MID-PROJECT EVALUATION

OF

DEVELOPMENT DECENTRALIZATION I

(263-0021)

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EXECUTIVE SUMMARY

1. Introduction

The Development Decentralization I activity is being executed by the Organization for Reconstruction and Development of the Egyptian Village (ORDEV) in the Ministry of Local Government and is provided technical assistance by Checchi & Co. of Washington, D.C. The project is managed by the Office of Local Administration Development of the U.S. Agency for International Development, Cairo.

USAID asked the team to perform a mid-project evaluation focusing on project outputs, purposes and goals, as stated in the Project Paper, and also to provide guidance for the continuation of similar activities in Phase II of Decentralization Sector Support.

The project purpose is to strengthen the financial viability and development capability of Local Units through enhancing the autonomous revenues of Local Popular Councils.

The goal is to promote decentralization by reinforcing and strengthening local government.

2. Outputs/Indicators

DDI has successfully provided the outputs specified in the Project Paper in terms of:

- more loans made than planned;
- more people trained than planned;
- jobs created;
- increased productivity.

Additionally, LDF loans have:

- provided considerable goods and services in villages;
- aided in the development and expression of entrepreneurial ability among the public and private sectors of participating villages;

- catalyzed private sector initiatives through demonstration of successful projects;
- brought about change in ORDEV's economic development strategy, shifting attention from grants to loans.

3. Overview of LDF

Findings as of November 30, 1983:

- Portfolio: The LDF portfolio is composed of 491 loans valued at approximately LE 10 million. Although the portfolio is diversified in various areas of activities, 88% of it is invested in poultry, livestock and transportation projects, as these activities have high market demand.

- Flow of credit was slow in the first two years of the project as the new development concept was publicized among Local Units. The project gained momentum in mid-1982. Forty percent of the loan funds were disbursed in 1983.

- Financial viability: LDF as an institution is viable and is generating approximately LE 200,000 per year in net profits. If all current costs borne by ORDEV and the technical assistance contractor for local staff and support services were borne by LDF it still would be able to net LE 100,000 per year for capitalization.

- Decentralization: It is apparent that decentralization is the key to expansion and acceleration of LDF financed rural development activities. The current plan is to create LDF branches in such governorates as have demonstrated capability of managing such an institution. This would leave LDF central offices with the burden of servicing all other governorates, in addition to monitoring the newly created branches for a considerable period into the future.

  It is proposed that decentralization be effected through a combination of governorate branches and regional branches serving a group of governorates. Chairmanship of regional branches would rotate between governorates.

  Should this proposal be accepted, the LDF head office would become coordinator, monitor, and policy maker for the total effort.

- Advisors' counterparts: Counterpart staff were not assigned to the technical assistance advisors on a permanent basis. Thus, technology transfer from advisor to counterpart is at best intermittent.

- Alternative channels of credit: The LDF has proven its capability of providing a low interest line of credit for development projects coupled with needed technical assistance and training. It would be counterproductive to change such a vehicle at this stage of its development. In addition, the LDF has gained acceptance and credibility from Local Units which might be difficult to transfer to a banking institution.

- Project impact: The project in most cases has exceeded its output indicators, but it is still early to measure accurately the true impact of the DDI effort on project goal and purpose. The real effects and impacts on rural communities may more effectively be measured quantitatively and qualitatively two or three years henceforth.

  Although the number of loans made as of November 30, 1983 reached 491, only 390 Local Units were involved out of a total of 835 Units. The majority of those reached have received one loan for one project. It is hoped that through decentralization of the LDF a greater number of Local Units can participate and that existing successful "pilot" projects can be expanded.

  In most projects visited by the team, output production of commodities and services, including private sector outputs, were well below market demand. In no instance did we find the Local Unit projects hindering the development or expansion of private sector activities. On the contrary such projects enhanced private sector activity.

- Technical assistance: The U.S. technical assistance team has had and continues to have a high degree of effectiveness in the development of LDF as a viable institution that is successfully launching the program toward its goal and purpose attainment.

Recommendations

a. ORDEV and USAID should consider decentralization of the LDF through the creation of regional branches serving a number of governorates according to geographical situation, as well as single-governorate branches. Chairmanship of the regional branches may be rotated between governorates. (Other alternatives to avoid governorate favoritism or to solve jurisdiction problems may be considered, such as retaining the chairmanship position with an ORDEV central representative.)

b. In order for the decentralization effort to succeed, it is proposed that at the conclusion of the current phase of the project and the exhaustion of available funds, the GOE and USAID consider additional capitalization of the LDF's loan funds by an amount of $15-20 million to be used by the LDF in reaching a wider range of Local Units, and to expand existing successful projects to meet a greater portion of market demand. The infusion of additional funds would accelerate the pace of rural development, particularly in areas not yet participating in the program.

c. Foreign technical assistance may be needed, at a level to be determined by GOE and USAID, to insure a sound decentralization transition and institution building in LDF branches. The next 18 to 24 months will be crucial to the establishment and expansion of LDF activities. Without sound and capable field institutionalization the total effort may be jeopardized.

d. A post-Phase I impact evaluation should be conducted two to three years from now.

e. ORDEV should assign permanent counterparts to the technical assistance advisory team.

4. Training

Findings

- The concept and objectives of the LDF are strongly supported at all levels of government in Egypt and to a very great extent the objectives are being realized. Training programs conducted in Egypt have directly contributed to achieving LDF objectives by helping to establish a basic capability within ORDEV and the governorates to operate the LDF and to introduce the LDF to village councils.

- The ORDEV/LDF training office has achieved in a short period of time very impressive results, particularly in terms of numbers of local government personnel attending training courses. The original five-year targets already have been exceeded.

- Thus far, the emphasis of ORDEV/LDF training has been on introducing the LDF to village councils and training village, markaz and governorate personnel in financial record keeping and technical skills for specific types of projects. This training appears to have contributed to an increase in the number of LDF loan applications, more complete information provided on applications, an increase in the number of "non-typical" projects submitted for financing, and the transfer/adaptation of successful projects among the governorates.

Recommendations

a. With increased awareness now of LDF within the rural governorates, and increased understanding of project performance, ORDEV/LDF should give greater attention to being more selective in the types of training offered, and more focused in the objectives of training. Fewer courses should be offered, with more narrowly defined objectives. Participants should be more carefully chosen by the governorates according to specific criteria developed by ORDEV/LDF.

b. A reduction in the level of ORDEV/LDF training effort should be accompanied by continued efforts to improve the quality of training. Greater emphasis should be given to assessing training needs, developing simplified and practical training materials, involving a wider selection of trainers/instructors (particularly those with field experience), and developing the means to monitor the impact of training upon LDF project performance.

c. ORDEV has made significant progress toward completing the physical facilities of the Sakkara Training Center and the first the first stage is now scheduled to begin in March/April 1984. Advisory committees have recently been formed to advise ORDEV on the operation/management and training/research facilities. If the goals set forth for this center can be realized, this institution will make an important contribution to local government in Egypt. The effectiveness of the center's activities, however, will be largely determined by the plans that ORDEV is now attempting to formulate. USAID should consider committing itself to assisting in this initial planning work by providing short-term consultants as requested by ORDEV to develop issues papers and recommendations for the operation and management of the center and the development of policies and procedures for training and research programs.

5. Financial Analysis

The main findings of the financial analysis based upon an examination of 28 cases are as follows.

- The principal objective of visited village projects was to increase the supply of basic goods and services at lower than market prices rather than to maximize profits.

- On average, sampled projects were profitable and generating a 19 per cent return on their capital investment, exceeding expectations.

- This average camouflages a large variance in the performance of sampled projects; a few were performing exceptionally well, most were providing a good return while a few were yielding low returns or were unprofitable.

- Forty per cent (9 out of 22) of sampled projects cannot afford to cover their debt repayment from cash earned during the year. Visited projects used retained earnings, or borrowed interest-free funds from the governorate, the village service account or other village projects to cover their LDF debt repayment. Only one visited project was delinquent on loan repayment.

- The breakeven price required to enable projects to cover their cash expenses (including currently subsidized salary expenses) was significantly lower than the market price. Raising prices of LDF goods and services would improve the financial viability of many visited projects and still allow them to meet their objective of charging less than market prices.

- Profits were distributed to employees and prudently reinvested in the enterprise rather than disbursed to village service accounts.

- LDF village projects have significantly stimulated replication efforts by local private sector entrepreneurs. Since the deamnd for most village-produced goods far exceeds the current local supply, the lower prices of village products have not constrained the growth of private sector activities.

- LDF is providing an extremely useful training experience for public sector employees to think in terms of private sector investments that yield a return rather than resource distribution.

The recommendations that are based upon these findings include:

a. increasing the amount and depth of follow-up of projects by LDF staff;

b. improving the quality of feasibility studies performed on prospective LDF borrowers' project loan applications to include simple sensitivity and breakeven analyses;

c. maintaining current LDF loan terms and conditions (interest rate, repayment period and grace period policies) since a high proportion of sampled projects could not support higher charges (prices and/or sales of village products would have to be increased before they could bear higher costs)

d. conducting a comprehensive analysis of the ability of LDF projects to cover their debt repayment followed by a GOE policy dialogue if this is an extensive problem;

e. conducting an in-depth analysis of the breakeven price required by LDF projects with a subsequent discussion on how prices can be set that improve the financial viability of LDF projects while still achieving their social goals;

f. continuing the current LDF village practice of reinvesting their profits in the enterprise rather distributing them to the village special account until loan repayment is completed and projects are financially viable;

g. developing a standard simplified format for a profit and loss account and balance sheet that can be prepared from existing financial records;

h. training local accountants to prepare these standard financial statements and managers how to interpret them so that they may be used as a management tool.

6. Institutional and Rural Community Development

Summary of Findings

- The most important impact of DDI upon ORDEV policy and operations is the utilization of loans rather than grants to fund economic (income-generating) projects. This has brought about a fundamental change in the way ORDEV views the developmental process in the villages, i.e., that certain types of development projects should pay for themselves. Government employees and villagers are now developing the capacity to operate economic projects on a commercial basis.

- A second impact upon ORDEV operations is the use of LDF loans to experiment with various new types of private sector involvement and new technology in income-generating projects. DDI's provision of greater funds has allowed ORDEV to broaden its approach in these projects.

- LDF loans are providing impetus to decentralization of authority from the governorates to the villages in two respects:

    - loans are available only to Local Units, and they are exercising much more influence over selection and operation of village projects than before;

    - loans tend to be larger than ORDEV grants and this is allowing some projects to reach a size having greater economic impact upon the governorates.

- Village leaders are taking a more prudent approach toward the loan projects as contrasted with the grant projects. They are reinvesting returns from LDF projects back into the projects rather than spending the returns on village social projects.

- The LDF-funded projects have resulted in a considerable number of "spin-off" projects, both by the private sector and by other Local Units. These projects are providing additional income-generating activities in the villages.

- Five principal factors were found to impact upon the overall viability of the LDF-funded projects:

  - pre-existing managerial and entrepreneurial talent;

  - local market demand for the products and services provided;

  - assistance from local village development representatives;

  - maximum political flexibility for local initiatives;

  - equity contribution to the project by villagers.

Recommendations

a. The LDF should provide more on-going monitoring and evaluation of the loan projects so that responsive technical assistance can be given to the Local Units.

b. The LDF should re-analyze the roles and responsibilities of the LDF representatives vis-a-vis the village development representatives (VDR) in the decentralization of LDF operations. Thought should be given to establishing a line authority relationship between the LDF central office and at least some of the VDR's in the field.

c. The LDF should be encouraged to do more experimentation with private sector involvement in village projects. However, before proceeding in this direction, several critical questions need to be addressed by ORDEV/LDF and USAID in order to clarify exactly what types of private sector involvement are appropriate for LDF loan activities and what potential problems may arise using this approach.

DEVELOPMENT DECENTRALIZATION I

MID-PROJECT EVALUATION

DECEMBER 1983

INTRODUCTION

1. General

This report presents a mid-term evaluation of the U.S. Agency for International Development (USAID) project for support of the Government of Egypt's decentralization plans for development of rural communities in Egypt.

The evaluation addresses USAID and GOE involvement in the activities of the Local Development Fund (LDF) as a part of the decentralization development effort. The project aims to increase the autonomous revenues of village councils throughout Egypt in order to develop local administrations. This is to be achieved by making available to Local Village Units a low-interest line of credit to be used in initiating profit making projects within their rural communities. It is hoped that the success of such projects would act as a catalyst in encouraging the private sector to duplicate and expand the activities to meet public demand, thus generating job opportunities, raising levels of income, and reducing the trend of migration from rural to urban areas.

This evaluation was carried out in a collaborative mode by all members of the team:

Maurice N. Samaan, Team Leader (Ronco Consulting Corporation, Washington, D.C.)

Susan Goldmark, Small Scale Enterprise (Development Alternatives Inc., Washington, D.C.)

John P. Hannah, Training (Development Alternatives Inc., Washington, D.C.)

Stephen C. Silcox, Institutional and Community Development Consultant (PSC/USAID, Cairo)

Salah Abdel Razek, Local Government (USAID/Cairo)

Mary Dungan Megalli, Editor/Administrative Assistant (PSC USAID/Cairo)

Although the evaluation of DDI was a team effort, distribution of tasks was as follows:

The Team Leader and the small scale enterprise specialist collaborated closely in reviewing and analyzing Local Unit projects and financial records. The training specialist addressed all training matters. The Institutional and Community Development specialist addressed economic and social impacts of DDI on government policy and of village projects on rural communities. The local government specialist performed as a resource person on all matters pertaining to the infrastructure of local government. The administrative assistance coordinated logistical support needs and edited and typed the evaluation materials.

2. Objectives and Methodology

The evaluation was performed over a period of 24 workdays and was divided into the following stages:

Nov. 20-25:	Meetings with USAID, ORDEV and LDF officials. Briefings and review of project documentation
Nov. 26-Dec. 5	Field visits to seven governorates and 21 Local Units. Review of actual projects in operation, analysis of financial records and interviews with pertinent officials.*
Dec. 6-11	Evaluation in Cairo at ORDEV/LDF offices and Sakkara Training Center Examination and analysis of an expanded sample of projects with available data in LDF records and USAID-sponsored case studies
Dec. 11-13	Draft report
Dec. 14-18	Debriefings and discussions with all concerned (USAID, ORDEV/LDF)

Within the above framework, the evaluation tasks were distributed among the team members based on expertise and responsibilities.

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*See Appendix A, Summary of Site Visits

The principal method of the evaluation was to guage project impact and to determine whether or not targeted objectives were attained or are attainable within the remaining period of the project.

In this evaluation great emphasis was placed on the financial analysis of projects and a review of financial records to determine whether or not such projects are viable or have the potential of becoming viable over the next two years.

The evaluation team kept in mind a basic concept (supported by past evaluations and project documentation) that the first two years of a project were a "breaking ground" period of setting up the project, educating Local Village Units, and promoting the idea of developing rural communities through the initiation of income-producing projects implemented on a commercial basis and financed through borrowed capital rather than by a purely "government" effort of fund allocation for village development, be it for income generation or community services.

The selection criteria of sites to be visited by the team was based on geographic distribution, type of economic activity, age of loan/project, and travel distance (due to time constraints).

Selected projects were visited by the whole team (Soal, Tel El Kebir, Fanara) or in groups of the two financial specialists and the other, the training and community development specialists. Financial analysis of records was made in twelve project sites, but data was obtainable only in ten. The Summary of Site Visits is attached as Appendix A.

I. PROJECT BACKGROUND

1. The Decentralization Sector

The Decentralization Sector Support Agreement between the Government of the United States and the Government of Egypt was signed on August 29, 1983. The Agreement consolidated five USAID decentralization projects into one program that seeks to assist the GOE in establishing institutional capacity to plan, budget, and administer local development. The five activities in the current program are:

Development Decentralization I (DDI/LDF);
Basic Village Services (BVS);
Provincial Cities Development (PCD);
Decentralization Support Fund (DSF), and
Neighborhood Urban Services (NUS).

2. Development Decentralization I/Local Development Fund (LDF)

The Development Decentralization I program was the first of a group of USAID-funded programs designed to assist the GOE's decentralization efforts. The goals of the project parallel Egypt's goals of decentralization and economic and social development in rural areas, by financing income-generating projects chosen by the Village Local Unit Popular Councils.

The framework of the DDI program can be traced to the early 1970's, when the GOE passed a number of laws which increased the participatory role of local government units. In 1973, the Organization for Reconstruction and Development of the Egyptian Village (ORDEV), was created within the Ministry of Local Government and was charged with implementing the GOE's program of economic and social development of rural villages. In 1975, Public Law 52 provided for a popularly elected council for each unit of local government and executive heads (local administrators) to act as chairmen of executive councils made up of representatives of ministries functioning in the local units of government. The objective was to strengthen the decision-making ability and administrative autonomy of local units in Egyptian villages, thus promoting government decentralization.

3. Organiztion of the LDF

The Local Development Fund is administered by ORDEV (see Appendix I-1). It makes loans for productive village projects to Village Popular Councils in 20 non-urban governorates in Egypt. Loans of LE 6000 to LE 210,000 have been made for poultry and egg production, cattle and sheep fattening, aquaculture, apiculture, agricultural machinery, food processing, transportation, and small enterprises.

The Fund is governed by a twelve-member Board of Directors whose Chairman is the Undersecretary of State and Chairman of ORDEV. The Board also includes the ORDEV General Manager for Administrative and Financial Affairs, six appointed representatives of various levels of local government (two secretaries-general of governorates, two chairmen of district councils, and two chairmen of village councils, with broad geographical distribution), and two ORDEV government representatives.

The Chairman of the LDF Loan Committee is the LDF General Director and Office Manager, and three members of the Loan Committee are ORDEV department General Directors, appointed to the Loan Committee by the Board of Directors. The Loan Committee reviews all applications and has the power to approve loans up to LE 25,000. Loans above this amount must be approved by the Board of Directors.

4. LDF Funding and Technical Assistance

The LDF is funded by GOE and USAID. USAID made a grant of $26.2 million, while the GOE has provided LE 4.4 million. Since the first loans were made in March 1980, the LDF has made approximately 500 loans totalling approximately LE 10 million.

The LDF program began in May 1978 with the institution of the Development Decentralization I program through a USAID grant of $26.2 million divided as follows:

$18.6 million, capitalization of loans through LDF
$ 3.3 million, technical assistance
$ 3.0 million, training
$ 0.8 million, commodities
$ 0.5 million, evaluation, research and contingencies

As of October 30, 1983 total expenditures were $18.9 million (see Appendix I-2). A balance of $4.6 million is available for obligation towards loan fund capitalization within the lifetime of the current project, which ends on September 30, 1985.

The DDI project provides for technical assistance to ORDEV in all aspects of building and managing the LDF as a lending institution. An American consulting firm, Checchi & Co., under contract with USAID, has brought a team of American and Egyptian experts who work side by side with ORDEV/LDF in designing the LDF program, establishing LDF lending policies and procedures, assisting villages in the design and management of productive enterprises, and organizing and managing financial and record-keeping systems.

During the life of the project, various specialists furnished by the contractor have worked directly with ORDEV/LDF personnel responsible for specific technical areas. They include experts in poultry and egg production, animal production, aquaculture, apiculture, small enterprises, training, computer systems, and accounting.

II OUTPUTS/INDICATORS

Appendix II-1 shows an extract from the Development Decentralization I Project Paper on Details of Outputs and Indicators. The following findings reflect achievements in terms of these outputs/indicators.

1. By November 30, 1983 over 750 loan applications had been received, of which 491 were approved and loans disbursed. It is estimated that at least 300 new applications a year will flow into the LDF office as the decentralization process goes into effect.

2. The first LDF loans were made in March 1980. During calendar year 1980, 103 loans were made; during 1981, 115 loans were made; during 1982, 91 loans were made. The total for the first three years was 309 loans. As of November 30, 1983 a total of 183 loans had been approved and processed during calendar year 1983. Thus, we estimate that a total of at least 200 loans will have been added in calendar year 1983 and the LDF will enter 1984 with over 500 loans in its portfolio. (See Appendix II-2.)

3. The LDF loans include projects in eight major areas of activity: poultry, animal production, aquaculture, apiculture, agricultural equipment, food processing, transportation, and small scale enterprises. The poultry and transportation projects make up about 75 per cent of the portfolio in terms of monies loaned. Based on a sample of 28 projects, the average return on the total capital investment is 19 per cent, with a wide range from loss to 64 per cent profit (the ratio of net profit to total investment loan plus Local Unit participation). If return is calculated on the Local Unit's investment alone, the average return on investment is 8 per cent (see detailed Financial Analysis).

   The income generated by these fledgling projects is for the most part reinvested in the projects and this, in our opinion, is the way it should be. When these projects have paid off their loans and have matured, we look for profits being returned to the village special services and development accounts for use in non-income producing community services.

4. As of October 31, 1983 loan payments delinquencies of over two payment periods (six months) were running in the order of one half of one per cent of the total loan value of the 476 loans then in the LDF portfolio, with delayed payments totalling LE 42,702. The number of projects with delayed payments of over two quarters was less than 2 per cent of total loans or 9 loans (as of Oct. 31, 1983).

   If all projects with delayed payments are taken into consideration, they represent 17 per cent of total loans and 21 per cent of total value. We understand that delayed payments of up to two quarterly payments are due to repayment processing time and geographical distance between the Local Unit and LDF in Cairo. Decentralization of LDF should help to resolve this problem.

5. Starting in the fall of 1979 village council personnel were trained in how to design and submit loan requests. Subsequently, innumerable training courses have been offered (see Training). Technical assistance is still being offered by LDF and ORDEV field representatives but future training needs as well as the level of training activities need further investigation.

6. The Project Paper envisaged a total of $5,000,000 would be loaned out over the five-year life of the project. This amount was subsequently increased to $18,000,000. This equates with approximately LE 13.7 million (Egyptian Pounds), of which approximately LE 10,000,000 have already been loaned out. The LDF has far exceeded the $250,000 quarterly target and loans are now being made in a timely fashion.

7. The Project Paper expected the Sakkara Training Center to be in operation in 1979. It is now hoped that the Center will be open in March/April of 1984. Nonetheless, 5700 persons have been trained in four years as compared to the Project Paper plan of 3000 in five years.

8. Evaluation and monitoring systems were developed during the first year of the project. However, much has to be done in the area of follow-up. ORDEV Chairman Labib has personally encouraged the Governorates to address this all-important issue.

9. Eighty-three relevant ORDEV/LDF staff have been trained abroad under the Bluegrass Program. Thirty-six village Head Executive Officers, ORDEV and other local government officials have participated in training programs in the Philippines. Two LDF officials are currently in the U.S. on Peace Fellowships. The foregoing programs are all responsive to the Project Paper Outputs/Indicators.

10. For the past four and a half years the Checchi Co. technical assistance team has worked very closely with the LDF General Director, LDF Loan Committee, and LDF Board of Directors. Checchi participation in formal meetings is gradually phasing out but team members still participate on an ad hoc basis.

Purpose and Goal Attainment

The Project Paper states: "The purpose of the project is to strengthen the financial viability and development capability of selected Village Councils."

Three hundred loans were to have been made in five years. By the end of calendar year 1983 over 500 loans will have been booked in four and a half years. The majority of the projects are profit making enterprises, though a great number of them have not as yet reached sound financial viability.

The Project Paper states: "The goal of the project is to promote decentralization through enhancing the autonomous revenues of Village Councils."

By making 500 loans the LDF has laid the foundation for increasing the funds available for discretionary spending by the village councils. In addition, the loans have demonstrated to Local Units the benefits attainable from income-producing projects implemented in a "commercial" fashion.

As such, they have also aroused the private sector's interest and stimulated its initiative in entering the market place as a competitor. The philosophy, "If a government-run project [traditionally viewed as less efficient] can succeed and produce profits, I can do better", was the catalyst in encouraging the local private sector to imitate such projects, using modern technology demonstrated in the Local Unit project (e.g., feed formulas, veterinary care, preventive practices, etc.). This was supported by our finding private sector projects, often in smaller scale, in almost all Local Units visited.

Through interviews with Local Unit officials and individuals, the above observations were repeatedly confirmed. In addition, some villagers stated that they would have no reason to migrate to urban areas if they could make a decent living in the village.

III OVERVIEW OF LDF

1. Portfolio

As of November 30, 1983 the LDF loan portfolio consisted of the following project loans:

173 loans valued at LE 4,182,000 ($5,020.408) for poultry projects;

51 loans valued at LE 1,284,000 ($1,541,417) for livestock projects;

214 loans valued at LE 3,218,825 ($3,864,136) for transportation projects;

8 loans valued at LE 206,925 ($248, 410) for small agricultural industries, food processing;

10 loans valued at LE 188,000 ($225,690) for agricultural equipment;

6 loans valued at LE 108,500 ($130,250) for fishfarming;

9 loans valued at LE 60,500 ($72,630) for apiculture, and

20 loans valued at LE 643,500 ($772,510) for various small enterprises.

The rate of $:LE exchange has fluctuated over the project period. The rate used above (US$=LE.833) was used for simplification to show magnitude. The total US$ equivalent committed to loans is 14 million. (For a detailed breakdown by governorate, see Appendix III-1.)

Loans approved each calendar year since the beginning of LDF lending activity are as follows:

1980	103	LE.1,832,500	
1981	115	LE 2,007,250	
1982	91	LE 1,971,550	
1983	182	LE 4,089,951	(to Nov. 30, 1983)
Total:	491	LE 9,892,251	

Although the number of loans made as of November 30, 1983 had reached 491, only 390 Local Units were participating while some had received more than one loan. The total number of Local Units in Egypt is 835, serving some 4100 rural villages. Thus, the program has reached about 40 per cent of all Local Units.

Through discussions with LDF officials and with Local Unit officials in the field, we were led to believe that the flow of loan funds was slow during 1980-81 due to requisite education in implementing Local Unit income-generating projects financed by low interest loans. Another factor in slow disbursement during this period was the time needed to initiate projects, iron out differences between parties, and to reconcile governmental regulations affecting semi-commercial practices in project implementation at the village level.

In 1983, increased acceptance by Local Units of the use of such projects for rural development--coupled with the impressive success of some projects--accelerated the demand for LDF loan funds for more, and for larger, projects. It is anticipated that the LDF will disburse most of its available funds by the end of the present project period.

2. Decentralization of the LDF

While the team agrees with decentralization of LDF, it proposes that decentralization involve not only location of LDF offices at the governorate level, but that a combination of regional as well as governorate LDF offices is planned. Governorate LDF branch offices should be opened only in governorates that show capability of managing such an institution and have the level of technical assistance available to service village projects.

In order to establish such regional and governorate LDF branches, it would be assumed that the regional/governorate office would be able to:

- perform feasibility studies of proposed projects, market research studies to determine magnitude of supply/demand factors and marketing infrastructure, process loan applications, and perform necessary follow-up activities to insure trouble-free implementation of projects and timely loan repayment;

- provide simplified administrative and managerial training to Local Unit personnel;

- provide, within available resources, needed technical assistance to Local Units, and

- provide monthly reports on all activities to the LDF head office, as well as quarterly financial reports, annual profit and loss accounts, and balance sheets for each project.

The LDF Head Office would be expected to be principally involved in coordinating the total LDF/decentralization effort, offering the following services:

- policy setting and liaison with central government, reviewing all LDF regulations (e.g., setting rate of interest) based on national economic policies in matters concerning LDF;

- providing high caliber technical assistance to all branch offices;

- monitoring all LDF activities through computerized data on all loans administered by LDF branches;

- assisting all LDF branches in sound institutional development and continuous upgrading of capabilities.

Based on the assumption that USAID and the GOE accept the concept of accelerated LDF decentralization through creation of regional and governorate LDF branches, the LDF would become an overall policy-making body, coordinator, and monitor of all projects.

As decentralization progresses, it is expected that a rapid acceleration of credit demand will occur. The delegation of authority (within limits) to LDF branches should reduce the time lag in loan application, approval, and disbursement. It should also provide a much better mechanism for follow-up on projects.

The above assumptions are based upon the following principles, in the DDI Egyptian context.

- Proximity of an LDF branch (regional or governorate) to end-users (Local Units) facilitates easy access and communication;

- The presence of a task force at the branch level means rapid analysis and feasibility studies of a limited number of projects;

- Familiarity with the area of the branch's jurisdiction means sounder knowledge and informaiton on factors such as supply/demand markets, availability of raw materials, economic and social needs, etc. Branch staff would be in a favorable position to reach new Local Units and stimulate interest in imitating successful projects already operating in the area.

- Technical assistance available to the LDF branch would facilitate project trouble-shooting and also help provide effective training tailored to local needs.

3. Local Unit Special Accounts

The mixed sample of projects examined reflects a return on initial total investment (loan plus Local Unit contribution) of approximately 19 per cent, with a wide range of variance.

The program's intention is that net profits generated in village projects will be deposited in the Local Unit's "Services and Development Account" to be used to finance needed services and improvements in the villages. The overriding objective is to strengthen the Local Units by increasing the funds available for discretionary spending on local development projects.

Because such use of generated profits was not mandatory in the extension of credit to Local Units, very few have used profit surpluses in financing small scale community service projects. The majority of Local Unit loan recipients deposit such profits in the Special Account for Services and Development, and then reinvest the same amounts back into projects.

It is our view that generated profits should be reinvested in the village projects. We do not believe that utilizing generated profits in non-income producing community services will enhance the continued development of the basic concept of income generating projects; it would, on the contrary, be detrimental in the sense that the Local Unit will always look to a "Local Development Fund" for refinancing of a project at its conclusion, instead of capitalizing its profits to substitute for such future needs.

In addition, sample results indicate that some village projects have difficulty repaying loans from operating surpluses and it would thus defeat the purpose to use any portion of such surpluses in other, community services, projects. Once a project is refinanced from generated profits, then the special account for community services and development becomes a viable concept and an effective tool to enhance community development.

At present, most Local Units are still dependent on their governorate's limited allocation of funds from public spending budgets to initiate needed community projects (i.e., schools, health units, drainage, roads, farm implements, carpentry workshops, etc.).

4. Financial Overview of LDF

LDF's financial statements as of June 30, 1983 (Appendix I-2) portray a soundly managed organization. They show accumulated net surpluses (including capitalized surplus) of LE 558,795 (approx. $671,000) of which approximately 40 per cent was realized during FY 1982/83.

- At present, part of LDF's expenses are defrayed directly by ORDEV and part by the technical assistance contractor. Such expenses are represented primarily by salaries of LDF staff members and logistical support.

- Should we assume that all expenses were to be charged to the LDF's own account, it is anticipated that LDF would still net approximately LE 100,000 per year (under its current level of staffing and structure). The estimated additional expenses now borne by others are:

LE 50,000,	charged under the technical assistance contract for local staff and logistical support;
LE 30,000,	absorbed by ORDEV's own budget;
LE 10,000,	additional funds needed for field travel and subsistence
LE 90,000	

- It is expected that LDF, from now on, will generate a net surplus of approximately LE 200,000 per year. Thus, if the above expenses are charged directly to the LDF operating budget, it should still be able to realize a net surplus for capitalization of loans of at least LE 100,000 per year. However, its capacity to widen the range of Local Units reached and to develop multiple projects in each will be limited by the amount of available capital for lending. In addition, the real value of the loan portfolio will be reduced as it is affected by the gap between interest charges and inflation rate.

- Assuming that the LDF decentralization progresses as proposed and that additional funds are made available for loans, it is recommended that further studies be made to determine the costs of LDF branches, the new magnitude of credit demand by Local Units, and projected income generated from loan interest. Such studies will determine the viability of the new LDF branches with or without government subsidization of its task force.

5. Repayment Status of LDF Projects

- Appendix III-1 presents a detailed analysis of all loans made by LDF, by governorate, as of November 30, 1983. Appendix III-2 shows the status of loans repayment as of October 31, 1983. Delayed payments, aged by quarter (one payment), shows that of 476 loans:

  50 were delayed one payment;
  20 were dealyed two payments;
  1 was delayed three payments;
  6 were delayed four payments, and
  2 were delayed five payments.

- An earlier analysis showed that as of April 30, 1983, of a total of 309 loans, 48 were delayed one payment, 12 were delayed two payments, and 9 were delayed over two payments.

- The above comparison substantiates the explanation given by LDF officials regarding loan payments delayed by two quarters. They do not consider a two-quarter (six months) delay as serious, as it is consistently due to the time lag in processing repayment checks coupled with the geographic distance between Local Unit/markaz/governorate/LDF office in Cairo. In both periods examined, the number of loan payments in arrears by over two quarters were a mere 9 loans. In the later analysis (October 31, 1983) these 9 loans represented 1.89 per cent of the total number of loans, and 0.5 per cent of total loans value.

- With regard to the total loans number, loans in arrears represent 17 per cent of total number and 21 per cent of the total value. We do not see this as alarming, as the loans in arrears by over two payment periods have not increased in number.

- Decentralization of LDF is expected to improve if not to eliminate payment delays of up to two quarterly payments.

6. Alternative Channels of Credit

- The issue of channeling credit to village projects through a development or commercial bank rather than through LDF was brought to our attention for comment. It is our opinion that such an alternative is not feasible at this stage due to the following factors:

    - LDF has proved its capability of executing the program successfully. It succeeded in two years in setting up the mechanism, publicizing the idea in rural communities, and creating the image of an institution that not only offers low cost financing but couples it with technical assistance and training. Existing banks would be very reluctant to assume such a role.

    - LDF does not require collateral, while banking institutions would insist upon it. On the other hand, some projects may not be "bankable" and should be termed "higher risk ventures" despite their potential benefits to the community. LDF is willing to take such risks for the welfare of the community.

    - Most Local Units have had very limited or no experience with banking institutions. They are reluctant to apply for bank credit but are amenable to approaching a governmental institution.

7. Advisors' Counterparts

- Over the period of the technical assistance contract, counterpart staff were assigned to the Checchi advisors. However, most have either been transferred to other activities outside LDF or were sent for additional training outside Egypt. This resulted in "floating" counterparts rather than permanent ones. At present, ORDEV/LDF local staff act as a group of general counterparts. Technology transfer from U.S. advisors to local counterparts through on-the-job training is a best intermittent.

8. Project Impact

- The project in most cases has exceeded its output indicators, but it is still too early to measure accurately the true impact of the DDI effort. The real effects and impacts on rural communities may more effectively be measured quantitatively and qualitatively after two or three years.

- In view of its original objectives DDI/LDF is a successful project, in terms of loans made, people trained, jobs created, increased productivity, and in terms of food produced and services delivered. Importantly, it has aided in the development of entrepreneurial ability.

- Local Units and their Councils, used to the traditional idea of development through spending government allotted funds, have been shown a more dynamic tool that elicits their business awareness and provides them a certain degree of autonomy in generating funds outside of allottments for discretionary use. In addition, successful projects have acted as a demonstration/catalyst in attracting private sector involvement and partnership in the development of rural areas.

- Even in instances where a project was not yet generating profits, its effects as an educational tool and as a spur to private sector interest in the profit potential of such projects were obvious. Less successful projects also demonstrate hazards to be avoided. The result has been the execution of similar projects by the private sector.

- In short, the DDI project has created in the form of the LDF an institution that has contributed much to the development of Egyptian villages. It will contribute more as the decentralization program gathers momentum.

- Although the number of loans made as of November 30, 1983 reached 491, only 390 Local Units were involved, of a total of 835 Local Units in Egypt. The majority of those reached, however, have received one loan for one project.

- In most LDF projects visited by the team, output production of commodities and services, including private sector outputs, were well below market demand. In no instance did we find the Local Unit projects hindering the development or expansion of the private sector's activities.' On the contrary, such projects enhanced public sector involvement.

- The immediate future potential for expanding income-producing enterprises under the DDI/LDF project concept is very encouraging. Given additional capital for lending, LDF would be capable, through decentralization of its operations, of doubling its current number of project loans over the next two years and to reach the peripheral governorates.

Recommendations

1. ORDEV and USAID should consider decentralization of the LDF through the creation of regional branches serving a number of governorates according to geographical situation, as well as single-governorate branches. Chairmanship of the regional branches may be rotated between governorates. (Other alternatives to avoid governorate favoritism or to solve jurisdiction problems may be considered, such as retaining the chairmanship with an ORDEV-central representative.)

2. In order for the decentralization effort to succeed, it is proposed that at the conclusion of the current phase of the project and the exhaustion of available funds, the GOE and USAID consider additional capitalization of the LDF's loan funds by an amount of $15-20 million to be used by LDF

in reaching a wider range of Local Units, and to expand existing successful projects to meet a greater portion of market demand. The infusion of additional funds would accelerate the pace of rural development, particularly in areas not yet participating in the program.

3. Foreign technical assistance may be needed, at a level to be determined by the GOE and USAID, to ensure a sound decentralization transition and institution building in LDF branches, as well as for charting future development plans for rural Egypt. The next 18 to 24 months will be crucial to the continued success and expansion of LDF activities. Without sound and capable field institutionalization, the total effort may be jeopardized.

4. It is strongly recommended that ORDEV take immediate steps to assign permanent counterparts who can benefit from the U.S. advisors' knowledge and experience during the remaining period of the project. ORDEV should ensure that such counterparts can remain at assigned positions for a future period extending beyond the conclusion of the current technical assistance effort.

5. A post-project impact evaluation should be conducted after two or three years.

IV TRAINING

1. Introduction

- USAID has provided $1,755,000 for training in Egypt, the U.S., and the Philippines, and for assistance to the ORDEV training center at Sakkara. This support has been provided to ORDEV and the LDF program to achieve the following objectives:

    - Develop managerial and technical skills needed to operate LDF programs within ORDEV and the governorates;

    - Introduce LDF activities in the governorates and train village council members in the preparation and operation of income-producing projects financed by LDF loans, and

    - Strengthen the capacity within ORDEV to support decentralized development, including the capacity to offer relevant training to local government officials through the ORDEV training center at Sakkara.

- The purpose of this section is to assess the impact thus far of the training on LDF projects in the villages, on ORDEV, and on governorate development programs. In addition, the scope of work requests that the progress and potential of the ORDEV training center be reviewed.

- The evaluation is based on visits to LDF projects, review of ORDEV/LDF training plans and records, interviews with USAID, the technical assistance contractor, ORDEV representatives, and members of the advisory committee for the Sakkara training center. In addition, the consultant observed two ORDEV/LDF training sessions, a technical course in animal husbandry in Beni Suef, and an orientation and planning course in Cairo for the 15 ORDEV/LDF personnel who will staff the first governorate level LDF office in Minia. Discussions were held with participants and staff at both of these training sessions.

2. Description of DDI Training

- Approximately 5700 ORDEV, village council, markaz and governorate personnel have participated in training programs in Egypt and abroad. Eighty-six have attended courses in the Bluegrass Area Development District, 36 participated in two study tours in the Philippines, and 5626 (or 98 per cent) attended courses in Egypt. The following table summarizes the numbers trained each year during the project to date.

Table 1. Numbers of Trainees

Year	Training Program: Foreign	Local	Total
1979-80	44	222	266
1980-81	25	785	810
1981-82	20	930	950
1982-83	20	3689	3719
	119	5626	5745

3. Foreign Training

- Under an agreement with the Bluegrass Area Development District, mid-level personnel from ORDEV and the governorates have received classroom training and visited projects in the U.S. to develop skills in project preparation and evaluation. As Table 2 illustrates, representatives from 19 governorates have attended this training.

- The objective of Bluegrass training was to develop a core of mid-level expertise to establish LDF in ORDEV and the governorates. It is estimated that approximately 90 per cent of those trained are still associated with ORDEV, although efforts to follow up on the impact of this training have not been carried out to the extent originally intended. Bluegrass graduates are currently employed in ORDEV/ LDF central office, and the first governorate LDF branch now being established in Minia will be headed by a Bluegrass graduate. In addition, approximately 22 former participants in this program have helped in LDF training programs in Egypt. Although it is

Table 2. Distribution of Bluegrass Participants in Governorates

	GOVERNORATE				MARKAZ		VILLAGE		
Governorate	Sec-Gen.	Asst Sec-Gen.	ORDEV Head	Dept Head	Dev. Off.	Exec Head	Exec Head	Pop. Head	Total
Ismailiya				1		1			2
Kalyoubiya			1	1	1		2		5
Sharqiya			1	1			2	1	5
Dakahliya			1		1	1	4		7
Damietta			1	1					2
Menufia	1	1	1		2				8
Gharbiya				1	1	1	4		7
Kafr El Sheikh				1	1		2		4
Beheira			1	1	2		4		8
Giza				2			4		6
Fayoum			1	2	1	1			5
Beni Suef					2	1	1		4
Minya	1		1				4		6
Assiut							2		2
Sohag							2		2
Qena	1		1		1	1			4
Aswan									0
N.Sinai,Port Said				1					1
Red Sea									0
New Valley	1		1	1	1	1			5
Matruh	1			1		1			3
TOTAL	5	1	10	14	13	8	34	1	86

Source: ORDEV/LDF

not possible to clearly establish the impact of this training on LDF operations, examples exist of graduates of the program applying management and planning methods introduced to them in training. In general terms, however, the distribution of graduates throughout ORDEV and local government provides a reservoir of support and talent to ORDEV.

4. Training in Egypt

- The objective of programs conducted in Egypt is to train ORDEV, LDF, governorate and village representatives in the design, palnning, and management of LDF-financed projects. In addition, the programs introduce the LDF in the governorates, and orient village councils to local government laws and responsibilities. As the 1983-84 training plan (Appendix IV-1) illustrates, ORDEV is implementing twelve different training courses, with a total of 113 sessions scheduled for the year. A description of each course is provided in Appendix IV-2.

5. Assessing Training Needs

- The training courses have been developed to introduce LDF in the governorates and to train village councils in the basic skills required to operate LDF projects. Thus, courses in local government laws, basic project bookkeeping, and technologies for specific projects have been emphasized. New programs have been added based on feedback from participants. In addition, a course for training administrators has been started to help in the expansion and decentralization of LDF.

- Last year, ORDEV/LDF introduced a questionnaire to determine the magnitude of training needs within the governorates and to establish a means for longer-range planning and budgeting of training programs. Descriptions of existing courses were given, and the governorates were asked to estimate the number of participants for each course, when the participants would be able to attend, and to suggest where the training should be held. The governorates were also given the opportunity to suggest new training courses. Table 3 gives the results of this survey.

Table 3. RESULTS OF NEEDS ASSESSMENT SURVEY

Training Course	Approx. Number of Participants	
A. Introductory Programs for Planning, Management & Evaluation		
1. Feasibility studies and project preparation	1,700	
2. Bookkeeping and financial accounting	950	
3. Project follow-up and evaluation	740	
Subtotal:		2,470
B. Introductory Programs for Local Government and Development Decentralization		
4. Orientation for local government	4,000	
5. Exchange of Development Experience	850	
6. Theme symposia for development	2,088	
Subtotal:		6,930
C. Technical Training		
7. Poultry production	500	
8. Animal production	840	
9. Beekeeping	380	
10. Fish production	140	
11. Agricultural mechanization	320	
12. Rabbit production	17	
13. Olive pickling	4	
14. Training administration	30	
15. English language	280	
Subtotal:		2,511
Total:		11,911

- Although this survey has helped ORDEV/LDF to better plan and budget for training, the fact that it asks for responses to existing programs and does not provide for assessing needs against specific LDF objectives minimizes its value as a needs assessment instrument. This is perhaps less important if training is viewed as a means to introduce and expand LDF activities. But as efforts are made to improve the performance of LDF projects, greater attention will need to be given to more systematically determining training needs.

6. Selection of Participants

- Participants are selected by the governorates, usually by the Secretary-General or ORDEV representative. As most courses are designated by ORDEV/LDF as being "for governorate, markaz, and village council personnel", it is left to the governorates to decide who should attend. Often, the choice is based simply upon who is available, and frequently the same individuals participate.

7. Course Instructors

- ORDEV/LDF does not have a permanent training staff. Instructors are selected from among ORDEV/LDF central office staff, university professors, and governorate staff; there is a pattern of limiting the number of instructors to a group of 10-12 individuals. Instructors attend only those sessions they teach, and they are not involved in the design of the overall course. Because fees are based on the hours the instructors actually teach, many are unwilling to give their own time to preparing course materials. Consequently, the quality of instruction varies.

8. Organization and Administration of Training

- Training courses are organized by Training Administrators who are responsible for arranging for facilities, contacting participants, and arranging for instructors. A Training Administrator is assigned to each course. ORDEV/LDF has one full-time Training Administrator assigned to its office.

There are ten others within ORDEV who assist in LDF training. Seven of the ten Training Administrators are new to LDF activities, and few have had experience in training design, course development, or monitoring and evaluation.

9. <u>ORDEV/LDF Training Capacity</u>

- As Table 1. illustrated, training has rapidly increased from 222 in 1979 to 3689 in 1982-83. The training plan for 1983-84 projects a further increase, to 4034.

- ORDEV has made remarkable progress in developing a capability to organize and administer training programs. However, this capacity is limited to administering training courses and does not include the capability to assess training needs, develop new courses and training materials, or monitor and evaluate the quality of training. To establish this capacity, ORDEV will need to significantly upgrade the skills of its training staff.

10. <u>Impact of Training</u>

<u>Training in Egypt</u>

- Training programs conducted in Egypt have served primarily to promote the LDF program and provide a means for exchanging information on LDF activities. In this respect, training has directly contributed to the expansion of ORDEV/LDF activities The number of loan applications, for example, increased significantly during 1982-83 when the number of participants attending training also rose sharply. Several examples have also been cited where projects have been extended to other areas as a result of exchanging information and experiences in training programs.

- The impact on skills development is more difficult to determine. In part, this is because ORDEV/LDF has not attempted to carefully monitor the impact of training on project performance. Examples have been cited, however, that suggest training has helped to improve the information provided on loan applications.

- It should be noted that local government officials, including Head Executive Officers and those selected as project managers, often have university degrees, particularly in agriculture, and that considerable practical experience exists in LDF project areas. Thus, the need for developing skills in project technologies (e.g. poultry production) may be less important than providing the opportunity to exchange practical experience or to update local officials in new technologies. Programs presently conducted for these purposes are widely supported among participants.

- There continues to be the need, however, for improved management skills, particularly in project preparation, financial analysis, and project monitoring.

11. <u>Training Abroad</u>

- Bluegrass graduates occupy positions within ORDEV/LDF at all levels of local government. It is estimated that 90 per cent are still involved in some way with ORDEV activities. Twenty-two of these graduates have helped in conducting ORDEV/LDF training. Although a comprehensive follow-up of these graduates has not been carried out, individual examples have been cited that suggest the training has produced changes in planning and management activities.

- The appointment of a Bluegrass graduate as director of the newly established branch of LDF in Minia is an important example of how the project may directly benefit from this mid-level training as it begins the process of decentralization.

12. <u>Progress and Potential of Sakkara Training Center</u>

- The Sakkara Training Center represents a major effort by ORDEV to establish a recognized institution for local government training and research. Construction of the facilities began in 1979 and although substantial progress has been made, particularly in the last year, considerable work remains to be completed before the facility can be used. It is anticipated that the first phase of the facility will be completed in the second quarter of 1984. This will include the classroom building and residential facilities for 25 participants. ORDEV hopes that the entire facility will be completed a year later. Original construction costs were set at LE 3 million and approximately LE 2 million have been spent to date.

- Located approximately 20 kms from downtown Cairo, the center will include:

  - a main administration and classroom building with six lecture rooms, offices for teaching staff, an auditorium (capacity 500), a library, and a documentation/computer center;
  - three dormitories with facilities for 100 men and 20 women;
  - apartments for 12 faculty members and their families;
  - a cafeteria;
  - garage and workshop to be also used for small-industry training.

- The ORDEV Chairman has recently organized two advisory committees to assist in preparing plans for the training/research and administration/finance activities and operations. These committees have met only 2-3 times and are operating thus far without budget.

- The training/research committee has begun to establish an agenda reflecting the need to proceed systematically through a process of defining local government training needs, identification of target groups, preparation of training materials, and selection of training staff. As a group, they have extensive experience in local government and are committed to a training and research program that will avoid many of the shortcomings of other "central" training institutes.

- Insuring that the programs of central training institutions remain relevant to the needs of decentralized government units is a difficult task. [For a discussion of problems and alternative ways to address these problems, see John P. Hannah and George H. Honadle, "Management performance for rural development: packaged training or capacity building", Public Administration and Development II:295-307, 1982).

- A dynamic center of training and research in local government would be an important new resource to support Egypt's policy of local, decentralized development. Given the importance USAID gives to supporting this GOE policy and action, USAID assistance to the Sakkara Training Center is warranted and recommended.

- Specifically, USAID should consider:

  - Making short term technical assistance available to ORDEV and its advisory committees, as requested, during the initial planning stage. Such assistance should include provision for consultants in plant management, training administration, and curriculum development who would develop issues papers and make recommendations for consideration by ORDEV and its advisory committees.

  - Encouraging ORDEV to proceed as quickly as possible in the selection of a director and 2-3 members of the teaching staff. These personnel should become directly involved in planning for the center's operation.

  - Providing funds and assistance to organize and conduct a study tour for selected ORDEV, advisory committee members and teaching staff to similar institutions outside Egypt. Such institutions include the Rural Development Academy, Peshawar, Pakistan; the Local Government Training Project in Indonesia; the Asian Institute of Management.

- The Sakkara Training Center will not have developed the capacity to assume responsibility for ORDEV/LDF (or ORDEV/BVS) training activities by the time technical assistance is concluded next year. USAID should continue training advisory assistance to ORDEV for both of these projects but should also consider assigning the advisors to the Sakkara Center.

Recommendations: Training in Egypt

1. "In 1982-83, 3494 participants attended ORDEV/LDF training and the projected level for 1983-84 is 478 training days/year for 4034 participants. The ORDEV/LDF training office and ORDEV Training Department do not have the capacity to maintain this level of activity and still monitor the quality of the training or the impact on LDF activities."

   Thus, the level of training activity should be reduced and emphasis given to those courses that have the most direct impact on LDF objectives.

   Based on LDF objectives, comments by village council members, and recent assessments, priority should be given to the Introductory Programs for Planning, Management and Evaluation, Exchange of Development Experience, and technical training in project-specific areas.

2. In order to maintain activities important to the LDF program while reducing the training demands on the ORDEV/LDF office:

   - Responsibility for providing village councils with up-to-date information on LDF loan policies and procedures should be assumed by Village Development Representatives ("ORDEV representative") in the governorates, rather than relying upon training programs to convey this information.

   - Responsibilities for on-going project-specific technical training should be shifted from the ORDEV/LDF training office to the governorates who have the resources for this training through local universities, technical staff within the governorates, village executive heads and project managers experienced in currently-funded project areas. ORDEV/LDF should begin to concentrate instead on supporting training by designing and developing materials and identifying training resources.

   - The orientation for village councils program should be coordinated with BVS, and the staff of the ORDEV Training Department should assume primary responsibility for this training.

   - Theme Symposia should be limited to one per year and the programs should focus on specific lessons learned from LDF experiences.

3. An objective of LDF is to increase revenues available to Local Units. The capabilities of Local Units to prepare feasibility studies and to maintain and manage project accounts are essential. Thus, training in project preparation and financial management should be given highest priority. The present training in bookkeeping and financial reporting has adequately prepared Local Units to record basic expenses and income data. However, the training has not prepared participants in the analysis and application of this data. Thus, Local Unit councils are not always sure if projects are returning profits.

   Training courses in Bookkeeping and Financial Reporting should be revised to include basic skills in financial analysis as well as record keeping, and worksheets should be prepared to guide village council members and project managers in the analysis of this data. This training should be provided in the governorates.

4. Training courses in bookkeeping, financial reporting and accounting, and orientation to local government regulations are currently being offered through the LDF and BVS projects to similar target groups at the village and markaz levels. While a certain amount of duplication might be desirable, greater attention should be given by the ORDEV Training Director to coordinating the planning and delivery of these courses and to the use of a common set of materials for the local government orientation program.

5. ORDEV/LDF training is currently financed entirely by USAID and USAID is contributing more to the total costs of ORDEV training than is the GOE. There will be a continuous need for financial support, but consideration should be given to planning for alternative sources of funding, including using administrative fees attached to LDF loans to partially support training.

6. ORDEV/LDF training is being conducted by a limited number of consultant/lecturers who are paid only for the time they lecture in the training courses. ORDEV/LDF should expand the roster of training instructors, giving particular attention to the increased use of local university instructors, governorate technical staff, and "successful" head

executive officers within the governorates. Compensation should be paid for instructors to participate in planning training programs and developing training materials from funds obligated for this purpose in the training budget.

ORDEV/LDF has in the past year developed the DDI Training Manual. This manual describes the basic steps necessary to develop quality training programs. ORDEV/LDF should now apply this guide by defining the specific tasks and assigning individual responsibilities necessary to apply the guidelines.

7. Trainees selected by the governorates to attend ORDEV/LDF training are not always those who can most benefit. ORDEV/LDF should establish clearly defined criteria for each of the training courses and encourage the governorates to apply these criteria in selecting participants.

<u>Recommendations: Foreign Training</u>

1. Although Bluegrass training has contributed to the establishment of the LDF within ORDEV and the governorates, and an estimated 90 per cent of those trained continue to be associated with ORDEV activities, this training has not produced the core group of "intermediate expertise" within ORDEV/LDF as originally intended. Furthermore, the needs of an expanding LDF program are greater than the resources available through any single program.

   Therefore, it is recommended that funds for foreign training be continued for ORDEV/LDF staff, but that such training allow for a broad range of short courses in such areas as training administration and design, management information systems, etc.

<u>Recommendations: ORDEV Training Center at Sakkara</u>

1. ORDEV has made considerable progress toward completing the physical facilities of the training center at Sakkara, and the first phase is now scheduled to open in April-May 1984. If the expectations for this center are realized, it will make an important contribution to local government training and research in Egypt. ORDEV has started to plan for the operation and training/research

program of the center.

USAID should support this planning work by providing short term assistance to ORDEV and its advisory committees to develop issues papers in such areas as plant operation, management and administration of training centers, curricula development, and applied research.

When plans for the programs of the center are developed, USAID should also assist in equipping the library and documentation departmetns, including technical assistance for training of staff of these departments.

Impact of ORDEV/LDF Training

- Training courses have been held in the twenty rural governorates to promote LDF activities, orient officials to local government laws, and strengthen the technical skills of vilalge council and markaz officials. These training programs appear to have contributed to an increase in the number of LDF loan applications, more complete information provided in the applications, an increase in the number of "non-typical" projects submitted for financing, extension/adaptation of "successful" projects among different governorates, increased awareness of alternative opportunities for generating local revenues, increased popular participation in development, and improved relations among levels of local government.

Conclusions

- While ORDEV/LDF training is and should continue to be directed toward village executives and popular council members, the application of training must fit within bureaucratic structures and norms in the governorates. Thus, it is important that governorate level officials, particularly Secretary-Generals, be kept well informed of ORDEV/LDF objectives and activities and that training programs in local government participation and exchange of development experience seek the participation/involvement of these officials.

V FINANCIAL ANALYSIS

Financial Analysis of Sampled LDF Projects

1. Methodology

This section is based upon financial data drawn from a sample of LDF village projects. It analyzes their:

- financial performance and viability;
- use of profits;
- effect on the private sector, and
- management.

- Data on the fianncial performance of 28 LDF-assisted projects was collected from three sources: 1/

  - financial statements examined during field visits (10 projects);
  - quarterly reports found in LDF files (12 projects);
  - financial information found in the case studies commissioned by USAID/Cairo (6 projects).

- The projects included within this sample have been operating for several years, are geographically dispersed and represent the main activities funded by the LDF. The age of the enterprise was an important selection criteria since it was necessary to obtain the results of at least one operating period. It was also important to judge the financial performance of the enterprise after the initial "birth pangs" had been overcome. Since the cash flow position of most projects was significantly affected by whether they were repaying the principal on their loans, we attempted to concentrate upon those that were no longer in their grace periods.

- The results of the following analysis must be interpreted with caution because the sample is extremely small and the data were sometimes inconsistent. The extent to which the financial results drawn from the sample is representative of all LDF projects is unknown.

1/See Introduction of this report for more information on the methodology of this evaluation.

- Financial statements examined during field visits often were fragmented and had to be reconstructed to yield meaningful results. The financial data derived from LDF Quarterly Reports and the Case Studies have not received the same scrutiny as that gathered during field visits and therefore may be less reliable. Field visits revealed that some financial statements, for example, did not include depreciation as a cost, some subtracted both principal and interest payments and others included labor costs that they actually did not pay. The evaluation team reconstructed the income statements of visited projects to include actual costs, depreciation and interest only so that results would be comparable.

- Since only two projects had balance sheets, accurate information on the debt position of most projects could not be calculated. And because financial statements in most cases could only be found for the last year of operations it was impossible to analyze the growth of the enterprises over time.

- Nevertheless, the analysis of the sampled projects is believed to provide a reasonable general assessment of their financial health. Some of the more interesting and unexpected results indicate that certain projects require a more in-depth financial analysis and technical assistance to improve their performance, while others should be studied as perspective models.

2. Profitability of Sampled Projects

Objectives of LDF Projects

- According to the Project Paper and related LDF materials, the purpose of LDF projects is to stimulate income producing activities whose profits may be either reinvested or disbursed to the village Special Account for income-generating or social welfare activities. 2/

2/ "Profits from village projects are deposited in each village Service and Development Account, which can be used to finance needed services and improvements in the village. The overriding objective is to strengthen the village units by increasing the funds available for discretionary spending on such local development projects". Local Development Factbook, ORDEV, November 1983, p. 1.

However, discussions with village project staff reveal that they have a different perspective on their projects' purpose. Almost all Head Executive Officers (HEO) said that their LDF project was intended to increase the supply of basic goods and services (especially food) at lower than market cost. Because LDF projects receive subsidized financial and personnel resources, HEO's stated that they are not allowed to charge market prices.

- Thus, the LDF projects are not intended to operate purely to maximize profits. Their main objective is to provide a low cost product or service to the public. If profit maximation is not their objective, then these projects should not be judged by the same profitability criteria normally used for private sector projects. However, it is necessary to determine their viability since they are intended to become self-sustaining rather than a drain on village resources. Projects should meet certain minimum standards of financial viability in order to contineu to provide services to the public and serve as a model to stimulate replication within the private sector. Thus, the financial viability of sampled LDF projects is examined from different perspectives in the following section.

Return on Initial Project Investment

- On average, sampled projects yielded a 19 per cent on their initial project investment during their latest fiscal year of operations for which data was available. [3] This average return is higher than the 15 per cent projected in the Project Paper, assuming that this is the definition for return on investment used by project planners. [4]

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[3] Financial information was usually obtained for the fiscal year July 1, 1982 - June 30, 1983.

[4] The return on assets as defined in this section refers to the net profits earned during the latest year of operations divided by the sum of the total LDF loan amount and the village contribution as found in the LDF files. This investment thus is equivalent to the total assets the firm had upon loan receipt. A more correct method of calculating this ratio would be to compare the net profits with the assets held in a comparable period. However, since balance sheet information was

- The range of return on investment was broad, from a negative to a 62 per cent return, as shown in Table V-1. Egg production, broiler production and cattle fattening, on average, had a relatively high 21 to 24 per cent return on investment while olive pickling, tile and brick production, agricultural machinery and transportation projects had lower returns ranging from 7 to 14 per cent.

- Great variations existed within each subgroup. Differences among the returns on poultry projects was often due to differences in animal mortality rates, technology or utilization of production capacity. The unprofitability of a tile and a microbus project caused the average for each small subgroup to be lowered. The highest return was earned by an unusual calf rearing project that performed extremely well during its first year of operations, primarily due to the capability of its experienced manager. The return on this project was an exceptional 62 per cent.

Return on Village Investment

- The average return on the investment provided by villages towards their LDF project was a high 81 per cent. The range of the return on villages' investment varied greatly from a negative return to 175 per cent. The return on the village investment is even greater if calculated solely on the basis of their cash contribution.

- Village investment includes fixed assets, including those existing prior to the LDF project, as

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not available for most projects, the initial investment and loan amount was used as the best approximation that could be found. When calculating the return on assets interest payments are sometimes added to profits to form the numerator of the ratios, to measure the true productivity of assets. This was not done in this case. It also should be noted that village contributions to the project often varied significantly from that projected in the feasibility study and found on the LDF's computer print-out. Also, some visited projects borrowed from other sources besides the LDF (i.e., from other village projects), thereby raising their total investment in the project. These ratios, thus, may overstate the true return on some of these projects.

well as new cash contributions to the project. Unlike most Egyptian financial institutions, the LDF does not have minimum investment or collateral requirements for loans. Nevertheless, on average, villages contributed a surprisingly high percentage of the total investment. Villages visited by the study team, on average, furnished 42 per cent of their project's total investment (see Table V-2). They contributed a substantial 25 per cent of the total cash requirements of their project; this level of contribution compares favorably to the requirements of financial institutions in developed countries.

- Village funds for this investment usually stemmed from the governorate and/or the village special account; in one case an international development agency (CARITAS) provided the village contribution. During field visits, a discrepancy between the amount of village investment projected in the feasibility study and the actual village contribution was found. LDF considers the level of village contribution to be an important indicator since its computer printout contains this data, drawn from the feasibility studies, on each loan. These discrepancies suggest that such information should be updated.

Return on LDF Loan

- The return on the average LDF loan was 26 per cent. This represents a good return on LDF financial resources.

Return on Sales

- The return on sales varies greatly within subsector industry groups, as indicated in Table V-3. The net return on sales for egg production ranged from 10 to 37 per cent while that for brooder and broiler production ranged from a negative return to 51 per cent. The highest gross margins and the lowest net margins were found among the four brick and tile projects. This is explained by the relatively large salary expenses paid to workers of these moderately labor-intensive enterprises. Variations in profit margins among firms of the same subsector industry visited by the study team was usually due to differences in the management capability and technical expertise of project managers.

- It is not meaningful to compare the return on sales of different types of subsector groups because of the varying structure of those industries. For example, industries with low net returns on sales (i.e., brick and tile production) must compensate for these low margins through high sales volume. Enterprises that sell few units (i.e., cattle fattening) must generate high margins to earn an adequate return.

- The return on sales for each enterprise should be compared with its industry's average to determine its performance. Unfortunately, comparable data could only be found for egg production. The average 22 per cent return on egg production is slightly lower than that projected in studies of individual projects without financing. 5/

3. Profitability of Sampled Projects Under Varying Assumptions

Actual Versus Expected Financial Performance

- The LDF prepares feasibility studies for each loan application that it receives. An important function of these feasibility studies is to weed out projects that have a high probability for failure and to determine what minimum scale of production must be attained for the project to be profitable. Since the results of these studies are used as a basis for loan approval, it is necessary that they provide a realistic projection of the loan applicant's future performance.

- The actual performance of the ten projects visited by the team from which financial data could be obtained was compared with these projections to determine their accuracy. The results show that, on average, sales and net income were projected to be 42 and 144 percent higher, respectively, than actually received (see Table V-4). In all but one

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5/ Financial projections found in the Small Farmer Production Project Paper, Amendment 0079, Financial and Economic Analysis, Annex 1 (draft), were recalculated to serve as a basis of comparison with LDF projects.

case sales were lower than expected; but in half the visited projects net profits were actually higher than originally projected. The gross and net returns on sales were, on average, on target with a much wider range around actual net profit margins than projected.

- These discrepancies are usually explained by the fact that expenses were higher than expected while sales were lower. Feasibility studies usually adopted a "best case" hypothesis that firms will be selling all they can produce at maximum production levels. The studies did not assume a gradual increase in production over the first few years of the project. Most visited firms, on the other hand, were not operating at capacity levels due to higher than expected mortality rates, insufficient raw materials and lack of working capital. The financial projections found in the feasibility studies that were examined did not provide enough leeway for such contingencies.

- Market studies were also lacking in most of the examined feasibility studies on the assumption that almost unlimited demand exists for most LDF projects' goods and services. However, in one case, olive pickling, the project manager said that the market would not support an expansion of this project due to lack of deamnd. The demand for minibus services has, in effect, been restricted due to government regulations which limit the number of roundtrips that can be made. These two examples indicate that a market demand analysis may be warranted in some cases.

- The depth of analysis presented in the feasibility studies was appropriate for the small loans that the LDF initially disbursed. However, as loan size grows and the LDF begins to fund new types of activities, greater attention should be paid to the feasibility studies. For example, a simple sensitivity analysis might be performed to analyze the potential performance of the project under varying assumptions (e.g., if the project is operating at 80 per cent of capacity instead of 100 per cent, or including inflationary cost increases). A breakeven analysis should be included especially for projects with low operating margins to determine the minimum quantity that must be sold, assuming a given price, to cover expenses.

- Since the repayment rate on loans is excellent, this may be interpreted to mean that projects are profitable and thus do not require more in-depth project appraisal. However, loan repayment may not be a good proxy for successful projects since a few visited projects who could not meet their loan obligations out of operating profits still repaid their LDF loans on time.

Financial Performance of Visited Projects When Salary Expenses are Included

- None of the visited projects paid for their administrative staff; some of them covered the expenses of their workers. About 38 per cent of visited LDF project employees were paid by the government (see Table V-5). Since one of the objectives of these projects is to provide an example to the private sector, their financial performance was recalculated based upon their true staff expenses to determine their actual profitability. The Head Executive Officer was asked how many people it would be necessary to retain to maintain operations and how much the village would have to pay these individuals. These expenses were then subtracted from the net profits shown in Table V-1.

- The profitability of these projects is significantly affected when the actual salary expenses are included (see Table V-5A). Their return on sales, assets, capital and equity drops dramatically in many cases.* Many projects would not be yielding an adequate return and would have to raise their prices. Some project managers commented that they would not be able to pay for their staff unless the price of the LDF product were raised. [6]

Debt Service Ability of Visited Projects With and Without Salary Expenses

- About 40 per cent of the sampled firms (9 out of 22 that are no longer in their grace periods) could not meet their total debt obligation (loan principal

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[6] Unlike Table V-1, assets, capital and equity figures are drawn from the balance sheets of the projects visited.

and interest) from end-of-year profits (see Table V-6). Four of the six firms that were still in their grace periods would not have been able to support the repayment of loan principal. If the true salary expenses were included then the debt burden would become even greater, as evidenced by the few cases for which such information is available.

- Some visited firms met their loan repayments from retained earnings while others had borrowed from the village service account or other vilalge projects to repay their LDF loan. Few had considered the possibility of being delinquent on loan repayment; only one of the visited firms was delinquent.

- Those that are borrowing from the village service account or other village projects (with no interest charges) are using the funds derived from the governorate to repay the LDF. In essence, funds are being transferred from one branch of the government to another. This raises the policy issue: Should the governorate serve this function or should the LDF bear the responsibility for delinquent loans? This issue merits further discussion and analysis.

- Although most village projects are expected to repay these loans, this situation is a cause for concern. It indicates that even projects with good repayment rates should be visited to determine their financial viability and, if necessary, be provided assistance and the rescheduling of their loan repayments.

- Firms were easily able to meet their short term loan obligations in the few cases that such information could be gathered (see Table V-6). The high current ratios are primarily the result of large stock inventories maintained by livestock projects.

- Interest payments, on average, comprised a high 40 per cent of net profits (before interest). However, this ranged from some firms for whom interest comprised a small 5 per cent of net income to others that were unable to meet their interest payments from profits. The LDF loans' 6 per cent interest charges were easily supported by most firms. LDF averages the total amount of interest that is to be repaid over the total number of payments to equalize payments. Interest charges, thus, are lower during the early repayments (and higher during the latter years) than they would be were a declining balance method of calculating interest payments used. While the firm's cash flow remains unaffected, its profits appear greater during its early years.

- These findings indicate that a significant proportion of LDF firms would not be able to support higher interest rate charges, a shorter repyament period or the elimination of a grace period. Prices and/or sales would have to be increased before such charges could be contemplated.

Breakeven Price Analysis under Varying Assumptions

- The breakeven price required for visited LDF projects to cover their cash expenses was, with the exception of one brooder project, still below the market price charged for their products (see Table V-7). Thus, the LDF projects could charge higher prices that would improve their financial position and still be below the market price.

- Table V-7 also shows that the difference between the market price and that required for the LDF project to attain its cash breakeven point is rather high for egg production, cattle raising and microbus transportation. This provides some indication that these should be profitable activities for the private sector.

4. Use of Profits of Visited LDF Projects

- According to LDF promotional materials, profits generated by the village projects are intended to either be reinvested or flow into the village service account to be used for social projects. All visited projects for which a financial analysis was conducted reinvested their profits in the firm. None distributed profits to the village service account.

- Since many LDF projects are having difficulty meeting their loan repayments and are relatively high risk operations where sudden disease can quickly mean financial ruin, it is recommended that enterprises continue their practice of capitalizing profits. Retained earnings are saved within the village service account since otherwise, profits of government projects are returned to the governorate. However, these funds should be maintained as a reserve for the exclusive use of the LDF project rather than used for other activities. Profits should only be disbursed to the village service account for other activities after the LDF loan is fully repaid and the enterprise is on a sound financial footing.

- Most enterprises distributed some profits to their administrative staff and labor as bonuses. Some included these bonuses as an expense on their financial statements, most distributed bonuses out of profits, while others did both. Thirty per cent of profits, on average, were distributed as bonuses to project supervisors and staff (see Table V-8). Although the bonuses sometimes represent a high percentage of net profit, this is because wages are usually terribly low. These bonuses, thus, are a necessary supplement to employees' income.

- In many cases, the bonus is an automatic percentage of gross profits while in others it was calculated on the basis of net profits and the overall financial soundness of the enterprise. One enterprise, for example, did not distribute bonuses because of its precarious financial position; another paid bonuses even though the enterprise was unprofitable and delinquent on its loan payment.

5. Capacity Utilization of LDF Projects

- Most LDF projects were operating significantly below capacity (see Table V-9). Poultry projects were operating fewer cycles than possible and in some cases mortality rates were high. Lack of raw materials was cited as an important limitation on increasing cement tile production and on poultry projects.

- Insufficient quantities of cement and poultry feed are national problems that LDF assistance would not solve. However, the high mortality rates and lack of working capital are constraints that could be alleviated through technical assistance and further capital infusions. In some cases, projects had recently received additional LDF loans so that working capital was no longer a constraint on their operations.

- Village microbuses are subject to the same government regulations governing their private sector counterparts. Microbuses must waint in line at the first stop until all their seats are occupied before they can leave on their routes. This recently enacted restriction has caused some villages to reconsider their loan application for a microbus project and cancel their LDF loan. As shown in Table V-7, the village microbus maximum fare was half that charged by the private sector. Since the grace and loan repayment period for microbus projects are shorter than animal raising projects (6 months grace with three years to repay) this put a strain on the microbus project visited.

6. <u>LDF Effect on the Private Sector</u>

- In almost all cases visited by the evaluation team, the LDF project was replicated by private entrepreneurs in the area. Due to severe time constraints, it was impossible to quantify the amount of this replication, its contribution to total production or its effect on local prices. However, the amount of replication activities appears to be quite substantial. Unsuccessful LDF projects (e.g., queen bee raising) also may serve to steer private sector entrepreneurs away from these activities and into more productive investments.

- Only three LDF projects were joint ventures, that is, the project's investment was financed by both the village and private individuals. It may be supposed that private sector entrepreneurs' desire for a quick high return on investment, with the distribution of profits to owners, may not match well with the intent of the village project. Visited village projects often sought to maximize sales, not profits.

- The village councils should have a comparative advantage over formal institutions to lend to extremely small-scale entrepreneurs. Peer group pressure has usually been found to be the most effective way to ensure high repayment rates of microenterprise development projects. However, few LDF villages have intermediated funds for local entrepreneurs replicating the village project.

- An almost unlimited market exists for many LDF food products, especially for those projects located near large urban centers, as shown in Table V- Purchasing power of consumers has been raised through a healthy economic growth rate and remittances from family members working abroad. Thus, although the LDF price is lower than the private sector, the large demand for these commodities suggests that the private sector has not been restricted by its price disadvantage. However, in small rural areas where the LDF project has a large market share, its introduction may lower market prices from previous levels. For example, one cattle fattening project was said to have lowered the price of beef in the local area.

7. Management of LDF Projects at the Village Level

- Perhaps one of the most important effects of the LDF village projects is to train public sector officials to think in terms of productive investments that yield a return rather than in terms of resource distribution. The LDF projects have helped to reduce the underemployment or government civil servants employed by these projects.* 7/

- However, additional training is needed at the village level to enable accountants and project managers to be able to interpret existing financial statements and use them as planning tools. This training should include enabling staff to extract periodic profit and loss statements and balance sheets from existing records and to prepare simple cash flow statements. Financial statements were prepared because they were required by the government; in few cases were they used to help manage projects. Staff of some visited projects, for example, did not know whether their project was earning a profit.

7/ In the mid-1970's, Egypt had 3.2 million civil servants of which one-third were thought to be redundant. See Saad Eldin Ibrahim, "Egypt in the Eighties: A Sociological Profile", The International Spectator (Rome) XVIII:1-2, 1983, p. 13.

- Financial records were in satisfactory condition with the exception of projects visted in Ismailia and Qena. The data provided by the current accounting system appears adequate for most projects' needs; thus, no major changes are recommended. Since this system is used for all government project, it would not be efficient to attempt any major changes for just one, relatively small project. In addition, a more sophisticated system would not be appropriate for the existing accounting staff.

Conclusions and Recommendations

The main findings of the financial analysis based upon an examination of 28 cases are:

1. The principal objective of visited village projects, as perceived by the Head Executive Officers, was to increase the supply of basic goods and services at lower than market prices rather than to maximize profits.

2. On average, sampled projects were profitable and generating a 19 per cent return on their original investment, exceeding expectations.

3. This average camouflages a large variance in the performance of sampled projects; a few were performing exceptionally well, most were providing a good return, while a few were yielding low returns or were unprofitable.

4. The key factors affecting projects' financial performance were the management capability of staff, including their ability to analyze the enterprise's financial performance and knowledge of its technical aspects, sufficiency of working capital, differences in technology, and varying mortality rates.

5. Village projects' performance was significantly below projections made in LDF feasibility studies. Sales and projects were projected to be 42 and 44 per cent higher, respectively, than that actually attained, primarily due to the assumption that enterprises would be operating at full capacity.

6. Forty percent (9 out of 22) of sampled projects cannot afford to cover their debt repayment from cash earned during the year. Visited projects used

retained earnings, or borrowed interest-free funds from the governorate, the village service account or other village projects to cover their debt repayment. Only one visited project was delinquent on loan repayment.

7. The breakeven price required to enable projects to cover their cash expenses (including currently subsidized salary expenses) was significantly lower than the market price. Raising prices of LDF goods and services would improve the financial viability of many visited projects and still allow them to meet their objective of charging less than market prices.

8. Profits were distributed to employees and prudently reinvested in the enterprise rather than disbursed to village service accounts.

9. LDF village projects have significantly stimulated replication efforts by local private sector entrepreneurs. Since the demand for most village-produced goods far exceeds the current local supply, the lower prices of village products have not constrained the growth of private sector activities.

10. LDF is providing an extremely useful training experience for public sector employees to think in terms of private sector investments that yield a return rather than resource distribution.

The recommendations that are based upon these conclusions include:

1. Increasing the amount and depth of follow-up of projects by LDF staff;

2. Improving the quality of feasibility studies performed on prospective LDF borrowers' loan applications to include simple sensitivity and break-even analyses;

3. Maintaining current LDF loan terms and conditions (interest rate, repayment period and grace period policies) since a high proportion of sampled projects could not support higher charges. Prices and/or sales would have to be increased before they could bear higher costs;

4. Conducting a comprehensive analysis of the ability of LDF projects to cover their debt repayment followed by a GOE policy dialogue if this is an extensive problem;

5. Conducting an in-depth analysis of the breakeven price required by LDF projects with a subsequent discussion on how prices can be set that improve the financial viability of LDF projects while still achieving their social objectives;

6. Continuing the current LDF village practice of reinvesting their profits in the enterprise rather than using them for other income-producing or social activities until loan repayment is completed and projects are financially viable;

7. Developing a standard simplified format for a profit and loss account and balance sheet that can be prepared from existing financial records;

8. Training local accountants to prepare these standard financial statements and managers how to interpret them so that they may be used as a management tool.

VI INSTITUTIONAL AND RURAL COMMUNITY DEVELOPMENT

1. Scope of Work and Approach

- This section of the report will focus on the development of the institutional capacity within ORDEV and the LDF to fulfill their responsibilities toward attaining the goals of the DDI project and the broader goals of decentralization of government in Egypt. It will also assess the impact of the DDI project upon the villages in which loans have been disbursed from the LDF. The specific objectives of this section are as follows:

  - To evaluate the institutional development and management capability of ORDEV, LDF and the Local Units, with particular emphasis upon local participation in development projects;

  - To assess the social, economic, political and institutional impacts of LDF projects upon the villages where loans have been disbursed;

  - To assess the overall viability of specific village enterprises;

  - To determine the effect of DDI in reinforcing and strengthening decentralized local government through the experience of planning and managing LDF projects;

  - To provide recommendations regarding the above.

- The approach taken to accomplish the above objectives was as follows:

  - Analysis of the decision-making process for planning, accepting applications, approving and administering LDF loans, to find the predominantly influencing organization at each step of the process;

- Analysis of the relationships among ORDEV, LDF and the Local Units--legal, political, and informal;

- Assessment of the sharing of authority between LDF Central and local ORDEV/LDF representatives;

- Assessment of the sharing of authority in the villages among the Popular Council, the Head Executive Officer, the Executive Committees, and where applicable, the managers of popular participation (private sector) projects;

- Analysis of the improvement of the quality of life in the villages as a result of LDF-funded projects and the types of projects which had the greater impact on the villages;

- Analysis of the use of the Village Special Account for Services and Development by the Local Units to serve the needs of villagers.

2. A Brief History of ORDEV and LDF*

- ORDEV had its origins in a committee formed in late 1972 by the People's National Assembly to explore new ways to develop rural Egyptian villages. The committee was composed of 22 ministers concerned with rural government. Two principal decisions emanated from the committee. The first was a demonstration program to provide comprehensive services to one village in each governorate at a total cost of LE 1,000,000. The second decision was to form a permanent organization within the Ministry of Local Government to administer a long-range plan for rural development. This organization was named the Organization for Reconstruction and Development of the Egyptian Village (ORDEV). ORDEV was thus formed in 1973.

- The committee had recommended that ORDEV receive an annual budget allocation from the central government of LE 50 million. However, the actual allocation for 1973 was LE 3.2 million. In 1974, the allocation was increased but only to LE 4.2 million.

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*This section was taken largely from an interview with Mr. Ahmed El Diffrawy, former Undersecretary of State and General Director of ORDEV.

It became obvious that the central government could not afford to develop all the rural villages of Egypt in a comprehensive fashion, and in 1975 ORDEV changed its strategy toward utilizing its organization to develop the villages through increased local participation. To accomplish this, a 5-year plan was established which would give one grant to each village unit in Egypt during that period. At the same time ORDEV began providing training to Head Executive Officers of the village units on now to choose projects, public relations, dealings with the Popular Council and local government laws.

- In 1975 Law 52 was passed which provided the basis for the decentralization of government in Egypt. Two aspects of the law which had particular significance for ORDEV was the provision of a Special Discretionary Account (SDA) for each Village Popular Council (VPC) and the appointment of representatives at the governorate level who were charged with rural village development. In 1978, rural village development representatives were appointed at the markaz (district) level as well.

- In 1978, a Grant Agreement was signed between the Arab Republic of Egypt and the United States of America creating the Local Development Fund (LDF) under the Development Decentralization Project. The LDF was created to make income-producing project loans to Village Popular Councils in Egypt. The overriding purpose of these loans was to give leaders of village units experience in managing income-producing projects on a sound financial basis, and, ipso facto, increase their overall management and decision-making capacity. The LDF was to be administered by a special agency set up under ORDEV.

- At the time of the present evaluation, five years later, the LDF is a functioning agency with a permanent full-time staff of 25 assisted by both Egyptian and American consultants. Over the past four years, a total of 491 loans have been made to 390 village units (out of a total of 835) for a total amount of LE 9,892,250. The first phase of the decentralization of the LDF will begin in January 1984 when the governorate of Minia will open an LDF branch office to approve loans to Local Units for up to LE 25,000.

3. <u>Current Organizational Structure of ORDEV, LDF and the Village Development Departments in the Governorate and Markaz</u>

- ORDEV is a Cairo-based agency which, under the Ministry of Local Government, is mandated to assist in the development of rural Egyptian villages. It does this primarily through the funding of village unit project initiatives in three areas: a) economic (income-generating projects; b) social projects, and c) physical infrastructure and housing projects. These funds are issued as grants to the village units with no recovery mechanism. Any monetary returns generated by the economic projects are to be put into the SDA of the village unit. Social and physical projects are not expected to result in any monetary returns. ORDEV's second main activity is in the area of training. It provides training programs for all of the major participants in rural village development, e.g., Head Executive Officers (HEO's), Executive Committee members, Popular Council members and the Village Development Department Representatives (VDR's) at the governorate and markaz levels.

- ORDEV accomplishes the above activities with a staff of 225 persons based in Cairo and with the assistance of the VDR's in the field. The ORDEV staff in Cairo is divided into three major departments as follows (see Organizational Chart, Appendix VI-1):

Department	Functions
Planning	Project Planning & Evaluation
Research & Finance	Research, Data Management, Finance/Administration
International Agreements	Foreign Cooperation & Training

- LDF is a semi-autonomous agency set up under ORDEV to administer the Local Development Fund and provide loans to rural village units for income-producing projects (referred to as "economic projects" in ORDEV terminology). The fund has been capitalized by a grant from USAID. It is govered by a Board of Directors which is composed of representatives of governorates, district (markaz), and village governments as well as a representative from the Ministry of Finance. It is chaired by the Chairman of ORDEV who is a Deputy Minister for Local Government. The general function of the Board is to establish and periodically review the general policies governing the operations of the LDF, including lending policy and operation and financial procedures.

The Loan Committee is composed of three General Directors of ORDEV appointed by the Board. The LDF Office Manager serves as its chairman. The Committee approves or rejects loan applications based on the project appraisal of each application. It also periodically evaluates LDF-funded projects and prepares quarterly financial reports based on these evaluations.

The LDF agency is headed by an Office Manager who supervises a staff of 25 permanent, full-time employees and is assisted by Egyptian and American consultants. The permanent staff falls within the following categories: Project Review and Analysis; Follow-up; Training; Statistics and Computer; Finance and Administration; Secretarial, and Library. (see LDF Organization Chart, Appendix VI-2). Other than the internal administrative sections, the main functions of the staff are to review project loan applications for the Loan Committee, to follow up loan administration and monitor LDF-funded projects, and to provide training to the various parties involved in the LDF loan process.

- The Village Development Representatives (VDR's) are employees of the governorates and are assigned to both the governorate and markaz levels. The number of VDR's varies according to the size of each governorate and markaz, but the average number was found to be approximately 20-30 at the governorate level and approximately 4-7 at the markaz level. They are commonly referred to as "ORDEV representatives" although they have no direct line authority relationship to ORDEV. However, the work they do is similar to ORDEV's and, in many cases, their work products are funded by ORDEV grants or LDF loans. Their main functions are to assist the village units in the development of economic, social and physical projects and to provide training and technical assistance to the village units. Funding for their efforts is provided by the governorate or by ORDEV or LDF. Because of their proximity to the village units, they frequently assist the HEO's and Popular Council members in preparing feasibility studies for various projects. They also are charged with monitoring projects within their jurisdiction. Their backgrounds are usually in rural development and agriculture. Specialists in different types of rural activities are usually found at the governorate level. They report to the head of the village development department at their level of government. However, all of them are ultimately responsible to the Secretary-General of the governorate. Many of these VDR's have been trained by ORDEV.

4. Budget/Project Planning Process for ORDEV Activities

- The Budget/Project Planning Process for ORDEV activities follows a typical hierarchial pattern. The process starts at the lowest level and moves up the ladder to the highest point. Then the decision is promulgated and moves back down the ladder to the lowest level. This type of system allows for the maximum amount of modification, both upwards and downwards. The process if described below:

REQUEST		ALLOCATION
	Ministry of Planning/Finance	
↗		↘
ORDEV		ORDEV
↗		↘
Governorate		Governorate
↗		↘
Markaz		Markaz
↗		↘
Village		Village

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*As described during interviews with H.E. Mohamed Ahmed Labib, Chairman of ORDEV, and Mr. Ahmed El Diffrawy.

The steps in the process are as follows:

- The Village Unit agrees on the projects it wants to request funding for, prepares feasibility studies for the projects, and submits these to the Markaz.

- The Markaz reviews the funding request and modifies it, if it deems necessary, and submits it to the Governorate.

- The Governorate review the funding request and modifies it, if it deems necessary, and submits it to ORDEV.

- ORDEV reviews the funding request and the feasibility studies and decides if the projects should be financed. Funding is dependent upon the availability of ORDEV funds for that activity and upon an equitable distribution of funds to the various governorates. ORDEV transmits its request to the Ministry of Planning.

- The Ministry of Planning reviews ORDEV's request, and modifies it if it deems necessary, and submits it to the Ministry of Finance.

- The Ministry of Finance allocates funds for ORDEV projects and notifies ORDEV.

- ORDEV prepares the allocation with its request and modifies its portfolio of approved projects, if necessary. ORDEV transmits the list of approved projects and amounts allocated for each project to the Governorate.

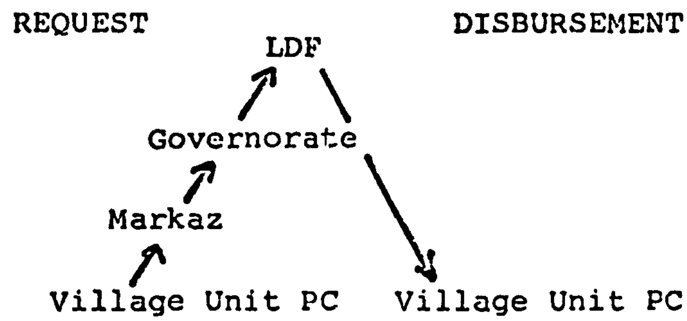
- The Governorate notifies the Markaz of the projects approved by ORDEV and the amounts allocated for each project.

- The Markaz notifies the Village Unit of the projects approved by ORDEV and the amounts allocated for each project.

- The Village Unit receives a grant from ORDEV via the Governorate and Markaz for the projects which were approved.

5. <u>LDF Loan Application, Approval and Disbursement Process*</u>

The LDF loan application, approval and disbursement process is much more simplified than the above ORDEV grant process. The key difference, however, is that the Village Unit is the key political entity, beside the LDF, in the process. The Governorate and Markaz act only in a coordinating capacity and do not exercise any control over the amounts disbursed for approved projects. This process is described below:



- The steps in the process are as follows:

  - The HEO and Popular Council agree on a project;

  - The Village Unit Popular Council approves the project and prepares a feasibility analysis for the project, usually with the assistance of a VDR. A loan application is filled out and submitted to the Markaz VDR.

  - The Markaz Popular Council evaluates the project in terms of its overall planning and coordinating function within the Markaz. If the Markaz finds the project is consistent with its overall plan, it gives its approval to the project and informs the Governorate Popular Council.

  - The Governorate Popular Council evaluates the project in terms of its overall planning and coordinating function within the Governorate. If the Governorate finds the project is consistent with its overall plan, it gives its approval

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*As described in the LDF Operations Manual and from discussions with Magd Abdel Gawad, USAID/Cairo.

to the project and informs the Village Unit Popular Council. The Governorate VDR transmits the application to LDF in Cairo.

- LDF staff review the loan application. If it is found unacceptable, more information is requested from the Village Unit. When the application is found acceptable, it is forwarded to the Loan Committee.

- The Loan Committee reviews the application and approves or rejects or modifies the loan amount. The Village Unit is notified of the Committee's decision. If the loan is approved, the Village Popular Council signs a loan agreement and the loan amount is disbursed in one lump sum.

6. Impact of the DDI Project upon ORDEV

- The most important impact upon ORDEV policy and operations is a result of utilizing loans rather than grants to fund economic (income-generating) projects. This has brought about a fundamental change in the way ORDEV views the developmental process in the villages. H.E. Mohamed Ahmed Labib, Chairman of ORDEV, stated that he considers DDI to be the most important project of all USAID activities in Egypt because it is employing a new concept in government development efforts, i.e., that certain types of projects should pay for themselves. He said that government employees and villagers are now developing the capacity to operate economic projects on a commercial basis, rather than as in the past, when money was received from the central government and there was no real concern as to whether any of the money was returned for reuse by the government.

- It appeared to be a common opinion amongst persons associated with the project that the Village Units took their financial responsibilities more seriously with economic projects that were funded by LDF loans. The former Undersecretary of State and General Director of ORDEV Mr. Ahmed El Diffrawy, said that he argued against using loans rather than grants when DDI was first being implemented, but he now believes that the LDF-funded projects are the most successful of the village unit projects.

- Clearly, the excellent payback rate on the LDF loans shows that the village units are, at a minimum, making enough returns to cover their loan costs. Whether the projects are making sufficient returns to be economically viable over the long run is subject to question, however.

- Of the three types of projects for village development funded by ORDEV (economic, social and physical), both Chairman Labib and LDF Office Manager Mr. Ahmed Riad El Ghoneimy stated that ORDEV plans to reduce its annual budget allocation from the central government for economic projects and will fund most of these projects, particularly in the Nile Valley governorates, with loans from the LDF rather than grants from ORDEV.

- Another impact upon ORDEV operations is the use of LDF loans to experiment with various new types popular participation (private sector involvement) in projects and with new technology. In this respect, the availability of more funds for economic projects has helped to broaden ORDEV's activities and provide opportunities for greater experimentation than in the past.

- One project that exemplifies the use of new technology is the Seila gravel quarry project in Fayoum Governorate. Prior to the receipt of an LDF loan for LE 210,000, this desert quarry was being mined using a manual labor process which produced approximately 20 tons/day. No other quarry existed in Fayoum so building contractors had to send trucks to Giza or Beni Suef to obtain these materials. Now the quarry is a totally mechanized operation with a production of 150 tons/day. Eighty per cent of the production is sold in Fayoum and 20 per cent in Beni Suef. The manager of the project stated that they expect the operation to gross LE 120,000 this year. This project has received the largest LDF loan to date. It is very doubtful that ORDEV would have provided a grant of this magnitude to finance this project, since it would have represented about 10-20 smaller traditional village projects. A caveat should be mentioned here, that loans of this size could quickly deplete the LDF if they become typical. The LDF should exercise caution in these types of projects.

- The village of Soal in Giza Governorate exemplifies an experiment in popular participation in an egg layer project. This village unit applied for an LDF loan of LE 30,000 in December 1980 to fund an egg layer project using new technology, i.e., batteries. Their first project was so successful that they applied for a second loan of LE 40,000 in February 1982 to increase their production. After this, many of the villagers expressed an interest in starting private egg layer projects of their own in their homes. This led to another LDF loan in June 1982 for LE 45,000 to fund this popular participation project. The success of this new project led to yet another loan of LE 78,000 in June 1983 for another popular participation project for poultry raising. As of today, the village unit produces about 5700 eggs/day on its two projects and approximately 50 villagers produce an additional 8500 eggs/day in the popular participation project. The eggs produced by the village unit are sold mainly to government-sponsored consumer cooperatives at lower-than-market prices and the privately-produced eggs are sold at market prices on the private (open) market.

- A third village, Itmidah in Dakahliya Governorate, demonstrates an innovative approach to popular participation. Village leaders told us that in 1981, some of the young people of the village suggested an investment project to the Popular Council to utilize some of the private savings in the community. The Popular Council agreed with the idea and together with the Head Executive Officer investigated various types of investment projects. Because of the large number of private poultry raisers in the area, they decided to build and equip a poultry feed mill. A private company was formed and shares were sold to villagers for LE 5.00 per share with a minimum purchase of 10 chares. One hundred and fifty persons purchased shares in the company. The village unit purchased 10 per cent of the shares and the shareholders elected the HEO as Chairman of the Board of Directors. A decision was taken to give the Popular Council 7 per cent of the total profits of the feed mill to use for social projects.

  The building to house the mill and grain was constructed and some mixing and grinding equipment was purchased. Then the village unit decided to apply for a loan from LDF to purchase more equipment to increase production. They received a loan of LE 56,000 in July 1982 and purchased the additional equipment.

The first audit of the company was performed in December 1982 and the company declared a net profit of LE 135,000 for the first 20 months. The village unit put the money that they received from dividends on their shares in the SDA. The Popular Council used the LE 9000 that they received from the profits towards the funding of four social projects: a kindergarten, a fire department building, a sewerage project and a secondary school for commercial studies.

The company currently is operating two other projects as well: 3 microbuses which run between the village and Mansura, and a semi-automatic bakery that produces bread for the village. They have purchased land in Ismailia (where land is considerably cheaper than in Dakahliya) and have applied for another LDF loan to finance an egg layer project on that site.

7. Impact upon the Villages

Political and Institutional

LDF loans do appear to be providing impetus to decentralization of authority from the governorates to the villages in two respects:

- LDF loans are available only to village units. Consequently, the village units are able to exercise much greater influence than the markaz or the governorate over the loan process and the selection of projects to be funded by the loans.

  LDF loans tend to be larger than ORDEV grants (average now about LE 15-20,000 and LE 8-10,000, respectively). This allows some projects to reach sufficient size to have an economic impact upon the markaz or governorate. As a result, the governorates and markaz's are taking a greater interest in these loans than they had in ORDEV grants and are beginning to view the loans as a substantial resource for the development of their overall economies.

On the other hand, the greater interest being shown by the governorates and markaz's in these loans can create pressures to put undue influence on the village units with regard to selection and and administration of projects. This appeared to be the case in two villages visited by the team, one in Qena and one in Beni Suef. When this happens, the village unit may agree to a "suggestion" from a governorate or markaz representative in order to receive some other political benefit as a *quid pro quo*. However, in these cases the projects are frequently unsuccessful since the villagers might not have been particularly interested in the type of project selected and thus put less effort into the project.

A second impact of the LDF loans upon the village units involves the relationship between the HEO's and the Popular Council. From interviews with persons who had experienced the tensions between these two parties after the first decentralization law was passed in 1975, it is apparent that the two were trying to establish their parameters of political authority vis-a-vis the other. The HEO has traditionally been the preeminent authority in the villages. This is due to a number of factors, not least of which were educational status and access to political authorities at higher levels of government. However, it appears that the jostling for position has resulted in certain areas of authority being carved out for each party. In essence, the Popular Council is now looked upon as the legislative authority and the HEO as the executive branch of the village unit. This impacts upon the LDF loan process in that the two must work together if the loan-funded project is to be successful. It appears that the LDF program has helped to create a positive working relationship between the two parties in that the Popular Council must approve the project and the HEO must be interested in operating the project.

A third area in which it was hoped that the DDI would provide assistance in the decentralization effort was that of developing greater managerial and decision-making capacity within the village units. It was believed that the experience of selecting a project through a feasibility analysis and making day-to-day decisions about the operation of a project would assist in achieving this goal. This was basically the same goal of the ORDEV grants, i.e., education of village managers through implementation of projects.

One element was different with the LDF program, however, and that was the fact that a loan was being made rather than a grant. Clearly, the HEO's and project managers who already possessed a good deal of managerial talent and entrepreneurial spirit were able to take good advantage of the LDF loans to enhance their previous efforts and achieve greater results.

An interesting and significant development has occurred in the LDF-funded projects as opposed to the ORDEV and governorate grant-funded projects, however. The team found that the village units were treating the returns from the LDF-funded projects in a different manner. These returns are, in general, being either plowed back into the projects to increase productivity, or being kept in the Special Discretionary Account as a hedge against project problems in order to insure that the loan payments will be made. In some cases where the loans have been paid off or the returns were substantial, money has been used for social service projects. The usable money is being used in a few cases, such as Itmidah and Demou (Fayoum, project), to support "spin-off" income-producing projects by the village unit themselves.

This evolution of a more prudent attitude regarding the returns from these projects is a positive result of the LDF loan-funded projects and is an indicator of increased financial management capability within the village units.

Economical

As this report has stated before, it appears to many of the parties involved in the project that the village units are more concerned with the success of the LDF-funded projects than the ORDEV grant-funded projects. The HEO's and the Popular Councils realize that the money received for project implementation must be paid back to the government and they tend to take a careful approach to the projects. This is a significant change in attitude and it should not be underestimated.

Whether or not the LDF-financed projects will prove to be more economically viable and sustainable than ORDEV grant-funded projects is still open to question, however. This question should be raised and investigated at an end-of-project evaluation.

Another economic impact of the project relates to the greater average size and availability of LDF loans. These factors have permitted village units to reach a more economical scale of operations in a shorter period of time than has been the case with previous ORDEV grants (although improvement is needed in processing loan applications in a more timely manner).

A third and significant effect of the LDF program is the "spin-off" projects resulting from LDF-funded village unit projects. These spin-off projects have been both private and public. The LDF-funded village unit projects are often what might be called "risk venture" or demonstration projects. The product being produced by the project is typically something that no one else in the village is producing. The village unit takes the risk and, if the project is successful, other village units and private individuals copy their efforts. In one village visited, Demou in Fayoum, we were told by the HEO that nine private broiler projects were started in the village after the village unit received their LDF loan to expand their broiler project.

- In addition, the Demou village unit used some of the returns from their broiler project to start an experimental rabbit project.

- If the rabbit project goes well, they plan to apply for another loan to expand that project.

The Soal egg alyer project is another good example of a project where individuals became interested in producing something after observing the village unit's project.

This type of multiplier effect was fairly typical of most of the village units visited by the team.

In addition, in some cases, private projects were begun even after the village unit project had failed, because the private entrepreneur learned what went wrong in the village unit project and corrected it in their project, or they were not subject to the same market constraints on the village unit.

- For example, in Fanara village in Ismailia governorate, the village unit started a queen bee rearing project in February 1981 after receiving an LDF loan for LE 6000. The village unit project had trouble isolating the queen bees and finally abandoned the project as designed. However, they began selling beehive starter units to private citizens in the area and now many of these private entrepreneurs are producing honey that they sell for profit.

Finally, in many cases the village unit purchases feed and supplies for its projects from private suppliers when government subsidized materials are either not available or the quality is too low. This can serve to enhance the local economy and provide income-generating activities.

Social

The social benefits from the LDF-funded projects to villagers are, with some notable exceptions, mainly a result of direct impacts from the projects themselves. It should be pointed out that these benefits are not necessarily limited to LDF-funded projects--i.e., they are also present in projects funded by ORDEV or governorate grants as well. The benefits are of three types:

- Increased job productivity has been a by-product of the projects in that most of the projects employ government workers who tend to be underemployed and who are paid incentives to increase their productivity. In some cases new jobs have been created within the village and therefore some increase in local employment has resulted.

- Lower consumer prices for products and services are provided by the projects administered by the village units. This is viewed as a major benefit by village leaders and by the villagers themselves. This is impacting upon thousands of villagers throughout Egypt. The cheaper eggs, chickens, and beef are being purchased primarily by the villagers where they are produced, though there is naturally some penetration of nearby markets as well. Likewise, the transportation and agricultural equipment rental projects are benefitting the villagers who live in the village units where the projects are located.

This benefit may be challenged on economic grounds since it can be established that in most cases the lower prices are a direct result of the government-subsidized labor provided to the projects. However, from a social benefit standpoint, the general consensus is that the lower prices are well received by the villagers.

- <u>Increased income generation</u> is a direct result of the popular participation (private sector) projects and, to some extent, an indirect result of "spin-off" projects which can be attributed to the village unit projects. It would be difficult to assess how much of an increase is occurring. However, in those villages with popular participation projects such as Soal and Itmidah, the increased income generated is substantial.

8. Factors Influencing the Overall Viability of LDF-Funded Projects

Five principal factors were found to impact upon the overall viability of the village unit and popular participation projects:

- First, the preexisting presence of good managerial and entrepreneurial talent, particularly on the part of the HEO, as well as technical experience in the operation of a project, was the most salient factor. This factor was present in all of the projects which demonstrated successful operations.

- Second, local market demand for the products or services provided by the projects was an important factor. In those villages where the project feasibility study did not adequately analyze the local market demand, the projects tended to have problems.

- Consequently (third), those projects which received quality assistance from the markaz or governorate VDR's in preparing the feasibility study or in the implementation of the project, showed marked improvement over those which did not have that assistance. This factor has important consequences for the current decentralization of the LDF.

- Fourth, those projects which had genuine local monetary investment tended to be more successful than those without. The team found that in many cases the local participation in the project consisted of pre-existing land and buildings. In other cases, the local participation was an outright grant of money from the governorate.

  (In fact, the team was told in Qena that some of the transportation projects we wanted to visit were not yet in operation because the governorate had not yet contributed the local participation share.

  LDF may find it useful to reevaluate its criteria for local participation.

- Finally, those village units which had the maximum political flexibility in pursuing their own economic inititatives and in controlling the SDA seemed to have better success with their projects. This factor seemed to be a variable controlled by the governorates and is, ot a large extent, the stuff of what the DDI project is all about.

  - The team was told by a village unit in Qena that they had to receive approval from the governorate in order to spend any money from the SDA. Similarly, in Ismailia, the team was told that the control over the SDA was exercised by a board of diretors composed of three village unit representatives and two markaz representatives. These two governorates had the least viable projects of the seven governorates visited by the team.

  - In contrast, the most viable projects visited by the team were in Giza, Dakahliya and Fayoum governorates, where the village units appeared to have a great degree of latitude in making decisions about village projects.

Recommendations

1. The LDF needs to provide more on-going monitoring and evaluation of the loan projects.

   Staff in the LDF office were unaware of many of the operational problems of various village unit projects visited by the team. We were informed that LDF had four staff persons assigned to evaluation and follow-up in the past, but that no one is doing this work now.

   With the greater number of loans being administered by LDF now, staffing of this activity is more important than ever. If the LDF is nto providing sufficient technical assistance to the village units, this would reduce its effectiveness as a development vehicle.

   The LDF cannot provide proper technical assistance if it is not aware of problems with the loan projects.

   The decentralization of the LDF should help to resolve some of the logistical support problems associated with this activity, but staff are needed in this function now, while the decentralization is proceeding.

   We were told that ORDEV recognizes this problem and is taking steps to resolve it.

2. The LDF needs to reanalyze the roles and responsibilities of the LDF representatives vis-a-vis the Village Development Representatives in the decentralization of LDF operations. We understand that the VDR's are expected to look after LDF's day-to-day interests in the governorates when decentralization of LDF occurs.

   The fact that the VDR's are paid by the governorate and are not under any line authority relationship with either LDF or ORDEV could cause problems in assuring that the LDF work gets done in the field.

   Serious thought should be given to developing the means to establish a line authority relationsip in the governorates. This could take the form of having one representative of LDF in the governorate who is paid by LDF or ORDEV, or the form of incentive payments to VDR's for LDF work.

In any event, LDF should be attentive to any problems which might show up in this area during the first months of the trial demonstration period in Minia Governorate.

3. The LDF should be encouraged to do more experimentation with private sector involvement in village projects. The Soal and Itmidah projects have demonstrated that innovative approaches can be taken and can be successful.

   However, before proceeding is this direction, several critical questions need to be addressed by LDF and USAID in order to clarify exactly what types of private sector involvement are appropriate for LDF loan activities and what potential problems may arise using this approach.

Issues for Further Study

1. To develop and collect the baseline data needed now to do an in-depth evaluation at the end of the DDI project (phase I) on
   - the success of the project in increasing the managerial and financial capability of the village units to plan and implement village development activities, and
   - the social impacts of the project;
2. To analyze LDF loan activities in order to assess what level of capitalization of the LDF is necessary to carry out a desired level of loan activity and to cover operational expenses.

VII TECHNICAL ASSISTANCE IMPACT

The Technical Assistance Contractor's team has had and continues to have a high degree of effectiveness on the development of LDF as a viable institution that is successfully launching the program towards goal and purpose attainment.

Achievements have in many instances exceed projected indicators of mesuring outputs towards project goal and purpose.

The main tasks of the technical assistance team have been:

- Developing LDF into a viable institution. In this area of effort the team was highly successful in institutional development and creating a viable lending institution, effectively extending credit for income-producing projects in rural Egypt. Although the institution is a Government agency, it gives an image of a commercial business enterprise. It thus sets the climate of a business atmosphere in the implementation of projects at the village level, rather than of a government, community-spending program of allocated funds.

- In training local participants from ORDEV, LDF and the governorates, though the team's effort exceeded output indicators with respect to numbers trained, the training effort requires additional inputs to improve the quality, selectivity and management of training activities.

- Forward planning and strategy have received major efofrts, but additional effort is required in developing a statistical research unit capable of producing forecasts, projected credit supply/demand, short and long range planning in volume and magnitude of loans, and in identified areas of activity development.

The Checchi technical assistance team has assisted ORDEV in developing a number of systems, manuals, and guidelines for accounting, feasibility studies, project external evaluation, management, and training. Following are examples of this activity:

LDF Operations Manual: including operational strategies; lending policy guidelines and procedures; operations and financial guidelines; processing loan applications; loan approval; disbursement; monitoring; repayment; criteria for evaluating small enterprise LDF loan applications.

Management Information System: periodic quarterly reports include revenues, expenses, inventories, progress to date, problems, product markets, etc.

LDF Small Scale Enterprise Manual: guide to good development ideas, deciding on what is feasible, application process, project start-up, evaluation of progress, etc. (written for local level officials);

LDF Finance Manual: small scale enterprise organization, financial planning, types and sources of capital, use of cash flow and conservation of capital, LDF financial follow up

Fishfarming Manual (an example of technical manuals prepared): description of a fish farm, planning of site, various types of farms, selection of fish, pond construction, management, harvesting, record keeping, testing, etc.

The technical assistance team is in the process of assisting ORDEV in improvement of its computer data retrieval and analysis capacity.

Case studies have been developed to be used as "story tellers" in stimulating loan activities.

Work in Progress

To promote a wider range of communication between governorates in respect to the DDI project, DDI is developing a quarterly newsletter for wide distribution. It will contain highlights of successful projects, new areas of development and experimental technology, changes in loan procedures, etc.

The DDI Training Manual includes guidelines for planning, monitoring and evaluation of training activities. The main topics are: training needs identification based on stages of project maturity;

curricula requirements and training plan; implementation of training; monitoring and follow-up; evaluation.

Training methodology and transfer of technology have been tested over the past two years, then refined and developed into the Training Manual with the exception of the evaluation phase, which is still undergoing testing.

Most of the manuals are translated into Arabic, or originated in Arabic and are ready for wide distribution to govenorate, markaz and village local government units.

APP. A SUMMARY OF INFORMATION ON SITE VISITS

Governorate	Markaz	Village	Type of Project	LDF Check Amount	LDF Check Date	Financial Review	Social/ Economic Review	Training/ Social Review	Comments
Giza	Saff	Soal	Egg production	30,000	12/80	X	X	X	Village project
"	"	"	Egg production	40,000	2/82		X	X	Loans to 52 private egg producers, popular participation project
"	"	"	Egg production	45,000	6/82		X	X	Village projects
"	"	"	Chicken rearing	78,000	6/83				Not yet operating
Qena	Kous	Khozam	Bricks produc.	30,000	7/80	X			To introduce new technology; financial records in poor condition
"	"	Hegaza Kibli	Cement tiles production	15,000	2/80	X			To begin new activity; financial records in fair condition
"	Armant	Daba'ia	Sheep rearing	11,000	7/81		X	X	New activity; seems to lack good management
"	Kift	Shiekha	Broilers	15,000	11/81		X	X	Management weak; governorate controls Special Account
"	Qena	Abnoud	Broilers	17,000	8/81	X			To begin new project; financial records in poor condition
"	Kous	Harageya	Broilers	12,000	11/81	X			" "
Dakhalia	Mit Ghamr	Itmidah	Poultry feed mill	56,000	7/82		X		Impressive popular participation project
"	"	Kom El Nour	Microbus	6,000	6/80		X		Sold bus to buy larger bus; applying for another LDF loan
Beni Suef	Beni Suef	Ibshana	Cattle fattening	15,000	7/80	X			Expansion of ongoing village project
"	"	"	Calf rearing	90,000	2/83				Not yet operating
"	"	"	Cattle fattening	60,000	11/83				Expansion of existing project
"	Ehnasia	Kaie	Hatchery	40,000	7/80			X	
"	Samasta	Bedehla	Garlic produc.	23,642	2/83		X		Project failed
"	Beba	Kombesh	Cattle fattening	15,000	7/80		X		Expansion of existing project

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Governorate	Markaz	Village	Type of Project	LDF Check Amount	LDF Check Date	Financial Review	Social/ Economic Review	Training/ Social Review	Comments
Fayoum	Fayoum	Demou	Broilers	15,000	2/80		X	X	Expansion of existing project
"	"	Seila	Gravel quarry	210,000	6/83		X	X	New, large project
"	Senuris	Fidimin	Olive pickling	30,000	2/80	X			LDF provided working capital to ongoing project
"	Fayoum	Zawyet Keradsa	Egg production	40,000	2/80	X			Expansion of ongoing project
Ismailia	Tel El Kebir	Kassasin el Kadima	Cattle fattening	24,000	12/80	X*	X	X	Establishment of new project; no financial statements available
"	Fayed	Fanara	Honey production	6,000	2/81	X*	X	X	Queen bee project replaced by honey project; no financial statements available
Kalyubeya	Toukh	Ekyad Degwei	Calf rearing	30,000	6/82	X			LDF loan used to begin very successful project
"	"	"	Cattle fattening	15,000	5/83	X			Not yet operating
"	"	Mit Kenana	Microbus	6,000	11/81	X			Unprofitable project due to accidents; delinquent loan repayments; fragmentary financial statements

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LOCAL DEVELOPMENT FUND

(LDF)

ORGANIZATIONAL CHART

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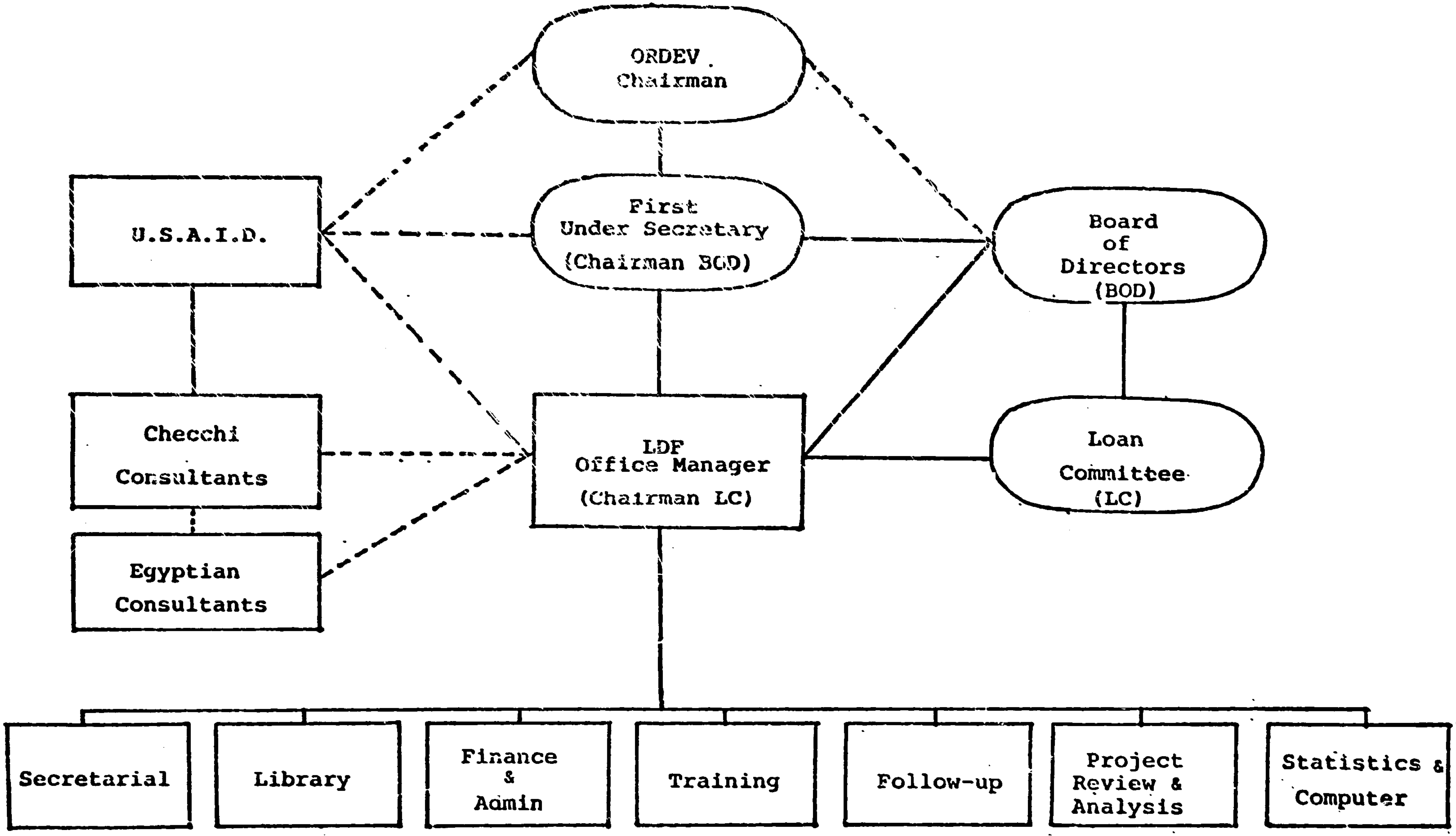
APPENDIX I-1



Key: ———— Line Relationship

- - - - - - Staff Relationship

Development Decentralization I

Monthly Statement of Project Finances Appendix I-2

Summary as of October 30, 1983
(US $000s)

CATEGORY	1 Budget (Amended)	2 Obligated	3 Unobligated (1-2)	4 Disbursed	5 Unliquidated Obligations (2-4)	6 Accrued	7 Total Expend. (4+6)	8 Unexpended Obligations (2-7)
1. Local Development Fund	18,600	14,016	4,584	14,016	0	0	14,016	0
2. Technical Assistance	3,300	3,272	28	2,479	793	100	2,579	693
3. Training	3,000	2,051	949	1,652	399	103	1,755	296
4. Commodities	800	762	38	356	406	126	482	280
5. Evaluation/Research	350	111	239	13	98	14	27	85
6. Contingency/Inflation/Misc.	150	21	129	17	4	0	17	4
TOTAL OBLIGATIONS	26,200	20,233		18,533	1,700	343	18,876	1,357
7. Unobligated			5,967					5,967
GRAND TOTAL	26,200	20,233	5,967	18,533	1,700	343	18,876	7,324

Source: Monthly statements from USAID Controller's Office

III THE OUT PUTS

Output Details	Output Indicators
1. Spreading awareness of the usefulness of profit-making projects-among members of village councils.	1. Loan applications from a minimum of 110 village councils per year by fourth year of project.
2. Village councils seeking financial autonomy through planning of profit-making projects.	2. Disbursements on a minimum of 200 loans by the third year of the project.
3. Profit-making projects actually designed, appraised and implemented by village councils and village executive committees.	3. Project loans returning at least 15% on investments and the returns are entering "special accounts" or being reinvested.
4. Village councils understand the relationship between project purposes, efficient use of resources, good management, and repaying loans at a reasonable interest rate- on time.	4. Loan payment delinquencies holding to only 3% of LDF outstanding disbursed balances, each quarter.
5. Expanding flow of adequately designed project loan requests to LDF.	5. Village councils trained in how to design and submit loan requests, and submitting increased numbers on own initiative without substantial technical assistance from LDF.

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6. Qualified ORDEV staff, village council, and executive committee members trained in project identification, preparation, appraisal, and implementation techniques.
7. Development of in-country training capability.
8. Evaluation and monitoring system designed and used for immediate on-line changes in LDF operations and/or in measuring LDF impact.
9. Department of Economic projects, and valuation and follow-up at ORDEV, together with a special LDF unit, trained to provide technical assistance to village councils on appraisals of alternative project possibilities and in preparing loan requests

6. Attainment of $250,000 quarterly loan targets by end of second year of project with Loan Committee review of project loan requests not exceeding 30 days, and loan disbursements occuring within 90 days of signing of loan agreement with village council.
7 Creation and operation of special LDF training system within ORDEV Academy, including field training, and case study instruction.
8. Evaluation and Monitoring systems developed and in use within ORDEV, during the 3 years of the project.
9. Fifty-five relevant departmental and special staff trained abroad in participant training concerning principles of project

...taining optimum (maximum) data.

10. Executive Director of LDF Loan Committee, etc.with capacity to establish/modify policy and manage the loan portfolio.

identification, preparation appraisal, implementation and reporting. USAID-provided technical assistance team training staff in country.

10. LDF Director and members of Loan Committee trained by USAID-provided technical assistance advisory team.

REPAYMENT STATUS OF LDF PROJECTS (as of Oct. 31, 1983) APPENDIX III-2

Governorate	LDF Loans (No.)	LDF Loans (LE)	Projects Up to date on payments	Projects with Delayed Repayments: 1 Quarter LE	2 Quarters LE	3 Quarters LE	4 Quarters LE	5 Quarters LE	Total loans in arrears LE
Ismailia	8	178,00	5	2 (2835)	1 (6656)	-	-	-	3 (9491)
Kalyoubeya	10	181,750	7	3 (2763)		-	-	-	3 (2763)
Sharkeya	37	843,150	33	2 (1228)	2 (5093)	-	-	-	4 (6321)
Damietta	8	164,375	6	2 (3172)	-	-	-	-	2 (3172)
Dakahlia	46	778,875	43	2 (530)	- (6945)	1	-	-	3 (7475)
Gharbia	33	708,125	31	2 (3992)	-	-	-	-	1 (3991)
Kafr El Sheikh	54	1,073,125	43	7 (2442)	4 (9490)	-	-	-	11 (11932)
Menufia	24	570,000	18	4 (5556)	1 (2663)	-	1 (5093)	-	6 (13312)
Beheira	35	720,375	30	3 (4340)	1 (9296)	-	-	1 (8681)	5 (22281)
Giza	51	1,133,000	40	9 (17693)	1 (660)	-	-	-	11 (18353)

Fayoum	15	516,500	14	-	1 (4372)	-	-	-	1 (4372)
Beni Sweif	22	448,676	18	4 (74046)	-	-	-	-	4 (74046)
Minia	21	426,000	21	-	-	-	-	-	-
Assiut	50	634,350	40	6 (3334)	3 (5287)	-	1 (3472)	-	10 (12093)
Sohag	10	150,750	8	2 (1397)	-	-	-	-	2 (1397)
Kena	34	474,375	30	-	2 (1436)	-	2 (4309)	-	4 (5745
Aswan	2	135,500	-	-	-	-	2 (8415)	-	2 (8415)
New Valley	6	115,000	5	-	-	-	-	1 (5787)	1 (5787)
Matruh	6	130,000	3	1 (250)	2 (4272)	-	-	-	3 (4522)
North Sinai	2	38,500 (28,000; 2 projects being liquidated	-	1 (983)	1 (1244)	-	-	-	2 (2227)
Total	476	8,428,426	395	50 (124,461)	20 (50,433)	1 (6,945)	6 (21,289)	2 (14,468)	79 (217,696)

Source: ORDEV/LDF records

LDF TRAINING PLAN FOR 1983-84

	No. of Sessions Planned	Expected No. of Trainees	Estimated Budget in LE.
A. Introductory Programs for Planning, Management and Evaluation			
1. Feasibility studies & project preparation	10	350	35,000
2. Bookkeeping and financial accounting	10	250	10,000
3. Project follow-up and evaluation	10	350	13,500
B. Introductory Programs for Local Government and Development Decentralization			
4. Orientation for local government and development decentralization	44	1760	35,200
5. Exchange of development experience	10	420	25,000
6. Theme symposia for development decentralization	6	420	15,000
C. Technical Training			
7. Poultry production	6	162	15,000
8. Animal production	2	54	5,000
9. Beekeeping and/or fish production	2	54	5,000
10. Agricultural mechanization	2	54	5,000
11. Training administration	5	160	9,250
12. English language	6	150	9,000

- <u>Exchange of Development Experiences</u>

Scope: To provide visits to LDF and other related development projects in various governorates. This visiting program should be aimed at exchanging development experiences among governorate officials, village heads and members and LDF/ORDEV officials. Discussions will include the relevance and potential applicability of various development approaches and efforts in various governorates.

Sessions: 8 sessions, each for 4 days; priority will be given to governorates where this program has not yet been conducted. Efforts will be made to prepare in advance background information and materials on the projects and governorates to be visited.

Trainees: Heads and members of village councils, as well as development officials at the markaz, governorate and LDF/ORDEV levels; about 40 per session, total 320.

Budget: Approx. LE 20,000

- <u>Theme Symposia</u>

Scope: To provide a forum for exchange of views and opinions of local development officials and priority themes related to LDF projects. At least one session will be devoted to a national review of progress and achievements of LDF, and suggestions for future directions. Other sessions will focus on timely issues. The forum should provide an opportunity for leading officials, e.g. the ORDEV Chairman, secretary generals, selected governors, heads of development organizations, and possibly the Minister of Local Government, to address local development officials' concerns related to LDF and development decentralization efforts in general.

Sessions: 4 sessions, each 4 days, offered approximately ea three month. Special attention would be given to the preparation and dissemination of information, especially for the "annual symposium". Also, attention would be given to encouraging returned trainees of DDI foreign training to participate in the sessions.

Trainees: Development officials at the governorate, markaz and village heads and members level, as well as LDF/ORDEV and other officials; about 40 per session. A larger number may be accomodated for the annual session. The total would be 240 or more.

- Project Follow-up and Evaluation

  Scope: To provide guidelines and procedures for the follow-up and evaluation of LDF projects. Various forms and data items used in follow-up will be explained and discussed. An introductory component will be provided for data information flows, management and introduction to computers. Also, guidelines with case studies or examples may be provided for LDF project evaluation.

  Sessions: 8 sessions, to be offered by technical and LDF advisors, each session 6 days.

  Trainees: Development officials at the LDF/ORDEV level, and governorate, markaz and village levels responsible for follow-up and evaluation of LDF projects; about 25 participants per session, total 200.

B. INTRODUCTORY PROGRAMS FOR LOCAL GOVERNMENT AND DEVELOPMENT DECENTRALIZATION

Purpose: To update information on local government laws and responsibilities for development decentralization, as well as to exchange ideas and views on development experiences, leading projects and special development issues of concern to the various governorates.

Three programs will be provided for about 2160 trainees:

- Local Government and Development Decentralization

  Scope: To provide orientation training for executive and popular village councils; update their information on changes in local government laws and LDF loan policies and procedures; to encourage effective interpersonal communication between popular and executive council members, encourage cooperation and coordination between village, markaz and governorate officials, and discuss responsibilities and authority of village councils for promoting local development

  Sessions: 40 sessions in various governorates with special emphasis on village councils without LDF projects, each for 3 days, to be conducted locally at the village level.

  Trainees: Members and heads of popular and executive village councils, and development officials at their markaz and governorate; approx. 40 each session, total 1600.

  Budget: Approx. LE 32,000.

- Beekeeping

Scope: Latest techniques in beekeeping.

Sessions: 2 sessions of 6 days, offered according to requests by governorates.

Trainees: About 25 per session, 50 total; technical specialists responsible for LDF projects.

Budget: Approx. 4,000.

- Agricultural Mechanization

Scope: To provide up-to-date information about possibilities of agricultural mechanization projects related to LDF activities. Emphasis will be given to discussion of benefits of such projects as potential investment opportunities.

Sessions: 2 sessions, 6 days each, offered locally according to requests, and possibly field visits.

Trainees: About 25 per session, 50 total, development officials at the governorate, markaz or village level.

Budget: Approx. LE 4,000.

Training Administration

Scope: To provide technical skills at the governorate level to assist in the administration and mechanics of implementing LDF training programs. Special attention will be given to assisting in administrative processing and documentation of financial expenses to speed the financial and administrative reporting on these programs.

Sessions: 2 sessions to be offered by LDF/ORDEV training officials, each session 6 days, offered regionally.

Trainees: Two appropriate officials from each governorate; about 25 per session, total 50.

Budget: Approx. LE 4,000.

- Other Programs

Scope: Might include training for computer and data management, or special requests from governorates (e.g., rabbit production, olive pickling, etc.). 96

Budget: Approx. LE 20,000, including special expenses of about LE 10,000 for the annual session.

C. TECHNICAL TRAINING

Purpose: To update and strengthen the knowledge of development officials and particularly technical specialists at the governorate, markaz, village and LDF/ORDEV levels about latest technical and managerial techniques in special fields (poultry, animal production, fish farming, etc.)

Seven programs will be offered for about 600 trainees.

- Poultry Production

  Scope: Latest techniques and concerns in poultry production, feeding, diseases, etc.

  Sessions: 8 sessions offered locally or regionally by technical and LDF advisors assisted by LDF specialists, each 6 days.

  Trainees: About 25 per session, technical specialists responsible for operation of LDF proje cts, total 200.

  Budget: Approx. LE 16,000

- Animal Production

  Scope: Latest techniques and issues in animal production, particularly new and innovative ideas.

  Sessions: 4 sessions offered by technical and LDF advisor each session 6 days, conducted locally or regionally depending upon governorate requests.

  Trainees: About 25 per session, total 100; technical specialists responsible for LDF projects.

  Budget: – Approx. LE 8,000.

- Fish Production

  Scope: Follow-up and discussion of LDF projects in the field to upgrade technical performance and operation.

  Sessions: 1 session, 6 days, to be offered at a central location for participants from all governorates

  Trainees: About 25, from various governorates.

  Budget: Approx. LE 2,000.

Sessions: 4 sessions, 6 days each, located according to the subject.

Trainees: About 25 per session, 100 total, for trainee selected according to the type of subject.

Budget: Approx. LE 8,000.

III. INFORMATION DISSEMINATION, REPORTS, DOCUMENTARIES, AND OTHER EDUCATIONAL AND RESEARCH MATERIAL

Purpose:

- To provide general information (newsletters, bulletins about LDF/ORDEV activities and development achievement for the public, concerned agencies and individuals in Egypt and abroad.

- To provide educational material for LDF training programs serving to upgrade the standard and quality of professional knowledge.

- To provide background research material and prepare case studies that will enrich DDI training activities offered in Egypt.

- To provide written and audio-visual documentation of LDF/ORDEV activities and development achievements.

Buget: Approx. LE 50,000.

RETURNS ON SAMPLED LDF PROJECTS' INITIAL INVESTMENT

APPENDIX V-1

Type of Project	Governorate	Village	(a) Net Profits[1]	(b) LDF Loan	(c) Village Contrib.	(d) Total Invest.	Net Profits / LDF Loan (a/b)	Net Profits / Vill. Contr. (a/c)	Net Profits / Total Invest. (a/d)
Egg Production	Giza	Saal	8,4[illegible][2]	30,000	17,000	47,000	.28	.50	.18
"	Fayoum	Zawyet Keradsa	8,1[illegible]	40,000	10,000	50,003	.21	.84	.17
"	Sharkeya	Kofour[8] Negm	9,965	20,000	6,250	26,250	.50	1.59	.38
									Average: .24 S.D.= .12
Fodder/ Broiler Produc.	Kena	Harageya	2,927	12,000	3,500	15,500	.19	.66	.15
"	Kena	Abnoud	5,682	17,000	3,500	20,500	.33	1.62	.28
"	Gharbia	Abul Ez	450	n/a	n/a	n/a	n/a	n/a	n/a
"	Dakahlia	Balamun	2,677	26,000	8,000	34,000	.10	.33	.08
"	Menya	Tembady	(20)	15,000	5,000	20,000	-.02	-.05	-.01
"	Sharkeya	El Demeen	4,366	22,000	6,500	28,500	.20	.67	.15
"	Menufeya	Tamalai	9,502	15,000	5,000	20,000	.63	1.90	.48
"	Kafr El Sheikh	Menyet Marshod	16,519	20,000	6,000	26,000	.83	2.75	.64
"	Kafr El Sheikh	Kom El Hagar	780	22,000	8,000	30,000	.04	.10	.03
"	Menufeya	Tah Shubra	2,286	22,000	7,500	29,500	.10	.30	.08
									Average: .21 S.D.= .22
Cattle Fattening	Beny Sweif	Ibshana	6,951	15,000	5,000	20,000	.46	1.39	.08
"	Kafr El Sheikh	Mit El Diebah	2,923	18,000	6,000	24,000	.16	.49	.12
"	Kafr El Sheikh	Abou Ghoneimah	10,986	18,000	6,000	24,000	.61	1.83	.46
"	Sharkeya	Sanhout	1,653	18,000	5,010	23,010	.09	.33	.07
"	Menufeya	Arab El Raml	3,424	18,000	5,340	23,340	.19	.64	.15
									Average: S.D.= .
Calf Rearing	Kalyoubeya	Ekyad Degwal	25,039	30,000	10,543	40,543	.83	2.37	Average: .62
Food Processing	Fayoum (Olives)	Fidimeen	3,114	30,000	15,500	45,500	.10	.20	Average: .07
Small Enterprise	Kena (bricks)	Khozam	6,682	30,000	13,500	43,500	.22	.50	.15
	Kena (tiles).	Hegaza Kibli	3,708	15,000	7,000	22,000	.25	.53	.17
"	Menya(tiles)	Abou Gerg	(121)	15,000	3,000	18,000	-.01	-.04	-.01
"	Menya (tiles)	Shalakan	194	15,000	3,000	18,000	.01	.06	.01
									Average: .08 S.D.= .09
Agric. mach. & Transportation	Fayoum	Hawaret Maktaa	276	7,500	2,500	10,000	.03	.11	.03
"	Kalyoubeya	Meet Kenana	(84)	6,000	2,000	8,000	-.01	-.04	-.01
"	Sharkeya	Kafr Ibrash	5,041	15,000	5,000	20,000	.34	1.01	.25
"	Giza	Manial Shieha	3,171	8,250	2,750	11,000	.38	1.15	.29
									Average: .14 S.D.= .15
			Average:	19,250	12,929	25,857	.26	.81	.19
			S.D.:	7,813	8,823	1[illegible],216	.24	.77	.18

[1] 7/1/82-6/30/83 [2] 7/1/81/12/31/82 [3] Site visits [4] Files information [5] Case studies Source: LDF files and field visits.

[6] Project operated Jan.-Sept. 1982, then was suspended [7] Grace period [8] Not including profits; still in grace period

APPENDIX V-2

SOURCES OF INVESTMENT FOR VISITED LDF PROJECTS

Type of Project	Location	Loan	Village Contribution In Cash	Village Contribution In kind	Total Invesment (100%)
Egg production	Soal	30,000	10,000	7,000	47,000
		64%	21%	15%	
Egg production	Zawyet Keradsa	40,000	10,000	-	50,000
		80%	20%		
Brooders	Haragcya	12,000	2,000	1,500	15,500
		77%	13%	10%	
Brooders	Abnoud	17,000	1,000	2,500	20,500
		83%	5%	12%	
Cattle fattening	Ibshana	15,000	5,000	55,000	75,000
		20%	7%	73%	
Cattle fattening	Kassassin	24,000	26,000	-	50,000
		48%	52%		
Calf rearing	Ekyad Degwei	30,000	-	10,543	40,543
		74%		26%	
Olive pickling	Fidimeen	30,000	15,500	-	45,500
		66%	34%		
Honey production	Fanara	6,000	2,250		8,250
		73%	27%		
Brick production	Khozam	30,000	30,000	-	60,000
		50%	50%		
Tiles production	Hegaza Kibli	15,000	-	7,000	22,000
		68%		32%	
Microbus	Mit Kenana	6,000	1,200		7,200
		83%	17%		
Total:		255,000	102,950	83,543	441,493
		(58%)	(23%)	(19%)	

Source: Information gathered during field visits.

APPENDIX V-3

PROFITABILITY OF SAMPLED PROJECTS

Type of Project / Village (Governorate)	Gross Profits / Sales	Net Profits / Sales
Egg Production		
Soal (Giza)	.23	.10
Zawyet El Keradsa (Fayoum)	.35	.18
Kofour Negm (Sharkeya)	.49	.37
Average:	.36	.22
	(S.D.=.13)	(S.D.= .14
Brooder/Broiler Production		
Harageya (Kena)	.49	.30
Abnoud (Kena)	.60	.51
Abul Ez (Gharbia)	.26	.02
Al Balamun (Dakahleya)	.36	.16
Tembady (Menya)	.27	-.01
El Demeen (Sharkeya)	.28	.11
Tamalai (Menufeya)	.42	.27
Menyet Morshed (Kafr Sheikh)	.59	.42
Kom el Hagar (Kafr Sheikh)	.24	.04
Tah Shoubra (Menufeya)	.20	.06
Average:	.35	.19
	(S.D.=.16)	(S.D.=.18)
Livestock Production		
Ibshana (Beny Sweif)	.13	.06
Ekyad Degwei (Kalyoubeya)	.63	.58
Mit El Dicbah (Kafr Sheikh)	.11	.06
Abou Ghoneimah (Kafr Sheikh)	.19	.13
Sanhout (Sharkeya)	.22	.02
Arab El Raml (Menufeya)	.59	.42
Average:	.31	.21
	(S.D.=.23)	(S.D.=.23)
Food Processing		
Fidimeen (Fayoum) (olive pickling)	.20	.10
Brick & Tile Production		
Khozam (Kena)	.74	.11
Hegaza Kibli (Kena)	.57	.17
Abu Gerg (Menya)	.63	-.04
Shalakan (Menya)	.54	.04
Average:	.62	.07
	(S.D.=.09)	(S.D.=.09
Transportation & Ag. Mach.		
Hawaret El Maktaa (Fayoum)	.85	.10
Mit Kenana (Kalyoubeya)	.60	-.01
Manial Sheiha (Giza)	.40	.29
Kafr Ibrash (Sharkeya)	.64	.33
[illegible]	[illegible]	.18

ACTUAL AND PROJECTED FINANCIAL PERFORMANCE OF LDF PROJECTS VISITED

APPENDIX V-4

	Village (Governorate)	Production Period	Gross Profits/Sales Actual	Gross Profits/Sales Projected	Net Income/Sales Actual	Net Income/Sales Projected	Projected Sales / Actual Sales	Projected Net Income / Actual Net Income	Reasons for discrepancies in actual & projected performance
Egg production	Soal (Giza)	First 18 months	.23	.15	.10	.07	1.13	0.83	Actual sales higher, and costs lower, than expected
Egg production	Zawyet Ker-adsa(Fayoum)	Second year	.35	.22	.18	.17	1.85	5.61	Actual depreciation charges higher, labor costs higher and sales volume lower than planned
Brooder production	Abnoud (Qena)	Second year	.60	.54	.51	.35	1.38	0.96	Actual sales higher than projected while costs lower, as GOE covers all labor costs
Brooder production	Haragyea (Qena)	Second year	.49	.47	.30	.28	1.43	1.31	Sales lower than projected due to high mortality rate
Cattle fattening	Ibshana (Beni Suef)	Third year	.13	.20	.06	.12	0.29	0.63	Sales much higher than projected Village purchased more calves than anticipated, perhaps with second LDF loan
Calf rearing	Ekyad Degwei (Kalyubiya)	First year	.63	.34	.58	.24	1.09	0.45	Expenses much lower than anticipated due to introduction of cheaper milk formula and reduction of milk feeding period from 45 to 15 days
Olive pickling	Fidimeen (Fayoum)	Third year	.20	.31	.10	.20	1.34	2.60	Actual sales lower than projected, costs as projected
Brick production	Khozam (Qena)	Third year	.74	.38	.11	.34	2.04	6.96	Actual sales lower and costs much higher than projected
Cement and ceramic tile production	Hegaza Kibli (Qena)	Third year	.57	.50	.17	.32	2.39	2.58	Actual sales lower and expenses much higher than projected
Microbus (11 seats)	Mit Kenana (Kalyubiya)	First year	.60	.74	-.01	.33	1.22	-30.38 (2552) / (-84)	Actual revenues lower and expenses much higher than projected due to 2 accidents; loan repayments in arrears
Average:			.45 (S.D. =.21)	.39 (S.D. =.13)	.21 (S.D. =.20	.24 (S.D. =.10)	1.42 (S.D. =.58)	2.44* (S.D. =2.34)	

*Not including microbus example.

Source: LDF files and field visits

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APPENDIX V-5

EMPLOYMENT PATTERN OF SAMPLED PROJECTS: WORK YEARS

Type of Project Location	Management		Labor		Total		
	Paid by Gov't	Paid by Project	Paid by Gov't	Paid by Project	Paid by Gov't	Paid by Project	Total
Egg production Soal	2.5		5		7.5	-	7.5
Cattle fattening Ibshana	3			8	3	8	11
Egg production Zawyet Keradsa	2		5		7		7
Olive pickling Fidimeen	1			2	1	2	3
Tile production Hegaza Kibli	2			6	2	6	8
Brick production Khozam	1.6			50	1.6	50	51.6
Brooders Abnoud	5			2	.5	2	2.5
Brooders Harageya	.25		2		2.25		2.25
Calf rearing Ekyad Degwei	1.1		4		5.1		5.1
Microbus Mit Kenana	2		1	1	1.2	1	2.2
Honey production Fanara	1		2		3		3
Cattle fattening Kassassin Kadima	3		5		8		8
TOTAL	18.15		24	69	42.15 (38%)	69 (62%)	111.15 (100%)

APPENDIX V-5 A

COMPARISON OF FINANCIAL PERFORMANCE OF VISITED PROJECTS: WITH AND WITHOUT ALL SALARY EXPENSES

Type of Project	Period	Net Profits / Sales: At present	Net Profits / Sales: Including salary expenses	Return on Assets: At present	Return on Assets: Including salary expenses	Return on Capital [1]: At present	Return on Capital [1]: Including salary expenses	Return on Equity: At present	Return on Equity: Including salary expenses
Egg production Soal	7/1/82-12/31/82	.10	.04	.20	.08	.31	.09	3.43	.45
Egg production Zawyet Keradsa	7/1/82-6/30/83	.18	.13	.18	.13	.25	.15	equity is negative	equity is negative
Brooder production Harageya	7/1/82-6/30/83	.30	.05	n/a	n/a	n/a	n/a	n/a	n/a
Brooder production Abnoud	10/1/82-6/30/83 (1 cycle)	.51	.35	n/a	n/a	n/a	n/a	n/a	n/a
Cattle fattening Ibshana	7/1/82-6/30/83	.06	-.003	.09	-.005	.12	-.01	.30	-.02
Calf rearing Ekyad Degwei	7/1/82-6/30/82	.58	.51	n/a	n/a	n/a	n/a	n/a	n/a
Olive pickling Fidimeen	7/1/82-6/30/83	.10	.06	.06	.03	.06	.04	.12	.07
Brick production Khozam	7/1/82-6/30/83	.11	.08	.09 [2]	.07 [2]	n/a	n/a	n/a	n/a
Tile production Hegaza Kibli	7/1/82-6/30/83	.17	.06	n/a	n/a	.17 [2]	.06	n/a	.19
Microbus Mit Kenana	7/1/82-6/30/83	-.01	-.16	-.02 [2]	.02 [2]	n/a	n/a	n/a	n/a

[1] Net profits / long term liabilities + equity   [2] Reconstructed information based on site visit

Source: Village project financial statements and conversations with village project managers and accountants

APPENDIX V-6

DEBT SERVICE BURDEN OF SAMPLED PROJECTS

[1] Defined as long term debt / long term debt + equity : equity / long term debt + equity

Type of project	Governorate	Village	Current Assets / Current Liabilities	Debt[1] / Equity	Interest payments / net profits & interest payments	Debt service[2] coverage at current costs	Debt service[2] coverage if all salary expenses are included
Egg production[3]	Giza	Soal	5.02	81:19	.18	7.00[7]	4.05[7]
Egg production[3]	Fayoum	Zawyet Keradsa	1.98	88:12	.16	1.38	1.14
Egg production[4]	Sharkeya	Kofour Negm	n/a	n/a	.16	15.27[7]	n/a
Brooders[3]	Kena	Harageya	n/a	n/a	.17	1.02	1.54
Brooders[3]	Kena	Abnoud	n/a	n/a	.09	2.08	.43
Brooders[4]	Gharbia	Abul Ez	n/a	n/a	.78	.54	n/a
Broilers[4]	Dakahlia	Balamun	n/a	n/a	.28	.69	n/a
Broilers[4]	Menya	Tembady	n/a	n/a	2.12	3.66[7]	n/a
Broilers[4]	Sharkia	Demeen	n/a	n/a	.14	1.23	n/a
Broilers[4]	Menufia	Tamalai	n/a	n/a	.05	3.16	n/a
Broilers[4]	Kafr Sheikh	Menyet Morshed	n/a	n/a	.04	4.04	n/a
Broilers[4]	Kafr Sheikh	Kom El Hagar	n/a	n/a	.53	7.13[7]	n/a
Broilers[5]	Menufia	Tah Shubra	n/a	n/a	.23	.85	n/a
Cattle fattening[3]	Beny Sweif	Ibshana	5.54	58:42	.06	2.27	.17
Cattle fattening[4]	Kafr Sheikh	Mit Diebah	n/a	n/a	.16	.93	n/a
Cattle fattening[4]	Kafr Sheikh	Abou Ghoneimah	n/a	n/a	.05	2.89	n/a
Cattle fattening[6]	Sharkeya[5]	Sanhout	n/a	n/a	.77	1.29[7]	n/a
Cattle fattening[5]	Menufia	Arab El Raml	n/a	n/a	.15	1.77	n/a
Calf rearing[3]	Kalyoubeya	Ekyad Degwei	n/a	n/a	.05	21.90[7]	19.3[7]
Olive pickling[3]	Fayoum	Fidimeen	6.91	46:54	.23	.52	.38
Brick production[3]	Kena	Khozam	n/a	n/a	.12	1.33	1.05
Ceramic tiles[3]	Kena	Hegaza Kibli	n/a	n/a	.11	1.45	.76
Ceramic tiles[4]	Menya	Abu Gerg	n/a	n/a	1.34	.41	n/a
Ceramic tiles[4]	Menya	Shalakan	n/a	n/a	.71	.62	n/a
Agric. machinery[5]	Fayoum	Hawaret El Maktaa	n/a	n/a	.46	.85	n/a
Microbus[3]	Kalyoubeya	Mit Kenana	n/a	n/a	1.56	.55	.20
Microbus[5]	Sharkia	Kafr Ibrash	n/a	n/a	.11	1.19	n/a
Microbus[5]	Giza	Manial Shiaha	n/a	n/a	.08	1.67	n/a
				Average:	.39	1.43[8]	
				S.D.:	.51	.95	

[1] Defined as: long term debt / long term debt + equity : equity / long term debt + equity

[2] Defined as: Net income+depreciation+interest+payments / Loan principal and interest payments

[3] Site visits [4] Files information [5] Case Studies [6] Project operated Jan.-Sept, then was suspended

[8] Not including projects still in their grace period [7] Still in grace period

Source: LDF files and field visits

BREAKEVEN PRICE ANALYSIS FOR VISITED PROJECTS **APPENDIX V-7**

Activity (Governorate) Village)	Unit	Current Price: LDF Project	Current Price: Market	Current Project Production[1]	Breakeven Price: At current costs	Breakeven Price: Including subsidized labor	Cash Breakeven price (including subsidized labor and loan principal, minus depreciation[2]
Egg production (Giza) Soai	per egg	pT 7.5	pT 10	1,125,700	pT 6.9	pT 7.3	pT 7.7
Egg production (Fayoum) Zawyet El Keradsa	per egg	pT 7.5-8.0	pT 11-12	600,645	pT 6.4	pT 6.8	pT 7.3
Brooder production (Kena) Harageya	35-45 day bird	pT 70	pT 75-80	10,950	pT 48.7	pT 66.2	pT 86.8
Brooder production (Kena) Abnoud	30-45 day bird	pT 70-75	pT 80-90	15,510	pT 36	pT 47	pT 50
Cattle fattening (Beny Sweif) Ibshana	kg on hoof	LE 1.6	LE 2.0	74,206	LE 1.51	LE 1.61	LE 1.65
Calf production (Kalyoubeya) Ekyad Degwei	kg on hoof	LE 2.1	LE 2.4	20,430	LE .87	LE .97	LE 1.12
Olive pickling (Fayoum) Fidimeen	kg	pT 70	LE 1.0	43,315	pT 63	pT 66	pT 79
Brick production (Kena) Khozam	per 1000 bricks	LE 36	LE 36-40	1.6 mill. bricks	LE 30	LE 33.6	LE 36.4
Tiles production (Kena) Hegaza Kibli	per tile (cement)	pT 8	pT 10	130,000			
	(ceramic)	pT 13	pT 15	86,000	pT 8.7	pT 9.9	pT 10.9
	average:	pT 10.5		205,000			
Microbus (Kalyoubeya) Mit Kenana	av. seat	pT 15	pT 30	42,140	pT 16.1	pT 18.5	pT 21.4

[1]Calculated from sales figures [2]Assuming principal repayment

Source: Village project financial statements and conversations with village project managers and accountants

APPENDIX V-8

DISTRIBUTION OF BONUSES IN LDF PROJECTS VISITED

Type of Project	Location	(Bonus Expenses + Bonuses from Distributed Profits) / (Net Income + Bonus Expenses)
Egg production	Soal	.26
Egg production	Zawyet Keradsa	.27
Brooders	Harageya	.07
Brooders	Abnoud	.20
Cattle fattening	Ibshana	.45
Calf rearing	Ekyad Degwei	.02
Olive pickling	Fidimeen	.30
Brick production	Khozam	.26
Tile production	Hegaza Kibli	0
Microbus	Mit Kenana	1.08
	Average:	.29
		(S.D. = .31)

UTILIZATION OF CAPACITY AND DEMAND FOR PRODUCTS SOLD BY LDF PROJECTS VISITED

APPENDIX V-9

Type of Project Location	Current Production	Production Capacity	Current production / production capacity	Potential sales in vicinity/period	Curent production / potential sales	Comments
Egg production Soal	1,125,700	1,300,000	.87	Unlimited		Operating below capacity due to high mortality of chickens (20%)
Egg production Zawyet Keradsa	600,645	1,000,000	.60	Unlimited		Local market is saturated but eggs could be sold in Cairo
Brooders Harageya	10,950	24,000	.46	72,000	.15	Have received second LDF loan to expand production; now operating at 2/3 capacity
Brooders Abnoud	yr/15,510	20,000	.78	80,000	.19	Have begun project that doubles current village production of brooders
Cattle fattening Ibshana	74,206 kg	360 tons on hoof	.61	Unlimited demand		Lack of working capital has prevented project from operating at full capacity; an LDF loan of LE 60,000 was disbursed late Nov. 83 for purchase of calves; while respondents claimed they were producing only 220 tons/yr, they sold 300 tons in 82/83
Calf rearing Ekyad Degwei	99 calves (20,430kg)	150	.66	Unlimited		Lack of working capital constrained expansion of operation; LE 15,000 LDF loan disbursed May '83 will be used to purchase more calves and diversify into cattle fattening operation
Olive pickling Fidimeen	43.315 tn	90 tons	.48	Market saturated	1.00	Respondents believe project operates at full capacity but sales figures indicate otherwise (discrepancy not accounted for by inventory); 90% of sales outside local area, managers believe sales cannot be increased
Brick production Khozam	1.6 mill.	6 mill.	.27	12 million	.25	Though respondents claimed production was 3 million, sales level indicates only 1.6 million produced; local residents have switched from unfired to fired bricks since floods in the late 1970's; local demand strong due to increased family income coming from relatives working outside Egypt
Tiles production Hegaza Kibli	130,000 cement, 86,000 mosaic; wtd av: 205,500	300,000 tiles	.69	648,000	.33	Cannot expand current production due to cement shortages and delivery delays, as well as breakdowns of machinery
Microbus Mit Rahina	42,190 rides	58,000	.73	58,000	.73	The LDF microbus is subject to the governorate regulation that microbuses must wait in line at the first boarding station until each bus is full; this limits the number of trips that can be made
Cattle fattening Kassassin el Kadima	28 head	55 head	.51	area could absorb 2-3 times this		Lack of working capital has prevented expansion of the enterprise, according to respondents; financial statements were not available to verify this problem
Honey production Fanara	520 kg	1000 kg	.52	Unlimited		The project initially intended to produce queen bees for which there was unlimited demand in the local market; this was unsuccessful and the project changed to honey production; full capacity will be reached next year

APPENDIX VI-1