

UNCLASSIFIED

# Country Development Strategy Statement

**FY 1985**

**ANNEX E  
DECENTRALIZATION: STATUS,  
CONSTRAINTS AND STRATEGY**



## Egypt

**FEBRUARY, 1983**

Agency for International Development  
Washington, D.C. 20523

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1985

ANNEX E

DECENTRALIZATION: STATUS, CONSTRAINTS AND STRATEGY

EGYPT

USAID/CAIRO

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## PART I EXECUTIVE SUMMARY

### A. Background

1.01 Decentralization, in the Egyptian context, is an evolving process. Since the early 1960's, the Egyptian government has demonstrated a consistent effort to legislate change in the local government system. Authority has been decentralized, and local elected and executive councils have been encouraged to take a more active role in Egypt's development. Governorate councils are being allowed some discretionary power over centrally allocated funds. However, local revenue generation and control over locally raised funds have not to date appreciably devolved to local units of government.

1.02 USAID's support for decentralization, through its project activities, has sought to provide tangible evidence at the local level that U.S. presence in Egypt has had a valued impact on the quality of life. Its support is based on the following premises: local involvement in the provision of basic services means better needs identification and more enlightened project prioritizing; decentralized government provides greater opportunity to find effective solutions to local development problems through local participation, including greater private sector involvement; and local control over expenditures and greater local revenue generation for the provision and maintenance of basic services ensure less wastage, better management, and, in the long term, greater amounts of resources, both human and capital, at the local government level.

1.03 USAID's assistance also recognizes that competing claims on central government revenues create a situation in which local governments are starved for resources sufficient to finance essential physical and social infrastructure needs. Consequently, USAID's decentralization strategy is based upon the operational goal of local governments obtaining the legal right and administrative ability to significantly increase local revenue generation through levying taxes and fees. USAID's sector goal also seeks to give local government the right and ability to use such added revenues, as well as transfers from the central government, for locally desired outputs.

### B. Present Status and Constraints

1.04 The current status of decentralization in Egypt indicates an uneven development along administrative/functional, political and resource lines.

#### 1. Administrative and Functional Decentralization

1.05 Local elected and executive councils are increasingly involved and responsible for the provision of basic services in their areas. Policies for transferring service provisions to local units have been implemented -- executive functions have been transferred from central ministries to governorate directorates. Staff and wage budgets also have

been reassigned to the local level. All staff in the governorate directorates report directly to the local units, except for the governorate directorate heads, who report to the ministries and the governors.

## 2. Political Decentralization

1.06 The governors now have full ministerial rank. They negotiate with cabinet ministers as equals. The popularly elected councils are responsible for setting priorities and approving local unit budgets before they are submitted to the next higher level of government. And although the basic mechanisms of popular participation are in place, local units' input in the process varies. Local decisions are often pre-empted by central ministries. Moreover, the effectiveness and quality of local participation is diluted by lack of skilled staff and a high turnover rate among appointed officials.

## 3. Resource Decentralization

1.07 Human Resources: Resources to implement decisions and assume responsibilities are being dispersed among local units. However, local units are severely overburdened with large numbers of unskilled staff. Poor pay scales hinder finding and keeping well qualified professionals. More engineers, lawyers, planning and finance people are needed.

1.08 Fiscal Resources: Expenditure decentralization is taking place, but little revenue decentralization is occurring. Consequently, a sizeable transfer from the central government to the governorates is needed. For services performed by both central and governorate units, the governorate current expenditure budget is four times the central budget and is growing more rapidly. And the investment budget of local units also is growing more rapidly than is the investment budget of the central ministries. But local revenues are growing more slowly than central revenues. There is one bright spot in the revenue picture -- local development funds have been established by the governorates in response to local demands. They are administered outside the national budget and, though still quite small, are growing rapidly.

## 4. Institutional Issues

1.09 The principal institutions involved in local government and the decentralization process are many and varied. They include the governor, the governorate popular councils, the Supreme Council for Local Government, the Sector Steering Committee, the Local Government Assembly Committee. They also include the Ministries of Local Government, Finance, Planning, Manpower, Investment and International Cooperation, the Central Agency for Organization and Administration, and the National Investment Bank. Presently, coordination among these parties and groups is very fragmented. There is no consistent and well defined set of sector goals. The Sector Steering Committee, as a vehicle for increasing

participation of influentials and providing direction and action relating to sector programs, has yet to be fully constituted. And the Supreme Council for Local Government has not met to date.

C. USAID Strategy

1.10 Our strategy takes cognizance of the fact that the decentralization process presently underway in Egypt is incomplete and is beset by a number of institutional, political and resource constraints. It realizes that inherent in government are strong forces wishing to maintain the status quo. There are, however a number of pressure points that can be used to achieve greater local demand for levying taxes and fees to support local investment needs.

1.11 Agency direction for A.I.D. support to programs that involve assistance to local government has indicated a number of concerns:

Assistance to local government should encourage the growth of local private enterprise and development-related organizations;

Support to local government should not simply serve to increase local government dependency on central government initiative;

Assistance to local government under a highly centralized system should be preceded by negotiations that carefully delineate those functions, authorities and responsibilities that should be transferred to ensure sufficient local government authority; and

Local government programs also should encourage the growth of local revenue-raising capacity that permits local communities to assume operating, maintenance and replacement funding and responsibilities. (See Annex A for the complete text of the Administrator's cable dated 17 July 1982, "AID Support for Local Government Programs.")

1.12 Moreover, inherent in the decentralization process are potential dangers that unless carefully monitored and evaluated could over time seriously undermine sector, as well as national goals and interests. Narrow local vested interests may obtain control over expenditures at the expense of wider community needs. Careful monitoring by the Supreme Council for Local Government and by the Sector Steering Committee will be needed to ensure that necessary public services are provided for all citizens and that these services do not become the exclusive rights of a privileged few. It also suggests that a more open system of government, with greater access to decision-makers and a greater information base, is needed by all community members.

1.13 Also, greater local control and involvement in the provision of basic services may give rise to growing expectations that will far exceed national and/or local resource ability, causing serious destabilizing conditions. Most societies face this problem at some time during their development -- that is, greater expectations for need fulfillment than

resources may permit. However, this can be just as serious a problem through a centrally controlled government machinery as through a more decentralized structure. Moreover, paying for local services through user charges, taxes and fees can perhaps be better accepted, managed, and levied locally than through more centralized structures.

1.14 Consequently, USAID's Sector Strategy seeks to address the constraints, Agency concerns, and potential dangers in the decentralization process by a series of specifically targeted inputs, as follows:

1. Institutional

1.15 The Supreme Council is entrusted with setting sector goals and priorities and in building the necessary institutional base to support these functions. USAID's strategy seeks to support the Council by direct material assistance to the Sector Steering Committee. It will provide assistance to develop a Technical Secretariat within the Steering Committee charged with developing data for the sector, reviewing the effectiveness of decentralization laws and developing new legislation as may be needed. The Steering Committee also would support the Supreme Councils' coordinative function with other actors in the Sector. It would provide an evolving agenda to assess the progress towards meeting decentralization goals and to further advance their development.

2. Local Revenue Generation and Funding Flexibility

1.16 Local economic units have generally proven very willing to tax themselves in order to pay for locally desired programs and infrastructure needs. These concepts need to be explored in the Egyptian context and options for greater local revenue generation developed. In terms of both new activities and additional support for existing projects USAID looks to the Sector Steering Committee to provide guidance. There is a need to upgrade services in medium sized towns where living conditions are often very poor and to complement work already being accomplished in the villages. Possible project activity in this area will be placed on the Sector Steering Committee's agenda aimed at encouraging, to the maximum extent possible, a variety of approaches towards increasing local revenue generation. USAID's strategy for all new activities in the sector is to provide project funding on a sliding scale and to require local matching funds. A similar approach to funding for continuing projects will be examined by the Steering Committee.

1.17 Part of A.I.D.'s funds would support training of personnel as well as provide technical assistance to the Sector Steering Committee to explore options for greater local revenue generation, i.e., land and building taxes, surcharges, etc. It also might explore ways of developing greater user charges for utilities. Added incentives might also be worked into projects to provide supplementary rewards to those local communities that have been most successful in revenue generation. A higher or bonus level of funding could be made available to them. These ideas necessarily will have to be explored further with the Steering Committee and refined in project design.

1.18 There also is a need to change the perception of central government subsidies from "project specific funding" to local government units to "block grants." This would enable local units to set their own priorities, meet their own demands and choose the methods for service delivery on a more flexible basis than presently exists. The block grant structure can be used to reward governorate productivity, equalize incomes, and encourage the provision of certain services. Through discussions with the Sector Steering Committee, under whose aegis a research and development activity could be undertaken, USAID seeks to raise the level of information about the need for increased flexibility of local funding.

### 3. Skill Development

1.19 USAID recognizes that one of the major impediments to realizing decentralization goals is the lack of well trained personnel at all levels of government. We seek to remedy this condition by implementing ongoing sector projects and by designing new ones that would emphasize on-the-job training, workshops and short courses aimed at improving necessary planning and management skills. Emphasis would be placed on middle level management training at the governorate and town level. Management and information systems would be developed at the governorate and central level and made available to executive and elected councils and various local private development groups.

PART II. BACKGROUND

A. USAID's Current Sector Contribution

2.01 The Government of Egypt (GOE) and the Government of the United States signed the Decentralization Sector Support Agreement on August 29, 1982. This Agreement, consolidating five USAID decentralization projects into one program, seeks to assist the GOE in establishing the institutional capacity to plan, budget and administer local development at appropriate levels of government. The five joint activities currently included in the program are: Development Decentralization I (DDI); Basic Village Services (BVS); Provincial Cities Development (PCD); Decentralization Support Fund (DSF); and Neighborhood Urban Services (NUS).

2.02 DDI provides low-cost loans, training and technical assistance, through ORDEV's Local Development Fund, for village councils to start income producing enterprises. Profits are deposited in the village's local development fund and can be used, at the discretion of the councils, for new development projects or to provide basic services. Nearly 300 loans have been made in the last three years. DDI obligation is \$26.2 million through 1985, \$12 million had been expended by 12/31/82.

2.03 BVS provides grants, through a central Inter-Agency Committee (IAC) and through the governorates, to village councils for specific service projects approved by the IAC. Training and technical assistance is also provided in the villages, and involves some markaz and governorate staff. During 1982/83 all 20 of the rural governorates will participate and over 3500 villages projects will have been undertaken by village councils -- primarily to improve water, roads and drainage. Tens of thousands of village councillors and their executive staff have been involved in selecting, planning, and implementing the projects. After the approval of the project plans by the Interagency Committee in Cairo, the funds are sent to the governorate which then disburses the grants to each village. The governorate, through its ORDEV representative, also provides quarterly follow-up reports to the IAC. BVS authorization is US\$225 million (includes \$75 Title III) and has expended \$104 million (including \$43 million Title III) as of December 31, 1982.

2.04 PCD will finance technical assistance, operating and maintenance costs, and the design and construction of water and sewerage projects -- initially in Fayoum, Beni Suef, and Minya cities. It will help expand decision-making capacity by providing local councils and staff with experience in allocating and using resources and in developing financial and other mechanisms for carrying out their development programs. The activity is still in its first year, having started in June 1982. The PCD authorization is US\$75 million and had spent \$3.1 million by December 31, 1982.

2.05 DSF provides grants to governorates, so that they can purchase large equipment for development activities after they have conducted detailed needs assessments. Again, the infusion of money and equipment

and the experience gained through the planning and procurement process will strengthen decentralization. The first shipments of equipment arrived in the governorates in September, 1982, and will continue over the next two years. Some training will be given in operation and maintenance of the heavy equipment. \$100 million is authorized for DSF and US\$21 had been spent by December 31, 1982.

2.06 NUS seeks to enhance the capabilities of urban local government in Greater Cairo and Alexandria, while addressing the unmet basic needs of the urban poor. Grants are provided, through an Interagency Committee and the governorates, to local councils and private voluntary organizations which have selected and drawn up plans for projects. Considerable technical assistance and training will be provided in this project which made its first grants in April, 1982. By December 31, 1982, NUS has spent US\$9.6 million of its total authorization of US \$89 million.

2.07 In all sector activities, approximately US \$180 million has been spent by December 30, 1982, but the expenditure will rise significantly in FY 1983; during the first quarter of the year \$26 million was spent.

B. Recent Events

2.08 Interest and concern with decentralization in Egypt extends well beyond the USAID program and its Steering Committee, as is evidenced by the following recent events:

1. A series of statements from senior GOE officials encouraging local units of government to assume greater responsibility for the provision of services and economic development in their localities. The statements have ranged from those of the President in October '81, and January 1983, to one from the Prime Minister on December 21, 1982, and have included members of the People's Assembly (December 4, 1982 and January 15, 1983).
2. On December 28, 1982, the People's Assembly discussed: self-help efforts in community development; increasing the flexibility of laws concerning bids and tenders in order to encourage decisions at lower levels in government; and a report from the Local Government Committee concerning the training of leaders of local units in management and implementation.
3. On consecutive Fridays in October and November, 1982, Al Ahram ran four full-page reports on a series of debates among national leaders from universities, government, the media, and banks, concerning the relative roles of local government units and central ministries in rural development.

4. In December, 1982, the National Association of Administration Societies organized a three-day national conference, attended by over 500 delegates. Papers concerning local government finance, self-help community development, planning and management of local development, and the rationalization of local government expenditures were presented.
5. The Ministry of Planning presented a policy statement, concerning urban encroachment on agricultural land in Egypt, to a UN conference, also published in "Development", (1982:2, page 33), the Journal of the Society for International Development. Several elements of the policy address the decentralization of service delivery and enhancing local participation in economic development.

C. Assessment Study

2.09 Based upon this climate of events and the GOE/USAID program agreement, USAID decided to conduct an assessment of the sector, and a five person, multi-disciplinary team of Egyptian consultants and A.I.D. staff was assembled in November, 1982.

2.10 The specific purposes of the assessment were:

- assess and document the status of GOE decentralization for local services and development;
- assess GOE perceptions and intentions regarding the process;
- identify the principal institutions involved in the process; and
- develop a draft strategy and agenda for reaching program goals.

2.11 The extent of decentralization was assessed along three dimensions; administrative/functional, political, and resources (money and staff). Data was collected from analyses of the GOE laws and regulations, the national and local budgets, the newspapers, lengthy interviews in Cairo and three governorates, and a survey of 125 local council members and 250 of their constituents. The first draft of the completed Assessment was reviewed and critiqued by the Mission in January, 1983. Our CDSS Annex on Decentralization is based in large part on the draft Assessment Study and our Mission critique and revisions to the work.

PART III. STATUS AND CONSTRAINTS

3.01 Decentralization involves different levels of government from the central, governorate, district, town to the village level. Although the role which each of these units is to play in the process is prescribed by law, actual practice and implementation may vary.

3.02 Egyptian local government laws, that contain the essence of decentralization, are a series of executive and legislative laws, acts and decrees passed over a period of approximately two decades. These legal instruments have moved the Egyptian system of local government from a highly centralized structure to more decentralized forms, devolving greater decision making authority to lower levels of government. Nevertheless, the progression of decentralization has not been even, nor is it complete. Indeed, certain contradictions and inconsistencies, deficiencies and/or lack of political will remain in the system.

A. Administrative/Functional Decentralization

3.03 Background: The structure, power and duties of various levels of local government have been prescribed through a series of decentralization laws. Law 124/1960 established the criteria for a more effective system of administration than was heretofore known in Egypt, and subsequent laws have involved local authorities in setting local boundaries and in jurisdictional changes. The country now is divided into 26 governorates, 172 cities, 145 marakaz and 835 village units. Units of local administration are represented by councils at the governorate, town and village level.

3.04 Law 124/1960, laid the basic groundwork towards the principle of local government. It officially delegated several administrative functions to local units, including education, public health, public utilities, housing, agriculture, food supply, and economic development. It also stated that the governor was appointed by the president to head the executive mechanism within the governorate, as well as to head the party elected local council.

3.05 The People's Council was vested with limited power. It could advise on policies, manage public services of a local character, and practice supervision and follow-up. This new experience gave local communities a right to make decisions on a wide variety of local matters, thus relieving the central government and ministries of some of their administrative burden.

3.06 Law 43/1979 is perhaps the most significant law in the series of laws attempting to delegate more authority to local units of government. This law changed the rank and status given to the governor from deputy minister, as delegated in Law 124/1960, to full minister.

3.07 In terms of training, an Institute of Local Administration was established in 1969 to train higher level local personnel. In 1968 a Center for Local Administration was established under the newly formed

National Institute of Management Development. And in March 1971, the Sadat Academy of Administrative Science, attached to the Office of the Prime Minister, was established to take over functions of the National Institute of Management Development.

3.08 The Central Agency for Organization and Administration is responsible for training administrative and clerical personnel. The Ministry of Manpower is involved with vocational and technical training. (See Appendix B, Legal Administrative Context of Decentralization for more complete background of laws and rulings dealing with decentralization.)

3.09 Issues: The basic framework for administrative and functional decentralization is in place. However, there are problems in fully implementing it.

- i. Responsibility for establishing, changing and administering local government units has been transferred to lower levels in the GOE, and elected councils are increasingly involved in the process.
- ii. Responsibility for providing basic services has been progressively transferred to local government units. Regulations and decrees have established service directorates at appropriate levels in the system.
- iii. There has been a clear policy of transferring executive responsibility for service implementation to the governorates. This policy has been implemented by the Central Agency for Organization and Administration (CAOA). Ministers of service ministries such as health, education, supply, social affairs, agriculture, and housing have been designated "Ministers-without-portfolio" and have been made responsible for policy, planning, research, and follow-up. The executive staff of these ministries (40,000 persons) all have been transferred to the governorates. A comparison of the total budget for wages (reflecting the placement of staff) over the years 1976-1982/83 for the service ministries, shows a more rapid growth of wages at the governorate level in recent years.

The heads of departments in the governorates report to both the central ministry and the governor (appointed thru CAO), but the governor writes the employee's evaluation and must be consulted regarding promotion and transfer. All junior members of directorates are members of the governorate markaz or village staff and are responsible solely to the local unit.

- iv. A major problem noted by the team, in several areas where both central and local units have responsibility for service delivery, was that of the coordination of

implementation. As in the case of water and sewerage, discussed in appendix B, the coordination between governorates and implementing agencies is often very poor. In Ismailia, for example, it was pointed out that several large scale industrial and housing estates are without water or sewers due to lack of coordination between central and local authorities.

## B. Political Decentralization

3.10 Background: The extent of local participation in government, especially in the development planning and budgeting processes is the main concern in examining political decentralization. A system of elected representative councils (835 villages, 145 markazes, 172 towns and 26 governorates) was established in 1960 and has evolved steadily until 1979, with the elected councils at each level now sharing power with executive councils. Major decisions at all levels, such as the development plans and budgets of the local unit, require the approval of the Popular Councils.

3.11 Governors now report to the President through the Prime Minister, and deal with the Cabinet Ministers as equals. However, the responsibilities and the powers of the governor have not significantly grown over time, particularly as regards land planning, budget making, and authority over revenue generation.

3.12 Similarly the Local Popular Councils were upgraded in Law 50/1981, with the creation of the Supreme Council for Local Government. The Supreme Council comprises the Prime Minister; the Chairman of the Governorate Popular Councils; the Governors; and the Minister for Local Government. The Supreme Council is charged with setting strategy on all matters related to local government, its strengthening and further development. Under the laws, the popular councils have the right to question and demand explanations regarding the implementation of their decisions from their respective executive council.

3.13 The annual current budget (BAB I and II) and the investment plan (Bab III) for each local unit are prepared by the executive council in line with priorities and needs established by the elected council. After being approved by the elected council it is sent to the next higher level in the governorate and eventually through the Regional Planning Office to the Ministry of Planning.

3.14 Law 70/1973, and the Laws of Local Government 43/1979 and 50/1981 mandated the planning and budgeting functions to local level authorities and the Ministry of Planning. The Ministry is charged with integrating the different sectoral plans and producing a balanced and comprehensive national plan. The Ministry of Planning gives direction to investment programs and controls the allocation of investment funds to all government activities. It authorizes and/or helps to establish project priorities at the local level. In order to assist the Ministry in planning and project prioritizing, eight economic regions were

established in 1979. Each region is under a director of a regional planning commission for policy guidance and a regional planning agency to provide technical input. The concept is to provide an extension of the Ministry of Planning in the governorates to work more closely with local units of government in planning, budgeting and prioritizing of investment activities. (See Appendix C, Political Context of Decentralization, for a more detailed review and analysis of the major actors in the decentralization process.)

3.15 Issues: Though the basic political framework appears adequate; there are several operational problems and other issues in the system.

- i. The Supreme Council for Local Government has not met to date. Its first meeting is tentatively planned in February 1983. Thus, a policy instrument with local interests represented has not been used, and opportunities to bring local government issues to national attention have not been taken.
- ii. Local development decisions still are being pre-empted at the national level. Regional planning offices, as provided through Law 43/1979, are to assist local units of government in developing local investment budgets across all sectors. However, in practice this does not appear to be happening. Priorities that have been set locally are not effectively transmitted to central authorities via the regional offices. This often results in the changing of local priorities by the Ministry of Planning.
- iii. The effectiveness of the governors, as well as chiefs of city councils and village councils, in carrying out their mandates, may be severely hampered by the high turnover in these positions. Compared to elected officials, e.g., the governor, serve at the pleasure of the President and are subject to replacement at any time.
- iv. The effectiveness of the local popular councils depends upon the quality of people elected to serve and their motivation. Council members and citizens surveyed by the team give LPC's mixed grades. Although most LPC members appeared to be actively involved in local issues, approximately 1/2 believed that their activities do not contribute in any significant way to local development. Moreover, there was an even split among members who either believed that powers vested in the LPC were less than appropriate or were more than appropriate.

### C. Resource Decentralization

3.16 Background: The present system of local government finances is largely dependent upon the subsidies by central government to bridge the

gap between local financial resources and expenditures. Resources of the local units of government fall far short of meeting needs. There is, therefore, a great reliance on the central government's grants and subsidies to bridge the gap. Approximately three-quarters of all local expenditures are central government subsidies. This leads to a severe dependency relationship between the central government and the local units of government.

3.17 Law 124/1960 established two major sources of revenue to local village units -- tax-based and non-tax-based. Law 124 also established a system of joint revenues at the governorate level which placed an add-on tax on all imports and exports of movable properties, i.e., stocks, bonds, shares, etc. Law 52/1975 provided for the establishment of "local services and development funds" LSDF, which do not devolve to the central government if they are not spent at the end of the fiscal year. Law 43/1979 mandated two additional special accounts -- special revenue from cultivated or reclaimed land sale and a special account to finance economic housing projects within the governorates.

3.18 One of the more encouraging signs of financial decentralization is in the area of local development funds, which are administered outside of the national budget. The interest in, and activity of, these funds are indicators of the dynamism of decentralization. Some of the funds were created by governorate officials in response to local demands and then were subsequently formalized in the local government laws.

3.19 The Local Development and Services Fund (LDSF) is the largest of these funds and its growth and activity are illustrative of the potential of these funds for development decentralization. Sizeable balances are carried forward each year and do not revert to the national treasury.

3.20 As the Local Development Funds have grown their uses have been diversified, and they now are being invested in economic enterprises, loans for private businesses, and in shares in governorate development banks. The income generated is recycled through the funds for further locally directed development activities.

3.21 One of the major sources of revenue for the LDSF is 50% of the all revenues collected by the governorate above the amount estimated at the beginning of the fiscal year in the GOE central budget. Providing funds in this way has enabled local governments to collect substantial revenues locally for their own development initiatives. At the end of 1981/82 the three governorates visited by the team, Giza, Menoufia and Qena, received checks totalling more than LE 2.08 million from this source.

3.22 In addition to the joint revenues and LSD fund, decentralization laws also specified other sources of local revenue generation for the governorates, to include locally levied taxes and duties, land tax, building tax, and entertainment tax. A gasoline fund was established by a 1967 law to tax increases on petrol, which was to be used for governorate road paving and maintenance. And a cleanliness fund was

established by a 1968 law through revenue generated by a 2% tax on occupants of buildings. (See Appendix D, "Fiscal Context of Decentralization" Assessment Study, for details of the financial analysis findings.)

3.23 Issues: The location and control over both manpower and monetary resources for implementing decisions and carrying out responsibilities for the delivery of basic human services are important considerations in assessing the extent to which decentralization has taken place in Egypt. There are a number of serious issues regarding both manpower and monetary resources.

- i. In terms of manpower, the local units are often receiving more staff than they need and most do not have the qualifications required for their jobs.
- ii. Staff with the required professional skills -- finance, engineering, economic planning, law, -- are not entering the civil service in sufficient numbers to fill the vacancies.
- iii. The civil service pay scales are not high enough to attract and keep skilled staff. On the need to train local staff and improve their skills, the Assessment Team reported that several interviewees indicated there was not a need for academic training but for problem solving, action oriented, practical training as close to the job as possible. And that training should be accompanied by additional financial and professional incentives.
- iv. In terms of fiscal decentralization the results of the financial analysis indicate little revenue decentralization has taken place. Growth in local revenues between 1976 and 1982/83 was modest (3 times) when compared with central government revenues growth (8 times). Analysis indicates little revenue decentralization has taken place. The local tax base is inadequate as presently structured. The land and buildings taxes are based upon 1939 and 1964 appraisals, respectively, and have exemptions that eliminate half or more of tax liabilities. The additional surtax on imports and exports, an important source of local revenue, is controlled by central government. Revenues are largely dependent on levies on agricultural production. The levies are very income inelastic and have not grown appreciably. The lack of significant growth in local revenues over the past 6-7 year period is particularly frustrating since analysis indicates a positive relationship between the amount of revenue generated by a governorate and the level of expenditures that it receives from central government. This suggests that if a governorate raises more revenue it is given more money to spend.

- v. Moreover, local units of government do not retain most of the taxes that they collect. These revert to the central government and in a sense are redistributed to the governorates through the annual planning and budgeting process established by the Ministry of Planning and Ministry of Finance in setting for the governorates Bab I (wages, salaries and benefits), Bab II (current expenditures) and Bab III (investment funds).
- vi. Total local government expenditures grew four times, compared with ten times for the central government budget during the period 1976 to 1982/83. Expenditure decentralization for recurrent costs, however, can only be meaningfully assessed by comparing the growth rate of expenditures for common services provided at both the national and local levels, as reflected in BABs I and II of the budget. Local current budgets grew nearly four times while the central government budget only doubled. For the seven service directorates studied, the local current budget was four times the national current budget for those same directorates and was growing more rapidly.
- vii. Decentralization of expenditures, primarily through a reallocation of resources from the center, also shows up in the investment budget in BAB III. Local government investments grew by 1760% while national investment grew by 380%. Large transfers to the local level began in 1980 with the creation of the National Investment Bank (NIB). Decisions regarding the allocation of investment funds still are made jointly by the governorate and the Ministry of Planning. Funds are disbursed, after a clear demonstration of need, and expenditures are monitored carefully by the central agency, the NIB.
- viii. A further indicator of revenue decentralization is the proportion of local government expenditures paid from own source revenues. Between 1979 and 1981/82 this ratio expanded as revenues from business profits expanded rapidly. The ratio declined, however, when the profits taxes were dropped in 1981/82 through a central government decision. However, the transfer, within the budget, of central government workers' wages to the local government account took place, which markedly increased local expenditures.
- ix. Per capita governorate revenues and expenditures were analysed to assess if funds on a per capital basis are being disproportionately allocated to populous urban governorates. The comparison of per capita expenditures among governorates, in both 1976 and 1981/82, shows that current per capita expenditures are inversely related to the population size of the governorate.

- x. Three of the local funds (LDF, Low-Cost Housing, and Cleansing) are summed and included in both revenues and expenditures in the local government accounts of the general state budget. This provides national authorities with information about the size of the fund and raises two concerns. As the funds grow the national government may want to control the use of them, thereby reducing local autonomy, and also may want to reduce national subsidies in governorates where the funds are large.

PART IV. USAID STRATEGY

A. Lessons Learned

4.01 USAID's approach to sector constraints is based upon achieving interim targets. We are interested in developing a sound institutional base and local demand for greater revenue generation and control over local funds. We realize that full fiscal decentralization may not be achievable for some time. However, our project efforts are reinforcing pressure points in the system for greater local revenue generation and control of funds for investment activities. Local elected councils have played a major role in selecting and implementing nearly 4,000 projects throughout the country. And district and governorate units also, to a limited extent and with difficulty at times, have played a coordinating and technical assistance role in the process. And more recently, local units at the major urban city level, have been given greater opportunity to plan, budget and execute projects through program support. Nevertheless, the ability and opportunity to broadly carry out these processes and functions beyond USAID funded activities is still severely limited.

4.02 New functions and tasks of local government planners and managers under recent decentralization laws have not been redefined to reflect new responsibilities. These new roles now require local planning initiatives and the ability to mobilize and manage resources beyond those provided by central government. Moreover, serious constraints hinder full participation of local elected councils and non-governmental groups in the planning processes mandated under decentralization laws. Elected council members often lack the necessary skills to meaningfully participate in the identification and review of planning and project options. Consequently, they cannot translate such options to their constituencies.

4.03 Another lesson from the USAID projects is that the implementation of the USAID activities has posed problems of coordination in individual governorates. Activities have been carried out and projects developed relatively independently of each other within the same governorates. We now have a policy committee to set the overall direction of the sector in Cairo. It must be remembered, however, that the coordinating, the planning, and the implementing of each activity still needs to take place in each individual governorate, where mid-level management skills are needed. The sector is not, at present, building intermediate management capacity in the districts and governorates, yet, long run viability of the process is dependent upon this.

4.04 By far the most important USAID contribution, however, is the money that has been made available, almost directly to the local units, with little interference from central government. The expenditures of an average of \$80 - \$100 million per annum equals one third of the Bab III investment budget for local government units in 1982/83. This is providing a very useful demonstration of partial fiscal decentralization.

4.05 In terms of programming these funds, the decision of the local unit is paramount and cannot be preempted by units higher up the local government hierarchy -- provided the selection is within the guidelines provided by the IAC. The primacy of the funding is clearly apparent when we consider that the technical assistance and training would have little impact without the money to implement projects. The money oils the wheels of the process. It also has enabled localities to demonstrate quite clearly that considerable capacity does exist in local government to conduct development in a decentralized way. It also is clear that the most severe constraint to continuity is the absence, at present, of sizeable amounts of money to supplement AID funds and replace them in the long-run.

4.06 Another aspect of the financing, which is very important in the governorate, is that the USAID grants provide access to foreign exchange, with which heavy equipment can be purchased from the United States. (Governors have repeatedly mentioned that they have great difficulty securing the foreign exchange component of their BAB III budgets).

4.07 Without fiscal decentralization and the mobilization of greater local financial support for the provision of services and economic development, the administrative and political framework will have little impact on development in the long run. An indication from the GOE that it is interested in considering the decentralization of fiscal arrangements and local revenues sources would be a welcome move. The National Conference on Local Government Finance made several appropriate recommendations in the fiscal area, but significant actions by the government have yet to follow.

4.08 USAID has also realized that in the past there has been relatively little discussion of the achievement of sector goals with appropriate parties in the GOE. Those GOE officials who were involved in the development of our current activities either have retired from government service or have moved to other positions. During our assessment, we found those interviewees concerned with policy issues (goals) often were unaware of the achievements of sector activities. And those responsible for project implementation, with the possible exception of some Governors, had little to say concerning sector goals. Obviously, various actors in the field of decentralization need to be brought together. The level of information about their respective roles in the process, needs to be reviewed and better understood by all.

## B. Sector Strategy

4.09 USAID's strategy over the next three to five years will concentrate upon: (1) Institution Building and Policy Dialogue; (2) Addressing Financial Resources Constraints; and (3) Personnel Skill Development.

4.10 This strategy is based upon AID/W policy responses "to the economic development problem". It stresses Policy dialogue and institution-building with the GOE and other donors to ensure that the

mutually agreed upon goals are achieved. The policy discussions recognize that despite many factors that are external to Egypt's economy "...over the longer term, the recipient countries' own economic and social policies are the dominant influence on its economic growth." (Remarks of M. Peter McPherson, Administrator, A.I.D., to the Committee for Economic Development, New York City, November 10, 1982.) The strategy is collaborative, not adversarial. The strategy seeks to "...encourage growth of local revenue-raising capacity that permits the assumption of local communities of operating maintenance and replacement funding and responsibilities." (See Annex A, Administrator's cable "AID Support for Local Government Programs.)

4.11 In addition, the strategy addresses the need to build skills and human capacity in crucial organizations to ensure the institutionalization of the decentralization process and its contribution to improving the quality of life for many of Egypt's poor.

4.12 Our strategy is based upon the promise that in the long run the most enlightened approach to provide basic services to people is through local organizations responsible to local citizenry. This concept suggests that local citizens know best what they need and how much sacrifice or cost they may be willing to bear to obtain their needs. It also suggests more effective solutions to problems, including greater private sector involvement is possible through local participation. And finally, local control over expenditures and greater local revenue generation should ensure better management of basic services and less human and capital wastage.

4.13 Nevertheless, there are a number of inherent dangers in the process of decentralization itself. Vested interest groups may take control over the greatest share of expenditures, thereby depriving citizens at large including the poor of necessary goods and services. There is also a danger that growing expectations may exceed national and/or local resource ability causing serious destabilizing conditions. These concerns must be carefully monitored and controlled. It is true that an open or more democratic society poses several risks. But it also can be argued that a more open system of government with greater local access to decision-makers and to an information base, can provide the necessary checks sufficiently in advance for remedial action to be taken. Continued monitoring by the Supreme Council for Local Government and the Sector Steering Committee will be needed to ensure that the long term goals in the sector are met.

4.14 Consequently, USAID's strategy is based upon the foregoing constraints, issues and concerns in the Sector.

1. Institution Building and Policy Dialogue to Achieve Sector Goals

4.15 Purpose A: To enhance and further develop those institutions involved in policy making in the sector.

4.16 Strategy: Assist the Sector Steering Committee, formed in November, 1982, to become a center of thinking and action and a vital support to the Supreme Council for Local Government and the Committee for Local Government.

4.17 Discussion: In the GOE, the main instruments for conducting the decentralization dialogue are the Supreme Council for Local Government (Prime Minister, Governors, Governorate Popular Council Chairman, Minister for Local Government, and other Ministers as requested) and the Committee for Local Government of the People's Assembly. The former has never met since its legal definition in Law 50/1981. On the other hand, the Committee is very active, but its activities essentially are bureaucratic. It collects and reports information from local, district, governorate levels and from the GOE's Central Accounting Office. From this information the Committee makes its own reports. Nevertheless, the Council and the Committee are responsible for developing local government policy and assessing its implementation. The fact that the Supreme Council has not met is a missed opportunity for decentralization. It is symptomatic of the problems of implementing policy and establishing new institutions.

4.18 USAID should encourage the GOE to establish a schedule for the Council meetings so that it can bring together the primary actors concerned with local government and decentralization. This will enable it to begin to perform its role as specified in Chapter 2, Law 50/1981 -- that of "discussing all matters related to the local government system regarding its reinforcement, development, and the suggestion of laws, rules and regulations affecting the local community."

4.19 The Sector Steering Committee can perform its role as a center for decentralization thinking and action by broadening its membership beyond those organisations directly involved in the implementation of GOE/USAID sector activities. Institutions, such as governors, the Central Agency for Organization and Administration, Ministry of Manpower, Development Banks, and the People's Assembly should be considered for membership. This will develop the constituency and increase the information level in appropriate agencies.

4.20 Purpose B: To develop an evolving constituency and a growing network of interested parties concerned with decentralization policy issues.

4.21 Strategy: Assist the Sector Steering Committee in developing an agenda that would bring the GOE, USAID and other actors in the field closer together on sector policy issues.

4.22 Discussion: Compatible goals exist between the GOE and USAID regarding functional decentralization and local participation in decision-making. Considerable progress is being made in the former, but less in the latter. Decisions made locally, on local issues, without regional implications, still are being preempted nationally. Regarding

fiscal decentralization, we are still far apart regarding ideas on greater flexibility in local budgeting and greater local resource generation.

4.23 Consideration by the Committee should be given to developing a policy program including, but not limited to:

- a. Periodic reviews of GOE/USAID sector activities -- presenting feedback on the achievement of activity purposes and ensuring that links to sector goals are specified and developed;
- b. Report preparation on decentralization activities in addition to USAID's inputs to include World Bank and other donor activities;
- c. Organizing working groups for policy studies on issues, such as;
  - i. developing local financial resources;
  - ii. provision of block grants or matching grants from the central treasury for local development activities;
  - iii. separation of local government and national budgets;
  - iv. provision of appropriately trained staff in local government;
  - v. recurrent costs, charges for services;
  - vi. continuity of sector activities.
- d. Organizing and/or participating in existing annual seminar/conferences on local government;
- e. Developing a publication program in support of the above activities to raise the information content of all activities.

4.24 Purpose C: To increase the awareness of decentralization goals and activities among all parties.

4.25 Strategy: Provide technical and financial assistance to the Steering Committee for its Technical Secretariat in order to develop an information program on decentralization goals and activities.

4.26 Discussion: USAID is linked to the policy process through the Sector Steering Committee and the Secretariat for Local Government. The Secretariat is the executive secretariat of the Supreme Council, and will provide the chairman of the Sector Steering Committee. The Technical Secretariat of the Sector Steering Committee will be housed within the

Secretariat of Local Government. USAID sits on the Steering Committee and shares in its deliberations. The Secretariat is an essential part of the Committee and will carry out the execution of the committee's coordinating and information functions. The Secretariat is responsible for data collection from the sector activities, and for monitoring the execution of the Steering Committee's decisions. Technical assistance is required in the early stages to assist in the Secretariat's development and in providing background data support for Committee agenda items under Purpose B item #c above.

2. Addressing Financial Resource Constraints:

4.27 Purpose A: To increase local revenue generation

4.28 Strategy: Provide project funding on a sliding scale for all new activities in the sector and require local matching funding. Examine the possibility of this type of funding for additions to existing projects.

4.29 Discussion: Without a stable revenue base at the local level, with funds that are kept locally, the goals of fiscal decentralization will not be met. Consequently, a USAID strategy must seek ways of building into any new projects in the sector local revenue generation as matching funds. Over time, as local revenues increased, the USAID portion would be reduced, and the shortfall would be picked up locally. This would truly institutionalize local project development and control.

4.30 There is a need to up-grade services in medium sized towns (50-100,000 population) where living conditions are often as poor as those in major urban areas or in rural villages. Any new activity in this area should be developed through the Sector Steering Committee aimed at encouraging, to the maximum extent possible, a variety of approaches towards increasing local revenue generation including matching funding. The project would provide a framework for institution building, and planning and management development in the markazes, governorates and regional offices, to complement work already being done in the villages.

4.31 As an example of how this might work in practice -- a specific level of investment support to local units of government, say across 5-10 markaz, would specify that over the first two years the level would be "X" amount of dollars. After the second year the level would be reduced and it would be expected that local units of government would provide for the shortfall through increased local sovereignty revenues developed during the life of the project. Funding of new markaz activities could then be supported through the saved USAID funds.

4.32 Part of A.I.D funds would support training of personnel as well as provide technical assistance to the Sector Steering Committee to explore options for increased local revenue generation, i.e, local taxes, fees, user charges for utilities, etc. The Steering Committee and or local units of government might also explore ways of developing alternative financial resources, i.e, popular development banks, cooperatives, private voluntary associations, etc. Added incentives

could be worked into the project. These incentives would further reward those local communities that have been most successful in revenue generation. A higher or bonus level of funding might be made available to them. These ideas necessarily will have to be explored further and refined in project design. The Committee will need to find those avenues to institutionalize the process, so that in the long run, local governmental entities will become truly independent, having the ability to generate a large share of their own revenue base, and thus becoming full partners in national development.

4.33 Purpose B: To increase the flexibility of funding from central sources and to ensure the continuity of present USAID funded activities.

4.34 Strategy: Raise with the Sector Steering Committee, the need for increased flexibility of local funding and the continuity of funding of present USAID sector activities. Under the aegis of the Steering Committee, a research and development activity should be undertaken. The results of this work would be then reported by the Committee to the Supreme Council and Committee for Local Government.

4.35 Discussion: There is a need to change the perception of central government subsidies from "project specific funding to local government units" to "block grants." This would enable them to set their own priorities, meet their own demands and choose the methods for service delivery on a more flexible basis than presently exists. The block grant structure can be used to reward governorate productivity, equalize incomes and encourage the provision of certain services.

4.36 Moreover, a strategy for GOE future pickup of present USAID funded activities when they eventually run out needs to be developed. In addition, local government revenue and expenditure budgets need to be separated from the central government budget. This would provide to local government units a separate identity and accountability that presently does not exist. The budgets of public sector companies and economic authorities were removed from the general state budget beginning in 1980. These companies and authorities are still guided by the national plan through the investment budget. Local governments could likewise be so governed. Much of the necessary background material and analysis could be developed by the Sector Steering Committee assisted by its Technical Secretariat.

### 3. Personnel Skill Development

4.37 The USAID strategy needs to be based upon a careful appraisal of existing constraints in the sector and the role that USAID may play in overcoming these constraints through directed resource inputs. In the area of planning, management and institutional constraints, USAID's inputs should be of both a capital and technical assistance nature. The purposes and strategies are:

4.38 Purpose A: To improve the quality of planning and management skills with particular emphasis at the governorate and town levels.

4.39 Strategy: Implement ongoing sector projects. The design of any new projects should be principally aimed at the town level, which would emphasize on-the-job training in necessary planning and management skills. Develop problem focused workshops and short courses in the governorates addressed to problems of planning, management and information system needs for both ongoing and new sector projects.

4.40 Discussion: There is an urgent need to greatly improve the quality of planning and management skills at the governorate and town levels. No amount of work at the village level, in small scale works, will convince central government authorities, especially the Ministries of Planning and Finance, that local government has the capacity to carry out all local service activities including project prioritizing, execution and follow-up without central government assistance. Moreover, central level planners are too involved in project specific activities and spend too little time in doing national and regional planning. A simultaneous upgrading of skills at the central level -- short course and seminar participation in national and regional planning and resource allocation and integration techniques with governorate and local activities -- while increasing abilities of local government officials, could dramatically increase decentralized planning and management functions.

4.41 Purpose B: To increase the participation of elected councils in defining and implementing local development.

4.42 Strategy: Assist in the development of an information system at the governorate level that would be available for use by elected councils and non-government groups. Select certain projects for USAID funding that would be planned and executed by non-government units.

4.43 Discussion: Information systems serve to reduce the number of viable options for action (or inaction) and help decision-makers choose among the options for the allocation of scarce resources. Information is different from "data." Data are expressions of aspects of reality or characteristic of the environment. Information on the other hand, is the aggregation and synthesis of data into a form that directly bears on the problems facing decision-makers. Locally elected officials and private development related organizations i.e., banks, savings and loan associations, small industry, and/or agri-businesses, often are hampered by a limited information base as well as by the lack of technical project development and analysis skills. Improvement in both the information base and the skills available to these groups would enhance the quality and breadth of decision making.

4.44 Purpose C: To develop local skills to assist governorates on identifying and mobilizing alternative financial resources beyond those provided by the central government.

4.45 Strategy: Provide technical assistance to governorates for the identification of options in mobilizing alternative financial resources besides those provided by the central government.

4.46 Discussion: To enhance the continuity of efforts already underway, i.e., to institutionalize the USAID funded types of activities, local governments need to develop skills in identifying and mobilizing additional sources of revenues besides those being provided centrally. Local governments also need to develop greater local resources to address the many unmet needs not financed or only partially financed by central government funding, particularly under BAB III investment funds. This task could be facilitated by work done by the Technical Secretariat of the Sector Steering Committee as outlined under Institutional Strategies above.

CDSS - 1985

ANNEX: DECENTRALIZATION IN EGYPT: STATUS, CONSTRAINTS AND STRATEGY

APPENDIX A

AID SUPPORT FOR LOCAL GOVERNMENT PROGRAMS

(STATE 199220, July 17, 1982)

PP FUFHC #9220 1981022  
ZNR UUUUU ZZH  
R 120631Z JUL 82 ZIX  
FM SFCSTATF WASHDC  
TO AID WORLDWIDE  
RUFHCV/USMISSION GENEVA. LAGOS 8382  
RUFHFR/AMEMBASSY PARIS 8602  
RUEHRO/AMEMPASSY ROME 6102  
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UNCLAS STATE 199220

ACTION: ...  
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17 JUL 82  
TOR: 1027  
CN: 10126  
CHRG: AID  
ACTION AID 6  
INFO AMB DCM ECO  
ICA CHRON

11/MAC

AIDAC FROM AID ADMINISTRATOR MCPHERSON

E.O. 12065: N/A

AGS:

SUBJECT: AID SUPPORT FOR LOCAL GOVERNMENT PROGRAMS

1. IN RECENT DISCUSSIONS HERE AND WITH MISSION DIRECTORS I HAVE EXPRESSED CERTAIN CONCERNS ABOUT THE AGENCY'S SUPPORT OF LOCAL GOVERNMENT PROJECTS. I RECOGNIZE THAT LOCAL GOVERNMENT CAN PERFORM SEVERAL DEVELOPMENT-RELATED FUNCTIONS, SUCH AS THE ADMINISTRATION OF LAW AND ORDER, AND THE PROVISION OF CERTAIN PUBLIC GOODS AND SERVICES AT THE LOCAL LEVEL. MY PRIMARY CONCERN, HOWEVER, IS THAT AID ASSISTANCE STRENGTHEN, NOT WEAKEN, THE INDEPENDENT CAPACITY OF LOCAL GOVERNMENT TO PROMOTE BROADLY-BASED, SELF-SUSTAINING DEVELOPMENT AT THE LOCAL LEVEL, AND THAT OUR ASSISTANCE POSITIVELY ENCOURAGE, NOT DISCOURAGE GREATER COMMUNITY PARTICIPATION AND SELF-RELIANCE, INCLUDING THE GROWTH OF PRIVATE, NON-GOVERNMENTAL ORGANIZATIONS AT THE LOCAL LEVEL. I REALIZE THAT THIS SUBJECT RAISES COMPLEX QUESTIONS AND A POLICY STUDY REVIEW IS NOW UNDERWAY IN EXPLORING THESE ISSUES IN GREATER DEPTH.

2. ALTHOUGH THIS CABLE RELATES MOST DIRECTLY TO LOCAL GOVERNMENT ASSISTANCE EFFORTS, MISSIONS SHOULD ALSO LOOK FOR OPPORTUNITIES TO PROVIDE DIRECT SUPPORT TO PRIVATE DEVELOPMENT-RELATED ORGANIZATIONS AT THE LOCAL LEVEL (E.G.,

RURAL DEVELOPMENT ASSOCIATIONS, BANKS, SAVING AND LOAN ASSOCIATIONS, SMALL INDUSTRY AND AGRIBUSINESS, IRRIGATION GROUPS, ETC.) I WOULD LIKE TO EMPHASIZE THAT SUPPORT FOR LOCAL GOVERNMENT AND MY CONCERN THAT SUCH SUPPORT ENHANCE LOCAL INITIATIVE NOT BE TAKEN AS A SUBSTITUTE FOR MISSION PROGRAMS THAT PROVIDE DIRECT SUPPORT FOR PRIVATE SECTOR AND PRIVATE ENTERPRISE DEVELOPMENT.

3. IN THOSE INSTANCES WHERE CONSIDERATIONS ARE NOW BEING GIVEN TO PROJECTS WHICH INVOLVE ASSISTANCE TO LOCAL GOVERNMENT, IT IS IMPORTANT FOR MISSIONS TO ADDRESS THE FOLLOWING CONCERNS:

- A. IF LOCAL GOVERNMENT IS TO BE ASSIGNED TO UNDERTAKE
- SPECIFIC DEVELOPMENT TASKS IT SHOULD BE DEMON-
- STRATED THAT THIS WILL NOT SERVE TO STIFLE LOCAL
- INITIATIVE, BUT RATHER STIMULATE THE GROWTH OF

Community Development Efforts, in particular

- ASSISTANCE TO LOCAL GOVERNMENT SHOULD ENCOURAGE
- THE GROWTH OF LOCAL PRIVATE ENTERPRISE AND DEVELOP-
- MENT-RELATED ORGANIZATIONS (THROUGH, FOR EXAMPLE,
- RURAL ROADS AND OTHER LOCAL INFRASTRUCTURE, SOUND
- LOCAL POLICIES AND INCENTIVES THAT FACILITATE
- PRIVATE INITIATIVE, ETC.).
  
- B. IF AID GRANTS OR LOANS INTENDED TO STRENGTHEN LOCAL
- GOVERNMENT ARE TO BE ADMINISTERED THROUGH A CENTRAL
- GOVERNMENT HIERARCHY (OR LOCAL GOVERNMENT LINKED TO
- CENTRAL GOVERNMENT), THERE SHOULD BE CLEAR AND
- CONVINCING EVIDENCE THAT THIS SUPPORT WILL NOT
- SIMPLY SERVE TO INCREASE LOCAL GOVERNMENT DEPENDENCY
- ON CENTRAL GOVERNMENT INITIATIVE, BUT RATHER STRENGTH-
- EN LOCAL GOVERNMENT CAPACITY TO PROMOTE DEVELOPMENT
- AT THE LOCAL LEVEL.
  
- C. AID ASSISTANCE TO LOCAL GOVERNMENTS UNDER A HIGHLY
- CENTRALIZED SYSTEM SHOULD BE PRECEDED BY NEGOTIATIONS
- THAT CAREFULLY DELINEATE THOSE FUNCTIONS, AUTHORITIES
- AND RESPONSIBILITIES WHICH NEED TO BE TRANSFERRED TO
- ASSURE SUFFICIENT LOCAL GOVERNMENT AUTONOMY.
  
- D. LOCAL GOVERNMENT PROGRAMS SHOULD ALSO ENCOURAGE THE
- GROWTH OF LOCAL REVENUE-RAISING CAPACITY THAT PERMITS
- THE ASSUMPTION OF LOCAL COMMITMENTS OF OPERATING,
- MAINTENANCE, AND REPLACEMENT FUNDING AND RESPONSIBI-
- LITIES. EFFECTIVE ASSUMPTION OF SUCH RESPONSIBI-
- LITIES IS A SIGNIFICANT TEST OF THE VALUE AND SUCCESS
- OF LOCAL GOVERNMENT ASSISTANCE.
  
- 4. WHERE LOCAL INSTITUTIONS AND GOVERNMENT ARE FOUND
- DESIRABLE FOR ASSISTANCE AND THE ABOVE CRITERIA ARE MET,
- SUPPORT SHOULD BE VIEWED AS A LONG-TERM INSTITUTION BUILD-
- ING PROCESS WHICH REQUIRES AN AID COMMITMENT TO A LONG
- TIME FRAME IN ORDER THAT SUFFICIENT OPPORTUNITY IS
- ALLOWED FOR DEVELOPING SUSTAINABLE SELF-HELP CAPACITY. SHULTZ

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## APPENDIX B

### The Legal and Administration Context of Decentralization:

Three key functions are involved in the legal context of decentralization:

1) planning and budgeting, 2) revenue generation, and 3) administration.

#### 1. Planning and Budgeting:

The functions of planning and budgeting are closely related. The ability to execute plans depends to a great extent upon the adequacy of budget resources available. In Egypt, the planning for BAB III capital investment is an annual process. By law it is mandated to take place at all levels of government together with the preparation of annual budgets necessary to execute the plan. Over the past several years, a network of planning activities has been established across different ministries, agencies and governorates. These units compile data and prepare draft plans in their specialized areas of activity i.e., in industry, agriculture, education, transport, etc. It is then the role of the Ministry of Planning to integrate the different sectoral plans and to produce an integrated, balanced and comprehensive national plan. The planning process in Egypt is mandated by law No. 70/1973 and by various laws of local Government 43/1979 and 50/1981. Figure 1 below outlines the process. At present, the Ministry of Planning, through the National Investment Bank, controls the allocation of investment funds to all government activities. It gives direction to investment programs, and authorizes and/or helps to establish project priorities at the local level.

##### a. The Annual Capital Planning Process<sup>1/</sup>

Early in the calendar year governors (all of whom are members of the Council of Ministers) advise all the local units in the governorates about general policy and national priorities. The governors provide local units with a broad outline of the National Investment Budget, as recommended by the Council of Ministers, that will be submitted to the Parliament for consideration, amendment, and adoption.

Given the total National Investment Budget, the Minister of Planning prepares a general budget breakdown. After discussion with other Ministers he proposes how much should be allocated to each ministry and to the headquarters of the governorates -- subject to the approval of the Council of Ministers. In turn, each minister, with the assistance of the Minister of Planning tentatively

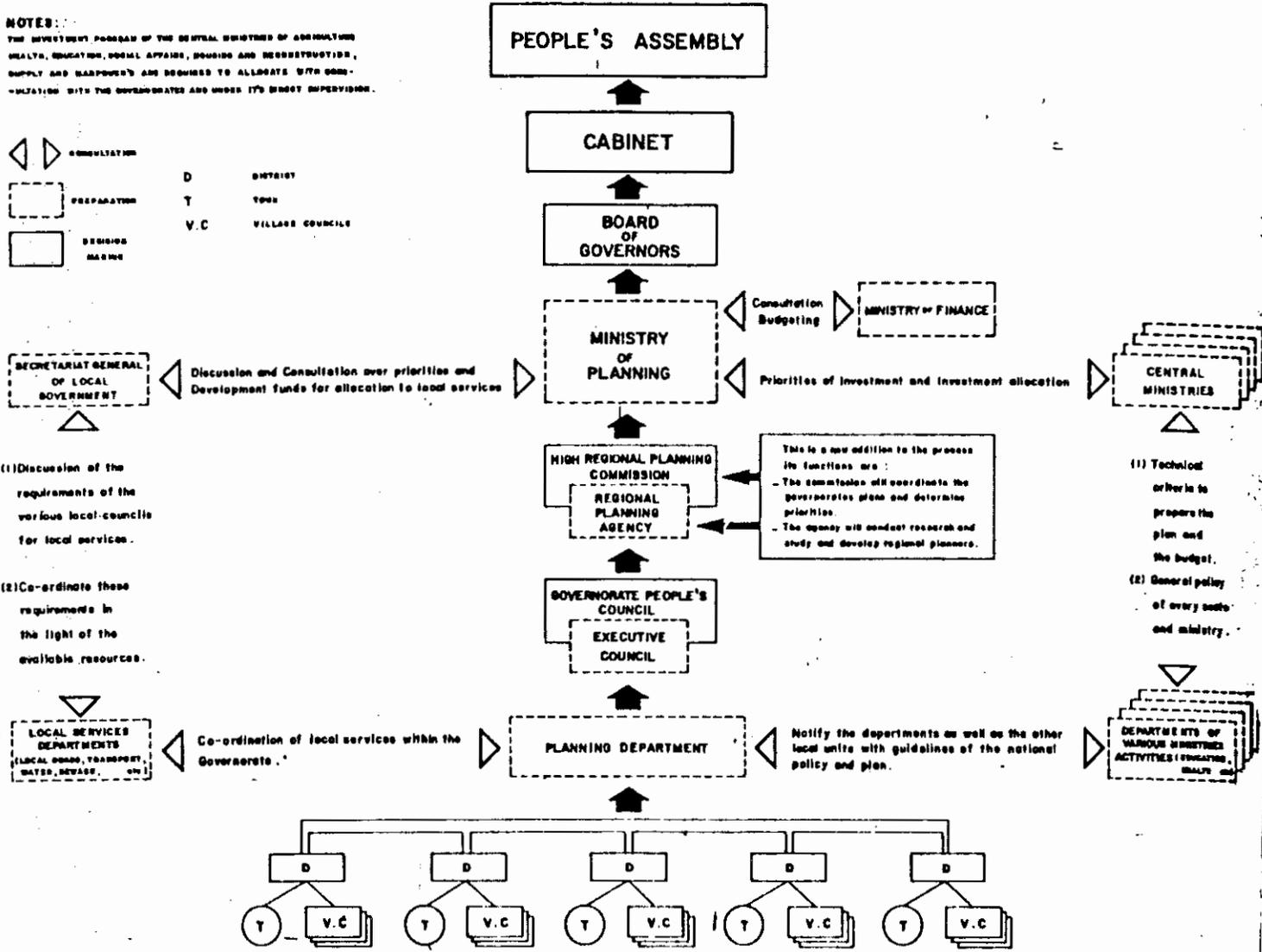
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<sup>1/</sup>See Darson, Brinckerhoff, Sabbour S.A.E. Feb. 1981 Final Report, Basic Infrastructure for Provincial Cities, USAID Contract 263-60-K-027.

FIGURE I  
PLANNING PROCESS IN EGYPT

NOTES:

THE INVESTMENT PROGRAM OF THE SEVERAL MINISTRIES OF AGRICULTURE, HEALTH, EDUCATION, SOCIAL AFFAIRS, HOUSING AND RECONSTRUCTION, SUPPLY AND HARBOURS ARE REQUIRED TO ALLOCATE WITH CORRELATION WITH THE GOVERNORATES AND UNDER ITS DIRECT SUPERVISION.



Source: National Urban Policy Study

Egypt: Urban Growth and Urban Data Report  
July, 1982

will distribute a portion of his budget for investment (BAB-III) to the governorates. This tentative distribution is discussed at length with the Council of Governors. The budget for BAB-III headquarter expenditures also will be divided between the governorates taking into consideration high priority programs.

In March/April of each year, the governors know approximately how much each is likely to receive in BAB-III funds for headquarters functions; the ministers have a rather general idea of their budget and how much will be allocated to each of the governorates, and they reportedly advise their local directors of those amounts that can be used as guidelines in the preparation of budget proposals.

At the same time, each of the local units of each governorate put together their proposed investment budget. For each local unit (such as a city) this is the responsibility of the planning officer for the headquarters functions and of the local representatives of the various Cairo ministries (who usually work with and report to a Director of that function at the governorate level.) They prepare the list of proposed expenditures for their respective sectors. At the city, markaz and village council level, capital budget preparation usually is initiated by the elected council and coordinated by the administrative officers mentioned above so that all the needs for projects as perceived and expressed by the people can be properly recorded in the BAB-III "plan". Although some priorities may be expressed, no attempt is made at making accurate costing of the requests. There is a lack of available expertise at the local level of government. Also, any attempt at local budgeting is perceived by the elected council as interference in the administrative branch of the government. In other words, this process of listing all the proposed investments is a prerogative of the elected councils at the local level. Elected councils are neither willing nor interested in getting too deeply involved in a real budgeting exercise.

Requests for capital expenditures of the city are compiled by the city executive council and sent to the governorate. These are assembled by the chief planning officer who presents them to the executive council. Since the council includes all the directors who have received their guidelines from Cairo, it would be possible to make budget adjustments at this level to more closely conform with the amounts that are likely to be approved in Cairo. However, seldom are any adjustments made. The prevailing attitude is that the "needs of the people" should go all the way to Cairo and be at least seen there -- even though the likelihood of acceptance is remote.

Under Law 43/1979, Regional Planning Commissions are responsible for: coordinating governorate plans and determining priorities proposed by the Regional Planning Agency; following up on the execution of the plans, and/or modifications to them; proposing regional economic and social development plans; and recruiting and training competent personnel.

The general framework for regional socio-economic development in Egypt is laid out in its Five Year Plan. The plan is supported by yearly allocations of fundings to governorates by sector, as well as to development ministries.

Planning efforts in Egypt were given added support with the linking of the Ministries of Planning, Finance and Economy under a single Deputy Prime Minister. Nevertheless, little has been done to date to implement a regional approach to economic development. Moreover, the eight planning regions of the Ministry of Planning compete with the six regions used by the Ministry of Development.

The Ministry of Finance, entrusted with the budgetary process, is one of the most powerful ministries in government. The Ministry plays a dominant role in determining the structure, priorities and the amounts of the different sections of the budget, particularly BAB II. Most importantly, it is involved in "reducing" the amounts requested by various ministries and local units of government for centrally controlled funds to an amount consistent with estimated revenues for the entire country. See figure 2 below which outlines the process.

The Egyptian budgetary system uses the the budget for control and accountability in a traditional way rather than as a tool for project evaluation, monitoring or resource allocation. In order to improve this system, a National Investment Bank has been created. The National Investment Bank uses resources from investment funds allocated to various governmental units.

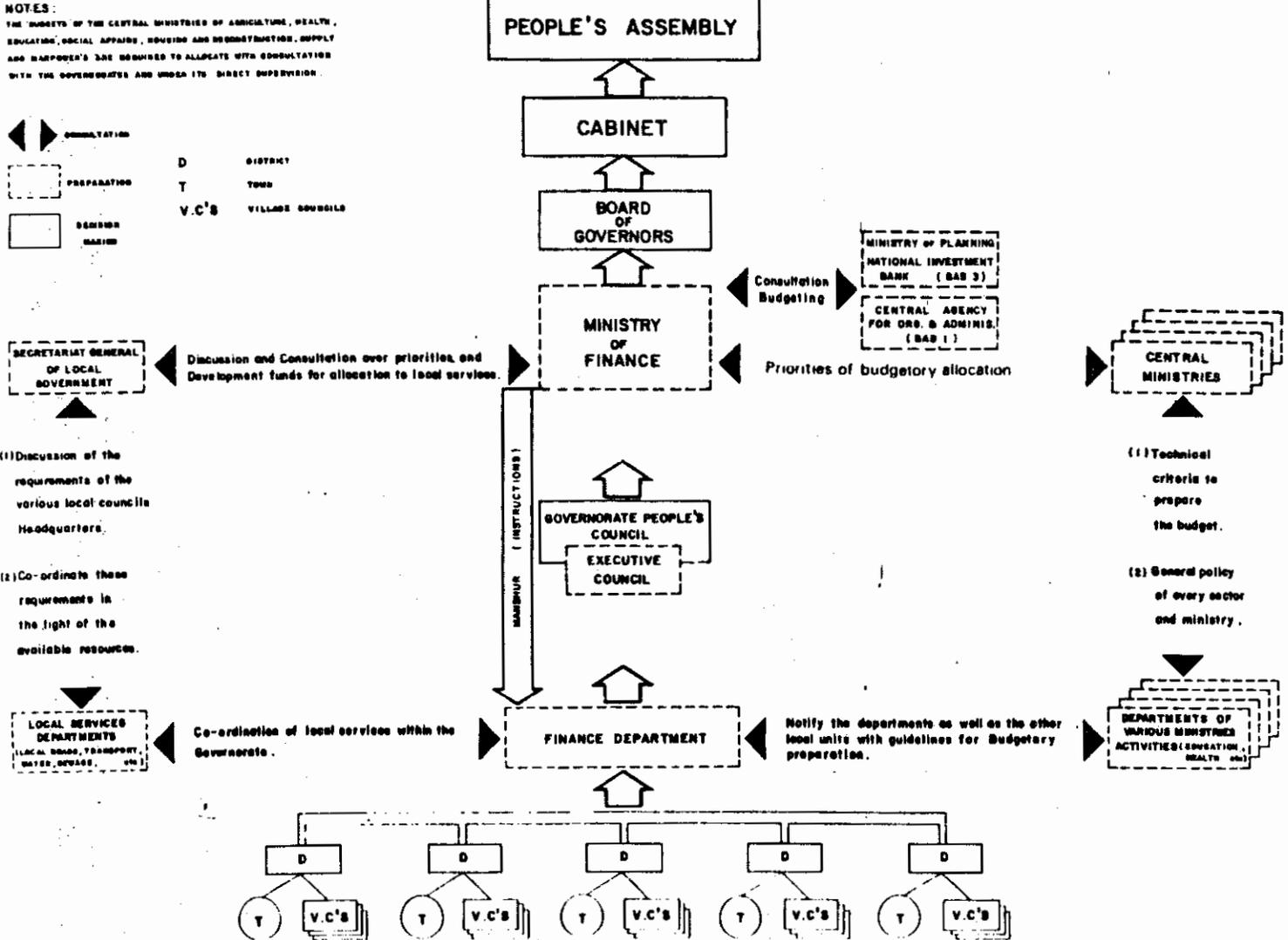
b. Approved Capital Budgets

The approved capital budget items for the governorate can be divided into four general categories:

1. The governorate receives a lump-sum amount for its headquarters capital expenditures with some guidelines as to how it should be distributed among various functions.
2. The central ministries with directorates at the governorate level receive gross amounts for capital expenditures for their respective functions and make allocations therefrom to the directorates within the governorates.
3. The other ministries and independent agencies receive gross amounts for capital expenditures for their functions and subsequently make determinations of the amounts to be used for projects to be carried out in the respective governorates.
4. The governorates are provided with some funds for various economic investments.

FIGURE II

BUDGETARY PROCESS IN EGYPT



Source: National Urban Policy Study

Egypt: Urban Growth and Urban Data Report  
 July, 1982

For the headquarters, the allocation to the governorate by function (or project categories) is distributed among markaz and local units by the governor and his executive and elected councils. For the directorates in each governorate, allocations are generally made by the ministries, in lump-sum amounts, with distributions being worked out largely by the executive council and the elected council. For the economic investment projects, the allocations to each governorate are on a project (line item) basis; they cannot be used for other than the specified projects.

Upon approval in Cairo of the investment budget allocation made in the governorate, the National Investment Bank directs the Central Bank to deposit one quarter of the total amount approved for the year to the BAB-III account of the governorate. Thereafter all payments are made by check on that account, signed by the finance officer of the governorate.

A quarterly report of expenditures is sent by the governorate to the National Investment Bank and the funds for the next quarter will be released. At any time prior to the end of the fiscal year funds that are not likely to be committed may be transferred to any other BAB-III item with the authorization of the Ministry of Finance and the National Investment Bank. Any amount not spent at the end of the year can be used in the next fiscal year upon projects already initiated, subject to the approval of the Ministry of Finance and the National Investment Bank. For the independent agencies and the ministries not represented by directorates, expenditures within the governorate are determined by them -- frequently after consultation with the governor.

### c. Interplay of Headquarters and Directorate Functions<sup>3/</sup>

Appropriations made to the headquarters functions generally are subject to allocation by the governor, the executive council and the elected council among the local units. Those made at the directorate level are controlled by central ministries. Therefore, the shift, in 1980, of highways and transportation and of youth affairs from a headquarters to a directorate category had the effect of further centralizing these functions away from governorate control. On the other hand, the shifting of funds for new housing and for certain elements of potable water supply from the Ministry of Housing to a headquarters classification at the governorate level could be considered as a signal to accelerate the process of decentralization.

In general, however, for public utilities such as water or waste water, only expenditures for replacement or upgrading or extension of the networks are expected to be included in the headquarters budget.

It was stated that the decision to include these projects in the headquarters budget instead of having them handled entirely by the Ministry will depend upon the judgment made in Cairo as to the ability (in terms of engineering and management expertise) of the local unit where the project is to be implemented.

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<sup>3/</sup>"Ibid"

Concerning roads, only repairs and upgrading of city streets would be ordinarily included in the headquarters budget. Beyond the regularly budgeted BAB-III funds for roads within the governorate, a special fund is maintained at the national level from proceeds of the 2 piaster/liter gasoline tax. Monies from this fund are distributed among the governorates for the expressed purpose of building of new roads between villages and the nearest main road. The fund is managed in a general sense by the Ministry of Transportation -- however, the transportation officials of the governorate appear to have a wide latitude in the application of the funds within the governorate. The Transport Authority is responsible for the main Cairo/Aswan highway.

Electricity is controlled by a regional organization that purchases power wholesale from the national government at its substations. From these substations, the regional electrical organization (economic organization) distributes power to local units, provides maintenance and installation of services and in some instances it makes arrangements with the local governmental units to collect fees for electricity.

The other public services within the governorate and/or local units, e.g. street cleaning and solid waste disposal, equipment and vehicles, social welfare, maintenance of public buildings, fire protection and traffic control, are provided from a national pool which is distributed among the governorates.

Educational funding particularly for BAB-I and II is becoming more a function of local government through centrally provided funds. Chapter III investment expenditures in education are planned for and budgeted in the following manner:

- Governorates submit the plans of required buildings (each governorate through its planning unit);
- Negotiations take place between the planning unit and the General Administration for Planning and Follow-up until agreement is reached on an appropriate plan;
- The General Administration for Planning and Follow-up submits the combined plan for all governorates to the Ministry of Planning for approval. Negotiations are conducted within the funding limits set by the Ministry of Finance. It is sometimes possible to increase the funding limits but not by more than L.E. 2 million.

- After negotiating the budget and setting a figure (20 million, for example, instead of the figure submitted by the General Administration of 40 million, for example, the General Administration for Planning and Follow-up allocates funds among governorates and sends the final plan to the Ministry of Planning which sends the plan on to the Ministry of Finance.
- The National Investment Bank receives the allocation for funding from the treasury and allocates funds to the governorates by quarters according to dictates of the plan, and based upon implementation schedules.

## 2. Revenue Generation:

Resources at the local unit of government are not sufficient to meet local needs. In order to bridge some of this gap, central government's grants and subsidies are used. With limited power to generate needed funds at the local level a severe dependency relationship has been developed between local and central government entities. Nevertheless, over a period a several years through a number of decentralization loans, a certain amount of revenue generation capacity has been built into local units of government at the governorate, district, town and village level.

This section traces through these laws.

### A. Governorate Level- Joint Revenues

#### Law 124/1960

Joint-revenues for the governorate are obtained through an add-on tax placed on all import and export taxes on moveable properties (stocks, bonds, shares etc.), and on taxes relating to industrial and commercial profits. Half of the yield of taxes goes into budgets where the taxes are levied i.e., to Cairo, Alexandria, Port Said, Suez and Aswan governorates. The other half goes directly into a joint fund in the General Secretariat of local government account to allocate for special development projects in all governorates.

#### Law 57/1971 (As in previous law.)

#### Law 52/1975

Provides for establishment of special accounts "local services and development fund" at the local council level. Funds in this account do not devolve to the Central Government if they are not spent at the end of the fiscal year. The sources of revenues for the account are:

1. Special local duties for the purpose of this account.
2. Profits that may come from the development projects financed by this "special fund".

3. Donations, contributions and support from local, national and international sources.
4. 50% of the increase in the gross yield of the local revenues over that estimated in the budget.

Law 43/1979

This law provides for the establishment of two additional special accounts.

1. Special revenue from cultivated or reclaimed land sale. The gross yield of this revenue will be allocated to the purpose of land reclamation within the governorate.
2. Special account to finance economic housing projects within the governorate. The revenues of this special account come from eight sources:
  - Revenues from the open land reserved for building--if this land is sold;
  - Revenues from housing bonds;
  - Revenues generated from exceptions on height restrictions stipulated in the law regulating construction and building works;
  - The amounts allocated by the central budget for economic housing projects in the governorate in the agreements concluded by the state;
  - Loans;
  - Grants, donations, gifts and bequests;
  - Revenues from the investment of this account money;
  - Revenues from the fines specified in paragraph 1, Article 21 of Law 106/76.

Resources of both accounts specified above are considered to be governorate local resources. The surpluses at the end of the year are transferred to the next year. The rules and procedures governing the use of both these accounts are determined by the Board of Governors.

This Board also determines, after consultation with the Minister in Charge of Insurance, the proportion required to be financed by the insurance companies through the purchase of housing bonds.

Law 50/1981- Joint Revenues

As in previous law. However, this law added several new sources for special account to finance economic housing projects:

1. Receipts from the tax imposed on vacant land by Law No. 34 of 1978;
2. Receipts from rents and payment of installments of Governorate-owned houses;
3. Rents and installments paid for replacement houses built in the three cities of the Canal Zone.

The rules and procedures governing the use of both of these accounts are set by a decision of the Prime Minister. The Prime Minister, after agreement of the Minister of Economy, will set the proportional percentage of housing bonds that must be purchased by the insurance companies.

B. Governorate Level - Local Revenues

Law 124/1960 states that: 1) one-quarter of the land tax and the add-on tax shall go to the governorate -- The other three quarters go to the towns and villages; 2) the governorate local revenues shall also consist of:

1. Taxes and duties on motor cars, carts, motorbikes and bicycles and other means of transport licensed by the governorate;
2. Other taxes and duties imposed by the governorate;
3. Receipts from allocations of the funds invested by the governorate and all revenues from utilities controlled by the governorate; and
4. Government grants in-aid.

B. District Level- Local Revenues

Law 52/1975 states that the districts shall have sources of revenue as follows:

1. Sources assigned by the governorate council;
2. Receipts from investments of the district resources and all utilities under the direction of the district;
3. Government grants-in-aid.
4. Donations, gifts and contributions.
5. Loans contracted by the district council.

D. Town Level- Local Revenues

Law 124/1960 provides towns with sources of revenues as follows:

1. Taxes on building located within the jurisdiction of the town;
2. Taxes on entertainment imposed within the jurisdiction of the town;

3. 75% of the land tax and add-on land tax collected within its area of jurisdiction;
4. Sources of revenues from Governorate Council to Town Council;
5. The towns are authorized to levy a "special assessment" -- a compulsory contribution -- on buildings which benefited from a project of public utility. This levy is determined by the law.
6. Duties imposed by the town council to include:
  - extracts from birth or death records and other health regulations;
  - licenses for quarries, mines and hunting;
  - regulations of building works, sewerage, road occupancy and public parks;
  - public establishments, clubs and industrial and trading firms;
  - cattle slaughtered;
  
  - Markets administered by the private sector;
  
  - Water, electricity and gas consumption (not beyond 10% of the value of consumption) when these public utilities are not operated by the town;
  
  - Exploiting sea beaches and river banks;
  
  - Rent paid by the occupants of buildings (4% maximum of the rent).
7. Public utilities operated by the town or services it provides, to be paid by consumers or beneficiaries.
8. Rent of state property whether in buildings or open land reserved for buildings within jurisdiction of a town.

Net revenues of the investment of the town funds, public utilities operated by the town and public market. Governmental grants and voluntary contributions.

It should be noted that the only changes and/or modification to local revenue generation at the town level have come from Law 50/1981 which adds duties from town planning activities to those for sewerage works, roads and public gardens.

#### E. Village Level- Local Revenues

Under Law 124/1960 village revenues are provided as follows:

1. 75% of the land tax and the add-on tax for all lands within the jurisdiction of the village council area;
2. Taxes and duties of a local character imposed by the village council;
3. The other financial resources.

In addition to the above, other plans have provided revenues for local units of government:

- 1) Cleanliness Fund                      In 1968 a Law was issued stipulating a tax on occupants of building (2% on rent) to be put in a special Fund for cleanliness.
- 2) Gasoline Fund                         In 1967, the price of gasoline was raised. This increase was allocated for road pavement and maintenance in the various governorates.

### 3. Administration and Training

Administrative Decentralization may be defined as a process by which authority and responsibility for the delivery of basic human services, i.e., housing, education, roads, health, water/sewer, social services, etc., have been removed from central ministries to departments in the governorates, districts and villages. Our findings indicate that for the greater majority of services this has occurred. Over the past several years, through a series of decentralization laws and rulings, administrative decentralization has spread to the provision of housing, education, health, roads and social services. The only major exception is the provision of water and sewer services at the city, markaz and provincial city level, the authority for which appears to be firmly held by central authorities and agencies.

Housing is now a function of local government. Each governorate has direct responsibility for providing housing services. Law 43/1979 established a special account to finance economic housing projects within the governorates. And decision making regarding this function is primarily local in character. The central government Ministry of Housing employees at the local level are responsible to the governor who has power over hiring and firing. And although the Ministry is charged with establishing national housing plans, programs and criteria, the design, construction and maintenance of housing in the governorates is becoming more a function and responsibility of local government.

Education, like housing, is increasingly becoming a function of local government. The local councils make the decisions concerning the location of schools. They also have jurisdiction over administrative functions of education. They advise on educational policies and manage educational services. The national budget allocates amounts to support educational activities in the governorates through three BABS -- BAB I for salaries of teachers, BAB II for current expenses and Chapter III for investments.

The current expenditures for education, local versus central government BAB I and BAB II accounts, indicate that local government was expending seven times as much funds in these accounts in 1976 as was the central government. In the 1982/83 period, local government was spending almost 21 times as much funds as was the central government for the BAB I and II accounts.

Other service activities such as transportation and health are split between local and central authorities. The main inter-governorate roads for planning, execution and maintenance are under the jurisdiction of the Ministry of Transportation. Other roads may be planned and executed centrally but are maintained locally. On the other hand, roads of a strictly local character are generally fully under local supervision and control. Health Services for BAB I and II, have shown a tremendous gain locally. In 1976 local health expenditures were 4.2 times those of central expenditures. In 1982/83 this figure jumped to 8.6 times.

For all local services, including social affairs, supply, agriculture, labor and those cited above, local government expenditures for BAB I and II have gained over central expenditures during the past 6-7 years. In 1976 local government expenditures were three times those of the central government. In 1982/83 they were four times those of the central government.

Local government investments for BAB III expenses grew 4 1/2 times as rapidly as those of the central government during the 1976 - 1982/83 period.

Water and Wasterwater activities appear to be the least decentralized of all services examined. With the exception of the provision of these services at the village level, local government has responsibility for only the O&M of existing systems. The National Organization for Potable Water and Sanitary Drainage NOPWASD, under the direction of the Minister of Development is responsible for all water and wastewater investment activities throughout the country except for those activities in Cairo and Alexandria. In the Canal Cities NOPWASD is responsible for capital investment in wastewater. Thus, water/wastewater services remain primarily in the hands of central authorities or in the hands of water/sewer authorities who are only partially accountable to local authorities.

The source of Operating and Maintenance, O&M funds for Cairo and Alexandria is through the Ministry of Finance. In the Canal Cities, the Suez Canal Authority, SCA, is responsible for O&M for water, and the governorate is responsible for wastewater O&M activities. In the sewer area in the Canal Cities, and in all other cities in the country, with the exception of Cairo and Alexandria, Governorate budgets must support O&M activities for both water and sewer.

One major difficulty with the very limited role of the governorate in water/wastewater activities is poor coordination between central authorities and local government, particularly in the area of investment planning. In the Canal Cities for example, governorates have little advanced knowledge of what investments the SCA will be making in water or what investments NOPWASD will

be making in water. In Ismailia, it was pointed out that several-large scale industrial and housing estates are without water or sewer facilities due to lack of coordination between central and local authorities.

Investment and resources for water and wastewater facilities through the central budget are seldom sufficient to meet local needs. In some governorates, local committees have raised local funds to develop urgent wastewater projects.

Some experimentation is presently under way regarding full governorate control over water and water supply. The Beheira governorate, with the assistance of IBRD funding, has set up a water company that most recently also assumed responsibility for wastewater as well. The idea is to become a self-financing entity for O&M in the long run. Although the company is authorized to determine the economic price for selling water, and has the power to make rate changes, apparently without approval of the Prime Minister and parliament, no rate changes have been made to date. It appears that the company believes a "national mandate" for an increase in the water tariff rate is needed before it charges more.

The progress of decentralization laws have been an important ingredient in administrative decentralization. A summary of the most significant decrees, and rulings pertaining to administrative decentralization functions follows:

A. Ministerial Committee of Local Administration

Law 124/1960 established a Ministerial Committee from relevant ministers to implement this decentralization law.

Law 57/1971 established the Ministerial Committee of local government which is headed by the prime minister and minister concerned with local government.

Law 43/1979 replaced the Ministerial Committee by a Board of Governors headed by the Prime Minister and composed of the Ministers concerned with local government and the governors.

(Table 1 below outlines the functions of local authorities for 21 activities.)

TABLE 1  
FUNCTIONS OF LOCAL AUTHORITIES IN EGYPT\*

	Gover- norate	District	Town	Hay	Village
<b>Education:</b>					
Technical and teacher schools	+ - x				
Secondasry (all)	+ -	- x	+	x	x
Preparatory and primary	+	-	x	- x	+ - x
<b>Health:</b>					
Public and specialized clinics	+ - x				
Nursing schools	- x				
Units of health education	+ - x				
Regional stores	+ - x				
Public Health laoratories	- x				
Central hospitals		- x	+ x	- x	
Emergency units	- x	- x	x	- x	
School health unit	x	x	+ x		
Family control	- x	- x	x	x	- x
Health control	- x	- x	x		
Health offices	-	+	- x		
Motherhood & childhood	x	- x	+ x		- x
Health units					+ - x
<b>Housing, Physical Cleaning Establishments:</b>					
Investigation and planning	x				
Implementation	+ -	- x	+ - x	- x	+ - x
<b>Social Affairs:</b>					
Establishment and administration	- x				
Implementation of governorate plan		- x	- x	- x	- x
Implementation of ministerial plan	+ x	- x	+ - x	- x	+ - x
<b>Supplies and Internal Commerce</b>					
Committees of price control	+ - x				
Directives for foodstuff distribution	- x				
Supervision and control of foodstuff distribution	+ - x				
Control of commercial chambers	x				
Distribution of foodstuffs	+	- x	- x	- x	
Weights and measures	-	- x	- x	- x	

TABLE 1 (Continued)

	<u>Gover-</u> <u>norate</u>	<u>District</u>	<u>Town</u>	<u>Hay</u>	<u>Village</u>
<b>Agriculture:</b>					
Implementation of public plan and crops policy	- x	- x		+ - x	+ - x
<b>Land Reclamation:</b>					
Policy of land distribution	x				
Providing requirements of reclamation	x				
New communities	x				
Agricultural collectives	x				
<b>Irrigation:</b>					
Implementation of the ministerial policy	- x	-	-	-	-
<b>Manpower &amp; Training:</b>					
Planning & development	+ - x	- x	- x	- x	x
Care of manpower	+ - x	- x	+ - x	- x	x
<b>Culture &amp; Information:</b>					
Libraries, museums, movies and theaters	+ - x	x	x	x	x
Clubs, associations and popular culture	+ - x				
Art galleries and shows	+ - x				
Control of information offices	+ - x				-
<b>Youth:</b>					
Preparation of executive plans and programs	x				
Carrying out youth centers	+ -				-
Control of existing agencies	- x	- x	+ - x	- x	+ - x
Finance by self-reliance	x	x	+ x	x	x
<b>Tourism:</b>					
Determination of tourist areas	x				
License	x				
Promotion of internal tourism	- x	- x	- x	- x	- x
<b>Communications:</b>					
	+ - x	-	-	-	-
<b>Transportation:</b>					
	- x	-	-	-	-
<b>Electricity:</b>					
Approval of electrification plans	- x	- x	- x	- x	- x
Establishment and reparation of networks		x	x	x	x
Control of consumption		x	x	x	x

TABLE 1 (Continued)

	<u>Gover-</u> <u>norate</u>	<u>District</u>	<u>Town</u>	<u>Hay</u>	<u>Village</u>
Industry:	- x				
Economic Affairs:	+ - x	x	x	x	x
Cooperation:	+ - x	- x	+ - x	- x	+ - x
Building & Development of village:	- x	x			x
Security:	+ - x				
Al-Azhar:	x				
Awkaf:	- x	- x	- x	- x	- x

Source: El Sayed A.M. Ghanim, MIT/Cairo Univer. Technological Planning Program, Reform of Local Government in Egypt: Vol. II, August 1982.

(Executive Regulations for Laws No. 124 of 1960, No. 52 of 1975, and No. 43 of 1979. There is no executive regulations for Law No. 50 of 1981, as it is an amendment of Law No. 43.)

\* The character (+) stands for the period 1960-1975, (-) for 1975-1979 and (x) for 1979 and up.

Law 50/1981 states:

1. The Board of Governors is replaced by a Higher Council for Local Government, chaired by the Prime Minister, and composed of the Ministers concerned with local government, all governors and the chairmen of all Governorate Local Popular Councils. The Chairman may invite other ministers or persons to attend the meetings.
2. The Higher Council shall discuss all matters related to the local government, including its strengthening and development and the recommendation of laws, rules and regulations regarding local government. Most of the previous powers of the Board of Governors regarding approval of setting boundaries of industrial zones and approval of local laws for establishing productive or investment projects have been given to the Governorate Local Popular Councils.

#### B. Ministry of Local Government

Law 124/1960 creates for the first time the post of Minister of Local Government. As a result, the Ministry of Municipal and Rural Affairs was replaced by a Ministry of Housing and Public Utilities, and all the functions concerning the supervision of the activities of municipal and rural councils were transferred to the newly established ministry. The Ministry of Interior handed over affairs of provinces to the new ministry.

(In 1973 a Presidential Decree was issued establishing the Organization of Reconstruction and Development of the Egyptian Village (ORDEV) to work on rural development.)

Law 43/1979 stipulates for the first time formally the creation of a Secretariat General of Local Government to work under the supervision of the minister in charge of Local Government and to be considered the instrument of the Board of Governors.

#### C. Training

1. Institute of Local Administration - It should be noted that in 1965 the Minister of State for Local Administration established an Institute of Local Administration to train the local personnel as well as the elected members of the local councils.

In 1968, there was a tendency to amalgamate all the institutions working in the field of development management. The Institute of Public Administration, the Institute of Local Administration and the National Institute for Executive Development were amalgamated into one institute under the name of the National Institute of Management Development (NIMD). Within this National Institute was a center for local administration.

In March 1981 the Sadat Academy of Administrative Sciences was established to take over the functions of the National Institute of Management

Development. The High Executive Training Program of the Central Agency for Organization and Administration will be merged with the Academy. The Academy is to be attached directly to the Office of the Prime Minister/President.

D. The Governor - Responsibilities and Powers by Presidential Decree

The authorities for establishing and changing local units and for the determination of areas is outlined in Table 2 below.

Law 57/1971 states that the governor:

- Represents the President of the Republic within his jurisdiction.
- Presides over the Executive Council and Chief Executive of the governorate and its local councils in the meantime.
- May confer some of his powers to his Secretary, Assistant Secretary General, heads of towns and villages within his jurisdiction.
- Cooperates with the Minister of Interior in maintaining public order and security within his jurisdiction.
- Has the powers of a Minister and an Under Secretary of State in Administration.
- Has the powers of a Minister in all affairs relating to personnel management in the local agencies.
- Must be consulted on the transfer of the heads of local departments.

Law 52/1975 establishes rank and status of Governor at the Minister or Deputy Ministerial level according to the importance of a governorate by Presidential Decree. It also states that the governor:

- Presides over the Executive Committee of the governorate.
- Cooperates with the Minister of Interior in maintaining public order and security within his jurisdiction.

Law 52/1975 establishes rank and status of Governor at the Ministerial or Deputy Ministerial level according to the importance of a governorate by Presidential Decree. It also states that the governor:

TABLE 2  
 AUTHORITIES FOR ESTABLISHING AND CHANGING LOCAL UNITS,  
 AND FOR THE DETERMINATION OF AREAS.

	Law No. 124 of 1960	Law No. 57 of 1971	Law No. 52 of 1975	Law No. 43 of 1979	Law No. 43 of 1981
Governorates					
A*	Presidency	Presidency	Presidency	Presidency	Presidency
B*	Presidency	Presidency	Presidency	Presidency	Presidency
Markaz					
A	Presidency	Presidency	The Minister concerned with local govern- ment	The concerned governor after the agreement of "Governorate" People's Council" and the Council of Governors"	Prime Minister after the agreement of "Governorate People's Council"
B	Presidency	Presidency			
Towns					
A	Presidency Ministry	Presidency Prime Minister	The Minister concerned with local govern- ment	The concerned governor after the agreement of "Governorate" People's Council" and the Council of Governors"	Prime Minister after the agreement of "Governorate People's Council"
B					
Villages					
A	Presidency Governor	Presidency Governor	The Minister concerned with local government	The concerned governor after the agreement of "Governorate" People's Council" and the Council of Governors"	The governor on the suggestion of "District People's Council" and approval of "Governorate People's Council"
B					

\* A = authority of establishment and abolishment.

\* B = authority to determine and change area.

Source: El Sayed A.M. Ghanim, MIT/Cairo Univer. Technological Planning  
 Program, Reform of Local Government in Egypt: Vol. II, August 1982.

- Presides over the Executive Committee of the Governorate.
- Cooperates with the Ministry of Interior in maintaining public order and security within his jurisdiction.

Law 43/1979 establishes rank and status of Governor as a Minister. It also states that the governor:

- Must be consulted by Ministers on questions of promotion and transfer of personnel working in the governorate.
- Has the right to lay down the rules of selling or renting governmental lands for building or reclamation and its distribution after being reclaimed within the rules laid down by the Board of Governors and after the consent of the local councils.

Law 50/1981 clarifies the previous law regarding governor's power over civil servants. It states (article 27C):

- The governor has all powers of the appropriate minister where the functions of the department have been transferred to local units within the governorate. In other cases, except judicial authorities, the minister concerned may delegate some of his functions to the Governor. If this is not done, then the Governor may: a) suggest the transfer of civil servants outside the Governorate if their presence is judged incompatible with public benefit; b) give opinion on promotions and transfers within the governorate; c) demand interrogation and inflict discipline within limits of powers of Minister. He may confer some of his powers on his Secretary, Assistant Secretary General, heads of towns and villages and heads of local departments within his jurisdiction.

#### E. Local Councils - Structure and Function

Law 124/1960 provides that local councils are formed from three elements:

Elected Members: chosen from ASU, the only political organization in existence;

Selected Members: chosen for their experience by the Minister of Local Government on recommendation of the Governor;

Ex-Office Members: chief executives of various departments

- The elected members have the majority.
- The local councils are chaired by the Governor and the Chairman appointed by the central government.

The Law further provides functions to Local Councils and Executive Councils as follows:

The Local Councils: The law delegates to local authorities functions which by their nature are predominately local, including utilities, education and public health.

The Executive Councils:

- Implements the plans and programs of the national program of work.
- Is responsible for implementing plans of national defence within the framework of general plan of state.
- Supervises the work and activities of public utilities and services.
- Will study and suggest the rational allocation of water needed for irrigation.
- Will study and make recommendations in regard to the supply of electric power within the domain of the governorate.
- Will prepare annual plan of budget.

Law 57/1971 provides for the structure of local government at the level of the governorate as follows:

The People's Council: Will follow up the implementation of national plans within the domain of the governorates in general and suggest the following policies and take decisions in the following areas:

- Strengthen the defense of the home and citizens and secure the national service.
- Suggest the creation of various local utilities and activities within the general plan of the State, and, in particular, the following matters: education, health care, social affairs, supply, manpower, housing, utilities, culture services, public transport, roads, agriculture and irrigation.

Law 52/1975 further clarifies the structure of local councils and the executive councils as follows:

- The Local Council is formed by direct election at the various levels. Each council should elect at its first meeting a Chairman and two Vice-Chairmen.

As in previous law.

- The Executive Committee is presided by the Governor and other heads of local units and consists of executives of various departments plus the heads of the committees of the elected local council.

The Law further defines the functions of local government:

The Local Council: Local authorities have responsibility for all functions as a general rule. As regards functions in which the nation as a whole is interested, the policy of the law is to define such functions by a decree of the President.

- Gives the elected local councils the right to interrogate Governors and other executives on their work and they can determine their responsibility for any action.

Law 43/1979 specifies that the Executive Council is formed from the executives of various departments only.

Law 50/1981 provides that

- The Local Council is to be formed by direct election but only from persons nominated on party lists. They must be elected by an absolute majority of votes cast, thus requiring a run-off in some instances.
- This law also reaffirmed the local councils' right to interrogation, but on a more restricted basis than the 1975 Law, requiring an absolute majority of the members to ask for such an interrogation of an executive head and a two-thirds majority in the case of the Governor. The report of the local council on the wrongdoing would then be submitted to the President, who, in the case of the Governor, would either replace the Governor or dissolve the local council.

#### F. Additional Laws and Rulings

Not all laws and decrees passed over the past several years have assisted local units of government toward achieving decentralization goals. Indeed, not only have there been inconsistencies, but some laws, decrees, rulings have actually helped to thwart decentralization goals. Additional laws and rulings, besides the five decentralization laws as outlined above, that have either positively or negatively affected decentralization goals, include the following:

Law No. 51 of 1973: Exempts owners of agricultural land from taxes if their holdings are less than three feddans. Although the purpose of the ruling aims at assisting very marginal farmers by exempting them from property taxes, other land owners who do not derive their sole income from farming also benefit from this law.

Circular Letter No. 100 of 1976: Exempts public sector companies from contributions toward financing services of local government.

Ministerial Decree No. 8 of 1976: Further amends MD No. 239 of 1971 specifying the type of activities that could be locally taxed. However, the fees decreed for each activity are wholly inadequate to finance present and future needs of local development.

Housing Law No. 136 of 1981: Article 11 exempts the landlords and the occupants of buildings destined to housing units, with the exception of luxurious buildings, constructed after September 9, 1977, from all principal and additional estate taxes. This has resulted in a great loss of current local revenues.

Law 38 of 1981: Tenant/landlords law further exempted some buildings from building taxes.

Income Tax Law No. 157/1981; Companies Law No. 159/1981: Cancelled share of taxes on moveable properties and share of industrial and commercial firm profits that heretofore went into joint revenue fund. This ruling has been a severe blow to the joint revenue fund since it has exempted some of the large contributions to the fund from future support of it.

Law 50 of 1981: Has removed the authority to grant borrowing approval from the Council of Governors (Law 43 of 1979) to the Prime Minister's Office, further removing local decision making from local levels of government.

Decree No. 272/1982: Transfers several housing functions from the Ministry of Housing to local government to include but not limited to land subdivision; supervision of construction work; selling and/or renting furnished housing premises; land and building expropriation as may be needed to carry out approval housing plans; and installation of necessary potable water facilities. In addition, Law 272/1982 transfers all employees concerned in the above activities, with their current grades, positions, and privileges, from the Ministry of Housing to the local concerned governorate units. This ruling effectively has transferred most of the housing activities from the central ministry to local units of government at the governorate level.

Planning Law 2 of 1982: Attempts to devolve planning activities but gives little new responsibilities to local units of government. The law establishes a framework for planning including the mandatory requirement for the preparation of urban and rural master plans. The local town councils, in cooperation with General Organization Physical Planning (GOPP) in the Ministry of Development and Reconstruction, would propose such master plans.

## APPENDIX C

### THE POLITICAL CONTEXT OF DECENTRALIZATION:

POLITICAL Decentralization: is involved with the extent and quality of local participation in planning, project development, prioritizing, budget making and follow-up in the provision of basic human services at the governorate, markaz and village levels. Our findings indicate that the extent of political decentralization varies from activity to activity, and from one level of local government to another. It is probably stronger and more fully exercised for smaller projects at the village level, particularly under the BVS activities. It is less developed and less well exercised for larger activities at the markaz, district and governorate level.

The role of the governor in local decision making has been greatly enhanced by elevating the position to full ministerial rank. This can be interpreted as a clear signal that the GOE does desire administrative decentralization to the governorates.

The earlier creation of local councils also gives credence to the belief that GOE authorities desire a certain amount of local participation in decision making. Moreover, placing the operation and personnel of some key service functions within the governorate, i.e., housing, education and health, leads further towards the process of decentralization. An examination of the laws, acts and decrees related to decentralization shows an almost steady progression towards an ultimate administrative decentralization objective. However, the effectiveness of the governors in carrying out their mandates, as well as that of the chiefs of city councils and village councils, is hampered by the high turnover in these positions. Compared to elected officials who have a set time in office, appointed officials, e.g. the governor, serves at the pleasure of the President and is subject to replacement at any time. Nevertheless, despite these handicaps, the assessment team found a strong commitment to decentralization on the part of the governor in all governorates examined.

Concerning priority setting for investments under chapter III. Regional planning offices, as provide through law 43/1979, are to assist local units of government, chiefly executive councils, in developing local investment budgets across all sectors. However, in practice this does not appear to be taking hold. Priorities that have been set locally are not effectively transmitted to central authorities via the regional offices. This often results in great confusion at the local level and the changing of the local priorities by the Ministry of Planning.

A large share of local decision making, as pointed out earlier, lies with the local people's council (LPC). The effectiveness of this council depends upon the quality of people elected to serve, their motivation, and the access that they have to needed expertise in various areas of local concern. In addition, the extent to which LPC members are responsive to local needs and truly represent local decision making are important indicators to judge the extent to which political decentralization has taken hold in local government. Although most LPC members appear to be actively involved in local issues,

approximately one half believed that their activities did not contribute in any significant way to local government needs. These issues are more fully discussed below.

A. The Role of the Governor: The cult of personality is no doubt a very important aspect of the effectiveness of governors in the discharging of their duties under decentralization laws and, even more importantly of how they see their roles. In a series of articles that appeared in AL Ahram (October, 1982) concerning a debate held on decentralization, many of these issues were raised. Abdel Fatah El-Daly, a member of parliament and head of the local government committee is quoted as saying ". . . we do not have local government as such for, although the governor is by local government law the representative of the president yet decisions are still made by central ministries." This view was challenged by General Mohammed El-Minyawy, ex-governor and member of the Shoura Council who felt that "...local government is working gradually and would reach all its aims by the year 2000." Dr. Ibrahim Omar, commenting in the debates on decentralization and the role of governors in the process, believes that "...being able to carry out their own decisions is what is meant by giving localities a free hand."

Dr. Omar went on to state that "in a more recent law of local government there are some legislative acts which are considered more restrictive than those described by law no. 43, 1960." Dr. Omar was referring to the new requirement in the law 1980 mandating the consent of the people's assembly to impose any additional local taxes. In this regard, Dr. Omar argued that it should be possible to allow some governorates to impose certain charges for a limited period of time, e.g. on automobiles, for road improvement, on children for educational service improvements etc.

It was further pointed out in the decentralization debates that some governors do not exercise the full authority given to them under the law, causing local development plans to suffer. The debaters suggested that part of the reason for the lack of decisiveness on the part of local government leaders was due to their feeling of insecurity. The debaters stated that governors, chiefs of city councils, chiefs of village councils, among others, seldom stay in power more than two years and in some instances a few remain in office for a year or even less.

During a series of interviews held with governors, secretary generals and their staffs Nov/Dec 82 in four governorates, Minofiya, Quena, Giza and Cairo, the Special Assessment Team had an ability to observe local government at work. The Team was told on several occasions that project priorities set for BAB III activities at the local/governorate level were "arbitrarily" changed by the Ministry of Planning.

Several governors also expressed their concern with their inability to raise new revenue at the local level through the levying of fees. Approvals that previously were the responsibility of the Board of Governors now have to be referred to the Prime Ministers' Office.

Nevertheless, the assessment team concluded that in their observations governors appeared to be heavily committed to making the system work, even getting around the system or bending it in order to deliver needed goods and services to their governorates. However, as long as governors are appointed by the president, their relationship to local needs is necessarily tempered by national interests and politics.

B. Executive and Local Council: the AL-Ahram debates on decentralization also covered the quality of local staffs. The debaters unanimously agreed that the quality of local staff needs to be raised. In particular, more care is needed in selecting local government heads at all levels of government, and that performance evaluation should be put on a quarterly basis. It was pointed out that one of the reasons for the shortage of resources at the local level is that central organizations obtain the best technicians, leaving local units with poorer quality personnel. Seventy percent of the workers in local government are only of middle level education or less. A better distribution of technicians to the governorates, especially in the planning field, to work on regional planning activities also was suggested by the debaters.

The local people's council, LPC, exercise a number of powers over executive agencies. The LPC can request information, and has the right of questioning and/or interrogation of all executive heads, including the governor. Although the questioning and interrogation right, as pointed out earlier, has been somewhat eroded by the last decentralization law, LPCs nevertheless can and do play a significant role in the local decision-making process.

A questionnaire covering 1,800 respondents in 6 governorates (at an average of 300 respondents per governorate) was conducted under a separate study by one of the members of the assessment team. (See: Cairo U/MIT Research Project entitled "Citizens orientations Towards Local Government and Decentralization Projects," principal investigator Dr. El-Sayed A.M. Ghanim.) The questionnaire was addressed to citizens, council members and executive council members. The field survey was conducted May to July 1982. The survey covered the governorates of Sharqiya (1 districts); Gharbyia (3 districts) Monifiya (2 districts); Behera (3 districts); Minya (2 districts); Giza (1 district); and Suez (1 district).

The sampling approach used was a multi-level clustering technique at the governorate, markaz and village levels. The major thrust of the study attempts to gain a perspective on the workings of local government through the attitudes of those interviewed. In particular the survey was concerned with citizens' evaluation of local government structures, personnel, activities and the ability of citizens to participate in the system. It also asked of respondents what reforms they believe are needed. From the perspective of the council members, the study attempts to gain insight into the workings of the council, types of issues addressed, the appropriateness of powers vested in the council, and efficiency and effectiveness of council members in carrying out their jobs.

The questionnaire results indicate that only 1/3 of the respondents become candidates for local elections on their own initiative whereas 2/3 were encouraged by family and friends. And 50% claimed they won the elections for a seat on the LPC through the support of friends and family. In terms of participation in council matters, fully 2/3 of the respondents claimed that they discussed topics often. Forty percent claimed they sometimes submitted proposals for LPC selection and forty-five percent claimed they often submitted proposals.

One of the most revealing results of the pre-test results is that approximately 50% of the respondents believe that their activities on the LPC did not contribute in a significant way to local government needs. And 20% of the respondents believed that there were no urgent problems to be dealt with locally. In addition 41% of the respondents believed that the powers vested in the LPC were less than appropriate and an equal number, 41%, believed that the powers vested in the LPC were greater than appropriate. The major impediments that the respondents believed prevented the LPC's from working more effectively were shortage of budget, absence of LPC members from meetings, and conflicts among members.

C. Central Ministries and authorities: the problems and major issues involved in the decentralization process in Egypt as seen at the local level center around three major activities: (1) lack of coordination of planning and budgeting between central and local authorities, (2) insufficient funding particularly for Bab III projects; and (3) poor and inadequate local staffs. The administrative and financial structures in which local units of government must operate place severe limitations on local abilities to meet present demands and future needs. Understandably, many of these issues lie outside of the purview of local units to adequately resolve. Several solutions necessarily rest with higher levels of decision-making at the regional and ministerial level.

The Supreme Council of Local Government is entrusted with discussion of all matters relating to the strengthening and further development of laws, rules and regulations regarding local government under the 1981 law. However, the Council members have fewer potential powers for review of draft plans, budgets, proposed taxes and other factors than the Board of Governors had under the Law of 1979. Moreover, the impotency of this Council is evidenced by the fact that it has yet to hold its first meeting. At the center of government in Cairo, other principal institutions are: the Ministries of Local Government, Finance, Manpower, Planning, and Investment and International Cooperation (MIIC), the National Investment Bank (NIB); the Central Agency for Organization and Administration (CAOA); and the Local Government Committee of the People's Assembly.

The Ministry of Local Government is responsible for coordinating the implementation of the local government laws; promoting village development through ORDEV; coordinating local activities; and administering some local government financial resources, such as the joint-revenue fund and the gasoline surtax. The Secretariat of Local Government is, at present, the main coordinator of activities with USAID and chairs the Sector Steering Committee.

The Ministry of Planning is charged with integrating the various sectoral plans and producing a comprehensive national plan. It is also involved in reviewing the annual governorate plans and in setting budgets and priorities. The Ministry of Planning plays a dominant role in determining the structure, priorities, and amounts of centrally controlled investment funding to be allocated to local units of government. One governor interviewed believed that local levels have little chance for effective participation in any significant decision making on plans and projects affecting them. The governor wanted a Ministry of Planning official from the regional office to spend at least one day per week in his office, with his staff reviewing governorate plans and priorities. The governor further stated that the Ministry of Planning is involved in all BABs except BAB I. The governor can advocate priorities for BAB II and III but only to a limited extent. The governor felt ".... a prisoner under three distinct BABs with no ability to move funds from one BAB to another." The Ministry of Finance as pointed out earlier is involved in setting the level of the BAB II budget.

The Ministry of Development has been restructured to include the former Ministry of Development and New Communities with the Ministry of Land Reclamation and Ministry of Housing. This Ministry has a highly influential role in setting national priorities in the housing, new communities, infrastructure and land development fields.

Two agencies operate the personnel system in Egypt: 1) the Central Agency for Organization and Administration which deals with the application of the civil service law -- training, job classification, organization and methods; and 2) the Ministry of Manpower and Training, concerned with recruiting and placement of all college graduates and returning servicemen into public service and vocational training in a wide variety of areas. The division of activities between these two agencies has inevitably given rise to questions of overlapping of functions. And, although nominally the CAQA has control over promotion and dismissal, it has little or no power in either of the areas. The promise of government employment for all graduates of Egyptian universities has bloated the national civil service system. It is now having serious over-supply consequences at the governorate level, since the GOE intent is to place new graduates in their "home governorate."

This problem was pointed out to the members of the evaluation team as a major concern in several governorates. Excessive over-staffing of poorly qualified personnel by the Ministry of Manpower and Training and the local inability to receive the required number of technically trained personnel was pointed out as major problem.

There are many serious problems involved in the Egyptian civil service system. Excessive changes and amendments over the past few years have contributed to confusion and to its inability to act systematically. It should also be noted that government employment has greatly affected population location decisions in the country. The promise of government employment for all university graduates places the majority in the Greater Cairo Area. Recently, legislation has been passed to place new graduates in rural governorates. And although this has reduced the annual number of civil servants placed in the Greater Cairo Area, it often has resulted in large

surpluses of poorly trained personnel in rural governorates whose staffs lack needed engineers, planners and other technicians. The assessment team met and interviewed the chairman of the CAO. He expressed his concern with the lack of sufficient and well qualified staff being available to the governorates. However, he did not believe that there was a surplus of personnel. On the contrary, he indicated great shortfalls between the number needed locally and the supply. Only in the agricultural field and in lower clerical positions were there any oversupplies. And these types of personnel were being retrained to fit into the more needed fields of teachers, engineers and technicians. It should be noted that these observations were at some variance to statements made to the Assessment Team at the local level.

A Presidential Decree of 1973 set up within the Ministry of Development the General Organization for Physical Planning (GOPP). This organization is specifically entrusted to prepare structure plans for cities, towns and villages, and to assist governorates in problems of urban growth. Under a new planning law the GOPP has acquired added responsibilities. The Central Agency for Reconstruction, set up under Presidential Decree of 1976, is empowered to study and implement reconstruction projects throughout the country. The New Urban Communities Authority, set up by Presidential Decree of Law 59/1979, is charged with the task of developing new urban communities, including the carrying out of studies dealing with the selection of sites and with the follow-up of execution of plans.

The Ministry of State for Land Reclamation, within the Ministry of Development, is responsible for the preparation of the general policy of the state for land reclamation and horizontal expansion according to water resources identified by the Ministry of Irrigation. It also participates in developing policies and programs dealing with the establishment of new communities and coordinates with concerned ministries in the planning of public utilities and services required for land reclamation. It also studies projects aimed at establishing agro-industrial complexes on reclaimed areas and supervises the disposal process of arid or reclaimed lands.

The Ministry of Housing, within the Ministry of Development, is charged with establishing general plans, programs and criteria for national housing development. Specifically, the Ministry supervises the design, construction and maintenance of public buildings, and of residential buildings earmarked for specific income target groups. The Ministry also directs and develops private sector activity in the field of construction according to state policy. Other entities involved in infrastructure development are water and sewer authorities. Although nominally the responsibility of the Ministry of Housing, water and sewer authorities operate virtually autonomously. The General Organization for Sewerage and Sanitary Drainage operates the Cairo and Alexandria sewerage authorities and gives aid to other regional sewage authorities. The Public Authority for Water, plans, supervises, controls and designs water works for public consumption and households throughout the country, with the exceptions of Greater Cairo and Alexandria, which have their own authorities.

Other important ministries dealing with national and/or local development are: Agriculture; Irrigation; Tourism; Transportation; Communication; Electricity and Power; Economy and Economic Cooperation; and Industry and Mineral Resources. The Ministry of Economy deals with national economic planning and the Ministry of Investment and International Cooperation is entrusted with the strengthening of economic relations with other countries and with regional and international organizations and agencies. The Ministry formulates economic policy, develops plans on foreign exchange, and seeks to attract foreign investments.

Regional Planning: Set up under Law 43/1979, regional planning offices are to assist local governments in plan preparation and in transferring local needs and priorities to the Ministry of Planning. In practice, this is not working very well. The Ministry of Planning has been unable to provide regional branches with sufficient staff to function properly as planning offices. The regional office often consists of simply an under-secretary and one or two junior staff members who are unable to involve all relevant departments in regional planning activities.

The process of project initiation is based upon the perceived needs as stated by the village councils, the municipalities, the markaz, and the governorate itself. It is essentially a compilation of requests from these various sources, including the directorates within the governorate, without any meaningful, strong, and effective coordinated planning at the regional level.

It is carried out without the advantage of long-term comprehensive operating programs and program objectives and also without the benefit of comprehensive physical development plans, especially for urban areas. Also there is little evidence of useful interface at the local or national levels between the various projects being pursued. The entire process is accomplished without being fitted into any framework of fiscal discipline, i.e., within any definition of funds likely to be available. It is also done without the benefit of effective pricing techniques, especially for the more complex projects.

Regional planning in Egypt operates via the national planning mechanism of the Ministry of Planning. Regional Planning units are responsible to the Ministry of Planning. They are staffed by Ministry personnel. Decentralization efforts, on the other hand, attempt to vest more powers at local units of government, at the governorates, districts and town levels. The difficulties of this arrangement were noted by the Assessment Team during the above interviews. There was a general sense expressed at the local level that Regional Offices were of little assistance in helping the local units/governments in maintaining project priorities and in other forms of necessary coordination with central ministries.

On the other hand, the assessment team was told by under secretaries of regional planning that local units of governorate were incapable of adequate planning and budgeting and that most of this had by necessity to be performed at the regional/central level. Where they might be effective, as spokesmen to the central authority on local needs, many local authorities felt

that regional planning personnel either got in the way or were completely useless in helping to get local priorities established. One governor felt that regional personnel were too removed from the local scene, and were not spending enough time locally.

Discussing local concerns with heads of two regional offices, Cairo and North Upper Egypt, the following major concerns were expressed:

- a. Local units of government are poorly staffed. They have some ability in developing public utilities but little expertise in planning;
- b. No strategic planning is being carried at locally. This should be done centrally;
- c. Central planning in coordination with regional planning is very needed since the local authorities are provincial in their outlook. They are only concerned with their governorates and not with region as a whole;
- d. Central controls are needed and will always be needed to avoid wastage of monies on luxuries (i.e., purchase of automobile for local use); and
- e. Little incentives exist to provide quality professional people in governorates and at local levels.

The Local Government Committee of the Assembly is important because it represents another mechanism for enhancing cooperation between the representatives (elected in national not local government elections) and the executive ministries of government. The committee sets the agenda for debates on local government in the Assembly, meets to consider donor assistance to local government, provides guidance to the ministry, and sanctions their initiatives and actions.

## APPENDIX D

### FISCAL CONTEXT OF DECENTRALIZATION

In order to determine the extent to which fiscal decentralization has occurred in Egypt, several indicators must be carefully evaluated over time. These include: 1) the level of transfer of resources from central to local governments; 2) the amount of resources generated at the local levels; and 3) the extent of jurisdiction over local level resources. Normally, a greater level of fiscal decentralization occurs when all of the above indicators register higher amounts from previous years. However, indicators of real fiscal decentralization do not lend themselves to simple analysis. Certain types of expenditures and revenues may be uncontrollable, i.e., interest payments.

Care has been taken to exclude from the analysis those portions of central and local budgets that may give false signals as to progress made in fiscal decentralization. Moreover, decentralization as a process is subtle and imprecise and longer time periods of comparative analysis may be needed than was possible in this study. Consequently, findings presented are more judgmental than precise quantitative results. Part A below examines fiscal decentralization within the GOE general state budget and Part B reviews the process outside of traditional budgeting channels.

#### 1. Decentralization within the General State Budget

Revenues and expenditures must be considered independently so as to separate service delivery (expenditures) from own source resources (revenues). By definition, total expenditures must equal total revenues, so analysis of decentralization in the two contexts differs only because of the transfer from the central government to the local governments.

##### a. Expenditures

Expenditures at the central and local government levels are allocated to four chapters:\* Chapter I Wages; Chapter II Operating Expenses; Chapter III Investment Expenditures and Chapter IV Capital Transfers. A comparison of the growth rates of expenditures from 1976 to 1982/83 (Table I) indicates that the central government grew 934.9 percent while local government grew only 331.6 percent. However, these figures are not an accurate reflection of decentralization. Chapter I central government expenditures reflect the overlapping GOE decentralization policy for hiring high school and university graduates and assigning them to their "home" governorates away from Cairo wherever possible. Chapter IV central government expenditures reflect repayments for borrowing for previous investment. Both entries are not useful sources of decentralization measurements and should be eliminated from the analysis.

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\*In this Appendix the term Chapter is used in lieu of BAB.

Care also must be taken in assessing Chapter II because interest payments are incorporated in current transfers for both central and local government. Also, defense expenditures dominate total Chapter II credits account for central government (Table II). These special items are dependent on conditions outside normal government service delivery channels and are not useful in questions of decentralization. These special items are responsible for much of the growth at the central level. For example, elimination of the accounts with the subsidy and interest payments from Chapter II would reduce the central growth rate by more than one half while having little effect on local governments. In sum, the Chapter II budgets are different in substance. (See Table III - Local Government Expenditures)

A better comparison for evaluating decentralization is between the growth rates of expenditures for those basic service areas produced both at the national and local level, such as, health, social affairs, supply, agriculture, education, youth and sports, manpower, and housing (tables X and XI). When the types of expenditures are held constant, local government current budgets grew 280 percent compared with 185 percent for the central government (Table XII). These expenditures include all local expenditures except the local government directorate which amounted to LE 1.034 billion in 1982/83. This category is only LE 266 million in central budget expenditures.

Most of the growth in these local expenditures is in Chapter I wages. It is probably a reflection of the officials in the Central Agency for Organization and Administration who indicated an explicit policy to decentralize service delivery. The Governor of Menoufia indicated that he received 6200 new positions in the last year alone. Chapter II expenditures grew more rapidly at the central government level when viewed by sector. The Chapter II accounts of local government grew more rapidly for supply and education and less rapidly for others. (Tables X and XI)

Dramatic evidence of decentralization is found in the increase in investment expenditures (Tables I, II and III). This increase has led to a decline in the share of local expenditures in the other three chapters as investment is expected to reach 17.5 percent of the total expenditure in 1982/83. Local government investments grew 18 times compared with less than 5 times for central government. The reason for the difference lies partially in the small base for local investments in 1976. At that time capital revenues at the local level exceeded capital expenditures, meaning there was no central transfer for these purposes. Large transfers to the local level for investments began with the advent of the National Investment Bank (NIB) in 1980 and led to much of this growth. Significant own-source financing for investment is unlikely at the local level, as adequate depreciation accounts are not developed. Thus, a transfer for investment expenditures is to be expected.

The degree of decentralization in investment remains clouded. Investments are budgeted locally but priorities are jointly set with the Ministry of Planning, and changes in priorities after the budget is set must be approved by the Minister. Locals receive quarterly installments rather than a transfer at the year's beginning. The NIB requires evidence of progress on the projects before forwarding the quarterly revenues. Further, evidence from Menoufia,

Giza and Qena indicates that the entire investment budget was not available for spending in 1981/82. One reason for not spending the entire budget appears to be a decision by the Central Government not to disburse fourth quarter allotments in order to control the national deficit. Another reason is that effective with 1981/82 the funds appear to be programmed on a budget year rather than a project basis, and unexpended funds revert to the treasury one month after the end of the fiscal year. Governorates were not aware of this shift in policy until the end of the fiscal year, 1981/82.

Finally, these appears to be a pattern of spending less than the budget allocations for investment purposes. The NIB Annual Report for 1980/81 reveals that only 82.1 percent of budgeted investments were spent that year. Local governments disbursed 87.8 percent, above the average for all public sector entities. The percent for each governorate ranged from a low of 37.0 percent in Matrouh to a high of 148.0 percent in Cairo.

#### b. Revenues

Central government revenues have grown much more rapidly than local revenues (Table I). Analysis of revenue decentralization, like that for expenditures, must be based on behavior within certain chapters. This is a more questionable issue for revenues, however, because the special items that can be omitted from consideration do represent means for obtaining resources. The judgment here is to exclude some items for the reasons given below in order to focus more on traditional tax and user charge revenues. Chapter I and II local revenues can be compared with Chapter I and part of Chapter II central revenues to judge decentralization trends. Chapter IV must be excluded because this is borrowed funds for capital purposes. Chapter III, own source funds for capital uses, also must be omitted because these are repayments to the government for debts, sale of assets, and other factors unrelated to current behavior.

Finally, for purposes of comparison, most of Chapter II central revenues should be excluded because it is dominated by special items such as receipts from profits of economic authorities, public sector companies, and the Central Bank. In the case of the Central Bank, the profits are earned on borrowings by the treasury and are added to both expenditures and revenues. The remaining Chapter II revenues total LE 224 million from the total account of LE 2617.234 million. (See tables IV and V)

The chapters are not exactly comparable for central and local government. Chapter I is sovereignty revenues for both. These are taxes imposed based on the sovereign powers of the government. For local governments these are taxes assessed at the national level but collectable for use by the locals. Chapter II central revenues are non-tax current revenues and those remaining in our analysis are user charges. Chapter II local revenues are the fees and duties assessed at the "option" of the local government. These "options" and the limitations are outlined in several different laws, depending on the category. The options were constrained more by a recent announcement by the Prime Minister that any increases in taxes or fees must be approved by him. The Governor of Menoufia explained that this resulted because a number of governorates were taxing above the limits. The degree of constraint is

unknown because to our knowledge no attempts to seek the Prime Minister's approval have occurred. Menoufia will soon apply for permission to levy a one piaster tax on ration cards in order to finance youth sports and this will provide initial evidence of the constraint.

The bulk of local sovereignty revenues arises from a two percent additional tax (surtax) on imports and exports (Table IV). One half of the revenues remain in the place of collection (share in joint revenues), and the remainder less LE one million is distributed by the Secretariat of Local Governments (share in joint fund). Prior to 1981/82 these accounts also received revenues from a surtax on movable property income (dividends and interest) and on business profits. The income tax law of 1981 eliminated the last two surtaxes and the ceiling on the first surtax was dropped, but the rate was reduced below the previous ceiling for FY 1982/83. Dropping the two surtaxes hurt many governorates because the half allocated on the basis of collection was more equitably distributed with income and profits taxes than with customs taxes. Now most of the fund is centered in Cairo, Alexandria and Port Said. The additional tax on the Suez Canal also is distributed among a select group, the five Suez governorates in this case.

In Chapter II, revenues from utilities is collections from water and electricity. This dropped between 1976 and 1982/83 because these revenues are now collected by the economic authorities. Revenues from other local activities is the sum of three special funds: the Local Development and Services Fund, the Economy Housing Fund, and the Cleansing Fund. These funds are added into both revenues and expenditures so the central government can see the size of them, but they are outside the budgeting process. They will be discussed more below.

Local government revenues have grown only moderately since 1976. Sovereignty revenues grew 291.7%, with the surtax on imports and exports the substantial contributor. The locally imposed revenues (Chapter II) grew 160.8 percent, but the special funds are responsible for almost all of this. Central revenues within our area of consideration grew 486.5 percent over the same time period.

The evidence indicates little revenue decentralization because the local tax base is inadequate. The land and buildings taxes are based on 1939 and 1964 appraisals, respectively, and have exemptions that eliminate half or more of tax liabilities on land. The additional tax on imports and exports has a rate under control of the central government. Revenues for the special funds are dependent, to some extent, on production-based levies on agricultural commodities, which are very income inelastic. Improvements in the local revenue structures are imperative if decentralization is to proceed.

Another measure of revenue decentralization is the proportion of own-source revenues to expenditures. Increases in own-source revenues indicate local governments have experienced a relative increase in their own capabilities to finance expenditures. This ratio grew well from 1979 to 1981/82 as the revenues from the surtaxes on business profits and movable property expanded rapidly (Table V).

c. Comparison of governorate per capita revenues and expenditures (Tables VI and VII)

The discussion until now has described behavior for the aggregate of local governments, but wide variations in expenditures and revenues occur between governorates. Per capita values must be compared when analyzing individual governorates because of the extreme differences in the number of people provided services. Per capita values for the aggregate of local governments exhibits a time trend similar to that described above. They reveal the variation in investment expenditures as the per capita values range from LE 0.43 in 1976 to LE 7.24 in 1982/83. Second, the low level of local government revenues and expenditures is highlighted by the per capita values. The values reported here are probably slightly higher than actuality, as 1980 population is used for 1983 calculations.

Revenues are only expected to total LE 7.11 per capita in 1983, with the governorate-imposed fees amounting to LE 1.76. Expenditures are much higher but are only LE 40.96 for the first three chapters. This is still a small level considering that it represents much of the expenditures for education, agriculture, health, and several other areas.

Per capita revenues in 1982/83 vary from LE 66.24 in Port Said to LE 3.84 in Fayoum. Port Said is a special case because it receives the third largest amount from the share in joint revenues and the second largest payment from the additional tax on the Suez Canal. A tax on imports is also a major source of the governorate's revenues for the Local Development Fund (Chapter II). These revenues arise from the importing operations and nearness to the canal and have little to do with residents being heavily taxed. The next four highest receipt governorates are also located along the Suez Canal and receive revenues from the additional tax. None of these are heavily dependent on land, building, or entertainment taxes. Ismailia receives the greatest amount from these traditional taxes, LE 209,000 in 1982/83. These governorates tend to have large vehicle tax collections and Red Sea has big utility revenues and special funds. Suez also has large special funds accounts. The low populations are a final explanation for high per capita revenues in these governorates.

The urban Cairo and Alexandria Governorates also raise more than LE 10 per capita. Most of these revenues are collected from Chapter I with the buildings tax, entertainment taxes, vehicle taxes, and share in joint revenues all providing above-average shares.

The lowest five governorates in per capita revenues (Chapter I and II) are Fayoum, Minia, Sohag, Qena, and Assiut, all in Upper Egypt. In every case they raise less than one pound in Chapter II revenues (those directly levied locally). All have average or better collections from the land tax and weak collections elsewhere.

Per capita expenditures vary from LE 106.16 in the Sinai to LE 28.72 in Beheira. Much of the high expenditures result from investment activity, but the same pattern holds for current expenditures. Places with high investment also have high current expenditures. (It is generally difficult to evaluate

per capita annual investment data because much of the expenditures are for very discrete purchases and a one-time expenditure may bias the results. Also, in an economic sense the resources are not used until the project actually depreciates, so the investment is not an economic expenditure).

Port Said has the highest current expenditures at LE 129 per capita. The same pattern tends to hold within Chapter II expenditures where governorates have greater flexibility. High expenditure governorates tend to have relatively large amounts in commodity inputs, service inputs, appropriation transfers. Those with high special funds have high total credits expenditures. (The special funds described above are added into both revenues and expenditures for accounting purposes but are not directly a part of the budget. On the expenditure side, they appear in total credits).

Expenditures do not appear to be targeted for the largest places. Current expenditures were inversely related to governorate population in 1981/82 with a correlation coefficient of  $-0.64$ . The correlation drops slightly to  $-0.61$  when Chapters I, II, and III expenditures are correlated with population.

Expenditure trends are certainly partially a reflection of national priorities. The new governorates and canal governorates are generally the ones receiving large expenditures. An important question is whether a local government's ability to raise revenues influences its expenditures. The reason this is so important is because governorates have little decentralized authority over expenditures if they cannot raise more revenues to finance more expenditures. There is a strong perception that expenditures are negotiated between the Governor and Ministry of Finance for the current account and Governor and Ministry of Planning for the capital account, independent of revenues. According to this scenario, local revenues reduce the central government transfer but do not influence expenditures. In this case, governorates that raise more revenues would find their subsidy decline by a like amount. If this is true, local governments cannot increase their expenditures locally by raising more local revenues and this would be strong evidence that little decentralization of authority has occurred.

This proposition can be empirically tested by examining the correlation between per capita expenditures and per capita revenues. These results are only indicative of relationships but they prove no casual relationship. It may be that the tax structure coincidentally causes greater collections in the places where expenditures are already planned.

A large correlation is evidence that revenues may influence the level of expenditures. The correlation was  $0.94$  in 1981/82, indicating a high statistical relationship. Only current expenditures and revenues are used because little own source finance of investment occurs.

This provides evidence that revenues may be an important determinant of expenditures. The relationship is stronger when the five urban governorates are omitted from the sample.

The share of joint fund account is allocated by the Secretariat for Local Governments. This account may be distributed as a means to balance local

budgets and in any event is not the tax base of specific governorates but for all governorates together. The correlation drops to 0.60 when this item is subtracted from revenues. In 1982/83 the correlation dropped to 0.69 as the joint fund and joint revenues were altered. A considerable readjustment in the allocation of the joint fund occurred in 1982/83 compared with 1981/82.

Though less significant, the evidence continues to support the hypothesis that ability to generate revenues influences the level of expenditures.

## 2. Decentralization Outside the National Budget

Local governments use a series of special funds that are not incorporated into the general state budget in order to finance additional service delivery. An important characteristic of the funds is that revenues in them do not revert to the treasury if they are not spent in the year raised. Many of the funds carry over a balance from year to year. Frequently these accounts were created through the initiative of local governments but now are generally reflected in legislation. The most important special funds are the Local Services and Development Fund (LDSF), the Economy Housing Fund (EHF), the Cleansing Fund (CF), the Gasoline Price Fund, the Education Fund, the Industrial Areas Service Fund, the Health Improvement Fund, and the Land Reclamation Fund. The joint revenue fund could be categorized here, but is not since it is fully incorporated into the budget.

The first three are summed and included in both expenditures and revenues in the local government accounts of the general state budget. The stated purpose for listing them in the budget is to provide the national authorities with information on the size of these funds. This raises two concerns. First, as the funds increase over time the national government may want to exert control and thereby reduce local flexibility. Second, the central government may choose to reduce subsidies in places with large use of these funds. That is, the central government may view the funds as a replacement for national resources. Local governments with the initiative to help themselves may actually be penalized in this event.

### a. The Local Development and Services Fund

This is not an appropriate vehicle for a lengthy description of the sources and uses of the funds, so they will be reviewed only briefly. Law 51 of 1980 says the LDSF is to finance production and services projects, complete projects that were otherwise inefficiently financed, and improve local services delivery. These purposes can easily be used to justify reducing the central government transfer, thereby diverting LDSF funds from activities the local governments want to finance. The LDSF is used by governorates, towns, and villages although, with the exception of the governorate, they are very small at the town and village level in Giza and Menoufia.

Revenue sources for LDSF's include taxes and duties assessed for this purpose, a share of the local council's revenues (for governorates), and 50 percent of any revenue collections over the budget in the governorate.

The remaining discussion of LDSF funds pertains solely to governorate accounts.

Menoufia collected LE 797,123 in 1981/82 and Giza collected LE 998,173 in 1980/81 and LE 1,444,776 in 1981/82. Qena collected LE 819,543 in 1980/81 and LE 2,938,958 in 1981/82. The largest revenue source for Giza and Menoufia governorate is the 50 percent retained from collection excesses. Menoufia received LE 681,631 in 1981/82 and Giza received 484,694 in 1980/81 and LE 779,994 in 1981/82. Other receipts for Menoufia totaled only LE 115,562 including receipts from a share in the development bank, commissions on sales of fertilizers and agriculture products, rents from property owned by the funds, and a share in town council funds. The fees for agricultural-related products are officially called commissions because the products are sold through local cooperatives, but they operate much like taxes. Giza's itemized collections greatly exceed total collections suggesting that an error exists in the data. This should be checked further.

Qena's total collections were LE 820,000 in 1980/81 and LE 2.9 million in 1981/82.

LDSF expenditures include items from all four chapters. Giza can be used as an example (Table VIII). Incentives for revenue collectors and job performance are categorized in Chapter I. A variety of items are listed in Chapter II including many subsidies that are expressly provided by the LDSF decree for Giza. Only 36 percent of the expenditures are designed for new investments or productive projects (Chapters III and IV). In Menoufia, on the other hand, 77 percent of expenditures went for Chapter III and IV activities. In Qena, the accounts for the last two years show that 81% of expenditures was spent on productive enterprises.

All three governorates are carrying balances from year to year. Giza's carry forward from 1981/82 was LE 538,818. Menoufia total carry forward was not reported but the 1981/82 surplus was LE 305,742. The surplus in Qena in 1981/82 was LE 2.4 million indicating that expenditures lag far behind revenues.

#### b. The Economic (low-cost) Housing Fund

The EHF is the other most important fund, and is a major resource for building low income housing. Resources for the EHF can be obtained either through the NIB or from local resources.

In Giza LE 1,028,701 was raised from local sources in 1981 and LE 864,290 in 1980. Another LE 4,500,000 was borrowed in 1981 and 4,600,000 in 1980. Note that the account is administered on a calendar year rather than fiscal year basis. The major own source revenues were from taxes (LE 414,203 in 1981), rents on property (LE 279,401 in 1981), sale of lands (LE 73,728) and fines (LE 11,024).

Like the LDSF, the EHF has expenditures in all four chapters. A much greater share of the expenditure in Giza are for investment purposes in this case, with interest (Chapter IV) and repayment of debt (Chapter II) being most of the remainder (Table IX). Menoufia spent LE 168,9000 from its EHF in 1981/82.

Giza carried a balance of LE 6,482,353 into 1982. As of October 31, 1982 the balance had reached LE 9,357,444. Menoufia claimed to have no balance, but as noted above for the LDSF, this seems unlikely. Carrying forward large balances in these accounts may have negative effects in the long term as the central government may see this as evidence that the governorates need no additional revenue base.

c. Gasoline Price Fund

The gasoline price fund receives resources from 70 percent of a one piaster tax on each liter of gasoline sold in the country. The funds are allocated by the Secretariat for Local Government. Some effort is made to distribute the resources based on number of cars, population, and road miles. In fact, the relationships between these need categories and allocations is tenuous at best. Governorates are given one of three different amounts from the accounts (LE 800,000 in Menoufia approximately). Expenditures are authorized for intra-governorate roads.

d. Cleansing Fund

The cleansing funds (there are nationally administered and locally administered funds) are used for bonuses to pay street cleaners and for some investment expenditures related to cleaning. Little was found out about the funds through the visits. Giza city collects all of this account for Giza Governorate through a two percent tax on rents. Cleansing funds in Menoufia are also imposed by the towns and the data would need to be collected from each individually. The officials in Menoufia indicated that the resources were very limited.

e. Land Reclamation Funds

Land reclamation funds were not used in the governorates because the resources from sale of land tend to go to the Ministry of Construction, although the EHF in Giza gets revenues from the sale of land to be built on.

f. Other Local Funds

Education funds are new and no revenues have been collected by either governorates, Menoufia or Giza. In Giza, the investment budget funds, ORDEV education funds, and a student fee will finance this account. Resources will be used to construct schools.

Nothing was learned about either the Industrial Areas Services Funds or the Health Improvement Fund during the field visits. These are small and unimportant funds at the current time.

TABLE I  
 PERCENT CHANGE FOR SELECTED REVENUE AND EXPENDITURE CATEGORIES  
 1976 to 1982/1983

	<u>Local Government</u>	<u>Central Government</u>
<u>REVENUES</u>		
Chapter I	291.7	501.9
Chapter II	160.9	4041.9
Total Current Revenues	248.5	723.7
Chapter III	-80.0	110.0
Chapter IV		28953.8
Total Revenues	204.2	674.5
<u>EXPENDITURES</u>		
Chapter I	292.4	292.0
Chapter II	183.7	1073.7
Total Current Expenditures	271.00	618.7
Chapter III	1756.9	380.0
Chapter IV	280.4	9745.8
Total Capital Expenditures	1551.0	1536.4
Total Expenditures	331.6	934.9

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Source: GOE National Budgets, 1976 and 1982/83.

TABLE II  
CENTRAL GOVERNMENT EXPENDITURE BY USE FOR SELECTED YEARS  
(LE MILLION)

Expenditure Categories	1976		1979		1982/83	
	Budget	%	Budget	%	Budget	%
Chapter I - Wages	252.194	27.7	379.839	8.8	988.666	10.5
Chapter II - Operating Expenditures	503.062	55.3	2644.638	61.4	5904.603	62.7
- Commodity Inputs	(33.153)	(3.6)	(36.458)	(0.8)	(83.571)	(0.9)
- Service Inputs	(51.672)	(5.7)	(79.051)	(1.8)	(156.665)	(1.7)
- Goods purchased for resale	----	--	----	--	----	--
- Current Transfers	(2.933)	(0.3)	(442.584)	(10.3)	(965.965)	(10.3)
- Appropriated Transfers	(62.047)	(6.8)	(1635.244)	(38.0)	(2618.261)	(27.8)
Total Credits	(353.257)	(38.8)	(451.300)	(10.5)	(2080.141)	(22.1)
Chapter III- Investment Expenditure	135.300	14.9	288.128	6.7	649.378	6.9
Chapter IV - Capital Transfers	19.000	2.1	992.8	23.1	1870.70	19.9
GRAND TOTAL	909.556	100.0	4305.405	100.0	9413.347	100.0

Source: GOE Budgets, 1976, 1979 and 1982/83.

TABLE III  
 LOCAL GOVERNMENT EXPENDITURES BY USE FOR SELECTED YEARS AS REPORTED IN THE CENTRAL BUDGET  
 (LE MILLION)

	1976		1979		1982/83	
	Budget	%	Budget	%	Budget	%
Expenditure Categories:						
Ch. I Wages	297.126	76.1	529.9	74.0	1,166.000	69.3
Ch.II Operating Expenditures	72.970	18.7	99.506	14.0	207.050	12.3
- Commodity Inputs	(25.124)	(6.4)	(50.484)	(7.1)	(99.350)	(5.9)
- Service Inputs	(22.211)	(5.7)	(23.864)	(3.3)	(43.263)	(2.6)
- Goods purchased for resale	(11.832)	(3.0)	(0.803)	(0.1)	(1.005)	(0.1)
- Current Transfers	(4.221)	(1.1)	(7.555)	(1.1)	(8.056)	(0.5)
- Appropriated Transfers	(6.500)	(1.7)	(6.959)	(1.0)	(15.346)	(0.9)
- Total Credits	(2.964)	(0.8)	(9.871)	(1.4)	(40.030)	(2.4)
Ch.III Investment Expenditures	15.880	4.1	79.621	11.1	294.800	17.5
Ch. IV Capital Transfers	4.042	1.0	6.095	0.9	15.374	0.9
GRAND TOTAL	390.018	100.0	715.122	100.0	1683.224	100.0

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Source: GOE Budgets, 1976, 1978 and 1982/83

TABLE IV  
 LOCAL GOVERNMENT REVENUES BY SOURCE FOR SELECTED YEARS AS REPORTED IN CENTRAL BUDGET  
 (LE MILLIONS)

	1976 <sup>1</sup>		1979		1982/83	
	Budget	%	Budget	%	Budget	%
<u>Chapter I: Sovereignty Revenues - by Central Government</u>						
Land Tax	14.059	(13.6)	13.386	(10.2)	30.000	(9.6)
Building Tax	4.800	(4.7)	5.280	(4.0)	7.117	(2.2)
Entertainment Tax	1.920	(1.9)	3.331	(2.5)	3.692	(1.1)
Vehicle Tax	13.677	(13.3)	21.854	(16.7)	37.391	(11.9)
Share in joint revenues <sup>2</sup>	10.812	(10.5)	24.307	(18.5)	66.418	(21.2)
Share in joint fund <sup>3/</sup>	9.812	(9.5)	23.307	(17.8)	65.418	(20.8)
Additional tax on Suez Canal Authority	0.570	(0.6)	3.000	(2.3)	8.000	(2.6)
TOTAL	55.650	59.0	94.465	72.0	218.000	69.5
<u>Chapter II: Other Current Revenues</u>						
Revenues from utilities	13.903	(13.5)	3.591	(2.7)	6.933	(2.2)
Local taxes and duties	6.404	(6.2)	9.144	(7.0)	15.826	(5.0)
Various revenues	4.105	(4.0)	5.523	(4.2)	10.435	(3.3)
Quarrying revenues	0.529	(0.5)	.904	(0.7)	1.494	(0.5)
Revenues from other local activities <sup>4</sup>	2.467	(2.4)	9.328	(7.1)	36.800	(11.7)
TOTAL	27.408	26.6	28.490	21.7	71.487	22.8
<u>Chapter III: Own Source Capital</u>						
Revenues	20.000	19.4	1.100	0.8	4.0	1.3
<u>Chapter IV: Capital Loans and</u>						
<u>Credit Facilities</u>	---	---	7.100	5.4	20.000	6.4
TOTAL	103.058	100.0	131.155	100.0	313.487	100.0

Footnotes on next page

1/ 1976 and 1979 are calendar years and 1983 is fiscal year 1982-83.

2/ Share in joint revenues is 50 percent of the collections from the additional tax on imports and exports. Prior to fiscal year 1983 revenues were also obtained from additional taxes on movable property and business profits. The revenues remain where the tax is imposed.

3/ Share in the joint fund is 50 percent of the collections from the additional tax on imports and exports less LE 1 million. The revenues are distributed by the Secretariat for Local Government.

4/ This item includes the Local Services and Development Fund, the Economy Housing Fund, and the Cleansing Fund.

TABLE V  
 SOURCES OF CURRENT FINANCE AS REPORTED IN THE CENTRAL BUDGET  
 1976 to 1982/83

<u>YEAR</u>	<u>Own Source Revenues as percent of expenditures<sup>1/</sup></u>	<u>Central Government Subsidy as a percent of expenditures</u>
1976	22.4	77.6
1977	22.8	77.2
1978	23.1	76.9
1979	19.5	80.5
1980	22.0	78.0
1980/81	27.8	72.2
1981/82	28.8	71.2
1982/83 <sup>2/</sup>	21.0	79.0

<sup>1/</sup> Calculated as Chapter 1 and 2 revenues less the transfer divided by Chapters 1 and 2 expenditures.

<sup>2/</sup> Drop of own source share in 1982/83 reflects the elimination of the business profits taxes and transfer of wage costs from the central to the governorate budgets.

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Source: GOE National Budgets

TABLE VI  
PER CAPITA REVENUES & EXPENDITURES BY GOVERNORATE FOR 1976

GOVERNORATES	Chapter I Per capita revenues	Chapter II Per capita revenues	Total Per capita revenues	Chapter I Per capita expenditures	Chapter II Per capita expenditures	Chapter III Per capita expenditures	Total Chapter I II & III Per capita expenditures
CAIRO	2.92	0.92	3.84	8.52	1.85	0.43	10.80
GIZA	0.97	0.63	1.60	6.13	1.71	0.28	8.12
QALIUBIA	0.79	0.79	1.58	7.84	2.11	1.24	11.19
ALEXANDRIA	0.43	0.71	1.14	8.61	2.08	0.09	10.80
MATROUH	4.04	2.83	6.87	13.88	11.40	3.05	28.33
BEHEIRA	1.24	0.59	2.13	5.92	1.58	0.40	7.90
GHARBIA	1.29	1.13	2.42	8.73	2.06	0.46	11.25
MENOUFIA	0.88	0.53	1.41	9.80	1.67	0.25	11.72
KAFR EL SHEIKH	0.83	0.52	1.35	6.94	1.66	0.25	8.85
PORT SAID	2.42	1.67	4.09	17.81	6.00	0.16	23.97
ISMAILIA	2.03	0.77	2.80	10.65	2.78	0.27	13.70
SUEZ	3.57	1.62	5.19	11.13	5.40	0.21	16.74
SINAI	1.80	---	1.80	3.61	1.79	1.46	6.86
RED SEA	11.28	1.80	13.08	21.44	15.83	5.16	55.51
SHARKIA	0.89	0.60	1.49	7.45	1.45	0.18	9.08
DAKAHLIA	1.32	0.67	1.99	8.27	1.72	0.28	10.27
DAMIETTA	1.51	1.46	2.97	11.65	3.15	1.61	16.41
FAYOUM	0.81	0.56	1.37	7.77	1.82	0.25	9.84
BENI SUEF	0.91	0.65	1.56	8.60	1.87	0.40	10.87
MINIA	1.00	0.60	1.60	6.90	1.52	0.31	8.73
ASSIUT	0.75	0.55	1.30	7.10	1.82	0.15	9.07
SOHAG	0.81	0.56	1.37	7.57	1.61	0.20	9.38
QENA	0.76	0.59	1.35	7.59	1.86	0.25	9.70
ASWAN	1.23	1.90	3.13	12.84	5.23	0.36	18.43
NEW VALLEY	4.13	1.67	5.80	22.60	10.67	2.70	36.00
Average	1.51	0.75	2.26	8.08	1.98	0.43	10.49

TABLE VII  
PER CAPITA REVENUES & EXPENDITURES BY GOVERNORATE FOR 1983 1/

GOVERNORATES	Chapter I	Chapter II	Total	Chapter I	Chapter II	Chapter III	Total
	Per capita revenues	Per capita revenues	Per capita revenues	Per capita expenditures	Per capita expenditures	Per capita expenditures	Per capita expenditures
CAIRO	9.86	2.77	12.63	25.94	4.81	12.17	42.92
GIZA	4.07	1.18	5.25	19.61	3.65	9.73	32.99
QALIUBIA	3.64	1.11	4.75	29.15	4.35	6.06	39.56
ALEXANDRIA	11.06	2.58	13.64	28.40	5.56	6.87	40.83
MATROUH	2.47	4.04	6.51	38.05	20.19	52.20	110.44
BEHEIRA	3.71	1.02	4.73	22.18	3.39	3.15	28.72
GHARBIA	3.86	1.90	5.76	31.99	4.54	3.34	39.87
MENOUFIA	3.54	0.83	4.37	37.98	4.05	4.35	46.38
KAFR EL SHEIKH	3.25	1.17	4.42	26.54	4.31	6.56	37.41
PORT SAID	31.30	34.94	66.24	79.11	49.86	18.04	147.01
ISMAILIA	15.63	1.87	17.50	43.68	11.27	12.31	67.26
SUEZ	24.52	6.17	30.69	52.33	20.47	28.59	101.39
SINAI <sup>2/</sup>	17.66	2.59	20.25	82.33	28.43	95.40	206.16
RED SEA	9.13	13.81	22.93	71.10	53.98	60.87	185.95
SHARKIA	3.40	1.15	4.55	30.59	3.36	3.20	37.15
DAKAHLIA	4.09	1.02	5.11	27.29	3.50	5.02	35.81
DAMIETTA	3.97	2.34	6.31	35.00	7.08	14.07	56.15
FAYOUM	2.99	0.85	3.84	27.85	3.97	5.45	37.27
BENI SUEF	3.51	1.45	5.06	31.22	4.49	6.29	42.00
MINIA	3.22	0.65	3.87	23.61	3.00	3.58	30.19
ASSIUT	3.30	0.79	4.09	25.76	3.87	4.84	34.47
SOHAG	3.13	0.91	4.04	26.97	3.92	3.60	34.49
QENA	3.18	0.91	4.04	25.90	5.08	4.73	35.71
ASWAN	3.39	2.54	5.93	43.24	12.95	10.76	66.95
NEW VALLEY	2.14	4.23	6.37	87.91	32.33	53.14	173.38
Average	5.35	1.76	7.11	28.64	5.08	7.24	40.96

1/ Per capita values are calculated using the CAPMAS population estimates for 1980.

2/ North and South Sinai are added together.

Source: GOE National Budget

TABLE VIII  
GIZA LDF BUDGET 1981/82

<u>CATEGORY</u>	<u>EXPENDITURES (LE)</u>
<u>Chapter I</u>	
Incentives	39,033
<u>Chapter II</u>	
Maintenance and Repairs of Building	15,208
Bonuses	6,930
Miscellaneous	221,358
Subsidies	58,233
Educational & Cooperative Subsidies	82,135
Mosques and Building Subsidies	184,174
Youth and Sports Subsidies	179,174
<u>Chapter III</u>	
Unappropriated Investment	166,527
<u>Chapter IV</u>	
Loans to productive projects	<u>303,072</u>
Total expenditures	1,305,848

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Source: Giza Governorate Accounts

TABLE IX  
GIZA EHF EXPENDITURE, 1981

<u>Category</u>	<u>Expenditure</u>
<u>Chapter I</u>	
Compensation	2,097
<u>Chapter II</u>	
Publication and advertising	3,675
Stationary	300
Interest and Housing Loans	413,860
Interest and Housing Bonds	90,912
Miscellaneous	<u>14,283</u>
Chapter II Totals	523,031
<u>Chapter III</u>	
Building	2,882,053
Electricity	67,785
Water	36,406
Governorates share in Egyptian Company for Reconstruction Capital	<u>437,340</u>
Chapter III total	3,423,586
<u>Chapter IV</u>	
Installments on housing loans	<u>109,987</u>
Total Expenditures	3,959,101 <sup>1/</sup>

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<sup>1/</sup> Differs slightly from the reported total in the Giza budget.

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Source: Giza Governorate Accounts

TABLE X  
 CURRENT EXPENDITURES FOR CENTRAL GOVERNMENT SERVICE  
 MINISTRIES FOR CHAPTER I WAGE AND CHAPTER II OPERATING EXPENSES  
 YEARS 1976, 1979, and 1982/83  
 (LE 000's)

Service Ministry	Central Government					
	1976		1979		1982/83	
	I	II	I	II	I	II
Agriculture	21396	15926	29119	29299	60498	55785
Supply	3963	626	4008	752	4353	493
Housing and Reconstruction	1880	882	1457	1942	746	7416
Health	9557	4712	4407	6926	6058	20113
Social Affairs	2136	1675	949	25056	2152	36594
Labor	813	<u>343</u>	1147	<u>332</u>	1637	<u>3168</u>
Subtotal	39745	24164	41087	64307	75444	123569
Education	8679	17015	9713	7189	13875	16097
Youth & Sport	975	<u>3163</u>	1756	<u>8065</u>	4407	<u>34000</u>
Total	49399	44342	52556	79561	93726	173666

Source: GOE Budgets, 1976, 1979 and 1982/83.

TABLE XI  
CURRENT EXPENDITURES FOR LOCAL GOVERNMENT SERVICE  
MINISTRIES FOR CHAPTER I WAGE AND CHAPTER II OPERATING EXPENSES  
YEARS 1976, 1979, and 1982/83  
(LE 000's)

Service Ministry	Local Government					
	1976		1979		1982/83	
	CHAPTERS					
	I	II	I	II	I	II
Agriculture	13322	935	37293	1718	88072	1673
Supply	1914	182	5956	357	2002	833
Housing and Reconstruction	4552	1274	9523	1394	23033	4617
Health	42341	17827	9000	26275	178757	47009
Social Affairs	5602	3300	12420	3395	31544	6611
Labor	1874	165	3679	204	9424	376
Subtotal	69605	23683	158871	33343	332832	62119
Education	168347	10764	268229	24772	572088	52300
Youth & Sport	-	-	-	-	12287	2259
Total	237952	34447	427100	58115	917207	116678

Source: GOE Budgets, 1976, 1979 and 1982/83.

TABLE XII

Percentage Change Chapter I Wage and Chapter II Operating Expenses  
for Central vs. Local Government Ministries\*  
Years 1976 and 1982/83  
(LE 000's)

	Chapter I		Chapter II		Total Chapters I & II % Change 1976 to 1982/83
	1976	$\frac{1982/83}{1976}$ % Change	1976	$\frac{1982/83}{1976}$ % Change	
Local Government	237,952	917,207 285%	34,447	116,678 239%	280%**
Central Government	49,399	93,726 90%	44,342	173,666 292%	185%**

\* Includes the Service Ministries of Agriculture, Supply, Housing and Reconstruction, Health, Social Affairs, Labor, Education and Youth and Sports.

\*\* Local government expenditures were 3 times as large as central government expenditures for the above listed Service Ministries in 1976. Local expenditures grew to 4 times to those of central government for these same expenditure categories in 1982/83.

Source: Tables X and XI, Decentralization Annex, Appendix D