

UNCLASSIFIED

**UNITED STATES
INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT**

PROJECT PAPER

EGYPT - DECENTRALIZATION SUPPORT FUND

Grant No. 263-0143

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input checked="" type="checkbox"/> A A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY EGYPT	3. PROJECT NUMBER 263-0143
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4. BUREAU/OFFICE NE/EI 03	5. PROJECT TITLE (maximum 40 characters) Decentralization Support Fund
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 1 2 3 1 8 5	7. ESTIMATED DATE OF OBLIGATION (Under 'B' below, enter 1, 2, 3, or 4) A. Initial FY 80 B. Quarter <input checked="" type="checkbox"/> C. Final FY 80
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8. COSTS (\$000 OR EQUIVALENT \$1 = 0.70 LE)						
A. FUNDING SOURCE	FIRST FY 80			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	50,000		50,000	50,000		50,000
(Grant)	(50,000)	()	(50,000)	(50,000)	()	(50,000)
(Loan)	()	()	()	()	()	()
Other						
U.S.						
Host Country		-0-	-0-		10,000	10,000
Other Donor(s)						
TOTALS	50,000	-0-	50,000	50,000	10,000	60,000

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
1) SA	900	240				50,000		50,000	
2)									
3)									
4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 190 210	11. SECONDARY PURPOSE CODE 910
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)	A. Code PART	B. Amount 50,000				
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13. PROJECT PURPOSE (maximum 480 characters)

To support and accelerate the process of administrative decentralization to rural governorates by increasing investment budget under this jurisdiction.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 0 3 8 1 0 1 8 2 0 9 8 3	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input type="checkbox"/> Local <input type="checkbox"/> Other (Specify) _____
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment)

N/A

17. APPROVED BY	Signature Title Owen, Cylke Acting Director, USAID/Cairo	Date Signed MM DD YY 018/31/80	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY 019/02/80
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I. Summary and Recommendations

- A. Project Title: Decentralization Support Fund
- B. Project Number: 263-0143
- C. Grantee: The Government of Egypt
- D. Coordinating Agency: Ministry of Economy -
Department of Economic Cooperation
- E. Implementing Agency: 21 Rural Governorates and
Central Department for Local
Government - Ministry of Economy
- F. Amount: U.S. \$50.0 Million
- G. Terms: Grant
- H. Life of Project: 3 Years
- I. Total Project Costs: U.S. \$60.0 Million composed of
U.S. \$50.0 Million AID Grant Funds
and \$10 Million GOE contribution
- J. Goal: To assist the GOE to achieve its policy objectives
in economic and administrative decentralization.
- K. Purpose: To support and accelerate the process of
administrative decentralization to rural governorates by
increasing investment budgets under their jurisdiction.
- L. Strategy: This project will make a total of \$2.3 million
in foreign exchange available to 21 rural governorates in
Egypt through the GOE's national budget. These amounts, which
will be available to the governorates in their investment
budget, will be used to purchase needed capital equipment in
the United States under AID Regulation I procedures. The
equipment will be used by the governorates to expand and
maintain systems servicing the governorate population in such
areas as sanitation, health, transportation, etc. The project
is in furtherance of the GOE's newly developed policy of
administrative decentralization. The project will largely be
administered by the governorates themselves who will develop
their own requirements analyses, equipment lists and
performance specifications, and, in conjunction with USAID,
approve technical specifications. The governorates will also
be responsible for the operation and maintenance of equipment.

The Ministry of Economy will provide general oversight including arranging for budget allocations, evaluation, establishment of equipment selection criteria, screening governorate lists for eligibility, review of performance specifications and overseeing overall procurement. A Technical Liaison Group contracted by USAID will provide technical assistance to the Ministry of Economy and the governorates. USAID will work closely with the Ministry of Economy and governorates in each of these functional areas.

M. Project Outputs:

(1) Equipment - as determined by governorates to be necessary in accord with local priorities - in operation, directly providing basic services benefitting large portions of the residents of the governorate.

(2) Administrative experience gained by governorates in developing requirements and specifications.

N. <u>AID Project Inputs:</u>	<u>US \$</u>
(1) U.S. Goods for Governorates	48,730,000
(2) Technical Consulting Services	790,000
(3) Evaluation	305,000
(4) Contingencies	175,000
Grant Total	50,000,000

O. <u>GOE Inputs:</u>	<u>US \$ mil.</u>
(1) Operating and Maintenance Costs	9,674,000
(2) Staff time Devoted to Coordinating Project by GOE and by Governorates	180,000
(3) Inland Transportation	<u>146,000</u>
Total	10,000,000

P. Recommendation:

Grant:

AID approve a dollar grant in the amount of \$50.0 million, of this approximately \$5,000,000 will be used for local currency costs (i.e., liaison team and contingency funds).

II. Project Description

A. Project Background and Problem Statement

The impetus of the Decentralization Support Fund Project (DSF) comes from the present convergence of three important trends in Egyptian local government which form the background of the project and provide, in summary, both a statement of the problem and a description of the opportunity.

The first trend has been a consistent effort on the part of the GOE to decentralize authority. The present local government structure came into being in the late 1960s when the village council was created and endowed with a set of defined responsibilities. Although the grant of authority was minimal, this was at least a beginning which fostered more open discussion of village needs, resources and goals. Encouraged by these developments and pressed for more effective local development, in 1975 the GOE promulgated a revision of the local government structure. Village councils were elected, given more power and their taxing authority was widened. Governors were accorded many of the decisions once made by central ministries; and a new unit, the district or markaz, was created to bring technical services closer to the villages. With the added insight of experience, the GOE re-emphasized decentralization in a 1979 local government law revision by strengthening the governorate and expanding village authority in project selection, finance and operation. In just over a decade Egyptian local government has become, at least in law, one of the most decentralized systems in the developing world.

The second trend, less positive, has been a decline in capital investment in the rural sector, particularly during the 1960-1975 period. Though investment was relatively stable (averaging between LE 52 and 54 million rising demand for

food and social services brought about by rapid population growth outpaced investment. Rural areas suffered through a widespread deterioration of small scale infrastructure which had provided a vital link in sustaining economic and social livelihood. Not only did construction dwindle, but maintenance and reconstruction fell off, adding to the decline. Discussion with central government planning authorities and in governorates indicates that in the recent past approved investment budget allocations have averaged about 10 percent of requests submitted by the governorates. In 1978 and 1979 investment level budgets approved for governorates represented only 3 percent of total public sector investment. In 1980, however, while requests stayed about the same, approvals of investment budgets increased to about 30 percent, reflecting increasing GOE commitment to decentralization. Despite these increases, however, the estimated shortfall in governorate investment budgets for 1980 totals some LE 550 million, thus indicating a significantly high level of unsatisfied demand for investment budgets in rural governorates.

The third trend has been the gradual growth of local administrative experience. Substantial experience has been gained in many areas of local government administration, but a lack of institutional and personnel capacity remains in critical development roles. Recent field studies in rural areas which touch on local government indicate deficiencies in trained personnel, organizational arrangements and management skills. The need for planning, budgeting and project management appear at all levels.

Although these trends point to problems they underline as well significant opportunities. USAID has a substantial commitment both underway and planned in support of the GOE's policy of decentralization which it believes over time should make substantial contributions to both productivity and equity in Egypt. Projects underway include Development Decentralization (DDI), and Title III/Basic Village Services (BVS), which aim at strengthening the capacity in governorates and villages to plan, manage, implement and maintain locally chosen income generating and basic infrastructure projects. This project, the Development Support Fund, will help accelerate the decentralization process in governorates by increasing the governorates' capital investment budgets - thus addressing concerns outlined in the first two trends discussed above. Training of governorate staff, while not a part of this project is an important aspect of the decentralization

process. Some training of local officials is now included in the DDI and BVS projects and additional training in planning, budgeting, management, equipment upkeep and the like will be part of USAID planned future activities.

A more complete description of the background of the project - a description of Egypt's local government, the budgetary process, and the finances available to various levels of local government - which explains the need for this project is contained in ANNEX II.

B. Goal

The goal of this project is to assist the GOE to achieve its policy objective in economic and administrative decentralization. Such decentralization is premised on the assumption that increased local government responsibility for local development activities will result in a more equitable and self-sustaining development process relevant to both national and local interests.

C. Purpose

The purpose of the Decentralization Support Fund is to support and accelerate the process of administrative decentralization to rural governorates by increasing investment budgets under their jurisdiction. While under this project the most immediate result will be capital equipment, the infusion of the equipment itself and the experience gained through the planning and procurement phases of the project should greatly strengthen the decentralization process.

D. Rationale

The strategy used to gain the purpose rests on the pressing need for equipment at the governorate level to provide essential services to governorate population. The deficit in needed equipment brought about by inadequate investment during the 1960s and 1970s has led to a serious deterioration in many basic services. As a result, the inadequate, or in some cases, the complete lack of vital services (e.g., sanitation, ambulance and firefighting equipment, water systems, etc.) limits opportunities for increased social and economic benefits to the rural population. By making funds for equipment available to governorates, services can be expanded and existing infrastructure better maintained. A distinction

needs to be made here between the BVS project and the proposed DSF. In the case of the former, emphasis will be on village level systems, i.e., village sanitation, village roads, etc. In the case of the latter, however, the equipment will be used to expand or maintain more complex and generally governorate-wide systems. Thus, while some of the basic areas of concern under the two projects will be the same, the differences between the two will be the level and impact of the systems involved.

The increased resources provided by USAID to the governorates under this project should also serve a "pump priming" action which should increase budgetary flows in the future. This will be brought about by two factors; first, because the administrative and technical capabilities in the governorates for handling larger investment levels (i.e., the experience gained by doing) will be demonstrated and, second, because increased resources once available will create a strong, popular demand for their continuation.

The Decentralization Support Fund provides a foreign exchange facility through the structure of the GOE budget for governorates to purchase needed capital equipment. Access to foreign exchange is, of course, only one of several needs of decentralization. As indicated earlier, other requirements of the decentralization process in rural governorates will be addressed in ongoing or planned project mechanisms. Analysis of governorate equipment needs, however, point to a strong requirement for foreign exchange financing considerably in excess of the funds to be made available under this project and that the type of equipment needed lends itself to U.S. procurement under AID Regulation I procedures.

The decentralization process in governorates is new and somewhat untested. It has enthusiastic support from President Sadat, most senior cabinet officials, and the various governors. Not surprising, it has less support among the bureaucracy in the central ministries. Procedures and administrative mechanisms remain to be developed and tested and the inevitable tensions arising from the introduction of this new governmental initiative resolved. At present, in this and other similar projects, USAID is at the forefront of the decentralization process and as governmental procedures evolve and are revised, so will it be necessary for the USAID to revise some of its decentralization mechanisms. It is this reason that the DSF project is proposed for one year funding.

In the future, as experience is gained and results evaluated, both the USAID and GOE may wish to continue the same mechanism or alternatively adopt completely different approaches which serve the GOE's decentralization strategy better.

E. Project Activity Outputs, Inputs

This project provides foreign exchange financing under AID Regulation I procedures to purchase equipment for rural governorates in order to assist them in expanding and maintaining services and existing infrastructure. It also includes funding for the local hiring of a local procurement consultant to assist governorates, the Ministry of Economy, and USAID in the project implementation. In addition, funds are included to evaluate project results. The GOE will provide operation and maintenance funding to support the equipment, staff time devoted to the project on the part of central government ministries and governorates and inland transportation to distribute the equipment. Major project outputs will be a variety of capital equipment (as determined by governorates in accord with local priorities) in operation directly providing services and maintaining infrastructure which supports large elements of the rural population. An additional output will be increased experience gained by governorate staff in the planning, procurement and operation of capital equipment.

F. Relationship to Development Objectives

1. Relationship to GOE Objectives

The GOE objectives, particularly those concerning decentralization of administrative and governmental authority, are stated in the explanatory memorandum which preceded issuance of the 1979 Local Government Law and its Executive regulations. Among the most important of these are:

- (a) The need to support and develop local government in order to transfer central authority to localities.
- (b) The need to support local government units to solve problems locally.

The DSF project is in direct support of these objectives.

2. Relationship to the Mission CDSS

The 1982 CDSS includes decentralization as a major element of AID strategy in Egypt consistent, as previously noted, with the aims of the GOE. In particular, the CDSS emphasizes that decentralization is aimed " at fostering local administrative initiatives in the interest of greater operational efficiency and at broadening the role and responsibilities of project managers throughout the structure of public sector." It was also pointed out that weak local government has "meant that the people concerned have had little voice in determining what kinds of social and other governmental services are most important to them..." As described earlier, by increasing investment resource flows to the governorates the DSF project should foster greater local efficiency and initiative.

3. Relationship to USAID Activities

The DSF project relates generally to many USAID projects concerned with the process of decentralization. By focusing on the governorate, and building local capacity for administrative and governmental actions, the project will contribute to and parallel other projects in support of decentralization as well as such projects as rural health, social welfare, etc. Similarly, as the project encourages local decision making in matters affecting the choice, and the financing of capital/equipment, this experience can be used to underpin human service activities conceived at the local level. This project will involve many of the same governorate officials as does the DDI and BVS projects. More specifically, this project relates to the following ongoing and planned activities.

- (a) Development Decentralization I
- (b) National Urban Policy Study
- (c) Basic City Services
- (d) Basic Village Services
- (e) Basic Metropolitan Services
- (f) Basic Education

4. Relationship to Other Donor Activity

There are at this time no other donor activities in rural areas which would in any way conflict or duplicate activities proposed under this project. Ongoing activities of major donors impacting on rural areas are very limited in purpose and funding. Unlike the DSF they tend to be site specific, discrete in nature, and limited mainly to technical assistance. Moreover, to our knowledge, none have explicitly linked donor assistance to the decentralization process. The success of this project and other AID projects in this area should result in increased donor interest in the process of decentralization.

III. Project Analysis

A. Implementation Plan

Through experience gained during implementation of the Development Decentralization I project and the Title III program, USAID has developed valuable insight into the organization and functioning of rural governorates. In a like fashion, through the Commodity Import Program the USAID has also had exposure to governorate procurement procedures and capabilities. Based upon this experience, USAID and the GOE have agreed, (a) that project implementation will be based to the maximum extent upon existing procedures and organizations, and (b) lines of communication among the various participating organizations will be as direct and uncomplicated as possible.

Thus, in the main, project implementation will be based upon procedures developed under the Commodity Import Program. Some of the conditions under which the DSF will operate differ from those under the CIP, however. First, the raison d'etre of the CIP is to provide a foreign exchange mechanism for relief of balance of payments problems. In contrast, the DSF, while providing foreign exchange for equipment imports, has as its ultimate objective the decentralization process. Second, the CIP has been, for the most part, geographically centralized while the DSF will have 21 geographically dispersed clients. This brings about a need for coordination and consolidation of requirements. Third, present users of the CIP are by now generally attuned to such processes as requirements analysis, performance specifications, technical specifications and the like. Clients of the DSF have less direct experience and will require a greater element of technical assistance. Finally, users of the DSF have had greater difficulties in assuring maintenance of equipment.

In order to accommodate these differences, the following elements have been added to the project. First, overall project management within USAID has been assigned to the Office of Local Administration and Development within the USAID/DRSP. This assignment has been made in order to emphasize the project's relationship to the decentralization process and to assure that such considerations as the appropriateness of equipment relative to needs are given full attention. Secondly, the Ministry of Economy will act as an overall coordinator of the project in such functions as assuring conformance with eligibility criteria, consolidation of requirements and centralized procurement. (In this connection, the Ministry's role will not be unlike that of the GOE's under the recent set aside for education under the CIP.) Third, a local consulting contractor hired by USAID will provide technical assistance to assist governorates to develop requirements, equipment lists, performance specifications, etc. Finally, requirements analyses and other project safeguards will aim at assuring greater maintenance performance (see page 21 for fuller explanation of maintenance aspects of project).

Before turning to a description of the sequential steps of project implementation, it would be useful, first, to outline major responsibilities of the organizations involved in DSF implementation; i.e., the Ministry of Economy, the governorates, and USAID.

(a) Ministry of Economy - As in the case of the Commodity Import Program, the Ministry of Economy will be responsible for making initial allocations to governorates (with modifications as discussed below), reallocations and further establishment of eligibility criteria for equipment. The Ministry will also be responsible for project evaluation. These functions will be carried out by the Department of Economic Cooperation and Trade with Developed Countries within the Ministry of Economy. In addition to this, a newly formed office within the Ministry of Economy, the Central Department for Local Government, has been designated responsibility, inter alia, for local government affairs. This office has recently been transferred from the Ministry of Local Government to the Ministry of Economy. Previously, it had worked with USAID in the development of the provincial cities project (BCS), DDI and BVS. This office will act as a mechanism for channeling technical assistance to governorates, reviewing governorate equipment submissions for eligibility, arranging whenever possible for consolidating procurement, overseeing actual procurement, and port handling, customs clearance, and

internal distribution of the equipment financed under the project. To strengthen the capacity of the central department to carry out its responsibilities, AID will finance consultant technical services. In particular, the consulting services (the Technical Liaison Group) will assist governorates to ~~develop requirements,~~ equipment lists and performance specifications. Also the Technical Liaison Group will assist the Central Department to procure equipment as well as handle port receipt and distribution.

(b) Governorates - The governorates will be responsible for analyzing their respective capital assistance needs, determining priorities for the investment budget and for development of performance specifications. In developing these specifications, the governorates will have the assistance of the Technical Liaison Group. The governorates will also approve technical specifications after being developed by the USAID and the Technical Liaison Group. In addition, where necessary and at the discretion of the Governors, assistance of the central ministries can be called upon to assist in more complex procurements. It is anticipated, however, that most procurements will be of standard, relatively uncomplicated items of equipment. Following procurement and delivery of equipment, the various governorates will be responsible for its operation and maintenance.

(c) USAID - USAID's role in monitoring and supporting project implementation will be essentially fourfold. First, it will be concerned with project implementation within the context of decentralization: i.e., the extent to which the various governorates are progressing in their ability to determine requirements, set priorities, develop specifications, as well as manage, operate and maintain capital equipment. Second, it will review the screening of governorate analyses of requirements equipment lists or performance specifications by the Ministry of Economy to assure general appropriateness and conformance with eligibility criteria. Third, it will assist the Ministry of Economy in the development of technical specifications and in the bidding and procurement processes. Finally, it will work with the Ministry of Economy in its evaluation of the project. (The organizational function within USAID for project implementation will be discussed in the Technical and Administrative Analysis Section further on).

Following signing of the DSF and satisfaction of initial CP's, the Ministry of Economy will assure that initial allocations to governorates are reflected in the national budget. Governorates will be notified of allocations to their

individual governorate investment budgets. All governorates except the more urban governorates of Cairo, Alexandria, Port Said, Suez and Ismailia will be included in the DSF. The 21 governorates included in the DSF will each receive an initial allocation of \$2.3 million. The USAID and GOE have agreed that from a practical and political standpoint initial allocations should be on an equal basis. From USAID's experience under the BVS and DDI projects as well as reconnaissance undertaken in development of this project, it is clear that this level is well below the potential investment needs of governorates since the shortfall in 1980 between requests and approval in the 21 governorates is in the order of \$500 million. Of this \$500 million, over one-fourth has been identified as a foreign exchange requirement. At the same time the DSF represents a real increase of 20% in the investment budgets of the 21 governorates, which should be of sufficient size to have a significant impact on the governorate's services without taxing their capabilities.

The Ministry of Economy (Office of Economic Cooperation and Trade with Developed Countries) and USAID will set eligibility criteria for equipment. In general terms, the equipment should be:

- (1) In general conformance with the 5 Year Plan.
- (2) Cost effective and appropriate to its intended use.
- (3) Of benefit to a broad segment of the population.
- (4) Easily operated and maintained and within the financial capabilities of the governorate to maintain it.
- (5) Necessary in relationship to the type and amount of equipment already owned by the governorate.

Restrictions beyond those standard to AID financing will be relatively few. Equipment will be limited to use by governorates. Public and private sector commercial users will not be eligible. (Both already have access to foreign exchange through other mechanisms.) Limitations will also be placed on establishing or increasing force account capacity of governorates in order to encourage expansion of private sector contractors in these areas. For example, a large grader or dump truck used for road construction would not be eligible for project funding if it would create or increase the governorates' road building capacity but a small grader or dozer, a 6-ton dump truck, or a small front and end loader with a backhoe attachment to be used for road maintenance would be eligible.

The above set of criterion have been discussed and generally agreed upon by the Ministry of Economy. Additional eligibility criteria may be added following further discussion between the Ministry of Economy and USAID. A C.P. will be included in the project agreement which will call for formal submission of criteria by the GOE acceptable to USAID.

While allocations are being made to the governorate and criteria developed, AID will contract for the Technical Liaison Group. Following notification of increased investment budget and upon receipt of eligibility criteria, the governorate will analyze their capital assistance needs, and will develop requirement lists, performance specifications and technical specifications. The Technical Liaison Group will assist them in this task, and in particular will attempt to ascertain that:

- (1) The type of equipment requested is reasonably suited to the task envisioned.
- (2) The quantity of new equipment requested is reasonable in light of existing equipment inventories.
- (3) Performance specifications for new equipment insure its compatability with existing equipment.
- (4) The cost of the equipment is reasonable in light of its intended use.
- (5) Periodic maintenance is possible and probable.
- (6) The equipment meets AID and any GOE commodity eligibility requirements which is established for the Commodity Import Program.

During the course of developing requirements, the Technical Liaison Group will help the governorate to refine and expand upon existing procedures for review and analysis of equipment needs.

The governorate will then submit requirement analyses, proposed equipment lists, and performance specifications to the Central Department for review. The Central Department (assisted by the Technical Liaison Group) will review performance specifications for equipment to be procured under the Project. In carrying out this function the Central

Department will confirm that specifications are appropriate for the use intended. The Central Department will assure, to the maximum extent possible, the uniformity and compatibility of equipment procured under the project and take into account any special problems of procurement and the cost of the equipment. The Central Department will also assure that similar equipment will be consolidated to the maximum extent possible for efficient central procurement.

Once the requirements analysis and performance specifications for equipment requested by the governorates have been reviewed and approved by the Central Department they will be submitted to USAID for approval. The USAID will then advise the Technical Liaison Group and the governorates, as required, in the development of technical specifications and bulk procurement packaging. USAID, in coordination with the Central Department, Technical Liaison Group, and AID/W Office of Commodity Management (SER/COM) will develop and refine technical specifications so that they are appropriate for bidding, and will ascertain that each IFB to be issued will include as appropriate: (a) sufficient allowance for spare parts (standard spare parts allowance is 20%); (b) requirement that successful bidders to have maintenance capabilities in Egypt; (c) provision for familiarization courses (U.S. and/or Egypt) to ensure proper utilization and maintenance of equipment and (d) allowance for special maintenance tools, and supplies and training.

SER/COM, after receiving USAID's, the governorates', and the Central Department's concurrence on specifications and terms of the IFB, will proceed with the issuance of the IFB, notification of the procurement in the U.S., and will forward copies of the IFB to the Egyptian Embassy in Washington, D.C., for distribution to interested U.S. suppliers, as well as to USAID and the governorates.

The Central Department will receive bids in Cairo and open them on bid opening date in the presence of a USAID representative. The Central Department will evaluate bids received and recommend awards to USAID.

USAID, after examining proposed awards to ensure that they are in accordance with IFB's terms and conditions, will issue a letter of instructions to the Central Department regarding AID procedures to be followed in finalizing the purchase contracts and opening letters of credit.

The Central Department and the Technical Liaison Group will assure proper handling of equipment once it has been received in country, its passage through customs and its delivery to the governorates. It will be responsible for preparation of receipt reports and other required documents.

Governorates will be encouraged to fully program their initial allocations, but experience indicates this will likely require some internal shifting of requirements in governorate budgets and possibly some additional retendering. However, in the event a governorate has not developed firm requirements for its allocation within a year from the date of its initial allocation, the remainder of the budgeted amount will be available for reallocation. The Ministry of Economy will then reallocate based upon such factors as prior performance, need, and conformance with the fiscal year plan. It is expected, therefore, that there will be more than one cycle of procurement which will be implemented as described above. (For detailed implementation schedule see Annex III.)

B. Administrative and Technical Analysis

1. USAID Capabilities

The USAID/Egypt Assistant Director for Development Resources and Program Support (DRPS), or his designee, will have overall AID management responsibility. Day-to-day monitoring will be lodged in the Office of Local Administration and Development which has responsibility for the Mission's rural decentralization project portfolio. This office will have as one of its primary concerns the relationship of the project to the decentralization process and its interrelationship with the other decentralization projects.

In addition, USAID's Office of Local Administration will have responsibility for review of governorate requirements analyses, equipment lists, and performance specifications. In the former context, it is planned that all individual purchases for one governorate for one type of equipment over \$1 million where construction, expansion or alteration of a physical facility is involved, will be reviewed by the USAID on the same basis as the activity justification paper is now prepared under the Commodity Import Program. Responsibility for review of technical specifications and liaison with the Ministry of Economy on bidding and procurement will be undertaken by the Office of Commodity Management and Trade under the Assistant Director for Industry and Trade as support to DRPS. End use checking will be the responsibility of the USAID Controller's Office.

2. GOE Capability

The Ministry of Economy's Department of Economic Cooperation, at the macro level, i.e., making allocations, reallocations, establishing criteria, etc. has extensive experience under the Commodity Import Program and few, if any difficulties should be experienced at this level. The Ministry's Central Department has had less direct experience with the bidding and procurement procedures under AID Regulation I. The technical assistance supplied by the Technical Liaison Group will be an important element of project management. In addition, USAID's office of Commodity Management and Trade will work closely with the Central Department on these aspects of project procurement.

Capabilities at the governorate level varies. Many governorates already have experience in Regulation I type procurements through the Commodity Import Program. Most governorates also have some experience in establishing requirements and in developing priorities. The very nature of the DSF, however, that of shifting the major responsibility for decisions and planning from the central ministries to the governorates introduces a new approach to the governorates. In addition, Regulation I will introduce new procedures. Therefore the support of the Technical Liaison Group will be important, particularly in the development of specifications.

Experience with other projects indicates that the type of expertise needed for the Technical Liaison Group is readily available in the Egyptian private sector. At the present time it is planned that the Technical Liaison Group will consist of eight members. The team's leader will be housed at the Ministry of Economy in Cairo. His role will be to assist the Central Department on review of requirements analysis, equipment lists, and performance specifications, consolidation of procurement packages, development of IFBs and other aspects of the procurement and delivery process. Seven other team members will spend most of their time assisting the governorates' development of requirements and performance specifications. One team member will be responsible for 3 governorates. It is expected that by the end of the second year of the Technical Liaison Group's contract, it could be reduced to four persons as the governorates gain experience. It is likely that the type of functions carried out by the Central Department may be shifted to other organizational modes within the GOE as procedures for decentralization are worked out further by the government. One possibility for the placement of the Central Department may be the Council of

Governors. Because longer term institutional arrangements remain somewhat uncertain, USAID believes that the Technical Liaison Group should be on a direct and not host country contract basis. This has the approval of the MOE.

Another area of capability that needs to be kept under review is the question of maintenance of equipment. To minimize the problem:

1. The GOE will covenant that adequate funds for equipment maintenance will be provided and that adequate storage facilities will be provided both for the purchased equipment and spare parts.
2. The Technical Liaison Group will have to certify in its submissions of requirements analyses, that maintenance capabilities for given items of equipment are in place.
3. Spare parts will be ordered, as appropriate, in the same IFB and bought as part of the same contract as the original equipment.
4. When appropriate, only suppliers having maintenance capability in Egypt will qualify as equipment suppliers.
5. Instructions regarding use of and preventive maintenance on equipment will be ordered in the same IFB and included as part of the contract purchasing the original equipment when appropriate. If the Technical Liaison Group determines that training is required, this will be so specified in the IFB.

C. Economic Analysis

1. Introduction

The benefits from this project are impossible to reasonably quantify. Further, there is no way to evaluate the project as the least cost alternative to achieving an increase in the governorates' investment budgets. While this project doesn't lend itself to the standard quantitative economic analysis, there are several qualitative issues that need to be addressed. These include the level of demand for funds and the impact of the project in the governorates.

In order to determine the demand for the type of investment goods to be funded by this project a sample survey of representative governorates was carried out and interviews conducted in those governorates. Further, central budget authorities were contacted to determine how DSF funds will be allocated through the budget process. The results are

discussed below. The impact of this project on the governorates was looked at from two perspectives: 1) the impact of the project on a governorate's investment budget; and 2) the impact on a governorate's recurrent costs. In order for the DSF project to be effective, it must be demonstrated that its resources will not overburden a governorate's capability to implement projects and to handle the continued operations and maintenance. Before these concerns are addressed, it would be useful to review the position of the governorates with respect to total budget allocations.

The table below outlines the proportion of resources going directly to all governorates:

	CY - LE Millions			
	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1980/81</u>
(a) <u>Current Operations</u> (Salaries and operations, excluding direct subsidies)	<u>2150</u>	<u>2468</u>	<u>2900</u>	<u>N/A</u>
(1) Central Government	1636	1838	2178	
(2) Governorates	514	630	724	
(3) Percent: Governorates to Total	24%	26%	25%	
(b) <u>Public Sector Investment</u>	<u>1954</u>	<u>2501</u>	<u>3100</u>	<u>3200</u>
(1) Central Government & Public Economic Sector	1889	2421	2863	2945
(2) Governorates	65	80	237	255
(3) Percent: Governorates to Total	3%	3%	8%	8%

It is clear from the table that governorates have far more responsibility for carrying out operational aspects of the Egyptian Government than they have in making investment decisions. The GOE commitment to the decentralization effort is reflected in the 1980 increase in the share of the investment budget. However, governorates still have a long way to go in gaining control over their investment decisions.

2. Governorate Survey Results

The survey indicated that over the last several years governorates have been allocated 95% to 100% of the funding requested for wages and salaries; between 65% and 75% for operations and maintenance (and of this amount, most for operations), and between 10% and 30% for investment. In fact, the last two budget cycles showed that central government funding of investment was at roughly the 30% level.

The governorate interviews indicated that investment projects and items usually unfunded by the central government were those with a large foreign exchange component. The level of services was difficult to expand or improve given the cuts usually made in the operational budgets. Further, the low level of funding for maintenance also impacted negatively on services because of excessive down-time of equipment, and on the general level of efficiency of equipment that was working. The governorates specified the kinds of equipment they were interested in obtaining if there were a LE 1.0 million increase in the investment budget for no commercial type enterprises. Annex IV is a sample budget developed for Sohag Governorate. Discussions indicate that the list could easily be expanded if a larger amount were being considered.

Central government budget authorities have stated that investment allocations were primarily directed to the central line ministries and that, in the past, the governorates had been very low on the priority list. While this is changing, there was still a significant excess demand overall for investment funds allocation within the government. Central and local government authorities have both agreed that the only way to affect the allocation process positively is by including additional DSF resources in the governorates' budgets.

3. Project Impact on Governorate Budgets

To measure the budgetary impact of the DSF, a representative governorate budget was derived by averaging 1980 budget data for the 21 governorates affected. The results are shown in the table below.

<u>Budget Chapter</u>	<u>Representative Governorate Budget (1980) (LE Millions)</u>	<u>Project Impact (Real LE Value)</u>		
		<u>Investment</u>	<u>Full Recurrent Costs</u>	<u>% Change</u>
1. Wages and Salaries	21.4	-	-	-
2. Current Operations and Maintenance (Maintenance)	4.3 (0.3)	-	0.260 (0.130)	6 43
3. Investment	7.0	1.4	-	20
TOTAL	<u>32.7</u>			

Next, the uninflated 1981 Egyptian pound value of investment goods per governorate was determined from the Financial Plan in the following Section D. This amounted to LE 1.31 million. It was adjusted upwards by an average 10% factor to account for an initial one-half year operations and maintenance cost. This adjustment to the investment budget is required for the year in which the investment takes place. It should be noted that the 10% adjustment factor was derived from discussions with central and local government budget authorities on standard budgeting procedures and practices. Budget authorities adjust current operation and maintenance budgets in the year following the investment expenditure to account for the investment having taken place.

Thus, the investment budget per governorate would, on the average, increase LE 1.4 million. This represents only a 20% increase in the budget as shown in the table. In fact, this overstates the impact because, while the regular budget can expect to be expended within the budget year, it is clear from the Financial Plan that the project funded investments will not occur in the budgeted year. Further, the inflated 1981 level overstates what the comparable 1980 level would be. In any case, a 20% increase can not be looked upon as an overburdening increase in the governorate's investment budget.

The Mission determined that the annual average operating and maintenance costs for the type of investment goods expected to be procured would be 20% of the value. This is divided equally between operating costs and maintenance costs. Thus, the increase in the budget in the following years would be LE 260 thousand per governorate. This represents only a 6% increase in overall operating and maintenance funding, which is not a significant increase. However, when the maintenance line item is looked at, there is an increase of 43% required. This reflects the fact that consistently throughout the Egyptian Government, maintenance is underbudgeted. It also indicates the need, which this project addresses, to require the GOE to be sure to properly fund this area. Thus, the project's impact does not appear to overburden either the governorate's ability to manage the investment or the ability to fund operating and maintenance requirements.

D. Financial Analysis

The proposed project will total \$60 million of which \$10 million will be provided by the Government of Egypt (GOE) as counterpart to the project. The project funding period will be from December 1980 through August 1983. Tables I and II Financial Plan and Projection of Expenditure reflect projected costs by specific inputs, by cost elements and by foreign exchange and local currency. A summary of projected costs by element and source of funding follows:

(U.S. \$000)
Projected Costs

<u>Project Element</u>	<u>AID</u>	<u>GOE</u>	<u>Total</u>
Equipment	48,730	9,820	58,550
Contract Services	<u>1,270</u>	<u>180</u>	<u>1,450</u>
Total	<u>50,000</u>	<u>10,000</u>	<u>60,000</u>

As reflected in Table I all foreign exchange requirements of this project (\$49 million) will be financed by AID. These requirements, which comprise over 81% of the total project will be primarily associated with the procurement of equipment for 21 governorates, and the financing of a decentralized evaluation team. An estimated \$965,000 of AID funds will be utilized for local currency expenditures to support the cost of the Technical Liaison Group which will provide in addition to the necessary liaison links among the governorates, the implementing ministry and USAID the service as a procurement coordinator. Of GOE's contribution of \$10.0 million, 98% will cover costs associated with the maintenance, operation and in-land transportation of equipment purchased by AID. The remaining 2% in counterpart funds will cover costs of salaries for central government as well as governorate's staff members involved in the equipment procurement activity.

An inflation provision was made for each of the project elements. Table II reflects an estimated cost to AID of \$9.6 million and GOE of \$3.1 million, respectively. The inflation provision was based on the following allowances:

<u>Type of Cost</u>	<u>Percentage</u>		
	<u>1981</u>	<u>1982</u>	<u>1983</u>
Foreign Exchange	-	15	12
Local Currency	-	25	20

In addition to inflation a \$175,000 contingency fund is allocated to Contract Services element of the project. The contingency fund will be used for increasing the scope of the liaison team, and to provide additional assistance to governorates in developing planning capacity.

Details involved in costing project elements follow:

1. Equipment

(a) Procurement

For budgeting purposes the equipment element of this project has been divided into three categories: heavy, light, and miscellaneous. These three categories comprise the following types of equipments:

- Heavy: Graders, Loaders, Bulldozers, etc.
- Light: Water, Sewerage Pump and Garbage Trucks
Ambulances, Utility Vehicles, etc.
- Miscellaneous: Calculators, Projectors, Health
Equipment, Educational Aids, etc.

Of the \$48.7 million (\$39.3 million real value) provided by AID under this project element, 50%, 35% and 15% have been allocated for heavy, light and miscellaneous equipment, respectively.

The approximate cost and number of units per category follows:

<u>Category Equipment</u>	<u>Number Of Units</u>	<u>Real Value (in US \$000)</u>	
		<u>Per Unit</u>	<u>Total Units</u>
Heavy	255	\$ 77	\$ 19,650
Light	625	22	13,755
Miscellaneous	Various	Various	<u>5,895</u>
		<u>Total</u>	<u>\$ 39,300</u>

* Averages are based on equipment prices during the third quarter of 1980 adjusted to expected 1981 levels.

(b) Maintenance and Operation

Based on analysis performed by the Mission, maintenance and operation costs were estimated to be 10% the year the investment takes place and 20% thereafter.

(c) Inland Transportation

Inland transportation cost has been estimated at ~~7%~~^{10%} of the equipment's real value.

2. Contract Services

(a) Liaison Team

This element will provide 228 person months of technical services to the project, at an average cost of \$2,800 per person month.

The 228 person months include 8 individuals during the first 24 months of the project and 4 individuals during the remaining 9 months.

The GOE contribution is based on the number and time of personnel allocated by governorates as well as by the central government for the equipment procurement activity. For each governorate budget estimates are based on 5 positions for three months during each procurement cycle and for the central government are based on the cost of 2 full-time positions for two years.

(b) Evaluation

This element will fund four evaluations during the life of the project. These evaluations will require about 23 persons months of a US contractor (cost \$10,000 per person months which includes direct as well as indirect related costs).

The time and number of individuals allocated to each evaluation follows:

<u>Evaluation</u>	<u>No. of Individuals</u>	<u>Months Required</u>
1	2	2
2	3	1-1/2
3	3	1-1/2
4	3	3-1/3

In addition to funding the above personnel costs, this project element provided \$20,000 for other costs.

TABLE I

DECENTRALIZED SUPPORT PROJECT
SUMMARY COST ESTIMATE AND FINANCIAL PLAN
(In U.S. \$000)

<u>Project Element</u>	<u>.....AID.....</u>		<u>GOE</u>	<u>.....TOTAL.....</u>	
	<u>-FX-</u>	<u>LC-</u>	<u>-LC-</u>	<u>-FX-</u>	<u>-LC-</u>
<u>I. Equipment</u>					
Procurement	39,300		-	39,300	-
Maintenance & Operation	-		6,680	-	6,680
Inland Transportation			103		103
Inflation	<u>9,430</u>		<u>3,037</u>	<u>9,430</u>	<u>3,037</u>
Total	<u>48,730</u>		<u>9,820</u>	<u>48,730</u>	<u>9,820</u>
<u>II. Contract Services</u>					
Liaison Team		640	146		786
Evaluation	250			250	
Inflation	55	150	34	55	184
Contingency		<u>175</u>			<u>175</u>
Total	<u>305</u>	<u>965</u>	<u>180</u>	<u>305</u>	<u>1,145</u>
<u>PROJECT TOTAL</u>	<u>49,035</u>	<u>965</u>	<u>10,000</u>	<u>49,035</u>	<u>10,965</u>

* Preliminary

TABLE II

DECENTRALIZED SUPPORT PROJECT
Estimated Disbursement Schedule

<u>Project Element</u>	<u>FISCAL YEAR</u>							
	<u>1981</u>		<u>1982</u>		<u>1983</u>		<u>TOTAL</u>	
	<u>AID</u>	<u>GOE</u>	<u>AID</u>	<u>GOE</u>	<u>AID</u>	<u>GOE</u>	<u>AID</u>	<u>GOE</u>
<u>I. Equipment</u>								
Procurement	-	-	13,750	-	25,550	-	39,300	-
Maintenance and Operation	-	-	-	1,375	-	5,305	-	6,680
Inland Transportation	-	-	-	36	-	67	-	103
Inflation	-	-	<u>2,100</u>	<u>353</u>	<u>7,330</u>	<u>2,684</u>	<u>9,430</u>	<u>3,037</u>
Total	-	-	<u>15,850</u>	<u>1,764</u>	<u>32,880</u>	<u>8,056</u>	<u>48,730</u>	<u>9,820</u>
<u>II. Contract Services</u>								
Liaison Team	200	50	270	60	170	36	640	146
Evaluation	45	-	50	-	155	-	250	-
Inflation	-	-	75	15	130	19	205	34
Contingency	<u>25</u>	-	<u>50</u>	-	<u>100</u>	-	<u>175</u>	-
Total	<u>270</u>	<u>50</u>	<u>445</u>	<u>75</u>	<u>555</u>	<u>55</u>	<u>1,270</u>	<u>180</u>
<u>PROJECT TOTAL</u>	<u>270</u>	<u>50</u>	<u>16,295</u>	<u>1,839</u>	<u>33,435</u>	<u>8,111</u>	<u>50,000</u>	<u>10,000</u>

E. Social Soundness and Beneficiary Analysis

1. Social Soundness

The thrust of this project is to accelerate the GOE's movement towards greater decentralization and democracy. The project is designed to insure that the technology selected is appropriate and not overly capital intensive, and the use of the equipment will benefit a wide segment of the population. This is insured in several ways: (1) the Technical Liaison Group will advise governorate on the suitability of the equipment to the task envisioned and the equipment's cost effectiveness, (2) the Technical Liaison Group will have access to expertise in its own company and in USAID, (3) the Ministry of Economy and USAID will review the commodity list and the intended uses to analyze its suitability.

From the mid-1950s to the late 1970s there was no appreciable capital investment in rural infrastructure in Egypt. By the mid-1970s the GOE began to shift more of its funds to meet the needs of rural dwellers for canals, roads, sanitary drainage, and potable water systems. The existing systems deteriorated during the period while emphasis was placed largely on the "new land" effort. Field research in the nine provinces gathered for the BVS program along with data reported by various World Bank studies revealed deficits in rural infrastructure for nine provinces alone over LE 500 million (\$ 727 million). Unfunded projects requested by the 21 rural governorates in 1980 budget totaled about \$500 million. These unmet needs are essentially basic human needs of the rural and non-metropolitan urban population.

A sampling of governorates revealed the following hierarchy of needs envisioned as being supported by equipment made available through this project. (See Annex IV for a detailed list from Sohag Governorate.)

- (1) Firefighting
- (2) Sanitation (equipment such as septic tank cleansing units, garbage trucks)
- (3) Road Maintenance
- (4) Health Delivery Services (ambulances and communication equipment to facilitate transport of patients from outlying clinics to center hospitals).

- (5) Canal Maintenance
- (6) Education

This equipment will serve the social needs of the governorates. For example, the sanitation equipment will improve sanitation services to all sectors of the governorate. Better sanitary facilities will add to health and to longevity. Maintenance of existing roads is important in a country where most of the existing road network is not paved. The governorates have the responsibility to maintain the tertiary road networks, but they have not been given the resources to do it. The small secondary canals are vital to Egypt's rural population whose agriculture is dependent on irrigation. These canals form the crucial link between the large irrigated systems constructed by the central government and those belonging to the farmer. Equipment to maintain them will serve a vital socially useful function.

The governors are charged, under the local government laws, with the duty of bringing the benefits of development to the populace within their area. The problems are well known and socially acceptable solutions identified. The major problem has been finding the resource to provide these solutions. The DSF should help provide these resources.

2. Beneficiary Analysis

The 1976 census indicated that 77% of the population (28.3 million) was located in the 21 governorates affected by this project. Further, these governorates included virtually all of the rural population (20.3 million) and 50% of the "urban" population (8.0 million) but not really major population centers. It is impossible to predict how many people will directly and indirectly benefit from this project. However, it should be clear from the description above of the types of equipment to be procured and the criteria used in its selection, that a large segment of the population in these governorates stand to benefit from this project.

F. Impact on Women

As a result of this project, many types of governorate services will improve. Many of these services are directly

used by women, or may indirectly benefit them. For example, if equipment related to health care is upgraded, it should impact on the health of women using health care facilities. Sanitation equipment may directly assist women in disposing of waste and indirectly improve their health environment. If potable water equipment expands governorate's capacity to provide water, women should spend less time in obtaining safe water for the household. Also, there is an indirect health benefit if women have access to potable water supplies. Equipment for road and canal maintenance, and education will impact on women to the extent they use the services provided.

G. Environmental Analysis

The initial environmental examination led to a threshold determination that there would be no significant adverse effects on the environment. This was concurred in by AID/W. The intensive review of the project in preparing this PP has uncovered no evidence to cause a reversal of that finding. However, a covenant has been added requiring the GOE to be sensitive to and address environmental concerns.

IV. Evaluation Plan

This project forms an integral part of the USAID's decentralization portfolio. The Mission plans to incorporate the evaluation of DSF within the overall scheme of decentralization evaluation planned by the USAID. A basic system of decentralization monitoring and evaluation, based on governorate and sub-governorate budget records is currently being designed under contract funded by the BVS project. It is scheduled for operation by October 1980. The evaluation funding provided under project will provide for a supplement to the major Mission decentralization evaluation contract insuring that specific cognizance is taken of the DSF.

The DSF requires evaluation against three basic USAID concerns:

- (a) Impact of the program on the overall goal of increasing budgetary decentralization in Egypt.
- (b) Effectiveness of the DSF mechanism in moving beyond budgetary decentralization to actually impacting on the productivity/quality/utility of public services and public infrastructure in rural governorates. Did the program deliver equipment which improved services? Was it effective in meeting the legitimate basic needs of a significant share of the rural population?

(c) A management assessment of the DSF as a development tool. What are the managerial implications of the DSF program for non-project or program type support in Egypt? Can assistance under Regulation I procedures genuinely meet legitimate development assistance goals? Does the DSF instrument have broader applicability in programming for Egypt? Does the instrument need further refinement? How can it best be refined?

The amendment to the decentralization evaluation contract providing for DSF evaluations will include the following stages:

Baseline Evaluation

Development of baseline data and a system for ongoing monitoring of the structure of governorate budgets (in selected governorates - Jan./Feb. 1981).

Special Evaluations

- a. Review of budgetary developments since baseline data - Jan./Feb. 1982.
- b. Review of budgeting developments, end-use of some equipment and impact of equipment (in selected governorates - Jan./Feb. 1983).

End of Project Evaluation

To be conducted during June through August of 1983 along the following lines:

- a. Review of budgetary developments.
- b. Review of actual end-use and impact of equipment in governorates.
- c. Management assessment of the DSF instrument as a development tool.

V. Conditions Covenants

In addition to the standard conditions and covenants the following conditions precedent to disbursement for equipment shall be included:

A condition which requires the GOE to provide equipment eligibility criteria acceptable to USAID.

A condition which requires that the GOE will channel all project funds allocated to the governorates through the national budget.

A covenant which will ensure that the resources provided by the GOE will be in the nature of additional budgetary resources, and not replace existing allocations.

A covenant which will ensure adequate maintenance of equipment financed under the project.

A covenant obligating the GOE to provide the necessary staff required for project execution; and

A covenant ensuring that environmental factors will be taken into consideration in determining the types and anticipated uses of equipment procured under the project.

A covenant ensuring that refunds will be made to the grantee by the governorates where equipment financed under the project is not used in accordance with the terms and conditions of the Grant Agreement.

LOGICAL FRAMEWORK

NARRATIVE SUMMARY

GOAL:

Acheivement of GOE policy objectives in Economic and Administrative Decentralization.

PURPOSE:

Support process of administrative decentralization to rural governorates by increasing investment budgets under this jurisdiction.

OUTPUTS:

1) Equipment - as determined by governorates to be necessary in accord with local priorities - in operation directly providing basic services benefiting large portions of the residents of the Governorate.

2) Administrative Experience gained by Governorates in analyzing requirements and developing specifications.

OBJECTIVELY VERIFIED INDICATORS

GOAL:

Larger discretionary budgets at Governorate and Local Levels - A doubling at such budgets by 1985.

EOPS:

1) Project Planning reflecting local choice.

2) Governorates undertaking projects with less reliance on central government.

3) Improved maintenance of existing infrastructure.

4) Improved performance/ productivity for those services/infrastructure directly benefitting the project.

5) Larger Governorate Investment, Operating and Maintenance budgets.

OUTPUT:

1) \$48.730 million worth of equipment*;

2) 2 Governor's staffers in each participating Governorate with relevant experience gained under this project

MEANS OF VERIFICATION

GOAL:

Review of Governorate and Central Budgets.

PURPOSE:

Examination of Governorate Records Comparison of post DSP data with past investment budget data Field Checks of ongoing and completed projects. Local budget and planning documents.

OUTPUTS:

Project Documentation

Field Visits

INPUTS:

Project Documentation

ASSUMPTIONS:

1. 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...").

2. Public Law 43 will be implemented in such a way that the physical, social, and economic components of rural development strategy can be effectively supported among all levels of government; and, in particular among local representative councils and executive committees.

3. Interest among Egyptian administrators, policy-makers, and professionals in local development decentralization will continue and grow.

4. 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.

5. 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.

6. Authorized sources of revenue under Public Law 43 will become fully operational and contributory to the financial strength of the governorate.

NARRATIVE SUMMARY

OBJECTIVELY VERIFIABLE
INDICATORS

INPUTS:

INPUT:

U.S. Inputs:

A U.S.

1. Funds for equipment
2. Liaison Team
3. Evaluation Team
4. Contingency Funds

1. 48,730,000
2. 790,000
3. 305,000
4. 175,000

GOE Inputs:

B GOE:

1. Operating and Maintenance costs.
2. Staff Time devoted to coordinating project by Central Government and Governorates.
3. Inland Transportation.

1. 9,674,000
2. 180,000
3. 146,000

* Since the crux of this project is to supply governorates with equipment they specify - forcing them to do more planning, a quantification of equipment by numbers and type is not possible.

EGYPT'S SYSTEM OF LOCAL GOVERNMENT^{1/}

The Arab Republic of Egypt is divided into twenty-six governorates, twenty-one in the Nile Valley and five in the desert areas. Each governorate is further divided into districts (markaz). There are a total of 150 districts. Each district usually consists of one major town and several (four to eight) Village Council Areas. There are a total of 810 Village Council Areas. Each Village Council Area has a main village and several smaller satellite villages. A typical district will have a population of between 150,000 and 200,000 people.

The term Local Government Laws refers to Public Law 52, enacted in 1975,^{2/} revised and replaced by the promulgation of Law 43 of 1979.^{2/} The Local Government Law sets forth the governmental structure at three levels of the local governmental hierarchy--the Village Council Area, the District and the Governorate. The pattern at each level is similar - an appointed Executive Officer (Governor, District Chairman or Chairman of the Village Unit), an Executive Council composed of ex officio advisors consisting of the ranking member of each line Ministry at that level (e.g. Health, Education or Public Works), a Popular Council consisting of representatives elected by the residents of the area, and in the case of the Governorate and District level, an administrative staff.

Each "Village Council Area" elects its own "Village Popular Council" which must have at least seventeen members, one of whom must be a woman.^{3/} Four representatives must come from the main village and each satellite village must have a representative. Each Village Popular Council elects a Council Chairman.

1/

In preparing this Annex, the Project Committee drew heavily on the work of Dr. James B. Mayfield - Local Government in Egypt: Some New Change Strategies and Training Opportunities, 1976. This material has been updated to reflect changes which have occurred since then and the Committee has added comments based upon its own experience. However, what clarity of description of the system exists in this Annex is due to Mr. Mayfield's lucid explanations.

2/

These laws are also referred to as Decentralization Laws.

3/

The fact that Local Popular Council members in Egypt were, for the most part, men (in fact, out of some 19,896 council members elected in November, 1975 only 39 were women) probably led to this apparently sexist language.

Theoretically, the Popular Councils at each level (Village, District and Governorate) can play an important role in developing a deep sense of legitimacy and commitment among the citizenry for a functioning local government system. They can provide a sense of participation for the inhabitants of a governorate, a district, or a rural community. The Popular Councils provide an institutional structure by which local requests, complaints, and proposals can be channeled to higher governmental authorities. The truly effective Popular Council could develop a series of projects or programs of such obvious local value as to be a strong inducement to the local citizenry to contribute a significant portion of the financing.

Yet for a Popular Council to function in this manner, there must be a literate citizenry, a group of experienced and capable leaders who understand the strengths and weaknesses of a local government system, who appreciate the need for the local community to shoulder a larger portion of the costs, and who are willing to participate with the central government in reforming and developing the social, economic, and political conditions in the rural areas. Unfortunately, many of these factors do not yet exist in rural Egypt.

The appointed executive administrative officer with power and authority over the financial and administrative activities of all local government organizations functioning in each Village Council Area is usually a career civil servant.

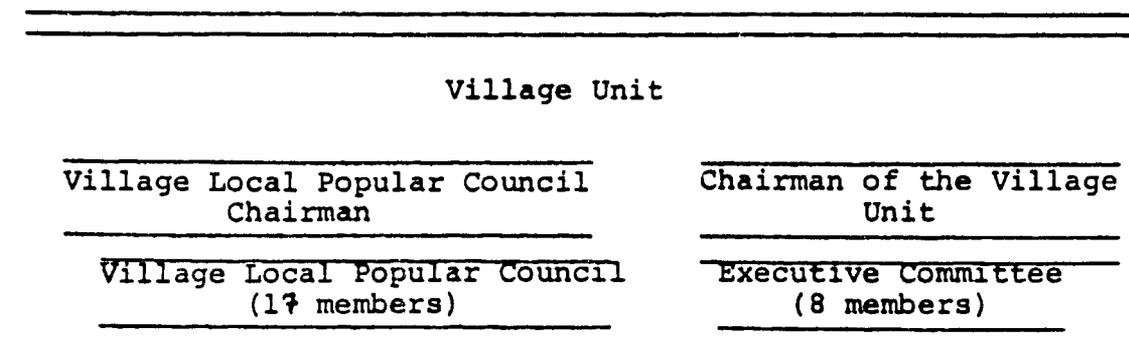
The official title of this local government leader is "Chairman of the Village Unit" (rais wahdat qarya). The chairman is head of the Executive Council whose other members are the chief administrative officials working in the Village Council Area (doctor, social worker, school principal, agricultural engineer, police officer, and building engineer) and the village secretary.

(The Chairman of the Village Unit must be distinguished from the Chairman of the Village Local Popular Council who is elected by the Popular Council members. So too must local Popular Councils be distinguished from local Executive Councils.) Thus, the Chairmen of the Village Units are executive officers selected by the central government and responsible for the implementation of all government programs and policies within their area of jurisdiction. The local Executive Council or committee is the chairman's staff.

The Chairman of the village level Local Popular Council, on the other hand, is the officer who presides over the village Local Popular Council meetings which are usually held once

or twice each month. Given the central government's pre-disposition to control and direct most activities in the Village Council Areas primarily through financial and budgetary regulations, the government appointed Chairman of the Village Unit has many more administrative and budgetary powers and authorities at his disposal than does the elected Chairman of the Village Council.

ORGANIZATIONAL CHART OF THE VILLAGE UNIT



Impressions of James Mayfield, in 1976, of Chairmen of the Village Unit based upon one district are revealing. "Chairmen of the Village Unit tend to be mature administrators, usually with a college education and generally with over ten years experience in villages. All of them had had more than five years experience as Village Council Chairmen before the establishment of the new Public Law 52 in 1975. There is no consistent pattern which characterizes their place of residency, although a slight majority of those interviewed did live in a nearby town rather than right in the village itself. Most of these chairmen have a good sense of their responsibilities in the village. although many of them admitted that additional training in planning, budget preparation, and management (supervisory skills) would be helpful. Only one of the seven chairmen in Qawisna was an active member of ASU (Egypt's [then] single party [now disbanded]), and all tended to consider themselves professional local government employees."

The next higher level of government is the District of Markaz. These encompass from four to eight Village Council Areas. There is an appointed District Chairman who is the head of the capital town of the district and who has the powers of under-secretary of the head of a government agency in respect to the financial and administrative affairs of the district.

Like his counterpart at the village level, he heads an Executive Council composed of Directors of Service Departments and executive heads of towns and Chairmen of the Village Units within the district.

This Council acts as the Chairman's staff.

The District, too, has a Popular Council (DPC) of elected officials, eight from the district capital and four from each Village Council Area within the district, plus one woman. The District Popular Council elects its own chairman and vice-chairman, one who must be a farmer or a laborer.

The next highest level of government is the Governorate. The Governor, appointed by the President and having the rank of a Minister, is the chief executive officer of the Governorate. The Governor's most senior assistant is the Secretary General of the Governorate. This is almost always a civil servant position and lends continuity and professionalism to the administration of the Governorate. The Governor has a full professional staff which runs the administrative matters of the area. The Governorate's Executive Council is composed of the Governor, his assistant, district and city head and chairmen of specified public agencies working in the Governorate.

There is also an elected local Popular Council at the governorate level. It is composed of four members from each district or administrative section of a city, and a woman. This local Popular Council appoints a chairman and two deputies, one of whom must be a farmer or laborer.

It can be seen that the parallel system of popular elected official and professional appointed officials runs from the village to the governorate level in an attempt to balance popular democracy and administrative competence.

A look at the budgetary and financial system in Egyptian local government will enable a better understanding of the local village government's relations to the district government and to the governorates.

Budgetary Process in Egypt^{1/}

An analysis of the Egyptian budgetary process requires an awareness of the following four things:

^{1/} See Mayfield. Local Government in Egypt: Some New Change Strategies and Training Opportunities, 1976.

1. The Egyptian government appears committed to the establishment of a decentralized system inspite of the fact that Egypt's administrative system has historically been very centralized.

2. The new Local Government Laws imply that such a decentralized system is established, when in fact it appears that such local autonomy is still in the future.

3. Most knowledgeable observers recognize that Egypt is in a transitional period in which the central government still plays the dominant role in all fiscal and budgetary matters. Yet there is sufficient evidence to suggest that procedures are being activated in the local areas which at least have the potential for establishing a more decentralized system of budgeting and finance.

4. It is important to distinguish between what the law says and what still exists in practice. This gap between the two should not be described in purely cynical terms, for the government appears committed to the gradual establishment of a truly local government system in which local councils will have access to their own separate revenues and resources.

Some previous provisions of the Local Government Law imply a decentralized system and orders clearly define a still centralized system. Under the law, all Popular Councils at the governorate, district, town and village level are directly elected, and as supposedly representative councils they are given responsibility for the preparation and development of their respective draft budgets.

Thus in theory, each Popular Council is supposed to develop a draft budget outlining the four major categories of: (1) Wages, Salaries, Bonuses and Overtime; (2) Current Expenses; (3) Investments; and (4) Capital Transfer; The law implies that the decisions concerning budgetary amounts can be decided independently by each council. The reality is different. Although the Popular Council does give great input into the budgets that are eventually sent forward to the next level of administration, most of the inputs from the Local Popular Councils which go beyond the rough guidelines provided by the ministerial representatives in the governorates are quietly deleted at the central government level.

The budgetary process in Egypt functions basically as follows: first in early spring, the various ministries develop rough estimates of what they expect their budgets will be in the coming year. These estimates are gradually filtered down

through the hierarchies of each ministry - first to the governorate level, then to the district and town, and finally to the village levels.

At the same time, the Ministry of Finance distributes a manshur (book of instructions and guidelines) to each governorate. The manshur specifically outlines the technical steps required for the preparation of the budget for each governmental level. Since the elected councils themselves rarely have the competence to prepare these budgets, the executive committee of each village (which includes the respective ministerial representatives, who have already received guidelines as to the budget they can expect, plus the heads of the councils' committees in health, education, social services, agriculture, housing, etc.) under the direction of the Chairman of the Village will prepare the draft budget which is then submitted to the representative council for its approval.

There are four main budgetary entries, each called Baabs (or chapters). Baab I is for salaries, Baab II for current expenditures and transfers, Baab III for investment and Baab IV transfers. Usually only Baabs I and II expenses are actually forecast at the village level. Investments desired are listed without financial data - the financial data is supplied later at the district or governorate level. Baabs III and IV funds are controlled and allocated at the central government level.

After some discussion, first in each committee and then in the council as a whole, the draft budget will be approved. It is not uncommon for these village representative councils to insist on budget requests which go far beyond the guidelines announced by the ministries. One official in the budget department of the Ministry of Local Administration admitted that these popularly elected councils often increase the size of the draft budget presented to them by the executive committee five to ten fold. Thus, one of the major problems in the budgetary process is the tendency for Village Popular Council members to have an unrealistic view as to what the government can or should do for them. According to regulations from the Ministry of Finance, the draft budgets must be submitted in the form approved even though they are far beyond the guidelines established by the ministries.

After all local draft budgets have been approved, they are sent to the Department of Finance at the governorate level. This department is separate from the Governor and is directly under the control of the Ministry of Finance. The Department of Finance puts all the drafts in proper form and incorporates them into one budget called "the General Draft Budget of the

Governorate" which is first submitted to the executive committee at the governorate level. Although the law states that no amendments are possible at the level, it appears from various sources in different ministries that the executive committee, in which the Governor can play an important role, has been known to make changes. The Governor submits the draft budget to the governorate council for its discussion and approval. This body, too, has been criticized for adding requests which are unrealistic and eventually have to be cut at the ministerial level. Once the governorate council has approved the draft budget, each section is sent to its respective minister.

At this point a series of negotiations will take place between the various ministries and the Ministry of Finance. The Minister of Finance will reduce the amounts requested by the elected councils to a level consistent with estimated revenues of the total country. If serious conflicts emerge, the final level of appeal is the Prime Minister in most cases. Next the draft budget is submitted to the Ministerial Committee for Planning and then to the entire Cabinet for final discussion and negotiations.

Although all the funds requested to be spent in the governorate are contained in the budget forwarded from the governorate not all the funds approved for activities in the governorate go through the governorate. For example, if the Ministry of Health built a hospital, funds for running the hospital would appear in the governorate budget. Assuming the approval of the line item those funds would not flow through the governorate but through the centralized Ministry of Health.

The draft budget is next presented to the National Assembly for approval. When it is approved, it becomes the budget. The Ministry of Finance at this point communicates the final budget items to the Governorate Department of Finance. Based upon the recommendation of this body, the governorate council announces the distribution of funds for its villages and towns. It is then the responsibility of the Governor to inform the local councils of the actual funds available in each budget category.

Development of Local Government in Egypt

According to James B. Mayfield^{1/} Egypt has passed through three stages in its development over the last three decades.

1/

James B. Mayfield. Local Government in Egypt: Some New Strategies and Training Opportunities, 1976. pp.32-33.

"Stage 1: The umdah system - highly centralized, generally very authoritarian in which the one main representative of the central government, the village Umdah or mayor, ruled the community in a strong, highly centralized way. The major focus was on security and control and most of the few functions of the various ministries were channeled through this office.

"Stage 2: The Unified Council system - based upon the need to establish a village or town council which, because of its lack of experience, required fairly close supervision from the central government. The second stage included a local council made up of elected members (selected from the ASU committee), a few selected members, and the ministerial representative in the local area (doctor, social worker, teacher, security and housing officials). Bringing together the political representatives of the ASU, some traditional representatives, and some representatives from the various ministries, this unified council tended to focus on political awareness through an active single-party system and close interaction and supervision of political elements by the more knowledgeable representatives of the ministries providing services in the local areas.

"Stage 3: The 'Two-Branch Local Government' system - established under Public Law 52 of 1975 and modified by Public Law 43 of 1979. This new system envisions the creation of two interacting and hopefully coordinating, institutions of local government: first an elected council of local representatives freely chosen by their constituents, and second an executive committee representing the various ministries providing services in the local area. The focus of this latest system is the need for the council to represent the people, to identify their needs, to consider alternative plans and programs, to develop a draft budget which represents the real needs of the people, and finally to conduct on-going monitoring and evaluations of the services and programs which the central government is providing. Also, this new law envisions a strong executive branch called an executive committee which will seek to coordinate and implement the plans and programs developed by the councils in conjunction with the central ministries. In this third stage, central control will remain dominant as the vast majority of laws and budgetary revenues will still come from the central government.

"Stage 4: 'The Local Self Government' system which is expected to emerge in Egypt in the future and is the goal to which the efforts under this project are directed. The

local (popular) councils will, because of the experience gained in Stage 3, begin to assume greater responsibility for both legislative and executive functions. Adequate revenues will be made available to ensure that over 50 percent of the budget will come from local sources. The wages, current expenses, and capital expenditures will become more and more independent from central control and the executive committee will gradually divest itself of many of its functions and activities, assigning them to the council itself."

One clear indication of Egypt's commitment to local autonomy and the eventual development of decentralized government institutions will be the degree to which local councils in the present local administration are or can be financially independent of central government resources.

The total Egyptian government budget in 1976 was roughly six billion Egyptian pounds (approximately \$9 billion). The chief sources of revenue are the income tax, corporation tax, sales tax, import-export tax, land tax, loans, etc. Out of this six billion pound budget, only 390 million is allocated for local administration, roughly 6.5 percent of the total budget. Of great significance is the fact that local administration councils have access to financial resources which total approximately 90 million Egyptian pounds which is collected at the local level. Thus, only 23 percent of the local administration budget is covered by revenues designated by law to be local government revenues. The other 77 percent of the local administration budget is allocated in the form of grants-in-aid from the central government. It is for this reason that Egypt at the present time must be classified as a local administration system rather than a local government system.

A brief description of the revenues available to the local councils in Egypt gives some indication as to the extent to which these councils may or may not eventually become financially independent.

Governorate Financial Resources

Joint Revenues

Under Public Law 124, the first law of local administration passed in 1961, all governorates were allowed a share of a special add-on tax placed on all import and export taxes. Under the Local Government Laws, all governorates were given additional sources of revenues in the form of an add-on tax for "movable properties" (stocks, bonds, shares, etc.) and from all industrial and commercial profits tax.

The percentage of these taxes that go to the local administration system is fixed by law. The fixed rate for the import-export add-on tax is 3 percent, for movable property, 5 percent, and for industrial and commercial profits between 10 and 15 percent. The amount collected from these add-on taxes was roughly 20 million Egyptian pounds during the 1975-76 fiscal period. Half of the 20 million went into the budgets of the governorates where the import-export, movable property, industrial and commercial taxes were collected. Therefore, some 30 percent of these monies go to Cairo, Alexandria, Port Said, Suez and Aswan governorates. The other half of the 20 million Egyptian pounds went directly into the Ministry of Local Administration. Although the Ministry of Local Administration would like to use this 10 million pounds for special development projects across all the governorates, the present arrangement with the Ministry of Finance is to allow one million pounds to be used for special developmental projects, while the other nine million goes into the Ministry of Local Governments budget under the category of the "Share of the Joint Revenues".

Each year the Ministry of Local Administration receives a letter from the Ministry of Finance, reminding the Ministry of Local Administration of the agreement by which only one million of these joint revenues can be used for special development projects. Efforts in recent years have been made by which a larger share of these joint revenues could be delivered to special development projects. The Ministry of Finance within the past year has agreed to increase these special projects funds up to four million pounds on the condition that the Ministry of Planning gives prior approval for these projects. Thus it appears that the Ministry of Finance has traditionally discouraged the creation of any financial budgetary system at the local level that would be independent of the central government's overall plans. Some sources in the Ministry of Local Administration have indicated that the passage of Public Law 52 reflects the commitment of the highest levels of government to establish eventually a more autonomous and independent local government system.

As these special project monies become available, governorates are encouraged by the Ministry of Local Government to submit their proposals for local development projects. The guidelines, so far announced, suggest that the project proposals should be between 20,000 and 60,000 Egyptian pounds--depending upon the size and importance of the governorate.

Other revenues available to the governorates include:

1. One quarter of the land tax and one quarter of the add-on land tax which by law is fixed at 15 percent of the

original land tax. At present the total land tax and add-on tax is roughly 14 million Egyptian pounds. One quarter of that tax goes to the governorate level and the other three quarters goes to the towns and villages.

2. All taxes collected on motor cars, motorbikes, carts and bicycles.

3. Fifty percent of the sale price of all public buildings sold. The other 50 percent goes to the town or village where the building is located.

4. Receipts from allocation of the funds invested by the governorate and all the revenues from utilities controlled by the governorates.

5. Other taxes and duties imposed by the governorate.

6. Government grants-in-aid, already mentioned, total presently 75 percent of all governorate revenues. The fact that three-fourths of the governorate's financial needs still come from the central government precludes any meaningful system of autonomy or local initiative from being established in the short run.

Public Law 52 provided for a new source of revenues,^{1/} unique to the traditional system of Egyptian finance, which potentially may become the basis for a truly independent local government system. By Article 37 the governorate council 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. Thus over the years this fund could grow to be a significant part of the local council's budget revenues. The revenues which go into this "special account" come from three sources:

1. Special local duties on various crops and food stuffs produced in the cooperatives.

2. Projects which may come from the development projects financed by this "special fund".

3. Donations, contributions and supports from local, national and international sources.

Although the amount of money available from the "special account" is obviously a very small percentage of the local council's budget, this "special account" at least provides

^{1/}

Law 43 has not changed this provision.

the mechanism for the eventual development of some financial autonomy for local councils in Egypt.

District (Markaz) Financial Resources

Of all the local government units, the district level has the least definitely defined set of revenue sources. It is clearly the most dependent level of government in the local administration system of Egypt. General sources of revenue for the markaz include:

1. Sources assigned by the governorate council.
2. Receipts from investments of all utilities under the direction of the district.
3. Government grants-in-aid.
4. Loans contracted by the district council.

The district council is allowed to establish its "special account" for development projects. The law is not clear as to the source of monies for this "special account" at the district level. If the district is to play a more significant role in local government administration, specific sources of revenue will have to be identified for these districts.

Towns Financial Resources

General sources of revenue for town councils consist of:

1. Taxes on buildings located within the jurisdiction of the town.
2. Seventy-five percent of the land tax and add-on land tax collected within its area of jurisdiction.
3. Sources of revenues assigned from the governorate council to the town council.
4. Duties imposed by the town council to include: birth certificates, licenses for quarries, mines, fishing rights, business licenses, animal registration, slaughter house registration, public market, water, electricity and gas taxes, etc.
5. Half of the sale price on all public buildings sold within the town.
6. Government grants-in-aid.

The Town Council is allowed to establish its "special account" for development projects in the town. The law is not clear as to the source of monies for this "special account".

Village Financial Resources

General sources of revenue for Village Councils are:

1. Seventy-five percent of the land tax and the add-on land tax for all lands within the jurisdiction of the village council area. It should be noted that peasants who have three feddan (feddan = 1 acre) of land or less do not pay land taxes. Since a significant portion of the peasants own less than three feddan of land, this restriction greatly reduces the tax base for each village.

2. Taxes and duties of a local character imposed by the village council.

3. Revenues from utilities managed by the village.

4. Sources of revenue assigned to the village council from the governorate council.

5. Central government grants-in-aid.

6. Loans contracted by the village council.

The Local Government Law provides that a special account for local services and development is to be instituted in every village. Whereas these "special accounts" are optional for governorate, district, and town councils, the Local Government Law specifically requires that every village council must have a "special account" for development projects. It is hoped that this "special account" will motivate village councils to take a more active role in defining planning, and establishing local village projects. It is anticipated that providing these village councils with some independent sources of revenue should increase the importance and activity of the village council members.

The central government has not given local governments at any level sufficient financial freedom to make local government a reality. One major reason is probably a dubiousness as to whether local government can handle all the responsibilities. The other, probably overriding, reason is that to do so would reduce the budgets and therefore power, prestige, and authority of the line ministries from whom funds would be transferred to increase the funds available to local governments.

Local government institutions are being established up and down the Nile River valley in an attempt to integrate services and programs, to stimulate local involvement and to encourage economic productivity and higher standards of living. All of this requires change.

The key officials in the Government who have participated in bringing about organizational and procedural changes in the local system of Egypt over the past two or three decades have learned that it is not enough to draft a new law, write up new executive regulations, and issue instructions putting change into effect. Fundamental changes in the attitudes, behavior, expectations, and levels of motivation must be made at the ministerial, governorate, district and village levels. Put succinctly--effective change in the local government system of Egypt will require alterations in the behavior of individuals and groups that function in both the local and central government systems of Egypt.

Change always upsets the state of affairs in an organization. Some will welcome the upset because they found prior conditions restrictive or oppressive. Others, who had no argument with the old, may also welcome the new because they see enlarged opportunities and potential gains, but change in the status quo is likely to be viewed askance by many who do not want to be disturbed in their ways and who are uncertain of what the future may bring in its wake. This is especially true of older persons who no longer have the energy of the desire to make the effort required to adjust to the new and of those whose power will be eroded and perceive themselves threatened by the change.

As the general and local government carry on the tough work of implementing Local Government in the ways which will maximize political, economic and social development in the rural areas of Egypt, both the factors encouraging change and those factors that act as barriers to change in Egypt must be considered.

A first important factor operating in favor of change in Egypt is the clear evidence that President Sadat and his key advisors and ministers are strongly supporting the new proposals for rural development and the establishment of an effective system of local government. Second, Egypt has gradually through successive shifts and slow changes provided an environment where the local governments can function as effective instruments of representation, planning and evaluation. Moving very slowly from a very centralized system to a more decentralized one, the local representative councils must be given time to prepare for the arduous tasks of self-government, and funds and resources necessary to enable

local government to manage their own affairs must be made available to them in a way that is least threatening to existing bureaucratic power structures.

One innovation in local government law that appears to be particularly encouraging to those who want to see a stronger local government system for Egypt in the future is the establishment of a special fund for services and development. It is based upon locally generated revenues and will remain in the council for independent projects both for additional services and income-generating activities. Both AID projects for Decentralization Development and Basic Village Services use this fund to assure grass roots development. This special fund is evidence that the Egyptian government is committed to allowing the local councils play the dominant role in the future for economic development and increased service programs in the local areas.

The government is using this mechanism and AID resources to provide local governorates with funds without "robbing" the line Ministries.

Development Decentralization I project, authorized November, 1978, appropriates \$11,200,000 of grant funds and \$125,000 worth of Egyptian Pounds to strengthening the local villages by creating a local development fund which could be borrowed by local village representative council for village owned income producing project income from the project, augments the village special development account to be used with for services or seed capital for other village ventures. The project also included a training component so that Egypt could develop capacity to provide members of the village popular council with the tips of training they will need.

Cognizant of the great demand for rural infrastructure and intent on reinforcing decentralization as a structure for local development, the GOE and USAID established a PE 190-Title III project to undertake Basic Village Services. It was agreed that the sum of \$15 million annually would be allocated over a period of five years beginning with 1979, the funds to be used for rural infrastructure, or basic village services (BVS) projects chosen by village councils. The GOE appointed an interagency committee chaired by ORDEV to oversee the project and an Agreement covering the first year's program was signed in March, 1979. Three governorates were chosen for the first year and criteria agreed upon by the GOE and USAID (project must be public in ownership and benefit all or nearly all of the people). USAID provided technical assistance to the first three governorates and their village councils in selecting projects; the advisor-

Itil Asmon, also compiled data on needs and capacity in the three governorates. Village Councils in the three governorates submitted their lists of needed basic village services, the lists were reviewed by the Governorate, modified where necessary in terms of funds or eligibility criteria and submitted to the Interagency Committee which again reviewed for eligibility only. These first projects included village potable water systems, rural unpaved roads (construction and upgrading), irrigation, canal cleaning and maintenance, village drainage and sanitation and other service projects. The first allocation under the program was sent in December, 1979, to the three selected governorates. Checks were immediately provided to the Village Councils for their approved projects. Work under the program has proceeded more rapidly and efficiently than anyone had expected. Several projects had been completed by April, 1980, and it is expected that all projects under the first allocation will have been executed in less than one year. One Governor has attributed the speed of execution to the fact that the villages have been given the funds to spend themselves which has caused them to feel more responsible for the use of the money as well as free to choose the manner in which the projects should be carried out, i.e., Village Councils with the money in their hands and under their control, have sought the way in which to make the money go as far and as effectively as possible. The projects have been operated in different ways depending on the local circumstances; some have been implemented by the Councils themselves and some have been contracted locally. In any event, the success of the program has demonstrated that Village Councils do have the capacity to carry out these types of projects, admittedly with varying degrees of efficiency.

In the fall of 1979, the concept of the Title III project was expanded through a proposal to use AID dollar funds to supplement the Title III funds and add a capacity building feature absent in the original Title III project. A project paper describing that project was submitted to A.I.D./W in June of this year to extend the BVS project to nine governorates.

ANNEX IV
SOHAG GOVERNORATE
List of Equipment^{1/}

<u>No. of Units</u>	<u>Description</u>	<u>LE Estimated Cost*</u>	
		<u>Unit</u>	<u>Total</u>
Sanitation			
12	Water spraying trucks	15,000	180,000
12	Sewerage pump trucks	15,000	180,000
11	Garbage trucks	15,000	<u>165,000</u>
			525,000
Road Maintenance			
3	Dump truck	20,000	60,000
1	Grader	35,000	35,000
1	Loader	40,000	40,000
1	Bulldozer	50,000	50,000
1	Canal dredging mach.	40,000	<u>40,000</u>
			225,000
Health	Various X-ray diagnostic and sterilization equipment		<u>130,000</u>
			130,000
Education	Projectors and school equipment		<u>50,000</u>
			50,000
	Subtotal		<u>930,000</u>
	Spare parts @ 15%		139,500.
	Training @ 5%		<u>46,500</u>
	TOTAL		1,116,000

*Not including custom duties

^{1/}List based on request by USAID to provide information on kinds of equipment governorate would desire if its Investment Budget were increased by LE 1.0 million. This level was chosen by USAID to be less than the actual planned level so as not to raise governorate expectation too high. In fact, the governorate could have expanded the list to include previously unmet equipment requirements of at least another LE 1.0 million.

8/25/80

ANNEX V

DRAFT PROJECT AUTHORIZATION

Name of Country : Arab Republic of Egypt

Name of Project : Decentralization Support Project

Number of Project: 263-0143

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended (The Act), I hereby authorize the Decentralization Support Project for the Arab Republic of Egypt involving planned obligations of not to exceed \$50,000,000 in grant funds over a one-year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the project.

2. The project consists of technical and capital assistance to Egypt to assist the Cooperating Country in accelerating the process of administrative decentralization in rural governorates by increasing investment budgets under the jurisdictions of the Governorates. The project will finance equipment procurement, maintenance requirements, consulting services and project evaluation. Implementation of the project will be coordinated by the Government of Egypt, Ministry of Economy.

3. The Project Agreement(s) which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. (a) Source and Origin of Goods and Services

(1) Except as A.I.D. may otherwise agree in writing or as provided in Paragraph 4 a (2) below, goods and services, financed by A.I.D. under the project shall have their source and origin in the United States or the cooperating country.

(2) Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

(b) Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D.:

(1) A statement of the names of persons authorized to act as the representatives of the cooperating country together with a specimen signature of each person specified in such statement.

(c) Prior to disbursement of funds by A.I.D. for the purpose of procuring goods and services other than goods or services to be procured directly by A.I.D., the Cooperating Country shall furnish, in form and substance satisfactory to A.I.D.:

(1) A statement of the eligibility criteria which will be applied to determine whether equipment is eligible for financing under the Project and;

(2) Evidence that funds made available under the Project will be provided to the participating governorates through national budget allocations to the governorates; and

(3) Evidence that the Grantee has established procedures for (a) monitoring Project procurement and utilization of the commodities by the governorates and (b) obtaining refunds from the governorates when Project funds have not been utilized in accordance with terms and conditions of the Project Agreement.

(d) The Grantee shall covenant as follows:

(1) Increase in Governorate Budgets. The cooperating country shall agree that the budget allocations made to the governorates for the purpose of providing them with the funds made available under the Project will represent additions to the budget allocations which would normally have been made to such governorates.

(2) Project Staffing: The cooperating country will take appropriate steps to ensure that the Governorates assign sufficient specific staff members to the Project for purposes of carrying out implementation activities.

(3) Maintenance Budget: The Cooperating Country agrees that in establishing national budgets subsequent to the effective date of the Project Grant Agreement the cooperating Country will take into account the requirement for funds by the Governorates for the maintenance of governorate equipment whether financed under the Grant or not. The cooperating country agrees to periodically consult with A.I.D. and the consultant financed under the Project to ensure that such considerations are made part of the normal budget allocation process.

(4) Environment: The Cooperating Country agrees to establish a formal procedure acceptable to A.I.D. which will ensure that environmental considerations are taken into account by the Governorates in the process of selection of equipment to be procured with funds made available under the Project.

(e) Statement on 612(b): Based on the justification set forth in ANNEX VIII of the Project Paper, I hereby determine in accordance with Section 612(b) of the Act that the expenditure of United States dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this project; the purposes of this project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement; and the administrative officials approving local cost vouchers may use this determination as the basis for his certification as required by Section 612(b) of the Act.

Typed Name

Office Symbol

Date

Initials

Clearances

Signature _____

DRAFT PROJECT DESCRIPTION

The Purpose of the project is to assist the Cooperating Country in accelerating the process of administrative decentralization in rural governorates by increasing investment budgets under jurisdictions of the Governorates. The project finances equipment procurement and helps fill the need for improving services to residents of the rural governorates.

Recognizing these needs and intent on reinforcing decentralization as a structure for local development, the GOE and USAID undertaken this Decentralization Support Project.

AID Grant funds may be utilized to finance the purchase of equipment from the United States requested by any Governorate through its Governor with the exception of the Governorates of Cairo, Alexandria, Suez, Port Said and Ismailia, provided that AID and the Ministry of Economy agree to the following 1) the equipment is cost effective and appropriate for the purposes for which the Governorate intends its use; 2) the intended use will benefit a large portion of the population; 3) is in general conformance with the 5-year plan; 4) the equipment is necessary considering the type, amount, and condition of similar equipment owned by the Governorate; 5) and the governorate ordering the equipment has the financial and technical capability to operate the equipment. However no equipment may be bought under this project:

1. For the establishment, maintainance, expansion and extension of any public or private commercial type enterprise including firms or organizations or enterprises wholly or partially owned by any governmental organization.
2. For the establishment, maintenance, or increasing the capacity of any government to undertake new construction projects; but procurement shall be limited to equipment which are properly classified as maintenance equipment (e.g. a large grader or dump truck used for road construction would not be a permissible purchase for it would create or increase the governorates road building capacity but a small grader or dozer, a 6 ton dump truck or a small front end loader with a back hoe attachment to be used for road maintenance would be permissable).

The Ministry of Economy - Department of Economic Cooperation shall coordinate the project. The Central Department for Local Government - Ministry of Economy and the 21 participating governorates will be the implementing agencies.

The GOE will allocate \$2.3 million dollars of AID funds to each governorate which is eligible to participate in the project. Allocations will be made through the regular GOE budget. Each governorate wishing to utilize the funds allocated to it will prepare and submit to the Ministry sufficient information to enable the Ministry and AID to make determinations on the issues listed above.

If any Governorate does not program and request eligible equipment to utilize the resources allocated within 12 months after allocations have been made, the Ministry will reallocate unused funds to other Governorates.

The Government will insure that each Governorate receives sufficient funds to operate and maintain the equipment purchased hereunder and to pay for the transport of all equipment and materials purchased hereunder from the port of unloading in Egypt to the site at which the equipment will be used or stored. To this end the Government of Egypt will provide through the governorates a sum no less than 10% of the acquisition costs of equipment for maintenance funds.

AID project funds will be used to procure the consulting services through a contract between a consultant and the USAID. The consultant will render assistance to eligible governorates in determining equipment needs and in preparing necessary documentation. The consultant will render assistance to the GOE in refining the specifications and act as liaison among the Ministry of Economy, the governorates and AID and any other Ministry or Organization involved in the project as appropriate.

The AID Grant will also be utilized to finance spare and repair parts or other maintenance requirements for the equipment to be procured hereunder, and a major life of project evaluation system which will be designed under a separate contract and carried out principally by individuals who will receive training in evaluation.

The GOE will contribute required personnel in the governorates, and Ministry, inland transportation, and indirect sub-project cost, e.g., operating and maintenance costs.

The GOE shall make such arrangements as are necessary to assure that procurement shall be done in accordance with the source and origin rules set forth in the Grant Agreement.

Monitoring, auditing and routine evaluation of the project will be carried out by U.S./Egyptian personnel in order to attempt to identify and remedy problems in project implementation, establish adequate audit provisions and measure performance and progress against project objectives.

USAID and the Ministry of Economy expect certain conditions to exist at the end of the implementation period which will indicate the project purpose has been achieved i.e.:

Governorates undertaking projects with less reliance on central government;
Project planning reflecting local choice;
Improved maintenance of existing infrastructure;
Improved performance/productivity for these services/infrastructure directly benefitting the project.

The procurement process which the GOE will use to buy goods and services will be set forth by AID in Implementation Letter.

5C (2) - PROJECT CHECKLIST
Decentralization Support Project

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual funding sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR
THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 79 App. Act Unnumbered; FY 80 App. Act Unnumbered; FAA Sec. 634A; Sec. 653(b);

(a) Describe how authorizing and appropriations Committees 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)?

(a) Congress will be notified in accordance with regular agency procedures.

(b) The intended obligation is within the level of funds appropriated for Egypt.

2. 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. The financial plan and analysis are part of the Project Paper.

3. 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 other than action notifying that the Grant Agreement is signed.

4. FAA Sec. 611(b); FY 79 App. Act Sec. 101; FY 80 App. Act Sec. (501.) If for water or water-related land resource construction, has project met the standards and criteria as per the Principles and Standards for Planning Water and Related Land Resources dated October 25, 1973?

N/A

5. 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 and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

Yes

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multilateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

No

7. FAA Sec. 601(a). 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.

This project will discourage monopolistic practices, and improve technical efficiency of industry agriculture and commerce by enabling local governments to maintain the infrastructure on which these activities depend.

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).

US private enterprises will provide the equipment to be purchased under the project.

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 paper contains a request for a 612(b) determination which will permit the use of U.S. dollars to pay for local costs.

10. FAA Sec. 612(d). Does the U.S. own ~~excess foreign currency of the country and~~, if so, what arrangements have been made for its release? Yes, but see Annex of the Project Paper.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes

12. FY 79 App. Act, Sec. 608; FY 80 App. Act Sec. (521.) If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b); 111; 113; 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 and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (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; (c) support the self-help efforts N/A

of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107.

Is assistance being made available:

(include only applicable paragraph which corresponds to source of funds used.

Not Applicable

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 (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with programs carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food

reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, (a.) extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(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; and (b.) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is: (i) (a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

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

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

(iv) reconstruction after natural or manmade disaster;

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

(vi) 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.

c. [107] is appropriate effort placed on use of appropriate technology? (relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

d. FAA Sec. 110(a). Will the recipient country 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)?

e. 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, or is the recipient country "relatively least developed"?

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

N/A, however, program gives direct support to GOE's efforts to decentralize government and allow local residents a greater voice in government. The program is designed to provide equipment which will enable local governments to furnish

intellectual resources to encourage institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

services deemed priority by the residents. Skills training is being granted to government officials who are essential to this democratization effort.

g. FAA Sec. 122(b). 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?

2. Development Assistance Project Criteria (Loans Only)

N/A

a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, 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 Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of section 102?

Yes

Yes

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?

No

5C(3) - STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? Yes

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will commodities be insured in the United States against marine risk with a company or companies authorized to do marine insurance business in the U.S. N/A

4. FAA Sec. 604(e). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? N/A

5. FAA Sec. 603 Compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, 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. N/A

6. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? Yes

7. FAA Sec. 621. If technical assistance is financed, to the fullest extent practicable will such assistance, goods and professional and other services from private enterprise, be furnished on a Yes

contract basis? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes

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

9. FY 79 App. Act, Sec. 105; FY 80 App. Act Sec. [505.] Does the contract for

procurement contain a provision authorizing the termination of such contract for the convenience of the United States?

Yes, the contract will so provide

B. Construction

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?

N/A

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?

N/A

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?

N/A

C. Other Restriction

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

N/A

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? N/A
3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes
4. FAA Sec. 636(i). Is financing not permitted to be used, without waiver, for purchase, sale, longterm lease, exchange or guaranty of motor vehicles manufactured outside the U.S.? Yes
5. Will arrangements preclude use of financing:
- a. FAA Sec. 104(f). To pay for performance of abortions as a method of family planning or to, motivate or coerce persons to practice abortions; to pay for performance of involuntary sterilization as a method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization? Yes
- b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? Yes
- c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? Yes
- d. FAA Sec. 662. For CIA activities? Yes
- e. FY 79 App. Act, Sec. 104; FY 80 App. Act Sec. [504.] To pay pensions, etc., for military personnel? Yes
- f. FY 79 App. Act, Sec. 106; FY 80 App. Act. Sec. [506.] To pay U.N. assessments? Yes

g. FY 79 App. Act, Sec. 107; FY 80 App. Act, Sec. [507.] To carry out provisions of FAA section 209(d)? (Transfer of FAA funds to multilateral organizations for lending.) **Yes**

h. FY 79 App. Act, Sec. 112; FY 80 App. Act Sec. [511.] To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? **Yes**

i. FY 79 App. Act, Sec. 601; FY 80 App. Act Sec. [515.] To be used for publicity or propaganda purposes within U.S. not authorized by Congress? **Yes**

RECOMMENDATION FOR DOLLAR FUNDING OF LOCAL COSTS

The local currency of the proposed dollar funded project is \$11-\$15 million, or 19%-23% of total project costs. Part of this cost, an estimated \$10 million, represents maintenance and operation costs, inland transportation costs, personnel and other in-kind and project support contributions which will be provided by the GOE. Of the remaining funds, \$1 million represents an A.I.D. input of funds for a local technical services contract and \$4 million is a contingent AID input to fund locally-procured spare or repair parts, training services, or to provide direct maintenance support of project-procured equipment in the event that such assistance is determined necessary to the success of the project and no other source of financing is available to the governorates. In this project, therefore, local cost financing represents a substantial cost. The U.S. contribution 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. Accordingly, the Mission proposes to fund up to \$5 million of the project's local costs.

The GOE will allocate, even after project terminates, \$7.5 million a year in operating expenses. The USAID attaches great importance to the necessity of providing the services it proposes to procure with the current U.S. local currency expenditures. Given these circumstances and the current tight restrictions on expansion of the GOE budget, it would be unrealistic to require the GOE to provide a larger share of total project costs.

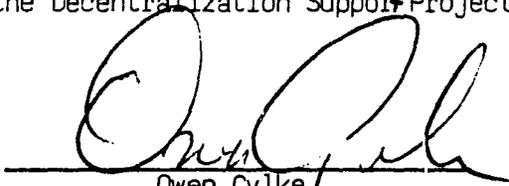
The source of the A.I.D.-provided local currency will be dollar purchases. At the present time, the projected availability of excess currency pounds is fully programmed for other activities. Due to the high level of A.I.D. activity in Egypt, excess currency cannot cover the needs for project costs and other purposes.

It is therefore, recommended that \$5,000,000 be allocated for dollar purchases of Egyptian pounds to help meet the local currency costs of the project, and that the above be used as a justification for the determination required under F.A.A. section 612(b) as set forth in the project Authorization of Funds, Part II.

ANNEX IX

CERTIFICATION PURSUANT TO SECTION 611 (e)
OF FAA 1961 AS AMENDED

I, Owen Cylke, Acting Director, the principal officer of the Agency for International Development in Egypt, having taken into account, among other things, the maintenance and utilization of projects in Egypt previously financed or assisted by the United States and technical assistance and training planned under this Project do hereby certify that in my judgement Egypt has both the financial capability and the human resources to effectively install, maintain and utilize the capital assistance to be provided in the participating Governorates under the Decentralization Support Project.


Owen Cylke
Acting Director

ANNEX X

DETERMINATION AS PROVIDED FOR UNDER PD 68
THAT DIRECT CONTRACT FOR TECHNICAL SERVICES BE
PREFERRED MODE OF IMPLEMENTATION

Discussion: Implementation of this project will include a technical assistance. The project is intended to support the decentralization policy of the Government of Egypt by centering activity at the governorate level. Governorates will choose problem areas to be dealt with, make requirement analyses, develop equipment lists and performance specifications for equipment to be purchased under the project. The Central government plays a reviewing and coordinating role through the Ministry of Economy.

In accord with the decentralized implementation of the project, it is planned that the technical services to be contracted for under this project will be provided for the most part directly to the several governorates participating in the project and to the Central Department for Local Government of the Ministry of Economy.

A host country contract would require that the contractor be responsible to a single central entity within the Egyptian Government. Mission believes this would be inappropriate since those to whom the contractor needs to be responsive under the project will be officials of governorates. For a central Egyptian agency or ministry to contract for technical services which are to be supplied to various local government entities would militate against the implementation of the project as the contractor would necessarily be required to represent primarily the interests of the Central Government. This would not help to further the project purpose of supporting and strengthening decentralized local administration.

Section III of Policy Determination (PD) 68 sets forth guidance with respect to exceptions to the policy favoring host country contracting in AID financed projects. That section provides in part that the USAID Director may when "special circumstances including instances in which country contracting would give rise to special difficulties in the host country/contractor relationship inimical to the attainment of project objectives" the Mission Director may determine that a direct contract is appropriate. As described in the discussion above the problems presented precisely the kind of special circumstances described in the above quoted portion of PD 68.

Based on the above, in accordance with Section III of PD 68 I hereby determine that a direct contract for the services of the Liaison team will be preferred mode of implementation of this project.



Owen Cyikel
Acting Director

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ANNEX XI

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F.O. 12065: N/A

TAGS:

ACTION TO	<i>PKY CT</i>
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SUBJECT: DECENTRALIZATION SUPPORT FUND, PROJECT
263-0143
REF: CAIRO 16327

1. NEAC MET 7/31/80 TO REVIEW THE CONCEPTS PRESENTED REFTEL. NEAC ENDORSED OVERALL CONCEPT OF PROVIDING ASSISTANCE TO THE GOVERNORATES IN SUPPORT OF GOE'S DECENTRALIZATION EFFORTS BUT QUESTIONED WHETHER PROJECT AS DESIGNED WOULD SIGNIFICANTLY SUPPORT THAT OBJECTIVE. MAJOR POINTS RAISED CENTERED MOSTLY ON GOE PROCEDURES AND IMPLEMENTATION CAPABILITY FOR CARRYING OUT PROJECT. FOLLOWING ARE THE MAJOR POINTS DISCUSSED:

(A) CONCEPTS CABLE IS SOMEWHAT AMBIVALENT REGARDING PROJECT PURPOSE MAKING IT DIFFICULT TO DETERMINE WHETHER EMPHASIS IS PRIMARILY ON MEETING CAPITAL EQUIPMENT NEEDS OF GOVERNORATES THROUGH A PROCESS SIMILAR TO CIP OR IF A BROADER FOCUS ON STRENGTHENING PLANNING/BUDGETING CAPACITY OF THE GOVERNORATES IS INTENDED. NEAC ASSUMES LATTER IS CASE AND SUPPORTS THIS GOAL. ALSO NOT CLEAR WHETHER PROJECT INTENDED

AS A ONE TIME CONTRIBUTION OR FIRST PHASE OF CONTINUING EFFORT. NEAC FELT THAT STRENGTHENING DECENTRALIZATION AT THE GOVERNORATE SHOULD BE A CONTINUING EFFORT AND THAT PROJECT SHOULD BE VIEWED AS PART OF A CONTINUING INSTITUTION BUILDING PROCESS. AS FOLLOWING PARAS SUGGEST, THE PROJECT PURPOSE SHOULD BE CLEARER ON THIS POINT SHOWING, AS PRECISELY AS POSSIBLE, HOW THE PROJECT IS INTENDED TO FURTHER DECENTRALIZATION OBJECTIVES.

(B) IN ORDER FOR PROJECT TO ACCOMPLISH PURPOSE OF STRENGTHENING CAPACITY AT THE GOVERNORATE LEVEL, NEAC CLEARLY THOUGHT THAT THE DECISION MAKING AUTHORITY MUST BE LOCATED AT THAT LEVEL TO THE GREATEST EXTENT POSSIBLE. REFTEL DID NOT CLEARLY OUTLINE ROLES OF GOVERNORATES AND MINCON OR INDICATE WHERE FINAL DECISION MAKING AUTHORITY WOULD REST. PARA 4 MENTIONS THAT THE GOVERNORATES' EQUIPMENT MUST BE SUCCESSFULLY ACQUIRED BY MINCON WHICH IMPLIES MINCON, AND NOT THE GOVERN-

BEST AVAILABLE COPY

GRATES, WILL HAVE FINAL APPROVAL AUTHORITY TO DECIDE WHAT EQUIPMENT IS NEEDED. NEAC SUGGESTS IMPLEMENTATION PROCEDURES BE FULLY EXAMINED WITH INTENT TO GIVE GOVERNORATES MAXIMUM REASONABLE CONTROL OVER EQUIPMENT TO BE PROCURED TO MEET THEIR PERCEIVED NEEDS.

(C) SINCE THIS IS FIRST PROJECT SPECIFICALLY DIRECTED AT THE GOVERNORATE LEVEL, IT WOULD BE HELPFUL TO HAVE SOME INDICATION OF GOVERNORATES NEWLY ASSIGNED ROLE IN DEVELOPMENT PROCESS, WHAT ARE SOME OF MAJOR CONSTRAINTS, WHAT RESOURCES DO THE GOVERNORATES HAVE, AND TO WHAT DEGREE ARE THEY REALLOCATED TO CITY AND VILLAGE LEVEL. PP SHOULD HAVE A GENERAL DESCRIPTION AS TO HOW THE PROJECT IS EXPECTED TO ADDRESS AND ALLEVIATE THOSE CONSTRAINTS BY ENABLING THE GOVERNORATES TO BETTER CARRY OUT THEIR RESPONSIBILITIES.

(D) NEAC RECOGNIZED THAT PROJECT PROCUREMENT IS MODELED AFTER CIP WHICH HAS, TO A CERTAIN DEGREE, BEEN PROJECTIZED. NEAC SUGGESTS THAT GENERAL CRITERIA CONFINING USE OF EQUIPMENT TO PUBLIC UTILITIES, SOCIAL SERVICES, AND PUBLIC INFRASTRUCTURE BE REFINED TO ENSURE THAT APPROPRIATE TECHNOLOGY IS SELECTED WHICH WOULD MEET GENERAL NEEDS, BENEFIT THE MAXIMUM NUMBER OF PEOPLE (INCLUDING EMPLOYMENT CONSIDERATIONS) AND BE WITHIN THE GOVERNORATES' CAPABILITY TO OPERATE, MAINTAIN AND FINANCE RECURRING COSTS.

(E) RATIONALE FOR THE DOLS 2.0 MILLION ALLOCATION TO EACH GOVERNORATE IS NOT MENTIONED. NO INFORMATION WAS PROVIDED AS TO HOW THIS AMOUNT RELATES TO ESTIMATED REQUIREMENTS FOR ADDITIONAL RESOURCES AT GOVERNORATE LEVEL OR WHAT EFFECT IT WILL HAVE ON BUDGET ALLOCATIONS. WE HAVE NO OBJECTION TO PROVIDING EQUAL CONTRIBUTIONS TO EACH GOVERNORATE BUT WOULD LIKE TO KNOW HOW AMOUNTS WERE ESTABLISHED.

(F) LINKAGES BETWEEN TRAINING AND EQUIPMENT ARE NOT ENTIRELY APPARENT. WHILE TRAINING IN BUDGETING AND PUBLIC FINANCE ARE UNQUESTIONABLY NEEDED TO ENABLE THE GOVERNORATES TO CARRY OUT THEIR NEWLY DELEGATED RESPONSIBILITIES, NEED FOR THIS TRAINING AS IT RELATES TO EQUIPMENT PROCUREMENT IS NOT CLEAR OTHER TRAINING IN PLANNING, PURCHASING, OPERATIONS AND MAINTENANCE, ETC. COULD ALSO BE LOGICALLY INCLUDED. THE RATIONALE FOR CONCENTRATING ON BUDGETING AND PUBLIC FINANCE IN THE CONTEXT OF THIS PROJECT WOULD BE HELPFUL.

AIPAC

(G) NEAC EXPRESSED STRONG RESERVATIONS ABOUT PRACTICALITY OF CONDUCTING THE RECOMMENDED TRAINING IN U.S. WHILE THE NEED FOR SOME OBSERVATION TRAVEL MIGHT BE WARRANTED AND SOME SPECIALIZED TRAINING FOR A FEW INDIVIDUALS REQUIRED, MAJOR PORTION OF TRAINING SHOULD BE CARRIED OUT IN EGYPT. NEAC SUGGESTED ANY SPECIALIZED U.S. TRAINING REQUIRED COULD BE FINANCED UNDER TECH TRANSFER PROJECT AND NEED NOT BE INCLUDED UNDER THIS PROJECT. NEAC SUGGESTS THAT PROPOSED U.S. TRAINING BE RE-EVALUATED AND OTHER ALTERNATIVES EXPLORED. ALSO, PP NEEDS TO DISCUSS THE RELATIONSHIP BETWEEN THIS TRAINING AND THAT PLANNED UNDER THE BVS PROJECT.

(H) REFTEL DOES NOT EXPLAIN THE EXISTING PROCUREMENT PROCESS UTILIZED BY GOVERNORATES. THEREFORE, IT IS NOT CLEAR IF PROPOSED PROCUREMENT MODE COMPLIMENTS EXISTING SYSTEM OR IF A NEW SYSTEM IS BEING SUPERIMPOSED ON GOVERNORATES FOR PURPOSES OF THIS PROJECT. NEAC'S CONCERN IS THAT PROCUREMENT SYSTEM DEVISED BE AS COMPATIBLE AS POSSIBLE WITH EXISTING SYSTEM AND STILL BRING ABOUT IMPROVEMENTS AND CHANGE, AND MEET AID REQUIREMENTS.

(I) FURTHER TO PARA IE ABOVE, IT IS NOT CLEAR IF THE PROJECT WILL ACTUALLY CHANGE THE BUDGET RESOURCES AVAILABLE AT THE GOVERNORATE LEVEL, AND IF SO BY HOW MUCH. IF THERE IS AN INCREASE OF BUDGET RESOURCES AT GOVERNORATE LEVEL, WHERE WILL REDUCTIONS BE TAKEN?

(J) NEAC QUESTIONED IF ONLY THREE EGYPTIAN PROFESSIONALS WOULD BE ABLE TO ASSIST MORE THAN 23 GOVERNORATES CARRY OUT THEIR PROCUREMENT RESPONSIBILITIES UNDER PROJECT. ALSO, IT APPEARS THE THREE INDIVIDUALS WOULD BE WORKING FOR THE MISSION. NEAC FEELS THESE INDIVIDUALS SHOULD BE RESPONSIBLE TO THE GOV ENTITY IN CHARGE OF PROJECT IMPLEMENTATION.

(K) MISSION'S ROLE IS NOT PRECISELY DEFINED IN REFTEL BUT IT APPEARS NEAC FELT THESE RESPONSIBILITIES SHOULD BE CARRIED OUT BY GOE IF CAPACITY BUILDING OBJECTIVE IS TO BE FULLY MET.

2. ABOVE COMMENTS ARE OFFERED FOR MISSION'S CONSIDERATION IN DEVELOPING PROJECT PROPOSAL. WE ARE AWARE THAT PAPER IS IN AN ADVANCED STATE OF PREPARATION AND ABOVE QUESTIONS MAY ALREADY HAVE BEEN ADDRESSED. IF NOT, MISSION SHOULD CABLE ITS COMMENTS ON ABOVE SO THAT WE CAN DECIDE IF THERE ARE MAJOR OUTSTANDING ISSUES LIKELY TO DELAY PREPARATION OF PAPER. WE WOULD ALSO APPRECIATE MISSION CABLEING CONFIDENTIAL NOTIFICATION ASAP. CHRISTOPHER

BT

#9388

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

Cairo Sept. 1980

Dear Mr. Brown,

The Governors of each Governorate have been charged with planning for the development in their respective areas and have the responsibility for executing these plans. Twenty one of the Governorates have inadequate resources in their investment budgets equipment to provide many important basic services. Many of their personnel also lack training in modern budget and financial techniques to make planning more effective.

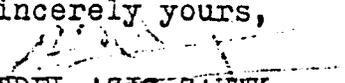
As a result of the mutual efforts of the Governments of Egypt and the United States in analyzing the problems inherent in the decentralizing authority to the Governorates, it is clear that the United States could be of useful assistance in:

1. Granting the necessary funds to procure equipment needed by the Governorates which funds will be allocated to the Governorates through the National Budget.
2. Assisting in the efforts to coordinate the activities in purchasing the required equipment.

To this end the Government of Egypt requests a Grant of \$50,000,000 (fifty million U.S. dollars) in FY 1980.

The Government of Egypt will allocate the necessary budget funds to assure that the equipment will be delivered to the Governorates, will be employed for the uses agreed upon and maintained for its useful life. The Government of Egypt will continue to pay the salaries of the persons to be trained during their training.

Sincerely yours,


ABDEL-AZIZ ZAEHWY
Under Secretary of State
for Economic Cooperation

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

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PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt Name of Project: Decentralization Support Project

Number of Project: 263-0143

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended (The Act), I hereby authorize the Decentralization Support Project for the Arab Republic of Egypt (the "Cooperating Country") involving planned obligations of not to exceed Fifty Million United States Dollars (\$50,000,000) in grant funds over a one-year period from date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.

2. The Project consists of technical and capital assistance to assist the Cooperating Country in accelerating the process of administrative decentralization in rural Governorates by increasing investment budgets under the jurisdiction of the Governorates. The project will finance equipment procurements, maintenance requirements, consulting services and project evaluation. Implementation of the project will be coordinated by the Government of Egypt, Ministry of Economy. Unless A.I.D. otherwise agrees in writing, local currency costs financed under the Grant will not exceed the Egyptian pound equivalent of U.S. \$5,000,000.

3. The Project Agreement, which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and delegations of authority, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

(a) Source and Origin of Goods and Services

(1) Except as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under the project shall have their source and origin in the United States or the Cooperating Country.

(2) Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

(b) Conditions Precedent to Disbursement

(1) Initial Disbursement

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D.:

(a) A statement of the names of persons authorized to act as the representatives of the cooperating country together with a specimen signature of each person specified in such statement.

(2) Other Disbursement

Prior to disbursement of funds by A.I.D. for the purpose of procuring goods and services other than goods or services to be procured directly by A.I.D., the Cooperating Country shall furnish, in form and substance satisfactory to A.I.D.:

(a) A statement of the eligibility criteria which will be applied to determine whether equipment is eligible for financing under the project and;

(b) Evidence that funds made available under the Project will be provided to the participating Governorates through national budget allocations to the Governorates.

(c) Evidence that the Grantee has established procedures for (1) monitoring Project procurement and utilization of the commodities by the Governorates and (2) obtaining refunds from the Governorates when project funds have not been utilized in accordance with terms and conditions of the Project Agreement.

(c) The Grantee shall Covenant as Follows:

(1) Increase in Governorate Budgets. The Cooperating Country agrees that the budget allocations made to the Governorates for the purpose of providing them with the funds made available under the Project will represent additions to the budget allocations which would normally have been made to such Governorates.

(2) Project Staffing. The Cooperating Country will take appropriate steps to ensure that the Governorates assign sufficient specific staff members to the Project for the purposes of carrying out implementation activities.

(3) Maintenance Budget. The Cooperating Country agrees that in establishing national budgets subsequent to the effective date of the Project Grant Agreement the Cooperating Country will take into account the requirement for funds by the Governorates for the maintenance of Governorate equipment whether financed under the Grant or not. The Cooperating Country agrees to periodically consult with A.I.D. and the consultant financed under the Project to ensure that such considerations are made part of the normal budget allocation process.

(4) Environment. The Cooperating Country agrees to establish a formal procedure acceptable to A.I.D. which will ensure that environmental considerations are taken into account by the Governorates in the process of selection of equipment to be procured with funds made available under the Project.

4. Based on the justification set forth in Annex VIII of the Project Paper, I hereby determine in accordance with Section 612(b) of the Act, that the expenditure of United States dollars for the procurement of goods and services in Egypt is required to fulfill the purposes of this project; the purposes of this project cannot be met effectively through the expenditure of U.S.-owned local currencies for such procurement; and the administrative official approving local cost vouchers may use this determination as the basis for certification as required by Section 612(b) of the Act.

ACTING J. J. [Signature]
Administrator
September 25, 1980
Date

Clearances:

A-AA/NE: Alfred D. White _____ Date _____
GC: Norman L. Holmes NEC Date 9/25/80
AA/PPC: Alexander Shakow CP Date 9/25/80

Drafter: GC/NE: TC [Signature] : paj: 9/23/80: X28826