:

Jan. 1	Submission of ninth set of Loan Project Requests.
Jan. 1	Eighth set of loans issued.
Feb. 1	Selection of ninth set of loans.
Feb. 1	Fifth Quarterly Board of Directors Report issued.
March 1	Submission of tenth set of Loan Project Requests.
March 1	Ninth set of loans issued.
April 1	Selection of tenth set of loans.
May 1	Submission of eleventh set of Loan Project Requests.
May 1	Tenth set of loans issued.

May 1	Second review of "Impact on Village Special Account."
June 1	Selection of eleventh set of loans.
June 1	Sixth Quarterly Board of Directors Report issued.
June 1	Summative Evaluation begins.
July 1	Eleventh set of loans issued.
July 1	Summative Evaluation ends.

C. Evaluation, Monitoring and Audit

1. Audit

ORDEV, working with the Technical Consultants and AID project management, will develop a regular system and schedule to audit the financial accounts established under the LDF at the village level. This audit function will be the sole responsibility of ORDEV. It may seek assistance from the governorate financial administration level to conduct such audits but will not include the project technical advisors as part of the village audit. The results of the regularly scheduled audits will be available for the LDF Board of Directors and the Loan Committee.

In keeping with standard USG procedures, AID reserves the right to audit the operation of the LDF down to the level of the establishment of the village loan account. AID will depend on ORDEV audits for information of greater detail regarding village disbursements and utilization from the loan account and will not audit these accounts directly. The system and preliminary schedule will be developed as the final design of the LDF implementation arrangements are included (see Chart C, Part IV, Event #7.)

2. Monitoring

Monitoring functions under this project are described in detail in Section 4 of Annex B and the reports which constitute the monitoring system are scheduled in Chart C, Part IV.

In summary, the monitoring reports will summarize for the Loan Committee, the Board of Directors, ORDEV administration and the USAID the LDF's lending performance, cash flow, progress of individual village projects, the impact of village projects on the Village Special Account and the effect of the village projects on the financial autonomy of the Village Council. Two categories of reports will be utilized: project reports and ORDEV reports.

Project reports will be prepared by the borrowing village, submitted quarterly to ORDEV (governorate level) and be either a construction phase or operational phase report. (See Annex B for detailed description.)

ORDEV will analyze and summarize these reports for the LDF Loan Committee and Board of Directors.

ORDEV Reports: The LDF will prepare a Project Analysis Report, LDF Bank Account Report and an Impact on Village Autonomy Report. These will be prepared quarterly (except for the Impact Report which will be an annual exercise) and submitted to the Board of Directors and to the USAID. (See Annex B for detailed description of reports.)

These reports will be a comprehensive functional system which will allow ORDEV to monitor its program, shift emphasis and alter implementation and policy procedures as necessary and in response to village conditions.

3. Evaluation

Two levels of evaluation will be integral parts of this project. The first will be annual evaluation of project progress at the output level, and will be designed, scheduled and carried out by a joint ORDEV/USAID team composed of members of the Loan Committee, the project technical advisors and a member of the USAID Country Team. The evaluation will look at the inputs schedule for the project, the results of the quarterly monitoring reports, the Implementation Schedule, and will assess the extent to which this project is resulting in the current outputs described in the project (see Annex D, Logical Framework: Outputs). Scheduling of these annual evaluations will be a function of the start-up time for this project and the rate that the LDF becomes operational; therefore their exact schedule is not presently fixed, but it is assumed that these evaluations will occur on an annual basis.

The second level of evaluation could more properly be called impact evaluation. It will be confined to the purpose level of this project and as such will look at the impact of the village projects on the Village Council, the village budget, the special account and the village development activities and plans. The major studies will be conducted at about month 30 and month 60 of the project. They will be designed by the project advisory team and the Loan Committee with the concurrence of the USAID and will be performed by both U.S. and Egyptian contract social scientists.

An illustrative example of the type of study that is expected to be carried out at about month 30 is "A Comparative Study of the Use of the Village Special Fund in individually selected LDF and new LDF villages." A study of this type would attempt to uncover "what happens to fund which are generated by village income-producing projects." As such it would provide useful information on the spread effect of the LDF projects, who benefits from the funds generated and a range of important considerations for the LDF and for future work with village governments in Egypt.

D. Conditions, Covenants, and Negotiating Status

The Condition Precedent contained in Section 4.1 (b) of the Standard Project Grant Agreement relating to representatives and specimen signatures, will be included in the Project Grant Agreement.

The following Conditions Precedent to capitalization of the Local Development Fund will be included in the Project Grant Agreement.

1. Approval by USAID of the detail procedures for the operation of the LDF established by Board of Directors of the LDF.
2. Approval by USAID of the procedures which will govern the selection of villages to participate in the LDF program.
3. Approval by USAID of the audit system and schedule developed by ORDEV to audit the financial accounts established under the Local Development Fund at the village level.
4. The Board of Directors for the Local Development Fund will be established and the names of the members provided to USAID.
5. The Loan Committee for the Local Development Fund will be established and the names of the members provided to USAID.
6. ORDEV, through the Board of Directors and the Loan Committee, will agree in writing to adhere to the AID requirement that all commodities procured for projects undertaken by village councils utilizing loans from the Local Development Fund must

conform to the source requirements of AID Code 935 or must be of Egyptian origin.

The standard covenants provided in Handbook 3 will be included in the Project Grant Agreement.

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ANNEX A

MINISTRY OF LOCAL GOVERNMENT. O.R.D.E.V. EXPENDITURES, 1974 - 1977 (LE)

(Courtesy World Bank - Prefeasibility Team)

	PHYSICAL					SOCIAL				PRODUCTIVE									
GOVERNORATE	Housing Gov't Employees	Housing for Farmers	Village Sites & Service	Environmental Improvement	Physical Planning	Vocational	Youth	Nursery	Girls	Silk	Fish	Animal Breeding & Fattening	Poultry	Bees	Tree Nursery	Tractors	Agric. Industry	Rural Industry	TOTAL
Assiut	15,000	-	4,000	16,000	70,000	18,950	9,200	4,800	14,[illegible]	-	-	-	25,948	-	[illegible]	130,398	1,750	21,600	344,846
Aswan	-	-	27,000	6,000	14,000	8,300	5,900	3,150	4,314	-	-	4,000	13,500	-	-	19,500	-	31,600	137,364
Behaira	16,000	-	45,000	22,250	37,500	19,100	8,700	3,250	11,400	-	3,000	-	27,230	61,200	10,100	169,500	-	85,501	528,031
Beni Suef	40,000	-	32,000	10,000	21,000	27,100	3,000	600	13,550	-	3,350	-	43,750	30,000	-	132,798	-	7,898	375,346
Dakhalia	15,000	-	40,000	10,000	40,000	36,600	5,500	7,550	20,390	-	-	-	102,500	23,300	7,200	195,500	3,000	59,000	584,340
Damietta	-	-	-	10,000	15,000	24,600	4,200	-	5,192	-	-	9,750	0,500	22,550	2,400	80,500	-	8,600	187,542
Wadi El Gedid	-	10,000	4,000	8,000	9,700	2,000	5,000	2,200	7,200	-	-	-	7,000	8,250	2,000	26,000	-	-	105,100
Fayoum	-	-	20,000	9,750	29,000	6,500	5,300	2,200	3,296	-	-	-	36,750	4,250	-	85,000	3,000	-	205,046
Gharbia	15,000	-	34,000	16,000	38,500	25,900	8,600	1,800	5,592	-	-	-	27,000	14,300	6,600	184,500	-	26,500	402,292
Giza	-	-	-	20,000	25,000	8,800	8,100	4,100	5,090	-	-	-	27,000	4,700	1,200	72,450	-	19,900	205,440
Ismailia	-	-	-	-	-	350	1,200	(1,100*) 600	290	-	-	-	6,750	17,900	1,200	26,100	-	-	54,390
Kafr El Sheikh	19,000	-	9,000	13,000	31,300	132,000	5,200	3,800	13,396	-	-	-	737,450	16,650	3,600	116,500	-	63,350	340,046
Kalioubia	-	-	14,000	42,000	21,090	27,250	6,400	1,200	14,195	10,000	-	-	26,950	8,950	500	89,700	600	10,050	263,005
Kena	15,000	-	25,000	15,500	25,000	2,000	4,400	6,100	12,1[illegible]	-	-	-	28,500	-	3,400	131,700	-	27,500	287,200
Matruh	-	-	-	-	7,000	14,900	-	-	4,000	-	-	-	10,000	-	-	27,000	-	66,500	129,400
Menufia	-	-	65,000	10,000	46,000	29,200	2,600	3,600	9,500	-	-	-	33,250	29,000	-	135,300	-	36,600	424,406
Minia	15,000	-	-	16,500	63,000	5,240	7,400	3,900	7,694	-	-	-	348,600	50,650	3,200	210,050	1,750	7,000	730,794
Sharkia	19,120	-	21,000	16,000	44,100	20,700	5,000	7,025	12,180	10,000	-	-	42,750	29,400	2,450	220,537	500	26,960	497,630
Sohag	24,000	-	85,005	-	34,000	14,400	15,100	5,800	16,998	-	-	-	34,340	5,050	-	79,500	16,500	38,100	363,193
Total	172,120	10,000	436,005	221,000	614,000	433,840	110,900	62,475	173,376	20,000	6,350	13,750	848,788	326,250	53,550	2,143,000	27,100	537,539	6,272,159

Subtotal: Physical: 1,542,133 — 24.5%

Subtotal: Social: 771,699 — 12.3%

Subtotal: Productive: 3,958,327 — 63%

III THE OUT PUTS

Output Details	Output Indicators
1. Spreading awareness of the usefulness of profit-making projects-among members of village councils.	1. Loan applications from a minimum of 110 village councils per year by fourth year of project.
2. Village councils seeking financial autonomy through planning of profit-making projects.	2. Disbursements on a minimum of 200 loans by the third year of the project.
3. Profit-making projects actually designed, appraised and implemented by village councils and village executive committees.	3. Project loans returning at least 15% on investments and the returns are entering "special accounts" or being reinvested.
4. Village councils understand the relationship between project purposes, efficient use of resources, good management, and repaying loans at a reasonable interest rate- on time.	4. Loan payment delinquencies holding to only 3% of LDF outstanding disbursed balances, each quarter.
5. Expanding flow of adequately designed project loan requests to LDF.	5. Village councils trained in how to design and submit loan requests, and submitting increased numbers on own initiative without substantial technical assistance from LDF.

ANNEX B

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 elegible 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. Purpose 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 normally will be expected to contribute in cash or in kind up to 25 percent of the total project cost from their own resources. In exceptional cases, however, the LDF may waive this requirement if, in its judgement, after appraising the project proposal: 1) the project meets other criteria; 2) is particularly innovative and/or interesting and 3) the Village Council lacks the necessary resources to make a contribution.

(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 four percent per annum during the grace period and not less than six 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 initally provided by AID. To that end, the LDF Board will, at the earliest possible time, establish procedures for projecting 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, appointed by the Minister of Local Government, with responsibility for setting lending policy and establishing operating and financial procedures.

3. There shall be a Loan Committee composed of staff of ORDEV, appointed by the Board of Directors and 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. T Head of the ORDEV Department in each Governorate and his staff shall assist Village Councils in the preparation and implementation of projects.

Annex C

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620(1) - COUNTRY CHECKLIST

Below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Security Supporting Assistance.

GENERAL CRITERIA FOR COUNTRY

.1 FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?	-Not all contemplated assistance will directly benefit the needy. The Department of State has made no determination that the GOE has engaged in a gross violation of human rights.
.2 FAA Sec. 481. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	-No
.3 FAA Sec. 620(a). Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?	-No instance of any such-present course of conduct is known.
.4 FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	-The Secretary of State has so determined.
.5 FAA Sec. 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	-None of the known claims of any US citizen asserted against the GOE meet the criteria of this section. In any event, Egypt participated with the US in a joint commission to discuss debt of Egypt to US citizens and has agreed with the USG on an amount which the GOE will pay to settle these debts.
.6 FAA Sec. 620(e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	-The Secretary of State has determined that Egypt's agreement to establish a Joint Commission to discuss compensation of American nationals constitutes taking appropriate steps for the purpose of this section.

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7. FAA Sec. 620(f); App. Sec. 108. Is recipient country a communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos?	-Egypt is not a communist country
8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	-The President has not determined that the recipient country is involved in such conduct.
9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?	-The President, in accordance with the requirement of section 620 (j), has considered terminating assistance to Egypt and has determined that no sufficient reason exists not to furnish the assistance.
10. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	-Egypt has reactivated its Investment Guaranty Agreement with the U.S.
11. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,	-No instance of any such seizure or imposition of such penalty or sanction is now known.
a. has any deduction required by Fishermen's Protective Act been made?	-Not applicable.
b. has complete denial of assistance been considered by AID Administrator?	-Not applicable.
12. FAA Sec. 620(q); App. Sec. 504. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default?	-No such default exists. Reconciliation is taking place between the books of AID and the Government of Egypt in regard to several very minor amounts.
13. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)	-The President has taken into account each of the listed considerations as to current military expenditures by the GOE and has determined that these do not inhibit economic aid to Egypt but rather that the projected program contributes to the underlying intent of the FAA which seeks to reduce arms costs and to stimulate economic development.

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4. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	-Egypt severed diplomatic relations with the U.S. in 1967. Diplomatic relations have now been resumed. New bilateral assistance agreements have been entered into since such resumption.
5. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	-Egypt has paid all of its outstanding U.N. obligations.
6. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?	-No
7. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA?	-No
8. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.?	-No
9. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?	-No

FUNDING CRITERIA FOR COUNTRY

1. Development Assistance Country Criteria	-Not applicable
a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment.	
b. FAA Sec. 201(b)(5), (7) & (8); Sec. 203; 211(a)(4), (7). Describe extent to which country is:	
(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.	
(2) Creating a favorable climate for foreign and domestic private enterprise and investment.	

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(3) Increasing the public's role in the development process.

(4) (a) Allocating available budgetary resources to development.

(b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.

(5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

(6) Otherwise responding to the vital economic, political, and social concerns of the people, and demonstrating a clear determination to take effective self-help measures.

c. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?

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d. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs?

2. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? Is program in accordance with policy of this Section?

-(1) No.

-(2) Yes

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

-Yes

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

-Not applicable.

6(2) - PROJECT CHECKLIST

elow are, first, statutory criteria applicable generally to projects with FAA funds, and ext criteria applicable to individual fund sources: Development Assistance (with a sub- for criteria applicable only to loans); and Security Supporting Assistance funds.

EFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

ERAL CRITERIA FOR PROJECT.

App. Unnumbered; FAA Sec. 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that figure plus 10%)?

(a) An "Advice of Program Change", has been prepared for transmittal to Congress. Obligations for the project will not take place prior to 15 days after date of delivery of this notification. (b) The intended obligation for the project is within the level of funds appropriated for Egypt for FY77.

FAA Sec. 611(a)(1). Prior to obligation in excess of $100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a): Yes. (b): Yes. As the purpose of the project is to promote the financial autonomy of rural villages through small village sub-projects it is subject to the requirements of Sec. 611 (a) (1).

FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required to implement the program than action ratifying the signed project agreement.

FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 6, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?

Not applicable. Project is not for water or water-related land resource construction.

FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?

Not applicable. Not a capital assistance project.

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6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multilateral project? If not why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or plans to the maximum extent appropriate?

The project is not susceptible of execution as part of a regional or multilateral project. Assistance is not expected to encourage regional development programs. Egypt is not a newly independent country.

7. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

A major thrust of this project will be to foster and encourage private initiatives and competition among small rural entrepreneurs working in conjunction with locally elected officials.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

This project will not per se encourage U.S. trade but to the extent that this project creats and continues to create a demand for small-scale agriculture and industrial equipment and to the extent that trade patterns between Egypt and the U.S. continue to grow and expand, we foresee this project having a positive effect on trade patterns.

9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.

The project agreement will so provide.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

Yes. Release by the GOE is not a problem at present.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

Not applicable.

a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

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b. FAA Sec. 103, 103A, 104, 105, 106, 107. [Is assistance being made available: [Include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development;

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(b) to help alleviate energy problem;

(c) research into, and evaluation of, economic development processes and techniques;

(d) reconstruction after natural or manmade disaster;

(e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

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(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 110(a); Sec. 209(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

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g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(8). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

Development Assistance Project Criteria (Loans only)

Not applicable

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds $100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

f. FAA Sec. 620(a). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

This assistance will promote economic and political stability by involving greater numbers of local village citizens in the governmental process through projects which will benefit their village and their populaces economically and socially.

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress projects should add the following two items to a project checklist.]

a. FAA Sec. 251(b)(1), -(8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

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60(g) - STANDARD ITEM CHECKLIST

'ow are statutory items which normally will be covered routinely in those provisions of an : agreement dealing with its implementation, or covered in the agreement by exclusion (as tain uses of funds are permitted, but other uses not).

's are arranged under the general headings of (A) Procurement, (B) Construction, and Restrictions.

cement	
AA Sec. 602. Are there arrangements to ermit U.S. small business to participate uitably in the furnishing of goods and ervices financed?	Procurement of goods and services will be pursuant to established AID regulations except those goods procured under the loan fund in which case origin requests have been waived.
AA Sec. 604(a). Will all commodity rocurement financed be from the U.S. xcept as otherwise determined by the resident or under delegation from him?	Yes
AA Sec. 604(d). If the cooperating ountry discriminates against U.S. arine insurance companies, will agree- ent require that marine insurance be laced in the U.S. on commodities inanced?	Yes
AA Sec. 604(e). If offshore procure- ent of agricultural commodity or roduct is to be financed, is there rovision against such procurement when the domestic price of such commodity is less than parity?	There will be no such procurement.
AA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	Consideration will be given to the use of excess property when practical.
MA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes.
AA Sec. 621. If technical assistance is financed, will such assistance be fur- nished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis? If the facilities of other Federal agencies will be utilized,	Technical services will be procured on a competitive basis in the United States except for the technical team leader for whom a PASA will be entered into with the U.S. Treasury. The PASA arrangement is justified because of unique characteristics of this government financing program and will not disrup any domestic program.

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are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

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8. International Air Transport. Fair Competitive Practices Act, 1974

If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available?

Yes.

B. Construction

Not applicable.

1. FAA Sec. 601(d). If a capital (e.g., construction) project, are engineering and professional services of U.S. firms and their affiliates to be used to the maximum extent consistent with the national interest?

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

Yes.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million?

Not applicable.

C. Other Restrictions

1. FAA Sec. 201(d). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

Not applicable.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

Not applicable.

3. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of Communist-Bloc countries, contrary to the best interests of the U.S.?

The project agreement will so stipulate.

4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, long-term lease, or exchange of motor vehicle manufactured outside the U.S. or guaranty of such transaction?

This section has been waived to permit no U.S. procurement of motor vehicles manufactured outside the U.S.

Will arrangements preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or to motivate or coerce persons to practice abortions?	Yes.
b. FAA Sec. 620(c). to compensate owners for expropriated nationalized property?	Yes.
c. FAA Sec. 660. to finance police training or other law enforcement assistance, except for narcotics programs?	Yes.
d. FAA Sec. 662. for CIA activities?	Yes.
e. App. Sec. 103. to pay pensions, etc., for military personnel?	Yes.
f. App. Sec. 106. to pay U.N. assessments?	Yes.
g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending).	Yes.
h. App. Sec. 501. to be used for publicity or propaganda purposes within U.S. not authorized by Congress?	Yes.

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A N N E X D

LOGICAL FRAMEWORK

LOGICAL FRAMEWORK MATRIX

DEVELOPMENT DECENTRALIZATION I

I. THE GOAL

To reinforce and strengthen decentralized local government.

Objectively Verifiable Indicators:

1. Local policy-making and management systems effectively supporting income-producing activities and improvements to social/physical infrastructure services in rural areas.
2. Central government planning, appraisal, implementation, evaluation, financial and management systems supportive of local decentralization designed, tested, and applied to activities in a targeted number of cases.
3. A rising percentage of locally derived resources supporting locally planned and managed budget for improved social and physical infrastructure services and expanded profit-making activities.
4. Training systems supportive of local decentralization designed, tested, and functioning in a targeted number of cases.
5. Reliable socio-economic measures developed, tested, and applied to planning and evaluation activities in targeted local decentralization programming sites.

Means of Verification:

1. Specific kinds of local decentralization activities, economic, services, and physical, aimed at various levels (governorates, Districts, and Village Councils) planned and tested under field conditions.

2. Special institutional mechanisms designed and tested with the aim of providing credit, technical advice, management, evaluation, and training to local representative council operations and HEO's in the planning and implementation of local projects.
3. Evaluative and research studies operational and addressed to equity and distributional effects of local decentralization economic, services, and physical activities.
4. Curricula in universities and specially operated government training institutes, including the ORDEV Academy, organised to provide expenential training in rural development and local government, with selected local representative councils as field laboratories.

II THE PURPOSE

To strengthen the financial viability and development capability of selected village councils.

End-of-Project-Status:

1. A Local Development Fund (LDF) established, staffed, operating and initially capitalized by USAID grant funds ($5,000,000 for first five years of LDF operation) with the Organization for Reconstruction and Development of Egyptian Villages (ORDEV), Ministry of Local Government.
2. A technical assistance capacity under development within ORDEV designed to provide advice on economic analysis, financial management, programming, and small industries to ORDEV and village councils,
3. Loans, operational procedures, loan project evaluation criteria and accounting, financial reporting, program analysis, performance budgeting, organizational and management systems designed and applied through the LDF to at least 300 village councils during the five years of project life.
4. Training programs planned, tested and underway both at the ORDEV Academy and in the field for selcted ORDEV officials at the Cairo and Governorate and District levels, and for Governorate and village elected and executive personnel.
5. Two major evaluations completed at end of first 30 months of project and end of full 60 months.

Means of Verification:

1. Loan Development Fund fully capitalized.

2. Lending policies, financial structure, audit systems and portfolio management regulations and organization clearly defined.
3. Departments of Economics, Social, Physical, and Follow-up and Evaluation of ORDEV and LDF Secretariat and Board of Directors staffed, equipped, and supported by necessary advisory services required to rpovide project design assistance for at least 70 loan approvals per year by the end of the third year of the project.
4. The relevant Departments of ORDEV at Central Governorate and District levels staffed, trained, and equipped.
5. U.S., third-country, and in-country training/observation programs designed, tested and applied through ORDEV's National Academy and field training programs.
6. Base line data collection system and evaluation studies, yielding information on LDF performance.

6. Qualified ORDEV staff, village council, and executive committee members trained in project identification, preparation, appraisal, and implementation techniques.
7. Development of in-country training capability.
8. Evaluation and monitoring system designed and used for immediate on-line changes in LDF operations and/or in measuring LDF impact.
9. Department of Economic projects, and valuation and follow-up at ORDEV, together with a special LDF unit, trained to provide technical assistance to village councils on appraisals of alternative project possibilities and in preparing loan requests

6. Attainment of $250,000 quarterly loan targets by end of second year of project with Loan Committee review of project loan requests not exceeding 30 days, and loan disbursements occuring within 90 days of signing of loan agreement with village council.
7. Creation and operation of special LDF training system within ORDEV Academy, including field training, and case study instruction.
8. Evaluation and Monitoring systems developed and in use within ORDEV, during the 3 years of the project.
9. Fifty-five relevant departmental and special staff trained abroad in participant training concerning principles of project

containing optimum (maximum) data.

10. Executive Director of LDF Loan Committee, etc.with capacity to establish/modify policy and manage the loan portfolio.

identification, preparation appraisal, implementation and reporting. USAID-provided technical assistance team training staff in country.

10. LDF Director and members of Loan Committee trained by USAID-provided technical assistance advisory team.

IV INPUTS

See part III A-8, and Annex E, detailed Budget.

V ASSUMPTIONS

Important assumptions about the project

1. Egypt's international situation will stabilize so that human, financial, and natural resources can be devoted increasingly to domestic development.
2. Article 162 of the Egyptian Constitution of 1971 will continue to guide Egyptian policy-makers in matters concerning local government. (".... The local popular councils will be formed...through direct elections as administrative units....")
3. Public Law 52 will be implemented in such a way that the physical, social, and economic components of a rural development strategy can be effectively supported among all levels of government; and, in particular among local representative councils and executive committees.
4. Where essential, government inter-ministerial coordination in Cairo, at the Governorate, District and village levels will ensure that executive and local council inputs effectively mesh.

5. It will be possible to engage and hold sustained interest among Egyptian administrators, policy-makers, and professionals in local development decentralization.
6. Popular participation in local economic development and the provision/distribution/operation of services and infrastructure can be effectively promoted through the local representative councils and the ARE movement towards decentralized administration.
7. The leadership and motivation of local representative councils will be of a quality sufficient to support and effectively guide constructive, dynamic, and equitably distributed local development activities.
8. Relationships between local representative councils and local executive committees will be mutually supportive.
9. It will be possible to encourage various training institutions and university levels of education to develop the kinds of student skills and attitudes essential to promoting effective, participatory, local development decentralization activities.
10. Evaluation and research activities concerning local decentralization and rural development can be organized and sustained over time so that they become a part of the entire process.

11. Foreign bi-lateral and multi-lateral grant and loan support for local decentralization and rural development investment in economically productive activities, services, and social/physical infrastructure facilities, training, research, and technical assistance programs can be effectively linked together and coordinated with A.R.E. initiatives concerning local decentralization.
12. There is a significant causal connection between village investments in income producing activities and a greater number of locally financed village service activities.
13. A ____ greater number of both these activities will improve the social and economic well being of the villages.
14. ORDEV can organize and staff internally so that it can effectively support the establishment of a LDF system and provide the necessary technical assistance to village councils.
15. Existing GOE regulations are sufficiently flexible to allow the rapid introduction of LDF operations.
16. Authorized sources of revenue under Public Law 52 will become fully operational and contributory to the financial strength of village councils.
17. Program analysis and performance budgeting processes supportive of LDF plans and operations, can be succesfully introduced to village councils by ORDEV.

Differing policy perceptions about the use of "special account" funds, as viewed by village councils and village executive committees, can be reconciled.

18. Interest rates and profit-margin criteria can be succesfully introduced and sustained over time.

19. AID can provide the necessary funds, training, and qualified technical advisory staff on a timely basis.

BUDGET DETAILS BY YEAR

		FY 78	FY 79	FY 80	FY 81	FY 82	TOTAL
Technicians	$	$367,000	$338,000	$289,000	$189,000	$83,000	$1,266,000
	USLE	L 75,000	L 60,000	L 77,000	L 35,000	L 17,000	L 264,000
Training and Training Equipment	$	$270,400	$270,400	$270,400	$295,400	$215,400	$1,322,000
	$ to LE	$ 55,000	$ 55,000	$ 80,000	$ 55,000	--	$ 245,000
	USLE	L 39,000	L 39,000	L 39,000	L 39,000	L 39,000	L 195,000
Commodities	$	$ 70,000	$199,000	$ 27,000	$ 27,000	$ 29,000	$ 352,000
Research/Evaluation	$	$ 10,000	$ 10,000	$ 30,000	$ 20,000	$ 30,000	$ 100,000
	$ to LE	$ 15,000	$ 20,000	$ 60,000	$ 45,000	$ 60,000	$ 200,000
Sub-Total Independent of LDF Capitalization	$	$787,400	$892,400	$756,400	$631,400	$417,400	$3,485,000
	USLE	L114,000	L 99,000	L116,000	L 74,000	L 56,000	L 459,000
10% Contingency	$	$ 79,000	$ 89,000	$ 76,000	$ 63,000	$ 42,000	$ 349,000
	USLE	L 11,000	L 10,000	L 12,000	L 7,000	L 6,000	L 46,000
Sub-Total	$	$866,400	$981,400	$832,400	$694,400	$459,400	$3,834,000
	USLE	L125,000	L109,000	L128,000	L 81,000	L 62,000	L 505,000
10% Inflation and/or +or- for rounding		$33,600	$118,600	$ 67,600	$65,600	$ 45,600	$ 331,000
		L --	L 11,000	L 12,000	L 8,000	L 6,000	L 37,000
Total Independent of LDF Capitalization		$900,000	$1,100,000	$900,000	$760,000	$500,000	$4,160,000
		L125,000	L 120,000	L140,000	L 89,000	L 68,000	L 542,000
LDF Capitalization	$ to LE	$500,000	$1,000,000	$1,000,000	$1,000,000	$500,000	$5,000,000
TOTAL	$	$1,400,000	$2,100,000	$1,900,000	$1,760,000	$1,500,000	$9,160,000
	USLE	L 125,000	L 120,000	L 140,000	L 89,000	L 68,000	L 542,000

$ = U.S. Dollars
$ to LE = U.S. Dollars converted to Egyptian Pounds expressed in Dollars
USLE = U.S. owned Egyptian Pounds expressed in Pounds

TECHNICIAN BUDGET

		FY 78	FY 79	FY 80	FY 81	FY 82	TOTAL
Technical Project Manager	$	50	91	91	91	50	$373
	USLE	11	16	16	16	11	LE70
	PMF	(6)	(12)	(12)	(12)	(6)	
Local Government Management/Financial Specialist	$	142	91	50	-	-	$283
	USLE	29	16	21	-	-	LE66
	PMF	(18)	(12)	(6)			
Small Industry Specialist	$	142	91	50	-	-	$283
	USLE	29	16	21	-	-	LE66
	PMF	(18)	(12)	(6)			
Short Term Consultants (about 3 for 3-4 months per year)	$	33	65	98	98	33	$327
	USLE	6	12	19	19	6	LE62
	PMF	(@5)	(@10)	(@15)	(@15)	(@5)	
Technician Total	$	$367	$338	$289	$189	$83	$1,266
	USLE	LE75	LE60	LE77	LE35	LE17	LE264

PMF = Person Months Funded

TRAINING BUDGET

		FY 78	FY 79	FY 80	FY 81	FY 82	TOTAL
ORDEV 1 US Academic year 4 per year	$ US-LE	86.4 4	86.4 4	86.4 4	86.4 4	86.4 4	$ 432 LE 20
ORDEV Village Council short-term US Training 5 for @ 6M per year	$ US-LE	54 5	54 5	54 5	54 5	54 5	$ 270 LE 25
ORDEV Village Council Third Country Observation tours 30 for 1 month per year	$ US-LE	75 30	75 30	75 30	75 30	75 30	$ 375 LE 150
Training equipment and in-country training funds	$ $ LE	55 55	55 55	55 80	80 55	- -	$ 245 $ 245
TOTAL	$ $ LE $(Total) US-LE	270.4 55 325.4 LE 39	270.4 55 325.4 LE 39	270.4 80 350.4 LE 39	295.4 55 350.4 LE 39	215.4 - 215.4 LE 39	$ 1,322 245 1,567 LE 195

COMMODITY BUDGET

		FY78	FY79	FY80	FY81	FY82	TOTAL
Office Equipment	$	21	16	-	-	-	$ 37
Vehicles	$	24	157*	-	-	-	$ 181
Other-general support	$	25	26	27	27	29	$ 134
TOTAL	$	70	$ 199	$ 27	$ 27	$ 29	$ 352
			Research Evaluation Budget				
Research Evaluation	$ $-LE	10 15	10 20	30 60	20 45	30 60	$ 100 $ 200
TOTAL	$ $-LE	$ 10 $ 15	$ 10 $ 20	$ 30 $ 60	$ 20 $ 45	$ 30 $ 60	$ 100 $ 200

* These vehicles for the ORDEV governorate offices may be procured in FY78. This will depend on the Project Technical Director. If so the budget will be adjusted.

A.R.E. Contribution:

Technical Assistance:	LE.158,042
Egyptian Pound expenditures by the A.R.E. in support of special operational costs and training expenses associated with foreign advisory technical assistance.	
Training:	
Egyptian Pound expenditures by the A.R.E. to cover costs of ORDEV training staff, special in-the-field kinds of training programs, development of case study materials, etc.	LE.118,881
Construction - ORDEV Training Academy:	LE.1,171,810
Egyptian Pound expenditures by the A.R.E. on physical construction of the Academy building	
Operational Costs of Field ORDEV Staff:	LE. 251,748
Egyptian Pound annual expenditures of $72,000/yr. for 5 years or Egyptian Pounds 2,142 per Governorate per year covering costs of ORDEV staff associated with LDF-related operations.	
A.R.E. Contribution:	
Grand Total	LE.1,700,481

Determination: MODE OF IMPLEMENTATION OF PROJECT 263-0021 - DEVELOPMENT DECENTRALIZATION

Discussion:

Implementation of this project will involve technical services, training, capitalization of a loan fund and some basic research and evaluation. Because of the highly specialized nature of the technical assistance required to implement this project, it is felt that a combination of a PASA team leader and two Personal Service Contractors would be the most efficient mode to provide the needed technical services. The ORDEV staff is small and has had only limited experience dealing with U.S. types of procurement. They would not be able to handle the necessary advertising, evaluating and negotiating which a host country contract would require, particularly if it were to be executed as a Personal Services Contract. The U.S.-procured commodity element of this project is small and would not justify the necessary training which would be needed to equip ORDEV to conduct the procurement.

The ORDEV will be supervising all local contracting under this project. This will entail a significant role and level of effort for ORDEV. The technical project director and his staff will work with ORDEV to upgrade their capabilities so that future AID contracting arrangements can be brought into line with standard AID policy.

Determination:

I therefore determine, in accordance with applicable AID regulations and policies, most recently set forth in the attachment to

AIDTO Circular A-564 of 10/27/76, that direct contracts will be the preferred mode of implementation for this project with respect to contracting for U.S. personnel, materials and equipment. The ORDEV will handle all local procurement under the project.

Donald S. Brown
Director, USAID/Egypt

Approved: _____

Disapproved: _____

Date: December 1, 1977

Clearance:

PRM:CFWeden
TA:SAApplegate
LEG:JRPhippard

Annex G

Recommendations to Authorize Local Cost Financing

Over the life of the Project, $7,333,000 will be used to support capitalization of the LDF and local currency expenditures that the Egyptian Government will make for specific items in support of this project. $722,000 U.S.-owned excess Egyptian pounds will be used for the costs of the travel, per diem and shipment of household effects of project consultants and related project support costs such as the travel of Egyptian participants over the life of the project. In addition, local cost financing will be made available to the Ministry of Local Government, ORDEV, and the LDF for project implementation for disbursement in accordance with the agreements reached between USAID and the GOE in the Project Agreement and subsequent letter of implementation.

One reason for authorizing local cost financing is that this represents an additional real resource to the Egyptian economy and provides an incentive for the Egyptian Government to implement new initiatives that otherwise it might not be able to undertake. The Mission considered granting excess U.S.-owned currency for these Egyptian pound costs, however, and decided that this would only be appropriate for the contractor and participant support costs discussed above. The use of existing U.S.-owned local currency to capitalize the LDF would add no additional real resources to the economy. Given the GOE's need to restrict the growth in the money supply to correspond to the growth in real resources in the economy, the inflationary impact of using U.S.-owned local currency would have to be offset by reduced GOE disbursements of other programs. Maintaining this fiscal balance is also required under the terms of the current IMF Standby Agreement with Egypt, which the U.S. and other donors have strongly supported.

Consequently, if U.S.-owned local currency were used for all the Egyptian pound costs associated with this project, it is doubtful that ORDEV could enter into this agreement since they would have to sustain budgetary cutbacks in other areas. Given the above considerations and the fact that the Development Decentralization project is consistent with the Congressional Mandate of the Foreign Assistance Act to undertake activities designed to improve the economic position and quality of life of the poor majority and will have an important impact in the rural areas of Egypt, we have concluded that local cost financing should be authorized.

Based on the foregoing, USAID requests that it be determined that local cost financing with dollar appropriations be authorized in accordance with Section 612(b) of the Foreign Assistance Act.

Justification for Origin Waivers

Without waiving the AID origin requirements this project is not feasible. The nature of the project purpose which seeks to promote an administratively operational form of local government decentralization would make it impossible to pass on a narrow range of procurement possibilities to the village councils. The projects hope to encourage the GOE to allow the village councils to make their decisions regarding what types of projects they undertake and within the confines of sound technical, economic, and financial viability implement these projects free from the heavy hand of the central government. For AID to pass on to the GOE a set of origin guidelines which they would have to pass to each village does not seem consistent with the scope or the spirit of this project. Aside from this policy level consideration there is also a practical reason to waive the origin requirements on the loans made under this project. Egypt has had little commercial contact with the United States over the last 25 years. Egypt has not been a traditional trading partner of the United States and US origin material of the type which would be purchased locally under the loans of this project is not available here. We expect that a majority of the goods and services procured will have Egyptian source and origin but a significant number of transactions would undoubtedly involve 935 countries, as Western Europe and Japan both constitute major suppliers of small scale agricultural and industrial related capital goods. To restrict the funds operation to US and Egyptian source and origin restriction would destroy the conceptual framework which

underlies the program and would render it inoperable in the Egyptian rural environment. For these reasons the Mission recommend waiving the origin requirements outlined in Handbook 15 Section 2A4 b(2) and Section 636 (i) of the Foreign Assistance Act.

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INITIAL ENVIRONMENT EXAMINATION
NARRATIVE DISCUSSION

1. Project Location: Egypt

2. Project Title: Development Decentralization I

3. Funding (Fiscal Year and Amount): FY 78-82 $11,400,000

4. Life of Project: 5 Years

5. IEE Prepared By: J.J. Walton Date: November 11,1977

6. Action Recommended: Approval

7. Discussion of Major Environmental Relationships of Project Relevant to Attached Impact Identification and Evaluation Form:

Principal points of impact in this project are outlined in section g, Part 3, of the Project Proposal. The conclusion is that the physical environmental effects will be minimal, while those of a socio-economic character may be Moderate to High.

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IMPACT IDENTIFICATION AND EVALUATION FORM

Impact Areas and Sub-areas	Impact Identification and Evaluation 1/
A. LAND USE	
1. Changing the character of the land through:	
a. Increasing the population	M
b. Extracting natural resources	M
c. Land clearing	L
d. Changing soil character	M
2. Altering natural defenses	M
3. Foreclosing important uses	M
4. Jeopardizing man or his works.	M
5. Other factors	
~~[illegible]~~	N
B. WATER QUALITY	
1. Physical state of water	M
2. Chemical and biological states	M
3. Ecological balance	M
4. Other factors	
	M

1/ N - No environmental impact
L - Little environmental impact
M - Moderate environmental impact
H - High environmental impact
U - Unknown environmental impact

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C. ATMOSPHERIC

1. Air additives	N
2. Air pollution	N
3. Noise pollution	N
4. Other factors	
	N

D. NATURAL RESOURCES

1. Diversion, altered use of water	L
2. Irreversible, inefficient commitments	N
3. Other factors	
	N

E. CULTURAL

1. Altering physical symbols	N
2. Dilution of cultural traditions	N
3. Other factors	
	N

F. SOCIOECONOMIC

1. Changes in economic/employment patterns	M-H
2. Changes in population	N
3. Changes in cultural patterns	N
4. Other factors	
Increase in Village Output and Income	M-H
Increase in Village Council "Special Account"	M-H

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IMPACT IDENTIFICATION AND EVALUATION FORM

G. HEALTH

1. Changing a natural environment — X
2. Eliminating an ecosystem element — X
3. Other factors — X

H. GENERAL

1. International impacts — X
2. Controversial impacts — X
3. Other factors — X

I. OTHER POSSIBLE IMPACTS (not listed above)

None

Prepared By: J.J. Dalton Date: Nov. 11, 1977

Project location: Egypt

Project Title: Development Decentralization I

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Annex J,

12:019

جمهورية مصر العربية
الحكم المحلي
الأمانة العامة
الوزير

December 6, 1977

Mr. Donald S. Brown
Director
USAID to Egypt
American Embassy
CAIRO

ACTION TO ... PDP
ACTION TAKEN ... DATE 12/12/
NAME ... INITIALS ...

Dear Mr. Brown:

The Organization for Reconstruction and Development of the Egyptian Village (ORDEV) within the Ministry of Local Government has been charged with planning for economic and social development of the rural villages in Egypt. In carrying out this mandate, ORDEV has engaged in a number of programs to help village councils supplement their incomes, in order to undertake economic and social development activities in their villages. In cooperation with various specialists from the United States, ways have been explored whereby assistance to village councils might be increased.

As a result of their mutual efforts, it is clear that the United States could be of useful assistance in:

1. Granting the necessary funds to capitalize a loan fund to be located within ORDEV which will loan money to village councils for income producing activities.

2. Assisting with long and short term training in local administration and rural development for ORDEV officials at all levels of government and for village council and village executive committee personnel.

3. Assisting the ORDEV Academy by providing advisory services and equipment.

His Excellency, the Deputy Minister in charge of ORDEV, will appoint the Undersecretary of State and Director-General of ORDEV as Project Director, with a number of assistants to coordinate the elements of the project under his direct supervision.

The Ministry of Local Government will appreciate assistance from the United States Agency for International Development in the setting up and

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جمهورية مصر العربية
الحكم المحلي
الأمانة العامة
الوزير

initial capitalization of the Loan Fund, in providing appropriate training to selected Government of Egypt officials and in technical assistance to the ORDEV training Academy, including the provision of equipment where necessary.

Sincerely yours,

Mohamed Hamed Mahmoud
Minister for Local Government
and Youth and for Popular
and Political Organizations.

ANNEX K

Draft of Project Description to be Used in Project Agreement

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. HEO's are designated by the Ministry of Local Government and 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.

The Ministry of Local Government is the responsible entity within the GOE for implementing the project. ORDEV, within the Ministry, will be the responsible agency and the Undersecretary of State in charge of ORDEV the responsible official. The LDF will be governed by a Board of Directors and administered by a loan committtee. The project manager within USAID

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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 a 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 underway 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.