

DECENTRALIZATION
SECTOR SUPPORT

253-K-605

Agency for International Development

Offices of Local and Urban Administration and Development

USAID/Egypt, Cairo

Project Assistance Authorization Document

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES

THRU: AA/PPC, Mr. John Bolton

FROM: AA/NE, W. Antoinette Ford

SUBJECT: Authorization of \$455.2 Million and L.E. 125,000 to USAID/Egypt for the Decentralization Sector Support Program (263-K605)

Problem: Your approval is required to authorize a grant for \$455,200,000 and L.E. 125,000 in life of project costs to the Government of Egypt for the Decentralization Sector Support Program (263-K605). Of this amount, \$186,200,000 and L.E. 125,000 have already been authorized and obligated, \$124,000,000 has been authorized but not obligated, and \$145,000,000 is new funding.

Background: A framework for decentralization in modern Egypt is laid out in a series of five separate laws that since 1960 have provided increasingly specific authorities and guidelines for the transfer of decision making to governorates, districts and villages.

A.I.D. support to Egyptian decentralization has grown to include a portfolio of five separate projects with total obligations of \$186.2 million and L.E. 125, 000. Implementation and evaluation experience to date, also has made it increasingly apparent that there is a real need to adopt an approach that, while retaining the validity of each of the separate interventions, will afford the GOE and USAID the opportunity to treat the decentralization portfolio as a whole.

Discussion: The goal of combining discrete decentralization activities into a Decentralization Sector Support program is to establish a functioning national system of decentralized decision and budget processes for local development. The program purpose is to assist the GOE to further define and achieve its policy objective of economic and administrative decentralization. Each of the discrete project activities also has its own, more specific activity purpose. Each activity has been or will be planned, designed and cleared within the Agency in accordance with appropriate Handbook 3 requirements, thus preserving the specific development impact sought. Each design includes specific life-of-activity inputs/outputs and funding requirements as follows:

Basic Village Services \$75 million
(This represents an increase to the \$70 million authorized in FY 1980 and obligated for project 263-0103.)

Provincial Cities 55 million
(This substitutes for the remaining unobligated balance of the \$75 million authorized in FY 1981 for project 263-0127.)

Decentralization Support Fund 50 million
(This represents an increase to the \$50 million authorized in FY 1980 and obligated for project 263-0143.)

Neighborhood Urban Services 69 million
(This substitutes for the remaining unobligated balance of the \$89 million authorized in FY 1981 for project 263-0153.)

Decentralized Planning and Management 20 million
(This is a new activity commencing in FY 1982.)

No further funding is contemplated, under this program, for the Development Decentralization activity which was initiated in FY 1978 as project 263-0021.

Sub Total	<u>269 million</u>
Previous Obligations	<u>186.2 million</u> and L.E. 125,000
TOTAL	455.2 million and L.E. 125,000

Should the Mission wish to increase funding for a discrete project activity beyond the level approved in its project paper or add a new project within the overall authorization level, the Mission will prepare the justifications in accordance with appropriate guidance contained in A.I.D. Handbook 3 for review and approval by the Near East Bureau.

Gibberish
10/21/82

The clustering of these activities being requested here will strengthen the decentralization process by permitting a more fundamental discussion of decentralization issues while at the same time providing a greater degree of flexibility to respond to changing program opportunities. Individual activity achievement will be enhanced by being viewed within a framework of common objectives and benchmarks, and as there is a cross-fertilization of ideas, and increased focus on the sector as a whole, and a cross-referencing of evaluation findings. The program will make it easier to identify and consult with the on GOE on future, local budgetary requirements to successfully integrate and institutionalize decentralization activities.

The greater management efficiency thereby gained over the decentralization process will also enable USAID and GOE to more closely monitor and encourage such project objectives as: democratic participation in local government decisions, growth of private sector enterprises in the locality, and increased efficiency of (existing) local government staff in the performance of those planning and service functions best undertaken by local government.

A question has been raised by PPC (see attached Bolton/Ford memo dated 5/11/82) as to the appropriateness of providing additional funding for the ongoing Decentralization Support Fund project, one of the subactivities of the Decentralization Sector Support Program. PPC contends that: 1) the project is essentially a \$50 million commodity drop at the governorate level, 2) there is no identified development problem toward which the commodities are directed, 3) the project is not connected to any policy reform, and 4) it is not clear how the needs of local government will be addressed by the GOE over the long term, once AID financing is terminated.

The Near East Bureau maintains that the Decentralization Support Fund (DSF) should receive additional funds this fiscal year and is appropriately included within the Decentralization Sector Support Program. While the DSF project finances commodities for the governorates, its objectives are broader. If the Bureau had wanted just to finance commodities, it could have done so through the CIP.

The development problem toward which all our decentralization efforts have been directed is the absence (until recently) and continued weakness of a national system of decentralized decision and budget processes for local development. The commodity link to this problem lies in the fact that governorates lack the equipment needed to carry out their responsibilities for basic public services, such as sanitation, firefighting, water systems, ambulance service, etc. The DSF project helps to transfer power - in terms of control over expanding investment and maintenance budgets, and improved administrative capacity - from Cairo to the governorates by helping the governorates in expanding and maintaining services and existing infrastructure. The DSF represents a real increase of almost 20% in the investment budgets of 21 governorates. This increase is of sufficient size to have a significant impact on the governorates' services without taxing their capabilities. Local equipment needs-assessments, acquisition through DSF, and utilization are themselves an actual operation in practical support of

decentralization policy and strategy as outlined in the decentralization laws. During the past three years increasing responsibility has been transferred to the village and governorate levels. Governors throughout the country have begun to exercise the new authorities given them and to support village and markaz initiatives while strengthening governorate coordination and support. This movement has been fundamental and reflects a revolution in the administration of rural life. Certainly there is more to be done -- particularly on the revenue allocation and generation side. But central government allocation of discretionary investment to the governorates has increased dramatically over the past three years. DSF is having a practical, positive impact on the decentralization process and related policy concerns.

A unique feature of the DSF project which should not be overlooked is visibility. DSF is one program which distributes a large amount of equipment sporting the AID emblem around the countryside.

AID resources in all project activities of decentralization, including DSF, are "pump priming" actions which are already demonstrating results of increasing budget flows from centralized ministries to governorates. (USAID analysis of GOE 1980-81, 81-82 and new 82-83 budgets is underway and the trend is quite clear.) We believe AID funds are clearly instrumental in instigating and accelerating this change. Obviously, the process must and will continue as AID funding runs out.

In conclusion, the GOE has looked and continues to look to AID to support its decentralization initiative. Above all we should not overlook the fact that the GOE's movement towards a much more decentralized form of government administration is in itself a very fundamental policy reform, one which we have encouraged and are appropriately identified with. This experiment with economic and administrative pluralism, if successful, will greatly alter the Egypt of tomorrow.

However, in view of the limited experience to date with the Decentralization Support Fund and the concerns raised by PPC, it is understood that no further funding will be provided the DSF beyond the \$25 million to be obligated in FY 1982 until:

-- (a) an evaluation has been completed addressing such questions as progress on institutionalization (especially experience with needs-assessment), use of equipment and maintenance of equipment (including provision of budgetary resources therefor) and

-- (b) the GOE has provided evidence of the intent and ability to transfer resources to the Governorates to supplement and eventually replace those being provided by AID.

Waivers: The authorization for this Program carries forward the waivers previously authorized specifically for four of the five existing projects which, once previously obligated funds are expended, will now be subsumed as subactivities of the Decentralization Sector Support Program. In particular, the previous waivers were source/origin/nationality waivers, executed in accordance with the requirements of A.I.D. Handbook 1, Supplement B, Chapter 18,

Section A4(b). These waivers made it possible for off-the-shelf commodities of Code 899 origin funded under the local cost financing portion of these project activities to exceed (1) the \$5,000 per item cost limitation and (2) the \$25,000 or 10 percent total local cost limitation, and (3) the \$250,000 limitation upon total local cost financing for a project subactivity. Because each of the projects contemplated the local cost financing of such goods exceeding \$250,000 and single items exceeding \$5,000, the waivers enabled the projects to be implemented efficiently and in a manner consistent with a major thrust of these activities, i.e., that of permitting decentralized, off-the-shelf procurement at the "grass roots" level in, literally, thousands of transactions and in accordance with normal trade patterns in Egypt, patterns which feature large stocks of shelf items imported from Code 899 countries. The Mission now requests, and continuation of the decentralization activities requires, that these waivers be carried forward for each of the subsumed activities of the Decentralization Sector Support Program. The fifth subsumed activity, the Provincial Cities activity, was authorized, partially, as a fixed amount reimbursement (F.A.R.) project; thus the origin waiver granted by the Administrator for that activity was the only type of waiver necessary to be granted under the terms of Chapter 20 of A.I.D. Handbook 1B, which applies specifically to F.A.R. activities, rather than Chapter 18, which applies to local cost financing. The Mission now advises that some of the off-the-shelf procurement for the Provincial Cities activity will be outside the F.A.R. portion of the activity and requests, for the Provincial Cities subactivity, the same waiver to A.I.D. HB 1B, Chapter 18, as was granted in the initial authorizations for the other subsumed activities. The rationale for the waiver is identical to the rationale supporting the waivers for the other four subsumed activities; i.e., that the activity contemplates procurement of Code 899 origin shelf items exceeding \$5,000, on a per item basis, and total commodity procurement of Code 899 origin will exceed \$250,000. Also, the overall program purpose of decentralization support is enhanced, and implementation simplified, by the local cost financing of shelf items at the grass roots level in accordance with the existing trade patterns in Egypt.

In accordance with the foregoing discussion, your approval of the Program Authorization will authorize the above discussed waivers.

Your signature will also carry forward the existing F.A.R. waiver (NE-81-039) of the Provincial Cities Project which permits the local cost financing of shelf item commodities, irrespective of origin, to exceed 25 percent of the total estimated cost of the commodities element of a F.A.R. project.

In accordance with the requirements of AID Handbook 1B, Chapter 5B4b, your signature on the attached authorization will constitute the following certification: Exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program.

The Program Assistance Authorization Document (PAAD) for this grant was reviewed and approved by the Near East Advisory Committee (N.E.A.C.) on April 1, 1982. It is attached for your information.

There are no human rights issues under Section 502B of the Foreign Assistance Act which would preclude provision of this assistance Egypt.

The Congress was notified on June 9, 1982, of A.I.D.'s intent to obligate these grant funds in FY 1982. The HAC requested a hold. LEG and NE have been in touch with Congress, and the concerns have been satisfied.

Recommendation: That you approve the \$455,200,000 and L.E. 125,000 grant by signing the attached project authorization.

Attachments:

1. Program Authorization (263-K605)
2. Decentralization Sector Support (263-K605) Program Assistance Authorization Document
3. Amendment to Basic Village Services (263-0103) Project Paper
4. Amendment to Decentralization Support Fund (263-0143) Project Paper
5. NEAC Reporting Cable on Nos. 2 - 4 above
6. Decentralized Planning and Management (263-0161) Project Identification Document
7. NEAC Reporting Cable on No. 6 above
8. Bolton/Ford memo of 5/11/82 and USAID Response (Cairo 12591).

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

PROJECT AUTHORIZATION

Name of Country: Arab Republic
Egypt

Name of Program: Decentralization
Sector Support
Program

Number of Program: 263-K-605

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended (the "Act"), I hereby authorize the Decentralization Sector Support Program (the "Program") for the Arab Republic of Egypt ("Cooperating Country") involving obligations of not to exceed Four Hundred Fifty-Five Million Two Hundred Thousand United States Dollars (\$455,200,000) and One Hundred Twenty-five Thousand Egyptian pounds (L.E. 125,000) including One Hundred Eighty-Six Million Two Hundred Thousand United States Dollars (\$186,200,000) and One Hundred Twenty-five Thousand Egyptian pounds (L.E. 125,000) previously authorized and obligated, and Two Hundred Sixty-Nine Million United States Dollars (\$269,000,000) in grant funds to be obligated over a five year period from the date of this authorization, subject to the availability of funds in accordance with the A.I.D. OYB/budget allotment process, to help in financing foreign exchange and local-currency costs of goods and services required for Program. Funds previously authorized and obligated for the specific activities listed in paragraph 2 below must be expended according to the terms of the original agreement and any amendments thereto. Funds that have been previously authorized, but not yet obligated, and funds hereunder authorized, shall be expended in conformance with this authorization. The authorizations for Development Decentralization I (263-0121), Basic Village Services (263-0103), Provincial Cities (263-0127), Decentralization Support Fund (263-0143), and Neighborhood Urban Services (263-0153) are hereby deleted in their entirety, and this authorization shall be substituted therefor.

2. The Program will assist the Cooperating Country to establish the institutional capacity to plan and implement plans for local development at the national, governorate, district and village levels and to establish a national budget process allocating adequate funds to overall decentralization. There will be an emphasis on discretionary use of those funds for locally designed and approved development initiatives that have been designed to promote sustained economic growth and improvement in living standards. The Program will include the carrying out of decentralized development activities, such as infrastructure construction, under the previously authorized, now subsumed, activities as well as new decentralized activities to be planned and implemented through this improved local capacity. Five previously separate projects will be subsumed as activities under the Program, as follows:

- a. Development Decentralization I
- b. Basic Village Services
- c. Provincial Cities
- d. Decentralization Support Fund
- e. Neighborhood Urban Services

Within the overall Program scope and budget as specified herein activities may be added to or deleted from the Program from time to time without amendment of this authorization; provided, however, such additions or deletions are mutually agreed upon in writing by A.I.D. and the Cooperating Country. Funding levels for individual Program activities may be changed from time to time by agreement in writing by A.I.D. and the Cooperating Country, except that funding for the five activities previously authorized shall not be less than the amounts obligated to date for each subactivity.

3. The Program Agreement, which may be negotiated and executed by the officer 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. Each Program activity shall also be subject to those terms and covenants and major conditions deemed appropriate by the AA/NE and the officer authorized to negotiate the agreement for such activity.

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Program shall have their source and origin in the Cooperating Country or in the United States, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Program shall, except as A.I.D. may otherwise agree in writing, be financed on flag vessels of the United States.

b. Conditions Precedent to Disbursement

Prior to any disbursement or to the issuance of any commitment documents under the Grant, the Cooperating Country shall, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) Evidence of the establishment of an entity ("Sector Steering Committee" or the "Committee") charged with the assessment and direction of this Program; and

(b) Evidence of the establishment of an oversight subcommittee charged with the collection and analysis of baseline data against which budget and implementation decisions may be determined by the Sector Steering Committee for the total Decentralization Program.

4. Based upon the justification set forth in 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 Program; the purposes of this Program 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 the certification required by Section 612(b) of the Act.

5. Based upon the justification set forth in the Action Memorandum which recommends my execution of the Decentralization Sector Support Program, I hereby affirm and carry forward for this Program each of the source/origin/nationality and other waivers, including the Provincial Cities F.A.R. waiver, previously granted for the subsumed program activities specified hereinabove in paragraph 2. With regard to the Provincial Cities subactivity, and in accordance with the justification set forth in the referenced Action Memorandum. I hereby waive the provisions of A.I.D. Handbook 1 Supplement B, Chapter 18 with regard to (1) the \$5,000 per item cost limitation; (2) the \$25,000 or 10 percent total local costs limitation; and (3) the \$250,000 limitation upon total local cost financing for the subactivity.

M. Peter McPherson
M. Peter McPherson

Aug 12, 82
Date

Clearances:
AA/NE: WAFord PL Date 9/9/82
AA/PPC: JR Bolton PL Date 5/11/82
GC: CLvanOrman CLVO Date 12 Aug

PROGRAM DATA SHEET

A 2 = Cash
3 = Fresh

COUNTRY: Egypt PROGRAM NUMBER: _____

SUBAREA/OFFICE: NE PROGRAM TITLE: DECENTRALIZATION SECTOR SUPPORT

PROGRAM ASSISTANCE COMPLETION DATE (PACD): MM DD YY 06 30 87
 ESTIMATED DATE OF OBLIGATION (Under "E" below, enter 1, 2, 3, or 4):
 A. Initial FY 1812 E. Quarter 2 C. Final FY 1816

8. COSTS (\$000 OR EQUIVALENT \$) = .83 D.)

A. FUNDING SOURCE	FIRST FY 82			LIFE OF PROGRAM		
	E. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	27,100	47,900	75,000	95,500	173,500	269,000
(Grant)	(27,100)	(47,900)	(75,000)	(95,500)	(173,500)	(269,000)
(Loan)	()	()	()	()	()	()
Host Country		28,897	28,897		106,445	106,445
Other Donor(s)						
TOTALS	27,100	76,797	103,897	95,500	279,945	375,442

9. SCHEDULE OF AID FUNDING (\$000)

APPROPRIATION PURPOSE CODE	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROGRAM	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
ESF	280	720				3,500		20,000	
ESF	243	240				30,000		75,000	
ESF	720	890				16,500		124,000	
ESF	900	240				25,000		50,000	
TOTALS						75,000		269,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)
 242 | 252 | 246 | 920

11. SECONDARY PURPOSE CODES (maximum 7 codes of 4 positions each)
 663, 723, 760, 900

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)
 A. Code: PART LAB BR BU TNG PYON
 E. Amount: _____

13. PROGRAM PURPOSE (maximum 480 characters)

Assist the GOE to further define and achieve its policy objective of economic and administrative decentralization. In addition, each activity in the decentralization portfolio has a discrete lower-case activity purpose consistent with the overall purpose and the program goal.

14. SCHEDULED EVALUATIONS (see specific activity plans) SOURCE/ORIGIN OF GOODS AND SERVICES
 Interim MM YY 06 83 Final MM YY _____
 000 941 Local Other (Specify) _____

15. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY: _____ Signature: _____ Title: _____ Date: _____

18. DATE DOCUMENT RECEIVED IN AID/M, OR FOR AID/M DOCUMENTS, DATE OF DISTRICT: _____

EGYPT
SECTOR ASSISTANCE PAPER
DECENTRALIZATION SECTOR SUPPORT (DSS)

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- ANNEX I-2 — Proposed Amendment No. 1 for FY 1982 Authorization.
- ANNEX J — Project Paper for Neighborhood Urban Services (263-0153).
- ANNEX K — Draft PID for Decentralization Planning and Management (263-0161).

9/30/75

(TM 4:1)
CLASSIFICATION:

Att 1 to App 3E, Ch 3, HE 4

AID 1125-1 1B-66	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO.
		2. COUNTRY ARAB REPUBLIC OF EGYPT
		3. CATEGORY SECTOR ASSISTANCE
		4. DATE February 23, 1982
5. TO: THE ADMINISTRATOR	6. OYS CHANGE NO.	
7. FROM:	8. OYS INCREASE	
	TO BE TAKEN FROM:	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 269,000,000	10. APPROPRIATION - ALLOTMENT	
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 3/30/82 - 6/30/87
15. COMMODITIES FINANCED	14. TRANSACTION ELIGIBILITY DATE Authorization Date	

16. PERMITTED SOURCE

U.S. only: _____

Limited F.W.: _____

Free World: _____

Cash: _____

17. ESTIMATED SOURCE

U.S.: _____

Industrialized Countries: _____

Local: _____

Other: _____

18. SUMMARY DESCRIPTION

See attached Sector Assistance Paper.

19. CLEARANCES

REG/DP	_____
REG/GC	_____
AA/PC	_____
A/CONT	_____
AA/MR	_____
AA/DFPE	_____

20. ACTION

APPROVED DISAPPROVED

Donald S. Brown 2/23/82

DATE

Donald S. Brown, Director
USAID/CAIRO

TITLE

CLASSIFICATION:

I. SUMMARY AND RECOMMENDATIONS

1. Program Title: Decentralization Sector Support Program (DSS program)
2. Program Number:
3. Grantee: The Government of the Arab Republic of Egypt, hereinafter referred to as the Government of Egypt (GOE)
4. Coordinating Agency: The Ministry of Investment and International Cooperation will control allocations from the DSS program to the separate coordinating and implementing GOE ministries and agencies listed in the Activity Papers approved for each activity financed by the DSS program.
5. Implementing Agencies: Multiple, as listed in the Activity Papers.
6. Grant Amount: \$75 million in new FY 1982 obligation. Life-of-program funding to be initially authorized is \$269 million, as follows: \$75 million add-on to Basic Village Services; \$50 million add-on to Decentralization Support Fund; \$20 million for the new Decentralization Planning and Management activity (PP by 3/15/82) and \$124 million to be transferred to the DSS program by amending existing authorizations for the Provincial Cities and Neighborhood Urban Services activities to allow authorized but as yet unobligated funds in those projects to be included. Remaining funds (\$30 million) available through the five-year \$75 million Title III Food for Development Agreement of March 29, 1979, will continue to be obligated exclusively through that agreement and when obligated will continue to be comingled exclusively with funds made available from the DSS program to the Basic Village Services (263-0103) activity.
7. Program Goal: Establish a functioning national system of decentralized decision and budget processes for local development.
8. Program Purpose: Assist the GOE to further define and achieve its policy objective of economic and administrative decentralization. In addition, each activity in the decentralization portfolio has a discrete lower-case activity purpose consistent with the overall purpose and the program goal.
9. Inputs and Outputs: The inputs for the DSS program are the sum of the inputs programmed through all the approved projects subsumed as component activities (see Part III for details of these). While discrete outputs are also listed for each

activity, two global intended outputs should be highlighted, specifically: a) an established institutional planning and implementation capacity for local development at the national, governorate, district and village levels, and b) a national budget process allocating adequate funds to decentralization overall and emphasizing discretionary use of those funds for locally designed and approved development initiatives designed to promote sustained economic growth and improvement in living standards.

10. Total Program Costs: The following table summarizes actual and planned A.I.D. commitments to decentralization activities.

15

(45)

<u>Activity</u>	<u>Obligated to Date</u>	<u>Authorized But Not Yet Obligated</u>	<u>Proposed Allocation of FY 82 Obligation Under This Authorization</u>	<u>Funds to be Obligated Under This Authorization In FY 83 & Subsequent Years</u>	<u>Total Authorized For FY 82 & Subsequent FYs by This Program Paper</u>	<u>Actual/Proposed LOP Authoriza-tion Totals Through FY 1982</u>
Development Decentralization I	26.3	-	-	-	-	26.3
Basic Village Services	70.0	-	30	45	75.0	145.0
Decentralization Support Fund	50.0	-	25	25	50.0	100.0
Provincial Cities	20.0	55.0	-	55	55.0	75.0
Neighborhood Urban Services	20.0	69.0	16.5	52.5	69.0	89.0
Decentralization Planning & Mgt.	-	-	3.5	16.5	20.0	20.0
<hr/>						
AID ESF Totals for This Authorization	186.3	124	75	194.0	269.0	455.3
<hr/>						
Title III	<u>45.0</u>	<u>30</u>	<u>15</u>	<u>15</u>	<u>30</u>	<u>75.0</u>
<hr/>						
Total US Resources to Decentralization	231.3	154	90	209.0	299.0	530.3

1
3
1

Note: Proposed FY 1982 obligation to the DSS is \$75 million against a total ESF authorization of the DSS of \$209 million. Title III funds of \$15 million each for FY 82 and 83 are additional.

2

Projected direct Government of Egypt support for these projects is L.E. 125.1 million. It is intended that all new authorizations for decentralization activities, including authorized but as yet unsubobligated funds (with the exception of Title III) will be provided through the authorization and corresponding grant agreement resulting from this program proposal.

11. Grant Application: GOE requests for additional assistance in the various decentralization activities and for the programming package are attached as Annex A.
12. Source of U.S. Funds for FY 1982 Obligation: \$75 million from Fiscal Year 1982 Economic Support Funds plus \$15 million of the \$30 million as yet unobligated balance of the five-year \$75 million March 29, 1979, Title III Food for Development Agreement.
13. Statutory Requirements: All nonproject and project requirements have been met. See Annex B.
14. Environmental Impact: Environmental examinations conducted for the various approved Activity Papers determined that no issues existed with respect to the environment and no further environmental impact examination is required for the existing range of decentralization activities nor anticipated for new activities.
15. Recommendations: USAID/Egypt recommends that:
 - (A) A new program funding authorization for \$269 million life-of-program and \$75 million in FY 1982 obligations to establish a DSS program to be used to finance a series of existing or new activities designed and approved in accord with Agency standards as outlined in Handbook 3 and also to fund such additional studies, data collection and relevant other activities and technical assistance as may be jointly agreed on (through usual program approval procedures) by the USAID and the GOE as conducive to achievement of decentralization sector program goals and not otherwise funded.
 - (B) Authorizations for the activities titled Provincial Cities (263-0127) and Neighborhood Urban Services (263-0153) be amended to release existing authorized but as yet unobligated funds (\$124 million as follows: \$55 million from Provincial Cities and \$69 million from Neighborhood Urban Services) from those activities so that they may be included in the authorization for the DSS program to be subobligated as needed to any of the approved activities of the DSS program with the understanding that none of the specific goals, inputs or outputs of any of the approved activities will be changed without full consultation and approval of the parties.

(C) Authorizations for each of the existing discrete projects in the decentralization portfolio be amended to allow them to be subsumed as activities established under the program authorization for the DSS program with all future financing for those activities and any new activities as may be authorized done as subobligations from the DSS program except that existing obligations to discrete activities will remain obligated to the specific activities for which they were originally authorized and except that Title III funds as presently agreed upon will continue to be obligated and used exclusively in support of the activity titled Basic Village Services (263-0103).

The draft authorization implementing the terms and conditions of these recommendations is included as Annex C to this program document.

III. PROGRAM BACKGROUND

A. General

The legal and bureaucratic framework for decentralization in modern Egypt is laid out in a series of five separate laws that since 1960 have provided increasingly specific authorities and guidelines for the transfer of decision making to the governorates, districts and villages. A summary of the contents and preliminary impact of these laws prepared by Mr. Ali Fawzi Younis, Deputy Minister, Ministry of Local Government, is Annex D to this paper. Although further refinements will be made over time, these laws provide the legal basis on which programs and progress to date has been possible.

More immediately important at this point than additional laws is the challenge to see to the effective implementation of the existing ones. Egypt is attempting to move rapidly from centuries of highly centralized government and substantial institutional and attitudinal inertia is a reality to be overcome. Annex E to this paper, "Egypt's System of Local Government", is an assessment of the institutional, attitudinal and budgetary strengths and weaknesses confronting successful implementation of the GOE's decentralization program.

From this and from other analyses of decentralization, it is apparent that however well-targeted GOE efforts to date and individual AID-supported projects in this area are, there are transcending development concerns, predominantly institutional and budgetary in nature, that to date have been dealt with only at the periphery. There is a real need to adopt an approach that, while retaining the validity of each of the separate interventions, will afford the GOE and USAID the opportunity to treat the decentralization portfolio as a whole. To do this, the Mission has formulated a programming mode by which current and/or planned projects will not be directly funded (or further funded) as individual entities, but that a program assistance paper be written to

serve as the obligating document for a Decentralization Sector Support program from which money will be subobligated to projects covered by the DSS program. The following are major advantages we see to this approach:

- Each activity in the DSS program will still be fully planned, designed and cleared within the Agency in accord with Handbook 3 requirements, thus preserving the specific development impact sought. Design will include specific life-of-activity inputs/outputs and funding requirements for activity achievement.
- The Program Assistance Paper spells out the larger goals of the DSS program to which Activity Papers relate. To that extent at least, we are making some first moves toward bona-fide sector assistance. Semi-annual, or more frequent, consultations with the GOE will be required to further define and deal with larger sectoral issues and to engage the Egyptians more fundamentally at the policy level.
- Policy reform issues presently associated with individual projects will be better spelled out in a DSS program and contractors better targeted to gathering necessary data and monitoring the pace of policy changes.
- Since the grant agreement for the DSS program is the obligating document and activities are funded by subobligations from the DSS program, desubobligations and resubobligations within the DSS program are permissible without further legislative action, thus providing considerable fiscal fungibility among the activities.
- An annual assessment of funds required to replenish the DSS program, combined with the ability to move funds among approved activities, will ensure more effective cash management and should be helpful in pipeline terms as well.
- Through the DSS program we would envision that limited specific activities or full new activities could be added or deleted upon mutual agreement and within the framework of normal approval procedures for new activities toward assuring a more coherent approach to the central development issue.

B. Strategy

The Mission's decision to adopt a program approach to decentralization blending project and nonproject assistance is derived in large part from the conviction that in both tangible and intangible ways, such an approach can support overall achievement of purposes and goals larger than the sum of the individual activities. Among these is the strengthening of democratic institutions at local levels of government.

In recent months the Mission has given considerable thought to ways of clustering existing and planned activities into compatible packages which would enable us to focus on key program or sector goals. We have been seeking a means of concentrating resources in a way which would respond to specific development problems, enhance the dialogue on issues associated with these and provide greater flexibility than has been possible through a series of interrelated but discrete project interventions.

In decentralization specifically, the Mission thus far has provided a series of interrelated but discrete projects (Development Decentralization I, Basic Village Services, Decentralization Support Fund, Neighborhood Urban Services, Provincial Cities, and the planned Decentralization Planning and Management), all of which respond to different aspects of the Government's emphasis on decentralization of decision-making from the central authority to local jurisdictions. A number of these are well underway and have demonstrated good results and others are just getting started. However, a clustering of these activities would strengthen the decentralization impact by giving us a broader forum to engage the Egyptians more fundamentally in a discussion of decentralization issues while at the same time providing a greater degree of flexibility to respond to program strengths while avoiding being frozen in unproductive activities. Indeed, activity achievement should be enhanced by treatment through a common framework of meaningful benchmarks beyond individual activity outputs, cross-fertilization of ideas, increased focus on the sector as a whole, cross-referencing evaluation findings as applicable, easier identification of and consultations on GOE downstream resource requirements to successfully integrate and institutionalize decentralization activities, and better and more timely monitoring of performance against both discrete activity and larger sector goals.

In sum, this approach has distinct programming advantages over other packaging alternatives, is developmentally sound, and enhances prospects for identification and evolution of an overall sector strategy.

C. Analytic Requirements

In proposing to establish a wider programming mode for all decentralization activities, the Mission is seeking the tangible result of greater flexibility. But of much more importance, though perhaps less tangible, is the forward thrust we see this approach giving to the early development of a fuller sector strategy against which the GOE can organize its efforts and allocate its resources and within which we can better structure our assistance. The GOE's policies in this area and certainly its practices are evolving, and although each of the AID-supported projects fielded to date is fully viable and consistent as designed and approved, the larger sector concerns continue to be elusive.

As a practical matter, the day-to-day implementation of existing projects focuses GOE and AID project managers' attention closely on the project specific targets themselves and too little on the larger and more elusive program goals. For example, despite the fact that project agreements often call for development of the baseline data and analysis necessary to advance development of larger sector-related policies and procedures, such efforts consistently take a back seat to other more immediately pressing demands. Regrettably, they are often treated by GOE counterparts and contractors as peripheral to or ranging beyond the practical limits and prime purposes of the discrete project with which they are working. Furthermore, while each activity budget has its own logic, little practical day-to-day attention can be focused through these on the larger concerns surrounding the national budget allocations to decentralization overall. As a result, there is still a paucity of accessible contemporary baseline data and analysis of the sort outlined in Annex E on which to judge progress toward the central development goals in decentralization.

The cumulative results and data flowing from the approved activities will help in this respect, but the Mission sees a clear need to establish a larger literature by contracting for additional data collection and analysis and for such other studies, evaluations and technical assistance as is deemed necessary by the DSS program Sector Steering Committee (see Part IV. B). The DSS program approach to program coordination and consultation in this respect will insure more effective implementation of these requirements since it has among its prime purposes precisely the identification of the larger issues/constraints and the development of the institutional and budgetary baseline data and analytic literature that are essential to formulate policy and modify procedures.

D. Decentralization Sector Issues in a DSS Context

In a very real way the immediately known issues confronting the DSS program are the sum of those identified and targeted by each of the discrete activities in the decentralization portfolio. Resolution of these will still be pursued through the individual activities as planned, but success should be enhanced by the more sector-wide focus of the DSS program.

Although the intent is different, in the project-specific approach to issues and constraints, project managers and counterparts often tend to adopt a "keyhole" view of issues centered on the project's own requirements rather than seeing and dealing with them in the context of total sector needs. It is a declared objective of the DSS program Sector Steering Committee to review activity performance in addressing issues and constraints against both the specific activities and larger sector needs. Although it has already been noted above, it bears repeating here that the Mission expects the DSS program approach to provide a new urgency and impetus to the early development of a fuller sector strategy against which the GOE can organize its efforts and allocate its resources and within which U.S. assistance can be more effectively structured.

There are a host of both small and larger issues confronting the decentralization program, many of which have been identified in the existing activity project papers. Although all of these will be proper subject matter for DSS program managers in pursuing the larger sector strategy, most can be usefully grouped in one of three generic and closely-related categories that can be immediately identified as central concerns that spawn most of the day-to-day problems that impede progress in decentralization, i.e., informational, institutional and budgetary. The following comments do not purport to identify or address all the myriad aspects of these issue areas, but serve to highlight the general directions of intended DSS program focus. A listing of more limited, but also important issues affecting the total decentralization program, is given as a fourth group.

(1) Informational. As already noted earlier in this paper, at the heart of the problems blocking development of a fuller sector strategy is an analytic and baseline data void that has thus far largely proven intractable. This data and analysis gap not only limits the GOE's and Mission's ability to measure, in a timely way, progress against the individual activity targets, but also obscures more profoundly our perceptions of the larger sector issues. Considering that decentralization itself, with respect to many policy and procedural particulars, remains a loosely-defined and evolving concept among Egyptian officials, continued inability to close the information gap strategically affects the longer-term validity of the program. As such, an immediate concern for the DSS Sector Steering Committee must be a vigorous assault against this problem, beginning with a careful review of ongoing and planned data collection and analysis efforts. Given the importance of this effort, the Sector Steering Committee will establish a specific oversight subcommittee for data collection and analysis. This subcommittee will utilize, among other mechanisms, limited but longer-term sector-wide coordinated technical assistance to be funded through the Decentralization Planning and Management activity to coordinate existing efforts, program additional requirements and establish an overall sector data management system that feeds results back into the portfolio and is carefully linked to national data systems such as the Central Agency for Public Mobilization and Statistics (CAPMAS) to ensure sector activity remains consistent with overall GOE planning. This informational issue impacts heavily on the following two issue areas, institutional and budgetary.

(2) Institutional. The range of issues posed by this category runs to the GOE's ability and commitment to turn decentralization law and intent into a reality. Planning capacity and management skills at all levels (regional, governorate, district and village) are key training objectives already targeted to some extent through each of the DSS program's discrete activities. But the proposed Decentralization Planning and Management Activity (263-0161) is central to this effort. Design of this activity is presently in the PID stage, but project paper completion and authorization for DSS program funding is contemplated in

the late second or early third quarter of FY 1982. Overall program performance needs to be carefully monitored to assure the continued transfer and interaction of decentralized decision making, particularly from the governorates to the districts and villages. The competence of the village councils is of particular concern. The work of the Saqqara Training Center, supported by the Decentralization Planning and Management activity, is critical to meeting these needs and to establishing longer term GOE institutional mechanisms to continue enhancement of decentralization development.

(3) Budgetary. The linkage of budget issues with informational and institutional concerns is obvious. One effort to analyze GOE current budget and allocation processes is funded through the Decentralization Support Fund Activity (263-0143). The DSS program focus should help energize and broaden this effort. Two long-term budget-specific decentralization program targets are (a) changes in local revenue generation, collection and retention rules combined with allocation formulas that together will ensure financing for longer-term comprehensive local development plans, and (b) shifts in GOE financial and budgetary regulations and procedures to emphasize more discretionary uses of development investment funds by the various local government units.

The DSS program must also succeed in looking at decentralization budgeting in terms of the reasonableness of the total GOE budget and resources allocation system. This analysis of domestic resource mobilization performance is of great importance and should over time cover such concerns as:

- (a) Level and trend of GOE allocations for decentralization activities and a measure of the percentage of U.S. assistance to the whole.
- (b) The level and trend of GOE tax collections (both national and local) and its percentage of GNP or GDP.
- (c) An assessment based on budget realities of the GOE's commitment to sector objectives and necessary institutional changes and improvements.

(4) Other Issues. In addition to global informational, institutional and budgetary issue areas, there are a number of related, but more specific, concerns which recur throughout the portfolio of AID-supported activities and the decentralization area overall. These and similar issues will continue to be addressed through the specific activities, but the wider view afforded by the DSS program should help achieve more lasting and universally applicable solutions. Examples of such issues are cost overruns; recurring and maintenance costs necessary to sustain the reliability of equipment and infrastructure; the proportion of AID to GOE funding and the pace of shifting full

responsibility to the GOE; the balance of focus between policy and performance at present and the pace of needed policy changes; the boundaries of AID involvement in discrete activities and in the sector as a whole; targets activities and target groups; degree of concentration of efforts by level of government; shape of institutional linkages to be developed or enhanced among governing units and with village councils; and the role of the Organization of the Reconstruction of the Egyptian Village (ORDEV) now and in the future.

III. ACTIVITY DESCRIPTIONS AND FINANCIAL PLANS

A. Overview

The Decentralization Sector Support program subsumes as activities each of the five fully approved on-going projects and one planned, as follows. (Note especially the funds to be carried into the DSS program. The mechanics of funding through the DSS program are given in more detail in Part IV of this document.)

INPUTS (\$ millions)

<u>Project No. and Title</u>	<u>Current LOP Funding Authorized</u>	<u>Current LOP Funding Obligated</u>	<u>Current PACD</u>	<u>Currently Planned LOP Funding Increase</u>	<u>FUNDS TO BE SUBSUMED INTO DSS</u>	<u>Total Current/Planned LOP Funding</u>	<u>GOE LOP Inputs (\$ equivalent)</u>
<u>On-Going</u>							
0021 - Development Decentralization I	26.3	26.3	9/85	-	-	26.3	5.3
0103 - Basic Village Services ^{1/}	70	70	12/85	75	75	145	46.5
0127 - Provincial Cities	75	20	8/86	-	55		25.0
0143 - Decentralization Support Fund	50	50	12/85	50	50	100	20.0
0153 - Neighborhood Urban Services	89	20	9/86	-	69	89	13.9
<u>Planned</u>							
0161 - Decentralization Planning and Management	20	-	1987	-	<u>20</u>	20	11.4
TOTAL FOR DSS AUTHORIZATION:					269		

^{1/} Further augmented by funds not included in this table, i.e. from the five-year, \$75 million Title III Food for Development Agreement signed March 29, 1979. Of the \$75 million \$45 million has been obligated to date and the balance is scheduled as \$15 million each in FYs 1982 and 1983.

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Although all future funds will be provided to each of the activities as subobligations from the DSS program on a centrally managed, cash flow basis (see Part IV, IMPLEMENTATION, Section A, Funding through the DSS), this is in no way intended to obviate or alter the substance, full LOP funding or implementation timing for any of the discrete activities. To the contrary, management of funds on a cash flow basis should, if anything, bring closer attention and better planning to implementation of soundly-designed activities along with the advancement of the larger sector concerns.

As to the PACD for the DSS program, it is difficult at this point to attempt to fix a terminal date since it is contingent on resolving critical institutional, budgetary and policy concerns identified and addressed to date only in limited ways. For now, the DSS program is initially defined by the last planned activity, i.e., mid-1987 for Decentralization Planning and Management. Its true tenure will relate to the speed and success with which the GOE and the Mission can both implement existing programs and address the larger issues. To the extent this is well advanced in the 1982-1987 time frame, future assistance - if needed and available - can be provided as sector assistance loans/grants or budget support.

B. Individual Activity Project Descriptions and Financial Plans

Each of the existing or planned activities has its own subtargets and implementation and financial plans. These are fully laid out in the approved project papers (draft PID in the case of 263-0160, Decentralization Planning and Management) given as ANNEXES F through K to this document. Full technical, financial and other justifications for each of these activities are contained therein, but brief descriptions are included in this paper to highlight their discrete purposes and relationship to the larger goals of the DSS program. First, however, the following few tables attempt to show generally the overall flow of funds - both AID's and the GOE's - to decentralization activities. Table I provides actual (through FY 1981) and anticipated expenditures from existing and planned specific AID-supported activities from 1978 through 1986. Tables II, III and IV provide a quick look at the GOE's own investment financing by governorate for the years 1979, 1980 and 1981. As already noted, these GOE tables and similar available materials do not throw much light on the budgetary process for decentralization nor the contents or quality of activities financed, but they do provide some idea of the volume of recent total investment budget flows to the governorates. The brief activity descriptions follow these tables.

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Table 1

DECENTRALIZATION: ACTUAL AND PROJECTED EXPENDITURES
(in 000 \$ Equivalents as of January 1982)

	<u>FY</u> <u>1978</u>	<u>FY</u> <u>1979</u>	<u>FY</u> <u>1980</u>	<u>FY</u> <u>1981</u>	<u>FY</u> <u>1982</u>	<u>FY</u> <u>1983</u>	<u>FY</u> <u>1984</u>	<u>FY</u> <u>1985</u>	<u>FY</u> <u>1986</u>	<u>LOP</u> <u>TOTAL</u>
DDI-										
AID Total	555	1,645	4,178	5,496	6,018	4,658	3,729			26,279
GOE Total	<u>391</u>	<u>818</u>	<u>818</u>	<u>818</u>	<u>818</u>	<u>818</u>	<u>819</u>			<u>5,300</u>
Project Total	<u>946</u>	<u>2,463</u>	<u>4,996</u>	<u>6,314</u>	<u>6,836</u>	<u>5,476</u>	<u>4,548</u>			<u>31,579</u>
BVS/TITLE III										
AID Total			15,000	45,775	78,041	63,041	18,143			220,000
GOE Total				<u>10,875</u>	<u>13,875</u>	<u>12,375</u>	<u>9,375</u>			<u>46,500</u>
Project Total			15,000	<u>56,650</u>	<u>91,916</u>	<u>75,416</u>	<u>27,518</u>			<u>266,500</u>
DSF										
AID Total				270	41,295	58,435				100,000
GOE Total				<u>50</u>	<u>6,839</u>	<u>13,111</u>				<u>20,000</u>
Project Total				<u>320</u>	<u>48,134</u>	<u>71,546</u>				<u>120,000</u>
PROVINCIAL CITIES										
AID Total					2,100	10,500	16,800	26,000	19,600	75,000
GOE Total					<u>1,000</u>	<u>4,000</u>	<u>5,100</u>	<u>8,000</u>	<u>6,900</u>	<u>25,000</u>
Project Total					<u>3,100</u>	<u>14,500</u>	<u>21,900</u>	<u>24,000</u>	<u>26,500</u>	<u>100,000</u>
NUS										
AID Total					25,600	22,700	21,600	19,100		89,000
GOE Total					<u>4,070</u>	<u>3,380</u>	<u>3,350</u>	<u>3,100</u>		<u>13,900</u>
Project Total					<u>29,670</u>	<u>26,080</u>	<u>24,950</u>	<u>22,200</u>		<u>102,900</u>
DPM										
AID Total					3,521	4,316	4,716	4,196	3,251	20,000
GOE Total					<u>795</u>	<u>1,259</u>	<u>2,122</u>	<u>3,115</u>	<u>4,109</u>	<u>11,400</u>
Project Total					<u>4,316</u>	<u>5,575</u>	<u>6,838</u>	<u>7,311</u>	<u>7,360</u>	<u>31,400</u>
GRAND TOTALS										
AID TOTAL	555	1,645	19,178	53,641	164,975	169,950	74,188	42,896	3,251	530,279
GOE TOTAL	<u>391</u>	<u>818</u>	<u>818</u>	<u>14,243</u>	<u>28,897</u>	<u>36,043</u>	<u>23,666</u>	<u>13,115</u>	<u>4,109</u>	<u>122,100</u>
PROGRAM TOTAL	<u>946</u>	<u>2,463</u>	<u>19,996</u>	<u>66,384</u>	<u>195,372</u>	<u>205,993</u>	<u>97,854</u>	<u>56,011</u>	<u>7,360</u>	<u>652,379</u>

TABLE II
CY 1979
INVESTMENT BUDGET
(LE Millions)

<u>GOVERNORATES</u>	<u>INVESTMENT EXPENDITURES</u>	<u>INVESTMENT FINANCING</u>		<u>TOTAL</u>
		<u>CREDIT FACILITIES</u>	<u>GOVERNMENT SUPPORT</u>	
CAIRO		0.5	8.0	8.5
ALEXANDRIA		0.4	4.1	4.5
PORT-SAID		0.2	2.0	2.2
ISMAILIA		0.2	2.2	2.4
SUEZ		0.1	1.4	1.5
KALYOUBIA		-	2.5	2.5
SHARKEYA		0.2	2.8	3.0
DAKAHLIYA		0.6	5.1	5.7
DAMIETTA		0.3	3.6	3.9
MOUNOUTIA		0.2	2.9	3.1
GHARBIYA		0.4	2.7	3.1
KAFR EL SHEIKH		0.5	5.9	6.4
BEHEIRA		0.1	2.0	2.1
GIZA		2.5	4.1	6.6
FAYOUM		-	1.9	1.9
BENI-SUEF		-	1.5	1.5
MINYA		-	2.2	2.2
ASSIUT		-	2.8	2.8
SOHAG		0.1	1.8	1.9
QUENA		0.1	1.9	1.9
ASWAN		0.6	5.4	6.0
MATRUH		0.1	2.1	2.2
NEW VALLEY		0.2	1.4	1.6
RED SEA		-	0.9	0.9
SINAI NORTH		0.0*	1.5	1.5
SINAI SOUTH				
TOTAL	79.9	7.3	72.6	79.9

* Amount less than 100,000 LE. Amounts shared by both North and South Sinai.

TABLE III
CY 1980
INVESTMENT BUDGET
(LE Millions)

<u>GOVERNORATES</u>	<u>INVESTMENT EXPENDITURES</u>	<u>INVESTMENT FINANCING</u>			<u>TOTAL</u>
		<u>CREDIT FACILITIES</u>	<u>AUTO FINANCING</u>	<u>INVESTMENT BANK</u>	
CAIRO	64.4	12.8	30.0	21.6	64.4
ALEXANDRIA	18.6	2.8	7.7	8.1	18.6
PORT-SAID	4.4	1.2	0.6	2.6	4.4
ISMAILIA	5.0	1.1	1.2	2.7	5.0
SUEZ	6.9	1.3	3.0	2.6	6.9
KALYOUBIA	8.8	2.2	2.0	4.6	8.8
SHARKEYA	5.8	1.7	0.6	3.5	5.8
DAKAHLIYA	11.5	2.6	1.0	7.9	11.5
DAMIETTA	7.8	2.7	0.3	4.8	7.8
MOUNOUFIA	6.4	1.8	0.6	4.0	6.4
GHARBIYA	7.6	2.2	1.0	4.4	7.6
KAFR EL SHEIKH	8.4	1.8	0.6	6.0	8.4
BEHEIRA	6.6	0.5	0.6	5.5	6.6
GIZA	17.7	4.4	4.6	8.7	17.7
FAYOUM	4.6	1.5	0.6	2.5	4.6
BENI-SUEF	4.6	0.5	0.6	3.5	4.6
MINYA	6.2	1.5	0.6	4.1	6.2
ASSIUT	6.3	1.8	0.6	3.9	6.3
SOHAG	5.5	0.1	0.6	4.8	5.5
QUENA	7.4	1.4	0.6	5.4	7.4
ASWAN	7.1	2.0	1.2	3.9	7.1
MATRUH	6.0	1.8	0.6	3.6	6.0
NEW VALLEY	4.7	1.4	0.3	3.0	4.7
RED SEA	1.7	0.4	0.3	1.0	1.7
SINAI NORTH	8.0	1.7	0.6	5.7	8.0
SINAI SOUTH	4.8	1.2	0.5	3.0	4.8
TOTAL	246.8	54.4	61.0	131.4	246.8

TABLE IV
CY 1981
INVESTMENT BUDGET
(LE Millions)

<u>GOVERNORATES</u>	<u>INVESTMENT EXPENDITURES</u>	<u>INVESTMENT FINANCING</u>			<u>TOTAL</u>
		<u>CREDIT FACILITIES</u>	<u>AUTO FINANCING</u>	<u>INVESTMENT BANK</u>	
CAIRO	60.9	12.7	27.0	21.2	60.9
ALEXANDRIA	19.8	3.0	8.1	8.7	19.8
PORT-SAID	4.7	1.3	0.6	2.8	4.7
ISMAILIA	5.2	1.3	1.2	2.7	5.2
SUEZ	7.3	1.3	3.2	2.8	7.3
KALYOUBIA	9.2	0.9	2.0	6.3	9.2
SHARKEYA	7.0	1.8	1.0	4.2	7.0
DAKAHLIYA	11.9	3.0	1.2	7.7	11.9
DAMIETTA	8.2	2.9	0.7	4.6	8.2
MOUNOUFIA	6.8	2.4	0.8	3.6	6.8
GHARBIYA	8.9	3.4	1.2	4.3	8.9
KA'FR EL SHEIKH	8.5	2.0	0.8	5.7	8.5
BEHEIRA	7.0	1.3	0.6	5.1	7.0
GIZA	19.6	5.0	4.6	10.0	19.6
FAYOUM	5.1	1.8	0.6	2.7	5.1
BENI-SUEF	4.8	0.7	0.6	3.5	4.8
MINYA	6.7	1.8	0.6	4.3	6.7
ASSIUT	7.0	2.5	1.3	3.2	7.0
SOHAG	6.1	1.3	0.7	4.1	6.1
QUENA	7.7	1.6	0.7	5.4	7.7
ASWAN	7.6	1.6	1.3	4.7	7.6
MATRUH	6.4	2.0	0.7	3.7	6.4
NEW VALLEY	4.9	1.2	0.6	3.1	4.9
RED SEA	2.0	0.4	0.4	1.2	2.0
SINAI NORTH	7.0	1.9	0.6	4.5	7.0
SINAI SOUTH	5.4	1.5	0.6	3.3	5.4
TOTAL	255.7	60.5	61.7	133.4	255.7

- (1). Activity One - Development Decentralization I
(Original project paper and three amendments are ANNEXES F-1, 2, 3, and 4 to this document)

Begun in FY 1978, this project furthers the Government of Egypt's program of decentralizing government functions by financing a revolving loan fund program that aims to increase the autonomous revenues of village councils throughout Egypt. Loans are made to village councils for income producing projects; the income provided is used to augment the "account for local services and development," which was authorized in Law 52 for village councils to use for autonomously determined purposes. Funds are also provided for technical assistance to help improve the development planning of local administrators and the financial viability of selected subprojects. More specifically, the project consists of the following components:

- (a) Establishment of a Local Development Fund (LDF) within the Organization for Reconstruction and Development of the Egyptian Village (ORDEV).
- (b) Establishment of an ORDEV Training Academy which provides training for local ORDEV personnel, governorate, village council and executive committee personnel.
- (c) Participant training for ORDEV, Governorate village council and executive committee personnel in the United States and Third Countries in Asia, Africa and Latin America.
- (d) Evaluation and analysis of LDF operations impact on the recipient villages of projects funded from the LDF, and the operations of the ORDEV Academy.

To date over 288 loans totaling \$6.2 million equivalent have been awarded by the Local Development Fund. Over 2,000 local government and village officials have been trained in Egypt, 47 in the United States, and another group of 35 trainees received training at the University of the Philippines Institute of Small Scale Industry. In FY 1981 \$15 million was added to the program including \$12.2 million of additional capital for the fund and over \$2 million for technical assistance and training, raising total AID commitments to this project to \$26.3 million.

Development Decentralization I
Revised Project Financial Plan
(000's)

Project Inputs	Cumulative Obligation Commitments as of 5/81			81 1/		Total		
	A.I.D.		GOE	A.I.D.	GOE	A.I.D.		GOE
	\$	LE ^{2/}	LE	\$	LE	\$	LE	LE
1. Project Management/ Training	3,508	114	570	2,200	800	5,708	114	1,370
2. Commodities	360	—	1,345	—	2,000	360	—	3,345
3. Local Development Fund	6,200	—	—	12,373	—	18,573	—	—
4. Research and Evaluation	325	—	35	27	450	352	—	485
5. Contingencies	<u>807</u>	<u>11</u>	<u>—</u>	<u>400</u>	<u>—</u>	<u>1,207</u>	<u>11</u>	<u>—</u>
TOTAL	11,200 ^{3/}	125	1,950	15,000 ^{4/}	3,250	26,200	125	5,200

^{1/} This financial plan shows only obligations. Implementation expenditures of these funds will continue through FY 85. This column represents cumulative commitments for this agreement and LDP.

^{2/} U.S. owned Egyptian Pounds.

^{3/} Includes \$7,410,000 convertible into LE for local costs broken down as follows: \$6,200,000 for capitalization of local development fund and \$1,210,000 for other project costs.

^{4/} Includes \$13,000,000 convertible into LE for local costs broken down as follows: \$12,373,000 for capitalization of local development fund, \$400,000 for technical assistance, \$200,000 for training and training equipment, \$27,000 for research and evaluation.

- (2) Activity Two - Basic Village Services
(Original project paper the FY 1982 proposed amendment,
and the 3/29/79 Title III FFD Agreement are ANNEXES
G-1 and 2 to this document)

At present grant funds are provided to rural villages in nine governorates for the construction of rural infrastructure projects. Eligible projects include, but are not limited to, potable water systems, feeder roads, ground water and sanitary drainage, abattoirs, and the lining of canals. The primary intent of the project is to strengthen the network of administrative/management processes and skills at village, district and governorate levels in all participating governorates. Particular emphasis is placed on the involvement of the elected village councils. By the end of AID's involvement in this activity the choice and implementation of all subprojects should be done at the village council level. Specifically, the project provides \$135 million for village level infrastructure improvements and \$10 million for support and training to develop administrative and managerial skills in project selection, design and management at village and markaz levels in nine governorates. The funds are provided through a \$75 million P.L. 480 Title III Agreement and an AID Grant of \$70 million. The P.L. 480 Title III portion of the program was initiated late in FY 1979 and the AID Grant Agreement was signed in August 1980. Over the life of the project approximately 450 village local units are expected to construct over 4,000 locally conceived, locally administered rural infrastructure sub-projects. Through 9/30/81, 1,470 projects were approved with 252 completed and 671 others underway. A FY 1982 proposed project paper amendment for an additional \$75 million to further augment activities is under consideration and is included in the following financial table:

Basic Village Services
Financial Table
 (U.S. \$ 000)

<u>Source</u>	<u>A.I.D.</u>		<u>G.O.E.</u>	<u>Title III</u>	<u>Totals</u>
	<u>FX</u>	<u>LC</u>	<u>LC</u>	<u>LC</u>	
Subproject Construction	—	135,000	—	75,000	210,000
Indirect Sub- project Cost	—	—	20,000	—	20,000
Maintenance Fund	—	—	19,500	—	19,500
Technical Assistance	2,800	2,328	—	—	5,128
Training - U.S.	1,425	—	—	—	1,425
Training in Country	—	1,000	3,000	—	4,000
ORDEV/Governorate/ Village Staffing Support	—	—	4,000	—	4,000
Inflation	1,000	200	—	—	1,200
Contingency	<u>500</u>	<u>747</u>	<u>—</u>	<u>—</u>	<u>1,247</u>
TOTAL	5,725	139,275	46,500	75,000	266,500

(3) Activity Three: Provincial Cities
 (Original project paper is ANNEX H to this document)

This grant, authorized for \$75 million in late FY 1981 with an initial obligation of \$20 million, funds activities designed to enhance local government and institutional capabilities of three provincial cities (Fayoum, Minia and Beni Suef) to identify, plan for, budget, finance, construct and maintain urban infrastructure and public services at the municipal level. The project finances technical assistance, operating and maintenance improvements and the design and construction of infrastructure projects, particularly for water and sewerage. The latter will encompass improvement and extension of existing water systems and wastewater facilities.

The larger goal of this project is to assist the GOE to achieve its policy objective of economic and administrative decentralization and to foster a more effective urbanization process at the secondary city level. It will help expand decision-making capacity on the broadest possible basis by providing local government decision makers with experience in the allocation and utilization of resources and in developing the financial and other mechanisms to carry out their development programs.

Provincial Cities
 Illustrative Financial Plan
 (Millions of U.S. Dollars)

	AID		GOE	Project Total			
	FX	LC		Total	FX	LC	Total
Capital Cost:							
Water Supply	14.2	14.2	28.4	7.2	14.2	21.4	35.6
Waste Water	11.9	11.8	23.7	6.0	11.9	17.8	29.7
Streets	-	5.1	5.1	2.6	-	7.7	7.7
Subtotal	<u>26.1</u>	<u>31.1</u>	<u>57.2</u>	<u>15.8</u>	<u>26.1</u>	<u>46.9</u>	<u>73.0</u>
Maintenance	-	2.4	2.4	1.2	-	3.6	3.6
General Consultant & Egyptian A/E Firms	2.5	2.0	4.5	0.5	2.5	2.5	5.0
In Kind/Administrative	-	-	-	-5.0	-	5.0	5.0
Contingency	7.0	3.9	10.9	2.5	7.0	6.4	13.4
Total Funds Required	<u>35.6</u>	<u>39.4</u>	<u>75.0</u>	<u>25.0</u>	<u>35.6</u>	<u>64.4</u>	<u>100.0</u>

(H) Activity Four: Decentralization Support Fund
(Original project paper and FY 1982 proposed amendment are
ANNEXES I-1 and 2 to this document)

The purpose of the project is to support and accelerate the process of administrative decentralization to rural governorates by increasing investment budgets under their jurisdictions. 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.

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. By making funds for equipment available to governorates, services can be expanded and existing infrastructure better maintained.

From AID's initial obligation of \$50 million for this activity, this project makes a total of approximately \$2.32 million in foreign exchange available through the national budget to each of 21 of the 26 governorates in Egypt. These amounts, which will be available to the governorates in their investment budgets, will be used to purchase needed capital equipment in the United States. AID funds will also be utilized to finance spare and repair parts or other maintenance requirements for the equipment to be procured hereunder. The equipment will be used by the governorates to expand and maintain systems servicing the governorate population in such areas as sanitation, health and transportation. A project paper amendment for FY 1982 proposes to authorize another \$50 million to this activity. A summary cost estimate and financial plan for the full \$100 million is as follows:

Decentralization Support Fund
Summary Cost Estimate and Financial Plan
(in U.S. \$000)

	<u>AID</u>		<u>GOE</u>	<u>Total</u>	
	<u>FX</u>	<u>LC</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
I. <u>Equipment</u>					
Procurement	98,700	-	-	98,700	-
Maintenance & Operation	-	-	14,643	-	14,643
Inland Transportation	-	-	500	-	500
Inflation (LC Services)	<u>98,700</u>	-	<u>3,071</u>	-	<u>3,071</u>
Total	<u>98,730</u>	-	<u>18,214</u>	<u>98,700</u>	<u>18,214</u>
II. <u>Contract Services</u>					
Liaison Team	-	440	-	-	440
Procurement Services (2%)	-	-	1,786	-	1,786
Evaluation	305	-	-	305	-
Contingency/Training	-	<u>555</u>	-	-	<u>555</u>
Total	<u>305</u>	<u>995</u>	<u>1,786</u>	<u>305</u>	<u>2,718</u>
PROJECT TOTAL	<u>99,005</u>	<u>995*</u>	<u>20,000</u>	<u>99,005</u>	<u>20,995</u>
Preliminary					

(5) Activity Five: Neighborhood Urban Services
(Original project paper is ANNEX J to this document)

This joint undertaking of the GOE and AID seeks to enhance measurably the institutional capabilities of urban local government units, Egyptian private voluntary organizations and neighborhood associations through the process of producing modest-sized (averaging L.E. 60,000) neighborhood-level public services and infrastructure. This effort during the five-year (1981-1985) life of project will address some of the greatest unmet needs of the urban poor in Greater Cairo and Alexandria. The U.S. grant contribution of approximately \$89.0 million will finance (1) program funding for subproject activities, (2) technical assistance, (3) training, and (4) evaluation. The GOE contribution of an estimated \$13.9 million equivalent will fund (1) staffing, (2) indirect project costs, (3) training support and (4) maintenance for subproject activities.

The public works programs financed will be jointly identified, developed and executed by the local officials and residents in the participating urban districts and should enhance the living conditions and economic climate in those areas. While three-fourths of all the subprojects will be implemented through the District Administrative

(6) Activity Six: Decentralization Planning and Management
(Draft PID is ANNEX K to this document)

This activity is still in the PID stage, but is scheduled for full design completion, approval and authorization in FY 1982 as a component activity of the DSS program. An overview statement and illustrative budget breakdown are as follows:

Egypt is in the process of decentralizing many development related functions to regional planning offices and local government units (governorate, markaz and village). The intent is to increase effectiveness and popular participation in planning and implementing local development. The various offices concerned have shown an eagerness to do the work, but have not had the resources to prepare for their new responsibilities.

The Decentralization Planning and Management (DPM) Project addresses this problem. It will provide technical assistance, training and equipment to help local government units and regional planning offices develop their planning management and information systems. It will also provide similar support to the new ORDEV Saqqara Center, building its capacity to assume the technical and specialized training functions of the project as the USAID involvement phases out.

The project will be implemented in three phases over a five-year period beginning in 1982. During the first phase (1982-84) technical assistance, training and equipment supply will focus on building the planning system in two regions (including selected governorates, markazes and villages), and developing the capability of the ORDEV's Saqqara Center to provide the technical and training support for building the planning capacity of other regions. The second phase (1984-86) will concentrate on assisting additional regions, governorates, markazes and villages build their planning, project implementation and evaluation capabilities. The Saqqara Center will take the lead in providing technical support and training. External technical assistance will focus on solving problems associated with replicating the models developed during Phase I. The third phase (1986-87) of the project will involve continued expansion of Saqqara Center services to the rest of the country. The foreign technical assistance will have been completed and the USAID participation will concentrate on training support (through Egyptian consultants) and equipment supply.

The cost will be approximately \$31.4 million of which \$20 million will be contributed by AID. The following table provides illustrative annual and total budget breakdowns, as well as technical assistance, U.S. and Egyptian requirements in numbers and person-months.

Decentralization Planning and Management
Cost Estimates (000s)

	Project Year				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
Number of Participating Governorates	3	6	12	19	26
A. <u>Technical Assistance</u>					
1. Long Term Advisors					
a. Expatriate (number)	\$1,050 (6)	1,050 (6)	895 (5)	525 (3)	- (-)
b. Egyptian* (number)	200 (10)	200 (10)	200 (10)	200 (10)	200 (10)
2. Short Term Consultants					
a. Expatriate (months)	420 (24)	630 (36)	630 (36)	420 (24)	- (-)
b. Egyptian* (months)	51 (24)	101 (48)	126 (60)	126 (60)	126 (60)
B. <u>Training</u>					
1. Workshops/seminars* (number)	200	350	500	500	500
2. Long Term Training					
a. Domestic* (number)	60 (12)	100 (20)	100 (20)	100 (20)	100 (20)
b. Foreign (number)	250 (10)	500 (20)	500 (20)	500 (20)	500 (20)
3. Study Tours	100	100	100	100	100
C. <u>Equipment</u>					
1. Governorates	240	240	480	560	560
2. Central and Regional Offices	400	240	480	560	560
3. ORDEV Saqqara Center	500	300	200	100	100
D. <u>Evaluation</u>					
	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
Annual Totals	\$3,521	3,861	4,261	3,741	2,796
Total line items		18,180			
Contingency @10%		1,820			
USAID Project Contribution		<u>\$20,000</u>			

*Expenditures to be paid in Egyptian Pounds (approximately 22% of total)

(7) Other Activities

Other activities may be added to this program and funded through the DSS program. These fall into two categories. Full project-type activities must be fully designed and approved in accordance with Handbook 3 and other relevant Agency guidelines. As previously noted, other limited activities deemed to be necessary and/or conducive to achievement of the decentralization program goal, e.g., baseline data collection and analysis, studies and some technical assistance, can be funded through one or another of the component activities if jointly agreed on by the USAID and the Government of Egypt.

IV IMPLEMENTATION

Each of the existing activities had been fully qualified as a discrete activity and has its own implementation plan detailed in the project papers. Each of these and any new activities will continue to be implemented according to the established plan and through the designated counterparts. Internal USAID management and coordination of the separate activities will continue to be the responsibility of the office for Local Administration and Development (LAD) within the division of the Assistant Director for Development Resources and Program Support (AD/DRPS).

Implementation of the oversight activities envisioned for the DSS program essentially entails two specific sets of mechanisms, one covering the establishment of the DSS program and the rules for flow of funds for the approved activities, and the other covering the establishment and operation of the consultative mechanism by which the total decentralization portfolio is to be reviewed and assessed against sector goals and overall GOE resource allocation planning, including U.S. assistance.

A. Funding Through the DSS Program

This involves six basic questions:

Q: What funds are to be included in the authorization of the DSS program?

A: Initially, \$269 million is to be authorized for inclusion in the DSS program, as follows:

- (1) All funds which would otherwise be approved for new activities or amendments to existing activities from the time the DSS program itself is approved and authorized (\$145 million).
- (2) All authorized but not yet obligated funds from existing projects. Existing authorizations and grant agreements must be amended (\$124 million) to reflect this.

Accordingly, the \$269 million figure for authorization is composed of the following existing or planned activities:

<u>Project and Title</u>	<u>\$ millions</u>
<u>From Category (1)</u>	
Decentralization Planning and Management (new)	20
Basic Village Services (amended)	75
Decentralization Support Fund (amended)	50
<u>From Category (2)</u>	
Provincial Cities	55
Neighborhood Urban Services	69
TOTAL	<u>269</u>

Q: What about funds previously obligated to discrete projects?

A: Since these funds cannot be deobligated from the discrete activities to which they are presently committed, and reobligated to the DSS program without existence of deob/reob authority, they must remain tied exclusively to the project activity for which they were obligated. However, these funds are limited and in large part will be expended this fiscal year. This poses no problem in management of the individual projects or the DSS program.

Q: From the authorized amount of \$269 million, how much is to be obligated in FY 1982?

A: Plans are to obligate \$75 million in FY 1982 to the DSS program. This will provide up to \$30 million for the Basic Village Services activity up to \$25 million for the Decentralization Support Fund activity and the balance of \$20 million for the Neighborhood Urban Services and the new Decentralization Planning and Management activities.

Q: How will funds flow within the DSS program grant agreement to component activities?

A: Step 1: AID/Washington will authorize the DSS program initially at the \$269 million life-of-program level.

Step 2: Based on this authorization and an estimate of FY 1982 needs for each component activity, the Mission will obligate funds by means of a grant agreement (for the first year) or an amendment (in subsequent years) to obligate a specific amount to the overall DSS program.

Step 3: Project Implementation Letters (PIL) agreed on between the Mission and the Ministry of Investment and International Cooperation will be used to allocate money to component activities within a level not to exceed the life-of-activity amount approved by the Mission, the GOE and AID/Washington for each activity. This PIL will be transmitted to the specific activity steering committee. (FYI, each approved activity has such a committee already and one will be established for any new activity.)

Step 4: Should the Mission and the Ministry of Investment and International Cooperation decide to shift funds between/among activities, this will also be accomplished (after due consultation with the affected parties) by a PIL jointly signed by the Mission and the Ministry of Planning and transmitted to the affected discrete activity steering committees.

Q: How are new activities to be funded?

A: Following full design, review and approval of any new activity in accordance with the pertinent concepts embodied in Handbook 3 and its inclusion in the DSS program by amendment to the program agreement*, the new activity becomes eligible to be funded in the same manner as any other approved activity.

*An Annex for each activity will describe the activity and contain an "up-to" amount for each.

Q: How are the DSS program itself and the approved activities to be further funded in the future?

A: Following a cash flow and implementation assessment that analyzes annual requirements both for activities conducted primarily against budget benchmarks (such as the Decentralization Support Fund) and those measured more against implementation programs (such as Basic Village Services) and a determination of the need to add or shift funds within the authorized level of the DSS program, further obligations to the DSS program, subobligations to the approved activities and/or life-of-activity increases for specific activities will be accomplished according to

agreed upon practices. Portfolio review and consultations between the USAID and the designated GOE authorities will be the means to determine the need for these actions.

B. The Consultative Mechanism

This has two parts, assessment of the portfolio and allocation authority.

(1) Assessment of the Portfolio

Portfolio assessment will be conducted on a semi-annual basis by the Sector Steering Committee, composed of the following specific individuals and/or representatives from the following entities:

- Ministry of Planning
- The Ministry of Planning's Deputy Minister for Regional Planning
- The Ministry of Local Government's Secretary for Local Government
- The Chairman of ORDEV
- The Director General for ORDEV
- Two members of the Supreme Council of Governors to be selected by the Supreme Council and to serve two-year terms
- the Senior Undersecretary of the Ministry of Investment and International Cooperation's U.S. Assistance Coordination Unit
- the Director of USAID/Egypt and the Office Director for USAID's Office of Local Administration and Development

This Sector Steering Committee will consider the status of implementation of the decentralization portfolio with respect to the individual activities, the portfolio as a whole, and its relevance to the overall decentralization program. It will also concern itself with issues and problems confronting the total decentralization program in Egypt and establish such subcommittees as may be necessary, e.g., the informational subcommittee described in Part II. D. (1), above. Based on its assessment, the Committee will recommend such modifications, funding actions and other activities as may be necessary. Their report with recommendations will be acted on by USAID/Egypt and the Ministry of Planning with respect to all funding and implementation issues. On larger issues of GOE decentralization law, policy and practices, they will act within their established authorities or make their recommendations to appropriate other GOE authorities.

(2) The Allocation Authority

Funding and implementation recommendations of the Sector Steering Committee will be executed by the USAID/Egypt and the Ministry of Investment and International Cooperation in the usual and established ways, i.e., through grant agreements, amendments, PILs and such other documentation as may be necessary.

V EVALUATION PLAN

Each activity in the decentralization portfolio has a detailed discrete evaluation plan. Results and findings from these will be measured against the specific goals and purposes of the activities themselves, but will also form an important part of the larger sector-related considerations and as a partial source of benchmark measures to be developed against which to evaluate total program progress.

A major decentralization sector evaluation is scheduled for the fourth quarter of FY 1983. The discrete activity evaluations and this larger sector evaluation will provide part of the continuing agenda for the Sector Steering and Executive Committees. Funds for evaluations will be provided from individual activities as scheduled or from the special activities category of the DSS program, as needed.

VI CONDITIONS, COVENANTS AND NEGOTIATING ISSUES

Conditions and covenants for the DSS program fall in three general areas:

Formal: Essentially these are limited to the standard requirement for specimen signatures.

Policy: Here we envision two CPs and one covenant. The CPs covers the establishment of the Sector Steering Committee and the informational subcommittee and the covenant covers the consultations on policy directions in decentralization.

Linkages: Here one CP is needed to link the existing network of CPs and covenants in existing activities to the DSS program.

GRANT APPLICATIONS

Grant Application for the Decentralization Sector Support Program
will be pouched separately.

NON-PROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to PAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Security Supporting Assistance and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY. EPS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(B); 634A

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;

This program was not contained in the FY 82 Congressional Presentation. An "Advice of Program Change" will be transmitted to the appropriate Congressional committees to cover its inclusion in this year's obligations.

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than \$1 million over that figure plus 10%)?

The intended obligation is within the level of funds appropriated for Egypt for FY 82.

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

No further legislative action is required to implement the program other than the customary ratification of the signed grant agreement.

FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

This program is not susceptible to execution as part of a regional multilateral program. Assistance is not expected to encourage regional development programs.

4. FAA Sec. 601(a)

Informa-
tion and conclusion whether assist-
ance will encourage efforts of the
country to:

(a) increase the flow of internat-
ional 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.

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

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

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

(a) A component of this program, DSF
provides foreign exchange for the
import of goods and will help increase
the flow of international trade.

(b) No perceptible impact.

(c) This program will improve local
conditions and help stimulate growth
of the economic climate through these
improvements which should encourage
local development initiatives.

(d) No perceptible impact.

(e) No perceptible impact.

(f) No perceptible impact.

To the extent that trade patterns
between Egypt and the U.S. continue
to grow and expand, this program can
be seen as having a positive effect.

Egypt is providing substantial local
currency support for each of the acti-
vities covered by this program. Pro-
visions for this contribution are con-
tained in the individual agreements.

A total of LE 125,000 was provided to
the initial decentralization project,
DDI, from excess foreign currency
reserves in FY 1978. These funds for
technical assistance purposes are
no longer available.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. PAA Sec. 531 Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy direction of Section 102?

This program is promoting economic stability by providing important financial resources to improve the quality of life in rural Egypt and by encouraging the democratic participation of local populations in the economic development process.

Yes, the program reflects the policy direction of Section 102 to the extent possible.

50(3) - STANDARD ITEM CHECKLIST

Listed below are the 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?

The grant authorizes procurement from the U.S. only, except as A.I.D. may otherwise agree.

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 a marine insurance business in the U.S.?

Egypt does not discriminate against U.S. marine insurance companies.

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). 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? (Exception where commodity financed could not reasonably be procured in U.S.)

No such procurement is contemplated.

5. FAA Sec. 603. Is the shipping excluded from 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

It is not so excluded.

A.5. (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?

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

YES.

7. 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. carriers will be utilized to the extent such service is available?

YES.

8. Continuing Resolution Sec. 505. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

YES.

B. Construction

1. FAA Sec. 601(d). If 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 interests?

YES.

- E. 2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? YES.
3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million? N.A.

Other Restrictions.

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.

C.5. j. Continuing Resolution Sec. 510. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

NO.

k. Continuing Resolution Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

NO.

DRAFT AUTHORIZATIONS

Draft authorization for the DSS Program will be cabled.

Amended authorizations for existing decentralization activities will be cabled or pouched.

ANNEX D

"THE LOCAL GOVERNMENT SYSTEM IN EGYPT"

"The structure of Egyptian Government over most of its history has included a strong element of centralized decision-making. The earliest rationale for centralized structure derived, no doubt, from ancient imperatives for the control and use of the Nile as a source of irrigation. In addition, the compact pattern of settlement that closely follows the Nile Valley poses no great problem of control to the many central authorities which have since been powerful enough to impose themselves. Thus, the movement to a more decentralized system is confronting a strong tide of centralism deeply ingrained in the people and institutions of Egypt.

NOTE: This paper was prepared by Dr. Ali Fawzi Younis,
Deputy Minister, Ministry of Local Government

"Starting from the beginning of the Twentieth Century, other forces became dominant and the beginnings of a gradual shift to a more decentralized system came to be seen. Even before the revolution of 1952, Egypt practiced certain experiments in local administration, yet they were limited to a very few geographic areas, as well as to only certain secondary services. In fact, the granting of some form of local status to provinces, towns, and villages was not made statutory until 1923 when the country gained its independence from foreign occupation and a constitution was issued. That constitution acknowledged the provinces, towns and villages as the ingredients of the local government system in Egypt, and vested them with corporate status. It also laid down the guidelines by which their structures, responsibilities, finances, and inter-relations with central authorities were later defined. However, the power vested in such administrative units was mainly consultative, and they were dominated by the central government.

"After 1952, the new regime realized that the huge reforms to be carried out in different fields of Egyptian life were beyond the capacity of the central government, and thus decentralization came to be regarded as one of the more rational courses of action available. Consequently, in 1960, the country witnessed the creation of the first comprehensive system of local administration through a law (No. 124/1960) promulgated in that year.

"Law 124 of 1960

"Law 124 of 1960 created a network of local councils all over the country, councils whose majorities were comprised of elected members and which were complemented by a few appointed members and some ex-officio representatives of competent authorities. At the same time, it was realized that the incorporated system could only be regarded as one step towards the implementation of a true system of local government.

"This law tried to lay the foundations of a more effective system of administration by dividing the country into 26 governorates, 134 cities and towns, and 4,222 villages. Units of local administration were represented by councils at three levels: the governorate, the town, and the village.. The following table illustrates the formation of these councils, as stipulated by Law 124/1960:

Table 1

Law 124 of 1960

<u>Level of Council</u>	<u>Members</u>			<u>Chairman of the Council</u>		
	<u>Elected</u>	<u>Appointed</u>	<u>Ex-Officio</u>	<u>Appointment</u>	<u>Period</u>	<u>Remarks</u>
Governorate	4 - 6 for every district	Up to 10	9	—	—	Presided by the Governor
Town	20	Up to 5	6	By the President		
Village	12	—	6	By the Minister of Local Admin.		1 large village or a few small villages

"It was quite evident that Law 124/1960 took into consideration the fact that eight years of revolutionary rule had offered an acceptable basis for the introduction of a system that partly, but not completely, resided on the election of local councils at various levels. Several other characteristics of the system, however, showed that the law was merely instituting a partial administrative reform, rather than a full application of the principle of local government. The most basic of these characteristics was that the governor was appointed by the President to head the executive mechanism within the governorate, as well as the partly-elected local council.

"The law of 1960 did, however, lay important groundwork by officially delegating several administrative functions to local units. These included some responsibility for predominantly local functions in:

- | | |
|--------------------------------|------------------------|
| * Education | * Labor |
| * Public health | * Agriculture |
| * Public utilities and housing | * Food supply |
| * Social activities | * Communications |
| * Cooperatives | * Economic development |
| * Certain police services | |

It also did not neglect to offer some basis for generating a local financial base by providing two major sources of revenue to the local village units:

- * Tax-based resources which consisted of charges that local authorities were empowered to impose on citizens within the area of their jurisdiction.

Examples of such charges were the Land Tax, the Building Tax, Common Fund Duties, Licensing Fees, and the Special Assessment (appreciation) Duty; and

- * Nontax-based resources, which comprised grants from the Treasury, revenues from the rent or sale of State property, the net income of State markets in the region, revenues from local public enterprises, loans, and voluntary donations.

"Law 57 of 1971

"In May 1971, the late President Sadat declared that a main objective of the May Revolution under his leadership was to establish a modern state that comprised a number of local, public institutions. People were to be given a greater role in running their local affairs through the election of local councils at different levels. Consequently, Law No. 57 of 1971 for local government was promulgated to provide the establishment of two councils at the governorate level: the People's Council and the Executive Council.

"The People's Council was vested with limited power to suggest policies, manage public services of a local character, and to practice a form of supervision and follow-up. This new experience proved to be quite promising, in spite of the several problems it faced, especially in that it gave local communities a right to make decisions in a wide variety of local matters, thus relieving the central government and ministries of some of their administrative burden.

"Law 52 of 1975

"Later, and in the light of problems found in implementing Law 57 of 1971, Law 52 was promulgated in 1975 to the effect of vesting a greater amount of autonomy in local councils, and of delegating wider authorities to governors. The new law tried to avoid several deficiencies of the previous two laws, and as such constituted another step on the way to a fuller application of representative and autonomous local government. It is worthy to mention some of the new applications provided for by that Law:

- * At every level there would be one elected council. These councils elected their chairmen and vice chairmen.
- * Executive committees were organized at the same levels. These committees were to help in setting up administrative and financial plans for the implementation of resolutions and decisions made by the elected council.
- * Wider and more secure financial resources were provided as a means of stimulating the local councils toward fulfilling their responsibilities.
- * The law provided for several guarantees in securing full independence and freedom of action for local councils. For example, a council could not be dissolved except by a Prime Minister's decree, and then only with the approval of the Ministerial Committee for Local Government.

"Law 43 of 1979

"Experience with Law 52 only tended to show that the system of local government in Egypt still needed further refinements if it were to satisfy the changing social, economic, and political needs of the

community. - Thus, several studies were undertaken with the aim of fostering measures that would help in making the country's system of local autonomy more realistic and capable. Those studies lasted for several years until 1979, when they culminated in Law No. 43 for 1979, which was intended to reorganize the system within a pattern of democratic practice and effective local autonomy.

"The rationale behind the new law was largely affected by the fact that the "Peace Era" necessitated a vastly different set of policies and strategies that could provide for extensive reconstruction and development of Egypt after the wars. In the light of the evidence presented by past experience with local government laws, there was complete conviction that a proper system of local government could serve not only as a main channel for setting up solid democracy in the country, but also as a vital support to the attainment of ambitious rates of development and progress. Moreover, such a system, once implemented in a proper way, would play a major role in adapting the ways of life and movements in local communities to the patterns brought along by social, economic and technological changes of the recent past. The structure developed by Law 43 provided for the following significant goals:

- * -- Developing and supporting the authority of the units and councils of local government to the point of giving them full autonomy in local matters, and enough inherent strength to deal with central authorities in a valid partnership.

- * Providing key functions and statutory authority to local executive councils in their capacity as the technical "tool" necessary for the implementation of local plans and programs.
- * Consolidating the authority and competence of the governors in order to provide them with a greater sense of responsibility, and a stimulus for a greater capacity to face problems more effectively and in a more dynamic way.
- * Drawing clear borders to the fields of responsibility of the competent authorities at both local and central levels. The new structure also covered the interrelationships between local authorities and regional authorities; and
- * Establishing a new "tool" for coordination, supervision, control and follow up: the Governors' Council, which functions under the presidency of the Prime Minister.

"Thus, the present pattern of the system of local government under Law 43/1979 comprises a series of elected councils at the different levels within the 26 governorates which represent the administrative divisions of the country. The basic characteristics of the system are:

- * Every governorate is represented by an elected council made up of an equal number of members from each administrative district or division within the governorate. In addition, seats are reserved for women representatives in order to secure a role for Egyptian women in building up the new community.
- * Administrative divisions, districts, or markaz within each governorate also have elected councils, again with seats specified for a women's representative.
- * Village units also elect a council, with representatives drawn from the several satellite and central villages that form a village council unit. There are 808 village councils in Egypt today.
- * Towns and cities elect councils comprised of members drawn from the town divisions and suburbs. Their number amounts to 342 councils.

"As previously mentioned, the whole structure is administered by the Governors' Council under the Chairmanship of the Prime Minister. The Council is served by a secretariat under a Minister of State for Local Government. The Council meets every month and aims at:

- * Sustaining a viable system of local democracy;
- * Supporting the provincial strategy and planning framework within which development and services will operate;
- * Stimulating the full participation of the people in the effective implementation of plans and programs, as well as in their supervision; and
- * Guaranteeing a higher level of efficiency to local authorities at different levels through offering them a better and more effective chance to command the resources and manpower within their areas.

"In June 1981, the Law of Local Government No. 50 of 1981 was promulgated to backstop and reinforce decentralization. This reinforcement has taken several paths, among which the following seem very significant:

"(a) The establishment of the Supreme Council for Local Government to be membered by the chairman of the Governorates' Local Popular Councils and the Governors. This replaced the Council of Governors, and it is entrusted with the function of setting the strategy for developing the Local Government System. It is also headed by the Prime Minister.

"(b) Assuming public accountability of the local bureaucracy to the local popular councils at all levels, through the additional device of interpolation;

"(c) Expanding the magnitude of citizens' participation in local policy formulation, designing implementation schemes and evaluating performance through an increase in the number of councillors at all levels of local government and administration.

"(d) Activating the regional development and management function through building up the capacity of the 8 regional economic development areas to inventory the resources of each region and to help rationalize resource management at the regional level as well as in the Governorates composing the region; and to coordinate among local, regional and national development plans.

"(e) Increasing the ceiling of indebtedness of a local unit from 20% to 40% of its current resources, therefore leveling up its ability to borrow funds required for spending on capital investment projects.

"(f) Continuing the functions of local development management related to low-income housing, food security, land reclamation, family planning and illiteracy combat, that were assigned to the Local Councils by the previous Law of Local Government No. 43 of 1979."

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, 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.

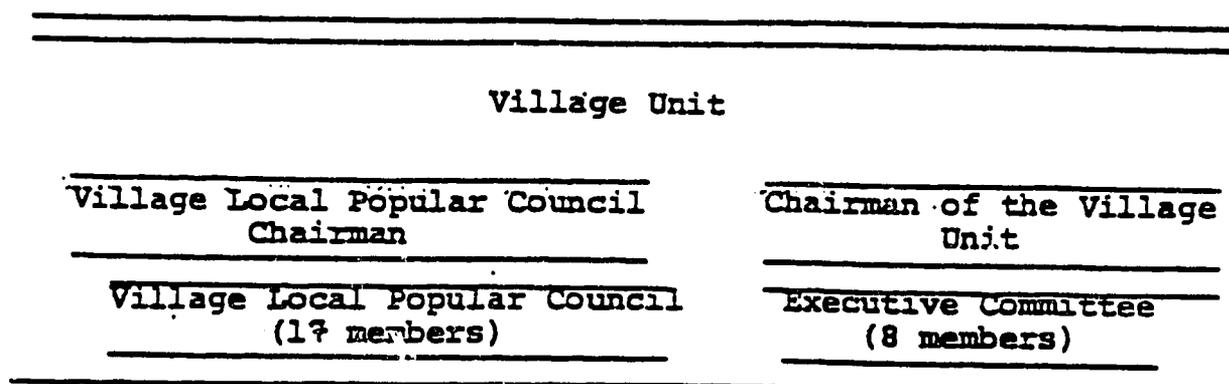
The official title of this local government leader is "Chairman of the Village Unit" (rais wahdat qarya). The chairman is head of the Executive Council whose other members are the chief administrative officials working in the Village Council Area (doctor, social worker, school principal, agricultural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

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 marker, 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 sweeping 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 demands of those whose power will be eroded and perceive themselves as threatened by the change.

As the general and local government carry on the task of implementing Local Government in the ways which maximize political, economic and social development in all areas of Egypt, both the factors encouraging change and 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 advisors and ministers are strongly supporting the proposals for rural development and the establishment of an effective system of local government. Second, Egypt has gradually through successive shifts and slow changes created an environment where the local governments can be given effective instruments of representation, planning and action. Moving very slowly from a very centralized to a more decentralized one, the local representatives must be given time to prepare for the arduous task of local government, and funds and resources necessary to...

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 laws 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 PL 480-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 include 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 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.

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

NEAR EAST ADVISORY COMMITTEE MEETING

DATE: April 1, 1982
TIME: 9:00 a.m.
PLACE: Room 6439 NS

SUBJECT: Decentralization Sector Support PAAD and PP Amendments -
Basic Village Services, 233-0103; Decentralization Support
Fund, 263-0143 - ISSUES PAPER

The Near East Advisory Committee will meet as scheduled above to discuss
the subject projects and the attached Issues Paper.

Please refer all questions to the Chairperson.

Attachment: Issues Paper

DISTRIBUTION

AA/NE, Ms. W. A. Ford, 6724 NS	<u>Project Review Committee</u>
AA/NE, Mr. B. Langmaid, 6724 NS	NE/TECH/SARD, John Lewis, Chairperson
AA/NE, Mr. E. Vinson, 6732 NS	NE/TECH/SARD, George Gardner
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PPC/WID, Ms. P. Goddard, 3245 NS	
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AA/PRE, Mr. D. Levintow, 5883 NS	
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AA/ST, Dr. N. C. Brady, 4942 NS	
ST/DIU/DI, Mr. B. Ashton, 570 PP, SA-14 (4)	
ST/IT, Ms. L. Moannam, 419 SA-8	

UNITED STATES GOVERNMENT

Memorandum

TO : Near East Advisory Committee

DATE: March 31, 1982

THRU : NE/TECH, ^{for} Mr. Lewis P. Reade *LR*

FROM : NE/TECH/SARD, John Lewis, PRC Chairperson
J Lewis

SUBJECT: Decentralization Sector Support PAAD and PP Amendments - Basic Village Services, 263-0103; Decentralization Support Fund, 263-0143 - ISSUES PAPER

I. Decentralization Sector Support (DSS) PAAD:

Introduction: The PRC has deliberated over this Sector Support PAAD in three separate meetings and continues to find it a compelling mode for harnessing what has been, to date, a scattered, though considerable, GOE impetus towards genuine decentralization. Particularly compelling is the opportunity it provides for focusing, as funding transfer decisions are made, GOE attention on Sector-wide strategy issues. The PAAD framework should encourage the information systems of each of the six project activities to focus on these sectoral issues. This common focus should reduce some of the redundancy between these information systems.

Issue - Policy Analysis: Should the GOE DSS steering committee have some sort of charter or mandate that will make it worth its members' while to place larger Decentralization policy issues on the agenda? Without such a mandate will the policy dialogue being sought with the PAAD have any impact? If not, can the information systems of the six component projects be expected to be attentive to the information needs of this dialogue?

Recommendation: The DSS Steering Committee should provide clear guidance as to its policy analysis information needs such that the monitoring and evaluation systems of the component projects can provide data useful to the resolution of sector-wide as well as project-specific issues.

II. Decentralization Support Fund (0143) First Amendment:

Introduction: The PRC felt that USAID responded (CAIRO 6485) to most of its concerns (STATE 65041, para 3C) over the evaluation needs of this project, and is convinced that their Technical Liaison Group (TLG) is generating adequate monitoring and baseline data. It is to be hoped that this data will be tied together into an evaluation before implementation becomes another year old. Nevertheless, the PRC would have liked the PP Amendment to have included: (1) a more elaborate justification for the new level of assistance being requested (along the lines begun in CAIRO 6485, para 2A);



and (2) TLG information on Governorate Operations and Maintenance budgets. The PRC is not convinced that these Governorates are distinguishing between the two of them in their budgetary planning. It is still wondering (as per STATE 65041, para 3 B 2) about an O and M budgetary discrepancy in the Amendment itself.

Issue - Maintenance: Since we are being asked to provide a second tranche of funds for the project before we have gained any experience with respect to maintenance of commodities purchased with the first tranche, what procedures or systems are in place, or can be set up, to detect and remedy problems in this area?

Recommendation: That technical assistance teams from other Decentralization projects working in the same Governorate be asked to provide management guidance in this general problem area.

III. Basic Village Services (0103) First Amendment:

Introduction: The PRC refers the NEAC to USAID commentary (attached) on a recent USDA evaluation of this project. Only a draft of the evaluation itself was available in time for the PRC meetings. As that document was only in draft form, the PRC was careful to interpret its findings in the light of earlier quarterly reports and evaluations. The USAID commentary, now available, should enable the NEAC to interpret the issues more effectively than was possible at the time of the PRC meetings. To make room for that commentary, as it were, the PRC has listed its issues below in the broadest possible way. On the positive side, the PRC concurs with the recent USDA draft evaluation that Basic Village Services (BVS), in spite of the serious procurement, monitoring, and environmental problems listed below, appears to be meeting most of its complex decentralization objectives on schedule. This fact does credit to all who have been involved with the project.

The following issues are broad and contain implications for the expansion of BVS from the present 9 governorates to 20 governorates in 1982.

Issue - Pipe: Widespread pipe shortages are seriously delaying the completion of hundreds of potable water projects in at least six governorates. The problem stems from the use of a single public sector firm (Segwart) for procurement of virtually all domestic and imported asbestos cement pipe used in BVS projects.

This potential problem was predicted in 1979 by a consultant (Itiil Asmon) who helped design the PP. The shortage quickly became a reality in Sharkia in 1980, and was identified in the March 1981 evaluation of BVS (page 11).

Furthermore, the technical assistance contractor (Chemonics) saw the magnitude of the problem, and in August 1981 proposed a solution to USAID. In

addition, USAID implementation reports (March 1, 1982) have recognized the pipe shortage problem.

The recent USAID-USDA evaluation presented to USAID on March 4 revealed that attempts by ORDEV and USAID to solve the shortage have not been effective, and the problem has spread (in area and magnitude) during the last year.

Recommendation: AID/W should be informed of the solution of the pipe shortage problem before any FY 82 funds are released for BVS water projects. USAID should consider the direct importation of pipe as a short term solution.

Issue - Monitoring: The present project monitoring system does not appear to be flagging implementation problems soon enough or effectively enough. It depends largely on information sent to ORDEV by the various governorates. The project data are then aggregated and sent to USAID quarterly (in theory). The current system is not standardized and is incomplete; it does not permit USAID to effectively monitor such developments as the pipe shortage. Nor can USAID determine exactly when a given project is complete (e.g. the water is running in a potable water project).

Recommendation: ORDEV/Cairo should develop a standardized format for reporting on project implementation (both financial and physical progress) at the markaz and village local unit level. Chemonics staff should then be used, together with ORDEV staff, to conduct mobile (on site) workshops illustrating the use of the standard reporting format.

Issue - Asbestos: The quality of asbestos cement pipe currently produced by Segwart may pose a health hazard, given the mineral properties of most Egyptian ground water.

Recommendation: USAID should have representative samples of the Segwart pipe and Egyptian ground water tested by an independent source. If the pipe is faulty, as reported by Chemonics, alternative types of pipe should be used. Control of the mineral content in hundreds of small and wide-spread village water systems is highly unlikely.

Attachments:

- 1) Cables: State 50137; Cairo 6485;
- 2) BVS Evaluation and Recommendations - USAID, March 1982

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TAGS:

SUBJECT: DECENTRALIZATION SECTOR SUPPORT - PRC QUERIES

REF: STATE 50137

1. FOR DRPS/LAO.

2. THE DECENTRALIZATION PRC MET ON TUESDAY MORNING TO REVIEW THE OSS PAAD AND THE BVS AND OSF AMENDMENTS. THE NEAC IS CURRENTLY SCHEDULED FOR THURSDAY, MARCH 15. THIS CABLE LISTS SEVERAL QUESTIONS CONCERNING OSF AND THE PAAD ON WHICH IT WOULD BE HELPFUL TO HAVE MORE INFORMATION BEFORE THESE DOCUMENTS ARE PRESENTED TO THE NEAC. SEPTEL ON BVS MAY FOLLOW.

3. DECENTRALIZATION SUPPORT FUND (OSF)

A. INTRODUCTION: IN GENERAL, THE PRC FELT THAT THE AMENDMENT DID NOT PROVIDE SUFFICIENT INFORMATION ON IMPLEMENTATION EXPERIENCE TO DATE SUCH AS TO JUSTIFY THE REQUEST FOR ADDITIONAL FUNDS. SOME INFORMATION IS PROVIDED ON PAGE 11, BUT EVEN THERE GOVERNORATE NEEDS ARE EQUATED WITH GOVERNORATE REQUESTS TO APPROVED BUDGET RATIOS. IS THIS ENOUGH?

B. MAINTENANCE:

1. AS WITH THE ORIGINAL PROJECT, ADEQUATE MAINTENANCE CONTINUES TO BE THE MAJOR CONCERN. THE ORIGINAL AGREEMENT CONTAINED A COVENANT REQUIRING THE GOE TO BUDGET RESOURCES FOR THE MAINTENANCE OF THE EQUIPMENT PURCHASED UNDER THE GRANT AND THE AMENDMENT TO THE GRANT AGREEMENT WILL CONTAIN A SIMILAR COVENANT. THE PP AMENDMENT STATES THAT THE GOE HAS "ALLOCATED LE 75,000 POUNDS TO EACH GOVERNORATE" FOR MAINTENANCE COSTS AND THAT THE TECHNICAL LIAISON GROUP (TLG) DEvised A "REQUIREMENTS ANALYSES SYSTEM" AND PROVIDED A CERTIFICATION THAT "MAINTENANCE CAPABILITIES FOR GIVEN ITEMS OF EQUIPMENT ARE IN PLACE OR BEING PREPARED." IT WOULD BE HELPFUL TO HAVE SOME IDEA ABOUT THE ANALYSES CARRIED OUT BY THE TECHNICAL LIAISON GROUP ON WHICH THE CERTIFICATIONS WERE BASED AND IF THE DOUBLING OF THE AMOUNT OF EQUIPMENT PER GOVERNORATE IS GOING TO OVERBURDEN

2. WHAT IS THE RELATIONSHIP BETWEEN MAINTENANCE AND OPERATIONS BUDGET ON TABLE 11 AND STATEMENT ABOUT THE SAME ON P. 137. DETAILS ON THIS CALCULATION AND ITS BREAKDOWN BETWEEN MAINTENANCE AND OPERATIONS WOULD BE HELPFUL. PRICE ESCALATION FACTOR ALSO UNCLEAR (SEE REPTEL, PARA 1E).

3. A RELATED CONCERN RAISED WAS THAT THE GOVERNORATES MAY COME TO DEPEND ON THE KINDS OF EQUIPMENT PROVIDED BY THE PROJECT AND, AT THE END OF ITS NORMAL LIFE, MAY NOT HAVE THE RESOURCES TO PURCHASE REPLACEMENTS. WE WOULD APPRECIATE BEING ADVISED IF THE GOE HAS CONSIDERED AMORTIZING THE EQUIPMENT OR IF THIS POTENTIAL PROBLEM HAS BEEN ADDRESSED IN SOME OTHER FASHION.

C. EVALUATION:

IT WAS NOTED THAT THE EVALUATION PLAN IN THE ORIGINAL PP CALLED FOR THE ACCUMULATION OF BASELINE DATA BY JAN/FEB 1981; REVIEW OF BUDGETARY DEVELOPMENTS BY JAN/FEB 1982; AND REVIEW OF BUDGETARY DEVELOPMENTS, END USE OF SOME EQUIPMENT IN SELECTED GOVERNORATES BY JAN/FEB 1983. THE PP AMENDMENT DOES NOT INDICATE IF THE EVALUATIONS HAVE BEEN ACCOMPLISHED AND, IF SO, THE RESULTS. THE PP AMENDMENT IMPLIES THE EVALUATION FOR THE OSF PROJECT IS TO BE SUBSUMED IN THE OVERALL EVALUATION OF THE DECENTRALIZATION SUPPORT SECTOR SCHEME, AND YET THE EVALUATION PLAN IN THE DECENTRALIZATION SUPPORT SECTOR SCHEME INDICATES THAT THE EVALUATIONS OF THE DISCRETE PROJECT ACTIVITIES WILL CONSTITUTE IN PART THE EVALUATION FOR THE SECTOR. PLEASE CLARIFY. ALSO, WE ASSUME THAT THE TECHNICAL SUPPORT GROUP

WHILE WORKING WITH THE GOVERNORATES IN DEVELOPING THE SELECTION CRITERIA "REQUIREMENTS ANALYSES", ETC. AMASSED CONSIDERABLE INFORMATION WHICH WOULD BE USEFUL AT THIS POINT IN TIME IN MAKING A PRELIMINARY ASSESSMENT OF THE GOVERNORATES' COMMITMENT TO THE PURPOSE AND GOAL OF THE PROJECT AND THE PROBABLE EFFECT OF THE EQUIPMENT ON THE DECENTRALIZATION PROCESS. WOULD APPRECIATE BEING ADVISED IF MISSION HAS MADE SUCH A PRELIMINARY ASSESSMENT OF THE INFORMATION ACCUMULATED AND TENTATIVE CONCLUSIONS REACHED.

4. DECENTRALIZATION SECTOR SUPPORT (OSS) PAAD

A. EVALUATION: THE COMMENTS MADE ABOVE RE THE EVALUATION FOR THE OSF ARE APPLICABLE TO THE CONCERN ABOUT THE OVERALL EVALUATION FOR THE DECENTRALIZATION SECTOR SUPPORT SCHEME. IT IS NOT CLEAR IF THE EVALUATIONS OF THE DISCRETE PROJECTS ARE TO CONSTITUTE THE EVALUATION OF THE WHOLE OR IF THERE IS TO BE SEPARATE FUNDING FOR A SECTOR EVALUATION, TA FOR BASELINE DATA ACCUMULATION, ETC. IS IT INTENDED THAT THE TA ADVISORS FROM THE DECENTRALIZATION PLANNING AND MANAGEMENT PROJECT WOULD ACT AS THE GENERAL ADVISORS FOR THE "STEERING COMMITTEE" AS WELL? MAYBE THEY SHOULD. IF NOT, THE DECENTRALIZATION SECTOR SUPPORT SCHEME SHOULD HAVE EXTRA FUNDS THAT CAN BE USED FOR AD HOC ADVISOR ASSISTANCE.

B. POLICY ANALYSIS: PRC RECOGNIZES THAT THE IMMEDIATE PURPOSE OF THE DECENTRALIZATION SECTOR SCHEME IS TO CONSOLIDATE PROJECTS OF THE SAME GENRE IN ORDER TO MEET GOE DESIRE FOR MORE FLEXIBLE PROGRAMMING. HOWEVER, BY DOING THIS WE DO CREATE THE SENSIBLE OF A SECTOR GRANT WITH ALL OF THE INHERENT EVILS AND ADVANTAGES THAT ARE ASSOCIATED WITH THAT APPROACH. THE PAAD EXPLAINS HOW THIS APPROACH WILL HELP TO GET THE GOE TO FOCUS ON SECTOR ISSUES, BUT THEN IT DOES NOT REALLY ADDRESS HOW THE MISSION EXPECTS TO BRING ABOUT POLICY CHANGES AND REFORMS THAT MAY BE NECESSARY. IT DOESN'T APPEAR AS IF THE "STEERING COM-

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MITTEE" DESCRIBED ON PAGE 12 REALLY HAS THE POWER TO BRING ABOUT THE NECESSARY CHANGES SINCE "ON LARGER ISSUES OF GOE DECENTRALIZATION LAW, POLICY, AND PRACTICES, THEY WILL ACT WITHIN ESTABLISHED AUTHORITIES OR MAKE THEIR RECOMMENDATIONS TO APPROPRIATE OTHER GOE AUTHORITIES."

C. AUTHORIZATION: PLEASE CABLE DRAFT PAAD AUTHORIZATION ASAP, ALSO DRAFT AMENDMENTS TO EXISTING BVS AND OSF AUTHORIZATIONS.

5. AA/NE HAS REQUESTED MISSION REPRESENTATION AT MAJOR NEAC REVIEWS. IS THIS PLANNED FOR THE DECENTRALIZATION

PACKAGE? ITS SIZE AND COMPLEXITY WOULD SEEM TO WARRANT MISSION PRESENCE. NEAC CAN BE DELAYED TO MAKE THIS POSSIBLE. HAIG

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NO GUARANTEE THAT MAINTENANCE WILL CONFORM SPECIFICALLY TO U.S. STANDARDS, FUND ALLOCATIONS AND EXPRESSIONS OF LOCAL GOVERNMENT ENTITIES TOWARD MAINTENANCE ARE ENCOURAGING. PRESENT/EXPANDING GOVERNORATE CAPABILITIES AND DEMONSTRATED IMPROVEMENTS NOW (AND THROUGH UPCOMING TRAINING) WE BELIEVE ARE SUFFICIENT TO ENSURE SATISFACTORY MAINTENANCE.

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- C. OPERATIONS/MAINTENANCE RELATIONSHIP: GOE CASH CONTRIBUTION (DOLS. 14.6 MILLION EQUIVALENT) FOR O/M ARE NOT BROKEN DOWN BY GOE BETWEEN OPERATIONS AND MAINTENANCE FOR ANY PROJECT OR PROCUREMENT SECTOR. NOTE, THIS IS SOP FOR WORLDWIDE EQUIPMENT PROCUREMENT/UTILIZATION.

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- D. REPLACEMENT: DSF EQUIPMENT PROCUREMENT IS NOT FIRST TIME EQUIPMENT. EACH GOVERNORATE DEVELOPMENT BUDGET HAS PROVIDED FOR INCREASING AMOUNT OF EQUIPMENT EVERY YEAR. WHILE DSF IS PROVIDING FOR INCREASED PROCUREMENT OF EQUIPMENT, THIS IS TO CATCH UP AT LOCAL LEVELS FROM FORMERLY DEFERRED PROCUREMENT. GOVERNORATE EQUIPMENT REQUESTS WILL ASSUREDELY DECREASE IN THE NEXT FEW YEARS AS MOST URGENT NEEDS ARE ADDRESSED THROUGH DSF, AMONG OTHER RESOURCES. THE IMPORTANT DIFFERENCE IS THAT CENTRAL PROCUREMENT SYSTEM UTILIZED THOSE PORTIONS OF GOVERNORATE BUDGETS AND DICTATED LOCAL NEEDS. DECENTRALIZATION PROCESSES, AND DSF SPECIFICALLY, ARE CHANGING THIS. ANOTHER FEATURE OF DSF IS GOE PROVIDING FUND ALLOTMENTS WITHIN LOCAL BUDGETS, THUS LOCKING FUTURE AND INCREASING ALLOTMENTS INTO ANNUAL PROCESS. CONTINUING DISCUSSIONS WITH GOE (CENTRAL AND LOCAL) HAVE STRESSED NEED FOR AMORTIZATION AND FORWARD PLANNING FOR REPLACEMENT REQUIREMENTS. THIS WILL CONTINUE TO BE DONE, WITH STRONGER VOICE UNDER SECTOR APPROACH. THE BASIC PREMISE OF THE ORIGINAL PROJECT (STILL VALID) WAS CREATION OF LOCAL-DEMAND TO WHICH CENTRAL BUDGETARY RESOURCES MUST BE ALLOCATED.

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E.O. 12065: N/A
SUBJECT: DECENTRALIZATION SECTOR SUPPORT -- PRC RESULTS/
PREPARATION FOR HEAC

- E. EVALUATION: ACCUMULATION OF GOVERNORATE-WIDE BASELINE DATA WAS DELAYED UNTIL TLG WAS HIRED IN JUNE 1981. DIRECT DSF EVALUATION EXERCISE THEREFORE DELAYED. IN-

REFS: A) STATE 065041; B) STATE 066478; C) STATE 050137

1. MISSION APPRECIATES PROMPT REPORTING CABLES RE INITIAL REVIEWS OF OSS (INCLUDING BVC, DSF AND OPM). FOLLOWING ITEMS RESPOND TO INDIVIDUAL ACTIVITY COMPONENTS WITHIN OSS:

2. DSF AMENDMENT - BELIEVE PRC ERRONEOUSLY USED PRELIMINARY AND INCOMPLETE PAPER DELIVERED TO AID/W IN EARLY FEBRUARY RATHER THAN FULL AMENDMENT ATTACHED TO OSS. NEVERTHELESS, THE FOLLOWING ADDRESSES SPECIFIC INQUIRIES FROM ALL THREE REFTELS.

- A. LEVEL JUSTIFICATION: EVEN CURSORY ASSESSMENT RURAL GOVERNORATES REFLECTS YEARS OF BUDGETARY NEGLECT. WHILE MISSION REQUIREMENTS ASSESSMENTS HAVE NOT ATTEMPTED ACCESS TOTAL MULTI-YEAR CAPITAL REQUIREMENTS OF GOVERNORATES, PLANNING AND BUDGETARY FIGURES ARE TELLING. BOTH PRIVATE SECTOR AND LOCAL GOVERNMENT GROWTH AND VITALITY ALSO PUT INCREASING DEMANDS AGAINST GOVERNORATE CAPITAL PLANT WHICH DSF SEEKS TO SUPPLEMENT. ORIGINAL EQUIPMENT LISTS AND REQUIREMENT ANALYSES COMPILED BY GOVERNORATES, REVIEWED BY MINISTRIES OF PLANNING AND ECONOMY AND USAID CONTAINED ITEMS MORE THAN DOUBLE VALUE OF PRESENT DSF. GOE BAB 3 INVESTMENT BUDGETS TO 21 RURAL LOCAL GOVERNMENT FOR 1980-82 INVESTMENT BUDGET PROVIDED L.E. 190 MILLION (COMPARED TO DSF DOLS. 50 MILLION OVER 2-YEAR PERIOD). THESE FACTS AND REPEATED VISITS BY USAID TLG, MOE AND MOP OFFICIALS DEMONSTRATE THAT ADDITIONAL DSF CONTRIBUTIONS WILL STILL FULLY NOT MEET GOVERNORATE NEEDS. IT NOT MISSION INTENT ALLOCATE OSS FUNDS TO DSF INDEFINITELY BUT BELIEVE ADDITIONAL DOLS. 50 MILLION FULLY WARRANTED. BROADER BUDGETARY/CAPITAL UTILIZATION ANALYSIS WILL BE ELEMENT EVALUATION/SECTORIAL DIALOGUE ELEMENTS OUTLINED IN PAAD.

- B. MAINTENANCE: FIRST YEAR ALLOCATION L.E. 75,000 EACH GOVERNORATE (1980-81) PROVIDED ONLY START-UP COSTS FOR FIRST EQUIPMENT ARRIVING THIS APRIL/MAY. GOE OVERALL CONTRIBUTION OF 20 PERCENT OF TOTAL PROJECT IS CONSISTENT WITH OUR ASSESSMENT PROJECTED NEEDS AND REFLECTS RURAL COMMITMENT ON PART GOE. DOUBLING OF GOE CONTRIBUTION IMPROVES/UPGRADES EXISTING MAINTENANCE FACILITIES. PROCUREMENT OF EQUIPMENT ALREADY ON ORDER INCLUDES SUPPLIER-FURNISHED OPERATION AND MAINTENANCE TRAINING. THE TWO PUBLIC SECTOR COMPANIES SERVING AS GENERAL GOE PROCUREMENT AGENTS AND ALREADY OPERATING GOVERNORATE SERVICE FACILITIES ARE NEGOTIATING SEPARATE CONTRACTS WITH EACH GOVERNORATE TO ASSIST SERVICING/MAINTENANCE OF EQUIPMENT. ADDITIONALLY, ALL BID AWARDEES TO DATE PRESENTLY MAINTAIN EGYPTIAN-BASED SERVICE FACILITIES. ALTHOUGH THERE CAN BE

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MENTS. THIS WILL CONTINUE TO BE DONE, WITH STRONGER VOICE UNDER SECTOR APPROACH. THE BASIC PREMISE OF THE ORIGINAL PROJECT (STILL VALID) WAS CREATION OF LOCAL-DEMAND TO WHICH CENTRAL BUDGETARY RESOURCES MUST BE ALLOCATED.

- E. EVALUATION: ACCUMULATION OF GOVERNORATE-WIDE BASE-LINE DATA WAS DELAYED UNTIL TLG WAS HIRED IN JUNE 1981. DIRECT DSP EVALUATION EXERCISE THEREFORE DELAYED. IN-DEPTH BUDGETARY UTILIZATION ASSESSMENT FOR 1982-83 GOE BUDGET HAS BEGUN, HOWEVER. MANAGEMENT IMPACT ASSESSMENT OF GOVERNORATE USE OF DSP EQUIPMENT WILL BEGIN LATE SUMMER 1982 AFTER FIRST TRANCHE EQUIPMENT ARRIVES AND IS PUT TO USE. TO DATE, WIDE MAGNITUDE OF TLG DEVELOPED INFORMATION HAS BEEN USED TO ASSESS NEEDS AND CAPABILITIES IN 21 GOVERNORATES. ALL PROCUREMENT ACTIONS TO DATE, AND PROPOSED ACTIVITY AMENDMENT, WERE BASED ON BOTH CENTRAL AND LOCAL GOVERNMENT COMMITMENT TO PROJECT'S PURPOSE AND GOAL. ASSESSMENTS, ADVANCE PLANNING, AND ORDERING OF EQUIPMENT HAS ENGENDERED LARGE-SCALE AND POSITIVE ATTITUDES FOR PROCESS. EACH GOVERNORATE'S NEEDS ASSESSMENT/ REQUIREMENT ANALYSIS HAVE PROVIDED LONG-NEEDED CONFIDENCE BOOST TO LOCAL-LEVEL CAPABILITY AND CONFIDENCE LEVELS. CENTRAL GOE AUTHORITIES, LIKEWISE, HAVE EXPRESSED UNABATED ENTHUSIASM FOR CONTINUED/EXPANDED GROWTH OF DECENTRALIZED AUTHORITIES AND RESPONSIBILITIES. THE RESULT TO DATE IS NOT ONLY REQUEST FOR DSP AMENDMENT BUT AN ACCELERATED FOCUS ON DECENTRALIZATION PROCESS, THUS REFLECTED BY DSS PA40.

3. BVC: THE DSS CANNOT REPEAT CANNOT BE CONSIDERED WITHOUT INCLUSION OF BVC ACTIVITY AMENDMENT. THIS PROJECT ACTIVITY PROVIDES CORNERSTONE FOR GOE DECENTRALIZATION EXPERIMENT AND HAS BEEN CONSISTENTLY JUDGED AS MODEL PROJECT, BOTH IN EGYPT AND MANY DEVELOPING NATIONS. LATEST QUARTERLY REPORTS DO INDICATE CONTINUING IMPLEMENTATION ISSUES, SPECIFICALLY PIPE SHORTAGES AND LOCAL-LEVEL COSTS ASSOCIATED WITH ELECTRICITY CONNECTIONS, A PORTION OF SOME VILLAGE PROJECTS. THESE SAME ISSUES SURFACED IN THE WEEK-OLD USDA/AID TITLE III DRAFT EVALUATION. AT ORAL PRESENTATION TO MISSION ON MARCH 4, THE TITLE III EVALUATION TEAM WAS DIRECTLY ASKED IF PROBLEMS OUTLINED WERE PROJECT DESIGN/STRUCTURAL OR MORE SIMPLY BUT IMPORTANT IMPLEMENTATION ISSUES. EVALUATION TEAM MADE IT VERY CLEAR WHILE PROBLEMS WERE IMPORTANT, THEY DID NOT REFLECT FUNDAMENTAL DESIGN OR STRUCTURAL ISSUES WITH PROJECT. THESE ISSUES HAD BEEN ADDRESSED PREVIOUSLY AND ARE NOW BEING RE-ADDRESSED. THERE IS EVERY INDICATION THAT SATISFACTORY RESOLUTIONS WILL BE MADE. MISSION COMMENTS ON DRAFT EVALUATION WILL BE OBTAINED PRIOR NEAC APR 11.

4. DPM: MISSION APPRECIATES NEAC APPROVAL OF PIC REFTEL (J) AND IS PROCEEDING WITH PROJECT PAPER DEVELOPMENT, ADDRESSING ISSUES RAISED IN PIC. AGAIN, WE BELIEVE APPROVAL/ AUTHORIZATION OF DSS AS ENTITY IS NOT DEPENDENT ON THIS SINGLE COMPONENT. NEVERTHELESS, WE AGREE WITH AID/W ASSESSMENT THAT DPM ACTIVITY SHOULD AND WILL PROVIDE GEN-

5. DSS - PAAD AS ENTITY:

- A. EVALUATION: BOTH SECTOR ASSESSMENTS/ T A EGY AND COMPONENT EVALUATIONS WILL CONSTITUTE COMPLETE ONGOING SERIES FOR DSS. FLEXIBILITY OF COMPONENT FUNDS TO ENHANCE VARIETY OF DECENTRALIZATION LINKAGES CAN BE USED FROM EACH ACTIVITY (INCLUDING, AND PRIMARILY FROM, DPM).

- B. POLICY ANALYSIS: IN THE CASE OF DECENTRALIZATION, THE U.S. HAS BEEN ON THE CUTTING EDGE OF WHAT HAS BEEN AND CONTINUES TO BE AN EVOLVING POLICY INITIATIVE ON THE PART OF THE GOE. ONE OF THE REASONS WHY WE HAVE NOT DEVELOPED A FULL SECTOR STRATEGY YET IS THAT THE GOE ITSELF HAS NOT SETTLED ON A STRATEGY. THUS FAR THROUGH THE DECENTRALIZATION PORTFOLIO WE HAVE BEEN SUCCESSFUL AT CHANNELING SIGNIFICANT LEVEL OF RESOURCES TO RURAL GOVERNORATES WHICH HAS IN TURN HAD A MEASURABLE EFFECT ON INDIVIDUAL/LOCAL GOVERNMENT PARTICIPATION/RESPONSIBILITY AND QUALITY OF LIFE CONCERNS IN LITERALLY THOUSANDS OF VILLAGES. IN ADDITION AND PERHAPS OF GREATER LASTING IMPORTANCE, THE PROGRAM HAS SPARKED LOCAL PERSONAL PUBLIC/ PRIVATE INITIATIVE AND CAPABILITIES. THE PAAD, IN OUR JUDGMENT, WILL FURTHER REINFORCE THE IMPORTANT MOVEMENTS BUT AT THE SAME TIME WILL ENABLE US AND THE GOE TO DEVELOP A MORE COMPREHENSIVE STRATEGY. THEREFORE, THE DSS SHOULD NOT BE VIEWED AS A STANDARD SECTOR GRANT. IT IS A SECTORIAL APPROACH APPLIED TO MUCH NEEDED GROWING, AND SUCCESSFUL DEVELOPMENTAL INITIATIVE BEING UNDERTAKEN BY THE GOE. MOST LOCAL DEVELOPMENT ACTIVITIES WHICH HAVE DEMONSTRATED SUCCESSFUL IMPLEMENTATION PROCESSES ARE INHERENTLY ACCOMPLISHED BY DECENTRALIZED LOCAL DECISION-MAKING AND ACTION. THE GOE, TO UTILIZE MORE EFFECTIVELY BOTH THEIR OWN RESOURCES AND EXTERNAL RESOURCES, IS WILL-

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INGLY PROMOTING AND EXPANDING THE DECENTRALIZATION PROCESS;
NOT ONLY IN LOCAL GOVERNMENT ADMINISTRATIVE AUTHORITIES .
BUT ALSO IN THE MORE STANDARD SECTORS OF EDUCATION,
HEALTH, ETC. THE DSS PROVIDES SUPPORT FOR THE FORMER AND
AN EXTENDED FRAMEWORK FOR THE LATTER. REQUISITE POLICY
DETERMINATIONS FOR THE SECTORIAL APPROACH EMANATE FROM THE
VARIOUS AGENCIES/DEPARTMENTS ALREADY WITH LOCAL-LEVEL PRO-
GRAMS AND FROM THE MOST SENIOR-LEVEL CABINET LEVEL MIN-
ISTERS AND DEPUTY PRIME MINISTERS (PARTICULARLY PLANNING,
LDCAL GOVERNMENT AND ECONOMY/INVESTMENT). ALL THESE IN-
TERESTS, AT HIGHEST LEVELS, ARE TO BE REPRESENTED ON THE
DSS STEERING COMMITTEE IN BOTH POLICY/GUIDANCE ROLES AND
IN HORIZONTAL LINKAGE ROLES. IF THESE INDIVIDUALS SEPAR-
ATELY, OR IN COMMITTEE, HAVE NO POWER OR AUTHORITY OVER
LAW, POLICIES, AND PRACTICES, OUR LAST RESORT IS THE PRESI-
DENT OF THE REPUBLIC HIMSELF, WHO IS ALSO A MAJOR PROPONENT
OF DECENTRALIZATION PROCESSES.

6. DRAFT PAAD AUTHORIZATION WILL BE CABLED. WE DO NOT
ANTICIPATE AMENDMENT AUTHORIZATIONS SINCE THE PAAD WILL
SUBSUME THOSE ACTIVITIES FOR ALL NEW FUNDING, UP TO THE
APPROVED LEVELS CONTAINED WITHIN EACH PP AMENDMENT.

7. MISSION PARTICIPATION NEAC SUBJECT SEPTTEL. ATHONTON

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ACTIVITY DATA SHEET

1. TRANSACTION CODE **XD - AAU-314-A** DOCUME: CODE 3
 A = Add
 C = Change
 D = Delete
 Amendment Number 1

2. COUNTRY/ENTITY **Egypt**
 3. Activity Number **263-0103**
 4. BUREAU/OFFICE **Near East Bureau NE** **04**
 5. Activity Title (maximum 40 characters) **Basic Village Services**

6. ACTIVITY 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 **8|0|** B. Quarter **4** C. Final FY **8|4|**

8. COSTS (\$000 OR EQUIVALENT \$1 =)

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	6,000	64,000	70,000	5,000	140,000	145,000
(Grant)	(6,000)	(64,000)	(70,000)	(5,000)	(140,000)	(145,000)
(Loan)	()	()	()	()	()	()
Other U.S. 1. PL 480 Title III		15,000	15,000		75,000	75,000
2. Proceeds						
Host Country					46,500	46,500
Other Donor(s)						
TOTALS		79,000	85,000	5,000	261,000	266,500

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	243	240		10,000				10,000	
(2)	243	250		60,000		75,000		135,000	
(3)									
(4)				70,000		75,000		145,000	
TOTALS									

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

13. Activity Purpose (maximum 480 characters)
 To improve and expand a continuing capacity in governorates and villages plan, manage, finance, implement and maintain locally chosen infrastructure activities.

14. SCHEDULED EVALUATIONS
 Internm MM YY MM YY Final MM YY
 1 | 2 | 3 | 1 | 9 | 2 | 8 | 3 |
 15. SOURCE/ORIGIN OF GOODS AND SERVICES
 000 941 Local Other (Specify) **935**

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)
 This Amendment adds \$75,000,000 to the original Activity Paper in order to allow more local government units to participate in the program. All other aspects of the activity remain unchanged.

17. APPROVED BY
 Signature
 Title
 Date Signed MM DD YY
 12 | 23 | 82
 18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W COMMENTS, DATE OF DISTRIBUTION
 MM DD YY

BASIC VILLAGE SERVICES
(FIRST AMENDMENT)

Contents

Facesheet
Amendment

- I. Summary and Recommendations
- II. Brief Description of Progress to Date
- III. Anticipated Actions with Additional Funding
- IV. Government of Egypt Request
- V. Conditions Precedent
- VI. Anticipated Action by Government of Egypt to continue BVS activities.

Annexes

- Annex A- Dates of Disbursements
- Annex B- Composite Status Report
- Annex C- "Average Costs" of Infrastructure Projects
- Annex D- Financial Table (Revised)
- Annex E- Summary Cost Estimate and Financial Plan
- Annex F- Projected Expenditures by CY (Combined)
- Annex G- Proposed Funding Schedule
- Annex H- Projected Participation of Governorate by Fiscal Year.
- Annex I- Government of Egypt Request for Assistance.
- Annex J- Environmental Statement
- Annex K- Social Soundness Analyses and Beneficiaries
- Annex L- Statutory Checklist.

FIRST AMENDMENT TO THE
BASIC VILLAGE SERVICES ACTIVITY
263-0103

I. Summary and Recommendations

A. This amendment proposes additional funding for the Activity to cover local costs previously approved.

The Activity's direction and objectives remain as described in the original FY 1980 Project Paper. The full discussion in Part II of this Amendment provides review of progress to date and justification for changing the Life-of-Activity funding. Awareness of the concept of decentralization as advocated by this Activity has rapidly spread to virtually all of the remaining rural Governorates. At the present time \$30,000,000 of PL 480 Title III money has been disbursed and an additional \$15,000,000 worth of grain has been imported under Title I and will be credited to Title III. In FY 81, \$30,000,000 AID grant money was obligated and disbursed and an additional \$30,000,000 will be disbursed this fiscal year, FY 82. This exhausts the AID funding for Activity infrastructure. PL 480 Title III will continue with \$15,000,000 in FY 83 and \$15,000,000 in FY 84. This money is sufficient only for the present nine of twenty one Governorates.

Prior to the arrival of the technical consultants in June 1981, most villages requested potable water systems, the upgrading of access and inter-village roads and for sewerage/drainage related projects. During the past six months the consultant conducted extensive field work. As their presence, and the extent of their expertise, became known to Governorates, districts and villages, there was an increase in the requests for more specialized concerns from villages. With the promulgation of the new Public Law 50 (June 1981), which augments Public Laws 52 (1975) and 43 (1979), the Government of Egypt is stressing again their commitment to the process of decentralization. With increased funding, the range of benefits under Basic Village Services Activity can be greatly expanded.

B. The original Agreement signed August 1980 provided for an AID dollar contribution of \$70,000,000. Of this amount \$60,000,000 was earmarked for subproject infrastructure projects which were to be planned and implemented by local village councils. Based

on the assessment that the Activity should be expanded, it is recommended that the Life of the Activity be increased by \$75,000,000. The entire amount will be converted to Egyptian Pounds to be used for local currency costs. This amendment also requests, as in the original Project Paper, a waiver on the limits on the per unit price and total amount of Code 935 commodities that may be procured as shelf items under Chapter 18 of Handbook 1, Supplement B. The justification for the waiver, contained in Annex XIII and Annex XIX of the original Project Paper, remain valid. Furthermore, the justification of Annex XVIII of the Project Paper, requesting the authority to use dollars to purchase Egyptian pounds required in the Activity, remains valid, i.e. FAA Sec 612(b).

II. Brief Description of Progress to Date

A. Activity Purpose:

The immediate purpose of this Activity is to improve and expand a continuing capacity in local units to plan, organize, finance and implement and maintain locally chosen infrastructure projects. While this purpose is necessarily limited to a capacity-building effort with outputs characterized by physical improvements - roads, water systems, drainage structures - the infusion of capital for infrastructure becomes a stepping off point by which other problems can be tackled and other solutions for other village problems explored.

Capacity building viewed from this vantage is not achieved within the span of a single Activity nor under the urging of a single effort. But the advantage of experience in self reliance, in participating in the setting of one's goals, gives strength and direction to other aims and efforts. (No change from original Project Paper).

B. Background - Progress to Date:

Egypt has had a long record of rural development efforts beginning in early 1940's. During this long period considerable experience has built up, particularly among current senior officials who were involved in these early efforts in rural development. Unfortunately the pace and rate of rural development was adversely affected by major involvements in external relations with neighboring Middle East countries, drastically reducing the amount of capital available for local

infrastructure and by the population explosion which has constantly put pressure on whatever infrastructure improvements were made. While not exactly a new phenomena, the more recent emphasis on decentralization of the administrative and managerial responsibilities of local officials has created a climate of expectations for available resources from these local officials. These expectations were coming at a time when Egypt was not only grappling with the problems of village infrastructure, but was also attempting to rebuild the canal cities damaged by recent wars, as well as create new cities and zones of economic opportunity to relieve the tremendous population pressure on existing inhabited lands.

It is at this point that the Basic Village Services Activity made, and can continue to make, a significant impact. LE.9,665,000, generated by the sale of wheat under the PL 480 Title I Program and converted to the Title III Food for Development Program, were released to the first 3 governorates of Fayoum, Sohag and Sharkeya in December 1979. There were a total of 284 village projects proposed in the initial plan. 89% of the funds disbursed to village units has been expended. The actual rate of completed projects in these initial "Title III" governorates is not uniform with completion rates of 60%, 29% and 85%. The latter figure is from Sohag which coordinated all projects at the governorate based on a three year implementation plan - first buy all equipment (pumps and motors); then pipe; then build pump houses and install pumps and finally hook into the electrical systems. While few sub-projects are totally completed, the initial stage of their implementation schedule have been completed. It should also be noted that Sohag's 1981 allotment was frozen for the first 9 months of 1981 pending resolution of interest earned on Title III funds and thus they were unable to complete the proposed 1981 schedule. By January 1982 Sohag had resumed activities and 1981's schedule was being implemented.

In 1981 LE 26,702,000 was disbursed to 8 of the 9 governorates (Sohag's share being frozen). Each governorate received LE 1,100,000 of Title III funds in February 1981. AID grant money was released in two tranches - April and September. The Composite Status Report up to December 31, 1981, shows an expenditure rate as of that date for 1981 funds. The Composite Status Report also shows 146 projects completed and 629 ongoing out of 1167 sub projects planned. (See Annex A for dates of disbursements from ORDEV to each governorate and Annex B for summary of the Composite Status Report.)

Implementation of potable water projects in many governorates has been delayed due to a shortage of pipe. Studies made in 1979-80 prior to the Activity's implementation recognized the potential shortage but in spite of this local production did not increase rapidly enough to fulfill Activity demands. Utilization of other types of pipe are under review by the technical consultants.

Another delay in the implementation of drainage projects was due to a "technology gap" existing at village, district and governorate levels. High ground water is a problem in many areas, particularly in the Delta. As villagers saw their mud or mud-brick houses collapse around them, neither funds nor technical resources were available to alleviate the situation. The Technical consultants have made a significant impact in this field in two ways. First, their Egyptian engineers have made contacts with local organizations, primarily the Institute for Drainage Research (IDR), for assistance. Secondly, a short-term drainage consultant is in country assisting in making surveys and recommendations in conjunction with engineers from the IDR and the governorates. From these surveys basic on-the-job training programs on the techniques of information-gathering, simple water/soil tests, and simple, but practical applications of various methods to alleviate the high ground-water problem will be given. It is recognized that the high ground-water table is wide-spread over much of Egypt. Many of the proposed sub-projects undertaken in the Activity will not solve the problem, but will provide assistance until the serious nature of this problem is fully recognized and a program, regional in nature, is formulated. The magnitude of this problem cannot be overstated. Aside from any other external funding sources for a wide-scale drainage project, BVS could absorb virtually any amount of additional funds just in drainage alone.

The seriousness of ground-water has also been recognized by the IAC in connection with potable water projects. Many villages are receiving potable water, piped directly into village house-hold taps, for the first time in history. Other villages are expanding old water systems or replacing systems now obsolete. In any case, one interesting socio-economic trait is emerging - villagers prefer to have water piped directly into

their houses rather than to obtain water from the more traditional and more socially oriented well or village stand pipe. The cost of the pipe, faucet, laying of the pipe and installation of the water meter is borne by the house owner. In many cases this is leading to a problem of waste water disposal. The IAC is now requiring that a drainage plan accompany plans for village potable water systems. However, in the field of sanitary and potable water drainage, the Activity could absorb funds equal to those now going into potable water. The consultants have recently produced a study of the "average costs" of a potable water system, a sewage disposal system and lowering of the water table for three sizes of villages... (see Annex C). These planning figures will be useful in determining the magnitude of resources which may be needed for further Activity expansion.

In December 1981 the first training sessions commenced in the fields of maintenance of village water systems and the repair and maintenance of pumps and pump sets. Two sessions will be conducted simultaneously - one for governorate engineers and one for village and district technicians. One program is being conducted by the Ministry of Agriculture, the other by the Ministry of Industry and Trade (The Ministry of Agriculture's Training Center has received considerable AID assistance in the past.) Professional training staff of these two organizations are being utilized. Revised and tailor-made visual aids were produced for the BVS training courses. After the pilot courses have been evaluated and, if necessary, revised, they will be replicated for all governorates.

Further technical training will be given for district and village road maintenance personnel. These courses are now being designed and will be held in individual villages and districts. The numbers of people to be trained are sizable and it is anticipated that a year will be required for total Activity coverage. However it is important that personnel of the lowest levels of operation and maintenance be given significant training. AID project personnel feel that this level of employees - ie, the operator and maintenance personnel at the district and village level - are the least trained, least educated and least paid and therefore should receive the bulk of the technical training. It should be noted here that rural Egypt is suffering from a serious shortage of available labor. 1,400,000 Egyptians work outside of Egypt and this figure might be considered conservative. Thousands more gravitate each year

to the provincial cities as well to Greater Cairo in search of higher-paying jobs. In most instances the labor force remaining at the village level are those unable or unwilling to leave the village - and most of these people are farmers or craftsmen. In short there is little social or financial attraction for a young man to stay in the village and work (outside his families holdings).

The consultant's personnel will begin in-depth sessions with each governorate's planning and financial staff in preparation for the 1982 plans and budget. The first years grant money as well as both years of Title III funds were generally allocated to each village on a per capita basis by the governorate. The concept that every one shares on an equal basis is a difficult one to break through. It also leads to implementation problems as some villages' projects are over funded and others under funded. Through the planning and programming sectors of the technical consultants it is hoped that governorates can be persuaded to allocate funds more on Activity needs than on a per capita basis. Whether this can be accomplished in one or two years remains to be seen, but it is a crucial element in programming strategy. However there is, in the Agreement, a clause that villages, districts or governorates which have not satisfactorily implemented prior years projects will receive no new funds. Thus there is a little "stick" to go with the "carrot".

In 1982 and 1983 there may be more diversity in the type of projects requested due to the fact that the most obvious and crucial projects-(potable water and roads) - will be completed. Any additional funds in FY 1982 and 83 may also be used to add to or fully fund projects begin in the first year of the Activity.

C. Maturation of BVS:

In general implementation has been consistent with the original concepts of the Activity. Likewise some of the anticipated problems and constraints noted in the original Project Paper have been borne out in actual implementation. In general it was envisioned that village councils would propose, plan and implement their own projects. In many governorates variations of this assumption have, indeed, transpired. Other governorates have implemented projects according to the local scene.

In Beheira and Sharkia water projects have tended to augment existing governorate-wide comprehensive water systems. Thus while the village receives a critical service, i.e., water, the local council may have a relatively minor role in implementation. In another governorate, Sohag, where there are virtually no village banks and relatively few village financial units, implementation has been coordinated and controlled by the governorate. As noted elsewhere this has caused implementation problems.

The original PL 480 Title III program initiated the concept of an Inter Agency (Ministerial) Committee (IAC) to provide broad policy guidelines to the Activity. While the Committee has assumed the intended primary role in establishing general policy and guidance, they have also retained somewhat of the more traditional role of centralized supervision. There is some reluctance to grant authority to governorates to shift funds between villages or even to change projects without IAC approval. Decision-making delays still occur. There are cases where several months pass before modifications of project change approvals have been transmitted to local authorities, as well as delays in releasing funds.

While maintaining their prerogative to approve projects, the IAC has been less enthusiastic in solving problems. They have declined to streamline and refine the reporting and monitoring process. They have not provided full budgetary support required for training. In areas of implementation the IAC has not provided assistance to alleviate high installation costs charged by one central ministry to local governments nor have they attempted to resolve the distribution shortages of asbestos cement pipe, which are delaying many sub-projects. Nevertheless, all generic problems continue to be highlighted for the IAC and movement toward general resolution continues. Meanwhile, local-level and sometimes temporary solutions to these issues are being implemented to resolve these problem areas.

ORDEV's role in the Activity is roughly as anticipated. While acting as the conduit for EVS funds, much of the actual implementation of projects is done with the assistance, and some cases control, of the technical directorate in the governorate. For example, the Directorate of Housing handles water projects, Directorate of (governorate) Roads coordinates road projects etc,. Basically this was anticipated, that the technical directorates would provide assistance and guidance to village as the situation dictated.

The first year's AID funds were disbursed as planned, i.e. equal amounts to all governorates and treated as a disbursement. As stated also in this paper future disbursements will be on a need basis. There have been delays in funds advancing from the IAC through the governorates to the markaz to the village. Again procedures are included in this paper to remedy this problem.

In those governorates where the village councils have control over the planning and implementation of projects, the procedures have been followed and anticipated. The village council submits to the markaz a list of projects that the village wants. The markaz consolidates these requests and sends them to the governorate. They in turn approve by priority and availability of funds a comprehensive governorate plan. This plan is approved (in whole or in part) by the IAC. Prior to disbursement of AID funds the GOE puts into special accounts an amount equal to 10% of the AID disbursement for the maintenance and operation of sub-projects.

Upon receipt of the AID funds the village council generally, following GOE contract procedures and as specified in the original Project Paper, advertise for tenders for the implementation of the sub-project. After the legal procedures for receiving and evaluating bids have been complied with, the village council will do one of three things: (1) accept the most attractive offer, (2) taking the contractor's estimates, reject all bids and implement the Activity themselves or (3) negotiate with the most attractive bidder to lower costs by, for example, providing "free" village labor in lieu of the contractor hiring people. The latter option is frequently used with the savings reverting back to the sub-project to increase it's magnitude (e.g., being able to increase the amount of pipe or lengthen a road project).

D. Utilization of the Maintenance Fund

Up to this point little has been expended from the maintenance fund. There are several reasons for this. First, is that few projects are old enough to require large inputs of maintenance. Secondly, by Egyptian Law a contractor is responsible for the maintenance of a project for one year after its completion. (This also makes it difficult to ascertain exact completion dates or terminal dates of disbursements as a percentage of the contractor's fees may be withheld during this period). A prime task of the technical consultant has been to provide a set of guidelines for the use of this fund. The original Project Paper stated that these funds could be used only for the maintenance

of BVS sub-projects. This may not be realistic. The technical consultants have proposed the division of the fund between the village and the maintenance centers located in various districts. In brief, the village would handle simple, routine maintenance with village funds and technicians. At the district level the maintenance centers would be equipped to make major repairs. It has been recommended that each center have a small truck in order to facilitate maintenance visits to the villages. Part of the technical training being coordinated by the technical consultants are (1) simple maintenance for villager level technicians, (2) more advanced training for district and governorate technicians and (3) maintenance management training for district and governorate supervisors.

E. Technical Assistance

The original Project Paper provided funds for technical assistance to the first 9 governorates. Funds are still available from the original Activity to finance technical assistance to the new incoming governorates. It is proposed that the contract of the current technical assistance group be amended to include assistance to any new governorates. There are several justifications for this. The goal and purpose of the Activity will not change as stated above. As the Activity is attempting to reinforce the process of decentralization, it would ensure continuity of this process to utilize the same technical group. Secondly, the present contractors have built-up, and will continue to build, a solid background as to how to best implant in the Governorates, districts and villages the concepts that the Activity is promoting. Thirdly, it would be confusing, at the least, to the Egyptian counter-part agency, ORDEV, and to the Inter Agency Committee, if a second consultant were introduced into the Activity. Fourth, training programs critical to the Activity have been and will continue to be conducted with various ministries, universities and institutes. As the funding for training is channeled through the present technical contract, it would greatly complicate the administration and conduct of training courses. Fifth, a substantial amount of money has been spent by the present contractor on establishing a well equipped office. Their vehicle and logistical support is also sufficient to include the new governorates. Last, but not least, the present contractor has a large staff already on board. It is anticipated that the contractor will only have to add some additional Egyptian professional staff members to adequately cover the new governorates.

III. Anticipated Actions with Additional Funding:

A. Activity Infrastructure:

The addition of \$30,000,000 in FY 1982 will allow additional new governorates to enter the BVS Activity - each with an initial allocation of LE 3,450,000. (equal to each annual allocation already provided each participating governorate beginning with the first PL 480 Title III contribution in FY 1980.) It is expected that the additional governorates will be selected in a priority list from the following:

- | | |
|-------------------|-----------------|
| 1. Beni Suef | 7. Assiut |
| 2. Aswan | 8. Ismailia |
| 3. Gharbia | 9. Matrouh |
| 4. Kafr El Sheikh | 10. North Sinai |
| 5. Dakahlia | 11. New Valley |
| 6. Damietta | |

Unlike the first 9 governorates, the additional governorates will benefit from the experience gained by ORDEV and the IAC during the first two years of the Activity. Also, new governorates will benefit from the advice and assistance that can be offered by the technical consultants.

It can be anticipated that initial Activity requests will follow the pattern of the first 9 governorates - primarily water and roads. However, at least three of the anticipated new governorates have severe ground water problems. We might find that with technical assistance available more projects of this nature may be requested. While it is not the intent to convert the BVS Activity into a regional groundwater project, we should recognize the urgent needs for assistance that selected areas have to prevent the complete or partial destruction of some villages.

It is in the nature of decisions of the types discussed above that make BVS Activity unique - and infinitely more difficult to judge and evaluate. The Activity has the difficult goal and purpose of strengthening - and in many cases initiating - the concept and process of decentralization through the physical construction of "things" i.e. public infrastructure. Given the traditional forms of governments in Egypt during the past centuries it is difficult to meld these two concepts into one

philosophy. It is quite easy for a villager or village executive to receive funds and plan needed projects. It is more difficult to stress the concepts behind the funding - the constraints under which the money can be used - and the ultimate Activity goal. In the short run, the water system, the drainage project, the waiting shed or whatever, seem much more important to all concerned. However, the planting of the seed of local decision-making has been made - it now requires the government of Egypt to nourish and cultivate the emerging results of the Activity through continued budgetary and financial support.

B. Disbursement Procedures:

In FY 1981 AID's initial disbursement totalling \$ 30,000,000 to the Special Account of ORDEV were based on (1) certification of a deposit by the Government of Egypt into a maintenance fund equal to 10% of the AID disbursement and (2) a list of approved projects, by village, for each of the nine governorates. This blanket disbursement procedure was justified on the basis of the original PP authorization and the need to get money up front so that village councils would have assets readily available to implement their projects. However, both the original Project Paper and Grant Agreement made it clear that subsequent disbursements would be based on performance rate of expenditures and rate of sub-project completion.

This Amendment, based on a preceding Implementation Letter within the original Agreement, provides a more precise disbursement mechanism to be in effect by the beginning of the Government of Egypt's Fiscal Year 1982. Each governorate will be advised what their share of money will be - anticipated to be approximately LE 3,450,000 each. After consulting with the markazs' and villages, the governorate will submit to the Inter-Agency Committee (IAC) through ORDEV it's proposed implementation schedule for disbursement purposes for the entire year.

AID, based on the implementation schedule, will release the funds by check through the Special Account to the governorates, who in turn must transfer all funds within two weeks to the village - accessible local accounts. The above schedule will be transmitted to AID by the IAC and contain by governorate, markaz and village the type of project, cost, estimated start-up date and estimated date of completion. This schedule will indicate the need (by amount and date) for disbursement. Since all

disbursements will be dependent upon expenditures and implementation, funds will thus not lie idle in projects which may be behind schedule or which are scheduled for implementation later in the year. It is realized, from the current years experience, that many villages implement projects ahead of schedule. In order not to penalize efficiency, supplementary requests may be made in addition to the initial release. These disbursement requests in fact will be based on existing quantity reporting requirements.

C. Monitoring Procedures

The disbursement procedures rely upon timely monitoring. Assuming a normal implementation schedule, the village local council will keep detailed records of progress in both rate of implementation and rate of expenditure. These must be compiled quarterly and submitted to the ORDEV officials in the governorate who will consolidate the information into a governorate report. The ORDEV central representative for that governorate will ensure that the submission to the IAC and AID is both correct and timely. The IAC will be convened after all quarterlies are submitted to approve the next disbursement and to address any anomalies which might have been reported.

On-site inspection by ORDEV, AID and the T.A. consultant will continue to be an important aspect of Activity monitoring. Given the magnitude of the Activity, it may not be feasible for Activity personnel to visit every site - or to necessarily repeat visits to those Activity sites which are visited. Reliance upon the physical monitoring by village, markaz and governorate personnel will be crucial.

Upon completion of each sub-project, a comprehensive report will be submitted to the IAC through the ORDEV which will provide relevant information, including time requirements and actual costs expenditures for the Activity. Any excess funds, regardless of the reasons, shall be returned to the governorate for reallocation.

IV. Government of Egypt request:

The government of Egypt recognizes the contribution that BVS Activity has made in opening the door of decentralization. Even given the recent Public Laws reforming the traditional centralized form of government, it is doubtful that the initial

financial and technical support could have been provided outside of the foreign assistance sector. Granted there are fairly strict constraints within the AID grant, there would be more constraints to a centralized budget for village infrastructure within the GOE's internal budgetary processes. The initial use of external funding sources should ease the way for the GOE to internally fund projects using the process which will be in place by the end of the Activity. With this in mind the government of Egypt has formally requested the assistance of the Government of the United States to increase and continue the scope of the BVS Activity (Annex G) It can be anticipated that in FY 83 there will be a request for funds to continue the Activity in these additional governorates. (Annex E and Annex F show the funding anticipated).

V. Conditions Precedent:

As in the original agreement the Government of Egypt is required, prior to disbursement of AID funds, to deposit an amount equal to 10% of the portion of the AID grant for sub project construction into a special maintenance fund.

VI. Anticipated Action by the Government of Egypt to continue BVS activities:

Based on present projected levels, funding for the original three governorates will terminate in FY 1982. Based on past implementation rates, it is expected that there will be some carry-over into FY 1983. The second group of six governorates will be funded through FY 1983 with expected spill over in some projects to FY 1984.

Based on the emphasis and priority that the Egyptian government has shown towards the decentralization projects, it is anticipated that the Government of Egypt will continue to emphasize these efforts begun by the Title III and AID grants. This has been discussed with ORDEV officials and will be the topic of future Interagency Committee meeting. However, it should be noted that a continuation of BVS-type funding would probably not be channelled through ORDEV as is the Title III and AID grant money. Rather, we should expect that funding of infrastructure projects to be through the existing Bab III (Section 3) budgetary accounts directly to individual

governorates. This funding mechanism is in direct conformance to the concepts of decentralization. Furthermore, it is within existing budgetary procedures, thus not imposing or suggesting a funding system alien to current practices.

Current Activity funding has done much to alleviate the most pressing needs in those governorates in BVS now as well as those entering in the future. Therefore, we should expect that the continuation of overall funding levels would be less than is currently provided under Title III and AID. As pointed out above, this is not considered a lessening of the government's interest in promoting decentralization.

Dates of Disbursements to Governorates
1980/81 (As of 01 Nov. 1981)

<u>Governorate</u>	<u>Date</u>	<u>Amount</u> LE	<u>Type</u>
1. Qaliubia	Feb. 1981	1,110,000	Title III
	Apr. 1981	<u>2,297,511</u>	AID
		3,407,511	
2. Menoufia	Feb. 1981	1,110,000	Title III
	Apr. 1981	<u>1,901,000</u>	AID
		3,011,000	
3. Sharkia	Feb. 1981	1,110,000	Title III
	Apr. 1981	1,131,774	AID
	Sep. 1981	1,201,241	AID
	Nov. 1981	<u>6,985</u>	AID
	3,450,000		
4. Beheira	Feb. 1981	1,110,000	Title III
	Apr. 1981	<u>2,340,000</u>	AID
		3,450,000	
5. Giza	Feb. 1981	1,110,000	Title III
	Sep. 1981	<u>2,340,000</u>	AID
		3,450,000	
6. Fayoum	Feb. 1981	1,110,000	Title III
	Apr. 1981	2,309,250	AID
	Sep. 1981	<u>30,750</u>	AID
		3,450,000	
7. Minia	Feb. 1981	1,110,000	Title III
	Apr. 1981	1,838,200	AID
	Sep. 1981	<u>180,000</u>	AID
		3,128,310	
8. Qena	Feb. 1981	1,110,000	Title III
	Apr. 1981	2,184,300	AID
	Sep. 1981	<u>155,700</u>	AID
		3,450,000	
9. Sohag	Feb. 1981	1,110,000	Title III
	Nov. 1981	<u>2,340,000</u>	AID
		3,450,000 <u>1/</u>	

1/ Sohag's funds were frozen during most of 1981

COMPOSITE STATUS REPORT

Data Compiled from Reports of Sep, Oct, Nov, Dec. 1981

GOVERNORATE	LE Received	LE Expended	% Expended	No. Projects	No. Projects on going	No. Projects not started	No. Proj. comple.
			<u>1980</u>				
Sharkia	3,368,000	3,242,652	96	72	42	9	21
Sohag	3,309,000	2,948,000	89	130	10	10	110 ^{1/}
Fayoum	2,988,000	2,450,000	82	82	15	17	50
Sub-Total	9,665,000	8,640,652	89%	284	67	36	181
			<u>1981</u>				
Sharkia	3,450,000	1,120,000	32	183	85	89	9
Sohag ^{1/}	(3,450,000)	N/A	N/A	N/A	N/A	N/A	N/A
Fayoum	3,450,000	1,076,000	31	167	129	30	8
Minia	3,128,000	903,000	28	116	83	19	14
Beheira	3,450,000	1,924,000	56	103	51	10	42
Menoufia	3,011,000	2,332,000	77	86	74	4	8
Giza ^{2/}	3,450,000	415,745	12	66	28	34	4
Qaliubia	3,407,000	641,187	19	216	158	21	37
Qena	3,450,000	1,042,000	30	230	21	185	24
Sub-Total	26,796,000 ^{3/}	9,453,932	35%	1,167	629	392	146

^{1/} Sohag not included as their funds were frozen during 1981

^{2/} Did not receive bulk of funds until September 1981

^{3/} LE 4,000,000 were not released to the governorates by ORDEV until September 1981

^{4/} As mentioned in the Amendment individual sub-projects are being implemented over a a three year period. Thus the first phase of water projects have been completed.

Preliminary Cost Price for BVS Sub-Projects

<u>Sub-Project</u>	Cost for "Big Village" Area - 150,000 m Inhab. 10,000	Costs for "Medium Village" Area - 100,000 m Inhab. 6,000	Costs for "Small Village" Area - 60,000 m Inhab. 2,000
Water Supply	L.E 135,000	L.E 115,000	L.E 100,000
Sewage Disposal	170,000	120,000	90,000
Lowering of the Water Table 1/	76,000	50,000	35,000

1/ For planning purposes these are acceptable "Averages". However, in ground water projects the variables are such that individual village may vary greatly from the "Average".

SUMMARY OF AMENDED ACTIVITY COST
(In US \$000)

ANNEX D

<u>Input</u>	<u>Contributor</u>				<u>Activity Total</u>
	<u>Grant</u>	<u>Title III</u>	<u>Total</u>	<u>GOE</u>	
Sub-Project Construction	135,000	75,000	210,000	20,000 1)	230,000
Technical Assist/Research	6,400	-	6,400	-	6,400
Training In U.S.	1,000	-	1,000	-	1,000
Training In Country	1,500	-	1,500	3,000	4,500
Maintenance Fund	-	-	-	19,500	19,500
Staff Support ORDEV/ Governorate Village	-	-	-	4,000	4,000
Sub-Total	143,900	75,000	218,900	46,500	265,400
Contingency	500	-	500	-	500
Inflation	600	-	600	-	600
Activity Total	<u>145,000</u>	<u>75,000</u>	<u>220,000</u>	<u>46,500</u>	<u>266,500</u>

1) This figure represents the total for Indirect Sub-Project Cost.

ANNEX D

100

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

ANNEX E

	Original PP			Amendment			Amended Activity Total		
	FX	IC	Total	FX	Lc	Total	FX	Lc	Total
ID									
.- Grant									
a.- Sub-project Const.	-	60,000	60,000	-	75,000	75,000	-	135,000	135,000
b.- Tech. Assist/ Research	3,000	3,100	6,100	-	300	300	3,000	3,400	6,400
c.- Training U.S.	1,425	-	1,425	(425)	-	(425)	1,000	-	1,000
d.- Training-Incountry	-	-	-	-	1,500	1,500	-	1,500	1,500
Sub-Total Grant	4,425	63,100	67,525	(425)	76,800	76,375	4,000	139,900	143,900
a.- Contingency	352	248	600	-	(100)	(100)	352	148	500
f.- Inflation	1,100	775	1,875	(600)	(675)	(1,275)	500	100	600
Total Grant	5,877	64,123	70,000	(1,025)	76,025	75,000	4,852	140,148	145,000
I. Title III									
eg. Sub Project Construction	-	75,000	75,000	-	-	-	-	75,000	75,000 1/
Total AID	5,877	139,123	145,000	(1,025)	76,025	75,000	4,852	215,148	220,000
IOE									
a. Maintenance Fund		6,000	6,000		13,500	13,500		19,500	19,500
b. Indirect Sub-Project Cost		10,000	10,000		10,000	10,000		20,000	20,000
c. Training in-country		3,000	3,000		-	-		3,000	3,000
d. Staff support ORDEV/ Governorate/Village		2,000	2,000		2,000	2,000		4,000	4,000
Total GOE		21,000	21,000		25,500	25,500		46,500	46,500
Activity Total	5,877	160,123	166,000	(1,025)	101,525	100,500	4,852	261,648	266,500

ANNEX E

1/ \$ 150 million per year for 5 years.

100

PROJECTED DISBURSEMENT BY CALENDAR YEAR
(In US \$ 000)

ANNEX F

<u>AID</u>	<u>Through</u> <u>12/31/81</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>Total</u>
<u>I.- Grant</u>					
a.- Sub-project Construction	30,000	60,000	45,000	1)	135,000
b.- Technical Assistance/Research	1,107	2,193	2,300	800	6,400
c.- Training U.S.	-	100	600	300	1,000
d.- Training In-country	<u>5</u>	<u>627</u>	<u>628</u>	<u>240</u>	<u>1,500</u>
Sub-Total Grant	31,112	62,920	48,528	1,340	143,900
e.- Contingency	-	-	300	300	600
f.- Inflation	<u>-</u>	<u>-</u>	<u>250</u>	<u>250</u>	<u>500</u>
Total Grant	<u>31,112</u>	<u>62,920</u>	<u>49,078</u>	<u>1,890</u>	<u>145,000</u>
<u>II. Title III</u>					
a. Sub-Project Construction	<u>30,000</u>	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>75,000</u>
Total AID	<u>61,112</u>	<u>77,920</u>	<u>64,078</u>	<u>16,890</u>	<u>220,000</u>
<u>GOE</u>					
a.- Maintenance Fund	-	4,000	5,000	10,500 2)	19,500
b.- Indirect Sub-Project Cost	4,000	7,000	7,000	2,000	20,000
c.- Training in country	-	1,000	1,000	1,000	3,000
d.- Staff Support ORDIV/ Governorate/Village	<u>1,250</u>	<u>1,250</u>	<u>1,250</u>	<u>250</u>	<u>4,000</u>
Total GOE	<u>5,250</u>	<u>13,250</u>	<u>14,250</u>	<u>13,750</u>	<u>46,500</u>
Activity Total	<u>66,362</u>	<u>91,170</u>	<u>78,328</u>	<u>30,640</u>	<u>266,500</u>

- 1) An additional \$30.0 million will be needed in this year to cover 11 new Governorates.
2) Of the \$ 10.5 million equivalent \$ 3.5 million will carry over for expenditure in future years.

PROPOSED ALLOCATIONS BY GOVERNORATE BY FISCAL YEAR IN EGYPTIAN POUNDS
(000)

	FY 80 \$ = LE 0.70	FY 81 \$ = LE 0.70	FY 82 \$ = LE 0.84	FY 83 \$ = LE 0.84	FY 84 \$ = LE 0.84
Fayoum	3,450	3,450	3,450		
Sharkia	3,450	3,450	3,450		
Sohag	3,450	3,450	3,450		
Mencufia		3,450	3,450	3,450	
Beheira		3,450	3,450	3,450	
Qaliubia		3,450	3,450	3,450	
Giza		3,450	3,450	3,450	
Minia		3,450	3,450	3,450	
Qena		3,450	3,450	3,450	
Beni Suef			3,450	3,450	3,450
Aswan			3,450	3,450	3,450
Gharbia			3,450	3,450	3,450
Dakahlia			3,450	3,450	3,450
Kafr El Sheikh			3,450	3,450	3,450
Damietta			3,450	3,450	3,450
Assiut			3,450	3,450	3,450
Ismailia			3,450	3,450	3,450
Matrouh			1,450	0,700	3,400
North Sinai			1,450	0,700	3,400
New Valley			1,450	0,700	3,400
Title III	\$ 15 = LE 10.5	\$ 15 = LE 10.5	\$ 15 = LE 12.6	\$ 15 = LE 12.6	\$ 15 = LE 12.6
AID Grant	\$	\$ 30 = LE 21	\$ 60 = LE 50.4	\$ 45 = LE 37.8	\$ 30 = LE 25.2
TOTAL	\$ 15 = LE 10.5	\$ 45 = LE 31.5	\$ 75 = LE 63	\$ 60 = LE 50.4	\$ 45 = LE 37.8
Cumulative Total \$	15,000	60,000	135,000	195,000	240,000
Cumulative Total LE	10,000	42,000	105,000	155,400	193,200

PROJECTED PARTICIPATION OF GOVERNORATES BY FISCAL YEAR
 (\$ 000,000)

	FY 80 \$ 1 = LE.70	FY 81 \$ 1 = LE .70	FY 82 \$ 1= LE.84	FY 83 \$ 1= LE.84	FY 84 \$ 1 = LE.84
Fayoum					
Sharkia					
Sohag					
Menoufia					
Beheira					
Qaliubia					
-Giza					
Minia					
Qena					
Beni Suef					
Aswan					
Gharbia					
Dakahlia					
Kafr El Sheikh					
Damietta					
Assiut					
Ismailia					
Matrouh					
North Sinai					
New Valley					
Title III	\$ 15	\$ 15	\$ 15	\$ 15	\$ 15 1/
AID Grant		\$ 30	\$ 60	\$ 45	(\$ 30)
TOTAL	\$ 15	\$ 45	\$ 75	\$ 60	\$ 45
Cumulative Totals	\$ 15	\$ 60	\$135	\$195	\$240

An additional sum of \$30,000,000 will be required to fully fund the third year for the last eleven governorates. This will be the final year of Title III disbursements.

11/2



Organization for Reconstruction
And Development of The Egyptian Village

December 1, 1981

Mr. Donald S. Brown
Director
USAID
American Embassy
Cairo

ATTENTION TO	DRPS	COV
SECTION TAKEN	DATE	1/19
INITIALS		

Dear Mr. Brown:

In March 1979, in accord with the Government of Egypt's emphasis on decentralization of administration, the United States Government and the Government of Egypt agreed upon a program under the terms of Title III of Public Law 480 whereby the Government of Egypt agreed to allocate fifteen million dollars in Egyptian pounds each year for five years for the provision of Basic Village Services (rural infrastructure) in certain Governorates..

This original agreement included the three Governorates of Fayoum, Sharkia and Sohag. In August 1980 the Government of Egypt and the United States Government signed a Grant Agreement for \$70,000,000. Of this sum, \$60,000,000 was earmarked for Basic Village Services infrastructure and \$10,000,000 for technical assistance, training and research. New Governorates added were Giza, Beheira, Menoufia, Galiubia, Minia and Qena.

Both the Title III and AID Grant portions were combined to form one project - the Basic Village Services Project - regardless of the source of funding. It was agreed that each Governorate would prepare a list of services desired by villages in that Governorate and made up from lists submitted by the villages themselves. This list would be reviewed by a Central Interagency Committee established to coordinate the program consisting of representatives from concerned ministries and chaired by ORDEV. Eligible categories of Basic Services were mutually agreed upon by the Committee and AID.

The enthusiasm with which this project was received in the first nine Governorates has led us to request additional assistance of \$75 million to expand the program so that more Governorates, and consequently, more village councils, can benefit. Depending on the amount of additional assistance available, we would like to include the following Governorates in order of priority.



Organization for Reconstruction
And Development of The Egyptian Village

Mr. L. Brown
Page 2

1. Beni Suef
2. Aswan
3. Charbia
4. Dakahlia
5. Wair El Sheikh
6. Damietta
7. Assiut
8. Ismailia (rural portion)
9. Marsa Matrouh
10. North Sinai
11. New Valley

The Project will continue to be coordinated by the Interagency Committee and the Project Director will be the Director General of ORDEV who will appoint a number of assistants to coordinate the various project elements. The Governorates will be responsible for the proper execution by the concerned village councils of Basic Village Services sub-projects in their Governorates. In addition, Governorates scheduled to receive allocations for Basic Village Services under the project will first deposit 10% of the total construction costs of their Basic Village Services sub-projects in a fund to be used only for maintenance of Basic Village Services.

In behalf of the Interagency Committee for Basic Village Services, ORDEV requests that the United States Agency for International Development provide assistance to the expanded list of selected rural Governorates in the construction of Basic Village infrastructure and to extend to the nine Governorates technical advisory services and training for appropriate officials at the central, Governorate, Munkaz and Village level.

Sincerely yours,

Ahmed El-Distray
Chairman of ORDEV
General Secretariat for
Local Government

ANNEX J

Environmental Analysis-

The environmental analysis of Basic Village Services is contained in Annex VIII of the Project Paper and summarized in pages 39-40.

This analysis was based on the premise of three major categories of rural infrastructure projects: rural roads, water supply and sanitation, and canal maintenance and reconstruction. To date the vast majority of BVS-funded activities fall into these categories. Furthermore, the guidelines for future funding issued by the Interagency Committee and ORDEV insure that these three categories will continue to account for the vast majority of BVS activities. Thus, the environmental analysis incorporated into the Project Paper is still valid for this amendment.

The environmental analysis made two general recommendations that can be summarized as:

- a) The Activity contractor should hire a full-time, resident environmental consultant responsible for environmental components of training programs and to provide technical assistance to local units;
- b) An environmental analysis should be made on each sub-project as appropriate.

The first recommendation cited above has clearly been implemented, and the environmental consultant (Mr. Philips B. Cheney of Chemonics) is currently implementing the second recommendation.

In fact, the environmental consultant has focused attention on the serious problem of high ground-water levels in several Governorates. As a result this focus, the IAC and ORDEV will require that local units installing potable water systems in problem areas also install adequate drainage systems.

In addition, the IAC will require that Governorates where the high ground water problem is critical concentrate their BVS funds on drainage activities.

(The Chemonics environmental recommendations for Basic Village Services are summarized in a memorandum to USAID dated November 30, 1981.)

XD-AAU-314-B
47219

ACTIVITY DATA SHEET

AMENDMENT NUMBER: 1
DOCUMENT CODE: 3

EGYPT

Activity Number: 263-0143

Activity TITLE (maximum 40 characters)

Decentralization Support Fund

NE/EI

ACTIVITY COMPLETION DATE (MM/DD/YY)

MM DD YY

1 2 3 1 8 5

A. Initial FY: 80

B. Quarter: 1

C. Final FY: 84

ESTIMATED COSTS (\$000 OR EQUIVALENT \$) =

A. FUNDING SOURCE	FIRST FY 80			LIFE OF Activity		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
Approved Total						
Grants	50,000		50,000	100,000		100,000
Loans	50,000		50,000	100,000		100,000
TOTALS						

B. SCHEDULE OF AID FUNDING (\$000)

A. PROPOSED ACTION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF Activity	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
SA	900	240				50,000		100,000	
TOTALS									

TECHNICAL CODES (maximum 3 codes of 3 positions each): 190, 280
 SECONDARY PURPOSE CODE: 910
 FUNDING SOURCE CODES (maximum 7 codes of 4 positions each): FART
 AMOUNT: 100,000
 PURPOSE (maximum 40 characters):

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

REVISIONS: _____
 DATE: _____
 TYPE OF ACTION: National Local Other (Specify): _____

This Amendment adds \$ 50,000,000 to the original Activity in order to meet the needs of the 21 rural Governorates

APPROVED: _____
 DATE SIGNED: MM DD YY 223 8 2
 DATE DOCUMENT RECEIVED IN AID/W OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

I. Summary and Recommendations

- A. Activity Title: Decentralization Support Fund (Amendment 1)
- B. Activity Number: 263- (Decentralization Sector Support)
PAAD
- C. Coordinating Agency: Ministry of Investment and International
Cooperation - Department of Economic
Cooperation with U.S.A.
- D. Implementing Agency: 21 Rural Governorates and Central Department
for Local Government - Ministry of Investment
and International Cooperation
- E. Activity Budget: U.S.\$ 100.0 Million
- F. Life of Activity: 5 Years
- G. Total Activity Costs: U.S.\$ 120.0 Million composed of:
U.S.\$ 100.0 Million AID Grant Funds
U.S.\$ 20.0 Million GOE Contribution
- H. Goal: To assist the GOE to achieve its policy objectives in
economic and administrative decentralization.
- I. Purpose: To support and accelerate the process of administrative
decentralization to rural governorates by increasing investment
budgets under their jurisdiction for procurement of capital
equipment.
- J. Activity Outputs
- (1) Equipment - as determined by governorates to be necessary
in accord with local priorities - in operation, directly
providing basic services directly to residents of the
governorate.
- (2) Administrative planning and management experience gained by
governorates in developing requirements, budgeting, preparing
specifications, deploying and maintaining equipment.

K. <u>AID Activity Inputs:</u>	<u>Original PP US \$</u>	<u>Total Amended US \$</u>
(1) U.S. Goods for Governorates	48,730,000	98,700,000
(2) Technical Consulting Services	640,000	440,000
(3) Evaluation	305,000	305,000
(4) Contingencies/Training	<u>325,000</u>	<u>555,000</u>
TOTAL	50,000,000	100,000,000

L. <u>GOE Inputs:</u>	<u>US \$ mil.</u>	<u>US.\$ mil(Equiv.)</u>
(1) Operation and Maintenance Costs	9,674,000	14,643,000
(2) Inflation (LC Services)		3,071,000
(3) 2% for procurement and services rendered by TEC & EGC	180,000	1,786,000
(4) Inland Transportation	<u>146,000</u>	<u>500,000</u>
TOTAL	10,000,000	20,000,000

M. Recommendation:

AID approve an allocation of up to \$50.0 million under the Decentralization Sector Support, of this up to \$1.0 million will be used for local currency costs (i.e., liaison team and contingency funds).

II. Activity Description

A. Activity Background and Problem Statement

The impetus for the Decentralization Support Fund (DSF) came from the convergence of three important trends in Egyptian local government which form the background of the activity 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 1979 local government law revision by strengthening the governorate and expanding village authority in Activity selection, finance and operation under law 50 of 1981. 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 has 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. 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 and 1981, however, while requests stayed about the

same, approvals of investment budgets increased to about 30 and then 35 percent, reflecting increasing GOE commitment to decentralization. Despite these increases, however, the estimated shortfall in governorate investment budgets for 1980 totals some LE 500 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 Activity management appear at all levels. A new activity, Decentralization Planning and Management, is designed to support the process which will encourage the introduction of development planning and management systems in local government from village to regional 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 I (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 activity, the Development Support Fund, is helping accelerate the decentralization process in governorates by increasing the governorate's capital investment budgets - thus addressing concerns outlined in the first two trends discussed above. Training of governorate staff, while not a part of this Activity is an important aspect of the decentralization process and a new Activity, Decentralization Planning and Management, has been submitted. Such training together with a comprehensive decentralization effort in the future of the Decentralization Sector Support.

B. Goal

The goal of this Activity 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 Activity is to support and accelerate the process of administrative decentralization to rural governorates by increasing investment budgets under their jurisdiction. While under this Activity 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 Activity 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. There is a clear distinction between the BVS Activity and the DSF. In the case of the former, emphasis is 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. Linkage between the two will be considered in developing future equipment needs.

The increased resources provided by USAID to the governorates under this Activity 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 Mission is undertaking a budgetary baseline analysis with CAPMAS and will be looking to the presentation of the 1983 Investment Budget to the National Assembly in June 1982.

The Decentralization Support Fund provides a foreign exchange facility through the structure of the GOE budget for governorates to purchase needed capital equipment. Analysis of governorate equipment needs, point to a strong requirement for foreign exchange financing considerably in excess of the funds to be made available under this Activity, likely to be available in the Investment Budget, 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 untested. It appears to have enthusiastic support from President Mubarak, most senior cabinet officials, and the various governors. 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 activities, 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 Mission has prepared a new sectoral decentralization effort in FY 1982.

E. Activity Outputs, Inputs

This Activity 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 technical consultant to assist governorates, the Ministry of Investment and International Cooperation, the Ministry of Planning and USAID in the activity implementation. In addition, funds are included to evaluate activity results. The GOE provides operation and maintenance funding to support the equipment, staff time devoted to the activity on the part of central government ministries and governorates, contract procurement services, and inland transportation to distribute the equipment. Major activity outputs will be varieties 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 capabilities and experience gained by governorate staff in the planning, procurement and operation of capital equipment, and in utilizing and relating these components to other local-level development activities.

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 1981 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.

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(b) The need to support local government units to solve problems locally.

The DSF 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 should foster greater local efficiency and initiative.

3. Relationship to USAID Activities

The DSF relates generally to many USAID activities concerned with the process of decentralization. By focusing on the governorate, and building local capacity for administrative and governmental actions, the Activity will contribute to and parallel other activities in support of decentralization as well as such activities as rural health, social welfare, etc. Similarly, as the sub-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 Activity will involve many of the same governorate officials as does the DD I and BVS activities. More specifically, this Activity relates to the following ongoing and planned activities.

- (a) Development Decentralization I
- (b) National Urban Policy Study
- (c) Provincial Cities
- (d) Basic Village Services
- (e) Neighborhood Urban Services
- (f) Basic Education
- (g) Decentralization Planning and Management

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 activity. 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 Activity and other AID activities in this area should result in increased donor interest in the process of decentralization.

III. Activity Analysis

A. Implementation Plan

Through experience gained during implementation of the first tranche of DSF (0143), USAID has developed valuable insight into the organization and functioning of rural governorates. Based upon this experience, USAID and the GOE have designed the implementation plan, to the maximum extent, upon existing procedures and organizations.

In the main, Activity implementation is based upon procedures developed under the Commodity Import Program, however, some of the conditions under which the DSF operate differ from those under the CIP. 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 support of decentralization process. Second, the CIP has been, for the most part, geographically centralized while the DSF has 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 had less direct experience with such planning procedures but responded well under the initial tranche. Finally, users of the DSF (governorates) may have greater difficulties in assuring maintenance of equipment.

To accommodate these differences, the following elements have been added to the DSF. First, overall activity management within USAID has been assigned to the Office of Local Administration and Development within the USAID/DRPS. This assignment has been made in order to emphasize the activity's relationship to the decentralization process and to assure that such considerations

as the appropriateness of equipment relative to needs are given full attention. It also permits direct engineering and technical support from DRPS. Secondly, the Ministry of Investment and International Cooperation acts as an overall coordinator of the Activity in such functions as assuring conformance with eligibility criteria, consolidation of requirements and centralized procurement. In developing procedures under the initial tranche, the Ministry of Investment and International Cooperation contracted with two public sector trading companies to provide the following procurement services: receive bids; evaluate bids; recommend awards; sign contracts; open letters of credit; inspect equipment prior to shipment; clear equipment thru customs; deliver equipment to governorates. These services are met from the GOE contribution and have been at a high professional standard. Third, several local consulting engineers have been hired by USAID under the general rubric of a "Technical Liaison Group" to assist governments in the development of equipment lists, outlining performance specifications, monitoring equipment utilization, etc. They have also been instrumental in enabling governorates to devise the requirements analyses system and other Activity safeguards to assure proper utilization and maintenance performance.

Before turning to a description of the sequential steps of Activity implementation it would be useful, to outline major responsibilities of the organizations involved in DSF implementation; i.e., the Ministry of Investment and International Cooperation and the Ministry of Planning, the governorates, and USAID.

(a) Ministry of Investment and International Cooperation - As in the case of the Commodity Import Program, the Ministry of Investment and International Cooperation is responsible for making initial allocations to governorates (with modifications as discussed below), reallocations and further establishment of eligibility criteria for equipment. The Ministry is also responsible for activity evaluation. These functions are carried out by the Department of United States Economic Cooperation. This Department acts 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 Activity. To strengthen the capacity of the MOIIC to carry out its responsibilities, AID has financed consultant technical services, in particular, the consulting services (Egyptian senior engineers forming the Technical Liaison Group) are assisting governorates to develop requirements, equipment lists and performance specifications.

(b) Ministry of Planning - The Ministry of Planning is responsible for coordinating the TLC's visits to the Governorates and in advising the Governorates of the nature and purpose of the Activity. In addition, the MOP is responsible for reviewing requirements analyses to assure they are within the framework of the GOE 5-year plan. MOP will also be an active element in the evaluation of the DSF in the future.

(c) Governorates - The governorates are 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 have had the assistance of the Technical Liaison Group. The governorates also approved technical specifications after being developed by 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.

(d) USAID - USAID's role in monitoring and supporting Activity implementation is essentially fourfold. First, it is concerned with Activity 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 has reviewed the screening of governorate analyses of requirements, equipment lists and performance specifications by the Ministry of Investment and International Cooperation to assure general appropriateness and conformance with eligibility criteria. Third, it is assisting the Ministry of Investment and International Cooperation in the development of technical specifications and in the bidding and procurement processes. Finally, it works with the Ministry of Investment and International Cooperation in its evaluation of the activity.

These arrangements were confirmed in satisfaction of initial CPs and have proved entirely satisfactory. The Ministry of Investment and International Cooperation confirmed the allocation to Governorates and have completed the process for the first allocations. Governorates have been notified of allocations to their individual

governorate investment budgets. All governorates except the more urban governorates of Cairo, Alexandria, Port Said, Suez and Ismailia are included in the DSF. The 21 governorates included in the DSF each received an initial allocation of \$2.3 million. The USAID and GOE agreed that from a practical and political standpoint initial allocations would be on an equal basis. From USAID's experience under the BVS and DD I Activities, as well as reconnaissance undertaken in development of this Activity, it is clear that this level is well below the potential investment needs of governorates since the shortfall in 1981 between requests and approval in the 21 governorates is on 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 almost 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 Investment and International Cooperation (Department of U.S. Economic Cooperation) and USAID have set eligibility criteria for equipment. In general terms, the equipment must 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 are relatively few. Equipment is limited to use by governorates. Public and private sector commercial users are not eligible. (Both already have access to foreign exchange through other mechanisms.) Limitations have also been 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 is not eligible for Activity 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 is eligible.

While allocations were being made to the governorates and criteria developed, AID contracted for and began to use the Technical Liaison Group (TLG). The MOIIC had submitted a list of generic equipment immediately needed by the governorates. USAID went ahead with the procurement of generic items after extensive consultation with the governorates. The generic items were in real demand and reflect popular problems. The equipment was actually allocated to the governorates based on a subsequent assessment of requirement analyses. Following notification of increases in investment budgets and upon receipt of eligibility criteria, the governorates analyzed their capital assistance needs, and developed requirement lists, performance specifications and technical specifications. The Technical Liaison Group has assisted them in this task, and in particular attempted 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 compatibility 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.

Each governorate submitted the requirement analyses, proposed equipment lists, and performance specifications to MOP/MOIIC and USAID for review. The MOIIC (assisted by the Technical Liaison Group) reviewed performance specifications for equipment to be procured under the Activity. In carrying out this function, the MOIIC confirmed that specifications were appropriate for the use intended. The MOIIC assured to the maximum extent possible, the uniformity and compatibility of equipment procured under the Activity and took into account any special problems of procurement and the cost of the equipment.

Upon receipt of the requirements analysis and performance specifications for equipment requested by the governorates and reviewed/approved by the MOIIC, they were submitted to USAID for final consideration. The USAID then advised the Technical Liaison Group and the governorates, as required, in the development of technical

specifications and bulk procurement packaging. USAID, in coordination with the MOP/MOIC, Technical Liaison Group, and AID/W Office of Commodity Management (SER/COM) developed and refined technical specifications so that they were appropriate for bidding, and ascertained that each IFB issued included as appropriate: (a) sufficient allowance for spare parts (standard spare parts allowance is 20%); (b) provision for familiarization courses (U.S. and/or Egypt) to ensure proper utilization and maintenance of equipment and (c) allowance for special maintenance tools, supplies and training.

SER/COM, after receiving USAID's, the governorates', and the MOIC's concurrence on specifications and terms of the IFB, proceeded with the issuance of the IFB notifications of the procurement in the U.S., and forwarded 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 MOIC had contracted two public sector companies as part of the GOE contribution, to receive bids in Cairo and open them on bid opening date in the presence of a USAID representative. USAID, after examining proposed awards to ensure that they were in accordance with IFB's terms and conditions, issued a letter of instructions to the purchasing companies (TEC & EGC) regarding AID procedures to be followed in finalizing the purchase contracts and opening letters of credit. TEC and EGC will assure proper handling of equipment once it has been received in country, its passage through customs and its delivery to the governorates. They will also 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 before the entire process is fully and institutionally being applied.

B. Administrative and Technical Analysis

1. USAID Capabilities

The USAID Office for Local Administration and Development (LAD) under the Assistant Director for Development Resources and Program Support (DRPS) has been assigned to...

In addition, USAID's Office of Local Administration has responsibility for review of governorate requirements analyses, equipment lists, and performance specifications. In the former context, 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, are 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 Investment on bidding and procurement is also undertaken by the Office of Local Administration and Development in coordination with the Office of Commodity Management and Trade to insure that there is no duplication of activities. End-use checking is the responsibility of the USAID Controller's Office.

2. GOE Capability

The Ministry of Investment and International Cooperation Department of U.S. 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 MOIIC has had less direct experience with the bidding and procurement procedures under AID Regulation I. To meet their requirement, contracts were extended to Tractor & Engineering Co and Engineering General Co.

Capabilities at the governorate level varies. Many governorates already experience in Regulation I type procurements through the Commodity Import Program and in the original DSF Activity. Most governorates also have gained 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, introduced a new approach to the governorates. In addition, Regulation I introduced new procedures. Therefore, the support of the Technical Liaison Group has been important, particularly in the development of specifications.

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

2. The Technical Liaison Group have certified in its submissions of requirements analyses, that maintenance capabilities for given items of equipment are in place or being prepared.

3. Spare parts have been 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 have been ordered in the same IFB and included as part of the contract purchasing the original equipment when appropriate. Operation and maintenance training is required with all equipment ordered.

C. Economic Analysis

(See original PP)

D. Financial Analysis

The Activity will total \$ 120 million of which \$ 20 million will be provided by the Government of Egypt (GOE) as counterpart to the Activity. The Activity funding period extends from December 1980 through 1985. 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>Activity Element</u>	<u>(U.S. \$000)</u>		
	<u>Projected Costs</u>		
	<u>AID</u>	<u>GOE</u>	<u>Total</u>
Equipment	98,700	18,214	116,914
Contract Services (incl. Eval. & Contingency)	1,300	1,786	3,086
TOTAL	<u>100,000</u>	<u>20,000</u>	<u>120,000</u>

As reflected in Table I all foreign exchange requirements of this Activity (\$ 99 million) will be financed by AID. These requirements, which comprise over 99% of the total Activity will be primarily associated with the procurement of equipment for 21 governorates , and the financing of a decentralized evaluation team. An estimated \$995,000 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 \$20.0 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 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 GOE local cost services. In addition to inflation a \$555,000 contingency and training fund is allocated to Contract Services element of the Activity. This fund will be used for increasing the scope of the liaison team, and to provide additional assistance to governorates in developing planning capacity and trained technicians.

Details involved in costing Activity elements follow:

1. Equipment

(a) Procurement

For budgeting purposes the equipment element of this Activity 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: Health and Lab. Equipment, Educational Aids, etc.

Of the \$98.7 million provided by AID under this Activity element, 50%, 35% and 15% have already 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	620	\$ 80	\$ 49,600
Light	880	40	35,200
Miscellaneous	Various	Various	13,900
		TOTAL	<u>\$ 98,700</u>

* Averages are based on equipment prices estimated at 1981 prices.

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(b) Maintenance and Operation

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

(c) Inland Transportation

Inland transportation costs for all equipment has been estimated at LE 500,000. This is covered by the GOE contribution.

2. Contract Services

(a) Liaison Team

This element will provide 240 person months of technical services to the Activity, at an average cost of \$1,500 per person month.

The 240 person months include 3 individuals during the first 14 months of the Activity and 4 individuals during the remaining 46 months, plus specialized - need short term consultants.

The GOE contribution is based on the number and time of personnel allocated by governorates as well as by the central government for the 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 Activity forms an integral part of USAID's decentralization portfolio. The Mission plans to incorporate the evaluation of DSF within the overall scheme of decentralization evaluation planned by the USAID. However, the Mission intends to undertake a review of budgetary developments with the introduction of the 1982/83 Investment Budget in June 1982. In addition a management assessment of the DSF as a development tool will be developed later this year to measure the impact of equipment utilization.

E. Social Soundness and Beneficiary Analysis

No change
(See original PP)

F. Covenants and Conditions

1. A condition which requires the GOE to provide equipment eligibility criteria acceptable to USAID.
 - MOIIC has submitted on December 1980 to USAID an acceptable equipment eligibility criteria.
2. A condition which requires that the GOE will channel all Activity funds allocated to the governorates through the national budget.
 - The Technical Liaison Group has determined that the GOE has channeled LE 75,000 to each Governorate in the Investment Budget of 1982. Additional allocation is scheduled to be made in FY-1983 budget.
3. A covenant which will ensure that of resources provided by the GOE will be in the nature of additional budgetary resources, and not replace existing allocations.
 - Resources provided by GOE to the Governorates are additional budgetary support according to MOP letter to the Governorates dated January 1981.
4. A covenant which will ensure adequate maintenance of equipment financed under the Activity.
 - Approximately 20 percent of total equipment value is earmarked to maintenance and operation cost.
5. A covenant obligating the GOE to provide the necessary staff required for Activity execution.
 - The GOE has demonstrated so far, full cooperation in implementing this project in the central ministries as well as the 21 Governorates.
6. A covenant ensuring that environmental factors will be taken into consideration in determining the types and anticipated uses of equipment proceed under the project.
 - The GOE assured USAID that this factor is being taken in consideration in the implementation of this project.

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7. A covenant ensuring that refunds will be made to the grantee by the governorates where equipment financed under the project is not in accordance with the terms and conditions of the Grant Agreement.
 - This was covered in the original Project Agreement signed on September 28, 1980.

ANNEX

Utilization of Funds Within Original Activity

<u>Area of Address</u>	<u>Type of Equipment</u>	<u>Number</u>	<u>Estimated Value</u>	<u>Distribution</u>
Sanitation	Sewage Dumping Trucks	150	\$ 6,000,000	
	Water Spray Trucks	75	2,625,000	
	Refuse Collection Truck	12	780,000	
	Sewage Pipe Cleaning	6	480,000	
	Misc. and Spare Parts		2,965,000	26.4%
			<hr/>	
			12,850,000	
Earthing Moving & Road Maintenance	Bulldozers	22	3,100,000	
	Motor Grader	39	2,424,000	
	Dump Trucks	105	4,200,000	
	Loaders	30	1,650,000	
	Road Rollers	15	400,000	
	Granes	10	1,000,000	
	Misc. & Spare Parts		3,832,000	34.1%
			<hr/>	
			16,606,000	
Civil Protection	Fire fighting trucks	85	8,000,000	
	Fire fighting trucks(heavy)	3	500,000	
	Fire fighting boat	1	200,000	
	Mobile Hospitals	4	600,000	
	Misc. and Spare Parts		2,790,000	
			<hr/>	
			12,090,000	24.8%
Water and Food	Refrigerator Trucks	6	500,000	
	Water Purification Units	13	1,100,000	
	Water Desalination Units	8	2,000,000	
	Deep Well Pumps	160	1,000,000	
	Misc. equip. & Spare Parts		1,380,000	
			<hr/>	
			5,980,000	12.3%
Misc. & Excess Property	Equipment and			
	Mobile Workshops		1,204,000	2.4%
			<hr/>	
	GRAND TOTAL		\$48,730,000	100.0%

TABLE I

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

Activity Element	<u>AID</u>		GOE	<u>TOTAL</u>	
	<u>FX</u>	<u>LC</u>	<u>LC</u>	<u>FX</u>	<u>LC</u>
<u>I. Equipment</u>					
Procurement	98,700	---	-----	98,700	----
Maintenance & Operation	----	---	14,643	---	14,643
Inland Transportation	----	---	500	---	500
Inflation(LC Services)	----	---	<u>3,071</u>	---	<u>3,071</u>
TOTAL	<u>98,700</u>	-----	<u>18,214</u>	<u>98,700</u>	<u>18,214</u>
<u>II. Contract Services</u>					
Liaison Team	---	440	---	---	440
Procurement Services (2%)	---	---	1,786	---	1,786
Evaluation	305	---	---	305	---
Contingency/Training	---	<u>555</u>	---	---	<u>555</u>
TOTAL	<u>305</u>	<u>995</u>	<u>1,786</u>	<u>305</u>	<u>2,718</u>
<u>ACTIVITY TOTAL</u>	<u>99,005</u>	<u>995 *</u>	<u>20,000</u>	<u>99,005</u>	<u>20,995</u>

* Preliminary

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TABLE II

DECENTRALIZED SUPPORT ACTIVITY
ESTIMATED DISBURSEMENT SCHEDULE

<u>Project Element</u>	<u>FISCAL YEAR</u>											
	<u>1981</u>		<u>1982</u>		<u>1983</u>		<u>1984</u>		<u>1985</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>AID</u>	<u>GOE</u>	<u>AID</u>	<u>GOE</u>
<u>I. Equipment</u>												
U.S. Goods	---	---	26,000	---	27,000	---	25,000	---	20,700	---	98,700	---
Maintenance and Operation	---	---	---	1,575	---	4,625	---	4,320	---	4,123	---	14,643
Inland Trans- portation	---	---	---	100	---	125	---	135	---	140	---	500
Inflation (LC Services)	---	---	---	<u>353</u>	---	<u>900</u>	---	<u>915</u>	---	<u>903</u>	---	<u>3,071</u>
TOTAL	---	---	<u>26,000</u>	<u>2,028</u>	<u>27,000</u>	<u>5,650</u>	<u>25,000</u>	<u>5,370</u>	<u>20,700</u>	<u>5,166</u>	<u>98,700</u>	<u>18,214</u>
<u>II. Contract Services</u>												
Liaison Team	200	---	240	---	---	---	---	---	---	---	440	---
Procurement Services (2%)	---	---	---	400	---	500	---	440	---	446	---	1,786
Evaluation	---	---	---	---	100	---	100	---	105	---	305	---
Contingency/ Training	<u>25</u>	---	105	---	125	---	150	---	150	---	<u>555</u>	---
TOTAL	<u>225</u>	---	<u>345</u>	<u>400</u>	<u>225</u>	<u>500</u>	<u>250</u>	<u>440</u>	<u>255</u>	<u>446</u>	<u>1,300</u>	<u>1,786</u>
<u>ACTIVITY TOTAL</u>	225	---	26,345	2,428	27,225	6,150	25,250	5,810	20,955	5,612	100,000	20,000

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*End of Sept. 1980

DECENTRALIZATION SUPPORT FUND: IMPLEMENTATION SCHEDULE

	CY 1980				CY 1981				CY 1982				CY 1983				CY 1984											
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
I. Liaison Team																												
A. Scope of work prepared and approved			xxxx																									
B. Bids received and evaluated				xxxx																								
C. Contract negotiations					xxxxxx																							
D. Contractor mobilization						xxx																						
1. Information & guidelines sent to governorates						xx																						
E. Liaison team in field																												
II. Equipment Procurement																												
A. Equipment lists prepared and approved									xxxxxxxx				xxxxxxxx															
B. IFBs prepared and issued																												
C. BIDs received and opened																												
D. Awards																												
E. L/Cs opened																												
F. Equipment shipped																												
G. Arrivals																												
H. Distributed to governorates																												
III. Evaluation																												
A. Scope			xx																									
B. Baseline					xxxxxxx																							
C. Special																xxxxx												
D. EOP Status																												

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NEAR EAST ADVISORY COMMITTEE MEETING

DATE : February 18, 1982
TIME : See Agenda
PLACE: 6439 NS

SUBJECT: PID - Decentralization Planning and Management - 263-0161
ISSUES PAPER

The Near East Advisory Committee will meet as scheduled above to discuss the subject project and the attached Issues Paper.

Please refer all questions to the Chairperson.

Attachment:
Issues Paper

DISTRIBUTION:

AA/NE, Ms. W. A. Ford, 6724 NS	<u>Project Review Committee</u>
AA/NE, Mr. B. Langmaid, 6724 NS	NE/TECH/SARD, G. Kerr, Chairperson
AA/NE, Mr. E. Vinson, 6732 NS	NE/TECH/SARD, W. Fox, 5314 NS
AA/NE, Ms. D. Enos, 6728 NS	GC/NE, J. Kessler, 2638 NS
NE/DP, Mr. C. Johnson, 6723 NS (5)	NE/DP, J. Silver, 6723 NS
NE/PD, Mr. S. Taubenblatt, 4720 NS	NE/PD, D. Reese, 4716 NS
NE/PD, Mr. R. Bell, 4720 NS	NE/EI, D. Morrissey, 5318 NS
NE/TECH, Mr. L. Reade, 4443 NS	NE/DP, S. Chernenkoff, 6723 NS
NE/TECH, Mr. A. Wilburn, 4443 NS	PPC/PDPR, G. Hansen, 2675 NS
NE/TECH/SARD, Mr. J. Lewis, 3316 NS	S&T/RAD, P. Demongeot, 508 RPC, SA-18
NE/PD, Mr. L. Rosenberg, 4712 NS	CM/ROD/NE, K. Cunningham, 731A PP, SA-14
NE/PD, Mr. S. Lintner, 4709 NS	
NE/PD, Mr. J. Habron, 4712 NS	
GC/NE, Mr. J. Kessler, 2638 NS	
NE/PD, Ms. G. Shivers, 4709A NS (1)	
A/AID, Mr. M. P. McPherson (Deliver to G. Shivers) (1)	
AAA/PPC/PDPR, (Deliver to G. Shivers) (1)	
PPC/PB, (Deliver to G. Shivers) (2)	
NE/E, Mr. G. Gower, 5318 NS	
PPC/WID, Ms. P. Goddard, 3245 NS	
CM/ROD/NE, Ms. K. Cunningham, 731, SA-14	
AA/PRE, Mr. D. Levintow, 5883 NS	
SER/COM/NE, Mr. R. Looper, 811D, SA-18	
A-AA/S&T, Mr. C. Farrar, 4942 NS	
SAA/S&T, Dr. N. C. Brady, 4942 NS	
S&T/DIU/DI, Mr. B. Ashton, 570, SA-14 (4)	
S&T/IT, Ms. L. Mogannam, 419, SA-8	
NANEAP/PC, Mr. R. Taylor, M-806, 806 Conn. Ave., N.W., WDC 20525	
OPTC/PC, Mr. J. Beuter, M-701, 806 Conn., Ave., N.W., WDC 20525	

UNITED STATES GOVERNMENT

Memorandum

TO : Near East Advisory Committee DATE: February 11, 1982

THRU : NE/TECH, Lewis P. Reade *lpr*

FROM : NE/TECH/SARD, Graham B. Kerr, Chairperson *G. B. Kerr*

SUBJECT: ISSUES PAPER - PID - ~~Decentralization~~ Planning and Management - 263-0161

The PID for Decentralization Planning and Management (263-0161) was discussed at the Project Review Committee on February 5, 1982.

The meeting opened with a discussion (led by Don Brown, Mission Director) of the Decentralization PAAD which has been proposed by the Mission. This discussion is summarized in a separate memorandum. We understand, however, that regardless of the mechanism finally adopted to authorize funds for the Decentralization Sector, projects comprising the package will be reviewed by the Mission and AID/W in the same way as is done at present. PIDs and PPs will be written for projects and subsequent amendments and, as appropriate, will be submitted to AID/W where they will be reviewed by a PRC and NEAC.

The PRC did not raise any issues that require clarification from the Mission prior to the NEAC, but did want the following items discussed by the NEAC so that appropriate guidance can be given to the Mission for developing the project paper.

Item 1: Development of the Planning System in the Governorates and Regions

Though the PID states that the central activity of this project will be the development of governorate planning systems (page 8), the PRC does not feel that enough emphasis is given the process of establishing this system prior to the training of personnel in the basic skills needed to operate the system. The PP team should ensure that adequate time and staff are allocated for the development of the planning and management system in each governorate.

Secondly, care must be taken to ensure that planning in the villages and districts is developed simultaneously with governorate and regional planning bureaucracies. Local planners may find it difficult to fit into an environment dominated by planners from higher levels of government. Once the regional and governorate planners are in place they may resist initiatives from local planners unless the system is developed from the bottom-up. It is also questionable whether consultants can adequately develop the planning system and train staff at all levels unless they have spent considerable time



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

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working in the villages and districts.

Item 2: Local Planning and Revenue Sources

Planners in villages, districts and governorates cannot achieve the goal of planning to meet local needs unless they have some degree of independence from central Ministries. This requires some latitude in selecting and undertaking projects without approval by higher levels of government. This also means that local revenue sources or "block" grants (such as in BVS) must be available for funding the chosen projects. National control of revenues will preclude effective planning because local governments become heavily involved in developing grantsmanship rather than in meeting local needs and the national government always has control over how funds are spent.

Future funding for local projects (post-AID) and local revenue generation should be addressed in the Decentralization Sector PAAD.

Item 3: The Role of the Saqqara Center

The PID accords a major role to the Saqqara Center of ORDEV. This center, whose construction is just being completed, is a new institution and its role in the decentralization program should be worked out very carefully by the PP team and GOE counterparts, including the Ministry of Planning.

Item 4: Review of Relevant AID Evaluations

Evaluation reports regarding decentralization projects in Indonesia (Oct. '81) and Philippines (Aug. '80) have been reviewed, and we note that concerns regarding central government support for decentralization, institutional development in the governorates and sub-governorates and local participation are being addressed as this project is developed.

AGENCY FOR INTERNATIONAL DEVELOPMENT
PROJECT IDENTIFICATION DOCUMENT
FACESHEET (PID)

1. TRANSACTION CODE
Revision No.
DOCUMENT CODE 1
A = Add
C = Change
D = Delete

ENTRY/ENTITY
Arab Republic of Egypt

3. PROJECT NUMBER
263-0161

EAU/OFFICE
A. Symbol NE B. Code 04
East Bureau

5. PROJECT TITLE (maximum 40 characters)
Decentralization Planning & Management

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION
A. Initial FY 8|2
B. Final FY 8|7
C. PACD 8|7

7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 =)	
FUNDING SOURCE	LIFE OF PROJECT
A. AID	20,000
B. Other U.S.	
1.	
2.	
C. Host Country	11,400
D. Other Donor(s)	
TOTAL	32,400

8. PROPOSED BUDGET AID FUNDS (\$000)							
PRO- TION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. 1ST FY <u>82</u>		E. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
SR	280	720		3,521		20,000	
TOTALS							

9. PRIMARY TECHNICAL CODES (maximum 6 codes of 3 positions each)				10. SECONDARY PURPOSE CODE			
+2	230	220	710	720			
11. LOCAL CONCERNS CODES (maximum 7 codes of 4 positions each)							
code	BR	DEL	BU				
amount	20,000	10,000	5,000				

1. To support the process which will encourage the design of development planning and management systems in local government from village to regional levels, in accordance with the Law of Local Government (PL50/1981).
2. To further advance and increase popular participation in planning and implementation of development projects.
3. To better integrate local planning with regional and national planning.

12. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT
Staff:
A. 4 person months - IQC or PSC
B. 1 person month of Mission Project Officer

13. FUNDS
A. \$40,000 LE 10,000
B. _____

SIGNING OFFICER	Signature	15. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W. DOCUMENTS, DATE OF DISTRIBUTION
	Title Director, USAID Cairo/Egypt	
	Date Signed MM DD YY <u>11/25/82</u>	MM DD YY <u> </u>

14. DOCUMENT ACTION TAKEN
S = Suspended CA = Conditionally Approved
A = Approved DD = Decision Deferred
D = Disapproved

17. COMMENTS

SIGNING OFFICER	Signature	19. ACTION REFERENCE	20. ACTION DATE MM DD YY
	Title		

PROJECT IDENTIFICATION DOCUMENT

DECENTRALIZATION PLANNING AND MANAGEMENT

(Promotion of Local Government Project)

I. OVERVIEW

Egypt is in the process of decentralizing many development related functions to regional planning offices and local government (governorate, markaz and village). The intent is to increase effectiveness and popular participation in planning and implementing local development. The various offices concerned have shown an eagerness to do the work, but have not had the resources to prepare for their new responsibilities.

The Decentralized Planning and Management (DPM) Project addresses this problem. It will provide technical assistance, training and equipment to help local government units and regional planning offices develop their planning management and information systems. It will also provide similar support to the new ORDEV Saqqara Center, building its capacity to assume the technical and specialized training functions of the project as the USAID involvement phases out.

The project will be implemented in three phases over a five year period beginning in 1982. During the first phase (1982-84) technical assistance, training and equipment supply will focus on building the planning system in two regions (including selected governorates, markaz and villages), and developing the capability of the ORDEV's Saqqara Center to provide the technical and training support for building the planning capacity of other regions. The second phase (1984-86) will concentrate on assisting additional regions, governorates, markaz and villages build their planning, project implementation and evaluation capabilities. The Saqqara Center will take the lead in providing technical support and training. External technical assistance will focus on solving problems associated with replicating the models developed during phase I. The third phase (1986-87) of the project will involve continued expansion of Saqqara Center services to the rest of the country. The foreign technical assistance will have been completed

and the USAID participation will concentrate on training support (through Egyptian consultants) and equipment supply.

The cost will be approximately \$31.4 million of which \$20 million will be contributed by AID. For annual and total budget breakdowns, as well as technical assistance, US and Egyptian requirements in numbers and person-months, see V. Cost Estimates, Page 20.

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II. PROJECT DESCRIPTION

A. The Problem

Over the past decade there has been a steady increase in local government's responsibilities for administrative and development activities. The new laws for local government clearly recognize that many aspects of raising the national product and standard of living are too complex and locally varied to be achieved through central direction and also that centralized planning and management can inhibit local initiatives to solve local problems.

Under the new laws the district and village popular councils are responsible for assessing local needs and for guiding the development of their communities*. Plans are to be forwarded from the village to the governorate, where the governorate planning agencies, together with the regional planning authority and concerned ministries, coordinate and integrate the sectors into a proposed annual plan and budget. After approval by the governorate popular councils and the Higher Committee for Regional Planning, the plan is forwarded to the Ministry of Planning. The governorate plans are integrated by the Ministry, in consultation with the Secretariat of Local Government and appropriate other ministries. Budget allocations are then made by the ministries to implement the plan. "Monitoring authorities" in the governorates are charged with follow-up and evaluation of the plan and making monthly reports to the governor and the popular council.

During the pilot project, it was found that the responsibilities specified above have not been institutionalized into a functioning planning system**. Although the problem is well recognized there is still no common planning system which defines how the stages of planning are to be executed, how the executive and popular council contributions are to be made and how the planning activities at the various levels - village, markaz, governorate and region - are to be integrated and coordinated within a national planning framework.

*For a description of the responsibilities of the governorate, district, and village executive and popular councils in the planning process, see PL50/1981, Part VII: Chapter 3. (Copy attached).

**Prior to preparation of this PID the Mission sponsored a pilot project (6/80-12/80) to assess the need for this full scale project and clarify the working assumptions to be used.

Experience with the other GOE /USAID decentralization projects indicates that local government has had relatively little experience in identifying local needs, evaluating alternative solutions, or designing, implementing, managing, and maintaining projects. There is, however, a strongly felt need to develop this capacity. During the pilot project that preceded this PID, each participating governorate independently requested assistance in the development of an information system that could be used in local planning. Local government officials (both in the context of the DDI evaluation and the pilot for this project), have expressed the need to plan and integrate local use of USAID's decentralization projects - DDI, BVS, DSF, NUS and Provincial Cities.

The pilot experience also indicated that, although the focus of Egypt's decentralization policy is primarily on local government, regional planning must be involved in order to relate local planning activities to national parameters and priorities; address broader area-based planning concerns; and effectively utilize available planning expertise.

B. Project Purpose

The objective of the Local Administration and Development program portfolio, of which this project is a part, is to assist the GOE achieve decentralization and strengthen local government. This is premised on the assumption that the promotion of local government will lead to a more effective and efficient use of resources in solving local problems, thus improving the quality of life of the majority of Egyptians.

The purpose of this project is to help accelerate the process of economic and administrative development by improving project planning and implementation within rural governorates and the economic regions of which they are a part, and by building the institutional capacity to support this effort after USAID participation has phased out of the project. Within this overall purpose, the project has three specific areas of focus.

1. Improvement of local governments' capacity (at governorate, markaz, and village levels) to:

- identify problems within their localities;

- sort out those problems amenable to locally managed responses (at appropriate village, markaz or governorate levels);

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-design and plan specific project responses for the amelioration of those problems; and

-effectively implement those projects so as to achieve the desired result.

2. Improvement of the of regional planning offices' capacity to:

-effectively review the plans of local government in terms of their implications for trans-governorate area development and allocation of resources;

-identify problems of trans-governorate area development and plan appropriate area-based program and project responses; and

-provide information and technical support to governorate level planning staffs for project design and impact evaluation; especially area development efforts.

3. Establishment at the Saqqara Center of:

-technical support capability for regional and local planning;

-training extension capacity to assist local development; and

-an information system that will:

- . improve the information available to decision-makers concerning on-going project monitoring and evaluation; and

- . document the overall evolution and effectiveness of the GOE's decentralization policy.

C. Strategy

The DPM Project responds to the immediate need to improve the efficiency and appropriateness of planning and management performance. However, the effort is part of a longer term objective to help GOE improve its development effectiveness through evolution of its decentralization policy. Such changes are expected to be necessary in order to improve the functional effectiveness of local

government within the national system. This project should be viewed strategically as an element in that process. Some of the capabilities to be established and activities carried out during the implementation of this project are directly related to expected requirements of the next phase (e.g., the establishment of an information system for monitoring and evaluating decentralized development).

The proposed project addresses three interrelated needs identified through the Pilot Project:

- improvement of planning, and management systems which relate development strategies to resources, functions and outputs;
- improvement of management and administrative capacity to maintain systems through organizations once those systems are developed and installed; and
- improvement of the skills among individuals necessary to perform required tasks within organizations.

The scope of the project as described above is, however, limited to the following:

- sub-national levels (i.e., region, governorate, markaz, and village);
- program and project planning, implementation, monitoring and evaluation; and
- improvement of management and administrative efficiency insofar as it directly or indirectly relates to the points noted above.

The project strategy emphasizes the need to develop a system within which planning and implementation skills can be effectively applied. In this respect, the strategy integrates system development with organization support and skills development. The methods to be used will rely primarily on technical assistance provided by continuous interaction between consultants and GOE officials through an effective counterpart structure.

The monitoring and evaluation process will provide an on-going review of the overall change process. Thus, the strategy is a learning process for capacity building.

The primary focus of the project effort will be at the Governorate level. Initially the effort will be concentrated on developing

planning and implementation capabilities within the present overall GOE planning and budgetary process, but it will move on developing local government capabilities to plan and implement longer-term, area-based strategies for development. The monitoring and evaluation aspect of the project will provide the means for on-going review of planning and implementation effectiveness as well as a preliminary data base for evaluating decentralization policies and performance.

D. Project Activity

This project provides financing for long and short term technical assistance by both foreign and Egyptian consultants to help the GOE in building planning, project implementation, and monitoring/evaluation systems and in the identification of currently existing and/or design of new in-country and out-of-country training programs. It also includes funding for in-country and out-of-country training of local and regional officials through formal courses, problem-identification seminars, action-oriented workshops, on-the-job training and foreign observation tours; establishment, including, in some cases, construction, of training and information systems centers at regional and governorate levels; and on-going, interim and final evaluation of project results. In addition, it will provide foreign exchange financing under AID Regulation I procedures to purchase small amounts of equipment (primarily appropriate information system technologies) for regional and local GOE agencies (including popular councils) to assist them in the establishment and maintenance of planning and management functions. The GOE will provide operation and maintenance funding to support the equipment and staff time devoted to the project on the part of the GOE at all levels.

Major project outputs will be:

- Diagnostic analyses (planning and management audits) of local government development planning, project design and implementation, and administrative support capacities to be used as a basis for formulating comprehensive planning and management improvement programs in each participating governorates;
- Diagnostic analyses of strategic planning issues including area development constraints and opportunities.
- Operational work programs for building up local government planning and management capabilities

- Workshops and technical skill training programs for planning and management for local executive, popular council, and regional planning staff;
- Governorate planning and information centers which: manage and make available information for planning and project implementation from local, regional and central sources; coordinate the utilization of external (to the governorate) expertise for planning and implementation; and provide on-going, on-the-job consultation and training to executive and popular council staff in planning and management;
- Monitoring system (located at the Saqqara Center) to review the requirements for, and subsequent impact of effective local government planning and management performance and decentralization policies;
- Occasional colloquia for members of national and regional level supreme councils to review broad-based issues of implementing decentralization policies;
- Out-of-country training and professional study tours to expose local government personnel to current examples of modern planning and management applications of area-based development.

The principal end of project status will be a substantial improvement in the quality and development impact of projects planned and implemented at the local level. Indicators of the achievement of the end of project status include:

- The capacity of local executive staff, working with regional planners, to disaggregate planning and management functions and to allocate responsibilities based upon the most effective ways of achieving particular development objectives;
- Increased emphasis on area based development;
- Capacity of local and regional planners and managers to maintain systems as well as effect modifications as necessary to achieve development objectives.

The central activity of this project is the design and establishment in each participating governorate of a development planning system. This will involve the regular participation of the governor and

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chairman of the governorate popular council, their respective committees, and their staffs, and the project technical advisors. Popular council members and executives will be involved in similar design work in the districts and villages. The designs will be based upon their area development strategies, their identification of local development problems, their diagnoses, their identification of alternative solutions and their selection of the one they wish to implement.

Ideally, each governorate will increasingly analyze its own planning needs and its own response. These processes should be reviewed annually and adjusted to meet new conditions incorporating the lessons of experience.

A similar institution development approach will be used with the Higher Council for Regional Planning and its staff office, the Regional Planning Office. At present these offices are short handed and will require considerable staff development as they assume their responsibilities as regional planning coordinators, technical assistants to the governorates, and representatives of central planners to the region and of the region to the central ministries. The Saqqara Center, with TA from the project, will play a major role in organizing the RPO staff training.

Workshops and on-the-job training will be the primary mechanisms for determining local needs and developing skills. They will be held in each markaz (averaging 8 per governorate) and then in the village units (3-4 per markaz). The training at the markaz and village levels will be done by the governorate staff who will be trained by the consultant/Saqqara Center team and Saqqara Center staff.

Long-term training requirements for governorate and regional, and Saqqara Center staff will be determined by the consultants and representatives of the governorates, regions and Saqqara Center. Areas considered will include regional development strategy and planning; project identification, planning, implementation, monitoring and evaluation; and management and information systems. Trainees will only be sent to appropriate institutions abroad when training is not available in Egypt.

The project will be implemented in three governorates (two development regions) during the first year and will be expanded to include an additional three governorates and additional regions during the second year. The rate at which new governorates would be included each year thereafter will be based on an assessment of experience during the first two years, although by the end of Phase II, four years after commencement, it is hoped that 2/3 of all

governorates in Egypt will be participating. The first year's work in each governorate will concentrate upon development strategy, planning system design, general planning skills, and development of the information system. The second and third years will focus on relaying the planning skills to lower levels of government, project identification, implementation management, monitoring and evaluation, with appropriate adjustments being made in the overall planning system, based upon improved skills and experience.

As development projects are identified and approved a small number will be selected as case studies for training in project management. These will be funded through existing USAID projects or directly by the GOE. Appropriate ministries will be involved in their implementation so that management techniques can be developed.

A sectoral steering committee dealing with all GOE/USAID decentralization projects will meet periodically to review the project and provide policy guidance to the Egyptian project leader and the TA team's Chief of Party. The committee will include a USAID representative from the DRPS/LAD office.

An external project evaluation will be conducted after the first eighteen months, and annually thereafter.

E. Project Management Structure

There are several potential GOE clients with important interests and/or roles in the proposed project. For simplicity and efficiency, however, implementation of local government planning and management will be handled through the governorates and regional planning will be organized through the regional planning offices.

In addition to the primary implementation agencies specified above, the Saqqara Center in Saqqara will serve as the GOE organizational support base for continuing the project beyond Phase I through Phases II and III to self-sustaining capability within the GOE. The selection of the Saqqara Center for this responsibility is based on USAID's expectation that it will expand its mandate by becoming a semi-autonomous institution under the general auspices of the Secretariat of Local Government. With that in mind, the resident technical assistance team will provide its consulting services to local governments and regional planning offices, and the GOE agency responsible for the design, establishment through the Center.

For the first two years (Phase I), a resident consulting team of six foreign and 10 Egyptians will assist:
-the primary GOE implementation agencies to improve their performance capacity;

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-the Saqqara Center in developing its capacity to provide technical support assistance on a self-sustained basis to the implementation agencies following the termination of the external consulting teams services;

The Project Office will be located at the Saqqara Center and four of the foreign and four of the Egyptian consultants will be located there. The other two foreign and -- eventually -- six Egyptian consultants will be located in the field (in some cases within regional planning offices; in other cases at the governorate level); and

Each of the four foreign consultants will have a full-time counterpart from the Saqqara Center staff and as a consulting team-- they will provide consultant services to designated clients within the GOE implementation agencies.

The six foreign consultants will have the following qualifications and responsibilities:

Chief-of-Party: A senior planning and management systems consultant resident in Cairo will be assigned on a long term basis as Chief of Party with responsibility for providing comprehensive strategic conceptual direction to all consultants; coordinating their individual and collective efforts in a mutually complementary and reinforcing manner. The Chief of Party's counterpart will be the Head of the Saqqara Center.

Training Specialist. A full time consultant resident in Cairo will serve as a consultant to the TA team and collaborating GOE officials on:

-identification of appropriate existing training programs both in Egypt and in other countries,

-design of new formal training programs (process and content),

-development of formal training skills (training of trainers),
and

-development of on-the-job consultation skills.

Infrastructure Planning and Project Implementation Consultant (resident in Cairo) to be assigned on a long-term basis to a counterpart within the Saqqara Center. Jointly they will be

responsible for assisting the Saqqara Center in developing its capacity to provide technical extension support service to local government planning units. The consultant and GOE counterpart will be providing overall strategic guidance to the long term resident consultants in the various governorates; assuring complementarity of approach while allowing for adaptive variation in practice. The consultant will also be responsible to the Chief of Party for integrating long and short term technical assistance into the comprehensive project effort.

Area Planning Consultant (resident in Cairo) to be assigned on a long term basis to a counterpart within the Saqqara Center. Together they will be responsible for assisting the office of Regional Planning, Ministry of Planning. The consultant will be responsible to the Chief of Party for integrating the project's TA on regional development strategy and planning into a comprehensive project effort.

Rural Development Planning Consultants (two) will be assigned on a long-term basis; one to Qaliubia Governorate and the other to Assiut Region. However, although one of those two consultants will be assigned to a regional office, both will have a GOE counterpart who is the head of the project secretariat at the governorate level. Placement of the consultant in the governorate's project secretariat is important because of the central role to be performed by that office in coordinating the planning of cross-sectoral projects and monitoring of implementation.

The qualifications and responsibilities of the ten Egyptian consultants will be defined in the design process of moving from this PID to the PP. Additional short term technical assistance needs will be determined through client needs assessments during implementation.

By year four, the foreign technical assistance team will have condensed into three persons and will be totally replaced in Phase III by a growing number of Egyptian technicians, both long and short-term by year five.

F. Expected Achievements/Accomplishments:

When completed the project is expected to accomplish the following:

-An institutionalized self-sustaining, participatory process for local development planning will exist in each of the units of local government that participates in the project.

- Within each local government unit, tasks and responsibilities in planning and implementation will have been operationally defined and the individual and team skills necessary for their fulfillment will exist.
- Development planning offices in the regions, governorates, districts and village units will be operating with staff and budgets supplied by the GOE.
- Mutually complementary linkages will have been established between planning efforts at all levels.
- Each government unit will have a development information system that collects, processes and analyses information that the unit needs for development planning and management. These centers will enable the GOE to monitor their entire program to support local government.
- The supporting functions of the organizations specified in the local government laws, such as the Supreme Council for Local Government, the Higher Committees for Regional Planning (in each region), the Secretariat of Local Government, the Ministry of Planning, the Organization for the Reconstruction and Development of Egyptian Villages (ORDEV), and CAPMAS, will be established and operational.
- The linking role envisaged for the regional planning offices will be fully developed. These offices will be representing local and regional interests with central ministries, assisting the higher committee for regional planning coordinate the governorate plans, and ensuring that national and regional concerns are taken into account in local plans.
- Selected development projects will be implemented to illustrate the utility of the planning process. They will also be used to develop management techniques and as training models.
- Experience from this project will be reflected in further changes in local development law which will enhance participation, planning, and management of Egypt's development.
- Evaluation studies of the project's impact will have tested the assumption that promoting local government enhances the quality of life of the majority of the people.

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-Governorates and markaz will have plans that integrate their own and USAID decentralization projects.

III. PROGRAM FACTORS

A. Relationship to Government of Egypt Programs

The project is consistent with, and supportive of, GOE policy and programs. GOE legislation starting with Public Law 124 of 1960 and running through PL 50 of 1981 provides the legal context for this project and creates the need for enhanced development planning and management capability at the local, governorate and regional levels. These laws indicate the commitment of the Government of Egypt to expand the role of local government and involve elected councilors and local executives in decisions at all levels of government. The laws stress the need to strengthen local government so that authority to solve local development problems can be transferred from central to local units. This is being done to achieve greater effectiveness in the assessment of development problems and the use of development resources.

The project supports the GOE's decentralization program by strengthening local participation in the planning and management of development projects, and building planning capability in local governorates and at regional levels.

B. Relationship to Country Development Strategy Statement(CDSS)

The CDSS (FY83) contains the following on page 59:

"The central management concerns in all social sectors relate to overcentralization of the planning, design and delivery of social services. [The Program Strategy] is to support and accelerate GOE efforts to decentralize both the technical and financial management of service delivery".

The purpose of this project is to assist the GOE to reduce centralization by increasing planning and management capacity and local participation in development decisions at the lower levels of the government hierarchy.

The project strategy is consistent with the USAID program strategy and represents a key element of the program.

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IV. FACTORS AFFECTING PROJECT DEVELOPMENT

A. Social Considerations

1. The social and political climate: Promotion of local government and decentralization.

This project responds directly to GOE policies aimed at decentralizing its administration of development and to GOE requests for specific public administration assistance for local government, as outlined in the first sections of this PID. During a speech to the governors in October, 1981, President Mubarak said that governors should assume their vital role in administering local government and shoulder full responsibility in their respective governorates so as not to refer to central government unless there is a crucial need to do so.

Also the implementation of DDI, DSF, BVS, and NUS, has provided governors, and local council chairmen, with specific examples of resources that are available through decentralized channels. Discussions during the DDI evaluation and the pilot project indicate that they are increasingly interested in finding out how to plan for and use these resources more effectively and efficiently.

2. Beneficiaries and Participation.

The immediate beneficiaries of this project will be the various planning staffs and local councillors who are formally trained and/or receive on-the-job assistance.

The project strategy, however, makes benefits available to a much larger population. The project will make the application of development resources available at points closer to the majority of Egyptians as has already happened with BVS and DDI. The project will also increase the ability of village and district representatives and executives to influence how the resources are used. Planning and management training will be given to village and district council members. The project is based on the assumption that promoting local development will improve the quality of life of the general citizenry.

The project is consistent with AID's participation policy and concern to place resources close to the majority of the people. It is a direct applied resource transfer of methodologies and know-how, adapted to fit local conditions. During the pilot project people from all levels of government and elected councils were involved in

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the needs assessment and planning workshops that shaped the design of this project

B. Economic considerations.

The investment of dollars in this project represents about 5% of USAID's contribution to promoting local government, and a much smaller percentage of the GOE's investment. A direct impact of this project will be an improvement in the use of the \$460 million in the decentralization portfolio, which represents approximately 10% of AID's present contribution to the economic development of Egypt. The project supplies planning and management resources needed to tie the portfolio together in the regions and governorates. Relatively small increases in efficiency and effectiveness in other areas of decentralization, brought about by better planning and management, will very quickly pay for this entire activity. This project will increase the probability that the overall goals of the program portfolio will be achieved.

C. Experience with other projects.

USAID has substantial project experience promoting local government -- approximately \$460 million. Three projects (NUS, DSF, and Provincial Cities) are in the early stages of implementation. NUS and Provincial Cities involve urban areas directly. It will be sometime before we have the depth of urban experience that we have gained in the rural areas with DDI and BVS, over the past two years. Many aspects of the NUS pilot activities, however, have been very encouraging, and DSF equipment procurement has involved governorate staff much more deeply than anticipated.

DDI and BVS are sending resources directly to village units. Interim results, recorded during recent evaluations of DDI and BVS are very encouraging. "BVS continues to make progress. The projects being implemented are appropriate to the needs of the rural population and impact directly on a large number of people." It was recommended that more local people be involved in project selection and not just in implementation -- the proposed planning and management project will address this issue.

The DDI evaluation team found a successfully established LDF, a good training program, and a high proportion of viable village enterprises which are likely to provide profits for the special village accounts. The team suggested that attention be given to maintaining and building upon the progress already made and that ORDEV consider decentralizing the operations of the LDF -- the proposed planning and management project would help ORDEV with this task.

D. Participating Country Agencies.

The Supreme Council for Local Government.
The Ministry of Economy
The Secretariat of Local Government.
The Ministry of Planning.

The Office for Regional Planning
The Institute of National Planning

The Governorate and Local Administrations and
Popular Councils
The Organization for the Reconstruction and Development
of Egyptian Villages(ORDEV), and its Saqqara Academy.

The relationships and functions of these organizations are described briefly in earlier parts of this PID.

E. AID Support Requirements and Capability.

The project will require a full-time project officer who has: a strong background in planning and management in developing countries; extensive experience in coordinating recipient institutions and AID consultants in the same project; strong background in information systems and evaluation. She/he should be assigned for at least four years.

The project will also require the full-time services of an Egyptian project officer who has a strong background in economic planning and management, and has had experience dealing with local development-related organizations.

G. Design Schedule.

During December, 1981, the results and recommendations of the team that implemented the pilot project were compiled in report form. This material will serve as the basis for the project paper.

Four person months, are required for pilot project review and drafting project paper, during February and March, 1982. These services should be secured by IQC or PSC.

The project paper will be completed in April 1982, following the arrival of the project officer. It is planned to send the PP to AID/W by early May, 1982.

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H. Environmental Impact

There are no environmental effects and a negative determination is recommended.

I. Issues.

1. Length of project and funding sources.

It is anticipated that within the five year life of this project it can be expanded to all Governorates, and that AID will support the technical assistance team and other project activities during this period. During these same years, however, it is anticipated that the GOE will gradually assume a larger proportion of the costs of supporting planning in the regions and governorates so that by the sixth year it will have assumed all the costs of the project activities.

2. Coordination of the USAID decentralization portfolio.

This will be accomplished in the following ways. Over the next two months an umbrella project paper dealing with the entire decentralization package will be written by the Mission. It will provide coordinating mechanisms for management of the portfolio. Functions common to two or more projects, will be coordinated by an inter-project committee. Training, for example, will be handled by a "Training Committee" formed from the training officers, training consultants and USAID project officers from each project. This will facilitate coordination of the new dimension of training for development planning at the governorate and regional levels with the emphasis of the current training on project planning and management and sub-governorate planning.

V. Cost Estimates: (000s)

	PROJECT YEAR				
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
	<u>Phase I</u>		<u>Phase II</u>		<u>Phase III</u>
Number of Participating Governorates	3	6	12	19	26
A. <u>Technical Assistance</u>					
1. Long term advisors					
a. Expatriate	\$1,050	1,050	895	525	
(number)	(6)	(6)	(5)	(3)	(-)
b. Egyptian*	200	200	200	200	200
(number)	(10)	(10)	(10)	(10)	(10)
2. Short term consultants					
a. Expatriate	420	630	630	420	-
(months)	(24)	(36)	(36)	(24)	(-)
b. Egyptian*	51	101	126	126	126
(months)	(24)	(48)	(60)	(60)	(60)
B. <u>Training</u>					
1. Workshops/seminars*					
(number)	200	350	500	500	500
2. Long term training					
a. Domestic*	60	100	100	100	100
(number)	(12)	(20)	(20)	(20)	(20)
b. Foreign	250	500	500	500	500
(number)	(10)	(20)	(20)	(20)	(20)
3. Study Tours					
	100	100	100	100	100
C. <u>Equipment</u>					
1. Governorates					
	240	240	480	560	560
2. Central and Regional Offices					
	400	240	480	560	560
3. ORDEV Saqqara Center					
	500	300	200	100	100
D. <u>Evaluation</u>					
	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>	<u>50</u>
Annual Totals	\$3,521	3,861	4,261	3,741	2,796
Total line items		18,180			
Contingency @10%		<u>1,820</u>			
USAID project contribution			<u>\$20,000</u>		

* Expenditures to be paid in Egyptian Pounds (approximately 22% of total)

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E. GOE Contribution

		PROJECT YEAR				
		¹	²	³	⁴	⁵
1. Saqqara Center	LE 300	350	400	450	500	
2. Budget support for planning offices	300	600	1,200	1,900	2,600	
Annual Totals	LE 600	950	1,600	2,350	3,100	
Total Line Items	LE 8,600					
Contingency @ 10%	860					
GOE Project contribution	LE 9,460					
Equivalent to	\$ 11,400					

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use of available resources to meet the people's needs and to achieve social and economic development.

ARTICLE 118:-

Each Governorate shall inform Local Units within it with the general policy guidelines and the framework of the State's development plan.

Local Units shall determine their needs according to carefully examined priorities, to be incorporated and coordinated in a proposed local plan, to be approved by the concerned Local People's Council and conveyed to the Governorate Local People's Council five months prior to the beginning of the fiscal year.

The Governorate's planning agencies together with the Regional Planning Authority and the concerned Ministries shall study the proposed plans submitted by Local People's Councils within each Governorate. Coordination and integration shall take place between various sectors in the Governorate in preparation of the proposed annual plan and the proposed annual budget to be submitted to the Governorate Local People's Council and the Higher Committee of Regional Planning for approval, at least four months prior to the beginning of the fiscal year.

After approval by the Governorate Local People's Councils and Higher Committees of Regional Planning, the proposed plans of Governorates shall be submitted to the Minister of Planning who shall link and coordinate these plans with the State's general plan, in consultation with the Minister in charge of Local Government and the concerned Ministers, for the achievement of balanced growth according to the overall development plan.

Chapter Three
Planning & Financial Affairs of
Local Government Units.

ATTACHMENT

Public Law 50/1981
(Egypt)

Section One
Planning

ARTICLE 115:-

Local Units should not commit themselves to any economic, social or physical development projects or activities, which their finance or implementation are in contradiction with the State's general plan or the Regional Plan.

Local Units should not commit themselves to any joint investment projects with Arab or foreign capital, without the approval of the concerned planning agencies and the General Authority for Investment and Free Zones.

ARTICLE 116:-

Local People's Councils are responsible for the comprehensive development of local communities based on the resources and potentials of local communities. They are also responsible for identifying investment opportunities within their Units and for incorporating within their local plans effective allocation of resources to the needs according to actual priorities.

ARTICLE 117:-

Local planning agencies shall assist the High Committees of Regional Planning, the Regional Planning Authorities and the Local People's Councils in planning with the objective of achieving effective

Each governorate shall undertake, within its boundaries, the implementation of the approved local plan according to the specified timetable. Monitoring authorities in the Governorate shall undertake the follow-up and evaluation of this plan and shall submit monthly reports to the Governorate Local People's Council and to the Governor, according to the rules set up by the Executive Regulations.

PROJECT IMPLEMENTATION DOCUMENT

LOGICAL FRAMEWORK

Project Title and Number: Decentralization Planning
and Management - 263-0161

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICES</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
<u>Program Goal</u> Assist the GOE raise the quality of life by expanding participation in development decisions in local government in accord with Public Law 50/1981.	<u>Measures of goal achievement</u> 1. Increased income, health, access to resources, etc. in areas where projects implemented. 2. Increased proportion of development projects deriving from decisions made within local government units, with direct participation of elected representatives and executives.	1. Regular external evaluations. 2. CAPMAS publications about the Governorates.	1. There is a causal link between increased participation/decision-making and increased quality of life. 2/ GOE will continue to promote local government through decentralization.
<u>Project Purposes</u> 1. To support process which will design planning and management systems for local government from village to region. 2. To integrate local government planning into national and regional guidelines. 3. Develop GOE institution capability to continue support project activity after USAID support phased out.	<u>Conditions indicating purpose achieved: End-of-Project status</u> 1. Designs for planning and management implemented. 2. Process of development involves executives and representatives from all levels of government. 3. Plans and planning process reflect national and regional concerns. 4. Management information systems designed and implemented.	1. Information system established by the project. 2. Project records 3. Regular external evaluations	1. Executives and representatives will participate in process to develop systems. 2. They will accept responsibilities accorded them in PL50/1981. 3. Central organizations will join the project and delegate authority.

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PROJECT IMPLEMENTATION DOCUMENT

LOGICAL FRAMEWORK (Cont'd)

<u>NARRATIVE SUMMARY</u>	<u>OBJECTIVELY VERIFIABLE INDICES</u>	<u>MEANS OF VERIFICATION</u>	<u>IMPORTANT ASSUMPTIONS</u>
<p><u>Outputs</u></p> <ol style="list-style-type: none"> 1. Workshops in Cairo, governorates, districts and villages. 2. Months of on-the-job training (Consultation) in Egypt 3. Long term training in Egypt and in United States. 4. Observation tours in Egypt and Overseas. 5. Planning and management systems installed. 6. Information systems installed. 7. Development projects implemented. 8. Diagnostic analyses of the Local government planning capacity. 9. Evaluation reports. 	<p><u>Size of Outputs</u> (Estimates)</p> <ol style="list-style-type: none"> a. 24 Cairo/Regional Workshops b. 104 Governorate Workshops c. 208 District/Village Workshops d. xxx person years on-the-job training e. 90 person years long term academic training in U.S. f. 92 person years in Egypt g. 26 governorate planning and management and information systems installed. h. 16 regional projects implemented. 	<ol style="list-style-type: none"> 1. External evaluations 2. Project records 3. Information system reports 4. Regional, governorate, district and village planning records <ol style="list-style-type: none"> i. 52 governorate projects implemented j. 104 village projects k. 15 observation tours l. 5 evaluation reports 	<p><u>For achieving Inputs and Outputs</u></p> <ol style="list-style-type: none"> 1. GOE will provide appropriate staff and budget appropriations. 2. Appropriate technical assistance can be identified and hired for project. 3. USAID funds will be provided.
<p><u>Inputs</u></p> <ol style="list-style-type: none"> 1. Technical assistance from GOE & US 2. Appropriate staff from GOE 	<p><u>Estimates</u></p> <p>5 consultants from U.S. (long-term) 10 " " Egypt (long-term) xxx Planning staff in regions, governorates 10 person years of expatriate short term consulting 21 person years of Egyptian short term consulting</p>	<p>US\$ 20 million LE 9.5 million</p>	

UNCLASSIFIED
Department of State

OUTGOING
TELEGRAM

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ORIGIN AID-35

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STATE 050137
MINISTRIES RESULT IN REDUCED CENTRAL STAFFS?

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ORIGIN OFFICE NETC-04
INFO NEPD-04 AANE-01 NEDP-02 NEEI-03 PPCE-01 POPR-01 PPPB-03
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INFO OCT-00 EB-02 NEA-07 /050 R

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TAGS:

SUBJECT: DECENTRALIZATION PLANNING AND MANAGEMENT, PID -
-- 263-0161

1. THE NEAC MET ON FEBRUARY 16 AND APPROVED THE PID, WHICH WAS ACKNOWLEDGED TO BE WELL PREPARED. IN PREPARING THE PP, THE MISSION SHOULD ADDRESS THE FOLLOWING CONCERNS:
A) THE ROLES OF ORDEV'S SAQQARA CENTER AND MINISTRY OF PLANNING IN DECENTRALIZATION:

THE PP SHOULD INDICATE EXACTLY WHAT ROLES WILL BE PLAYED BY THE SAQQARA CENTER AND MINISTRY OF PLANNING IN THE PROJECT AND IN THE GOE DECENTRALIZATION STRATEGY. THE NEAC IS CONCERNED THAT THE CENTER NOT BECOME A LARGE CENTRALIZED INSTITUTION WHICH IS ANTI-THETICAL TO THE BASIC DECENTRALIZATION STRATEGY. THE NEAC APPRECIATES THAT THE OFFICES OF REGIONAL PLANNING OF THE MINISTRY OF PLANNING ARE LINKS BETWEEN THE GOVERNORATES AND THE CENTER. THIS ROLE, HOWEVER, MUST BE CLEARLY STATED SO THAT THE REGIONAL PLANNERS ARE NOT ALLOWED TO DOMINATE GOVERNORATE, DISTRICT AND VILLAGE PLANNING. LOCAL PLANNERS MAY FIND IT DIFFICULT TO FIT INTO AN ENVIRONMENT DOMINATED BY PLANNERS FROM HIGHER LEVELS OF GOVERNMENT. ONCE THE REGIONAL AND GOVERNORATE PLANNERS ARE

IN PLACE THEY MAY RESIST INITIATIVES FROM LOCAL PLANNERS UNLESS THE SYSTEM IS DEVELOPED FROM THE BOTTOM-UP.

B) UNDEREMPLOYMENT OF GOE STAFF:

THE NEAC REQUESTS THAT THE PP ELABORATE HOW, IF AT ALL, THE MANAGEMENT AND PLANNING SYSTEM DEVELOPED IN THIS PROJECT WILL AFFECT THE PROBLEM OF SURPLUS GOE STAFF AT ALL LEVELS OF GOVERNMENT. WILL THE TECHNICAL ASSISTANCE PROVIDED ASSIST THE GOVERNORS IN ADDRESSING THIS PROBLEM? WILL THE TRANSFER OF FUNCTIONS FROM THE CENTRAL MINISTRIES TO GOVERNORATES AND BUILDING THE CAPACITY OF GOVERNORATE STAFF TO PERFORM THESE FUNCTIONS INCREASE THE PRODUCTIVITY OF GOVERNORATE STAFF AND ALLEVIATE, TO SOME EXTENT, THIS PROBLEM? WILL THE TRANSFER OF FUNCTIONS FROM CENTRAL

C) PROJECT TIMING:

THE NEAC IS CONCERNED THAT INSUFFICIENT TIME IS BEING GIVEN TO ACHIEVE PROJECT PURPOSES. IS IT REALISTIC TO PLAN FOR THE PROJECT TO HAVE STARTED WORK IN 26 GOVERNORATES BY THE FIFTH YEAR? CLEAR JUSTIFICATION FOR THE TIMING FORECAST SHOULD BE SUPPLIED IN THE PP.

D) DEVELOPMENT OF THE PLANNING SYSTEM IN THE GOVERNORATES:

THOUGH THE PID STATES THAT THE CENTRAL ACTIVITY OF THIS PROJECT WILL BE THE DEVELOPMENT OF GOVERNORATE PLANNING SYSTEMS (PAGE 8), THE NEAC DOES NOT FEEL THAT ENOUGH EMPHASIS IS GIVEN THE PROCESS OF ESTABLISHING THIS SYSTEM PRIOR TO THE TRAINING OF PERSONNEL IN THE BASIC SKILLS NEEDED TO OPERATE THE SYSTEM. THE PP TEAM SHOULD ENSURE THAT ADEQUATE TIME AND STAFF ARE ALLOCATED FOR THE DEVELOPMENT OF THE PLANNING AND MANAGEMENT SYSTEM IN EACH GOVERNORATE.

E) CONSISTENCY IN PID AND PP BUDGETS:

NEAC HAS REQUESTED, IN THE REVIEW OF A NUMBER OF PROJECTS, THAT THE MISSION DEVELOP AND USE A STANDARD SET OF INFLATION FACTORS FOR OUT YEAR INPUTS FOR ALL PROJECTS OR AT LEAST BROAD CATEGORIES OF PROJECTS. DEVIATIONS FROM THESE FACTORS IN SPECIFIC CASES SHOULD BE EXPLAINED.

2. IT IS EXPECTED THAT UNDERLYING LOCAL REVENUE ISSUES WILL BE ADDRESSED IN THE DECENTRALIZATION SECTOR ASSESSMENT SCHEDULED FOR THIS SUMMER.

3. THE NEAC ALSO WISHES TO BE SURE THAT IT IS CORRECT IN INFERRING FROM THE PID: THAT GOVERNORATES ARE ONLY TO BE PHASED IN AT THEIR OWN REQUEST AND THAT, IN ORDER TO BE SO INCLUDED, THEY ARE REQUIRED TO COMMIT APPROXIMATELY LE100,000 PER ANNUM TOWARDS PLANNING SYSTEM DEVELOPMENT AND MANAGEMENT ACTIVITIES. IF THIS IS TO BE THE CASE, EACH YEAR A CLEAR INDICATION OF INTEREST AND COMMITMENT WILL BE PROVIDED AS NEW GOVERNORATES JOIN (OR DON'T JOIN) THE PROJECT. IF THEY DO NOT JOIN AFTER THE FIRST PHASE, IT WILL BE CLEAR THAT SOMETHING IS WRONG. HAIG

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J. Lewis
[Handwritten initials]

May 11, 1982

Office	Action	Info
NE/DP		✓
NE/PD	<i>[Handwritten: as appx]</i>	
NE/PMC		
NE/MS		⊙
NE/BI		
NE/TECH		
NE/NEIA		
GC/NS		✓

MEMORANDUM TO: AA/NE, W. Antoinette Ford
 FROM: AA/PPC, John R. Bolton *[Handwritten signature]*
 SUBJECT: Egypt - Decentralization PAAD

As you are aware, in the course of the new and ongoing projects exercises conducted this year, decentralization activities in Egypt were among those projects which PPC brought to the Administrator's attention. At that time the Administrator accepted PPC's recommendation for a special meeting, prior to obligation of FY 1982 funds, to discuss the issue of AID involvement in assistance to local government in Egypt. Subsequently, however, it has been agreed that the Near East Bureau would proceed with preparation of the authorization package for the Decentralization Sector Support PAAD, that project issues would be addressed within the project approval process, and that decentralization strategy issues would be discussed at the Egypt Country Briefing with the Administrator in June.

Although the authorization package for the Decentralization Sector Support PAAD has not yet arrived in PPC, we wish to notify the Near East Bureau in advance of its arrival that we in PPC have reviewed the components of the PAAD and have concluded that additional funding for the Decentralization Support Fund is not warranted and that this component should be dropped from the authorization package.

Our major concerns with the Decentralization Support Fund are the following. While the stated 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," the project is essentially a \$50 million commodity drop at the governorate level. There is no identified development problem toward which the commodities are directed. Moreover, the project is not connected to any policy reform which would, for instance, secure more budgetary funds from the central government for the governorates, or change local revenue policy. Nor is it clear

how the needs of local government will be addressed by the Egyptian Government over the long term, once AID financing is terminated.

We are broadly supportive of the idea of unifying the decentralization of decision-making and budget processes for local development. We would note, however, that even without the Decentralization Support Fund component, the PAAD is still of sufficient size to promote the achievement of our decentralization sector program goals, (\$219 million). In the absence of a worked out policy/budget reform agreement on decentralization, it is especially important that PAAD components be able to stand on their own feet as developmentally sound uses of aid funds.

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ACTION AID-35

ADDITIONAL ISSUES WHICH NEED TO BE EXPLORED WITH RESPECT TO THE FUTURE OF OUR DECENTRALIZATION EFFORTS, I ALSO STRONGLY URGE THAT THESE BE BUILT INTO THE FORMAL EVALUATION PROCESS FOR DECENTRALIZATION ACTIVITIES AND NOT INTO FURTHER DELAYS ON MOVING THIS PARTICULAR PACKAGE. I WOULD WELCOME A POSITIVE REACTION ON THIS MATTER AT THE EARLIEST POSSIBLE DATE.

INFO NETC-04 /004 A6

B. THE PARTICULAR QUESTIONS RAISED IN THE PPC MEMO AND OUR SUGGESTIONS FOR REPLYING TO THEM ARE AS FOLLOWS:

ACTION OFFICE AAHE-01

A. PPC ISSUE: DSF IS NOT IDENTIFIED WITH THE CENTRAL DEVELOPMENT PROBLEM OF DECENTRALIZATION.

INFO NEDP-02 PPCE-01 PDPR-01 PPPB-03 GC-01 GCFL-01 GFM-02 HO-04 HEE-03 OPIC-10 RELO-01 TELE-01 MAST /033 A4 721

RESPONSE: AS IDENTIFIED IN THE ORIGINAL PROJECT PAPER, DSF DIRECTLY SUPPORTS AND ACCELERATES DECENTRALIZATION OBJECTIVES BY INCREASING LOCAL INVESTMENT BUDGETS. ASSESSMENTS AND REQUIREMENTS ARE ALL DONE LOCALLY, NOT CENTRALLY, EQUIPMENT AND DECISIONS AS MADE COMPLEMENT AND SUPPORT ALL OTHER DECENTRALIZATION ACTIVITIES, BOTH US-SUPPORTED AND EXISTING GOE PROGRAMS UNDER LAWS 43 AND 50. THE INFUSION OF EQUIPMENT, TRAINING, APPLICATION OF MAINTENANCE OPERATIONS, AND THE MANAGEMENT, PLANNING AND UTILIZATION EXPERIENCE IS PROVIDING A DIRECT IMPACT ON DECENTRALIZATION THEORY AND PROCESSES. IN FACT, DSF, BECAUSE IT IS FOCUSED AT THE GOVERNORATES AND NOT THE CENTRAL LEVEL IS THE FIRST CONCRETE APPLICATION OF ADMINISTRATIVE AND BUDGETARY DECENTRALIZATION TO DEAL WITH VILLAGE/DISTRICT/GOVERNORATE NEEDS AND THE FIRST INTEGRATION OF LOCAL PLANNING, MANAGEMENT, EQUIPMENT USE AND TRAINING WITH LOCAL SERVICES AND INFRASTRUCTURE DEVELOPMENT. APROPOS OF THIS, THE ARRIVAL OF DSF EQUIPMENT FOR GOVERNORATE OPERATION AND USE (GRADERS, BULL-DOZERS, DUMP TRUCKS, FIRE TRUCKS, GARBAGE AND SEWERAGE TRUCKS, ETC.) IS ALREADY STIMULATING A PRIVATE SECTOR SERVICE-CAPACITY BOOM IN THE GOVERNORATES. EGYPTIAN SERVICE AGENTS FOR U.S. MANUFACTURING FIRMS (I.E. DSF

INFO OCT-00 INR-10 EB-00 NEA-07 AMAD-01 /061 W
-----207454 211535Z /38

O 211514Z MAY 82

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 7035

UNCLAS SECTION 01 OF 02 CAIRO 12591

AIDAC

E.O. 12065: N/A

SUBJECT: DECENTRALIZATION PAAD

REF: 5/20/82 BURKE/GOWER TELECON

1. FOR AA/NE FORD FROM DIRECTOR BROWN.

2. BY REFTEL WE WILL BE UPDATING OUR MAY/JUNE OBLIGATIONS PLANNING AND REQUESTING SPECIAL BUREAU ASSISTANCE TO ACCELERATE PENDING ACTIONS. HOWEVER, I AM SENDING THIS SPECIAL MESSAGE ASKING YOUR ASSISTANCE WITH THE DECENTRALIZATION PAAD CURRENTLY PROCESSING THROUGH AID/W.

3. THE PAAD FOR THE MISSION'S PROPOSED FY 1982 DECENTRALIZATION PACKAGE OBLIGATION WAS SUBMITTED TO AID/W 2/25/82 AND NEACED AND APPROVED 4/1/82. AUTHORIZATION AND CH ACTIONS ARE WELL UNDERWAY AND WE ARE ANTICIPATING AN EARLY JUNE OBLIGATION.

4. HOWEVER, BY REF TELECON WE UNDERSTAND THAT IN A MEMO JUST SENT (WE DO NOT HAVE A COPY) PPC HAS RAISED A FEW QUESTIONS REGARDING INCLUSION OF THE DECENTRALIZATION SUPPORT FUND (ACTIVITY 263-0143) IN THE PAAD PACKAGE. AS RELAYED BY TELEPHONE THESE SEEM TO US LEGITIMATE CONCERNS AND WE ARE PROVIDING REPLIES IN THIS CABLE WHICH WE HOPE WILL ALLOW AN EARLY BUREAU REPLY TO PPC.

5. AT THE SAME TIME, IT MUST BE UNDERSTOOD WE ARE WORKING WITHIN THE CONTEXT OF A CONTINUOUSLY EVOLVING RELATIONSHIP WITH THE GOE BOTH WITH REGARD TO DECENTRALIZATION ACTIVITIES AND WITH RESPECT TO THE TOTALITY OF PROGRAM CONTENT AND ADMINISTRATION. BASED ON OUR CORRESPONDENCE THROUGHOUT THE FISCAL YEAR AND SPECIFICALLY THE NEAC REVIEW AND APPROVAL OF THE DECENTRALIZATION PAAD, WE HAVE NECESSARILY GONE QUITE FAR IN OUR DISCUSSIONS WITH THE GOE AND HAVE AROUSED CLEAR EXPECTATIONS OF EARLY APPROVAL AND AUTHORIZATION OF THE PAAD AS IT HAS BEEN SUBMITTED.

6. WHAT WE ARE CONCERNED ABOUT NOW IS THAT THIS LATE IN THE FISCAL YEAR -- ALMOST SEVEN WEEKS AFTER APPROVAL OF THE PAAD AND JUST AHEAD OF AN ANTICIPATED OBLIGATION -- WE ARE SUDDENLY FACING QUESTIONS AS TO WHETHER WE WILL BE ABLE TO PROCEED ALONG THE LINES WE HAVE BEEN DISCUSSING WITH THE GOE.

7. I WISH TO URGE MOST STRONGLY THAT WE AND PPC PROCEED TO ASSURE AN EARLY AUTHORIZATION OF THE PAAD AS SUBMITTED. TO THE EXTENT THAT IT IS BELIEVED THERE ARE IMPORTANT

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ACTION AID-35

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ADDITION, SUBSTANTIAL POTENTIALLY TAXABLE SECTOR GROWTH
SHOULD FLOW FROM THE SUCCESS OF THE ADMINISTRATIVE AND
BUDGETARY DECENTRALIZATION PROCESS. ATHERTON

INFO NETC-04 /004 A6

ACTION OFFICE AANE-01

INFO WEDP-02 PPCE-01 PDPA-01 PPPB-03 GC-01 GCFL-01 GCNE-01
FM-02 HO-04 HEE-03 OPIC-10 RELO-01 TELE-01 MAST-01
/033 A4 721

INFO OCT-00 INR-10 EB-08 NEA-07 AMAD-01 /061 W
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O 211514Z MAY 82
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC IMMEDIATE 7036

UNCLAS SECTION 02 OF 02 CAIRO 12591

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BID AWARDEES) ARE RAPIDLY EXPANDING FACILITIES ALL OVER
EGYPT. THIS IN TURN IS PROVIDING IMPETUS FOR ADDITIONAL
PRIVATE-SECTOR ORDERS BY EGYPTIAN CONTRACTORS.

B. PPC ISSUE: DSF IS NOT CONNECTED WITH POLICY
CONSIDERATIONS THAT THE PAAD PROMOTES.

RESPONSE: LOCAL EQUIPMENT NEEDS-ASSESSMENTS, ACQUISITION
THROUGH DSF, AND UTILIZATION ARE THEMSELVES AN ACTUAL
OPERATION IN PRACTICAL SUPPORT OF DECENTRALIZATION
POLICY AND STRATEGY AS OUTLINED IN THE DECENTRALIZATION
LAWS. USAID BELIEVES ITS DECENTRALIZATION PORTFOLIO
REPRESENTS FUNDAMENTAL POLICY ORIENTATION. WHILE
ACTIVITIES ACTUALLY FUNDED INCLUDE HARDWARE, INVESTMENT
BUDGET AUGMENTATION, AND TRAINING AND TECHNICAL ASSIST-
ANCE, THOSE INVESTMENTS ARE IN SUPPORT OF FUNDAMENTAL
POLICY REFORM WHICH IS AT THE HEART OF SADAT/MUBARAK
INITIATIVES. DURING THE PAST THREE YEARS INCREASING
RESPONSIBILITY HAS BEEN TRANSFERRED TO THE VILLAGE AND
GOVERNORATE LEVELS. GOVERNORS THROUGHOUT THE COUNTRY
HAVE BEGUN TO EXERCISE THE NEW AUTHORITIES GIVEN THEM
AND TO SUPPORT VILLAGE AND MARKAZ INITIATIVES WHILE
STRENGTHENING GOVERNORATE COORDINATION AND SUPPORT.
THIS MOVEMENT HAS BEEN FUNDAMENTAL AND REFLECTS A REVOLU-
TION IN THE ADMINISTRATION OF RURAL LIFE. CERTAINLY
THERE IS MORE TO BE DONE -- PARTICULARLY ON THE REVENUE
ALLOCATION AND GENERATION SIDE. BUT CENTRAL GOVERNMENT
ALLOCATIONS OF DISCRETIONARY INVESTMENT TO THE
GOVERNORATES HAS INCREASED DRAMATICALLY OVER THE PAST
THREE YEARS, AND THERE IS INCREASING WILLINGNESS TO LOOK
AT UTILITY ORGANIZATION (I.E. IBRD IN BEHEIRA AND PRO-
VINCIAL CITIES) AND TO CONSIDER TAX AUTHORITY. DSF IS
HAVING A PRACTICAL POSITIVE IMPACT ON THE DECENTRALIZATION
PROCESS AND RELATED POLICY CONCERNS.

C. PPC ISSUE: WHAT HAPPENS TO LOCAL GOVERNMENT NEEDS
WHEN AID FUNDING ENDS?

RESPONSE: AID RESOURCES IN ALL PROJECT ACTIVITIES OF
DECENTRALIZATION, ESPECIALLY DSF, ARE "PUMP PRIMING"
ACTIONS WHICH ARE ALREADY DEMONSTRATING RESULTS OF
INCREASING BUDGET FLOWS FROM CENTRALIZED MINISTRIES TO
GOVERNORATES. (AID ANALYSIS OF GOE 1980-81, 81182 AND
NEW 82-83 BUDGETS IS UNDERWAY AND THE TREND IS QUITE
CLEAR.) WE BELIEVE AID FUNDS ARE CLEARLY INSTRUMENTAL
IN INSTIGATING AND ACCELERATING THIS CHANGE. OBVIOUSLY,
THE PROCESS MUST AND WILL CONTINUE AS AID FUNDING RUNS
OUT. A SUCCESSFUL TRANSITION FROM FOREIGN ASSISTANCE TO
DOMESTIC FUNDING OF LOCAL DEVELOPMENT IS ANTICIPATED AS
A RESULT OF TWO FACTORS: (1) INCREASED ADMINISTRATIVE
EXPERIENCE AND TECHNICAL CAPACITIES TO HANDLE INVESTMENT
FUNDS; AND (2) CREATION OF POPULAR DEMAND AT LOCAL
LEVELS FOR CONTINUATION AND EXPANSION OF SERVICES. IN

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JUL 1982

INFORMATION MEMORANDUM FOR THE ADMINISTRATOR

THRU: ES
FROM: AA/NE, W. Antoinette Ford *PL*
SUBJECT: Egypt: Decentralization PAAD

Attached are two action memoranda to you on the Egypt Decentralization PAAD. One, from this Bureau, recommends approval of the full decentralization sector package. The other, from PPC, recommends approval of the package with the exception of the Decentralization Support Fund (DSF) activity.

We have been aware of PPC reservations on the DSF and have devoted nearly two pages in our action memorandum to a discussion of these concerns. PPC has now decided to draft its own memorandum. We believe we have fully responded to PPC's substantive concerns in our original action memorandum so we are submitting it as previously drafted.

The PPC memorandum does raise two additional issues which I would like to comment on briefly. The first is PPC's assertion that the DSF was essentially a hastily thrown together, one time transaction to meet our FY 1980 obligation target. It is true that the notion of a DSF activity only fully emerged during FY 1980. Impetus for the DSF grew largely out of the GOE reorganization of May 1980 which delegated substantial additional authorities to the Governorates. However, we had had prior experience with DSF-like investments in three Governorates which provided us with a model. A PID, per se, was not submitted by the Mission but a concept paper in the form of a cable was submitted and was subjected to a NEAC review in lieu of a PID. While no follow-on funding for the DSF was identified in the original PP, this is true for most of our activities. Neither the Basic Village Services nor the Development Decentralization activity specifically provided for follow-on funding in the original PP. The point is we intentionally limit our initial exposure and subsequently select for additional funding those activities which are relatively more successful. I believe the Agency guidelines encourage repeated investments in areas of successful endeavors. Moreover, I firmly believe good ideas may and do emerge from a gestation period considerably shorter than the eighteen months required by the full PID - CP - PP cycle.

The second point is PPC's denigration of the equipment needs assessment. The DSF is targeted at the maintenance of basic services at the Governorate levels. Egypt's basic infrastructure and other services fell into disrepair during the thirty years following World War II. The DSF not only represents a major policy change where investment decisions are made, it involves also partial movement towards a resource allocation which gives proper attention to maintenance and basic infrastructure and services. It seems to us that this type of investment is fully consistent with the thrust of the Agency's recent policy paper on Recurrent Costs. The AID policy paper disposes of the existing bias in favor of new investments to the exclusion of maintenance and recurrent costs. Finally, I see nothing wrong with financing dump trucks and fire equipment. These items are in high demand and provide tangible evidence of U.S. assistance -- visibility which the GOE earnestly desires.

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This is a politically and economically important project and I hope we can now go forward with it rapidly.


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