

مشروع التنمية المحلية

LD II-P

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REPORT: COST RECOVERY

The LD II-P Experiment

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REPORT: COST RECOVERY

The LD II-P Experiment

**Prepared by:
CHEMONICS LD II-P**

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Introduction

This report discusses the pilot operations and maintenance (O&M) cost recovery efforts undertaken in provincial governorates under the fourth LD II-P project cycle. The observations upon which the report is based are derived from follow-up field visits made in ten governorates and from the comments of participants at the cost recovery exchange-of-experience workshops held in Alexandria on 23-26 August 1992. The report also draws on data and observations obtained during the water sector strategic planning activity undertaken in Daqahliya and Qena governorates by Chemonics' Local Government and Potable Water Sections and during the Environmental Engineering Section's program of technical assistance to village wastewater utility departments.

The USAID/MLA *Guidelines for Fourth-Year LD II-P Planning* (Chemonics/Cairo, LG5-01, November 1990) instructed each governorate to select two water and/or wastewater projects for pilot cost recovery efforts. The scope of the effort was fleshed out at the February 1991 plan preparation and review workshops and the governorate-level fourth-cycle planning orientations. The participating local councils were asked to propose increases in the water tariff revenue item of their Local Service and Development Funds (LSDFs), and to open special branch LSDF accounts to hold these revenue increments, which would be used to support local O&M expenditures for the projects.

Local capacity-building in O&M financial and technical management was as much the objective as local resource mobilization. Increasing the share of total O&M funds collected, retained, and budgeted by local councils was intended to have the following developmental consequences:

- Increased unification of project O&M finances under the direct management of local councils, in order to support a cost-accounting or enterprise-fund orientation to service delivery.
- Increased accountability of local technical staff for service delivery, as a consequence of greater dependence on local popular councils as the rate-setting authorities.

Design

There are three sources of revenue for operations, maintenance, and repair (OM&R) of local services:

- **Bab II Collections.** They are assessed on water and sewer connections, among other products and services (see *Local Revenue Reference Guide*, Chemonics/Cairo, June 1990, working draft). These collections are made through local revenue offices, but posted to the central government, where they merge into general revenues for current expenditures, including labor.¹
- **Local Special Accounts.** The LSDFs include, among their many fees, a flat surcharge of LE 0.01 on each water bill. These funds also set rates for septage evacuation and removal by truck or tractor-trailer. As with Bab II revenues, the different sources are pooled after collection. These funds, however, are retained by the local councils. They can be used for O&M, but not for wages.
- **LD II Agreement O&M Funds.** Under the Agreement, the Government of Egypt (GOE) and USAID agreed to allocate funds from the commodity-import Special Account to infrastructure and equipment O&M. The total FY 1992/93 allocation from this source—the final year to which the Agreement

¹Descriptions of the GOE system of local administration finances are given in two recent studies (Chemonics, 1990, and Schroeder 1991). According to these studies, Bab II revenues (current revenues and transfers, mainly duties and fees, including utility charges) and Bab I revenues (sovereign tax revenues) cover more than 90 percent of local administration current expenditures (Bab II expenditures). The so-called "subsidy" from the state to local administration covers wages and salaries (Bab I expenditures) (Schroeder, 1991, pp. 14, 30). Bab II funds may be used to pay for contract O&M services.

Two qualifications must be made to the proposition that Bab I and II collections cover Bab II expenditures. Local Bab II budget proposals are reduced by the central government, so much local O&M must be underfunded. Moreover, Bab II utility O&M grants are not necessarily equivalent to the Bab II utility collections; i.e., intersectoral as well as intergovernorate transfers are made at the national level. The second point is that the O&M costs that Bab I and II revenues are said to "cover" represent the costs left after LD II funds have been budgeted. (The LSDF also funds O&M costs, but more as a source of ready petty cash; i.e., no LSDF O&M budgets are prepared at any level, except where special accounts are kept.)

applies--was LE 71.99 million for the 26 governorates. The FY 1992/93 allocation was supplemented by 10 percent matching contributions from the governorate LSDFs.

Given the decentralization objectives of the LD II-P cost recovery proposal, the selection of the LSDF as its mechanism was logical. The popular councils have the authority to raise and retain LSDF charges, although such increases must be approved by the governorate popular council, the Cabinet Committee on Local Government, and the Prime Minister.

Prime Minister's Decree 578/1986 (see Annex 1) permits local units to open special branch accounts within the LSDF to hold local contributions for capital projects.² On 24 June 1990, the Damietta GLDC, under the chairmanship of the Governor, Dr. Ahmed Guwayli (at the time also Chairman of the LD II Provincial Local Development Committee), authorized Damietta local councils to open "578 accounts" to collect user charges set by the local popular councils on all sewer connections. These fees were to be used by council wastewater utility departments for OM&R of local wastewater systems .

These Damietta 578 OM&R accounts were the model used during the fourth-cycle LD II-P planning orientations to illustrate an LD II-P cost recovery scheme. Many local officials, however, have argued that PM 578 clearly specified that the 578 accounts were for voluntary contributions to capital projects, rather than mandated user charges for O&M.³ In a letter to the governors dated 5 February 1991 (see Annex 2), the Prime Minister clarified that 578 accounts could be used for O&M. Local officials, however, continued to argue that the language of the letter, in particular the expression "*ma yusaahim bih il muwatanun*," indicated that the O&M accounts, like ordinary 578 accounts, were to be funded through individual voluntary contributions as opposed to new LSDF revenue item rates. Under such an interpretation, service could not be discontinued to beneficiaries who did not contribute.

²In fact, Daqahliya Governorate had opened up such a fund for water and wastewater projects in 1975 and was generating revenue for it by surcharging LE 0.50 to each water bill. Local gasoline surcharges had also been instituted earlier to generate revenue for special roads funds, shared between the governorates and the state.

³The use of *general* LSDF funds for O&M is not controversial and appears to be common practice in making up O&M finance shortfalls.

At the heart of the controversy, then, is the problem that while local governments can retain their special fund collections, the central government has retained the authority to regulate rate increases on LSDF revenue items. From the standpoint of LD II-P cost recovery objectives, the degree of central control over local rate-setting implies a negative assessment of local capability to budget for recurrent costs and/or to collect and use public funds ethically.

Even if this issue were to be resolved in favor of the local popular councils, the LSDF approach would still not be entirely adequate to the objective of "total or near-total user finance" as set out in the *Guidelines*. The intention of the LD II-P cost recovery proposal is that project O&M be funded out of a *unitary* local budget—the special account—in order to facilitate a cost-accounting or enterprise-fund orientation to O&M management. Nothing in existing legislation could be supposed to justify allowing the councils participating in the cost recovery experiment to retain their collections of the *national* water and sewer tariffs.

There was a third problem of local financial authority, related to authority to *spend*, which was not addressed in the LD II-P cost recovery design or in PM 578. Law 127/1981 requires that all village council expenditures over a very small amount be authorized by the markaz, even where the source of funds is the village LSDF. The issue of VC expenditure authority is discussed in two previous Chemonics' reports, *Village Accounting Systems*, November 1986, and *Local Revenues*, November 1990.

The cost recovery planning form (see Annex 3) drew the attention of the councils to some of the ambiguous elements in the cost recovery design but did not purport to resolve them. For example, by asking if labor costs were included in the estimate of O&M costs, the planning form implied that councils could adopt a very broad view of the scope of local O&M finance. Similarly, the form asked councils to state what percentage of O&M costs were to be recovered through the special account charges, but by also asking how any remaining O&M costs were to be funded, it left unresolved the question of whether the special accounts were to be principal or merely supplementary sources of O&M funding.

Implementation

Forty-eight projects were selected for pilot cost recovery schemes in the fourth-cycle LD II-P plan. Table 3.1 shows their distribution by governorate and by type of project.

SEPTAGE REMOVAL VEHICLES

Table 3.2 provides data on the implementation status of nine mobile septage removal schemes.

In the Delta villages and in Talla VC (Minya), advisors noted that service fees have been collected and deposited into village LSDFs since as far back as 1989. LSDF funds are used for truck OM&R, and the availability of LD II Agreement O&M funds has enabled these councils to accumulate local surpluses for the funds. Service managers welcomed the idea of special accounts as a way to keep these collections exclusively for the trucks. They wanted the additional authority to open interest-earning accounts toward replacement.

These areas, where high water tables create demand for the service, reported utilization rates of up to 10 removals (*na'la*) per day and infrequent breakdowns. Accounts of VC O&M expenditure are available, although there is reliance on the markaz for some types of repair.

There is less demand for septage removal in the Upper Egyptian villages. Whereas in the Delta the majority of households requested the service, in Ramadi Bahri in Idfu (Asswan), there were no more than 300 service users in a council area which included some 50 settlements. The cost of a *na'la* is high. Greater economy could be achieved if the truck officials planned routes to serve several consumers during one trip.

The difference between high and low demand situations was reflected in the level of service management. The village council was clearly managing the service in Sharnub (Beheira), a village in the Delta where demand is high. In the Asswan villages, where there is little demand, the trucks were budgeted for and repaired by the marakez. The marakez

Table 3 . 1

DISTRIBUTION OF LDII-P COST RECOVERY SCHEMES,

By Governorate and Type of Project

GOVERNORATE	Septage Removal Vehicle	Water Supply	Sewerage
ASSWAN	2		
ASSYOUT		5	
BEHEIRA	3		
BENI SUEF	1	1	
DAMIETTA			3
DAQAHLIYA	1		1
FAYOUM	2		
GHARBIYA	2	1	
GIZA		2	
ISMAILIA		1	
KAFR EL SHEIKH	2		
MATROUH	1	1	
MENUFIYA			2
MINYA	1	2	
NEW VALLEY		2	
NORTH SINAI	1	2	
QALUBIYA		1	1
QENA	1	1	
RED SEA			
SHARQIYA	1		
SOHAG		2	
SOUTH SINAI	1	1	
TOTAL	19	22	7

Table 3.2

SEPTAGE REMOVAL COST RECOVERY

Governorate	Local Council	No. of Households Regularly Served	Charge Per Removal	Approx. No. of Removals/Day	FY 90/91 Spec./Acct. Collections
BEHEIRA	Sharnub VC	5,150	LE 3.0	10	LE 6,670
GHARBIYA	Biltag VC	most	LE 3.5	7	LE 3,316
	Sheen VC	most	LE 2.0	10	LE 3,285
KAFR EL SHEIKH	Hamrawi VC	most	LE 3.0	8	LE 4,224
	Sadd Khamis VC	7,400		5	LE 5,480
MINYA	Talla VC	all	LE 3.3	10	LE 3,170
BENI SUEF	Ibshana VC	?	LE 10.0	2	LE 1,410 (FY91/92)
ASSWAN	Ramadi Bahri VC	300	LE 12.0	1	LE 1,248 (FY91/92)
	Kalabsha City	few	LE 3.0	?	LE 206 (FY91/92)

spent LD II Agreement funds for the trucks' O&M with no knowledge of the trucks' LSDF revenues, while the VC officials had no records of O&M expenditure. In Kalabsha City (Markaz Nasr, Asswan), there were no records of truck service delivery, while collections in Ramadi Bahri were well documented. Collections in the Delta villages and Talla were also well documented.

Demand level also appears to influence directly the rate of cost recovery. The Sharnub VC truck, with an average utilization rate of 10 *na'la* per day, can be taken as representative of a high demand situation, and the Ibshana truck, with an average of 2 *na'la* per day, as representative of low demand. In FY91/92, total special account allocations for Sharnub were LE 7,033 and total O&M expenditures (irrespective of source) were LE 9,473, for a cost recovery rate of 74 percent. In Ibshana, FY91.92 special account allocation were LE 1,410, while total O&M expenditure was LE 6,291, for a cost recovery rate of 22 percent.

The totally local character of the septage removal service and its face-to-face aspects enhance accountability. Fees can be required at or prior to the time of service, and tips paid to the truck drivers provide incentives to deliver the service. Government and service buildings, which are often exempt from fees and do not pay tips, are often underserved.

Annex 4 provides detailed observations on the septage removal vehicle recovery schemes in Beheira and Asswan.

WATER

Fees for septage removal are entirely transmitted to the LSDF. The local finances of the water systems are in a different situation. For water, part of the fee goes to the state through the utility charges item of the Bab II revenue account. This is the national water tariff, which has risen from LE 0.02 in 1983 to LE 0.12 in 1992; the progression of the tariff rate on domestic consumers is shown in Table 3.3.

Table 3.3

**NATIONAL WATER TARIFF
(Domestic Consumers Only)**

FY	LE/m ³
1983	0.02
1987	0.045
1989	0.065
1991	0.10
1992	0.12

None of the villages which proposed water projects for LD II-P cost recovery opened special accounts, and it is interesting to consider why this was so. Chemonics advisors believe that despite the apparent failure of the LD II-P experiment—attributed by workshop participants to worries that its legislative basis was weak—there is significant local water revenue generation and retention. But it is achieved in a discreet manner. From the local government's point of view, the national tariff is in competition with local charges. This tariff is beyond local manipulation, but local billing practice may add "various" charges (*mutanawwa'at*) as well as the LSDF surcharge. Advisors think these additional charges go into the LSDF, which is commonly cited by regional and municipal water authorities as a source of supplemental funding. Local governments can also undermine the impact of the rising national tariff rate through their power to set the consumption assumptions which define the actual flat rate to be charged to connections where charges are not taken from meters. In many cases this is set as low as 4 m³ per month, whereas the Damietta Water Company, which keeps all its revenues, bases its flat rate on an assumed consumption of 30 m³ per month.

Another reason for the low participation of water schemes in the LD II-P cost recovery program is that water supply is often managed from a level higher than the village. The villages are more dependent on the governorate, the regional utility, or the markaz for technical assistance with water supply than with septage removal. None of the many Egyptian villages served by regional or municipal water utilities or by compact plants was even proposed for LD II-P cost recovery. Often village councils do not deal with O&M in money terms.

They notify the markaz or the utility of required quantities of parts or chemicals, and they may have no records of consumption for these items. Therefore, the village is not the best unit for water O&M planning, budgeting, procurement, and implementation. Service areas, defined by network boundaries, are the best units for these purposes; unfortunately, network and council boundaries rarely coincide. Moreover, sourceworks may be located outside the council area boundaries (in which case, council charges should include the local unit's share in sourcework O&M costs). Utility managers therefore seek access to LSDF funds through the city councils or the governorate housing departments. Village-level LD II-P accounts would have competed with city and governorate LSDF revenue generation.

WASTEWATER

As noted above, special accounts for village wastewater project O&M were the model for the LD II-P cost recovery proposal. They were created by Governor's decree in Damietta in 1990, and also opened in Qalubiyah and New Valley village councils. In these governorates the projects had been constituted (also by Governor's decree) as village council utilities with their own staffs and O&M budgets. These utilities cover 100 percent of their (non-labor) O&M costs above their LD II O&M allocations and above their electricity costs. The LD II allocation is used mostly for governorate-level procurement of spare parts. Electricity costs, which cannot be paid out of LDII Agreement O&M funds, are let accumulate as arrears; this appears to be common governmental practice in Egypt. Electricity comprises a substantial part of the operating cost of extended aeration technologies.

LSDF collections are kept by the council, not redistributed from a higher level, although in most governorates the LSDF wastewater charge is collected on the water bill, which has to be disaggregated at the markaz (or in Damietta's case, Water Company) level to separate the water and wastewater revenues. The water fees are sent to the central government or to the Water Company, while the wastewater fees are returned to the villages' special accounts.

From the standpoint of LD II-P objectives, the wastewater schemes in Damietta, Qalubiyah and New Valley represent local management successes. These projects have had three advantages over local water projects:

1. The wastewater projects were formally constituted by governor's decree as unitary utilities for O&M planning, budgeting, and implementation purposes.
2. Physically, the projects were scaled to the village; that is, their infrastructure was not connected to regional or municipal systems.
3. The projects received continuous and integrated technical assistance from Chemonics in all aspects of utility O&M planning, monitoring, management, and rate-setting except revenue collection. Also, as pilot projects developed through technical cooperation between the governorate and the LD II-P technical assistance contractor, it was possible for organization structures and staffing plans to be developed on the basis of actual requirements.⁴

⁴The *Assessment of Rural Wastewater Projects* (Chemonics/Cairo, June 1992: p.56) claims that these projects, with staffing costs of 40 to 70 percent of total operating costs, are overstaffed. Yet this compares favorably to the 66 to 95% share of labor costs in total operating costs observed in a sample of four water supply systems in Qena Governorate ("Water Supply in Qena Governorate", unpublished report, Chemonics / Cairo, 1992).

Conclusions

The LD I-P cost recovery experiment has had a limited impact on local resource mobilization and on local services management, yet the follow-up observations suggest that many local councils are actively generating and retaining local revenues and using them to support service delivery.

In areas where there is high demand, septage removal services cover most of their O&M costs, a variable percentage of truck replacement costs, and some of their real labor costs. Labor as a percentage of total cost is low compared to fixed plant operations. Collection is easy and also low cost. Local councils in these areas have acquired technical capability in operations and maintenance, although major repairs to truck suction systems may still require markaz assistance. The idea of special accounts was welcomed by the service truck managers as a way to isolate service collections from diversion to other LSDF uses.

Where demand is low, on the other hand, the trucks provide an expensive service to a relatively few individuals and do not cover their O&M costs. The operation is therefore not economical, but this is not evident because its management is not integrated. Service managers in these villages collect and retain the fees but leave maintenance and repair, both financially and technically, to the city councils.

Cost recovery and local management of water supply confronts a different set of constraints. The collection rate is lower because it is less easy to exclude non-payers from the service. Moreover, local governments retain a smaller share of the water collections because the GOE receives a significant part of the total collections as the national water tariff. Local councils attempt to increase the LSDF share by minimizing the share going to the state. Unfortunately, their strategy for doing so is to ignore meters, which are the only source of critical management information about water service effectiveness and efficiency.

The difference in the degree of *local autonomy* in the management of septage removal trucks versus water service is influenced by the differences in the size and financing of their labor costs. Labor costs comprise a smaller share of total costs of truck service, and an unofficial but significant part of the actual cost of labor is locally mobilized through tips. The efficiency of the service operation is not depressed by superfluous labor costs, and the accountability of the service

provider is enhanced by the greater containment of costs within the sphere of local resources.

This comparison implies that the service delivery objectives of the LD II-P cost recovery program can be assured in the water sector only if the local governments' share of water revenue is increased. Ultimately, local accountability and increased cost-effectiveness can be achieved only if the local governments are given more control and responsibility over staffing, salaries, and organization. Many water utilities will probably be reorganized according to service area boundaries. These service districts, rather than local council areas, are the appropriate units for planning, budgeting, and management purposes—and perhaps for rate-setting and collection as well.

From the local management standpoint, the village wastewater schemes were the most successful of the cost recovery experiments. The village councils develop their own budgets and monitor their expenditures to improve output ratio from one year to the next. The utility special accounts include LD-II allocations and LSDF collections, and these two sources cover all non-labor O&M inputs except electricity.

The success of these wastewater schemes was due largely to advantageous technical and organizational conditions. Their physical infrastructure was contained within village council boundaries, and they were managed through discrete village wastewater utility organizations. Staffing was based largely on actual requirements, and intensive technical assistance in O&M was given to each utility over several years.

In summary, the following conditions support local management of services:

- A high percentage of funds for O&M is at the disposal of the village council. This was the case in this study with the wastewater projects and the septage removal vehicles in the Delta villages and Talla VC in Minya. In the studied wastewater projects, LSDF collections were substantial, and the LD II Agreement O&M funds were also kept in VC special accounts for the projects. In the septage removal projects cited above, the VCs set LSDF charges for the service, collection was easy, and O&M costs were relatively low. An additional advantage was that a substantial part of labor cost is borne by customers in the form of tips.

- The local council has major O&M responsibilities for the project and has the technical capacity to carry them out. This was the case in this study with the septage removal trucks (in areas with high demand for the service) and the wastewater projects. The village councils carried out all O&M activities, except major repairs, on the septage vehicles. Since O&M is not technically demanding for this type of technology, it was an appropriate technology for village-level management. Technical requirements for wastewater project O&M are considerably higher, but the pilot villages had the benefit of continuous technical assistance and follow-up of O&M practices and utility performance.
- While the water projects failed to implement LD II-P cost recovery, this is not due to a fundamental difference between water systems and the other types of infrastructure in the study. The difference is organizational, in that a larger share of both O&M finance and O&M technical responsibility resides at a supra-village level. LD II cost recovery schemes in the water sector might have succeeded if the special accounts had been established at the proper system level, e.g. , the regional or municipal utility.

Recommendations

With the imminent termination of LD II Agreement funding for operations and maintenance, the need for increased local revenue generation is more urgent than ever. The flow of these revenues and how they are managed will greatly influence the extent to which increased revenues can be translated into improved service delivery. Two features of the LD II-P cost recovery mechanism are valuable in this regard, namely, *local retention* and the concept of the *project specific account*.

- 1) ***Unify utility financing.*** O&M finance should be unified, in order to facilitate integrated O&M planning, budgeting, implementation, monitoring, and evaluation. The *Local Government Fiscal Management Study* (Schroeder, 1991, p. 39) recommends that Bab II revenues be locally retained within the LSDF. Unification of the revenue stream at the local level would support improved O&M budgeting and also provide greater incentive for local revenue collection effectiveness.

Implementation of this recommendation would entail a removal of the utility revenues item from Bab II (i.e., central) revenues. In effect, it would abolish the national water tariff, leaving water and wastewater user charges to be set by the governorate, the local council, or some form of utility regulatory authority. Fully local finance of this sort is already applied to septage removal vehicles. Implementation of this recommendation would require enabling central legislation. Technical assistance in pricing policy and tariff design may be required by local governments. Water revenue collection offices already exist in each local council, but some reorganization of collection districts may be required if the following recommendation were to be implemented.

- 2) ***Unify utility management.*** Utility operations should be reorganized according to service district. Utility level management, with its enhanced sense of identity and mission, would be better able to identify and monitor cost centers as a basis for improved planning and budgeting for O&M as well as for capital planning and human resources development. Improved accounting and budgeting systems would enhance accountability. Improved service can itself increase

revenue, as when, for example, water loss reduction measures result in increased throughput. Technical assistance can support efforts to improve planning, budgeting, and monitoring through the development of manuals, training, and follow-up in cost-centered approaches to accounting.

This recommendation would require organizational/administrative change. The level at which the enabling legislation would need to be enacted--centrally or locally--would depend on the utility structure to be adopted. Adoption of the "general organization" model found in Cairo and Alexandria governorates would entail only a separation of relevant governorate housing department and local council water/wastewater personnel and their combination into one organization. Another option is the "water/wastewater company" model, already partially applied in three provincial governorates.

- 3) ***Increase local managerial autonomy.*** Improvements in service delivery from effectiveness and efficiency standpoints require increased local organizational and managerial autonomy. Local control over staffing and salaries is a prerequisite for greater efficiency. Presently, utilities are not staffed according to service delivery requirements, and the combination of overstaffing and centrally controlled salary scales constrains the recruitment of needed and qualified staff. Above all, local control over personnel will enhance accountability.

This recommendation would entail the complete decentralization of utility operations and management, since under current law, staffing and salary decisions are highly centralized. To a limited extent, this type of autonomy has been effected in the water/wastewater companies. One drawback of this recommendation from a narrow, short-term point of view is that the utilities may have to recover their labor costs as well as their O&M costs, since the central government is unlikely to relinquish control over employment without also relinquishing the financial responsibility. However, our view is that if accountability is properly designed into the utility structure, the productivity of labor will increase, resulting in reduced unit costs or increased revenues.

- 4) ***Increase utility accountability to consumers.*** Local representative bodies, such as the popular councils, should have an expanded role in quality-of-service monitoring, plan and budget review, and rate setting. Under the system of unified finance recommended above, these bodies would have the primary authority to set user charges after reviewing utility managers' annual proposals for service delivery targets, plans and budgets, and they would monitor the utility's performance in relation to the mutually accepted service delivery targets. Policy, administrative and technical assistance interventions can support this recommendation through the establishment and institutional strengthening of such bodies, and through developing instruments and procedures by which utilities are accountable to them.
- 5) ***Increase revenue generating capacity.*** At least three techniques are available for increasing revenues, apart from the more general strategy of improving service efficiency:
- expanding the collection base
 - increasing the effectiveness of collection efforts
 - increasing charges

Expansion of the collection base can be achieved by policies and practices which insure that all consumers are properly registered. There are still local councils which treat multi-family dwellings as single consumers in estimated billings; this can result in substantial loss of revenue in built-up areas. Censuses of consumer characteristics, often undertaken as a first stage in the computerization of billing systems, typically produce an expansion of the collection base. Computerization is not strictly necessary in order to undertake such a census.

Collection efficiency can be improved through various techniques. Computerization, which allows for easy identification and follow-up of delinquent consumers; payment of incentives to collectors; and better siting of collection centers are some examples. The organizational interventions recommended above can also be expected to improve collections, by making local utilities directly dependent on consumers for

their O&M fund flows and by conferring popular legitimacy on the rates themselves.

Wherever possible, rate increases should be coupled with the type of commitment to "consumer orientation" indicated by the institutional developments discussed in this paper. In water supply, for example, these developments must include policies which emphasize metering, as a basis for fair billing and as a measure of service delivery and cost efficiency.

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ANNEX 1

**Prime Minister's Decree 578
(1986)**

قرار رئيس مجلس الوزراء

رقم ٥٧٨ لسنة ١٩٨٦

بالترخيص للمحافظين بتخصيص حسابات فرعية بحسابات الخدمات
والتنمية المحلية

رئيس مجلس الوزراء

بعد الاطلاع على الدستور .

وعلى قانون الموازنة العامة للدولة الصادر بالتدوين رقم ٥٣ لسنة ١٩٧٣

وعلى قانون نظام الحكم المحلى الصادر بالقانون رقم ٤٣ لسنة ١٩٧٩

وبناء على ما عرضه وزير الحكم المحلى .

قرر :

(المادة الأولى)

يتولى المحافظون اصدار القرارات والقواعد المنظمة لحسابات الخدمات
والتنمية المحلية بالمحافظات والمراكز والمدن والقرى .

ويجوز للمحافظين - بالتنسيق مع وزارة التخطيط - تخصيص حسابات
فرعية بالحسابات المذكورة لانشاء مشروعات بهذه الوحدات تقوم على الجهود
الذاتية للمواطنين .

ويكون تخصيص الحسابات الفرعية للمشروعات التى تقام فى الأحياء بالجهود
الذاتية فى حساب الخدمات والتنمية المحلية للمحافظات أو المدينة التى يتبعها
الحى بحسب الأحوال .

(المادة الثانية)

تخصص لكل مشروع من المشروعات المشار إليها بالمادة السابقة ، المبالغ
التي ساهم بها المواطنون لإنشائه . ولا يجوز استخدام تلك المبالغ في غير الأغراض
المخصصة لها .

(المادة الثالثة)

ينتهي تخصيص الحساب الفرعي لكل مشروع بعد الانتهاء من تنفيذه ؛ ويؤول
فائض هذا الحساب الى حساب الخدمات والتنمية المحلية بالوحدة المختصة .

(المادة الرابعة)

على الجهات المختصة تنفيذ هذا القرار .

T R A N S L A T I O N

Priministerial Decree
No. 578 of 1986

~~Attachment~~

Permission for governors to establish secondary accounts
in the Local Services and Development Account

The Prime Minister

After reviewing the constitution,
budget law No. 53 of 1973

the law of Local Administration No. 43 of 1979, and based on what has
been presented from the Minister of Local Administration,

D E C R E E

Article 1

Governors will issue the rules and regulations that organize the
local services and Development Accounts (LSDA) in the governorates.
Governors may in coordination with the Ministry of Planning open-up
secondary accounts in the above mentioned accounts for self-help
projects

Secondary accounts from the LSDA for self-help projects are under
the jurisdiction of the governorates or towns where the project
districts are located.

Article 2

In the type of projects mentioned above, citizen donations are
allocated to the project and cannot be used for other purposes.

Article 3

The allocation of the secondary account for each project expires
after the project is completed, and any surplus is rescheduled to
the Local Services and Development Account in the respective local
unit.

Article 4

Responsible authorities are to implement this decree.

Issued from the Cabinet on 12 Ramadan of 1406 (Islamic Calendar),
May 20, 1986.

Dr. Aly Loutfy
General Sec. for the Cabinet

Decree; Translated; DR/LAD; SHassanein:sm:6/26/90 (Sh5/6)

Said 6.26

ANNEX 2

**Prime Minister's Letter
(5 February 1991)**

(جميع المحافظين)

السيد /

محافظ

تحية طيبة .. وبعد ..

استكمالاً للجهود التي تقوم بها الدولة لتوفير مستوى اعلى وانضـل للخدمات الاساسية بالسلطيات واستنادا لدعم القدرات الفنية والموارد المالية للوحدات المحلية وادخال عنصر المشاركة الشعبية لمواطني المجتمعات المحلية في مجال تشغيل وصيانة مشروعات البنية الاساسية- والمعدات ضمانا لاستمراريتها في آدائها لعمليها بالكفاءة الواجبة ..

فانه يتعين على المحافظات اتخاذ الاجراءات اللازمة لتخصيص حسابات فرعية بحمايات الخدمات والتنمية المحلية بالمدن والاحياء والقرى طبقا لما تضمنه قرار رئيس مجلس الوزراء رقم ٥٧٨ لسنة ١٩٨٦ تجميع بها مايساهم به المواطنون في مجال تشغيل وصيانة مشروعات ومعدات الخدمات الاساسية بالاضافة الى ما يتم تحصيله من مقابلات انتفاع من المستفيدين من هذه الخدمات طبقا للقوانين واللوائح ولايجوز استخدام تلك المبالغ في غير الاغراض البحصمة لها ..
مع اطيب تحياتي وعظيم تقديري ..

رئيس مجلس الوزراء

دكتور / عاطف صدي

١٩٩١ / ٢ / ٥

٥٨

Prime Minister

(To all governors)

Mr. _____
Governor of _____

In keeping with the state's effort to provide a higher and better level of local infrastructure services, and in order to support technical capabilities and financial resources of local units and to introduce popular participation in infrastructure projects and equipment O&M to ensure their efficient performance, governors should take the necessary steps to appropriate sub accounts of city/district/village services and local development accounts according to the Prime Minister's Decree No. 578/86. These sub accounts should accommodate citizen contributions to infrastructure projects and equipment O&M, together with user fees collected according to relevant laws and regulations. These sums of money should not be used for other purposes.

Best regards and great appreciation,

Dr. Atef Sedky
Prime Minister

5/2/91

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ANNEX 3

LD II-P Cost Recovery Planning Form

خطة مشروعات السنة الرابعة
للبرنامج الثانى للتنمية المحلية

خطة مقترحة لاستعادة تكلفة تشغيل وصيانة
مشروعات مياه الشرب/الصرف الصحى
(نرجو تقديم خطتين وفقاً للإرشادات)

محافظة: _____

الجزء الأول:

وصف مشروع المياه/الصرف الصحى المستهدف لإسترداد تكاليف التشغيل
والصيانة:

- ١- موقع المشروع: _____
- ٢- نوع المشروع: مياه () صرف صحى ()
- ٣- رقم مشروع البرنامج الثانى للتنمية المحلية: _____
- ٤- هل تم المشروع، وبدأ التشغيل؟ _____
- ٥- إذا لم يكن قد استكمل، أو لم يكن بدأ التشغيل، ماهو التاريخ المقدر للإستكمال
و/أو التشغيل _____

الجزء الثانى:

تفاصيل خطة استعادة التكلفة:

١- هل مقابل الخدمة سيتحدد على أساس:

() معدل ثابت لكل أسرة شهرياً؟

() استهلاك المعدات شهرياً؟

() عدد أفراد الأسرة؟

() خلاف ذلك ارجو الإيضاح _____

٢- ماهو مقابل الخدمة الذي سوف يتم تقاضيه من المستفيد شهرياً؟

٣- هل هذا المقابل قد تحدد على أساس أقصى مايمكن تقاضيه من المستفيدين من الخدمة ؟

٤- ماتعديرك للحصيلة السنوية: _____ جنيه

٥- حدد النسبة المثوية لإستعادة التكلفة السنوية للصيانة:

٦- ماهو الأساس القانونى لخطة استعادة التكلفة؟

٧- ماهو القسم/الإدارة الحكومية التى ستكون مسنولة عن اصدار الفواتير، وتحصيلها، وإدارة خطة استعادة التكلفة بصفة عامة؟

٨- هل ستودع المبالغ المحصلة فى حساب خاص، بحيث تنفق فقط على عمليات تشغيل وصيانة مشروعات المياه/الصرف الصحى؟ _____

٩- ماهو التاريخ الذى سيبدأ فيه تنفيذ خطة استعادة التكلفة:

الجزء الثالث:

صف أية عقبات متوقعة في تنفيذ هذه الخطة:

الإسم:

الوظيفة: _____ الوحدة: _____

التوقيع: _____

تاريخ موافقة المجلس الشعبي المحلي بالمحافظة: _____

PROPOSED COST RECOVERY SCHEME

Governorate:

Date:

Part I

Describe the water/wastewater project selected for operation and maintenance cost recovery.

1. Project/System Location: _____
2. Project/System Description: Water _____
Wastewater _____
3. Is project completed and operational? _____
4. If not completed or not in operation, what is estimated date of operation? _____
5. Estimate annual operation and maintenance cost _____

Part II

Describe details of cost recovery scheme:

1. Is method of charge to be:
_____ Connection fee?
_____ Flat rate rate per household per month?
_____ Metered charge per month?
_____ Charge based on number of people in household?
_____ Other. Please explain _____

2. What is the rate per month to be charged? _____
3. Is this charge set at the legal maximum? _____
4. Give estimated annual yield. LE _____
5. State % of recovery of annual O&M cost _____
6. What is legal basis for this recovery scheme? _____
7. Which unit/division of government will be responsible for billing, collection and general administration of recovery scheme? _____

8. Will funds collected be deposited in a special account so that they will be used for water/waste water operations and maintenance only? _____

9. Date when cost recovery scheme will begin:

Part III

Explain here any obstacles expected in the implementation of this scheme

Submitted by Name: _____

Title: _____ Unit: _____

Signature: _____

Date of popular council approval: _____

CHEMONICS INTERNATIONAL CONSULTING DIVISION
LOCAL DEVELOPMENT II/PROVINCIAL PROJECT

FIELD REPORT

DATE: July 24, 1991
FILE: 840/338/Beh
Section: ██████

TASK: LG 1/2/6

PURPOSE: SECTOR PLAN UTILIZATION/FOURTH-CYCLE PLANNING/COST RECOVERY

GOVERNORATE: Beheira TRIP DATE: July 14-17, 1991

TEAM MEMBERS:

<u>NAME</u>	<u>POSITION</u>	<u>OFFICE</u>
<u>M. Abu Raya</u>	<u>SPA</u>	<u>LG/Chemonics</u>
<u>A. Stellato</u>	<u>LDA</u>	<u>LG/Chemonics</u>
<u>M. Bakr</u>	<u>PFA</u>	<u>LG/Chemonics</u>
<u>H. Radwan</u>	<u>RA</u>	<u>LG/Chemonics</u>

PERSONS CONTACTED:

<u>NAME</u>	<u>POSITION</u>	<u>OFFICE</u>
<u>M. Shahin</u>	<u>SG</u>	<u>Govte HQ</u>
<u>Y. Alim</u>	<u>Dev't Dir</u>	<u>Govte HQ</u>
<u>M. Ashlaan</u>	<u>Markaz Sec'y</u>	<u>Kafr il Dawar</u>
<u>Hilmy</u>	<u>VC Sec'y</u>	<u>Sharnub VC</u>
<u>Abdel Rahman</u>	<u>Dir.</u>	<u>Gov't Roads Dept</u>
<u> </u>	<u>Project Engineers</u>	<u>B. Water Co.</u>

REPORTER(S): A. Stellato

REVIEWED BY: 

For action/information: K. Shaw, M. Abu Raya, M. Bakr, M. Williams,
H. Oteifa, M. Ashmawi, M. Hussein.

Editor: _____ Date Rec'd: _____ PD: _____

BEHEIRA

LOCAL GOVERNMENT

14-17 July, 1991

Beheira Governorate
Beheira Governorate
Kafr il-Dawar Markaz
Sharnub VC
Beheira Water Company

Gov'te Headquarters
Roads Dept
City Council
Village Council

Purpose:

- 1 LG 2.1 Complete research on fourth-cycle planning process.
LG 6 Preliminary reviews of cost recovery system.
LG 1 Assess Governorate and BWC interest in sector plan utilization activity.

Observations:

- LG 2.1 At the development department, the Kafr il-Dawar city council and the roads department, the team concluded its research in this governorate on the fourth-cycle planning process. At the development department and the city council, the team asked local officials for their own assessment of the fourth-cycle planning process. At the city council, the team also collected data on the previous LD II-P investments of the VC selected for study. At the roads department, the team sought clarification of some items in the governorate's roads sector development policy statement. The fact that these simple, straightforward questions quickly precipitated alterations in the statement suggests that the statement was not carefully prepared.
- LG 2.1/6 The team visited Sharnub VC, whose cost recovery plan was the best of the four submitted by the governorate. The system, which has been in operation since March 1990, covers a sewage removal tractor-trailer. The tractor was purchased through the VC's LSDF and the trailer through LDII-P (LE 8,200). The VC contains 16 villages, with a 1986 population of 67,000 and an estimated 15,000 houses. Truck capacity is 4 m3. Septic tank size varies from a minimum of perhaps 4 m3 to much larger; it appeared from our perusal of the VC's records that three trips are typically required to empty a tank. The rates at which the tanks fill up must be a function of several factors: tank size, number of residents in the building, waste production rate, etc.

BEHEIRA

We understood that the truck will go to a neighborhood for a few days and residents who need the service can request it at that time (similar to the way butagas cylinders are distributed in Cairo). Once the driver is satisfied that everyone in the neighborhood who needs the service has been served, he moves on to the next neighborhood, and then to the next village, etc. The VC Secretary said it takes the truck 3-4 months to complete one route through the entire VC.

LE 3 per naql (trip to drain with full truck road) is charged. The use of the "trip" as the unit of payment seems to be the fairest way to distribute the cost of the service, except perhaps in a case where a villager has a tank only half full but wants it emptied because he's worried that he cannot wait another four months till the next truck visit: presumably this villager will have to pay the full LE 3 even if his load is only 2 m³. (Note here that an important element of the system is that the VC fines building owners who let septic tanks overflow.) Total revenues from user charges in FY 90/91 were LE 6670, which roughly matches with the VC secretary's estimate that the truck makes about 10 trips a day. O&M expenditures in the cost-recovery plan were estimated at LE 2000/year (plus LE 3400 depreciation), but actual 90/91 O&M expenditure was LE 1,235, mostly for operating costs, though the VC secretary noted that the truck had been out of service several times. It is likely that the VC could use some TA in O&M planning.

The VC secretary claimed that the service is provided to paying consumers without their needing to make "incentive payments" to the driver, but experience in other governorates suggests that this is improbable.

A branch account of the VC LSDF has been opened to contain revenues. Collections seem to be well documented. The driver issues a bill with the number of trips made for the building, then issues a "temporary receipt" to the consumer; the VC then issues a final receipt to the consumer after the collections are turned over by the driver.

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BEHEIRA

LG 1 In discussions with the Department Director, Secretary General, and water company engineers, the team set out the basic objectives of the sector plan utilization activity in the updated LG work plan, namely, to institute processes whereby local councils can review and critique the water sector plan and reach agreement with the water company on priorities and on project plans and implementation schedules for the next five years. These offices expressed willingness to participate in the activity

Conclusions:

In response to our question on what types of training might assist local officials in the area of planning, an oft-heard response was training on completion of the planning forms. Since we consider Beheira one of the more capable governorates, some consideration should be given to possibilities for such training in all governorates or alternatively to possibilities for simplifying planning forms.

The Sharnub cost recovery system seems to be operating successfully, but there are still some unanswered questions. What is the VC's capability for O&M planning and accessing OM&R services? Can the efficiency of the truck's operations be improved? Are "incentives" paid to the driver, and how much does this increase the cost of the service to the consumer? At what rate of waste production does the single truck become unable to provide service frequently enough? What are the actual depreciation costs? The O&M plan for the truck should be reviewed, and a future field visit should include a ride with the driver on one of his rounds to see how the operation works on the ground.

Considerable preparation will be needed for the sector plan utilization workshops. The "plan" itself needs to be read by us and the relevant portions selected for dissemination. If these materials cannot be photocopied for the participants, they will have to be precis-ed, either in writing or verbally or both. Participants must be identified and an appropriate curriculum developed. These matters should be dealt with soon so that we can concentrate on developing methodologies for effective presentation and discussion at the workshop.

1/6

The governorate appears not to be in possession of the full set of volumes which make up its wastewater sector plan. Efforts should be made to obtain a full set for the governorate. The full set is most likely at NOPNASD. Funds for translation and photocopying can be taken from the fourth-cycle allocation for wastewater plan updating.

CHEMONICS INTERNATIONAL CONSULTING DIVISION
LOCAL DEVELOPMENT II/PROVINCIAL PROJECT

FIELD REPORT

DATE: May 12, 1992
FILE: 840/352
Section: LG

TASK: LG 6

PURPOSE: FOLLOW UP COST RECOVERY SCHEMES

GOVERNORATE: Asswan TRIP DATE: 3-6 May 1992

TEAM MEMBERS:

<u>NAME</u>	<u>POSITION</u>	<u>OFFICE</u>
<u>A. Stellato</u>	<u>Local Development Analyst</u>	<u>LG/Chemonics</u>
<u>M. Bakr</u>	<u>Finance Advisor</u>	<u>LF/Chemonics</u>
<u>Muhammed</u>		<u>ORDEV</u>

PERSONS CONTACTED:

<u>NAME</u>	<u>POSITION</u>	<u>OFFICE</u>
_____	_____	_____
_____	_____	_____

REPORTER(S): A. Stellato *Stellato*

Reviewed by: _____

For action/information: M. Bakr, B. Azmy, WS, KS, MAR, AK, TS,
M. Ashmawi, R. Nabil,

Editor: _____ Date Rec'd: _____ PD: _____

AS

ASSWAN

LOCAL FINANCE

3-6 May 1992

Governorate Headquarter
Ramadi Bahri VC
Kalabsha VC
Markaz Nasr Heaquarter

Purpose:

LG 6 Follow up cost recovery schemes

Observations:

Asswan's fourth-cycle LDII-P plan submission included cost recovery schemes for sewage evacuation trucks in 2 local councils: Ramadi Bahri VC (markaz Idfu) and Kalabsha City (markaz Nasr). The 6m³ trucks were purchased under the 89/90 LDII-P plan and seem to have been run on a fee basis from the beginning, but special accounts had been opened within the Local Services and Development Accounts for purposes of the LDII-P cost recovery schemes.

The Ramadi Bahri scheme was operational, albeit at a low level of efficiency. LE 6.00 plus LE 0.35 in stamp fees, were collected on each naqla (removal), even if the sludge removed is less than 6m³ in volume. The local unit is composed of more than 50 settlements within a 15 km radius of the main village; for the sake of economy, the truck will only respond to a service request if the applicant requests (or is willing to pay for) two naqlas, so in effect the cost to the customer is at least LE 12.00.

The customer pays when he submits his request at the VC, only then is the work order issued. The sludge is dumped in the "mountains". The driver reported that there were no more than 300 regular applicants for the service in the whole VC, many of them are institutions. The truck can not access the typical narrow village street, and the capacity of the suction pump does not extend beyond 30m. Most households rely on private manual evacuation service, estimated to cost LE 30-50 per year.

Total collections from 30 June 91 to 30 April 92 were LE 1040, or approximately LE 100 per month. Fuel expenses alone are approximately LE 60 per month. LE 2,141 in 91/92 O&M funds were allocated for spare parts. O&M expenditures are paid out of Agreement O&M funds kept at the markaz; the VC has no record of these expenditures. Breakdowns were reported to be infrequent.

Four points about the Ramadi Bahri scheme can be highlighted

ASSWAN

- 1) The control function is satisfactory performed, with request for service formalized and recorded and service delivery based on approved work orders.
- 2) While the official charge is LE 6.00, the council requires the applicant to pay the cost of at least two truckloads each time. It is unlikely that most domestic septic tanks are larger than 6m³ in volume, so the cost to householders may be excessive in most cases.
- 3) Were O&M costs not subsidized by Agreement O&M funding, the truck would not be an economical operation, as fuel and spare parts costs easily exceed revenues. VC officials admitted that the truck is idle much of the time. We suggested it might serve neighboring VCs, but these were said to be more efficiently served by the city's fleet of trucks. We suspect the high actual charge is at least partly responsible for the low level of local demand. It seems that the distance problem which allegedly motivates the two-truckload minimum charge could be solved by some very elementary route planning, whereby requests for service could be compiled until routes covering more than one household emerge. Alternatively, the council could plan and publish a monthly or bi-monthly routine route schedule. As a means of increasing revenue, increased utilization seems preferable to high charges, although we also recommended that thought be given to increasing charges for institutional customers.
- 4) There is no budgetary basis for an economic view of the cost recovery operation at present. Revenue records are kept at the VC but not at the markaz, while expenditure records are kept at the markaz but not at the VC. In any case, only Agreement O&M funds are being used for truck O&M.

The second cost recovery cost recovery scheme, also for a 6m³ sewage truck purchased with 89/90 LDII-P funds, was at Kalabsha City Council (formerly VC). The truck is supposed to serve the city, four small surrounding villages, and two neighboring VCs, or an estimated 1500 households and local public establishments. The charge per naqla is LE 3.00; public establishments are exempted from the charge.

The situation was murky. As in the case of this team's previous visit to Kalabsha in August 1991, there were few officials at the council headquarters, only the garage manager, though an accountant was finally materialized. Council records showed that LE 206 in charges had been collected between August and October 1991 and none since. Though the garage manager had at first told us that the truck was in operation, this story now changed to it having been out

ASSWAN

of service for 6 months and only back in service two days ago. Agreement O&M expenditure records at markaz Nasr's accounts office showed the following expenses on the truck during the period 19 Dec to 22 Apr 1992:

Oil and lubricants	LE 390
Manitenance expenses	1,800
Diesel fuel	750
Spare parts	500
	1,159
	3,314
Total	<u>7,913</u>

The expenses had been authorized by markaz but the actual O&M activity had been conducted by the Kalabsha council; the markaz rolling stock manager claimed to hve had nothing to do with the truck. 91/92 O&M expenses for similar trucks managed by the markaz did not exceed LE 2000 per truck. The documentation on "maintenance expenses" of the Kalabsha truck showed that the council had received a fully operational truck from a private repair shop on 1 March 1992 i.e., two months ago. There was no control system in evidence at the city council, i.e., no work order book, and it was not clear whether the LE 206 in accrued service charges were being kept in a special account.

Summary points of this unsatisfactory situation are:

- 1) There is no system of controls to monitor service delivery and charges.
- 2) O&M expenditure on the truck was very high in comparison to similar trucks, and no one was able to tell us precisely for how long precisely the truck had been out of service and why.

Conclusions:

Given that the objective of LDII-P cost recovery is more autonomous local finance and managment of service delivery, operations, and maintenance, both Asswan schemes are flawed.

For the most part, they are flawed in different ways. The most serious problem, in Kalabsha, is the absence of a system which would render the city council accountable for service delivery, for revenues, and for O&M expenditures. With respect to this scheme, the governorate should undertake a full audit, to determine what services have been and are being delivered by the truck, to whom and how often, at what cost to the consumer, and what the final disposition of service charges has been and is, and conversely, how long was the truck out of service, why, and was the O&M

ASSWAN

expenditure level justified.

With respect to Ramadi Bahri, services and charges were satisfactorily documented. The main problem is the apparent lack of adequate demand to cover O&M costs. We believe that the VC's solution to this problem, namely, to effectively double the official charge, is actually aggravating the problem by suppressing demand further. A better solution would be for the council to design and publicize a system and schedule of routes for the truck or alternatively to collect and store service requests until "natural" economic routes emerge.

A problem inherent in both schemes, and possibly in other governorates' schemes as well, is that the charges are not actually being used to cover O&M costs; the latter are being covered by Agreement O&M funds. Since the Agreement O&M funds are state funds, and since the local units have no accounting units, expenditures are managed at the markaz. Hence the local council knows the revenues but the markaz doesn't while the markaz knows the expenditure but the local council doesn't. Consequently, no unit of government knows the economics of the operation, i.e., whether it is being run at a profit or a loss. An opportunity for valuable experience in local management is being wasted. It may be that the local councils find PM Decree 578 ambiguous as to whether the recovered costs can be spent without markaz approval. If this problem could be clarified in the councils' favor, then the cost recovery schemes should be coordinated with Agreement O&M planning and budgeting so that Agreement O&M funding for the scheme project is reduced by the percentage which the council plans to recover through the scheme.

ASW-352/011/TS/AF

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