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EVALUATION REPORT NO. 1

for the Development Decentralization I Project

under the

Organization for Reconstruction and Development of the Egyptian Village

Ministry of Local Government

assisted by the

U. S. Agency for International Development

USAID/CAIRO
DEVELOPMENT
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CENTER

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INTRODUCTION

The structural and institutional conditions for the development of rural Egypt which were initiated with the Agrarian Reform Law of 1952 accelerated progressively with the establishment of the Organization for Reconstruction and Development of the Egyptian Village (ORDEV) in 1973 and enactment of the Decentralization Law (Public Law 52) in 1975.

The United States Agency for International Development support for rural development includes a project approved in May, 1978, to provide the equivalent of $9,160,000 "to increase the autonomous revenues of Village Councils throughout Egypt in order to help develop financial viability and developmental capability of local administrations."

The financial component of the AID-assisted project is the initial $5,000,000 capitalization of a Local Development Fund (LDF). The technical assistance components of the project include a team to assist ORDEV in the implementation of the project over the first four years and two consultants to assist ORDEV in carrying out periodic evaluations of the project over an initial 30-month period. (Their Statement of Work is included as an attachment.)

The evaluation consultants arrived in Cairo during March, 1979, and remained into April to assist ORDEV in a preliminary evaluation of the conceptual framework and implementation plans for the project.

Since project implementation in Egypt had not yet begun, it was necessary to focus this first evaluation on past ORDEV experience. Fortunately, ORDEV and its parent organization, the Ministry of Local Government, have had considerable experience since 1972 in financing Village Council "economic projects."

ORDEV personnel, both in Cairo and in the field, have cooperated in this evaluation. In addition, consultations were held with Governors and other technical and administrative officers and with private sector managers in two Governorates. The Director General for Evaluation and Follow-Up, Eng. Fawzi El Ahwal, has collaborated closely and participated on a continuing basis throughout the period of evaluation and report preparation. The ORDEV General Director, Eng. Ahmad El Diffrawy, also collaborated closely in the evaluation process and in the formulation of proposed implementation design characteristics and

operating principles. The consultants were also able to share the accumulated experience of the U.S. AID mission staff, particularly that of Ann Fitzcharles, in the process of assimilating background information and in formulating recommendations.

The Report which follows applies the joint cumulative experience of the consultants, interacting with those mentioned above, to a problem vital to the future of Egypt - the building of viable decentralized administrative systems and productive economic activities in rural areas.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

Evaluation Report No. 1 for the Development Decentralization I Project was prepared in close consultation with ORDEV officials by two AID-financed consultants over a period of one month, March 12 through April 10, 1979.

Central themes around which the report has been constructed and to which detail has been added in five chapters are the following:

1. The purpose of the Project, including its Local Development Fund, to improve the financial viability and the developmental capability of local administrations, must be viewed in the context of a number of mutually reinforcing projects contributing to a broad program goal of generating productive rural employment.

2. The strategy for achieving the program goal as recommended by the ORDEV General Director, to "develop new financial and technical mechanisms for promoting small scale private sector opportunities in Egyptian villages," should be applied as soon as possible to the implementation of the Local Development Fund.

3. The Village Councils can generate significant autonomous revenues and approach financial viability by promoting enterprises which generate funds for the special account by indirect rather than direct means - that is, through leasing, joint ventures, loans and most importantly the tax revenues and fees derived from the generation of private sector economic growth.

Findings

1. ORDEV has had considerable experience in providing grants to Village Councils for the direct ownership and management of economic projects. L.E. 4.0 million has been invested in 712 projects through the end of 1977, with an additional L.E. 2.2 million invested in 1978 and L.E. 2.6 million budgeted for 1979.

2. Analysis of these enterprises shows that in nearly

all cases net returns are low or negative, capital cost of employment generated generally is high, and the value added per unit of investment is low.

3. The economic projects have not generated revenue for the Village Council special accounts as was anticipated, nor are they likely to do so in the future if the project criteria remain unchanged, because of the fundamental handicaps faced by government officials, in all countries, in the management of small commercial enterprises having to compete with the private sector.

4. Village Councils, however, with enhanced skill, may be able to operate other types of economic projects and to stimulate the private economy.

Recommendations

1. The Development Decentralization I Project should be integrated with other rural and Markaz town development-related projects to assure a coherent and comprehensive focus on productive rural employment generation.

2. The Local Development Fund of the DD-I project should be viewed as a pilot activity initially aimed at testing alternative systems and procedures for effective joint efforts of the government and the private sector at the local level in expanding the economic base.

3. Recommendations which follow immediately (4, 5, 6, and 7) are pertinent to the internal decisions which can be taken by the LDF Board and its Loan Committee without modifying in any way the purposes of the Project as a whole.

4. At least one of the following criteria should be met for the selection of Village Council economic projects to be financed through LDF loans.

   a. Joint Financing. Village Councils undertaking economic projects under this category should be expected to mobilize half of the funds from the private sector or from their own resources.

   b. Leasing. Village Councils should be encouraged to purchase and/or construct machinery and structures for lease with the lessee given the right to purchase.

c. Project Loans. The LDF Board should allow requesting Village Councils to re-lend funds and to add on a service charge for especially important projects, as, for example, an association requiring supplementary funds for land reclamation.

d. New Technology. LDF loans should be used for economic projects fully owned and managed by Village Councils only when a technology new to the area is being introduced.

5. The LDF Board should approve loans in excess of L.E. 15,000 for projects important to rural growth. The Board also should re-examine the subsidized 6% interest rate as soon as practical noting that the planned rate will deplete rapidly the Local Development Fund, will make more difficult the acquiring of funds for expansion and will encourage projects which tend to waste scarce capital.

6. It is further recommended that the following criteria for the selection of Village Council economic projects to be financed through LDF loans be studied further and consideration then given to their application.

a. Joint Financing and Management. The previous criteria on joint financing leave management as a Village Council responsibility. It is to the advantage of the Council to share management responsibility as soon as qualified private manager/investors are identified. In time projects can be managed wholly by private sector investors with the Council becoming a silent partner.

b. Industrial Infrastructure. Certain Village Councils with adequate electric power and transport may have a potential for becoming micro-industrial growth centers. If so, the Council could develop land adjacent to its headquarters for private shops and factories and make it available on lease.

c. Decentralization of the LDF. The number of loans anticipated will soon justify the establishment by the Board of sub-committees at the Governorate level to approve all but the largest loans. Through decentralization Village Council representatives could become more involved in decision-making.

7. ORDEV should consider how the LDF might develop in the future. The LDF can facilitate a more developmental,

village-oriented policy by established financial institutions or the LDF itself could evolve into a development finance corporation. In either case, it should adhere to operating procedures as close as possible to those of a development finance corporation.

8. The ORDEV Rural Development Center[1] should be established immediately in interim facilities, and the following actions given priority:

   a. The staff with the assistance of consultants should conduct a series of seminar-type training courses leading to a basic syllabus for industrial administration.

   b. The Center should reach a population of elected and appointed officials plus existing and potential private sector entrepreneurs by a variety of courses, derived from the basic syllabus, given at the Center, Governorate and Village Councils.

   c. The Center, in addition to training, should provide supporting services including documentation, recruitment of short-term Egyptian and foreign consultants required by Village Councils or ORDEV and undertake studies starting with an evaluation of the long-term cost-effectiveness of the Local Development Fund.

   d. The Center staff should possess professional skill in at least seven areas and have had significant experience in the day-to-day operation of commercial enterprises similar to those to be promoted by the Village Councils.

9. The Recommendations for the Center will require funds for implementation above the amount in the ORDEV 1979 budget. AID should:

   a. Relate the DD-I budget available for training to the ORDEV expanded budget now under preparation and provide the supplementary funds required for the Rural Development Center, and

   b. Agree to consider a new and separate project to ensure the long-term growth of the Center.

10. The information system of the ORDEV Office for Evaluation and Follow-Up should be expanded as follows:

   a. Detailed information is required on the investments

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[1] In previous documents referred to as the Academy.

made in each economic project financed by the LDF with respect to source, type and use.

b. The internal rate of return should be calculated periodically for each project.

c. Capital productivity as the ratio of value added to fixed capital and the fixed capital per worker ratio should be recorded.

d. Performance standards for various types of enterprises should be prepared to allow a comparison between Village Council assisted and private sector projects.

e. All of the above require the services of an accountant experienced in the financial control systems used in both the Egyptian Government and in Egyptian commercial enterprises.

11. For future periodic evaluations by the AID-financed team, it is recommended that two closely coordinated teams be formed by pairing each of the present consultants with a senior ORDEV officer. The range of problems given detailed attention could be widened and the ORDEV staff could become more intimately involved in the evaluation. The consultants further recommend that their second visit be initiated during the first half of November, 1979.

ملخص النتائج والتوصيـــــات

خلال الفترة من ١٢ مارس الى ١٠ ابريل ١٩٧٩ قام خبيرين أمريكيـــين ، ممولين من قبل الوكالة الأمريكيـة للتنمية الدولية – بعد التشاور مع المسئولين بجهاز بناء وتنمية القرية المصرية بوضع تقرير المتابعة رقم ١ المتعلق بمشـروع لامركزية التطور .

ان الأفكار الرئيسية التى بنى عليها هذا التقرير والتى تمت صياغتها فـى خمسة أجزاء هى كما يلى :

١) ان أهداف المشروع – بما فى ذلك صندوق التنمية المحلية التابع له – والتى ترمى الى تحسين الأوضاع المالية والقدرات الانمائية للادارة المحليـــة يجب أن ينظر اليها ضمن اطار مكون من عدة مشاريع ذات أثر تدعيمـى مشترك تؤدى الى تحقيق الأهداف العريضة للبرنامج ألا وهى خلق عمالة ريفية منتجة .

٢) ان الاستراتيجية الرامية الى تحقيق هدف المشروع كما جاء فى توصية مدير عام جهاز بناء وتنمية القرية المصرية – " ايجاد وسيلة مالية وتكنولوجيـــة جديدة الهدف منها تشجيع وخلق الفرص أمام مشاريع القطاع الخـــاص صغيرة الحجم بالقرى المصرية " – يجب أن توضع موضع التنفيذ فى أســرع وقت ممكن عند تنفيذ صندوق التنمية المحلية .

٣) بمقدرة المجالس القروية أن تقوم بخلق موارد ذاتية هامة والسعى الـــى تحقيق مستوى مالى معقول عن طريق تدعيم المشاريع التى تقوم بتحقيـــق أرصدة مالية للحساب الخاص عن طريق غير مباشر بدلا من الطرق المباشـرة أى من خلال التأجير أو المشاريع المشتركة أو الاقراض والأهم من ذلك هـــو ضرائب الدخل والرسوم التى سوف تتولد عن النمو الاقتصادى للقطاع الخاص .

النتائـــــج

(١) يتوفر لدى جهاز بناء وتنمية القرية المصرية قدر كبير من الخبرة فـــى مجال منـــح الهبات الى المجالس المحلية والتملك المباشر وادارة المشاريع الاقتصادية • هذا وقد تم استثمار مبلغ ٤ ملايين جنيه مصرى فى ٧١٢ مشروع حتى نهاية ١٩٧٧ ، بالاضافة الى مبلغ ٢ر٢ مليون جنيه أستثمرت فى عام ١٩٧٨ ومبلغ ٦ر٢ مليون جنيه فى ميزانيـــة عام ١٩٧٩ •

(٢) أن تحليل هذه المشاريع أظهر أن معظم هذه المشاريع تحقق عائـــد صافى ضئيل أو تحقق خسائر • وبصفة عامة فان التكلفة الرأسمالية لفـــرص العمل المتولدة مرتفعة والقيمة المضافة لكل وحدة من وحدات الاستثمـــار منخفضة •

(٣) لم تحقق المشاريع الاقتصادية العائد المتوقع للحسابات الخاصة المفتوحـــة بالمجالس المحلية ، كما أنه من المستبعد أن تحقق ذلك فى المستقبـــل اذا ما ظلت معايير المشروعات كما هى بدون تغيير وذلك بسبب القصـــور العام الذى يواجهـــه الموظفين الحكوميين فى جميع البلاد وهم بصـــدد ادارة المشروعات التجارية الصغيـــرة التى تتعرض للمنافسة من القطـــاع الخاص •

(٤) قد تستطيع بعض المجالس المحلية والتى تتوفر بها مهارات متطـــــورة أن تدير بعض الأنواع الأخرى من المشاريع الاقتصادية وأن تنشط الاقتصاد الخاص •

التوصيـــــات

(١) يجب ادماج مشروع لامركزية التنمية رقم (١) مع المشاريع الانمائية الأخرى المشابهة للقرى أو المراكز وذلك لضمان تحقيق قدر معقول وشامـــل من التركيز على عملية خلق العمالة الريفية المنتجة •

(٢) يجب النظـــر الى صندوق التنمية المحلية الخاص بمشروع لامركزية التنميـــة رقم (١) على أساس أنه نشاط ريـــادى يهدف أساسا الى اختيـــار

النظم والإجراءات البديلة للوصول الى مستوى فعال من الجهود المشتركة بين الحكومة والقطاع الخاص على المستوى المحلى وذلك لتوسيع القاعدة الاقتصادية •

(٣) التوصيات رقم ٤ ، ٥ ، ٦ ، ٧ الآتية تتعلق بالقرارات الداخلية والتى يمكن أن يتخذها مجلس ادارة صندوق التنمية المحلية ولجنة القروض التابعة له وذلك بدون ادخال أية تعديلات على أهداف المشروع ككل •

(٤) يجب أن يتوفر – على الأقل – احدى المعايير التالية عند اختيار المشاريع الاقتصادية للمجالس المحلية للتمويل من خلال صندوق التنمية المحلية •

) التمويل المشترك : المجالس المحلية والتى بصدد انشاء مشاريع اقتصادية تحت هذا النظام يجب أن تقوم بتعبئة نصف قيمة الأرصدة اللازمة من القطاع الخاص أو من مواردها الذاتية •

ب) التأجير : يجب أن تشجع المجالس المحلية على شراء أوتجميع الآث وتجهيزات بغرض اعادة تأجيرها مع منح حق الشراء للمستأجر •

حـ) قروض المشاريع : يجب على مجلس ادارة صندوق التنمية المحلية أن يسمح للمجالس المحلية التى تقدمت بطلبات الاقتراض أن تعيد اقراض هذه الأرصدة وأن تضيف اليها مصاريف خدمة وذلك بالنسبة للمشاريع التى لها صفة الأهمية مثل أن تطلب جمعية ما أرصدة اضافية لتمويل عملية اصلاح أراضى على سبيل المثال •

د) تكنولوجيا جديدة : يجب أن تستعمل قروض صندوق التنمية المحلية فى تمويل مشاريع اقتصادية مملوكة تماما ومدارة من قبل المجالس المحلية فى حالة ادخال تكنولوجيا جديدة الى المنطقة فقط•

(٥) يجب أن يوافق مجلس ادارة صندوق التنمية المحلية على منح قروض تتجاوز مبلغ ١٥٫٠٠٠ جنيه للمشاريع الهامة لنمو الريف ، كما يجب على المجلس أيضا اعادة النظر فى سعر الفائدة (٦٪) بمجرد ملاحظة أن هذا السعر سوف يؤدى الى استهلاك رصيد صندوق التنمية المحلى والى صعوبة الحصول على الأرصدة اللازمة للتوسع والى تشجيع قيام المشاريع التى تميل الى تدبير عنصر رأس المال النادر .

(٦) بالاضافة الى ماسبق فاننا نوصى بدراسة المعايير التالية التى يمكن استخدامها عند اختيار مشاريع المجالس المحلية للتمويل من صندوق التنمية المحلية وبعد ذلك يمكن النظر فى أمر تطبيقها .

أ) التمويل والادارة المشتركة :

ان المعايير السابقة المتعلقة بالتمويل المشترك تجعل مسئولية الادارة تقع على عاتق المجلس المحلى . وأنه الأصلح للمجلس المحلى أن يشارك فى مهمة الادارة حالما يتوفر مدير أو مستثمر خاص . وبمرور الوقت يمكن أن تدار المشاريع كلية بواسطة مستثمرين أفراد ويبقى المجلس المحلى كشريك صامت (لا يتدخل فى الادارة) .

ب) مرافق البنيه الأساسيه الصناعية :

بعض المجالس المحلية التى يتوفر لديها قدر مناسب من الطاقة الكهربائية ووسائل المواصلات قد يكون لديها القدرة على أن تصبح مراكز للنمو الصناعى الجزئى . وفى هذه الحالات فان المجلس المحلى يستطيع أن يقوم بتطوير الأراضى الملاصقة لمقر لكى تصلح للمتاجر والمصانع المتوقعة وأن يعرضها للايجار .

حـ) لامركزية صندوق التنمية المحلية :

من المتوقع أن يبلغ عدد القروض حدا من الكبر يبرر اتخاذ مجلس الادارة قرارا بانشاء لجان فرعية على مستوى المحافظات يكون عملها هو البحث فى جميع القروض باستثناء القروض الكبيرة .

ومن خلال عملية اللامركزية هذه ، يمكن أن يصبح ممثلو المجالس المحلية أكثر تفاعلا مع عملية اتخاذ القرارات •

(٧) يجب أن يأخذ جهاز بناء وتنمية القرية المصرية بعين الاعتبار الكيفية التى قد يتطور بها صندوق التنمية المحلية فى المستقبل • ويستطيع صندوق التنمية المحلية أن يسهل عملية رسم سياسة للتنمية ذات صبغة ريفية عن طريق انشاء مؤسسات تمويلية وأن يتحوط صندوق التنمية المحلية نفسه ليصبح شركة أومؤسسة لتمويل التنمية •

وعلى أية حال فانه يتعين عليه أن يتمسك باجراءات عمل تكون أقرب ماتكون الى الاجراءات المتبعة فى شركات تمويل التنمية •

(٨) يجب انشاء مركز التنمية الريفية التابع لجهاز بناء وتنمية القرية المصرية على وجه السرعة (١) فى مبان مؤقتة على أن تعطى الاجراءات التالية الأولوية••

أ) يجب على موظفى مركز التنمية بمساعدة الخبراء أن يعقدوا سلسلة من برامج التدريب التى تأخذ شكل الندوات بغرض الوصول الى مناهج دراسية فى ميدان الادارة الصناعية •

ب) يجب على المركز أن يتصل بمجموعة عريضة من المسئولين المنتخبين أو المعينين بالاضافة الى الأفراد المنظمين الحاليين أوالمتوقعين وذلك عن طريق مجموعة من البرامج مأخوذة من المناهج الرئيسية التى تدرس بالمراكز والمحافظات والمجالس المحلية •

حـ) بالاضافة الى التدريب فانه يجب على المركز ان يوفر العديد من الخدمات المساعدة بما فى ذلك التوثيق ، واستجلاب الخبراء المصريين والأجانب اللازمين لمساعدة المجالس المحلية وجهاز بناء وتنمية القرية المصرية لمدد قصيرة ، والقيام بدراسات متعددة مبتدئين بعمل تقييم عن معدل التكلفة الى الكفاءة

(١) أشير اليه فى كتابات سابقة بالاكاديمية •

فى الأمد الطويل لصندوق التنمية المحلية.

) يجب أن تتمتع هيئة التدريس بالمركز بالمهارات المهنية فى سبع ميادين على الاقل كما يجب أن تتوفر لديهم خبرات ذات قيمة فى مجال الادارة اليومية للمشاريع التجارية التى تماثل فى طبيعتها المشاريع التى تزمع القيام بها المجالس المحلية.

(٩) ان التوصيات المتعلقة بالمركز سوف تتطلب أرصدة اضافية تزيد عما أدرج فى ميزانية الجهاز لعام ١٩٧٩ ويجب أن :

أ) ربط ميزانية مشروع لامركزية التنمية رقم (١) المخصصة للتدريب الى ميزانية الجهاز الموسعة التى يجرى حاليا اعدادها وتوفير الأرصدة الاضافية اللازمة لمركز التنمية الريفية و

ب) الموافقة على دراسة مشروع جديد ومنفصل لضمان النمو طويل الأمد للمركز .

(١٠) يجب أن يتوسع نظام جمع المعلومات الخاص بادارة التقييم والمتابعة الخاص بجهاز بناء وتنمية القرية المصرية كما يلى :

أ) لا بد من توفر معلومات مسهبة عن الاستثمارات التى تتم فى كل مشروع اقتصادى يمول عن طريق صندوق التنمية المحلية فيما يتعلق بمصدر ونوع واستخدامات هذه الاستثمارات .

ب) يجب حساب معدل العائد الضمنى لكل مشروع على أساس دورى.

حـ) يجب استخراج انتاجية رأس المال (معدل القيمة المضافة الى رأس المال الثابت) كما يجب استخراج معدل رأس المال الثابت الى العامل .

د) يجب اعداد مستويات للأداء للأنواع المختلفة من المشروعات حتى يمكن المقارنة بين المجالس المحلية التى تمت مساعدتها وبين مشاريع القطاع الخاص .

هـ) جميع النقاط السابقة تتطلب خدمات محاسب متمرس فى أنظمة

التجارية الخاصة •

(١١) لأغراض التقييم الدورى من قبل الخبراء الممولين من الوكالة الأمريكية للتنمية الدولية ، فانه من الأفضل تكوين طريقين متناسقين عن طريق مزاملة كل خبير من الخبراء الموجودين حاليا بزميل آخر ذو مرتبة ادارية عالية من جهاز بناء وتنمية القرية المصرية•

وبهذا يمكن توسيع مدى المشاكل التى يمكن توجيه الاهتمام اليها بالاضافة الى اشراك موظفى الجهاز فى عملية التقييم• كمايوصى الخبراء أيضا أن تبدأ زيارتهم الثانية خلال النصف الأول من نوفمبر ١٩٧٩ •

I. APPROACH TO THE EVALUATION

The evaluation of DD-I can be facilitated by placing this project firmly within the context of broader program goals for rural development.

Program Goals and Project Purposes

DD-I should be viewed as one element of a more comprehensive set of projects (together making up a program) to accelerate rural development. The desired result of rural development then becomes meaningful in a development program context when a specific program goal is identified. In the framework of Egyptian development planning and USAID assistance approved and under consideration for rural development, the specific program goal appears to be productive rural employment generation and the improved rural incomes resulting therefrom.

Some question exists as to the level of un- or under-employment in rural Egypt. No question exists that about two million rural families are landless rural workers with incomes well below the poverty line. It is imperative, therefore, that the institutional infrastructure and the appropriate technology be marshalled for higher productivity and the generation of increased employment and incomes for this poorest group. Some of this increased employment and income might come from direct crop production but most will have to come from non-farm activities. Lack of employment creation opportunities and capacity to expand rapidly social services in metropolitan centers makes it imperative that a major portion of needed work places be found within rural areas. Social development in these rural areas can follow economic development as incomes of the poor majority are increased.

The project purposes of DD-I are centered on the Village Council.[1] The stated purpose is "to strengthen financial viability and development capability of selected Village

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[1] A council of 16 members is elected to represent a population averaging 25,000 in a cluster of villages. The elected council under a chairman shares authority with an executive board under a chief drawn from an executive unit composed of officials appointed by various government agencies. In this report "Village Council" will refer to the entire group of elected and appointed officials. In 21 rural Governorates there are now 785 Village Councils.

Councils." This purpose contributes to achieving the project goal of reinforcing and strengthening decentralized local government.

Parallel with DD-I, USAID is assisting ORDEV in launching the Basic Village Services (BVS) project. Investing eightfold larger sums, the purpose of BVS is to improve rural physical infrastructure - another approach toward the program goal of increasing productive rural employment and incomes. In part, the successful implementation of the BVS project will depend upon more effective local administrations as does the DD-I project. These two new projects represent a small portion of rural development projects under way or under consideration by the Government of Egypt. A number are being assisted by AID, the World Bank and other bilateral and multilateral agencies. Many will by-pass ORDEV and the Village Council - not recognizing the potential for development administration which lies at this local level.

In good part, the degree to which Village Councils can contribute to the program goal depends upon the success of DD-I.

Evaluation Strategy

The Project Paper and other documents describe the original approach proposed for achieving the project purposes. The evaluation strategy, drawing on the ORDEV experience and related experience of many other countries, has been one of projecting alternative approaches over the next five years. Various scenarios have been assumed based on the alternative approaches and for each an end of project status anticipated. It has been possible to identify alternative tactics so as to achieve with a minimum of delay the project purpose and the program goal. Considerations found important in the refinement of the DD-I strategy include:

- importance of designing economic activities which conserve and maximize the contribution of scarce entrepreneurial, managerial and administrative skills at the Village Council level and which mobilize private sector entrepreneurial capacities in the villages.

- urgent need to increase simultaneously the skills available at all levels, not only for ORDEV and the Village Council, but also for government banks and for the private sector at the local level.

Chapter II reviews and analyzes a sample of current ORDEV

the considerations of this chapter provide the framework for recommendations in Chapter III for future village level economic projects. Chapter IV addresses the important problem of skill development and Chapter V complements the first by providing draft suggestions on how to improve the evaluation of economic projects.

II. VILLAGE COUNCIL PROJECTS AT PRESENT

In 1972 the Ministry of Local Government, as an experiment, began providing grants to 17 Village Councils for economic projects. These small-scale profit-oriented enterprises were owned and managed by Village Councils. Soon after 1973, on the establishment of ORDEV, grants for economic projects were expanded rapidly. By the end of 1977, about 400 out of 785 Village Councils had invested in 712 projects using ORDEV grants totalling LE 4.0 million.[1] ORDEV grants on a smaller scale also were made for social projects (training in particular) and for construction of physical facilities.

The objective of the economic projects has been to provide Village Councils with an additional source of income to supplement their share of locally generated fees, tax revenues and other funds. Such funds accrue in a Village Council special account from which disbursements are made as the Village Council sees fit for either economic or social purposes.

The ORDEV report for calendar year 1978 provides operating information for the 712 economic projects. This report has been translated and, in addition, more detailed information has been obtained from the files for a random sample of 78 projects. (Not included are economic projects initiated during 1978 which received ORDEV grants totalling LE 2,200,000.)

Economic Projects: 1978 Operations

The tables that follow cover economic projects in 19 Governorates and in 9 industry groups for which two, agricultural mechanization and poultry production, received 74% of the ORDEV grants. ORDEV investments were distributed over Village Councils in the 19 Governorates in accordance with the national plan.

While the overall net cash flow for the 712 economic projects was negative for 1978, projects in eight governorates showed positive cash flows under the system of accounting employed. Only two governorates, Gharbia and the Fayoum, however, would have been able to pay the 6%

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[1] LE 1.00 = $1.48.

annual interest required by the LDF. Project income as a whole in no governorate could have paid the LDF interest and still have generated the 15% internal return suggested in the DD-I Project Paper.

The Fayoum average rate of return of 11% on ORDEV grants may be deceptive, since income was generated also by private sector funds mobilized for a portion of the 24 economic projects in that governorate.

Of the 9 industry groups represented in the 712 projects, 5 groups produced a positive cash flow for 1978 and two of the minor groups (agricultural processing and chicken feed production) could have paid 6% interest. The net cash flow for the group "agricultural processing" was distorted by an extremely high income for a single project (possibly from the sale of an inventory accumulated during previous years).

Project accounts are kept on a cash flow basis. Depreciation is calculated generally at 10% for machinery and 5% for structures, as established by law for tax purposes. In most cases, depreciation is a bookkeeping entry only, with no funds set aside in a reserve. No taxes or interest are paid. There is no obligation to repay the ORDEV grant. (The new ORDEV Local Development Fund will expect repayment of the principal within two to seven years.)

More detailed information on the random sample of economic projects is presented in Table 3.

The 36 projects examined from the agricultural machinery group employed about 1.5 workers per unit of machinery at annual incomes averaging LE 200 per worker. The average investment cost to ORDEV per worker was LE 4,230. Currently the fee charged by Village Councils for tractor plowing is LE 4 per feddan[1] while private custom tractor operators charge LE 5 to 6. A Village Council mower, also available at LE 4 per feddan, was reported to replace labor which would have cost LE 15 per feddan.

Similar comparative cost data from private sector poultry projects are not available, but they appear to be thriving and, from brief observations of a limited number, are operating closer to full capacity than Village Council poultry projects.

From Table 3 data it appears that the ORDEV grants through 1977 of LE 4.0 million generated direct employment for about 1500 individuals. Excluding supplementary investments by Village Councils and by private individuals (in the Fayoum), the investment cost varied from the previously

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[1] 1 feddan = 1.04 acres

reported LE 4,230 per worker for agricultural machinery to LE 1,120 for handicrafts. The average was approximately 2,700 per worker ($3,860). This sum is reasonable as contrasted to the estimate for large-scale industry in the current Five Year Plan (LE 22,000 per worker before correcting downwards for price index changes) but is high compared to, for example, the rural Philippines.

The value added to fixed capital ratios (influenced less by price index changes) are quite low for the sample of economic projects, ranging from 0.7 for fish culture to 0.1 for agricultural machinery and poultry. (The ratios are approximate since the "investment" includes operating capital but excludes funds derived from the Village Councils and the private sector.)

The current Five Year Plan, for full capacity, estimates a value added to fixed capital ratio of 0.55 for all large-scale industry and 1.5 for the engineering and electrical industries. In most countries with comparable per capita incomes small-scale rural industry achieves value added to fixed capital ratios in the range of 1.0 to 2.0.

Economic Projects: Some Conclusions

Economic projects to date as a group have not generated revenue for the Village Council specialaccounts. The positive net cash flows have been derived from the depletion of capital assets rather than from operating profits. No industry group as a whole and very few individual projects (less than one out of twenty) are generating sufficient income to pay the planned LDF interest rate of 6% and to accumulate reserves necessary to replace capital equipment. A number of short and long-term factors conspire to reduce profits and virtually exclude any real income accruing to the Village Council special accounts. A brief analysis of these factors follows.

The current rate of increase in the price index challenges the skill of the most sophisticated private sector managers in Cairo to make a profit. (The interest rate charged for transfers among Cairo business firms has been reported to be at an annual rate of 22%.)

Village Council projects have tended toward a replication of enterprises already well established in the private sector, e.g., tractors and poultry, where experienced and entrepreneurial managers provide competition. This competition is likely to continue. The AID-financed study, Further Mechanization of Egyptian Agriculture, March 1, 1979, reports 20,000 tractors already in private hands. Recent tax law changes encourage the private poultry industry.

The administrative system under which government officials operate is not conducive to the operation of competitive commercial enterprises. This is generally true in all countries, including the industrialized, and is no reflection whatsoever on the skill of Egyptian officials who must make business decisions under severe handicaps. It is possible, of course, to modify the fiscal management and administrative systems at the Village Council level to improve the performance of economic projects. The result could be the equivalent of a village development corporation. A number of national governments, however, on transferring management of small commercial enterprises from public bureaucracies to public development corporations, have not been wholly satisfied with the result. Poland, for example, on nationalizing its economy, decided to leave small farms and small industry in the private sector.

An example of the comparative efficiency of these enterprises with private sector activities is available for custom tractor operation. A recently-completed farm machinery survey sponsored by USAID shows that private tractor owners who do custom work operate their tractors about 900 hours per year. Based on revenues, Village Councils appear to operate their tractors only about 300 hours per year.

The handicaps noted above would have resulted in a combined loss to Village Councils during 1978 or at least LE 400,000 on the ORDEV investment of LE 4.0 million if reserves had been set aside to replace fixed capital and to maintain the purchasing power of operating capital. In addition, ORDEV, by not charging interest, sustained a similar loss.

The handicaps described can be overcome in part and losses reduced through the intensive development of a wide range of managerial, administrative, motivational and technical skills. For many reasons a program of skill development should be given a high priority as discussed in Chapter IV. However, even intensive skill development will not make it possible for Village Councils to generate significant revenue from direct ownership and operation of commercial enterprises competing with those in the private sector. Here are some of the reasons:

1. It can be anticipated that private sector skills also will increase and competition become more intense.

2. A larger proportion of the government officials who do acquire high level entrepreneurial/managerial skills will leave government service to join the private sector.

3. Those able individuals who remain attached to Village Councils might better be occupied in stimulating the private sector than in managing a micro-component of the rural economy.

From the above analysis it should not be concluded, however, that Village Councils cannot operate certain types of economic projects, cannot take action to stimulate the economy and have no prospect of generating additional autonomous revenues. The Councils, for example, with further skill development, should be able to operate income-producing public utilities of the type planned under the Basic Village Services project.

Some ways in which Village Councils may stimulate private sector economic growth and participate in incomes thereby generated are described in the next chapter.

Table 1

ORDEV Assisted Economic Projects by Governorate (Cumulative through 1977)[1]

Governorate	No. of Projects	ORDEV Investment LE	Gross Income LE	Gross Expenses LE	Net Cash Flow LE Plus or (Minus)
Ismailia	10	50,553	11,452	12,326	(874)
Qalyubia	33	163,377	60,562	67,512	(6,950)
Sharkia	65	346,061	87,302	97,409	(10,107)
Dakhalia	68	335,789	80,000	86,228	(6,228)
Damietta	22	131,794	33,804	30,806	2,998
Minufia	40	293,556	95,726	82,726	13,000
Gharbia	52	274,800	119,710	99,567	20,143
Kafr-al-Shaykh	50	258,257	97,116	90,096	7,020
Beheira	87	392,721	155,545	136,675	18,870
Giza	24	130,743	21,830	26,793	(4,963)
Fayoum	24	150,907	103,092	85,720	17,372
Beni Suef	40	239,146	83,294	80,969	2,325
Minya	53	330,740	91,804	110,019	(18,215)
Asyut	34	227,665	75,806	79,655	(3,849)
Sohag	36	217,912	78,768	77,951	817
Qena	37	212,610	83,568	100,216	(16,648)
Aswan	19	76,014	18,174	22,803	(4,629)
Matruh	10	124,160	10,482	14,019	(3,537)
New Valley	13	52,650	14,622	20,949	(6,327)
	717	4,009,455	1,322,657	1,322,439	(218)

[1]All data are from the records of the ORDEV Office of Evaluation and Follow-Up analyzed and translated by a consultant, Mrs. Sophie Boulos.

Table 2

ORDEV Assisted Economic Projects by Industry Group (Cumulative through 1977)

Projects	No. of Projects	ORDEV Investment LE	Gross Income LE	Gross Expenses LE	Net Cash Flow LE Plus or (Minus)
Agricultural Machinery	343	2,260,015	408,527	434,160	(25,633)
Poultry	92	689,269	467,630	465,447	2,183
Handicrafts	129	601,507	279,903	253,392	26,511
Bee Keeping	80	308,939	56,400	67,896	(11,496)
Agricultural Processing	9	34,040	28,952	17,270	11,682
Silk Production and Seedlings	46	51,362	5,750	11,853	(6,103)
Fish Culture	3	9,921	2,073	1,224	849
Cattle Feeding	8	33,412	31,322	33,119	(1,797)
Chicken Food Production	2	21,000	41,419	38,168	3,251
Totals	712	4,009,465	1,321,976	1,322,529	(553)

Table 3

Economic Characteristics of Selected ORDEV Assisted Projects for Calendar Year 1978

Project:	Agricultural Machinery[1]		Poultry[2]		Handicrafts[3]	
	Total	Random Sample	Total	Random Sample	Total	Random Sample
Number of Projects	343	36	92	14	129	11
Investment LE	2,262,015	228,200	698,269	119,535	601,517	41,800
	Average Per Project for 1978					
Investment LE	6,590	6,340	7,490	8,540	4,663	3,800
Gross Income	1,191	1,236	5,083	6,421	2,170	2,478
Expenses						
Total	1,266	1,333	5,059	6,286	1,964	2,620
Purchased Inputs	--	454	--	5,295	--	1,568
Labor	--	309	--	443	--	695
Depreciation	--	570	--	548	--	357
Net Cash Flow	(75)	(97)	24	135	206	(142)
Equivalent Full-Time Workers	--	1.5	--	2.3	--	3.4
Total Investment/Worker	--	4,230	--	3,710	--	1,120
Value Added/Total Investment	--	0.14	--	0.12	--	0.28

[1]Agricultural machinery: mainly tractors for custom plowing but also including mowers, threshers, pumps, etc. Each set of machinery constitutes a "project."
[2]Poultry: mainly broilers but also chick and egg production.
[3]Handicrafts: mainly carpentry, carpets and blanket weaving, etc.

Table 3, continued

Project:	Bee Keeping		Agricultural Processing[1]		Silk Production	
	Total	Random Sample	Total	Random Sample	Total	Random Sample
Number of Projects	80	12	9	2	46	1
Investment LE	308,939	50,628	34,040	6,250	51,362	1,000
	Average Per Project for 1978					
Investment LE	3,860	4,220	3,780	3,125	1,116	1,000
Gross Income	705	708	3,217	619	125	138
Expenses						
Total	849	846	1,919	873	258	178
Purchased Inputs	--	221	--	414	--	33
Labor	--	313	--	246	--	100
Depreciation	--	312	--	213	--	45
Net Cash Flow	(144)	(138)	1,298	(254)	(133)	(40)
Equivalent Full-Time/Workers	--	1.7	--	1.5	--	1
Total Investment/Worker	--	2,482	--	2,093	--	1,000
Value Added/Total Investment	--	0.15	--	0.15	--	0.14

[1] Agricultural processing includes olives, milk, etc.

Table 3, continued

Project:	Fish Culture		Cattle Feeding		Chicken Feed	
	Total	Random Sample	Total	Random Sample	Total	Random Sample[1]
Number of Projects	3	1	8	1	2	--
Investment LE	9,821	727	33,412	6,500	21,000	--
	Average Per Project for 1978					
Investment LE	3,270	727	4,176	6,500	10,500	--
Gross Income	283	251	3,915	2,566	20,710	--
Expenses						
Total	408	540	4,140	1,896	19,084	--
Purchased Inputs	--	nil	--	38	--	--
Labor	--	540	--	1,608	--	--
Depreciation	--	--	--	250	--	--
Net Cash Flow	(125)	(289)	(225)	670	1,626	--
Equivalent Full-Time Workers	--	3.0	--	.5	--	--
Total Investment Per Worker	--	240	--	765	--	--
Value Added/Total Investment	--	0.74	--	0.29	--	--

[1]Data on individual projects reviewed were not consistent.

III. CRITERIA FOR ECONOMIC PROJECTS TO BE FINANCED UNDER THE LOCAL DEVELOPMENT FUND

The present ORDEV strategy for assisting Village Councils in the establishment of economic projects has been outlined by the General Director in a recently published document as follows:[1]

1. ORDEV supplies the capital and technical requirements of village production activities and

2. provides support for local government decentralization through the training of elected and appointed officials at various levels.

The General Director then proceeds, in the same document, to suggest a future strategy:

> "The longer term and more important elements of the strategy will probably center on the development of new financial and technical mechanisms for promoting small-scale, private sector, productive investment opportunities in Egyptian villages as well as developing a regional and local capacity for the planning, design, implementation and evaluation of economic development projects at the Village and Markaz level."

A New Strategy

The evaluation consultants endorse the statement on ORDEV future strategy and recommend that the Local Development Fund of the DD-I project becomes the means of transforming the old into the new strategy.

The new strategy necessitates a new type of economic project, criteria for which must take into account the following two implications of the new strategy.

The shift from Village Council ownership/management of economic projects to Village Council promotion of private sector investment also shifts special account income from direct to indirect revenues. Indirect revenues, which in time can far exceed any profits from the present economic projects, can be generated from a variety of joint

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[1] Eng. Ahmed El Diffrawy, Integral Rural Development

ventures, leasing, loan participation and most importantly from tax revenues and fees increased through a successful stimulation of rural economic growth.

The shift at the same time can reduce the level of complex skills required of officials by drawing on skills available or to be acquired in the private sector. Figure 1 indicates how the present skill gap can be narrowed by simultaneously reducing the skills required while increasing the skills available.

In joining government and non-government efforts, it is important to assign responsibility for those things in which each has a comparative advantage. For example, government can bring a concentrated level of organized financial and technical resources to bear on identifying, analyzing and designing innovative enterprises for realizing rural productive opportunities. Government can bear investment risks in innovative undertakings that cannot be borne by the rural private sector. It can provide training resources not available locally. It can catalyze local action and mobilize local resources. It can identify and/or facilitate linkages in the market structure from local to higher levels that may be difficult or impossible for the rural private sector to accomplish.

By contrast, the private sector can better respond to entrepreneurial incentives, once identified and demonstrated to be economically viable. It can mobilize investment capital to supplement public capital. Given access to technological and managerial know-how, private sector owners and managers can achieve and sustain a level of economic efficiency and profitability in enterprise operation that cannot be expected from publicly operated enterprises. This is because their level of income depends on productive efficiency.

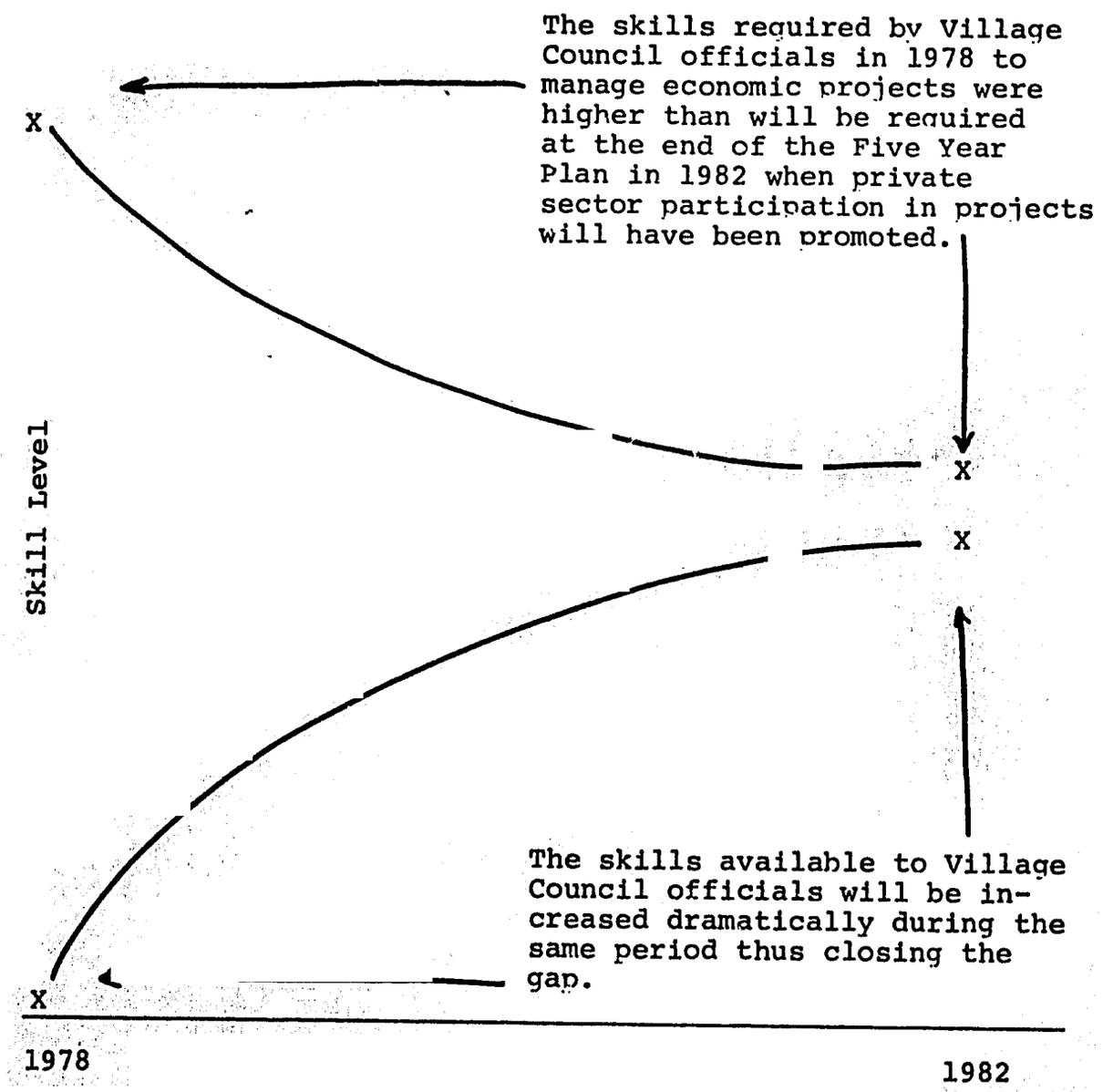
The transformation of the old into the new strategy converts the Local Development Fund from a mechanism simply to provide subsidized credit to Village Councils into an embryo development finance corporation.

The problem of transferring the old into the new strategy is one of timing, not of ultimate objectives. ORDEV would experience problems were it abruptly to modify the criteria for LDF loans after the original criteria have been accepted. For example, ORDEV would prefer:

1. Investing LDF loans through Village Councils which have not previously received ORDEV grants for economic projects,

2. Holding the local contribution in each project to no more than 25%, and

Figure 1. Eliminating the Skill Gap



3. For the present, the interest rate might be held at 6%.

Village Councils not able to mobilize half the investment to qualify for LDF loans under the first category could proceed to consider loans under the other three categories.

Criteria for Immediate Application

Criteria have been suggested in the Project Paper and other documents for the economic projects being initiated under the LDF. They include: profitability to permit a 6% interest and a 15% internal rate of return; creditworthiness of applicant; etc. These are excellent and can be detailed to the degree found necessary by ORDEV and its technical assistance team.

Further criteria for economic projects are recommended by the evaluation consultants to speed the transformation from the old to the new strategy. They should be considered by the LDF Board and its Loan Committee.

All projects financed by the LDF should fall into one or more of the following four categories.

Joint Financing

The LDF should insist that projects undertaken by Village Councils under this category mobilize no less than half of the total capital requirements from private or Village Council sources. Joint financial participation reduces the load on the LDF, gives villagers a sense of participation, prepares them for a later more active role, and by mobilizing surplus funds for productive enterprises reduces inflationary pressures.

It is desirable that each project plan allow for later joint management including arrangements for appropriate training for private sector managers. The plan might include also provision for the eventual sale of ownership and transfer of full management control to the private sector.

The Fayoum Governorate experiment in joint financing appears to have been successful. Having received 3.9% of all ORDEV economic project grants, the Fayoum generated 21% of all net cash flows.

Leasing

A large number of economic projects of the type now receiving ORDEV grants could be leased by Village Councils to private groups or individuals. These include tractors, pumps, shop equipment, sewing machines and even

poultry production and bee keeping facilities. The management responsibility of the Village Councils would be reduced and their potential revenue increased. The administrative simplicity of leasing makes practical the introduction of low cost equipment. In such cases a lease/purchase agreement is preferred.

Structures considered important to the economy and which could be leased at a profit, e.g., shops for merchants and sheds for artisans, could be built by the Village Council with LDF financing.

Lease/purchase agreements have the advantage of built-in evaluation. The first missed payment indicates a problem. If repeated, the equipment would have to be repossessed.

Loans

For economically important projects, Village Councils should be empowered to serve as the intermediary between the LDF and a borrower. An association may require supplementary funds for land reclamation or a group of small producers may need a processing plant. At present, commercial or development loans from existing financial institutions appear most difficult to secure at the village level. For such loans the day-by-day management problems of the Village Council are reduced but the project evaluation problems are increased. In these cases, LDF should use its influence to secure at least partial financing from village or commercial banks.

The Village Council would guarantee loan repayment and interest to the LDF, but in turn would add on a loan fee to pay for its services.

New Technology

Both agriculture and industry in rural Egypt require innovative, but appropriate, technology to speed productivity, employment and income increases. In this regard, Village Councils should be leaders rather than followers and with LDF participation can become so. The LDF should give priority to requests by Village Councils to acquire technology which is new to the area, which appears to be economically profitable and which is likely to spread widely in the private sector once demonstrated to be viable.

Loan Size and Interest Rates

ORDEV grants made up to and including 1977 were uniform in size, averaging LE 5,600 each. LDF loans under the criteria suggested above will vary widely in size. Many of them will require LE 100 or less. A number may exceed the LE 15,000 limit and the LDF Board should approve them

Experience can test the hypothesis that larger loans could provide economies of scale, generate linkages and integration of activities, reduce the number of qualified entrepreneurs/managers required and, in general, speed up rural development.

Even with certain loans exceeding LE 15,000 each, the average loan size could decrease and the number increase if lease/purchase loans become popular.

The LDF interest rate when established at 6% appeared high compared to the ORDEV grants with zero interest. However, a 6% which includes a grace period and service charges cannot maintain the value of the original capital fund. A justification exists for the LDF Board to examine its interest rate policy as soon as is practical.

Criteria for Future Studies

The evaluation consultants suggest further criteria for economic projects - but with the caveat that further study is essential.

Joint Financing and Management

Previously it has been suggested that joint financing with the private sector and the Village Council be obligatory for applications to the LDF for projects falling under the first category. Later, with further experience joint management could also be made obligatory. As soon as private entrepreneurs can be located or trained as managers they can assume management responsibility for economic projects. Reducing Village Council responsibility for each project allows participation in many additional projects. The Village Councils can become the silent partners with private individuals and groups.

Village Councils can look to Markaz towns and Governorate capitals for entrepreneur/manager partners. A few large companies may be enticed into joint venture branches with village partners. Availability of LDF capital, if used wisely by Village Councils, can be a powerful inducement for the attraction of additional capital and skilled individuals.

Industrial Infrastructure

ORDEV may want to study the practicability of inducing private sector growth on land adjacent to Village Council headquarters. Where electric power is available, highways have been surfaced and if the Governorate city is not too distant, there may be a potential for small-scale factories

and shops. The trade-off lies between moving people to the city or moving employment opportunities to the village. The former strategy dominates in most countries, but there are exceptions, including China, Japan, Puerto Rico and Austria.

Careful study is required of the potential and inducements necessary for more rapid industrial growth at the Village Council, Markaz and Governorate levels.

Decentralized LDF Decision Making

The growing number of LDF loans, especially of small size, will within a short time make it desirable for the LDF Board to establish loan sub-committees in Governorates. Village Council representatives could then become more actively involved in loan decisions and assume more responsibility for preserving the value of the capital fund.

Institutional Evolution of the LDF

The LDF, with good management, could evolve in a number of directions. Its activities, for example, could facilitate a more developmental policy toward village credit by the Principal Bank for Development and Agricultural Credit, the Nassr Social Bank or the commercial banks.

On the other hand the LDF could evolve into a development finance corporation. ORDEV may want to consider an eventual configuration of regional development finance institutions in which Governorate, Markaz and Village Councils participate in the management. Such an institutional evolution would be consistent with the General Director's suggested future strategy calling for "new financial mechanisms" and the DD-I Project Paper statement that "the LDF can evolve into a financial institution of several potential dimensions."[1]

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[1] The evaluation consultants note that the LDF initial capitalization allows only a small pilot operation placing LE 4,500 of outside capital, on the average, at the disposal of each Village Council. Any significant change in productive rural employment will require at least LE 100 million a year of investment capital in addition to the

IV. SKILL DEVELOPMENT AND THE ORDEV RURAL DEVELOPMENT CENTER

ORDEV's major contribution to date to rural development has been through grants to Village Councils. In the future, as the Village Councils, with ORDEV assistance, learn how to mobilize funds from a variety of sources, skill development will replace finance in importance. Toward this objective the present ad hoc seminars and training tours abroad can be developed into a long-term, intensive program reaching all levels, imparting a variety of skills and reinforcing new skills with supporting services.

The skill spectrum of special interest to ORDEV and essential for the generation of productive rural employment includes:

- entrepreneurial
- administrative
- managerial
- technical

The Egyptian rural society, to modernize rapidly, must acquire and retain (before they migrate to a city) additional risk-taking, innovative entrepreneurs in both the private and public sectors. The Village Council officials, elected and appointed, can best exploit their growing financial autonomy by acquiring appropriate administrative skills. Many also, along with private sector entrepreneurs, will require management skills. These skill needs are common to all Village Council economic activities. In addition, technical skills, specific to each activity, are required ranging from tractor repair to potable water system design.

In Chapter III, economic projects designed to be skill saving were recommended. This chapter suggests skill enhancement. As soon as the skills available approach the skills required, the Village Councils will be ready to expand rapidly the promotion of rural development.

Population To Be Reached

To support the "administrative revolution" and "effective decentralization" called for in the Five Year Plan, as well as to promote LDF-financed economic projects, ORDEV must reach directly and indirectly a large population in

the public and private sectors.

The ORDEV staff includes the officials in Cairo, about 50; officers at the Governorate and Markaz levels, about 260; plus the projected staff of the Rural Development Center, about 10.[1]

ORDEV must also reach 785 Village Councils, each with an elected chairman, 16 council members, an appointed executive staff including the Chief Executive, plus the staff of a branch bank.

Experience in development of the private sector in rural areas of other countries indicates the need, as a very crude estimate, for locating and assisting one entrepreneur/manager for each one thousand in the population. Such a number of aggressive and motivated individuals could carry out the rural modernization process in Egypt. Thus in each region served by a Village Council, about 25 such individuals should be identified and assisted. A portion of these should be provided training during the next few years.

As an order of magnitude estimate ORDEV should plan a skill development program initially for the following:

ORDEV. Senior officials in Cairo, at the Governorate and Markaz levels and in the Rural Development Center.	200
Elected Members of the Councils. The chairman and key members of the Village Councils plus a small number of elected leaders responsible for rural economic development from the Governorate and Markaz Councils.	15,000
Appointed Officials. The Village Council Executive Board and senior members of the unit including the Village Bank and other services, plus a small number of appointed officials from the Markaz and Governorate.	6,000
Private Sector. Existing and potential entrepreneur/manager/investors in rural enterprises who in the future will spearhead the drive for non-farm rural employment.	8,000

Before discussing how to reach a population of this size, there is need to examine the content of the skills to be imparted.

A Basic Syllabus

Of the four skill areas mentioned previously, ORDEV should assume responsibility for the first three. Technical training needs are too diverse to be the responsibility of any one organization. However, officers trained by ORDEV would know how to identify the technical requirements of projects and how to recruit technically qualified individuals. In many cases the officers being given broader skills will already be technically qualified.

At the heart of skill content is the ability to plan, to administer and to manage rural development at the macro and micro levels. The economic planner in the Governorate and the private manager of a rural industrial enterprise have more in common with respect to skill needs than is generally recognized. Both need to know, for example, something about market forces and financial management.

In the past, the U.S. tradition has been to separate the disciplines of public administration and industrial management. Within the past decade, this separation has been found artificial and "industrial administration" training has been widely introduced.

A wealth of material is available in Egypt and in many other countries for the training of rural development administrator/managers. Most can be made available to ORDEV at negligible cost. Furthermore, the subject matter content of a basic syllabus has been suggested in the Project Paper of January 23, 1978, through a list of 57 technical assistance and training needs of ORDEV. No purpose is served by commenting on this list, since only experience in Egypt can determine which portions are appropriate to the needs of rural development. Suggestions are made only to supplement the list and to suggest how the basic syllabus can be used.

Practicing New Skills

ORDEV should be conducting both long and short training courses at the Center. The longer courses, of about three months, should include a period of practice. The participants should work in private and public sector projects testing out the subject matter learned during the first weeks of the training period. The final period back in the seminar room would consolidate and organize what has been learned in practice.

The periods in practical work would allow the preparation of case studies.

Entrepreneurship

It was not recognized until 1900 that the skills of managers and administrators could be improved through training. Now it is generally conceded that entrepreneurial skills can be enhanced as well. Rural Egypt, to accelerate development, requires large numbers of innovative, risk-taking administrator/managers in the public and private sectors. Experience in a number of countries is that individuals with a potential for entrepreneurship can be identified and those with a latent ability can become better entrepreneurs.

Training Techniques

Skill acquisition is accelerated by participation in the training process, that is, by seminar discussions rather than merely listening to lectures. This technique necessitates small groups, in the range of 20 to 30, and highly qualified instructors.

Training Course Flexibility

Through experience in giving courses and by drawing on Egyptian and international experience, the Center staff can, within a period of about one year, develop the basic syllabus. Then with little additional effort material can be selected for courses, short or long, given at the Center or in the field. Specialized courses, e.g., to administrators, to managers or to high or low level officials, can easily be designed.

The number of individuals to be reached will require on-site training at the Village Council and Governorate levels conducted by individuals trained at the Center as well as the Center staff. During its second year of operation the Center could train about 200 at its headquarters and larger numbers in the field.

Supporting Services

Qualified and experienced individuals comprising the Center staff can support the ORDEV program with activities in addition to training. A number of activities will evolve of which the following are examples.

Documentation

The Center staff can draw on Egyptian and international experience through the selective collection of documents and can incorporate relevant findings into training courses for immediate application. The Industrial

Development Center for Arab States, for example, maintains a documentation center in Cairo.

A limited number of documents should be published. The basic syllabus, when perfected, could be distributed widely to encourage the application of industrial administration training.

Many documents are available in Egypt which could reach a larger population through ORDEV. In time, new material could be written for publication. Very soon the Center, from the accumulated documents and the experience of its staff, could supply answers, without further study, to many of the questions arising in Village Councils.

Consultancy

The Center staff would be qualified to serve as consultants to Village Councils and, time permitting, could assist in the solution of intractable problems. Furthermore, the staff could provide additional channels for the recruitment of short-term consultants to assist the Center, ORDEV and the Village Councils.

It is important that the Center budget allow for the short-term recruitment of Egyptian and foreign consultants. Priority needs include the writing and testing of the basic syllabus and the introduction of technologies new to Egypt.

Of special relevance is a decision by the Government to participate in a United Nations-financed program to bring back to Egypt, as short-term volunteer consultants, expatriates now working abroad. The AID Office of Science and Technology is planning a similar program.

Studies

The Center design should provide for a limited number of studies of a practical nature which could immediately influence the development strategies of Village Councils.

Priority should be given to the evaluation of the long-term cost effectiveness of the Local Development Fund giving special attention to how the LDF should expand and evolve.[1]

Of special importance are studies evaluating the appropriateness to rural Egypt of the technologies being financed by the LDF. Too often technologies are imported

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[1]The ORDEV Office of Evaluation and Follow-Up should continue its important task of evaluating the short-term effectiveness of the LDF.

without assessment. They may be appropriate to their points of origin but not to their point of use.[1]

The Village Councils require advice, best provided by the Center, on new viable industries. Present economic projects have concentrated on agricultural inputs, e.g., tractors, and less on agricultural product processing or on consumer goods manufacture. All have a high potential for expansion but a priority should be given to the manufacture of goods required by the rural population, e.g., construction materials, simple agricultural equipment, weaving of cotton textiles, apparel, shoes, etc.

The above suggestions on studies which might be undertaken by the Center supplement the plan of the ORDEV General Director.[2] All studies can gain from the advice of the ORDEV Economic Development Committee and from cooperation with other Egyptian institutions.

Organization of the Rural Development Center

The ORDEV Rural Development Center can be opened formally once the director has assembled a staff and/or short-term consultants. An existing institutional facility could become the interim home of the Center until permanent headquarters in Sakkara have been completed.

Experimental training courses should be given, each for a progressively longer period, to perfect the basic syllabus. The staff also could give peripatetic courses in the Governorates.

Staff Development

Additional staff should be selected and given training abroad. Selection should be based on their potential value to the Center, with the understanding that they have or can be assisted in acquiring an adequate knowledge of a foreign language. At least one staff member candidate should be sent for training to each of the best known of the international centers for small-scale industry and rural development training. In order of their establishment, they are:

1. Research Institute for Management Science
   Delft University
   Mijnbouwplein 11
   Delft, The Netherlands

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[1]The appropriate technology concept has been given priority attention by AID since 1975. Projects are being financed in many countries and grants being given the new private sector corporation Appropriate Technology International.

2. Siet Institute
   Yousefguda, Hyderabad 500045
   Andhra Pradesh, India

3. Institute for Small Scale Industries
   University of the Philippines
   Quezon City, Philippines

4. Industrial Development Division
   Engineering Experiment Station
   University of Georgia
   Atlanta, Georgia 30332
   USA

All except the last offer regularly scheduled international courses in English for approximately three months each.

The rural industry structure which might develop in Egypt, that is, shops and factories widely dispersed in rural areas, can best be observed in:

1. China

2. Japan, and

3. Puerto Rico.

The APO may be able to arrange training in Japan[1] and the USAID in Puerto Rico.

A number of countries employ technologies in rural areas which are financed through a variety of mechanisms. ORDEV and Village Council senior staff sent to such countries should be empowered to make preliminary arrangements for the transfer of any technology found appropriate, including a short-term consultant and the transfer of the operating experience of the more successful rural finance institutions. The following suggested countries, in alphabetical order, are illustrative rather than inclusive:

China
India
Mexico
Pakistan
Philippines
Republic of Korea
Yugoslavia

Staff development would be accelerated if:

1. Priority were shifted from academic to practical training designed especially for rural development.

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[1] Asian Productivity Organization, 4-14 Akasaka 8-chome, Minato-ku, Tokyo 107, Japan.

2. Staff members who have not had many years experience as managers of commercial enterprises were given in-plant training in Egypt for periods of 3-6 months where they could participate in decision-making, and

3. Tours abroad were to be focused on priority problem areas or practical actions to be taken.

The above guidelines apply also to other ORDEV and Village Council senior officers.

The AID-financed technical assistance team members are expected to devote about 30% of their time to ORDEV training. It is suggested that one member of the long-term team, preferably the specialist in production and marketing, be attached to the Center to assist staff development. In addition, one short-term consultant should be recruited to introduce training in entrepreneurial development, and others should be considered as needs are identified.

Staff Skills

Determination of the professional skills of the staff requires further study. A tentative list follows:

Production management
Financial management
Marketing
Personnel management
Entrepreneurship development
Development economics
Documentation

It is imperative that the individuals working in the first four of the above professional areas have or are given experience in the operation of commercial enterprises as noted above. Without such experience, they will tend to provide theory to individuals who need practical training.

Center Budget

Skill development is so important to the future ORDEV program that the expansion of training should be more rapid than the present ORDEV budget restraints will allow. The 1979 training budget must be increased to finance:

- expansion of the staff,
- recruitment of short-term Egyptian and foreign consultants,
- lease of adequate interim facilities,
- purchase of equipment, documents and supplies,
- maintenance of an increased number of participants and
- travel of the staff.

In addition, funds adequate to complete the construction of the permanent facilities must be obtained.

AID would be justified in providing immediately any supplementary funds required for the Center beyond those in the DD-I project or ORDEV budgets.

The Development Decentralization I and the Basic Village Services projects, as well as a program to generate productive employment, depend upon skill improvement at the Village Council level, which in turn depends upon the establishment of an effective Center.

To achieve and maintain the vitality of the Center, it will require flexibility in its personnel policy, in the recruitment of consultants and in arranging cooperative study projects with other organizations.

The USAID mission should consider immediately a new and additional project to ensure the long-term growth of the Center.

V. EVALUATION PROCEDURES

Evaluation starts with the original design of the activity later to be evaluated. Specific targets can be set as is being done in the applications sent by Village Councils for ORDEV grants. Also it is possible to design projects which reduce the need for later formal evaluation. An attempt made in Chapter III in this direction is summarized as follows:

1. Economic projects which save public sector skills will result in better administered projects and fewer problems.

2. Skill enhancement, including skill in evaluation, for all those involved in the planning and administration of economic projects will further reduce the number of problem projects.

3. Furthermore, projects with private sector participation, which tend to be self-evaluating, will reduce the work load of evaluators.

Evaluation is an important tool for ORDEV administrators allowing them to judge the results of decisions taken. This use of evaluation procedures can be strengthened through the Center and can supplement the activities of the Office of Evaluation and Follow-Up.

Nevertheless, for years to come the Office of Evaluation and Follow-Up will continue to be crucial to the effective operation of ORDEV.

Supplementary Procedures

The Office for Evaluation and Follow-Up should consider supplementing its present information-gathering system with the following:

Investment

The "investment" item in ORDEV reports appears to include only the ORDEV grant. More detailed records might be maintained of investment by source and by type for each economic project.

Economic projects will derive funds (or contributions in

the form of land or structures) from:

- the Village Council,
- private investors, and the
- Local Development Fund.

The investment by the Village Council will be in the form of:

- equity (as at present),
- loan or a
- lease/purchase agreement.

The investment will be used to provide:

- operating capital, or
- fixed capital.

This last distinction is especially important. In some cases the amounts shown as depreciation may be used as operating capital rather than being set aside as a reserve. Knowing the true value of the operating capital (adjusted by the inventory plus the accounts payable and receivable at the beginning and end of the year) permits an analysis of the health of the economic project.

Financial Return

At present ORDEV records the annual gross income in comparison to a target income for the economic project when operating at full capacity. While this measurement might be retained, it should be supplemented with a measure of the internal rate of return. The 15% return recommended in the Project Paper of January 15, 1978, is considered reasonable.

Capital Productivity

The technologies selected for present economic projects are operating at very low capital productivities, that is, the ratio of the value added to the value of the fixed capital. The estimates made in Chapter II reveal ratios generally less than 0.20. The reason for this low productivity may lie in the inefficient management of the technology. However, it is possible that an inappropriate technology was selected in the first instance, for example, tractors of higher horse power than is required.

The capital to worker ratio as estimated in Chapter II is high. It will not be possible to improve the income of a significant portion of the rural population if the ratios found for the present economic projects are to prevail.

These two ratios, value added to fixed capital and fixed capital per worker, should be examined periodically for

selected projects, but not introduced into the evaluation system for all projects at present.

The detailing of the information needs, of which only the outline has been sketched above, requires an accountant familiar with the accounting practices of both the Egyptian Government and of business.

Performance Standards

The measurements now being made or suggested for economic projects would be more valuable if it were possible to compare them with similar measurements for projects operating efficiently. For example, a crude comparison was made in Chapter III between the hours of operation per month achieved by Village Council tractors and by tractors in private hands.

To establish performance standards for purposes of comparison, it is desirable to carry out a limited number of case studies of both Village Council-operated enterprises and equivalent size and type of enterprises now operating in the private sector. This could be done for a number of the major types of enterprises for which ORDEV has been providing capital - e.g., broilers, eggs, bee keeping, cattle feeding, custom tractor operation, handicrafts, etc.

A questionnaire would need to be developed and interviews of enterprise owners and managers carried out. Some data would be available from books and records, but most probably would need to be obtained from recall information. Confidentiality of such information should be assured.

To collect such information on a continuing basis in the future, LDF should establish appropriate simplified small enterprise record-keeping systems that would be required of all participating enterprises. Additionally, ORDEV and Village Councils could offer a record analysis and counselling service to private entrepreneurs in exchange for using this data for analytical purposes (also applying strict rules of confidentiality).

In the case of applications to the LDF for innovative enterprises for which performance standards are not yet available, best estimates would have to be used for feasibility analysis purposes.

Performance standards will be important for use by ongoing enterprises to know how their performance compares with that of other like or similar enterprises. If found less efficient, such standards will serve as performance

goals. In addition, Village Councils and the LDF will need performance standards for monitoring and evaluation purposes as well as for reports to the LDF Board of Directors and to the U.S. AID.

Future Work of the Evaluation Consultants

Evaluation Report No. 1 has been prepared in accordance with a Statement of Work which requests that the consultants serve as "a two-member team" and also that ORDEV officers "will be expected to participate actively in the preparation of all evaluations."

The experience during the first visit of the team leads the evaluation consultants to a joint recommendation that the needs of ORDEV for the evaluation of the program of the Local Development Fund of the DD-I project can best be met if two closely related teams of two members each are formed.

It is further recommended that:

1. A senior ORDEV official with Dr. Mann form one team which gives particular attention to the economic project design problems illustrated by Figure 1, and

2. A second senior ORDEV official with Dr. Stepanek form another team which gives particular attention to the skill development problem also illustrated by Figure 1.

The teams would be expected to examine any problems if so requested by ORDEV.

The advantages are obvious:

1. Examination in depth of a wider range of problems, and

2. More active participation of the ORDEV staff in the evaluation process.

The consultants suggest that the second evaluation visit be initiated during the first half of November, 1979.

ATTACHMENT:

STATEMENT OF WORK OF THE EVALUATION CONSULTANTS

The contracts of the two evaluation consultants include identical statements of work as follows.

a. Design evaluation methodology particular to each periodic evaluation.

b. Collect or ensure that appropriate data and information are developed.

c. Develop such data and information systems and evaluation manuals which will serve the long-term purposes of DD-I and serve as the basis for promoting and installing a greater awareness of and capability to apply evaluation methodology for rural development activities in Egypt.

d. Perform the requested evaluation for the particular project purpose or purposes, and engage the Egyptian counterparts in actively working on the evaluation.

e. Identify and develop plans and working relationships for Egyptian institutions and approaches for increasing the formal training of evaluation methodology in the Egyptian educational system.

f. Advise the Technical Project Manager and Egyptian Manager on changes or additions to the project purpose and how these might be accomplished.

g. Advise ORDEV and the ORDEV Academy on curriculum development for LDF and other ORDEV programs in the area of evaluation theory and methodology.