PD-AAY-139

57374

UNCLASSIFIED

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

PROJECT PAPER

EGYPT

LOCAL DEVELOPMENT II

263-0182

August 15, 1985

UNCLASSIFIED

SUBJECT: LD II Program paper

TO: LAD Staff

THRU : DR/LAD: Douglas Tinsler, Office Director

At last the PP has been produced in a limited edition and circulated to project officers as listed below. This distribution is restricted because these copies contain information that could put a potential contractor in an advantageous position in any subsequent bidding on scopes of work developed from the PP. Please treat your copy with due respect -- keep in in a desk drawer (I suggest in a large black binder) and do not leave it lying on your desk when you are not there. We would like to avoid protests, in subsequent contracting, which are based upon leaks from this office. Please destroy all copies of earlier drafts.

THE PP SHOULD NOT BE DISTRIBUTED TO ANYONE WITHOUT PRIOR CLEARANCE FROM MR. TINSLER.

For your information the following is taken from the latest "Notes from the Legal Office", (8/6/85):

"10. Important Disclosure of Procurement Information to Contractors. USAID/Egypt personnel frequently are asked for internal AID documents that relate to the contracting process. While the public has a broad right to obtain documents under the Freedom of Information Act, the integrity of the contracting process requires that prospective contractors whould not be given information as to the amount of funds available to finance a specific contract. Moreover, AID regulations contain sanctions against employees who give information to potential bidders that gives them a competitive advantage over other bidders. The Legal Office should be consulted about any request for project documentation, including project agreements, correspondence, PIDs, PIOs, project papers and similar documents that involve a Project where future procurement actions are planned."

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

U.S. GOVERNMENT PRINTING OFFICE : 1982 O - 361-526 (7290)

A second edition of the PP for public distribution will be available by September 30, 1985.

PP Distribution as of 9/12/85

Original: G.B.Kerr

Numbered Copies:

1. R.Talaat
2. D.Tinsler
3. M.Gawad
4. E.Kuhn
5. G.Kerr
6. O.Carduner
7. F.Pollock
8. R.Flaspohler
9. Edited Copy
10. Dr. Rachid
11. M.Naguib
12. S.Yacoub
13. A.Khairy
14. A.Halim
15. S.Abdallah
16. H.Sedky
17. M.Sallam
18. I.El-Shayeb

[redacted] (K. Kahmer.

19

LOCAL DEVELOPMENT II

AN EGYPTIAN-AMERICAN COOPERATIVE PROGRAM

USAID/Cairo

with

Decentralization Sector Steering Committee
and Technical Secretariat (*Amana*)

Ministry of Local Government
Cairo, Egypt

August 1985

3'

"Town meetings are to liberty what primary schools are to science: they bring it within people's reach, they teach men how to use it and enjoy it."

De Tocqueville, 1840.

"... the important fact remains that Egypt is on the path of decentralization which is one of the pillars of democracy and antithesis of authoritarianism. This is the path of freedom."

Egyptian Gazette, Cairo, June 28, 1985.

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete)

Amendment Number

DOCUMENT CODE: 3

2. COUNTRY/ENTITY: EGYPT

3. PROJECT NUMBER: 263-0182

4. BUREAU/OFFICE: CAIRO

5. PROJECT TITLE (maximum 40 characters): LOCAL DEVELOPMENT II

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 89

7. ESTIMATED DATE OF OBLIGATION (Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 85 B. Quarter 4 C. Final FY 86

8. COSTS ($000 OR EQUIVALENT $1 = 0.83)

A. FUNDING SOURCE	FIRST FY 85			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(14,120)	(46,880)	(61,000)	(39,010)	(116,990)	(156,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
Other U.S. 2.						
Host Country		29,844	29,844		72,220	72,220
Other Donor(s)						
TOTALS	14,120	76,724	90,844	39,010	189,210	228,220

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. PRIMARY TECH. CODE 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. OBLIGATIONS TO DATE 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. AMOUNT APPROVED THIS ACTION 2. Loan	F. LIFE OF PROJECT 1. Grant	F. LIFE OF PROJECT 2. Loan
(1) ESF	280	720				$156,000			
(2) ESF	240	240							
(3) ESF	720	867							
(4) ESF	760	246							
TOTALS						$156,000			

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 033, 050, 790, 920, 252, 968

11. SECONDARY PURPOSE CODE: 243,289,663,723

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BR	BU	PART	TNG	PVON	ENV	DEL
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To improve and expand the capacity of local government s to plan, finance, implement and maintain locally chosen basic service projects; and to improve their capacity to mobilize local resources to sustain the provision of services.

14. SCHEDULED EVALUATIONS

Interim MM 10 YY 86, MM 10 YY 88 Final MM 10 YY 88

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [ ] 941 [X] Local [ ] Other (Specify)

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

17. APPROVED BY

Signature: Frank B. Kimball

FRANK B. KIMBALL

Title: MISSION DIRECTOR

Date Signed: MM 08 DD 15 YY 85

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

5

LOCAL DEVELOPMENT II

PROGRAM PAPER

This paper was prepared
in the
Office of Local Administration and Development (LAD),
Division of Development Resources,

Ray van Raalte, Associate Director.

Principal writers were:

Douglas L. Tinsler, Office Director, LAD
Graham B. Kerr, LD II PP Coordinator, LAD
Olivier C. Carduner, LAD
Peter W. Amato, LAD, and
Hussein G. Sedky, LAD.

Technical analyses and concept papers were prepared by:

Fred M. Pollock, LAD
Robert W. Pearson, LAD
Ernest C. Kuhn, LAD
Magd E. Abdelgawad, LAD
Makram G. Naguib, LAD
Paul Crowe, Program Office, and
Theresa Ware, Program Office.

Substantive contributions were made by:

David Painter, Urban Administration and Development, and
Homi Jamshed, Financial Management.

Principal Contributors in the Amana were:

Ahmed Rachid, Chairman, ORDEV, Ministry of Local Government
Ahmed Salem, Ministry of Finance
Osman Gohar, Ministry of Finance
Abdel Salam Zaki, Ministry of Planning and International
Cooperation (MPIC)
Hussein Refaat el Sarky, MPIC, and
Abdel Latif Hafez, MPIC

The many drafts and final copy were typed by:

Mona Bawab, LAD, and
Shahira Mahfouz, LAD.

6

LD II PROGRAM PAPER
TABLE OF CONTENTS

O

INDEX OF TABLES AND CHARTS

Tables

A. Executive Summary

B. Project Paper

Annex 2A: Economic Analysis

9

Annex 3 Financial Tables:

CHARTS:

A. Executive Summary

B. Project Paper

10

CURRENCY EQUIVALENTS

One Egyptian Pound (LE 1.00) = 83 US cents (US$0.83)

ABBREVIATIONS, ACRONYMS AND FOREIGN TERMS

A&E - Architecture and Engineering.
AID - Agency for International Development.
AID/W - Agency for International Development/Washington.
Amana (Amana Fanniya) - Technical Secretariat for LD II, Ministry of Local Government.
A.R.E. - Arab Republic of Egypt.
Bab - Chapter of the Egyptian National Budget.
BSDS - Basic Services Delivery System.
CCBA - Cairo Cleaning and Beautification Authority.
BVS - Basic Village Services Activity (part of DSS I).
CDSS - Country Development Strategy Statement.
CN - Congressional Notification.
COP - Chief of Party.
CP - Conditions Precedent.
DD I - Development Decentralization I Activity (part of DSS I).
DLPC - District Local Popular Council.
DSF - Decentralization Support Fund Activity (part of DSS I).
DSS I - Decentralization Sector Support I Program.
EPA - Environmental Protection Agency.
FAA - Foreign Assistance Act.
FAO - Food and Agriculture Organization.
FM - Financial Management.
FR - Financial Request.
FX - Foreign Exchange (currency).
FY - Fiscal Year.
GLDC - Governorate Local Development Committee.
GOE - Government of Egypt.
IAC - Inter-Agency Committee.
IFB - Invitation for Bids.
ILDC - Interministerial Local Development Committee.
IRR - Internal Rate of Return
ISTI - International Science and Technology Institute.
JICA - Japan International Cooperation Agency.
LAD - Office of Local Administration and Development (USAID/Cairo).
LC - Local Currency
L/COMM - Letter of Commitment.
LDC - Local Development Committee.
LD II - Local Development II Program.
LDF - Local Development Fund.
LE - Egyptian Pound. LE 1.00 = US$0.83; US$1.00 = LE 1.20
LPC - Local Popular Council
LPCPD -Liters Per Capita Per Day.
LRM - Local Resource Mobilization.

Markaz (pl. Marakez) - District in a governorate.
MHPU - Ministry of Housing and Public Utilities.
MIS - Management Information System.
MLG - Ministry of Local Government.
MOF - Ministry of Finance.
MOH - Ministry of Health.
MOP - Management and Operations Program.
MPIC - Ministry of Planning and International Cooperation.
MSA - Ministry of Social Affairs.
NOPWASD - National Organization for Potable Water and Sanitary Drainage.
NUS - Neighborhood Urban Services Activity (part of DSS I).
O&M - Operations and Maintenance.
ORDEV - Organization for the Development and Reconstruction of the Egyptian Village.
PACD - Project or Program Assistance Completion Date.
PADCO - Planning and Development Collaborative International.
PASA - Participating Agency Services Agreement.
PDI - Pre-delivery Inspection.
PID - Project Identification Document.
PIL - Project or Program Implementation Letter.
PP - Project or Program Paper.
PSC - Provincial Subcommittee of the ILDC.
PVO - Private Voluntary Organization.
RFB - Request for Bids.
RFQ - Request for Quotations.
RM - Resource Mobilization.
SDS - Sector Development and Support Activity (part of DSS I).
SER/CM - Service and Commodity Management (AID/W).
SSC - Sector Steering Committee for DSS I.
TA - Technical Assistance.
TLG - Technical Liaison Group in LAD, USAID/Cairo.
TOR - Terms of Reference.
UNDP - United Nations Development Programme.
UNICEF - United Nations International Children's Emergency Fund.
USAID - United States Agency for International Development.
USC - Urban Subcommittee, of the ILDC.
USG - United States Government.
WHO - World Health Organization.

LOCAL DEVELOPMENT II

PROPOSED CPs AND COVENANTS

I. Requirements Precedent

1. Prior to first disbursement of LD II Block Grant funds, the GOE will, except as AID may otherwise agree, furnish:

a. a statement of the names and titles of the persons authorized to act as the representatives of the Grantee, together with a specimen signature of each person specified in such statement;

b. evidence that the Grantee has issued the necessary policy determinations establishing an Interministerial Local Development Committee (ILDC) responsible for program policy and coordination. The members of the ILDC will be designated by the Ministries of Local Government, Planning and International Cooperation, and Finance. The members will be drawn from appropriate Ministries concerned with local development activities;

c. evidence that the Grantee has issued the necessary policy determinations to create, under the ILDC, two committees, one for urban governorates and one for provincial governorates, and has defined their respective roles in terms of functions, staff, resources, and related matters;

d. evidence that the Grantee has issued the necessary policy determinations to create a Technical Secretariat (AMANA) for the life of the program and defined its role in terms of policy analysis, technical coordination, monitoring of implementation, evaluation, and related matters, and authorized it to acquire and retain necessary professional and administrative staff and provided it with an adequate annual budget over the life of program;

e. evidence that an appropriate mechanism has been established and agreed to by AID and the GOE, to account for GOE maintenance fund contributions.

Notwithstanding the foregoing, upon the agreement of the Parties, funds may be committed and disbursed to finance technical assistance contracts prior to the satisfaction of the above-listed requirements precedent to first disbursement.

2. Prior to each discrete disbursement of Block Grant funds for local government units under the Basic Services Delivery Systems (BSDS) component, the GOE will furnish:

a. evidence that a special Block Grant account has been established at the Ministry of Local Government (MLG) for deposit of A.I.D. and Grantee Block Grant funds;

b. evidence that a Basic Services Capital Investment Account has been established in each participating local unit, under the regulations of the local councils' Local Services and Development Account and that an amount equal to at least 5% of the A.I.D. grant to that local unit has been deposited by the local government unit;

c. evidence that the Ministry of Planning and International Cooperation (MPIC) has deposited, in the MLG Block Grant account, an amount equal to the local contribution or equal to 5% of the AID Block Grant;

d. evidence that amounts, equal to 5% of the accumulated capital costs of the Basic Village Services Activity (BVS), the Neighborhood Urban Services Activity (NUS) and this Program and 10% of Development Support Fund and this Program's equipment investments in that governorate, have been allocated and disbursed by the Ministry of Finance, through an allocation and disbursement from the national recurrent cost budget (BAB II). The above percentages and the total maintenance cost figures in the Grant Agreement Annex 1 budget are based on estimates of average annual maintenance costs. AID and the GOE agree that these estimates will be refined to obtain more exact maintenance cost figures;

e. evidence that plans for Block Grant funded projects have been approved by ILDC sub-committees and Governorate Local Development Committees.

3. Prior to disbursement of PVO funds to the governorates;

a. Plans for PVO projects must be approved by the cooperating local units and the Governorate LDCs and submitted for review to the Provincial and Urban subcommittees of the ILDC; and,

b. Governorates must show evidence that 5 percent of their request has been deposited in a specially designated PVO account, under the regulations of the governorate's Local Services and Development Account.

II. <u>Covenants</u>

1. <u>Program Evaluation.</u>

The Parties agree to establish an evaluation program as part of the Program. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Program and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Program;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Program.

2. Ratification.

The Grantee will take all necessary action to complete all legal procedures necessary to ratify this agreement and will notify A.I.D. as promptly as possible of the fact of such ratification.

3. Progress Reports.

The Grantee will maintain a quarterly financial and physical progress report on each individual subproject and will maintain a quarterly cash management report showing the dates of transfers of Block Grant and Maintenance Funds to each implementing entity. These reports will be made available to A.I.D. on a quarterly basis, within 60 days after the end of the quarter.

4. Funds for Basic Services Operation and Maintenance.

The funds in the Basic Services Operation and Maintenance in each governorate will be disbursed completely each fiscal year to appropriate institutions at the village, markaz and governorate levels to implement the operations and maintenance program for the governorate as a whole. A bi-annual review of progress on maintenance cost financing will be held between AID and the GOE.

5. Village Unit Accountants.

The Grantee shall place at the lowest level of local administration, where appropriate, a qualified accountant approved by the Ministry of Finance who will be authorized by the MOF and the governorate, to sign financial documents.

6. Funds for Design and Construction Supervision.

The Grantee covenants that plans and budgets for water, wastewater, road and other infrastructure projects, as appropriate, shall include adequate funds to finance detailed design and construction supervision costs following appropriate technical criteria approved by ILDC sub-committees and the Amana.

7. Establishment of Governorate Local Development Committees.

The Grantee covenants that each governorate will establish Governorate Local Development Committees (GLDC) comprising both elected and executive council members. The GLDCs will coordinate the governorate's own program under the LD II program.

8. Incentive Pay Plans.

The Grantee covenants that Four Million Egyptian pounds (LE 4,000,000) will be allocated, from the national budget for wages (Bab I), to governorates in the amount of approximately 2.5% of the BSDS grant for each sub-project. This will be used for an incentive pay plan and to cover wages for GOE personnel working on subproject activities.

9. Retention of Penalty Fees and Interest.

Contractor penalty fees, interest, and all other revenues generated from the use of Block Grant funds will belong to the Grantee and will be retained for program use including settlement of banking charges and other administrative expenses, in the Local Basic Capital Investment Accounts from which such revenues were generated.

10. Increased Mobilization of Local Resources to Finance Recurrent Costs.

The Grantee will use its best efforts to increase the share of recurrent costs that are financed locally by locally-applied cost recovery measures.

LOCAL DEVELOPMENT II

EXECUTIVE SUMMARY

I. FINANCIAL SUMMARY

-Grantee: Arab Republic of Egypt

-Financing: AID: $156.0 million grant

GOE: $72.2 million (in LE equivalent)

-Estimated Cost:

	USAID	GOE ($ Million)	TOTAL	% of Total
A. Block Grant Fund	122.7	12.3	135.0	59%
B. PVO Fund	15.6	0.8	16.4	7%
C. Maintenance Fund	0.0	53.2	53.2	23%
D. Staff Support	0.0	5.6	5.6	2%
E. Technical Assistance	9.9	0.0	9.9	4%
F. Training	3.1	0.3	3.4	2%
G. Evaluation/Research	1.6	0.0	1.6	1%
H. Contingency	3.1	0.0	3.1	1%
Total	156.0	72.2	228.2	100%

II. INTRODUCTION

The Local Development II Program would be the second phase of an Egyptian-US partnership begun in 1978. This cooperative program would support the Government of Egypt's objective of establishing a decentralized system of local government which is founded on the principles of popular participation and democratic decision-making.

(2955D/0011D: 8/15/85)

17

The second phase is being launched on the 25th anniversary of Egypt's present system of local government. Over the past twenty-five years the government has moved steadily from a system of centralized control to a system founded on the twin principles of decentralized authority and democratic decision-making. The GOE's program, over this period, has been consistently positive, so that by 1985 a decentralized and democratically responsive system of local government is in place in every village, markaz and governorate. This system places substantial decision-making power in the hands of popular councils whose mandate is to establish local development priorities and provide oversight of the executive branch of local government.

USAID support for the GOE's local development programs began as a series of discrete projects which were combined in 1982 into the Decentralization Sector Program (DSS I). The DSS I portfolio was explicitly tailored to reinforce Egypt's policy commitment to decentralization and popular participation. Successive evaluations have documented the substantial economic and institutional impact that has resulted from this fusion of sound GOE policy with substantial capital and technology transfers from USAID. Under the DSS I program USAID has committed $525 million of which $407 million had been disbursed by June 30, 1985.

The proposed LD II Program has been formulated as a "bridge" between the DSS I Program and a proposed LD III Program. LD III would be a part of the GOE's next Five Year National Development Plan, which begins in July, 1987 (GOE FY 1987/88). LD III's financing would be subject to further policy determinations by both governments and to the availability of funds.

III. LD II PROGRAM GOAL, PURPOSE AND CONSTRAINTS

The goal would be:

--to improve the quality of life of low income residents in rural and urban Egypt through the provision of essential basic services.

The purposes would be:

--to improve and expand the capacity of local governments to plan, finance, implement and maintain locally chosen basic services projects; and,

--to improve the capacity of local government to mobilize local resources in order to sustain the provision of basic services.

The LD II Program would be organized to address several constraints which presently impede the full realization of the GOE's local development objectives. Key constraints which have been jointly identified during DSS I and the design of LD II include:

POLICY FORMULATION: The absence of a policy forum with qualified staff to analyze policies and programs which affect local development;

PLANNING PROCESSES: The local development planning and budgeting process, which encourages popular participation, is not working fully in all governorates;

PROJECT DESIGN CAPACITY: The technical capacity at the local level to design and construct basic service projects is limited and not adequate for more complex service systems, particularly in water and sanitation;

OPERATIONS AND MAINTENANCE: Constraints to improved O&M of basic services by local government are:

-- The great imbalance between investment financing and recurrent cost financing of local services and equipment;

-- The absence of an effective link between the capital planning and budgeting system and the comparable O&M system;

-- The limited institutional capacity of local government to effectively service and maintain the growing stock of basic services and infrastructure;

FISCAL DECENTRALIZATION: Very limited financial resources for basic service delivery and maintenance are generated and controlled locally;

HUMAN RESOURCES: The number of institutions, with appropriate curricula needed to upgrade professional and technical skills throughout the local government system, are not adequate to meet the need.

IV. THE LD II PROGRAM

The LD II Program has been formulated around two systems:

- The Basic Services Delivery System.

- The Local Resources Mobilization System.

IV. A. The Basic Services Delivery System (BSDS)

The BSDS would strengthen local government, at all levels, so that it can provide and sustain the delivery of basic services to its constituents. The BSDS has been designed to address constraints associated with the capital planning process, project design, O&M of basic services and equipment, and associated skills training.

IV. A. 1. The Components of the BSDS

a. The Process of Delivering Basic Services

Under LD II, each participating governorate and local unit would complete two planning, budgeting and implementation cycles coverin five essential steps as follows:

(1) assessment of needs and evaluation of past performance;
(2) allocation of resources to each participating unit of local government;
(3) preparation of detailed investment and O&M plans;
(4) implementation (i.e. construction and maintenance);
(5) evaluation of results;

A new cycle would start each year, as specified in the local government laws. Based on prior experience with the NUS and BVS activities, each cycle would require approximately 30 months to complete all five stages. In order to qualify for LD II funds local units must complete the first three steps and have their plans approved by the governorate and Interministerial Local Development Committees.

b. The BSDS Matching Grant

Each participating governorate would receive an annual matching "block" grant to finance basic services which would be dispersed against approved project plans. The block grants would be financed by USAID and the MPIC. Each participating governorate would receive an annual grant of approximately $2.62 million ($2.5 from USAID funds, $0.12 from MPIC). Each participating governorate would be required to match the 5% annual contribution provided by MPIC (i.e. $0.12 million/governorate) with funds drawn from their respective Local Services and Development Funds or other local sources.

Over the two annual planning and budgeting cycles financed by LD II, USAID would provide approximately $123 million in capital financing while the MPIC and participating local governments would each respectively contribute approximately $6.15 million equivalent in Egyptian pounds.

In addition, the Ministry of Finance (MOF) would provide incremental financing to cover the estimated O&M requirements associated with completed DSS I projects. On average, the MOF annual contribution per governorate per annum would total approximately US$1.16 million in equivalent Egyptian pounds for provincial governorates and US$0.58 for urban governorates. As with the LD II capital project financing, MOF disbursements would be made from approved O&M plans submitted by each participating governorate. The estimated financing from the MOF would be approximately US$53 million equivalent in Egyptian pounds.

c. BSDS Planning Guidelines

(1) Annual Maintenance Plans

To address the substantial maintenance requirements for DSS I investments, as well as for new LD II investments, governorates and participating local units would prepare an annual maintenance plan and budget. Financing for approved maintenance plans would be made available by the Ministry of Finance through the Bab II recurrent cost account.

(2) Annual Capital Investment Plans

Plans for new capital investments proposed for LD II Block Grant funding would be developed in accordance with the following guidelines:

(a) Investment Priorities:

-- First: upgrading or new construction of maintenance facilities;
-- Second: upgrading existing infrastructure;
-- Third: new infrastructure or equipment.

Governorates must demonstrate that needs under the first and second priorities have been satisfied before programing BSDS grants for new projects.

(b) O&M Planning for New Investments:

Proposals submitted for new projects must include plans and budgets for O&M in the post construction, service delivery period.

(c) Allocations of Funds Among Different Levels of Local Government:

No less than seventy-five percent of each governorate's block grant would be allocated to village councils in

In addition, the Ministry of Finance (MOF) would provide incremental financing to cover the estimated O&M requirements associated with completed DSS I projects. On average, the MOF annual contribution per governorate per annum would total approximately US$1.16 million in equivalent Egyptian pounds for provincial governorates and US$0.58 for urban governorates. As with the LD II capital project financing, MOF disbursements would be made from approved O&M plans submitted by each participating governorate. The estimated financing from the MOF would be approximately US$53 million equivalent in Egyptian pounds.

c. BSDS Planning Guidelines

(1) Annual Maintenance Plans

To address the substantial maintenance requirements for DSS I investments, as well as for new LD II investments, governorates and participating local units would prepare an annual maintenance plan and budget. Financing for approved maintenance plans would be made available by the Ministry of Finance through the Bab II recurrent cost account.

(2) Annual Capital Investment Plans

Plans for new capital investments proposed for LD II Block Grant funding would be developed in accordance with the following guidelines:

(a) Investment Priorities:

-- First: upgrading or new construction of maintenance facilities;
-- Second: upgrading existing infrastructure;
-- Third: new infrastructure or equipment.

Governorates must demonstrate that needs under the first and second priorities have been satisfied before programing BSDS grants for new projects.

(b) O&M Planning for New Investments:

Proposals submitted for new projects must include plans and budgets for O&M in the post construction, service delivery period.

(c) Allocations of Funds Among Different Levels of Local Government:

No less than seventy-five percent of each governorate's block grant would be allocated to village councils in

22

provincial governorates and to district councils in urban governorates. Up to twenty five percent may be reserved for governorate and markaz projects which support village/district projects. This includes, in particular, markaz and governorate maintenance facilities and associated equipment.

(d) Option to Use Block Grant Funds as Foreign Exchange:

Governorates would have the option to use up to 25% of the USAID portion of their annual block grant as foreign exchange for maintenance equipment and basic services rolling stock or fixed plant.

(e) Types of Subprojects and Equipment

In the provincial governorates, basic service infrastructure including small water and waste water projects, secondary and tertiary roads, and maintenance facilities and equipment.

In the urban governorates, basic service infrastructure including schools, health clinics, street lighting and paving, small water and waste water projects, solid waste projects, and maintenance facilities and equipment.

(f) Size of Projects:

The average project size would be approximately LE 55,000 to LE 60,000. Exceptions are expected in the case of village water/waste water projects and solid waste activities and governorate maintenance facilities. These projects would fall between LE 100,000 and LE 400,000.

IV. A. 2. The BSDS End of Project Status (EOPS)

By 1989 the following would be in place:

a. A decentralized planning and budgeting system, as outlined in Egyptian law, would be working better in all governorates;

b. A GOE funded matching block grant system would be operating as one element of the GOE's program to decentralize fiscal authority to local government;

c. Improved project planning and implementation staff at all levels of local government;

d. Appropriate maintenance facilities in place and functioning at all levels of local government;

e. Improved operation and maintenance of basic public services;

f. Approximately 550 urban and 1900 provincial projects completed and approximately 500 pieces of rolling stock or fixed plant in place; and

g. Approximately 43,000 council members given orientation training. Eleven thousand (11,000) local unit staff given skills training.

IV. B. Local Resource Mobilization (LRM) System

The LD II Local Resources Mobilization (LRM) System has been designed to enable local institutions, both public and private, to play a greater role in promoting local economic development. The LRM effort has been organized into two separate subsystems.

A public sector component to improve the capacity of local governments of mobilize resources locally to finance an increasing share of local capital and recurrent development costs. Possible changes in central-local government financial arrangements would also be explored. They would have the objective of improving local development planning and management by regularizing and making more predictable the flow of financial resources from the center to local government.

A private sector component to expand basic services, normally provided by local government, by encouraging local governments to tap and utilize Private Voluntary Organizations (PVOs) for service delivery. Pilot tests of new approaches to the delivery of un-subsidized credit to small rural and urban enterprises would be undertaken.

IV.B. 1. Public Local Resource Mobilization System (LRM)

The following constraints would be addressed by the public sector LRM system:

--the limited staff focused on policy analysis of local resource mobilization;

-- the limited control exercised by local government over local finances;

-- inadequate local contributions to capital and recurrent cost financing for basic services;

-- the imbalance between investment budgets and recurrent cost budgets for local basic services; and,

-- the limited number of trained finance officers at the local level.

24

f. Approximately 550 urban and 1900 provincial projects completed and approximately 500 pieces of rolling stock or fixed plant in place; and

g. Approximately 43,000 council members given orientation training. Eleven thousand (11,000) local unit staff given skills training.

IV. B. Local Resource Mobilization (LRM) System

The LD II Local Resources Mobilization (LRM) System has been designed to enable local institutions, both public and private, to play a greater role in promoting local economic development. The LRM effort has been organized into two separate subsystems.

A public sector component to improve the capacity of local governments of mobilize resources locally to finance an increasing share of local capital and recurrent development costs. Possible changes in central-local government financial arrangements would also be explored. They would have the objective of improving local development planning and management by regularizing and making more predictable the flow of financial resources from the center to local government.

A private sector component to expand basic services, normally provided by local government, by encouraging local governments to tap and utilize Private Voluntary Organizations (PVOs) for service delivery. Pilot tests of new approaches to the delivery of un-subsidized credit to small rural and urban enterprises would be undertaken.

IV.B. 1. Public Local Resource Mobilization System (LRM)

The following constraints would be addressed by the public sector LRM system:

--the limited staff focused on policy analysis of local resource mobilization;

-- the limited control exercised by local government over local finances;

-- inadequate local contributions to capital and recurrent cost financing for basic services;

-- the imbalance between investment budgets and recurrent cost budgets for local basic services; and,

-- the limited number of trained finance officers at the local level.

a. Implementation Strategy

LRM would be directed by a subcommittee of the GOE Amana (see LD II Organization and Management, page xxiii) chaired by the Ministry of Finance. The agenda of the sub-committee would focus on the following priority issues:

(1) Grants from the central government presently account for approximately 85% of local government revenues. If local governments, over the medium term, are to cover local operating and maintenance costs of basic services, the legal authority and management systems for local governments to generate additional local revenue need to be put in place. Initial priority would be focused on increased application of user fees consistent with recent determinations by the High Committee for Economic Policies;

(2) Most local fees and taxes collected by local government are passed on to the central treasury and returned in the form of general subsidies. Thus, the link between setting higher user fees and the ability to improve service delivery is tenuous. The subcommittee would examine the possibilities for modifying the present system to enable local jurisdictions to retain user fees at the local level and dedicate them to recurrent costs of systems for which they were collected.

To support the work of the LRM subcommittee and develop the financial management capacity of local governments, technical assistance and training programs would be financed under the SDS activity of DSS I.

b. End of Project Status for Public LRM:

By 1989, the following would be in place:

(1) Increased authorities for local councils to collect, retain and expend additional revenues, user fees, etc;

(2) Improvements in the present system of intergovernmental grants for Bab II recurrent costs, from an ad hoc system to a formula based system, so that local governments can plan O&M requirements with greater certainty;

(3) Increased revenues and user fees collected and spent locally, with an increased proportion of recurrent costs for basic services infrastructure and equipment being assumed by local units;

(4) Financial, management and administrative capacity of local governments strengthened in the field of resource generation and administration;

26

(5) Local accountants, certified by the MOF and the governorates, would be established and operating in local units;

(6) Ministries of Finance and Local Government would be providing technical assistance to local units in revenue generation and recurrent cost financing;

(7) A local university would be offering a Master's degree in public finance; and,

(8) A training program for local government and MOF staff would be established and operating.

IV. B. 2. Private Local Resources Mobilization:

The private sector LRM system would have two components: an activity to strengthen the linkages between local governments and PVOs in the provision and operation of basic services; and, an un subsidized credit program directed to small scale rural and urban enterprise. The latter component requires additional analysis and policy discussion. If both governments agree to proceed with the credit activity, it would be incorporated into the FY 1986 amendment to the LD II Grant Agreement. This section of the executive summary, therefore, describes only the proposed PVO component.

Egyptian PVOs have a solid record of promoting local economic development. There are over 10,000 registered PVOs serving rural and urban communities. PVOs are venturing into new sectors with particular emphasis on the provision of services for fees. These self-sustaining activities include the collection of garbage and wastewater in unserviced areas, basic health services and loan programs at near-market interest rates. Based on the positive experience with PVOs under the NUS and Helwan Upgrading Projects, the LD II Program would encourage PVO activities.

a. Implementation Strategy

The LD II PVO activity would be directed by a subcommittee of the Amana chaired by the Ministry of Social Affairs. The LD II Program would establish PVO Grant Funds in each participating governorate. Grants would be made to specific PVOs after project proposals had been reviewed and approved by each Governorate Local Development Committee. The Grant Fund would be capitalized by USAID (95%) and the participating governorates (5%). PVOs receiving grants would be required to contribute at least 25% of the cost of their proposed projects. Grants would average about LE 20,000.

21

b. End of Project Status for Private LRM:

By 1989 the following would be in place:

(1) A system that has the financial, managerial, and administrative capacity to integrate PVOs into the local development process;

(2) Ministry of Social Affairs and Governorate Social Affairs directorates would be managing funds and providing technical assistance to local government units and PVOs.

(3) A PVO training program for local government staff and PVO staff routinely operating and financed through local government training grants; and,

(4) One thousand seven hundred (1,700) PVO subprojects, financed by the Governorate PVO Grant Funds, providing services to low income residents.

IV. C. LD II Scope and Phasing

The LD II Program would be national in scope covering 20 provincial governorates, the four governorates comprising the metropolitan Cairo and Alexandria areas, and the one-city governorates of Suez and Port Said. The governorates of North and South Sinai would not receive LD II financing for sub-projects since they still have substantial undisbursed funds under the BVS Activity. They would participate fully in training programs and receive technical assistance.

Under LD II each participating governorate would receive two annual investment and recurrent cost grants from USAID and the central government. Disbursement of the grants would be timed to coincide with the beginning of the GOE fiscal year, as much as possible.

The entry of both urban and provincial governorates into the program would be phased. The four governorates comprising the metropolitan areas of Cairo and Alexandria would join the program during the first year of implementation. Port Said and Suez would join the program in the second year. Nine provincial governorates would join the program in the first year followed by the remaining eleven in the second year. Disbursements under the project, therefore, would be phased over a three year period.

V. LD II ORGANIZATION AND MANAGEMENT

Based on the experience of the Decentralization Sector Support Program (DSS I), the GOE and USAID have agreed on several changes in the organizational structure to govern implementation of the LD II Program. The proposed changes would address three deficiencies noted in the implementation of the DSS I Program. First, under DSS I, there were no GOE staff to analyze and propose solutions to policy and legal issues that constrained program implementation. Second, horizontal communication on policy and program issues among ministries at all levels remained weak. Finally, technical concerns and issues raised by local governments to the Ministry of Local Government were addressed in an *ad hoc* manner. This further illustrated the less than perfect coordination between local government organizations and central line ministries.

The first structural improvement would be the reformulation of the DSS I Sector Steering Committee (SSC), created in 1982, to enable it to become a more effective policy-making body. Membership of the SSC would be expanded to include several key line ministries whose programs have a major role in local development programs.

Reflecting the incorporation of several line ministries, the SSC would be reconstituted and named the Interministerial Local Development Committee (ILDC). Given this broader ministerial representation, the ILDC would function in effect, as a subcommittee of the Cabinet for local development policy.

A second improvement, already partially put in place by the GOE, is the creation of a full-time, Technical Secretariat (*Amana*) to the ILDC which would be responsible for:

1) the analysis of policy and program issues, and the formulation of alternatives for ILDC consideration; and,

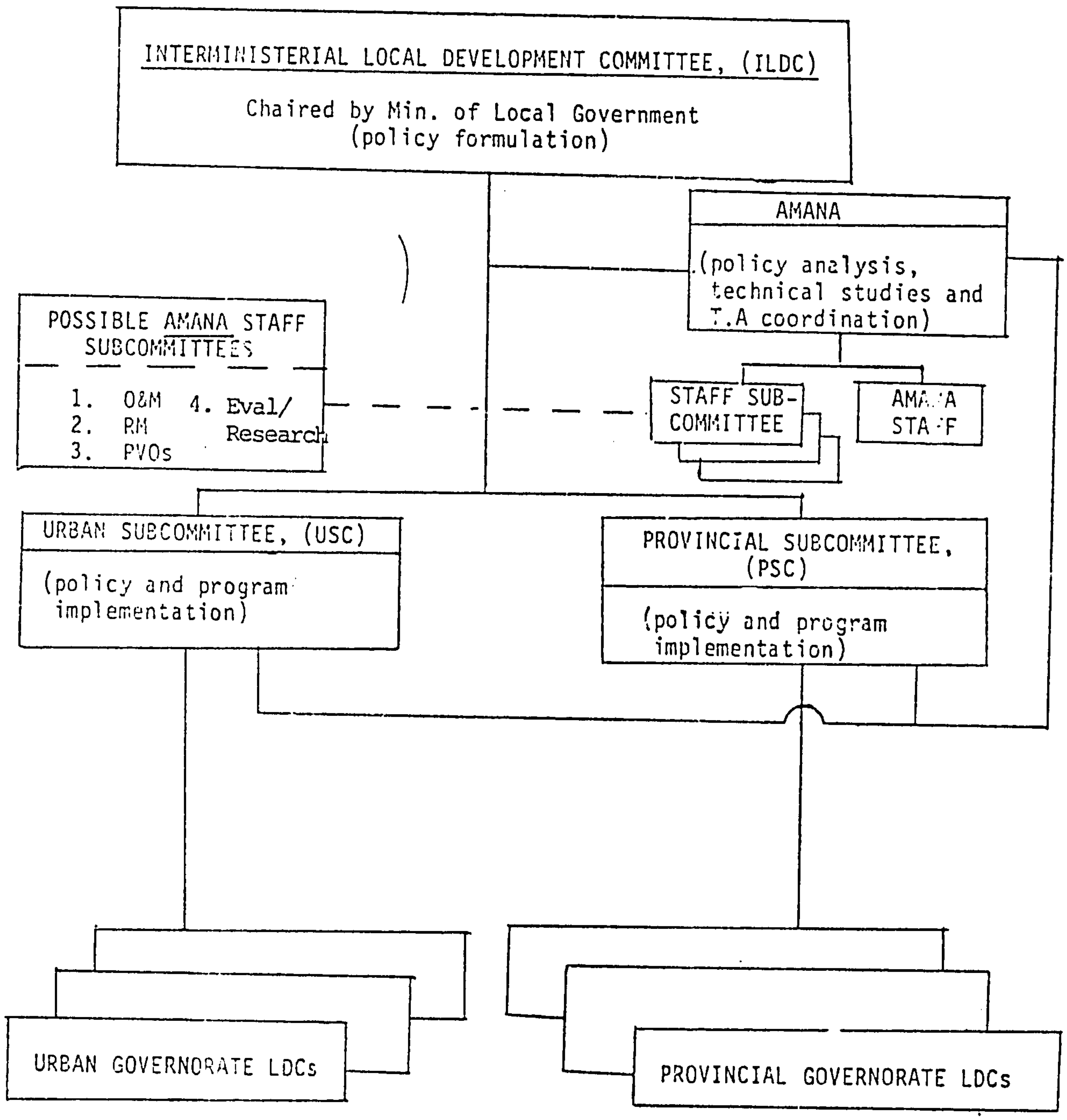
2) the coordination of technical assistance from all sources (i.e., domestic, public and private, and foreign) to local government.

Finally, to improve coordination and horizontal linkages in local government, joint executive and popular council Local Development Committees (LDCs) would be formed at the governorate level to oversee LD II program formulation and implementation. The organizational structure for the LDII Program is shown on Chart A, page xxiv.

- 29'

CHART A

LD II MANAGEMENT STRUCTURE



30

VI. TECHNICAL ASSISTANCE AND TRAINING

A. Technical Assistance

Technical Assistance, financed by USAID, would be provided in several areas to support the attainment of LD II Program purposes. The projected level of effort would involve approximately 123 person years of Egyptian and U.S. professional services over a two year period. Approximately 77 percent would be provided by Egyptian advisors and 23 percent by expatriate advisors. This level of effort constitutes the minimum level required to achieve the program purposes. To insure flexibility to respond to unforseen requirements that may emerge during LD II implementation as well as to ensure continuity of effort if the proposed LD III Program is authorized by both governments, the various RFPs for services would state that the GOE/USAID hold the option to increase the level of effort during LD II as well as extend services, subject to performance, to cover technical assistance requirements of the LD III Program.

Five technical assistance contracts would be financed under the LD II Program. In all cases joint venture or subcontracting arrangements between eligible United States firms and qualified Egyptian institutions would be strongly encouraged. The five contracts would cover the following areas:

-Basic Services Delivery System (Provincial);
-Basic Services Delivery System (Urban);
-Basic Services Delivery System (Operations and Maintenance);
-Local Resources Mobilization System (PVO); and
-Technical and Logistic support for the ILDC Amana.

B. Training

As with the DSS I Program, training would comprise a large and important component of the LD II Program. The projected training effort would reach approximately 60,000 local and central government, elected and executive officials, and members and staff of PVOs. Three types of training would be provided under the LD II Program:

1. Orientation workshops for elected and executive local government officials and PVOs (40,000 persons);

2. Technical skills training for local government and PVO staff (20,000 persons); and

3. Overseas training in U.S. and third countries in skills areas associated with the LD II Program (200 persons).

All training would be coordinated through the Technical Amana and with the Sakara Training Center. Some of the training would be managed on a "pass through" basis under the various technical assistance contracts.

VII. Monitoring & Evaluation

Monitoring would focus on the delivery of inputs, implementation of the strategy to produce outputs and progress towards the program purpose. Monitoring information would be compared with original work plans and schedules in order to quickly identify implementation problems. The responsibility for monitoring the program rests with the Amana, appropriate officials in the participating governorates, and USAID. Together they would develop a monitoring plan during the first six months of the project and build it into the project's Management Information System (MIS).

Each stage of the local development process would be monitored closely, using an integrated MIS. Plans and financial records would be kept manually in villages and districts and reported quarterly to the governorate planning and development offices. Completion and acceptance reports would also be included in the information system of the local unit. In governorate centers, the records would be placed on the computer for checking, analysis, and reporting - both to governorate LDCs, and also both to the districts and villages. The governorates would then report to the Amana every quarter. The Amana would analyze and review the data.

Periodic evaluations would assess whether the desired results are being achieved, and whether the program purposes continue to be appropriate to the country needs. The basic framework for the evaluation would be provided by the logical framework of this project paper. Baseline information is found in working papers and background materials for LD II (Annex 8, and Annex 9).

External evaluations, independent of program authorities, would be carried out regularly. The first would be in February 1986. A full sector assessment would take place in November 1986.

VIII. Financial Plan

Tables A and B (pages xxvii, xxviii) present the overall LD II financial plan by component, source of financing, and projected disbursements by fiscal year.

FFSUM
LAST REVISED ON 8/13/55

TABLE A : LD II: SUMMARY FINANCIAL PLAN
DESCRIPTION OF COST BY INPUT BY SOURCE

INPUTS	U.S (in $ MILLION)			G.O.E (in $ MILLION)				9 LD II TOTAL	U.S (in LE MILLION)			G.O.E (in LE MILLION)				9 LD II TOTAL	RATIO OF INPUT FX TO INPUT COST	RATIO OF INPUT COST TO TOTAL COST
	1 $	2 LE	3 TOTAL	4 MLG/KPIC	5 MOF	7 LOCAL	8 TOTAL	$	1 $	2 LE	3 TOTAL	4 MLG/KPIC	5 MOF	7 LOCAL	8 TOTAL	LE		
A - BLOCK GRANT																		
- URBAN	6.67	20.00	26.66	1.33		1.33	2.67	29.33	5.53	16.60	22.13	1.11		1.11	2.21	24.34	23%	13%
- PROVINCIAL	24.01	72.02	96.03	4.80		4.80	9.60	105.63	19.93	59.78	79.70	3.99		3.99	7.97	87.67	23%	46%
SUB TOTAL	30.67	92.02	122.69	6.13		6.13	12.27	134.96	25.46	76.37	101.83	5.09		5.09	10.18	112.02	23%	59%
B - MAINTENANCE FUND					53.20		53.20	53.20					44.16		44.16	44.16	0%	23%
C - PVO GRANT FUND																		
- URBAN		4.68	4.68			0.23	0.23	4.91		3.88	3.88			0.19	0.19	4.08	0%	2%
- PROVINCIAL		10.92	10.92			0.55	0.55	11.47		9.06	9.06			0.45	0.45	9.52	0%	5%
SUB TOTAL		15.60	15.60			0.78	0.78	16.38		12.95	12.95			0.65	0.65	13.60	0%	.7%
D - STAFF SUPPORT																		
- TECHNICAL AMANA					0.84		0.84	0.84					0.70		0.70	0.70	0%	0.4%
- INCENTIVE FUND					4.82		4.82	4.82					4.00		4.00	4.00	0%	2%
SUB TOTAL					5.66		5.66	5.66					4.70		4.70	4.70	0%	2%
E - TECHNICAL ASSISTANCE	4.96	4.96	9.92					9.92	4.12	4.12	8.23					8.23	50%	4%
F - TRAINING	1.04	2.08	3.12	0.31			0.31	3.43	0.86	1.73	2.59	0.26			0.26	2.85	30%	2%
G - EVALUATION.RESEARCH	0.78	0.78	1.56					1.56	0.65	0.65	1.29					1.29	50%	1%
H - CONTINGENCY	1.56	1.56	3.11					3.11	1.29	1.29	2.58					2.58	50%	1.4%
I - TOTAL	39.01	116.99	156.00	6.45	58.86	6.91	72.22	228.22	32.33	97.10	129.43	5.35	48.65	5.74	59.94	189.42	17%	100%

33

-xxvii-

Table 1: SUMMARY OF DECENTRALIZATION SECTOR SUPPORT (DSS I) ACTIVITIES (1978-85)

Activity	Grant	No. of Gover-norates 1/	No. of Districts	No. of Subacti-vities 2/	No. of Trainees	Principal Activities
DDI	$ 26.20	20	560	775	10,000	Loans for income producing projects for local councils. Training ORDEV/village staff.
BVS	$300.00	22	860	4200	60,000	Grants to villages for basic services infrastructure. Training governorate and village staff.
DSF	$100.00	21	----	2000	500	Grants to governorates for heavy equipment for basic services.
NUS	$ 89.00	4	23	1200	3,868	Grants to districts and PVOs for education, health, youth, etc. infrastructure upgrading and expansion.
SDS	$ 10.00	----	----	-----	2,000 (Projected)	Evaluation/research for the technical secretariat. Training and technical assistance for the Sakkara Institute and the LD II Technical secretariat (Amana Fanniya)

1/ Suez and Port Said governorates were not involved in any DSS I activities

2/ Sub activities were: in DDI, loans; in BVS and NUS, infrastructure sub-projects in districts and villages; in DSF items of heavy equipment.

FPEIP-2C
LAST REVISED ON 7/29/85

TABLE B : LD II SUMMARY FINANCIAL PLAN
ESTIMATED USAID AND GOE EXPENDITURES BY FISCAL YEAR

INPUTS	(IN US$ MILLON)						(IN LE MILLON)					
	1	2	3	4	5	8	1	2	3	4	5	8
: GOE FY :	85/86	86/87	87/88	88/89	89/90	TOTAL	85/86	86/87	87/88	88/89	89/90	TOTAL
: USG FY :	FY 86	FY 87	FY 88	FY 89	FY 90		FY 86	FY 87	FY 88	FY 89	FY 90	
A - BLOCK GRANT FUND												
- URBAN	5.84	20.45	3.03			29.32	4.8	17.0	2.5			24.34
- PROVINCIAL	23.79	52.87	28.98			105.64	19.7	43.9	24.1			87.68
SUB TOTAL	29.63	73.32	32.01			134.96	24.6	60.9	26.6			112.01
B - MAINTENANCE FUND	17.73	17.73	17.73			53.20	14.7	14.7	14.7	0.0	0.0	44.16
C - PVO GRANT FUND												
- URBAN	1.99	2.00	0.92			4.91	1.7	1.7	0.8			4.08
- PROVINCIAL	2.10	6.29	3.08			11.47	1.7	5.2	2.6			9.52
SUB TOTAL	4.09	8.29	4.00			16.38	1.7	5.2	2.6			9.52
D - STAFF SUPPORT												
- TECHNICAL AMANA	0.22	0.05	0.23	0.21	0.15	0.84	0.18	0.04	0.19	0.17	0.12	0.71
- INCENTIVE FUND	0.00	1.20	2.41	1.20	0.00	4.82		1.00	2.00	1.00		4.00
SUB TOTAL	0.22	1.25	2.64	1.41	0.15	5.67	0.18	1.04	2.19	1.17	0.12	4.71
E- TECHNICAL ASSISTANCE	0.35	4.78	4.79	0.00	0.00	9.92	0.3	4.0	4.0	0.0	0.0	8.23
F - TRAINING	0.15	1.23	1.11	0.59	0.25	3.43	0.1	1.0	0.9	0.6	0.2	2.85
G - EVALUATION/RESEARCH	0.00	0.40	0.70	0.10	0.35	1.55	0.0	0.3	0.6	0.1	0.3	1.29
H - CONTINGENCY	0.23	0.44	1.00	1.00	0.44	3.11	0.2	0.4	0.8	0.8	0.4	2.58
I - T O T A L	52.40	107.44	63.98	3.20	1.19	228.22	41.84	87.52	52.34	2.66	0.99	185.34

35

LOCAL DEVELOPMENT II

I. THE DEVELOPMENT CHALLENGE

I. A. Providing Basic Services in Villages and Urban Neighborhoods

Local Development II is about building the capacity of local institutions, both public and private, to meet the basic needs of Egypt's rural and urban poor. Equally important, LD II is about building institutions that encourage popular participation in development and democratic decision-making. Finally, LD II is about local projects to provide essential services, such as water, sanitation and farm-to-market roads.

In 1980, the World Bank estimated that one out of three Egyptians, about 12 million people, had no access to safe water (World Bank, 1984). In Sharkia, one of Egypt's more developed governorates, one quarter of the residents do not have access to clean water (JICA, 1984). Water networks in most areas are far more widespread than sewer systems. This contributes to the serious health problem caused by stagnant water near residences (Working paper 15 - see Annex 8).

The quality of life in much of rural and urban Egypt leaves much to be desired. Infant mortality is very sensitive to changes in basic living conditions. Recent demographic analyses indicate that the rate is about 100-120 infant deaths per 1000 births per annum 1/. This is high and, though it appears to be dropping, it reflects the poor sanitary conditions in much of Egypt (Prosterman and Reidings, 1985, p.8).

In 1980, USAID surveyed the infrastructure requirements for adequate systems of water, sanitation, drainage, roads, and canal-lining in nine governorates. It estimated, using World Bank cost data, that US$727 million in 1980 prices would be needed in these nine governorates alone. Expanding this estimate to the entire country (excluding metropolitan Cairo, the Canal Cities and Alexandria) 2/, indicates that US$1.5 - $2.0 billion would be needed to meet investment requirements. Existing USAID projects and GOE investments, though sizeable, have only partially met the need.

---

1) Official estimates suggest a decline in the rate from 128 infant deaths per 1000 births per annum in 1960, to 110 in 1983 (World Bank, 1980, and 1984). A recent demographic analysis of the Egyptian population indicates that the rates were possibly higher at 175 in 1960 and 114 in 1981 (Bucht and El Badry, 1984, p.30).

2) Water and sanitation systems in Greater Cairo, Alexandria, and Canal Cities, are being provided through other GOE/USAID projects.

(0044A/1066D) - 8/15/85

During the last decade another equally serious problem has become evident. "It is no secret that maintenance is poorly performed on public facilities in much of Egypt" (ISTI, 1985, p.6). Every evaluation, audit, and study of the Decentralization Sector (DSS I) activities since 1982 has made the same point. Not only is there a dire need for basic infrastructure, but an equally pressing need to improve its operation and maintenance. A recent report clearly indicates that operation and maintenance is grossly underfunded and poorly organized in the six governorates studied (Transcentury, 1985, p.9).

The lack of basic services is compounded, in the urban neighborhoods of Cairo, Alexandria, and the provincial cities by the large influx of people from the villages to the urban areas. It has been estimated that the urban population of Egypt will increase by about 20 million between 1976 and 2000, while the rural population will increase by 10 million. In 1976 the urban population was 44% of Egypt's 37 million people. By 2000 it is estimated that it will be 54% of 68 million (PADCO, 1985, p.34). There are some indications that Cairo is not increasing in size as rapidly as in the past, but immigration into the provincial cities will continue. Unfortunately living conditions in parts of these smaller cities are as bad as those in the poorest Cairo districts and many rural villages.

The absence of clean water, waste disposal and good roads, which provide access to raw materials and markets, restricts the growth of rural and small urban industry. The evaluation of Basic Village Services (BVS) noted that some 20 different types of local private businesses were benefiting from BVS-funded subprojects, and also that expanded economic activity quickly followed the provision of services (Chetwynd, E. and others, 1984).

The Government of Egypt has recognized for some time that the tasks of local economic development and meeting basic needs are too large and locally varied to be achieved through central administration. The GOE has also recognized that overly centralized direction inhibits local efforts to find and implement effective solutions to local problems. This has been a major item on the GOE's development agenda for the past decade. Initial successes have encouraged a more concerted effort for the eighties, particularly within the framework of the next Five-Year National Development Plan, to start in 1987.

I. B. GOE Policy: The evolution of local government from centralism to local development, 1960 - 1990

Twenty-five years ago, in 1960, the GOE replaced its system of central administration with local government which has subsequently been steadily decentralized (Working Paper 18). The "Silver Jubilee" year of Egypt's contemporary system of local government system is 1985. Since 1960, there have been consistent efforts by the People's Assembly to decentralize authority and responsibility for many government functions. The laws have established a system of parallel executive and elected councils and require each of them to play an active role in local development and the provision of basic services.

The direction of local government legislation is clear from Chart 1 (page 4). Several steps still remain to be taken. Governors are still appointed by the President, rather than elected, and local elections are based upon party lists, rather than individual candidates. Also, local governments have yet to acquire any significant authority to generate resources locally to finance local development priorities. For example, Prime Ministerial Decree 140/1982 requires any increase in local fees to be approved by the Prime Minister and Cabinet. Also central ministries continue to dominate sectoral development programs and have not fully aligned their work with local governments in a mutually reinforcing manner. Nevertheless, from an historical perspective, the evolutionary process focused on both decentralization and democratic participation has been most impressive.

I. C. Relationships to US Policy, the Mission strategy and Other USAID Projects

USAID returned to Egypt in the mid '70s and noted the close coincidence between AID's development strategies - focused on basic human needs and popular participation - and those of the GOE. The governments jointly planned a series of projects which sought to increase the provision of basic services through a decentralized planning process within local government.

USAID's local development policy and strategy is derived from U.S. Law. The Foreign Assistance Act (1981) cites among the preferred means of local development:

- The creation and strengthening of local institutions linked to regional and national levels;
- the organization of a system of financial institutions that provide both savings and credit facilities for the poor;
- the stimulation of small, labor-intensive private sector enterprises in rural towns;
- the expansion of rural infrastructure and utilities such as farm-to-market roads, water management systems, sanitary drainage systems, land improvement, energy and storage facilities.

AID/W's guidance on AID Support for Local Government Programs (State 199220/1982) states that the Administration's "primary concern is that AID assistance strengthen, not weaken, the independent capacity of local government at the local level, and that our assistance positively encourage, not discourage, greater community participation and

56

Chart I:

THE EVOLUTION OF DECENTRALIZATION IN EGYPT:

A SUMMARY OF THE LOCAL GOVERNMENT LAWS

Law 124 of 1960:

- Local councils formed at governorate, village and town levels. A majority of their members are elected.
- Responsibilities of councils established. Village councils provide health, education, labor, agriculture, culture, social, and basic services.
- Sources of revenues established.
- Governors appointed at the rank of deputy minister.

Law 57 of 1971

- Local councils at all levels split into elected and executive councils. The latter formed of heads of government departments at that level of government.
- Planning and monitoring functions of local councils expanded.
- The right to question members of the executive councils and governors given to the elected councils.

Law 52 of 1975

- Councils established at district level in both urban and rural governorates.
- Responsibility for providing further services, including public utilities, accorded to the councils.
- Governor appointed as, and accorded the authority of, a minister over all employees in the governorate.
- Local Services and Development Funds established for all local units. This provides the local units with their own discretionary funds which do not revert to the Treasury at the end of the fiscal year.
- Rights of questioning and interrogation of the executive by the elected members of the councils are expanded.

Law 43 of 1979

- Every council must have at least one female member.
- Responsibilities of local councils further clarified and increased.
- Governor appointed as a full minister.
- Local revenue sources increased.

Law 50 of 1981

- Higher Council for Local Government comprising both governors and elected council chairmen established under chairmanship of Prime Minister.
- Responsibilities of local councils further expanded.
- Some local revenues increased.

351

self-reliance, including the growth of private, non-governmental organizations at the local level ... When local units of government are found desirable for assistance...support should be viewed as a long-term institution building process which requires an AID commitment to a long time frame in order that sufficient opportunity is allowed for developing sustainable self-help capacity."

The FY 1986 CDSS views the Local Development Program as the primary thrust of AID assistance for institutional capacity-building and economic infrastructure.

There are a number of projects in the Mission, outside the decentralization sector, that relate directly to local development. The Basic Education Project provides funds to nine governorates to build locally planned schools. The Small Farmer Production Credit Program has developed, in three governorates, a very effective agricultural development and credit program for small farmers working through the village branches of the Principal Bank for Development and Agricultural Credit. These projects will be expanded during the coming year, but it will be several years before they become nation-wide activities. On the urban side, the Helwan Housing project has effectively demonstrated how a fund for small loans to upgrade low-income housing can be established. This project has also shown how local PVOs can cooperate with local authorities to provide public sanitary services. The Institutional Support Project designed by the USAID Office of Urban Administration and Development (UAD) will provide technical assistance, training, equipment, materials, publications and research grants to assist the Ministry of Housing and Public Utilities (MHPU), the National Organization of Potable Water and Sanitary Drainage (NOPWASD) and local governmental agencies is meeting municipal water and wastewater throughout Egypt.

I. D. Relation to Activities of Other Donors

There is close correspondence between USAID's local development activities and those of several other donors. The World Bank is assisting Beheira Governorate to establish a local water company which will provide better water service in return for increased water rates. The increased revenues will be retained by the governorate and used to operate and maintain the system. The Bank is also studying the possibility of providing assistance to secondary cities to enable them to provide their citizens with better basic services and raise local resources to fund their recurrent costs. Finally, the Bank is assisting the city of Cairo to improve its capacity to manage the complex problems of urban growth through its Management and Operations Project.

Sharkia governorate, with Japanese assistance, has developed a detailed plan for a governorate water company (JICA, 1984). UNICEF has assisted the Ministry of Local Government and several governorates in Upper Egypt with a village development program, which supplements USAID's BVS Activities in those governorates.

40

The Ministry of Planning has conducted a five-year program, with UNDP assistance, to produce an economic development plan for Region 8 comprising Aswan, Qena, Red Sea, and Sohag governorates. The findings which support decentralization, were published in 1984 (UNDP, 1984).

I. E. USAID's Role and Accomplishments: Decentralization Sector Support I, 1978-85

Five joint activities, developed between 1978 and 1981, were grouped into the Decentralization Sector Support Program (DSS I) in 1982. The activities; Development Decentralization I (DD I), Basic Village Services (BVS), Decentralization Support Fund (DSF), Neighborhood Urban Services (NUS), and Sector Development and Support (SDS), have provided sizeable financial resources ($600 million) to almost every unit of local government to enable them to provide improved basic services, increase their own discretionary funds through investment, and purchase heavy equipment. More than 6000 subprojects have been implemented, 775 small loans made, and over 1,200 items of equipment delivered, with 800 more on order. Funds were also provided for large training programs (over 60,000 participants), and technical assistance (Table 1, page 7).

During DSS I, local units of government convincingly demonstrated that, given adequate funds, they can effectively plan and implement basic services and small income-producing projects. The number of sub-projects and speed of implementation have far exceeded the expectations of project planners. The combination of financial resources, local initiative, and technical assistance has increased the capacity of local units to assess problems, propose solutions, secure external resources, and plan and implement projects.

As investment increased during DSS I, weaknesses in the local government system began to act as impediments to long-term economic growth and local development. The major constraints were identified in evaluation and audit reports (listed in bibliography, Annex 9).

I. F. Present Constraints to Local Development

Key constraints remain in the areas of policy formulation, the planning process, fiscal decentralization, coordination of investment with recurrent costs, subproject design, operation and maintenance of infrastructure and human resources development.

I. F. 1. Policy Formulation: At present there is no policy group that seeks to rationalize and advance local development policy within the development planning process.

The DSS I program agreement signed in August, 1982 proposed the creation of a Sector Steering Committee (SSC), "charged with the assessments and direction of this program (DSS I) and to be served by a technical secretariat charged with the collection and analysis of baseline data against which budget and implementation decisions may be determined by the SSC for the total program," (USAID, 1982 b, p. 8).

41

Table 1: SUMMARY OF DECENTRALIZATION SECTOR SUPPORT (DSS I) ACTIVITIES (1978-85)

Activity	Grant	No. of Gover-norates 1/	No. of Districts	No. of Subacti-vities 2/	No. of Trainees	Principal Activities
DDI	$ 26.20	20	560	775	10,000	Loans for income producing projects for local councils. Training ORDEV/village staff.
BVS	$300.00	22	860	4200	60,000	Grants to villages for basic services infrastructure. Training governorate and village staff.
DSF	$100.00	21	----	2000	500	Grants to governorates for heavy equipment for basic services.
NUS	$ 89.00	4	23	1200	3,868	Grants to districts and PVOs for education, health, youth, etc. infrastructure upgrading and expansion.
SDS	$ 10.00	----	----	-----	2,000 (Projected)	Evaluation/research for the technical secretariat. Training and technical assistance for the Sakkara Institute and the LD II Technical secretariat (_Amana Fanniya_)

1/ Suez and Port Said governorates were not involved in any DSS I activities

2/ Sub activities were: in DDI, loans; in BVS and NUS, infrastructure sub-projects in districts and villages; in DSF, items of heavy equipment.

In January, 1983, the sector assessment team wrote: "...there has been relatively little discussion of the achievement of sector goals...those (officials) who were involved in the development of (DSS I) have either retired from goverment or have moved to other positions." (Kerr and others, 1983, p. 23)

In March, 1983, the Prime Minister issued Decrees 249 - 252. These established the Sector Steering Committee (SSC) and Inter-Agency Committees (IACs) for each of the DSS I activities. The IACs meet regularly and have managed project implementation well. The SSC, however, only met twice between its formation and October 1984. This may have been due, in part, to a lack of major impediment to the implementation of the activities, but also largely because its technical staff and secretariat were never appointed and operational. This means that there has been little discussion of policy issues prior to the design of the current program.

During the past six months the SSC has met frequently to consider major issues associated with the LD II program design. The technical secretariat, Amana, has been formally constituted with a broad interagency membership. It has been meeting weekly to discuss the design of the LD II program. The institutions required for policy development and dialogue are in place and would be further developed during LD II.

The LD II policy dialogue is important since it is the only USAID program that promotes development through democratic institutions at the local level. The delivery of basic services requires joint decisions and actions by the executive and elected councils. The DSS I portfolio and the proposed LD II program provide substance and purpose to local democracy in Egypt.

I. F. 2. The Planning Process: The local development planning system, which encourages full, popular participation, is not institutionalized in all governorates.

The planning processes used under DSS I, were patterned after those legislated by Law 43/1979 and Law 50/1981. The initial results were very encouraging, but further work is required.

"The NUS process has helped local government firm up its objectives of providing services to people in the form of increased public facilities and increased responsiveness to local needs. There is a long way to go before there is agreement on the practical objectives of district level government versus governorate and national ministerial levels...(Our recent interviews) in the districts exhibit a striking improvement in the practical attitudes of district staff regarding their overall task and what they need to accomplish it." (ISTI 1985, p.10)

The BVS evaluation team reported very mixed results based upon a survey in 10 governorates. They found some evidence to suggest that length of participation in BVS was clearly related to building local planning and management capacity(Chetwynd E, and others, 1984, pp.11-14).

H3'

Results of DSS I show that the completion of three planning cycles, as each governorate and most local units have done, does make a difference to popular participation, the expression of local needs and the type of projects undertaken by the local units. Three planning and implementation cycles are insufficient, however, to fully institutionalize the major changes sought by the program. Additional cycles, with improvements in the processes involved, are required. LD II would provide funds for two additional annual cycles, and after careful evaluation, LD III may continue to fund cycles within the context of the next Five-Year National Development Plan.

I. F. 3. Design of Basic Services Infrastructure: The technical design capacity at the local level is limited and not adequate for more complex service systems.

The BVS evaluation team concluded, "Subproject engineering has been generally appropriate to the needs and condition of Egyptian villages. ... With few exceptions, local personnel are sufficiently competent to design and construct the types of water, roads, sewerage and other subprojects found in the BVS program." (Chetwynd, E., and others, 1984, p.18)

More recently, however, AID consultants working on more complex rural water and sanitation projects - the kind that will form a larger proportion of the subproject portfolio in the future - have noted a lack of design capacity at both village and governorate levels, (Working paper 17).

In Cairo and Alexandria, the picture is less sanguine. The (ISTI) evaluation team observed several projects. "designed in ways that are inefficient, inappropriate, or inadequate... the design work for NUS projects is rarely satisfactory. It often consists of very rough sketches with few dimensions." (ISTI, 1985, p.2)

Obviously, if LD II is to better prepare the local units for providing basic services using more complex technologies, then additional training and technical assistance to improve designs and design capabilities is essential.

I. F. 4. Operation and Maintenance of Basic Services:

There are three major constraints to improved operations and maintenance of basic services by local government:

a. The imbalance in local and national budgets between investment financing (Bab III) and recurrent cost financing (Bab II) of local services, infrastructure and equipment;

b. The absence of an effective link between the O&M planning and budgeting system and the capital planning and budgeting system; and,

44'

c. The limited institutional capacity of local government, in terms of management systems, physical plant and equipment, and technical skills required to systematically operate and maintain public services.

I. F. 4. a. The Imbalance Between Investment and Recurrent Cost Financing

In 1976, the combined investment budget for local government was only LE 16.0 million. By GOE FY 1984/85 the local government annual investment budget had expanded to approximately LE 298 million, which is a 1,774 percent increase(19 times), (Table 2).

TABLE 2 : COMPARISON OF LOCAL DEVELOPMENT INVESTMENT (BAB III) AND RECURRENT COST (BAB II) BETWEEN 1976 AND 1984/85 (GOE AND USAID)

TYPE OF FINANCING		ALLOCATIONS (LE MILLIONS)		PERCENTAGE INCREASE
		1976	1984/85	1976 TO 1984/85
INVESTMENT (BAB III)	GOE	15.90	298.00	1,774%
	USAID		73.00	
	TOTAL	15.90	371.00	2,233%
RECURRENT COST (BAB II)	GOE	47.00	166.00	253%

Beginning in 1980 substantial additional capital for investment was made available annually to local government by USAID through the DSS I Program (Table 3, page 11).

If this additional LE 370 million is factored into the annual growth in local government capital investment, the local government investment budget expanded approximately 2,233 percent (23 times) between 1976 and GOE FY 1984/85 (Table 2). This very rapid growth presents a grave problem for local governments which are required by law (Article 121, Law 50/1981) to include in the IR budgets "all operation and maintenance costs for the proper management of utilities, etc.. not budgeted elsewhere". Investments accumulate rapidly into a growing capital stock (decreased only by depreciation) which require a dramatic increase in O&M expenditures. The local government O&M budgets (for

45

TABLE 3 : USAID CAPITAL DISBURSEMENTS DURING DSS 1, BY FISCAL YEAR

(IN LE 1 MILLION)							
USAID FY	1981	1982	1983	1984	1985	1986	TOTAL
GOE FY	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	
B V S	9.80	31.05	64.20	52.10	37.30	27.49	221.94
N U S		6.98	23.26	19.31	11.54	8.16	69.25
D S F **		8.40	13.64	12.30	24.47	23.64	82.45
T O T A L	9.80	46.43	101.10	83.71	73.31	59.29	373.64

** The exchange rate is US $ 1.00 = LE .83

commodity and service inputs), however, grew only 23 percent during this same time period (Table 2, page 10) . While this increase represents a noticeable expansion (though inflation would have absorbed much of it), it is clear that O&M finan[...] with the growth in capital stock put in place[...]

II Ideas
— KORTEN
— Maintenance: assign and support specific responsibility for analyzing and linking capital budget O+M requirements to recurrent budget for O+M in particular governorates.

The reason f[...] with the ad hoc system use[...] the Bab II (O&M) budgets f[...] generating options open to[...] a historical budgeting pro[...] following year are determ[...] guide and adding a small [...] for the addition of new c[...] link between O&M requirem[...] governorates find themsel[...] of not being able to adeq[...] services and equipment un[...]

The present[...] data presented in Table 4, page [...] total capital stock resulting from direct USAID financing under the DSF, BVS, and NUS Projects. The actual financial requirements to operate and maintain this capital stock for FY 1984/85 were conservatively estimated to be approximately LE 24 million. However, the budget available for

46

TABLE 4 : COMPARISON OF DSS I CAPITAL INVESTMENT AND O & M REQUIREMENTS WITH GOE FY 84/85 BAB II MAINTENANCE BUDGET

(ALL COST FIGURES IN LE MILLION)

UNIT TYPE	UNIT NO.	AVE. UNIT COST	TOTAL COST	ANNUAL O&M COST
A. DSF EQUIPMENT (ANNUAL O&M = 10% OF UNIT COST)				
EARTH MOVING	576	0.07	40.09	4.01
TRUCK	985	0.05	48.73	4.87
STATIONARY	157	0.10	15.47	1.55
SUBTOTAL	1718	0.06	104.29	10.43
B. NUS URBAN PROJECTS (ANNUAL O&M = 5% OF UNIT COST)				
MAINTENANCE	8	0.07	0.56	0.03
ROADS	150	0.07	10.52	0.53
OTHERS	731	0.07	51.26	2.56
SUBTOTAL	889	0.07	62.34	3.12
C. BVS PROVINCIAL PROJECTS (ANNUAL O&M=5% OF UNIT COST)				
WATER	1933	0.05	102.84	5.14
ROADS	1286	0.05	64.15	3.21
OTHERS	1375	0.03	40.01	2.00
SUBTOTAL	4594	0.05	207.00	10.35
T O T A L			373.63	23.90

GOE FY 84 _ O&M BUDGET (*)	8.71
PERCENT OF ACTUAL TO REQUIRED O&M BUDGET	36%

* THESE FIGURES REFLECT CURRENT BAB II EXPENDITURE ALLOCATIONS IN THE HOUSING AND TRANSPORT SECTORS AS A WHOLE, EXCLUSIVE OF TRANSFER PAYMENTS.

47

maintenance of roads, water and sanitation systems from relevant Bab II recurrent cost accounts at the governorate level was only LE 9 million, or 36% of the actual requirement. Further, the LE 9 million was not dedicated solely to DSS I investments but had to be streched to meet all governorate level recurrent costs associated with water, sanitation, and road investments.

In the short run, the situation with respect to O&M financing for DSS I investments is not as serious as the above analysis would suggest. This is due to special provisions contained in the respective project protocols wherein the GOE agreed to make a one-time transfer of funds from its investment budget to the governorates to meet initial DSS I O&M requirements. Over the projected economic life of DSS I investments, however, serious shortfalls in O&M financing can be anticipated unless the method of allocating recurrent cost budgets to governorates is modified or additional revenue generating authority is granted to local government to reflect actual O&M requirements.

During the design of LD II the GOE, particularly the Ministry of Finance (MOF), addressed the O&M finance issue. Their concern is indicated by: (1) the MOF's concurrence to substantially increase the level of Bab II funding for governorates to meet current and projected O&M requirements as reflected in the proposed MOF LD II counterpart contribution; (2) an expressed interest in examining the options for switching from an ad hoc to a formula-based system for calculating Bab II recurrent cost budgets for governorates; and (3) an interest in focusing, over the medium term, on the possibilities for modifying the legal and regulatory framework to allow local units, at all levels, to assess and retain user fees, etc. to cover at least the recurrent cost of public infrastructure investments. The Local Resource Mobilization component of LD II would focus specifically on this latter concern.

I. F. 4. b. The Absence of an O&M Planning and Budgeting System That is Directly Linked to the Investment Planning and Budgeting System.

The investment planning and budgeting system used by local governments throughout Egypt is relatively well developed. The same observation, however, cannot be made with respect to the system and process employed by local governments in the planning and budgeting of annual operation and maintenance of basic services and associated equipment. As a consequence, decisions on capital investment projects are frequently made without considering the long-term recurrent costs to local government for the operation and maintenance of these investments. The absence of this linkage introduces a systemic bias into investment decisions in favor of capital-intensive technologies with high recurrent costs. In a country where the current norm is the existence of great deficiencies in the operation of water and wastewater plants and other infrastructure, prudence would dictate the choice of the technology choice to be that with the lowest requirement for operations and maintenance. Without an explicit linkage between investment and O&M

planning and budgeting it is not possible to consider the total financial burden to be assumed by local government as a consequence of the choice of particular capital technology.

The coordinated planning of investment in infrastructure and O&M is made more difficult by the need for coordination and forward planning by all levels of government. At present, most of the recurrent cost financing required by local governments is provided as a subsidy from the central government. This means that every year the national requirements for O&M, based upon the accumulated capital stock in the local units, must be determined. Also annual decisions regarding national investments in infrastructure must be made after an accurate assessment of the ability of the national and local budgets to support O&M costs in the future. Similarly annual O&M allocations in the national budget must be closely linked to O&M requirements and not based upon a running two to three year average of past allocations in the national budget.

Finally, the situation is further complicated by a dichotomy in ministerial responsibility for the investment budget and the recurrent cost budget. The MPIC supervises investment financing while the MOF allocates recurrent cost funding. This administrative fragmentation greatly restricts the ability of local government to produce balanced capital and recurrent cost plans and budgets.

Under LD II these deficiencies in the existing planning and budgeting process would be addressed. As an integral part of the annual LD II planning and budgeting process each participating governorate and village/district council would prepare an operations and maintenance plan and budget covering the annual requirements to operate and maintain existing facilities and equipment financed under the DSS I Program. Likewise, each governorate and local unit would prepare an operations and maintenance plan for each new capital project it proposes to finance through the Basic Services Matching Fund. By encouraging local governments to consider both the capital and recurrent cost implications with respect to their proposed capital investments it is expected that greater attention would be given to the choice of technology. Likewise, by introducing an O&M planning and budgeting process parallel to the investment planning process O&M considerations would be accorded a position in the decision-making process equal to that presently accorded capital projects.

I. F. 4. c. The Limited Institutional Capacity of Local Government to Operate and Maintain Public Services.

At all levels of local government, both urban and rural, there is limited institutional capacity to systematically operate and maintain public services. Several reports (Working Papers 7, 16, 22) have highlighted deficiencies in the areas of organization and management, physical plant, and technical skills training.

ЧA

In March, 1984, the BVS evaluation team noted, "Maintenance is the BVS time bomb". (Chetwynd, E., and others, 1984, p.4). "Maintenance is the weak link in the technical chain,...local officials generally do not understand the need for routine preventive maintenance and few villages have spent any money on maintaining BVS subprojects. The problem is compounded by a great shortage of maintenance workshops in both the villages and the marakez". (Ibid, 1984, p.18)

Regarding NUS subprojects, ISTI wrote, in January, 1985, "It is no secret that maintenance is poorly performed on public facilities in much of Egypt... All services directorates and districts have small maintenance budgets and some have specialized units responsible for such work, but generally the budgets have long been fully inadequate and the maintenance units understaffed. The habit of deferring maintenance until the point of crisis is now ingrained." (ISTI, 1985, p.6)

In June, 1985, Transcentury, reported the following regarding the DSF equipment program. "Maintenance capabilities in the (six) governorates we visited ranged from deficient to almost non-existent....In governorates there were buildings available but they needed improvement. In many marakez there were no buildings. The facilities at most governorates were inadequate in size, poorly laid-out and did not provide sufficient security for the equipment... Training was needed in most locations we visited. Existing skills were not adequate to do the job"... (Transcentury, 1985, pp.27-29)

During DSS I there have been numerous initiatives to address selected O&M institutional constraints.

On the urban side, NUS has financed the physical upgrading of 12 district maintenance centers. Recently 50 participants have been sent to the U.S. for short-term training in O&M management. On the rural side, both the BVS and DSF have made selective interventions. These focused on strengthening local governments' capacity to more effectively address the operation and maintenance of public infrastructure, services and equipment. BVS has established unit O&M costs for the major classes of rural infrastructure (Working Paper 7) and a pilot program has been initiated by ORDEV and the T.A. contractor in three governorates to strengthen the O&M institutional capacity at the markaz and village level (Working Papers 8, 9, 10).

DSF has made funds available to establish or upgrade maintenance centers at the governorate level as well as provide limited training in equipment operation and maintenance.

In summary, several useful, but uncoordinated, efforts focused on strengthening O&M were started under the DSS I Program. Further, these initiatives were always accorded a secondary position in the program with priority attention focused on planning and constructing new capital projects.

90

I. F. 5. <u>Fiscal decentralization: Few resources for basic services delivery and maintenance are generated and controlled locally.</u>

This is the local resource mobilization issue. Local resources, in the context of this project, are defined as financial resources, invested by local people in basic services and the local economy, which are developed and used at their discretion. These have been categorized into public and private resources. The public resources include local taxes on land, buildings and economic activities, tariffs collected for basic services (user fees), as well as central government subsidies which can be spent at the local units' discretion. The private resources include the provision of equity for local businesses, participation in private voluntary organizations, and voluntary contributions for basic services.

Local governments face constraints in both the public and private areas. They are principally interested in mobilizing the resources which they control in order to establish a more predictable base for planning and budgeting. If they succeed in this, decentralization of the fiscal aspects of local government can proceed, and full decentralization of authority will result. Over the long run, the central government is also interested in mobilizing more local resources in order to reduce the central subsidy, thus cutting the deficit in the central budget.

As already discussed, on the public side, financing of local investment and recurrent costs is inadequate. Equally constraining is the unpredictable nature of such funding since in any year 80 to 90 percent is a central subsidy which appears to be allocated in an <u>ad hoc</u> way. During LD II, central subsidies need to be made more predictable, which would require a restructuring of the local/central financial relationship, a change from <u>ad hoc</u> to formula-based allocations, and the development of an O&M planning and budgeting system similar to that currently used for capital investments.

To further enhance the predictability of local finances, and ultimately to reduce the dependence of local governments on central subsidies, local governments need to be able to assess and retain user fees for public utilities, particularly water and sanitation systems. At present, fees are applied to some public services but cover only a small percentage of actual costs. Perhaps more importantly, these fees are not retained by the local units, but are sent to the central government. There, they are pooled and returned as a general subsidy to local government. Thus, there is only a very tenuous link between the fees charged in the localities and the O & M budgets for maintaining the same services. An increase in fee collection will not necessarily lead to a corresponding increase in the O & M budget. This financial structure is a clear constraint to the efficient operation of essential public services.

With regard to private resources in both rural and urban areas, there are thousands of very small private enterprises which provide essential productive and commercial services to local economies (Davis and others, 1983). These enterprises have not received substantial support to expand their operations. This is due, in part, to the absence of effective financial intermediation below the governorate level, since most banks focus on larger clients (Working Paper No. 19). The expansion of local economic activity is essential to the broad-based growth of the Egyptian economy. LD II would continue to explore ways of promoting and assisting the local private sector.

A further local resource which can be tapped with relative ease is the indigenous Private Voluntary Organizations (PVOs). PVOs in Egypt have a long history and solid record in local development. Locally-organized and community-based, these non-profit institutions mobilize local manpower and capital, sponsor small-scale, private-sector activities, provide basic services, produce basic commodities, undertake community clean-up and more.

There are approximately 10,500 PVOs registered with the Ministry of Social Affairs (MSA). The NUS Project has sponsored the expansion of activities of 1,200 PVOs in Greater Cairo and Alexandria. This program has shown that limited support for these community groups (averaging LE 8,000 each) has provided the capital necessary to multiply their services in a self-sustaining way. Preliminary studies in the other governorates indicate that PVOs provide similar services nation-wide in the same abundance. LD II would continue this program in the urban areas and expand it into the provincial governorates.

I. F. 6. <u>Human Resources: The number of institutions, with appropriate curricula required to improve professional and technical skills thoughout the local government system, are not adequate to meet the need.</u>

Throughout the earlier discussions of other constraints, one underlying generic constraint is the lack of staff with appropriate skills. There is no shortage of staff. The GOE's employment policy, with the government as the employer of last resort, ensures that most offices are overstaffed, unfortunately by staff with few job-related skills. The comments of a governor from Upper Egypt are germaine and typical. "In the future, we are hoping to be able to depend on local government personnel. They need training to acquire skills. This should be done in the governorates, not in Cairo. The Ministry of Manpower distributes personnel lacking expertise and are unresponsive to needs. We need on-the-job training and in-service training rather than academic exercises." (Kerr and others, 1983, p. E-3).

The DSS I evaluations point frequently to the need for further training, for example, "...there is a chain of inadequate supervision (of local construction) that begins with the relatively low level of training..." (ISTI, 1985, p. 4).

LD II would address this constraint by including a training component in both local government system developed by the program.

52

Motivating staff, once trained, is also a problem since GOE salaries are so low that many employees with families have serious trouble making ends meet. Moonlighting is common among civil servants. Several evaluators have pointed out the need for small incentives, like those provided in other development programs. LD II would address this issue working within the current GOE guidelines regarding salary incentives.

II. THE LOCAL DEVELOPMENT II PROGRAM (LD II)

II. A. Program Goal

The goal of Local Development II is to improve the quality of life of low-income residents in rural and urban Egypt by providing greater access to essential basic service.

LD II would provide local government decision-makers with experience in the allocation and use of resources and in developing the planning and budgeting and management processes required to carry out and sustain delivery of basic services in the local units. The LD II subproject investments would concentrate on the provision of essential basic services (i.e. potable water, sanitation, roads and other municipal and village services, etc.)

The development hypothesis being tested by this program is:

If greater discretionary authority is granted to local governments, as well as additional financial resources, then local councils will effectively discharge their increased responsibility to:

- develop cost effective programs to meet local needs;
- increase popular participation in both decision-making and financing of local development initiatives; and
- ensure that essential basic services are delivered to low-income residents.

The evidence collected during the implementation of DSS I supports this hypothesis (See Working Papers 16, 21, and Kerr, G.B. and others, 1983).

II. B. Progam Purpose and Strategy

1. Program Purposes

The purposes of LD II are to improve and expand the capacity of local governments to plan, finance, implement and maintain locally chosen basic service projects, and to improve their capacity to mobilize local resources to sustain provision of services.

While these purposes are limited to institution-building with products characterized by physical improvements--roads, water systems, drainage structures--the building of capacity within the system becomes a stepping-off point from which other problems can be tackled and other solutions developed. The mobilization of local resources, to be used at the discretion of the locally elected councils, would enable local units to increasingly implement their own solutions without excessive dependence on higher levels of local and national government.

II. B. 2. Program Strategy

The implementation strategy for LD II would stress the following themes:

a. Decentralization of Authority and Responsibility for Local Development:

To the greatest extent possible, the program would encourage local decision-making. On the public side, this means continued support for the GOE's administrative and fiscal decentralization process. On the private side, this involves promotion of locally-based programs and policies to support development of the local private sector.

b. Building Democratic/Popular Participation:

LD II would continue to emphasize the GOE/USAID commitment to popular participation and democratic decision-making in all aspects of local development.

c. Developing the Capacity of Local Institutions:

LD II would continue to place primary emphasis on the development of local institutional capacity by directing technical and managerial assistance to the process of development planning and finance carried out at the local level, with specific project outputs serving as one measure of evolving institutional capacity.

d. Operation and Maintenance of Basic Services:

LD II would accord the development and finance of institutional capacity for operations and maintenance of basic services at the local level an importance equal to that placed on development of capacity to plan and implement capital infrastructure projects.

e. Local Resources Mobilization:

A major concern of LD II would center on the issue of local resource mobilization consisting of two components.

(1) Public Resource Mobilization.

Activities would support the further development of the GOE's legal/policy framework and local governments' capacity to mobilize a greater share of investment and recurrent costs for basic services through the application of user fees and other local revenues.

(2) Private Resource Mobilization.

This area would develop the climate and programs (e.g. credit) to promote greater local private investment and to encourage, over time, a greater mobilization of savings by local residents and institutions. In addition, funds would be provided to support the efforts of private voluntary organizations (PVOs) to expand and deepen their role in mobilizing local resources and promoting local economic development.

II. C. End of Program Status

The LD II Program Assistance Completion Date (PACD) would be September 30, 1989. At that time it is anticipated that the following institutional improvements, systems and processes, and subprojects would have been institutionalized or completed:

1. The Interministerial Local Development Committee (ILDC) and its Technical Secretariat (Amana) would be fully established and providing:

- central fora for discussing national policies for local development;
- policies and guidelines for the design and implementation of local development programs;
- analysis, with key ministries, of policy issues coupled with subsequent legislative action or regulatory changes to put policy into effect;
- central capacity for technical assessment and evaluation of local development programs;
- oversight for the implementation of GOE local development programs.

2. An integrated planning and budgeting system for local government which balances investment with adequate allocations for associated annual recurrent costs. Locally developed long-term plans for basic services would be reflected in, and partially funded through, the next Five-Year National Development Plan.

3. Restructured central/local financial relationships and the adoption of a matching block grant system for basic service delivery. Local matching funds would be increasingly derived from user-fees which would be raised, in real terms, during LD II.

4. A maintenance system in each unit of local government with the capacity to operate and maintain both fixed plant, such as water systems, and rolling stock.

5. A system of grants to PVOs to stimulate local, private provision and maintenance of basic services.

6. Greater access, for the rural and urban poor, to basic services through the completion by the local government units and PVOs of approximately 3,150 local projects, and the provision of 500 pieces of heavy equipment and fixed plant for O&M and other project-related purposes.

II. D. The Scope and Phasing of LD II

1. Relationship to DSS I

The LD II program would maintain the nation-wide scope established under the DSS I project portfolio. Over three years, LD II would finance two complete annual planning and budgeting cycles in 20 provincial governorates and 23 urban districts. Urban districts in Greater Cairo and Alexandria would all participate in the first year. Provincial governorates would be phased in during the first two years, with nine governorates participating in the first year and eleven more added in the second year. The Sinai Governorates would not be included for LD II funding because they would still be receiving BVS funds for two more years. The Sinais would, however, continue to participate in LD II technical assistance and training efforts.

If the Local Development program is incorporated into the GOE's second Five-Year Plan, as anticipated, and if USAID financing is available, an LD III program would be authorized to start in 1987. Chart II summarizes the overall phasing of DSS I, LD II and the proposed LD III program. Governorates are not identified in this chart since the decision on governorate entry into the program would be left to the respective Interministerial Local Development Committee (ILDC) subcommittees and the ILDC itself. The discussion below outlines the historical DSS I program phasing and the rationale for LD II phasing.

The DSS I program began as a series of discrete decentralization projects which were grouped into an overall sector program in 1982. This first sectoral grouping was known as the Decentralization Sector Support Program or DSS. LD II would focus on continuing the activities of three of the original DSS projects, namely BVS, NUS and DSF.

BVS started in 1980 as a PL 480 Title III-funded activity in three governorates. As USAID grant funds became available in three successive increments, additional governorates were added until the program became nationwide in scope, covering all 22 provincial governorates. Three grants were made to local units for basic service projects. Each unit built up its capacity by completing three projects planning and implementation cycles.

The DSF project provided two successive grants to 21 provincial governorates in FY82 and FY84 (Ismailia governorate was

56

CHART II

IPPHASE4
LAST REVISED - 7/09/85

-LD II SCOPE AND PHASING-
TIME PHASING OF GOVERNORATE PARTICIPATION
DSS I, LD II AND LD III

```
-------------------------------------------------------------------------------------------------------------------------------------
:US FISCAL YEAR      : FY81    : FY82    : FY83    : FY84    : FY85    : FY86    : FY87    : FY88    : FY89    : FY90    : FY91    : FY9
:------------------------------------------------------------------------------------------------------------------------------------
:GOE FISCAL YEAR    : 80/81   : 81/82   : 82/83   : 83/84   : 84/85   : 85/86   : 86/87   : 87/88   : 88/89   : 89/90   : 90/91   : 91/9
:-------------------:----------------------------------------------------------------------------------------------------------------
:OVERALL PROGRAM    :
:PHASING:     DSS I :111111111111111111111111111111111111111111111111111111111111111111111
:             LD II :                                                  22222222222222222222222222222
:            LD III :                                                                      3333333333333333333333333333333333333333333333
:-------------------:----------------------------------------------------------------------------------------------------------------
: A. URBAN GOVTS    :
:                 1 :          111111111111111111111111111111111111111 21212121  22222222  333333333333333333333333333333333333333
:                 2 :          111111111111111111111111111111111111111 21212121  22222222  333333333333333333333333333333333333333
:                 3 :                    11111111111111111111111111111 21212121  22222222  333333333333333333333333333333333333333
:                 4 :                    11111111111111111111111111111 21212121  22222222  333333333333333333333333333333333333333
:                 5 :                                                            2222222222222222222 33333333333333333333333333333333333
:                 6 :                                                            2222222222222222222 33333333333333333333333333333333333
:                   :
:Total Urban Govts:    0         2         4         4         4         4         4         6         6         6         6         2
:-------------------:----------------------------------------------------------------------------------------------------------------
:B.PROVINCIAL GOVT:
:                 1 :11111111111111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 2 :11111111111111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 3 :11111111111111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 4 :          1111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 5 :          1111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 6 :          1111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 7 :          1111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 8 :          1111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                 9 :          1111111111111111111111111111            2222222222222222222 33333333333333333333333333333
:                10 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                11 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                12 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                13 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                14 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                15 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                16 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                17 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                18 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                19 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                20 :          111111111111111111111111111111111111111           2222222222222222222 33333333333333333333333333333
:                21 :          11111111111111111111111111111111111111111111111111111111111           33333333333333333333333333333333333
:                22 :          11111111111111111111111111111111111111111111111111111111111           33333333333333333333333333333333333
:                   :
:Total Prov. Govts:    3        22        22        22        13         9        22        20        22        22        15         2
-------------------------------------------------------------------------------------------------------------------------------------
```

Symbols: 1111111111 represents DSS I Funding (BVS, DSF and NUS projects)
2222222222 represents LD II Funding.
1212121212 represents overlap of DSS I and LD II funding.
3333333333 represents LD III Funding.

excluded with the other canal zone governorates of Port Said and Suez). All Governorates received a DSF allocation in each of the two years. The intent of this project was to provide equipment neccessary to maintain public infrastructure at governorate, markaz and village levels.

NUS paralleled the BVS effort in urban areas. NUS funds first became available in 1981 for Cairo and Alexandria urban districts. In the second year the urban districts located in Giza and Qalubia Governorates were added. In the 1985/86 GOE Fiscal Year, all districts would receive funds from both the DSS I/NUS activity and from the new LD II program. This overlap is indicated in Chart I (page 22). The total allocation to each district from both sources would remain about the same as previous nominal amounts.

II. D. 2. Rationale for LD II Scope and Phasing.

There are two major reasons for keeping the USAID/GOE Local Development/Decentralization efforts national in scope. First, the nature of policy and institutional changes which are needed can be more effectively addressed in the context of a nationwide program. Second, GOE concern for equity in the distribution of program benefits, coupled with an almost uniform deficiency in basic services across governorates, calls for a national program which continues to provide resources to all local government units that participated in the DSS I Program.

LD II would seek to obtain qualitative improvements in key areas of local government planning and budgeting. In particular, the issues of maintenance and of local resource generation and retention would be addressed during LD II. These changes can best be engendered through an active exchange between key central ministries, such as the Ministries of Finance, Planning, Housing, and governorates. With all governorates participating, this dialogue would be national in scope and, as such, be more likely of receiving sustained attention at the policy level.

The rationale for phasing of governorate participation in LD II is based mainly on implementation considerations. In urban governorates, the districts are close together. It is easier to deliver the necessary introductory orientations to all districts. Provincial governorates, on the other hand, are dispersed. Orientation must be given to 868 village councils located in 22 provincial governorates. This can be done effectively only if it is spread over two years.

II. E. DETAILED PROGRAM DESCRIPTION

II. E. 1. The Basic Services Delivery System (BSDS)

a. Description of Basic Services Delivery System

(1) Introduction

The LD II Basic Services Delivery System would develop the institutional capacity of local government units to meet basic service needs of their local constituents and to sustain these services over time.

It is specifically targeted to address the following major constraints to local development described in Section I above. These include:

(a) The lack of complete institutionalization in all governorates of a local development planning system, which encourages full, popular participation.

(b) The limited scope of technical design and managerial capacity at the local level which is not adequate for more complex basic service systems.

(c) The imbalance between investment financing and recurrent cost financing.

(d) The absence of an effective link between the O&M planning system and the capital planning system.

(e) The inadequate technical and institutional capacity, in most areas, for maintaining basic services infrastructure and associated equipment.

(f) The fact that few resources for basic service delivery are controlled locally.

(2) The BSDS strategy:

The BSDS would engage every local unit of government in Egypt in two major annual planning and budgeting exercises. These planning exercises would involve popularly elected local councils selecting projects which address specific community needs. They would focus on maintenance planning and other generic weaknesses mentioned above. This would be done through coordinated application of project planning and selection criteria, provision of technical assistance and training programs. The structure and components of the BSDS are aimed at institutionalizing improvements in the planning and budgeting process at all levels of local government, in both provincial and urban areas.

Matching block grants, financed by USAID and the GOE, would be provided to local units who complete the planning and budgeting process, and who contribute their own funds. The block grants would finance the capital costs of approved projects and thereby provide the experience needed to institutionalize a basic services delivery system. During and after implementation, a major effort would be made to improve the ability of local government units to maintain completed projects and thereby sustain the provision of services. The experience gained in planning, implementing and maintaining each project would be used to further improve the overall service-delivery system in successive planning years.

It is hypothesized that repeated participation by every local unit in the BSDS planning-implementation-maintenance cycle would lead to the institutionalization of the process in the local government system. Establishment of a GOE matching grant system would provide the framework for continued central government support of decentralized basic service planning and delivery after completion of USAID activities.

(3) Key Characteristics of BSDS.

(a) National Scope and Coverage.

As discussed above, BSDS would involve the participation of elected and executive councils at all levels of local government in every governorate of Egypt, both provincial and urban.

(b) Link to the GOE National Planning Process.

The BSDS planning and budgeting cycle would be synchronized with the annual GOE planning/budgeting exercise for both investment and recurrent cost financing. This integration is intended to:

-- permit effective coordination between LD II subproject planning and other investment planning efforts conducted by local governments, and,

-- facilitate the acceptance and institutionalization of BSDS planning, budgeting, and maintenance processes into the standard GOE mode of operation.

LD II would include a specific training component to develop a five-year plan for each governorate. Individual governorate plans could be integrated with the next national five-year plan and establish the empirical base for LD III financing.

(c) Establishment of GOE Matching Block Grant System.

To address the need for greater local fiscal decentralization, LD II would establish a central/local government matching block grant system. The USAID contribution to the BSDS for capital block grants would be augmented by a GOE central/local matching grant. Local units of government would be required to finance at least 5% of the total investment cost of subprojects. This would be a cash contribution over and above any in-kind contributions. In-kind contributions would continue to be encouraged as has been the case in the BVS and NUS projects. The Ministry of Planning (MPIC) would match the local contribution with GOE funds from the investment chapter (Bab III) of the national budget. With this local and central contribution, USAID would finance up to 90% of the total investment in each subproject.

(d) Maintenance Upgrading Effort.

As a significant change of emphasis from the DSS I program, the BSDS would include a major effort to develop the capacity of local government units, in conjunction with the private sector, to maintain basic infrastructure and equipment. In addition to improving maintenance facilities and the skill level of government personnel, this effort would attempt to create a permanent link between planning and budgeting for new infrastructure and equipment, and planning for required recurrent costs which are necessary to maintain new as well as old investments. The local resource mobilization system described below would support this effort by developing means to finance recurrent operations and maintenance costs of basic service infrastructure.

(e) Ministry of Finance Funding for Recurrent Cost of DSS I and LD II Investments.

A final and important departure in operating procedure that would distinguish the LD II program from DSS I has to do with how maintenance financing is made available to local government. Under DSS I, maintenance funds were allocated to local governments by the central government. However, the level of funds required was arbitrarily determined and provided in the form of a one-time payment equal to 10 percent of capital cost for infrastructure investments and 20 percent of capital cost for equipment. The allocation was made to local governments from the central government Bab III capital budget. This system of financing recurrent costs is seriously flawed on two grounds. First, the estimates for annual recurrent costs were arbitrary, rather than based on an analysis of actual needs. Second, the source of financing was the GOE's capital investment budget rather than the Bab II recurrent cost budget.

Under LD II, a new system would be instituted which corrects the above deficiencies. First, recurrent costs for operating and maintaining both DSS I and LD II investments would be budgeted on an "actual needs" basis. This calculation has been carried out as part of the design process for LD II and has led to the general "rule of thumb" that annual recurrent costs are on the order of 5 percent of investment cost for infrastructure and 10 percent of investment cost for equipment. Through attention to cost accounting during LD II, these averages would be continually refined. Second, recurrent costs for DSS I and LD II investments would be financed on an annual basis, based on O&M budgets submitted by participating governorates. Third, annual recurrent cost would be financed by the MOF from the central Bab II recurrent cost budget rather than from the Bab III investment budget.

Over the medium term (through the life of the proposed LD II program), it is expected that the burden of financing recurrent O&M costs would be shifted from the central government budget to local governments. This would be accomplished by introducing new fiscal instruments and delegations of authority to give local governments

d'

the means to generate and retain local revenues. The establishment and institutionalization of the necessary legal, organizational and financial systems would enable local authorities to assume a greater share of recurrent cost financing. These would be the emphasis of the local resource mobilization component of LD II.

II. E. I. b. End of Project Status for Basic Services Delivery System

The following items represent the major results of the LD II Basic Services Delivery System which would be in place by 1989.

(1) A GOE funded matching block grant system would be fully institutionalized and accepted by GOE policy makers as one element of its effort to decentralize fiscal authority and responsibility. This block grant program would provide central government financial support to local governments and enable them to better fulfill their function of responding to the perceived needs of their constituencies in a more democratic, participatory manner. Through this matching block grant system, local communities would be encouraged to generate their own matching financial contributions for local development projects.

(2) A decentralized planning and budgeting process, as called for in local government laws, would be more fully institutionalized. This would result in greater enfranchisement of Egypt's population in the development process and greater local contribution to development at all levels of government.

(3) Improvement in the quality of planning and project implementation capability at all levels of local government. Better technical design, linkage of O&M and investment planning and use of improved computer-based information systems would result in more efficient allocation of resources and investments with longer service life.

(4) Appropriate maintenance facilities in place to serve all levels of local government according to standards established for governorate, markaz, district and village maintenance facilities.

(5) Improved operation and maintenance of basic service infrastructure through restructured local government organization and management.

(6) Approximately 550 urban and 1900 provincial projects would be completed and approximately 500 pieces of infrastructure equipment would be in place, all serving basic service needs throughout Egypt. Through the experience of implementing and maintaining these projects, all local units would have gained valuable practical experience which would carry over in planning other local development efforts.

(7) Approximately 55,000 participants would be trained in planning, project design, accounting procedures, information systems, data analysis, operation and maintenance, and project management. This figure includes 43,000 local council members who would attend orientation and local development workshops.

II. E. 1. c. Components of the System

(1) The Process of Delivering Basic Services.

LD II seeks to institutionalize a self-sustaining, decentralized, fiscal and administrative process for the delivery of basic services. The major steps describing this process are summarized below. These steps would take place in an annual planning and implementation cycle which coincides with the GOE national planning and budgeting cycle. Each cycle comprises six functions:

- assessment of present needs and past performance;
- allocation of resources to meet identified needs;
- planning of projects;
- implementation of projects;
- maintenance;
- evaluation of results, and back to the beginning.

The main actors in the process are the Interministerial Local Development Committee and its subcommittees, governorate executive and popular councils, markaz or district executive and popular councils, and, in provincial governorates, village executive and popular councils. The process is described in more detail in the implementation plan (Section VI, page 70).

(2) The BSDS Matching Block Grants For Local Development.

Each participating governorate would receive an annual block grant which would be disbursed against approved project plans. The block grant would be financed by USAID and the MPIC. Over the two annual cycles per governorate funded under LD II, the MPIC's contribution would be the equivalent of at least $6.13 million, and USAID's would be $ 129.7 million. In addition, each governorate would be required to match the MPIC's contribution to the total block grant. Each governorate would participate for two complete annual planning cycles (See Scope and Phasing, Section II.D., page 21). The actual amount of each governorate's annual block grant may vary according to the determination of the ILDC. On average, the size of each annual block grant would be as shown in Table 5,(page 29).

The BSDS matching block grant approach would require a contribution, by local government units, of at least 5% of the total subproject investment cost. The 5% contribution would be allocated from the Local Services and Development Fund (LSDF) accounts, traditionally a source of local government financing for subproject investment (e.g. the paving of USAID-funded dirt and gravel roads). The BSDS would continue and institutionalize this practice.

Analysis of LSDFs shows that this level of contribution is within the means of the governorates. In 1983/84, the provincial governorates had an average of LE 671,750 in their LSDF accounts; the range was from LE 125,000, in the desert governorates, to LE 2,000,000, in the Delta (Working Paper No.7). BSDS would require that the governorates contribute an average of LE 120,000. The local government

Table 5

AVERAGE SIZE OF LD II INVESTMENT AND MAINTENANCE FUNDS

PER GOVERNORATE PER PLANNING CYCLE BY SOURCE.1/
(US$ millions)

Investment Funds by Source	Provincial Governorates	Urban Governorates
Block Grants:		
USAID	2.40	2.22
MPIC	0.12	0.11
Subtotal	2.52	2.33
Governorate Matching Funds:	0.12	0.11
Total Investment Funds	2.64	2.44
Maintenance Funds by Source		
MOF Bab II	1.16M	0.58M

1. The actual amounts for each governorate may vary considerably from these averages, especially for urban governorates.

units have expressed willingness, to continue allocating their funds to local service and infrastructure projects.

(3) Planning guidelines

Each governorate and participating local units would prepare two different plans as follows:

(a) Annual Maintenance Plan.

In order to address the problem of maintenance for DSS I-funded investments, as well as new LD II investments, governorates would be required to prepare an annual maintenance plan and budget covering the needs of past infrastructure and equipment investments. This maintenance planning effort would be done in conjunction with efforts undertaken in the Local Resource Mobilization component of LD II to address the problems of recurrent cost financing. Cost of implementing these maintenance plans would be funded from the MOF Bab II allocation for maintenance.

If LD II efforts at restructuring recurrent cost financing are successful, it is anticipated that an increasing share of recurrent cost financing would be born by local units. Progress in implementing maintenance plans would factor in the ILDC's assessment of absorptive capacity used to determine each governorate's total block grant allocation. Technical assistance and training programs would, in part, be directed at improving the quality of maintenance planning. These efforts would evolve from current BVS, DSF and NUS work on maintenance.

(b) Annual Capital Investment Plans.

Planning of new capital investments to be funded with LD II block grant funds would be made according to the following guidelines:

i. Investment priorities;

- upgrading of old and construction of new maintenance facilities;
- upgrading of existing infrastructure to make it more easily operated and maintained;
- new infrastructure projects and equipment.

Governorates would have to demonstrate that needs in the first and second priority items have been addressed at all administrative levels before new projects would be approved;

ii. O & M planning for new investments;

Proposals submitted for new subprojects would have to include detailed personnel, organizational and budget plans for operation and maintenance of new infrastructure, as well as a detailed description of the proposed project itself;

iii. Feasibility studies for larger projects;

A technical review would be required for any project costing more than LE 100,000. As discussed below, it is expected that these larger projects would constitute no more than 5% of the total number of LD II projects, and be limited to village wastewater and groundwater disposal efforts in rural areas and the maintenance facility and solid waste programs in both rural and urban governorates. Governorates would be able to allocate a portion of their block grant to finance feasibility studies necessary for larger projects. These disbursements may occur at any time during the normal planning cycle. The ILDC and USAID would establish limits on the amount of funds that may be used for feasibility studies by a governorate in any given year;

iv. Allocation of funds between different levels of local government;

No less than seventy-five percent of each governorate's block grant funds would be allocated to village councils and urban districts for provincial and urban governorates respectively. Up to 25% of block grant funds may be reserved for governorate and markaz level projects which support village and urban district projects. This includes, in particular, markaz or governorate level maintenance facilities and equipment, and improvements in provincial water systems that benefit several village councils;

v. Option to use USAID block grant funds as foreign currency;

Governorates would have the option of using up to 25% of the USAID portion of their annual block grant funds allocation as foreign exchange for importing capital equipment which is unavailable on the local market. Such funds would be counted against a governorate's annual allocation but disbursed directly to U.S. suppliers through a letter of credit (see financial plan).

(4) Types of Subprojects and Equipment.

The guidelines for determining project eligibility would be similar to those currently used in the NUS, BVS and DSF projects. All projects must be public in nature and benefit as many people as possible. Based on the experience of DSS I, it is expected that the majority of projects would be of the following types:

In provincial governorates; expansion and upgrading of potable water networks; construction of small potable water systems; rehabilitation of village feeder roads; construction of small bridges, lining and cleaning of irrigation canals, construction of village wastewater disposal and treatment systems, construction of small groundwater drainage systems, construction of bus stop shelters, construction of new and upgrading of existing solid waste and maintenance facilities. Imported equipment would include road maintenance equipment, garbage and sewerage removal trucks, small compact water treatment systems (for desalination and demineralization), water pumps, generators, water transport trucks, and emergency equipment.

In urban governorates; expansion and upgrading of schools, clinics, youth centers, street lighting, small water and wastewater systems solid waste management, and street paving. Imported equipment would be less important than in provincial governorates, but would probably include items such as garbage removal and cesspit emptying trucks, and some emergency equipment such as fire fighting equipment.

Historically, the average project size for both urban and provincial areas has been approximately LE 45,000 and the time required for implementation ranged from three to ten months. It is expected that these averages, adjusted for inflation, would continue under LD II. An exception is expected in the case of village wastewater and groundwater disposal projects and governorate maintenance and solid waste facilities. These projects would be larger in size, ranging from approximately LE 100,000 to LE 400,000, and may require up to one and a half years for implementation. These larger projects currently constitute less than 1% of all BVS projects. Due to increasing demand for these type of services, it is anticipated that an increasing number of wastewater projects would be requested under LD II. This number would probably range from 50 to 100 projects out of an anticipated total of approximately 2,450. Technical assistance would provide support and monitoring of all projects, with special attention to the larger wastewater projects.

(5) O&M Maintenance Facilities and Management

The LD II Program, through the design of the BSDS, has been specifically tailored to give emphasis to the operation and maintenance of basic services and associated equipment. Given the historically low priority accorded to O&M, the institutional capacity of local governme t to routinely manage basic services, infrastructure, and equipment has not kept pace with the rapidly growing capital stock that has been put in place. The project selection criteria for BSDS projects, as described above, have been designed to correct this past deficiency. Likewise, the Ministry of Finance, which is responsible for the allocation of the recurrent cost budget to local government was invited by the Ministry of Local Government to be a permanent member of both the LD II policy committee and the Technical Amana. These initiatives by the GOE provide assurance that O&M issues would be accorded an importance, under LD II, equal to that accorded to the planning and development of new capital projects.

To reinforce this emphasis on O&M, the GOE and USAID, through both the ongoing NUS and BVS projects and the design work commissioned by the Amana, have established several pilot projects and organizational models for maintenance of both fixed plant and rolling stock. The various models that have been proposed are outlined in Working Papers 5, 7, and 22.

For the maintenance of rolling stock, four organizational models have been proposed. Based on a sample of six governorates, the preferred model would involve the creation of a public sector maintenance company, which Law 43 of 1979 allows. Governorate authorities, through competitive bidding, would contract with the private sector for management of the company who would in turn be responsible, under contract, for the maintenance of all DSF equipment and other rolling stock owned by the governorate. The contract would be funded by the increased BAB II (recurrent cost) allocations made available to local governments by the MOF under the terms of the LD II Grant Agreement. The necessary physical plant and maintenance equipment, if not already in place, would be eligible for priority financing from the BSDS Matching Grant.

The development and implementation of this special program would be the responsibility of an O&M Subcommittee of the Amana. This subcommittee would work closely with the Equipment Supplier's Committee of the American Chamber of Commerce (Egypt), which has been organized to advise the GOE on the operation and maintenance of American source and origin equipment supplied under the DSF and CIP programs. While negotiations have not been concluded, it is anticipated that

67

suppliers would periodically loan staff to the Amana O&M Subcommittee to assist in the development of this important initiative. Additionally, the LD II Program would finance technical assistance, as discussed below, to assist the Amana and participating governorates in the implementation of the program.

For maintenance of fixed plant, particularly water and sanitation systems and other local infrastructure, several alternatives would be tested under LD II. The alternatives range from upgrading the capacity of governorate, markaz and village maintenance organizations to the contracting of indigenous PVOs to manage operation and maintenance of specific systems.

Under BVS, a three-governorate pilot maintenance project is now underway, which aims to upgrade the capacity of markaz and village institutions to operate and service water, sanitation, drainage and other projects financed under DSS I. If proven effective, this model would be replicated during LD II.

Under the Helwan Upgrading Project, financed by USAID, an attractive and potentially replicable organizational model has been tested which could be widely replicated under the LD II Program. In the Helwan area, a community association was organized and incorporated as a PVO. Sewage trucks procured under the project were entrusted to the management of the PVO, which in turn worked with the concerned communities to establish the service schedule for routinely pumping cesspits. The PVO assesses user fees sufficient to cover the operational costs of the program as well as to maintain the fleet of trucks entrusted to their management. This model could be applied to O&M of either rolling stock, as in the above case, or to O&M of fixed plant.

A final model for operation and maintenance of fixed plant that would be encouraged under the LD II involves assistance to water authorities that have been established at the governorate level in three governorates. While these new authorities are presently preoccupied with the maintenance of major urban systems, BSDS matching grants would be used to facilitate the creation of an O&M outreach capacity to service small rural systems within their jurisdiction.

To facilitate O&M initiatives, such as the illustrative examples cited in the preceding paragraphs, up to 25% of the annual BSDS matching grant would be available to governorate or markaz authorities to finance equipment or contract for services focused on upgrading local operations and maintenance capacity.

The preceding discussion has focused on alternative models which local governments would be encouraged to pursue under the LD II program. Of parallel importance for the effective operation and maintenance of basic services, is the need for broader discretionary authority to be granted to governorates and other units of local government to assess, retain and apply user fees to cover operation and maintenance of basic public services. The Local Resources Mobilization component of the LD II Program would address this important concern.

66

(6) The BSDS Training Program

Training would be provided for the provincial, urban and O&M components of the BSDS both locally and overseas.

Under the provincial program, orientation and local development technical workshops for elected council officers would train approximately 39,200 participants. Technical training courses for GOE staff would include government planning/management, information management, maintenance, sanitation engineering, technical design and accounting. These courses would train approximately 3,050 participants over a three year period

The urban training program would continue the NUS funded core courses during the first year of LD II. During the second and third years, LD II would train approximately 4,200 additional participants in a series of three engineering courses and four planning and management courses, and other specialized training. District and popular council workshops would train over 300 participants. There would also be an overseas training component for approximately 100 participants.

The O&M training component would run a series of courses on O&M management, fiscal planning, cost accounting for maintenance centers, rolling stock and fixed plant maintenance, and operator training over a two year cycle involving 3,600 persons.

All BSDS training activities would be closely coordinated with the Ministry of Local Government's Local Development Training Center at Sakkara, as it develops and implements its program.

The number of courses planned and budgeted are specified in Annex 3.

II. E. 2. The Local Resource Mobilization System (LRM)

a. Introduction:

The development of this system is essential because without local control over revenues, and without increasing the proportion of local finance which is raised locally, full decentralization of local government cannot take place. Further, without additional contributions of local resources to basic services, these services cannot be operated or maintained adequately.

The Local Resource Mobilization (LRM) system would address the following policy and financial constraints to local development:

--limited policy analysis focusing on local resource mobilization;
--relatively little local control of local finances,
--inadequate local contributions to the capital and recurrent cost financing of basic services;
--the imbalance between investment budgets and recurrent cost budgets for local basic services.

The LRM system has been divided into a public and a private subsystem.

The public subsystem would focus on generating local resources through appropriate user fees and benefit charges. The fees would be retained in the jurisdictions where they are paid in order to provide for the operation and maintenance of the basic service projects developed during DSS I, through the LD II Basic Services Delivery System, and other local government programs.

The private subsystem would include two component activities. The first would coordinate the resources of PVOs with those of local government to extend their limited resources by encouraging volunteer organizations, which can be mobilized for service delivery. The second activity would be explored in greater detail during LD II. If a project can be designed it would make credit available to small private enterprises in local areas. A preliminary proposal (Working Paper 19) has been submitted to the Amana for consideration. If a consensus is reached between the Amana, GOE banking authorities and USAID, a credit component would be incorporated into the LD II program during U.S. FY1986.

These public and private (PVO) subsystems are discussed separately below.

(0082A/1066D) 8/15/85

70

II E. 2. b. The Public Resource Subsystem

(1) Description of the Public Resource Subsystem.

This activity would be directed and coordinated by a subcommittee of the Amana. The subcommittee would be responsible for policy formation, development of a constituency knowledgeable about local resource mobilization, initiation and support of legislative changes and coordinaton of the implementation of additional components of the subsystem. The subcommittee's agenda would focus on the following limitations of the existing local resource mobilization system:

(a) Grants from central government represent over 87% of local revenues (Working Paper No. 13). Covering O&M expenses by this method, as outlined in Section I.F.4.a. (page 10), would obviously result in large increases in transfers. The Ministry of Finance has indicated it wishes to reduce these transfers in order to reduce overall budget deficits. Other revenue sources need to be identified. In the interest of fiscal decentralization, and constraining central government deficits, these additional resources should be generated locally.

(b) The total level of central grants and their allocation are both based substantially on an ad hoc system (Working Paper No. 13). Thus the central government decides each year on the level of transfers without explicit objective formulae. This introduces an element of uncertainty in the financing of local activities.

The ad hoc grant system also inhibits development of local government revenue sources. Some local officials have suggested that if more revenues are raised locally, then the ad hoc central subsidy would be correspondingly reduced. Analysis of the budget shows that there is a positive correlation between per capita revenues, generated locally, and per capita local expenditures. (The analysis does not prove causality, Working Paper No. 13). The perception, however, that the central subsidy would be reduced is sufficient to discourage local resource mobilization.

Thus, the ILDC should consider carefully how the GOE local/central fiscal relationships could be changed from ad hoc arrangements to more predictable formula-based arrangements.

(c) Local government has limited control over local fees and taxes. Local revenue generation is constrained because the rates for most user fees, miscellaneous fees, and taxes are established at the national level. Local government sovereignty taxes, for example, are imposed at a constant rate and collected by the Ministry of Finance "for

71

the use of local government". No local control exists over the base to be taxed or the rate set. Decree 239/1971 permitted a set of small miscellaneous fees (not classified as sovereignty taxes or user fees) to be doubled without returning to the Parliament for new authority, but Prime Ministerial Decree 14/1982 requires the Prime Minister's permission to increase these fees.

Further, in keeping with the traditional Egyptian budget process, most local taxes and fees are passed to the central treasury, rather than remaining at the local level. The Local Service and Development Funds, created by Law 52/1975 in order to retain some resources at local level, are the exception. Since most revenues revert to the national treasury, the link between setting higher fees and the ability to improve service delivery is very tenuous. For the link to become stronger, fees collected for specific purposes at the local level should be kept in the jurisdictions where they are collected, and dedicated to pay recurrent costs of the services from which they are collected.

Initially LD II would focus upon the retention of user fees at the local level.

(d) User fees imposed on water and wastewater services are too low to achieve either goal for which they are intended. These goals are to finance service delivery and to ensure efficient consumption of the service (Working Paper No. 14). The Minister of Housing and Public Utilities has requested authority from the High Committee for Policies for a water and sanitary drainage rate increase for all governorates. The request was approved by the High Policy Committee of the Cabinet and the new rates have been passed to the governors in a communique from the Ministry. Some governors may adopt the higher tariff only after consulting the local popular councils. Fees are intended to cover 35 percent of O&M costs initially (rising to 100 percent by 1991) and would vary from pt. 3.0 for the first 30 cubic meters for household consumption to pt. 10 for tourism and productive enterprises. A charge for sanitary services equal to 10 percent of the water fees would be imposed.

LD II would focus upon raising user fees to achieve the basic goals noted above.

(e) Local collection practices are still rudimentary. Most local taxes and fees are collected by Ministry of Finance Tax Department employees at the local level. Village, markaz, and governorate officials collect a relatively small amount of revenues from an assortment of more than 40 small fees and taxes. Little expertise has been developed because there is little actual experience in local resource collection. Further, many of these taxes and fees are "nuisance taxes", as the cost of collection exceeds the revenue generated. Enforcement is probably very lax.

The implementation of the public resource subsystem would also require a cadre of trained staff in the Ministry of Finance, in its governorate departments, and in the finance directorates of each governorate, district, markaz and village 1/. The capacity of the MOF, and local universities, and institutes to train local unit staff in public finance and local resource development would be increased by the LD II program. A continuing supply of well-trained staff would be required to sustain the system.

(2) Strategy for Implementing the Subsystem

The LD II strategy for implementing the LRM subsystem would be as follows:

(a) Strengthen the capacity of central government to:

-- identify major local financial resources;
-- conduct research to assess how resources can be mobilized;
-- develop policy changes to enable local units to mobilize additional resources;
-- build a knowledgeable constituency to support policy change; and
-- draft legislation to enact policy changes.

(b) At the same time, the capacity of local government to implement the policy changes and assume the new responsibilities given to them by the changes in the legislation would be increased.

(c) Technical assistance and training would be provided to both central and local government units to enable them to implement the LRM strategy.

(3) End of Project Status of the Public LRM Subsystem

By 1989, the following would be in place:

(a) Increased authority for local councils to collect, retain and expend additional revenues, user fees, etc;

(b) Studies completed concerning modification of the present system of intergovernmental grants for Bab II recurrent costs, from an *ad hoc* system to a formula-based system, to enable local governments to plan with greater certainty;

(c) Increased revenues and user fees collected and spent locally, with an increased proportion of recurrent costs for basic services infrastructure, equipment and maintenance assumed by local units;

1. The Ministry of Finance has direct employees stationed in local government units, down to the district and markaz level. Each governorate also has its own Directorate of Finance with staff at each level of government, down to the village units.

73

(d) Financial, managerial and administrative capacity of local governments strengthened in the field of resource generation and administration;

(e) Local accounting units, certified by the MOF, operational in 50 percent of the local units;

(f) Ministries of Finance and Local Government providing technical assistance to local units in revenue generation and recurrent cost financing;

(g) A local university offering a Master's degree in public finance; and,

(h) A training program for local government and Ministry of Finance staff established and routinely operating.

II. E. 2 c. Subsystem Components

(1) A Policy Forum: the ILDC, Amana and its subcommittee for Local Resource Mobilization

The ILDC and the Amana, which are described in Section III (page 47), constitute the central policy forum in which all aspects of local development would be discussed. Local resource mobilization policy alternatives would be developed by a technical subcommittee of the Amana, using local research institutes and consultants.

The subcommittee, chaired by an undersecretary of the MOF, would comprise representatives from the ILDC, the Amana, and the governorate finance directorates. The subcommittee would also organize workshops and study tours concerning local resource mobilization in the U.S. and third countries for senior policy makers and Ministry and governorate staff. These workshops for senior staff would take place semi-annually (mid-way between meetings of the senior seminar described below). The workshops would focus on the philosophy of local resource mobilization, and specific examples of ways in which local resources have been mobilized effectively in other countries. The LRM subcommittee would become a key organization for implementing the LRM strategy outlined above.

(2) Senior Seminar on Local Resource Mobilization

A small group of senior policy-makers and researchers would form the LRM Senior Seminar and meet, in retreat in Egypt, every six months to consider local resource mobilization policy strategy and program initiatives. This group of 10 to 12 persons would be joined by internationally recognized local finance specialists. It would develop policy options to be considered, and commission studies to explore the consequences of implementing different options.

74

(3) Cadre of Local Finance Specialists

The LD II program would develop a cadre of GOE central and local government specialists in local resource mobilization. The subcommittee of the Amana and the governorate LDC's would identify staff which, after appropriate training, would become the c. e staff of the program to develop and implement the LD II local resource mobilization strategy. It is estimated that about thirty senior and mid-level staff from the Ministries of Finance and Local Government (Dept. of Local Government Finance, and the Budget Department) would be given post-graduate training in public finance. Approximately ten university faculty members would be offered post-doctoral fellowships to study local finance in U.S. universities. Similarly, twenty finance staff in each governorate (520 in all) would receive training related to local resource mobilization. This latter group may contain finance staff from utility companies established by governorates.

(4) Training Programs for Local Finance Staff

LD II would provide three levels of local finance training:

(a) Long-term U.S. graduate fellowships in public finance.

Five mid-level MOF officials and university faculty (with Ph.D.s in economics) would be selected and sent each year, for four years, for graduate training in public finance. The MOF staff would go to selected universities for M.A. degrees. Upon their return to Egypt, they would form the core staff to manage the central government's strategy for mobilizing local resources during the 1990s, and also to institutionalize the training program described in (4c) below. The university staff would receive post-doctoral fellowships to U.S. universities. After returning to Egypt, they would form the faculty for Master's of Public Finance program(s) which would be offered by one or more Egyptian universities by 1988/89.

(b) Long-term graduate training in public finance in Egypt

By the third year of LD II, the university faculty who have received advanced training in the U.S. would establish one or more Master Programs in Public Finance in Egyptian Universities. LD II would offer ten scholarships each year to MOF and governorate staff to obtain graduate degrees in public finance. It is anticipated that these scholarships would continue to be funded under LD III.

(c) Short-term technical training in Egypt

MOF and governorate staff responsible for collecting user fees and other local resources would be given one month courses to

15'

improve their understanding and skills. The technical contents of the courses would be developed by MOF staff with technical assistance provided by LRM consultants to the Amana. The courses would be built upon experience gained during the implementation of BVS, when ORDEV, Chemonics, and the MOF organized training for local unit finance staff (Working paper No. 4). The courses would be implemented in part by the MOF and governorate training departments, with assistance from local consultant trainers.

II. E. 2. d. Description of Private Resource Subsystem

This LD II activity would have two components: a program for private voluntary organizations, and a program for increasing access to credit funds in rural areas. This project paper addresses only the PVO activity. The credit component will be studied and considered for inclusion in the FY 86 PP amendment.

(1) Description of the PVO subsystem

PVOs would be included in LD II because they bring considerable local energy, skills, and funds to the development process. They are a culturally sensitive and appropriate mechanism for mobilizing local resources for basic services. In existing Ministry of Social Affairs (MSA) programs, PVOs contribute half of the project costs. Under NUS, which involved much larger sums for each PVO than provided by the MSA, PVOs contributed 25 percent of project costs. In many cases in which neither the MSA nor AID have provided financial support, PVOs have raised all funds within the community or from fees charged for services.

Indigenous PVOs in Egypt have a long and solid record in local development. Locally organized and community-based, these non-profit institutions sponsor some of the smallest private sector activities, provide basic services, produce basic commodities, undertake community clean-up and more. There are 10,500 PVOs registered with the MSA. They are widely dispersed throughout the country (Tables 6, 7, pages 42,43). PVOs are venturing into new sectors with the provision of services for fees. These self-sustaining activities include the collection of garbage and wastewater in unserviced areas, loan programs using near-market interest rates, day-care centers, and basic health services.

These PVOs activities would be encouraged, and supported under LD II, by providing grants which the PVOs would use to expand their services. During DSS I, the NUS project provided grants to 1,200 PVOs in Greater Cairo and Alexandria. The results of this program indicate that support for these community groups, averaging LE 8,000 each, has provided the capital necessary to expand their services in a self-sustaining way (Working paper No. 24). Fees for services and additional local voluntary contributions of resources ensure that the programs established by the grants are maintained.

76

(2791D/1049D) 8/13/85

TABLE: 6

LD II GRANTS FOR
PVOs IN URBAN GOVERNORATES

Urban Governorates	PVOs Registered in 1985	PVOs eligible for funding (estimate)	Funded during DSSI	PVOs to be funded during LD II	Total Grants during LD II 1/ (LE000s)
Cairo	3005	1500	600	200	1,600
Alexandria	710	600	350	140	1,120
Giza (urban)	350	200	140	40	320
Qalubia (urban)	288	140	30	40	320
Port Said	166	60	---	50	400
Suez	142	50	---	40	320
TOTAL	4511	2550	1120	510	4,080

1. Average grant is LE 8,000 per PVO.

77

TABLE: 7

LD II GRANT FUNDS FOR
PVOs IN PROVINCIAL GOVERNORATES 1/

GOVERNORATE	PVOs Registered in 1985	Number Eligible PVOs (estimate)	Total Grants During LD II 2/ (LE. 000s)
Ismailia	117	25	200
Damietta	108	20	160
Dakahlia	462	95	760
Sharkia	526	107	856
Qalubia (rural only)	124	25	200
Kafr El Sheikh	226	45	360
Gharbia	425	85	680
Menoufia	558	115	920
Beheira	395	80	640
Giza (rural only)	319	65	520
Fayoum	229	45	360
Beni Suef	240	50	400
Minia	727	140	1,120
Assiut	374	75	600
Sohag	275	55	440
Qena	258	55	440
Aswan	308	60	480
Red Sea	51	10	80
New Valley	63	12	96
Marsa Matrouh	63	12	96
North Sinai	44	10	80
South Sinai	20	4	32
T O T A L	5,912	1,190	9,520

1. Only the urban areas of Qalubia and Giza were included in DSS I.
2. Average grant is LE 8,000 per PVO.

, 98

The LD II program would establish PVO Grant Funds in each governorate. Grants would be made to the PVOs in the governorates after project proposals had been reviewed by a subcommittee of the governorate's Local Development Committee. Staff at the governorate level would be supervised by the Social Affairs Directorate of the governorate. The Grant Fund would be financed by USAID (90 percent) and the governorate (at least 10 percent). PVOs receiving grants would be required to contribute 25 percent of the cost of their proposed projects.

The program, as a whole, would be directed and coordinated by the provincial and urbán subcommittees of the ILDC. The subcommittee would be supported by a full-time PVO coordinator and small staff in the Amana.

(2) Strategy for Implementing the PVO subsystem

The strategy is as follows:

(a) Strengthen the capacity of local governments to coordinate and stimulate the development potential of local indigenous PVOs. Expand the existing NUS/PVO program to cover provincial governorates, making the program national in scope. It would be managed by the PVO subcommittee of the ILDC, thus improving coordination between ministries at the central level and involving the MSA in the local development process;

(b) establish small PVO Grants Funds to encourage each governorate to contribute some of its own discretionary funds to the support of the PVOs, and thus mobilize local resources for local development;

(c) establish the governorate PVO Grant Funds, managed by the Governorate Local Development Committee, thus improving horizontal coordination among governorate directorates concerned with local development;

(d) provide technical assistance and training to build the capacity of the system to implement the project and undertake similar activities in the future.

(3) End of Project Status of the PVO Subsystem

By 1990, when LD II activities would be completed the following would be in place:

(a) A system that has the financial, managerial, and administrative capacity to integrate PVOs into the local development process;

(b) The Ministry of Social Affairs and governorate social affairs directorates managing Grant Funds and providing technical assistance to local government units and PVOs.

(c) A PVO training program for local government staff and PVO staff established and financed through local government training grants.

(d) One thousand seven hundred (1,700) PVO subprojects, financed by the Governorate PVO Grant Funds, providing services to low-income residents.

(4) PVO Sybsystem Components

(a) The ILDC and its Provincial and Urban Subcommittees.

The subcommittees of the ILDC would provide the overall coordination and oversight for the PVO activity. They would review and approve the guidelines for the program and annual allocations to each governorate, after receiving policy directions from the ILDC and details of proposed plans for PVO activities in each governorate.

The work of the subcommittees would be supported by a PVO coordinator and a small staff in the Amana. They would be responsible for preparing program documentation and monitoring the progress of the program.

(b) The Governorate Local Development Committees

These committees would perform for each governorate the functions carried out by the ILDC for the national program. They would apply the guidelines to their programs and make allocations to the eligible PVOs after full project plans have been produced. The committee would administer the governorate PVO Grant Fund, with assitance from the staff of the Social Services Directorate, in close coordination with the Planning Directorate. This staff would also produce quartely progress reports for the ILDC and the Amana.

(c) Governorate PVO Grant Funds

These individual governorate funds would draw 95% of their financing from the USAID grant through the ILDC, and 5% from the governorate's funds. This latter contribution may be increased if the program is continued in LD III. The approximate size of the total allocations to each governorate is presented in Tables 6 and 7,(pages 42,43). The total allocation for provincial governorates would be LE 9.5 million (US$11.4 million) and is based upon an average grant of LE 8,000 to approximately 1,200 PVOs. The urban allocation would be LE 4.0 million (US$4.8 million) funding 500 activities averaging LE 8,000 each.

80

(d) Eligible PVO Activities

Selection of PVOs for funding under LD II would be based on criteria established by the ILDC. Only PVOs registered with the MSA and having already established services would be eligible for funding. PVO subprojects should not exceed LE 20,000 for individual activities and LE 50,000 for multi-purpose center projects as pilot-funded under NUS.

Discussions in the Amana, during LD II design, have indicated a consensus on project priorities as follows:

- income generating and productive activities;
- provision of basic services;
- social welfare programs.

(5) PVO training programs

Training would be provided locally for PVO members, MSA staff, Local Development Committee members, governorate Social Affairs staff, and members of local councils. Topics to be covered include planning, management, income generation and community development, basic services operation and management, health, nursery and day-care management. Workshops would last one week and be given by the PVO Federations, the MSA or other appropriate institutes, building on those currently offered by these organizations under NUS.

Approximately 1,700 grants would be made over three years during LD II. Training would be given to two staff in each PVO and an additional 200 Social Affairs and council staff. Thus 3,600 person weeks of training would be offered. This is equivalent to 180 courses with 20 participants each. Approximately sixty courses would be offered each year. Candidates for the courses would be nominated by the GLDCs, with the assistance of the PVO training consultants.

81

III. LD II Organization and Management

A. Organizational Improvements Derived from DSS I

Based on the experience of Decentralization Sector Support Program (DSSI), the GOE and USAID have agreed on the need for several changes in the organizational structure of the LD II Program. The proposed changes would address three deficiencies noted in the implementation of the DSS I Program. First, under DSS I, no staff capacity was in place to analyze and propose solutions to policy and legal issues that constrained program implementation. Second, horizontal communication among ministries at all program levels on policy and program issues remained weak. Finally, technical concerns and issues raised by local governments to the Ministry of Local Government were addressed in an *ad hoc* manner, again reflecting the less than perfect coordination between local government organizations and central line ministries. For each of these problem areas, the GOE and Mission have agreed to appropriate changes in the LD II Program organizational structure and management process. The GOE, prior to concluding formal agreement with USAID on the LD II Program, has already begun the organizational changes to correct for these deficiencies.

The first of these structural improvements would be the reformulation of the Sector Steering Committee (SSC), created in 1982, to enable it to become a more effective policy-making body. Membership of the SSC would be expanded to include several key line ministries whose programs have a direct and major impact on a range of local development issues. Reflecting the incorporation of several line ministries, the SSC would be reconstituted and named the Interministerial Local Development Committee (ILDC). Given this broader ministerial representation, the ILDC would function, in effect, as an interministerial subcommittee for GOE local development policy.

A second improvement, already partially implemented by the GOE, is the creation of a full-time, Technical Secretariat (*Amana*) to the ILDC which would be responsible for:

1) the analysis of policy and program issues, and the formulation of alternatives for ILDC consideration; and,

2) the coordination of technical assistance from all sources (domestic and foreign, public and private) to local government.

Finally, to improve coordination and horizontal linkage problems at the local government level, joint executive and popular council Local Development Committees (LDCs) would be formed at the governorate level to oversee LD II program formulation and implementation.

(0096A/1069D) 8/15/85

III. B. LD II Program Organization and Management

1. Introduction

The following discussion of the roles and functions of the various decision-making units of the LD II management organization follows from the proposed LD II organization structure presented in Chart III, page 49.

III. B. 2. The Interministerial Local Development Committee (ILDC)

(a) Purpose and Background

The GOE and USAID recognize the need for a high-level, coordinating body which would set policy and program guidelines for LD II and modifications in regulations or laws, which have been determined to impede effective local decision-making. Projects and programs implemented under DSSI often dealt with difficult technical and policy issues without the participation of the concerned line ministries. Furthermore, important policy issues had no forum for debate above the level of the concerned governorates and the ORDEV officials responsible for the management of Interagency Project Committees (IACs) for the BVS, NUS, and DSF Projects.

While the ILDC would be responsible for establishing broad policy and program guidelines and would approve block grant allocations to governorates, the participating governorates and local units would control the project selection, planning, budgeting and implementation process within guidelines established by the ILDC.

(b) Role of the ILDC.

The ILDC would:

(1) set policy and assure the appropriate legislative and executive approvals required to implement policy decisions;

(2) approve long-term local development plans as recommended by ILDC subcommittees, the Amana and the governorates;

(3) review annual evaluations of the program and set policy guidelines for the following year;

(4) approve the annual budget allocations for each governorate.

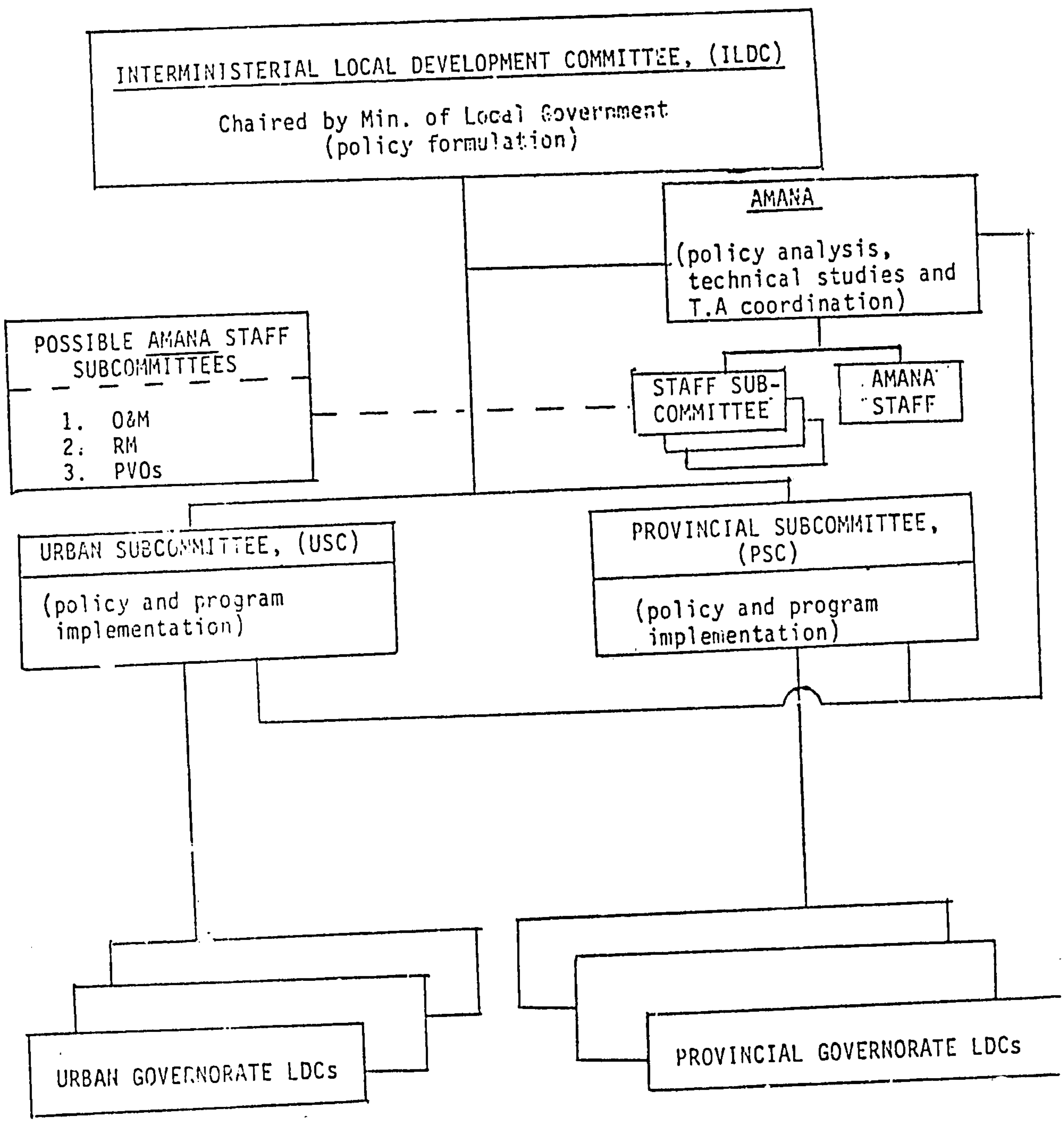
(c) ILDC Membership

The ILDC would be chaired by the Minister of Local Government, with ministerial representation from Planning and International Cooperation, Finance , Health, Housing, Social Affairs , Administrative Development, and Agriculture.

83'

CHART III

LD II MANAGEMENT STRUCTURE



In addition to the above ministerial representation, the governors designated as the chairmen of the Provincial and Urban Subcommittees and the Chairman of ORDEV would sit as members of the ILDC. The Chairman of the Technical Amana would serve as the ILDC rapporteur.

III. B. 3. The Technical Secretariat - The Amana

(a) Purpose and Background

At the start of the GOE/USAID LD II design process, the GOE created a Technical Secretariat (Amana) (MLG Decree #30/1985), chaired by the Chairman of ORDEV. The Amana was created to serve as the principal GOE counterpart agency for the design and implementation of the LD II Program. It has assembled, for the first time in the design of an AID/GOE program, representatives from several line agencies and the governorates to discuss the large number of issues involved in promoting local development. Based on the positive experience in managing the joint design of the LD II Program, the Amana has been mandated to serve as the principal counterpart institution for the implementation of LD II. In this capacity the Amana would serve as the central institution for policy analysis and research on behalf of the ILDC, and for coordination of technical assistance support to the governorates. Accordingly, the Amana would fill the role of a clearing house for all policy analysis and technical concerns generated by the program.

(b) The Role and Function of the Amana and its Relationship to the ILDC and the Provincial, Urban and O & M subcommittees.

The Amana would be responsible for the direction of policy analysis, research and technical assistance to the governorates.

With respect to technical assistance and support the Amana would:

(1) receive and process technical requests from the governorates, the respective sector subcommittees, or the ILDC;
(2) conduct or contract for technical studies and analyses.
(3) recommend technical solutions to governorates in response to governorate requests;
(4) review, for technical adequacy, the annual programs submitted by the governorates for central government and AID funding;
(5) contract, with USAID support, technical assistance for the LD II program;
(6) coordinate all requests from the governorates for training. When applicable, the Saqqara Training Center would be used for such training.

With respect to policy analysis, the Amana would:

(1) conduct or contract for the analysis/study of policy-related issues raised by the ILDC, the Urban, and Rural or O&M subcommittees.

(2) Assist the LDC in carrying out modifications in laws or regulations, as approved by the ILDC or other appropriate authorities, and ensure that policies are translated into program implementation.

(c) Composition of the Amana

The Amana would be chaired by the Chairman of ORDEV, or other senior government representatives as determined by the Minister of Local Government. The Amana would be composed of governorate representatives and representatives of the concerned ministries, i.e. Housing, Health, Agriculture, Social Affairs, Education, Administrative Development, and a representative respectively from the MPIC and the MOF. The Amana would be supported by a full-time professional staff seconded on one or two-year rotations from participating ministries. A full-time Executive Director, responsible for the operational management of the Amana staff, would be appointed by the Chairman of the Amana with the approval of the Minister of Local Government. The Amana would also employ a full-time administrative staff as shown in the Amana's organizational chart below (Chart IV).

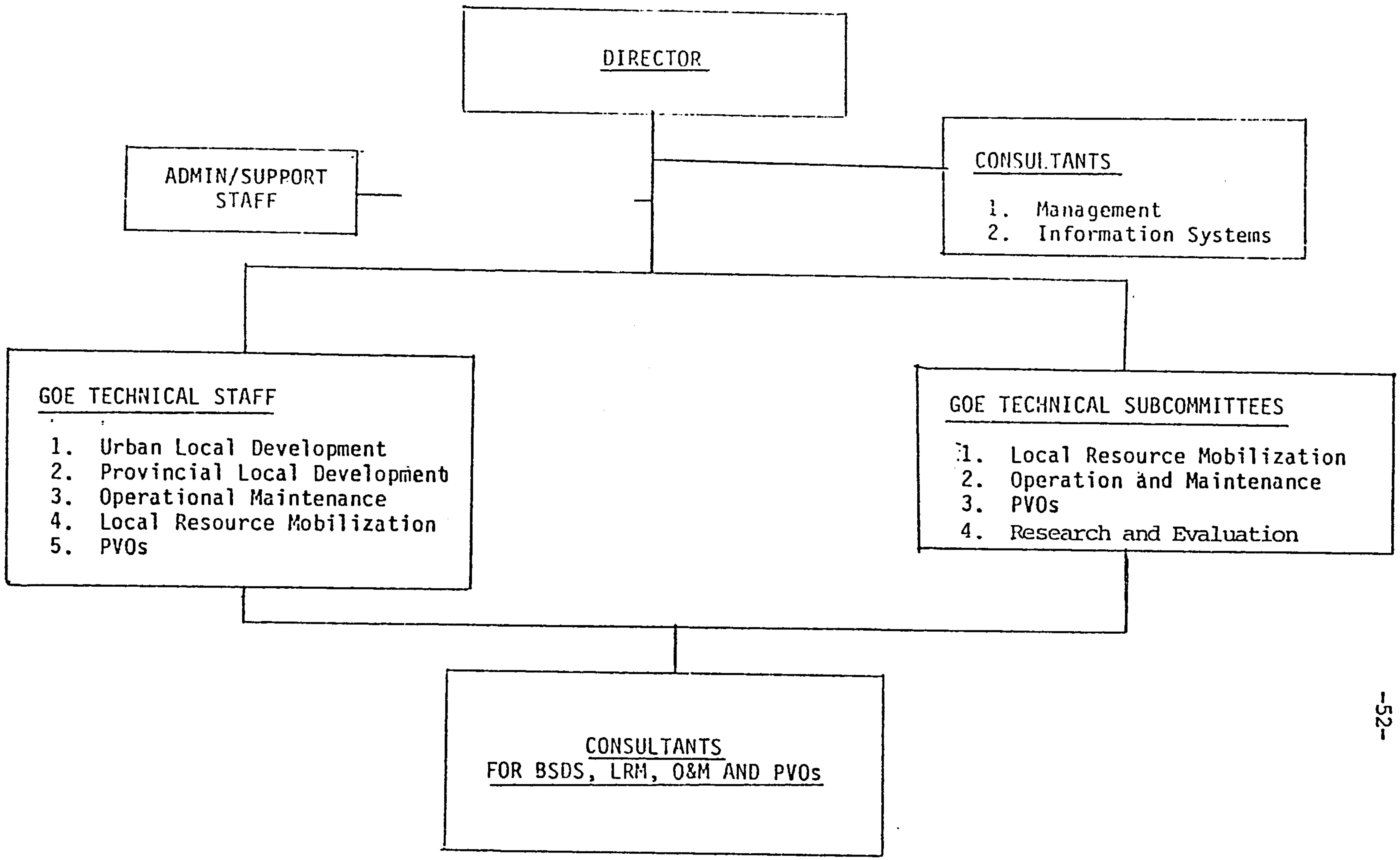
Finally, the Amana would organize working subcommittees, as appropriate, to focus on selected issues. (e.g. local resource mobilization, PVOs, local development policy, etc.).

(d) The Amana Organizational Structure, Staff, and Budget

The Amana has a board composed of representatives of the concerned line service ministries. The Board would be supported by a full-time professional staff seconded from the line ministries represented in the Amana board(Chart IV, page 52). This staff would work with local and expatriate consultants in order to upgrade and institutionalize the capacity of local government to better plan, implement and monitor local development efforts. The Amana would be supported by a full-time administrative staff, which would include an administrative assistant, secretaries, an accountant, a translator, a computer specialist and operator. As the Amana's activities expand, the support staff would be expanded and more staff would be added. USAID would provide funding to cover the cost of the administrative support staff during the initial period of operations, after which the GOE would provide the necessary funds.

CHART IV

ORGANIZATION CHART OF THE AMANA



-- Incentive Fund:

The GOE would establish an incentive fund to pay bonuses to local government employees at the various levels of local units. Bonuses would be paid to employees who work directly on the different aspects of the LD II program, in order to ensure and maintain a high level of motivation. The fund would also be used to pay incentives to the GOE full-time seconded technical staff and honorarium to the Amana board members.

-- Technical Assistance:

The Amana will be supported by a management consultant. This consultant would coordinate the various functions of the Amana and act as a liaison between the Technical staff, the Board members and between the Amana and USAID. An expert on Management Information System (MIS) would also assist the Amana in creating and maintaining management information system of a capacity adequate to meet Amana expected activities. Both consultants would be funded by USAID.

-- Research and Evaluation

The Amana would conduct studies relevant to local government and local development. An annual evaluation will be conducted at the end of the first year, and a sector assessment would be conducted by the end of the second year to assist in the development of the project paper for LD III. Both activities will be funded by USAID.

III. B. 4. The Urban and Provincial Subcommittees (USC and PSC) and the O&M Subcommittee

(a) Purpose and Background:

Under DSS I, both the rural and urban sectors had separate projects (BVS and NUS), and separate IACs to manage those projects. These committees are functioning under the existing program. The GOE and USAID have agreed to incorporate these urban and rural program management groups into the LD II organization and management structure. The purpose of these subcommittees would be to develop and execute the rural (provincial) and urban programs within the policy guidelines of the ILDC. An additional subcommittee for O&M would also be formed, as a component element of the LD II organizational structure. The O&M Committee would assume many of the functions of the DSS I - DSF steering committee and could be responsible for the O&M activities under the LD II program as well as for maintaining a close working relationship with the Equipment Supplier subcommittee of the American Chamber of Commerce (Egypt). Each subcommittee would be chaired by an appointee of the Minister of Local Government.

(b) Role and Function of the ILDC and Subcommittees

The Rural, Urban, and O&M subcommittees would be responsible for:

(1) Determining development strategies, in conjunction with participating governorates, with respect to urban and rural development policies and O&M policies and programs. The committees may either request that the Amana conduct studies on their behalf, or conduct studies/research using governorate resources. These strategies, upon ILDC approval, would serve the function of establishing broad parameters and criteria for the use of LD II funds by local governments. Parameters and criteria would be reviewed periodically to ensure in their continual appropriateness to local development.

(2) Reviewing and monitoring LD II programs in the concerned governorates, particularly with respect to implementation performance, which would govern subsequent-year allocations. They would also make recommendations to the ILDC on the adequacy of each governorate's plans and make recommendations for each governorate's annual block grant allocation.

(3) Recommending technical studies, technical assistance and training to the Amana, as requested by participating governorates.

(c) Composition of the Subcommittees:

Each of the three subcommittees would be chaired by an appointee of the Minister of Local Government. The urban and rural subcommittees would be composed of representatives of the concerned governorates (governors and undersecretaries) and line ministries as well as representatives from the MPIC and the MOF. A representative from the Amana would sit on each of the subcommittees.

III. B. 5. The Governorate Local Development Committee (GLDC):

(a) Purpose and Background

While many governorates under DSS I activated the executive branch of local government in their planning and implementation process, no formal system for so doing was mandated by the program. Again, based on previous experience, LD II would plan for the establishment of a coordinating committee in each governorate.

(b) The GLDCs' Role and Functions:

The governorate LDCs would:

(1) determine initial allocations of LD II funds to the various levels of local government below and at the governorate level;

(2) review and approve programs and projects developed by the markaz/districts and local units before submission to the sector subcommittees and the Amana for final review;

(3) supervise the preparation of plans and programs, particularly for O&M activities, that would be managed at the markaz or governorate level;

(4) coordinate and supervise the governorate PVO Program;

(5) supervise the preparation of the annual O&M plan and budget at all levels of local government;

(6) determine the technical requirements (both for technical assistance and training) for the governorate, and submit requests to the Amana;

(7) supervise preparation of the governorates' medium-term capital and O&M plans for inclusion in the next Five-Year National Development Plan, and for possible financing under the proposed LD III program;

(8) work with the Amana and TA contractors in the implementation and evaluation of the program.

(c) Composition of the LDCs

The LDC would be chaired by the governor or secretary-general of the governorate. The LDCs would comprise undersecretaries or directors of the relevant governorate directorates and chairmen of appropriate governorate popular council committees.

(d) The Annual Planning and Decision-Making Process under LD II

All programs and projects prepared annually by local units would be submitted to the popular councils at each level for approval. When the popular council approves the plans at the local unit level, these plans would be submitted to the markaz level for rationalization. When the combined local unit plans are coordinated at the markaz level, they would, in turn, be submitted to the markaz popular council for approval. All plans and budgets would be consolidated at the governorate level by the LDC, and submitted to the governorate popular council for approval before submission to the sector subcommittees and Amana for review and ILDC approval.

IV. TECHNICAL ASSISTANCE REQUIREMENTS

A. Introduction

Technical assistance (TA) would be provided to support the ILDC, its Amana, the Basic Services Delivery System, and the Local Resource Mobilization system. TA would also develop managerical and technical skills in the governorates, districts, and villages.

The TA contracts would be managed jointly by USAID and the principal subcommittees of the ILDC. A detailed TA plan, showing estimated levels of effort and budgets is presented in Annex 3. The total level of effort is 123 person years, of which 77% would be provided by Egyptian advisors and 23% by expatriate advisors.

The principal function of the consultants would be to build within all units of local government participating in the BSDS the capacity to continue the local development process. Contractors providing TA and training to local government would be required to work closely with the staff of those GOE institutions which would perform similar functions in the future.

Terms of reference for TA would be drawn up and competitively bid to cover the full five years of LD II implementation. Initially, however, it would only be funded for two years. Renewal would be dependent upon demonstrated need, satisfactory performance, and the availability of funds. TA would be procured through USAID direct contracts with eligible U.S. or Egyptian firms, joint ventures or subcontracting arrangements. Special considerations will be given to the development of TORs which meet 8A requirements. The GOE would assign named counterparts, from appropriate institutions to work with the consultants, and would allocate adequate office space for the consultant teams, prior to the award of any TA contract. All TA contractors would work jointly with local institutions and share office space with their counterparts, in order to ensure that maximum capacity-building, and transfer of skills and work procedures take place.

IV. B. The ILDC and the Amana.

Technical assistance would be provided to the ILDC and its Amana to assist in the development of their management information systems and to conduct evaluations of the program. An Egyptian management consultant (three person-years) would be contracted to assist the Amana organize and implement its program. A U.S. management information specialist, (on a direct USAID personal services contract) would spend half of his time with the Amana and half on the urban data management system. The total requirement is one-person year of effort. Two evaluation contracts, of 10 person-months each (5 U.S. and 5 Egyptian), would be competitively bid among eligible U.S., joint venture, and Egyptian companies.

IV. C. The Basic Services Delivery System

1. The Provincial Subcommittee

Technical Assistance would be provided in the areas of planning and management, information systems, finance and accounting, civil and maintenance engineering, sanitation and training. Sixty-one persons-years (46 Egyptian and 15 U.S. person-years) of service are required. The work during the first year would be added to the current Chemonics contract in order to allow timely completion of orientation and training sessions needed at the beginning of the FY 85/86 planning cycle. The two years, funded under LD II, would be competitively bid among all eligible contractors.

2. The Urban Subcommittee

TA requirements for this subcommittee would cover the same areas as those of the provincial contractor. The work during the first year would be added to the current Wilbur Smith contract in order to allow timely completion of the work during FY 85/86 planning cycle. Twenty-seven person-years (18 Egyptian and 9 U.S.) would be required over three years, starting in mid-1986.

3. O&M Technical Assistance:

TA would be provided to the technical Amana, its O&M subcommittee, and participating governorates to assist in improving the O&M planning, finance and management processes, which directly link O&M considerations to the investment planning. O&M TA wouls also assist the development of maintenance programs, and associated physical facilities and equipment at all levels of local government.

The level of effort would be 20 person-years (12 Egyptian and 8 U.S.) of consulting services.

IV. C. Rural Resource Mobilization System

1. Public Resource System

Technical Assistance would be provided to the ILDC and its LRM subcommittee. The consultants would work closely with the LRM coordinator in the Amana, and the MOF and governorate finance staff, to develop a policy agenda and investigate policy options. A training consultant would also be included to develop curricula and coordinate LRM training activities. Eleven person-years (7 Egyptian, 4 U.S.) would be required during the first two years of LD II. This would be funded from the SDS activity of DSS I.

2. PVO's

The governorate Social Affairs Directorates have increasingly assumed responsibility for all aspects of the NUS PVO program. They select PVOs for grants, and provide training and program support. This experience would be transferred to the provincial governorates by a team of Egyptian consultants. Assistance would be given in the areas of planning, management, income generation, community development, basic service delivery and management, health care and management, and training. This TA would continue to monitor and assist the LD II urban PVO program. It is anticipated that 18 person-years of services would be required. This assistance would be competitively bid among Egyptian consulting companies.

V. LD II FINANCIAL PLAN

A. Cost Estimates

The LD II project is the second phase of a long term USAID/GOE effort in decentralized local development. The DSS I program was the first phase, and a third phase "LD III" program is expected to follow. Table 8 summarizes the actual, planned and indicative USAID and GOE contributions to each phase. These three phases would span a 15-year period starting in 1979. If the LD III program is developed at the anticipated levels, the total USAID and GOE contributions to decentralized local development would total approximately $1.28 billion and $408 million (in LE equivalent) respectively.

LD II would provide a total of $228.2 million of which $156 million would be financed by USAID, and $72.2 million by the GOE (Table 9, page 60). Tables 10 through 12(pages 61-63) provide a summary of planned USAID and GOE expenditures by fiscal year. Annex 3 provides more detailed cost figures for GOE central and local expenditures, technical assistance, training and the Amana.

As described below, the GOE contribution would be provided through the Bab I, II and III budget channels and through the autonomous local services and development funds of each participating local government unit. Through these sources, the GOE would provide $12.3 million for local subproject financing, $53.2 million for maintenance of equipment and infrastructure, $0.8 million for PVO subprojects, $5.7 million for Amana staff support and salary incentives for local government officials working on LD II, and $0.3 million for training of local government staff. Of the total GOE contribution, $6.9 million would be provided through governorate, markaz and village district local development funds. In addition, participating local PVOs would provide additional cash and "in kind" contributions which are not reflected in Table 9, page 60.

B. Estimated Obligation and Expenditure Schedule

USAID expenditures under the LD II Program would be financed by two obligations of $61 million in FY 85, and $95 million in FY 86. Within one year of initial obligation, it is anticipated that approximately $32 million would be committed or expended. In the second and third years, an additional $82 million and $40 million would be expended respectively. This shows a relatively high expenditure rate compared to other USAID programs. This expenditure rate is relatively insensitive to the amounts of funds obligated, as the planned Block Grant expenditure levels are only a fraction of the absorptive capacity previously demonstrated by local units under DSS I. This means that funding could be greatly increased during or after LD II with a direct rapid impact on expenditure rates.

FPDECFN
LAST REVISED ON 7/10/85

TABLE 8 : DSS I, LD II AND LD III
HISTORICAL, PROPOSED AND INDICATIVE FUNDING LEVEL

(US $ MILLION)

INPUT	DSS I ACTUAL		LD II PROPOSAL		LD III INDICATIVE		FIFTEEN YEAR TOTAL		FIFTEEN YEAR PROGRAM TOTAL	RATIO OF INPUT COST TO TOTAL COST
	USAID	GOE	USAID	GOE	USAID	GOE	USAID	GOE		
BLOCK GRANT FUND *	520.8	49.2	122.7	12.3	355.2	35.5	998.7	97.0	1095.6	65%
MAINTENANCE FUND	2.4	51.7		53.2		150.0	2.4	254.9	257.3	15%
PVO FUND	11.4		15.6	0.8	44.4	2.2	71.4	3.0	74.4	4%
TECHNICAL ASSISTANCE	35.2		9.9		22.2		67.4	0.0	67.4	4%
TRAINING	13.2	13.1	3.1	0.3	68.8	0.9	105.1	14.3	119.4	7%
OTHER **	17.2	20.0	4.7	5.7	13.3	13.7	35.2	39.3	74.5	4%
TOTAL	600.2	133.9	156.0	72.2	523.9	202.3	1280.1	408.4	1688.6	100%

* For DSS I, this includes BVS,NUS,DSF,DDI,PCD capital investment funds
** Includes GOE staff support, technical Amana, evaluation, commodities and contingency costs.

APSIM
LAST REVISED ON 3/13/85

TABLE 9 : LD II: SUMMARY FINANCIAL PLAN
DESCRIPTION OF COST BY INPUT BY SOURCE

INPUTS	U.S (in $ MILLION) 1 $	2 LE	3 TOTAL	G.O.E (in $ MILLION) 4 MLG/MPIC	5 MOF	7 LOCAL	8 TOTAL	9 LD II TOTAL $
A - BLOCK GRANT								
- URBAN	6.67	20.00	26.66	1.33		1.33	2.67	29.33
- PROVINCIAL	24.01	72.02	96.03	4.80		4.80	9.59	[illegible]
SUB TOTAL	30.57	92.02	122.69	6.13		6.13	12.27	[illegible]
B - MAINTENANCE FUND					53.20		53.20	53.20
C - PVO GRANT FUND								
- URBAN		4.68	4.68			0.23	0.23	4.91
- PROVINCIAL		10.92	10.92			0.55	0.55	11.47
SUB TOTAL		15.60	15.60			0.78	0.79	16.38
D - STAFF SUPPORT								
- TECHNICAL AGENCY					0.84		0.84	0.84
- INCENTIVE FUND					4.82		4.82	4.82
SUB TOTAL					5.66		5.66	5.66
E - TECHNICAL ASSISTANCE	4.96	4.96	9.92					9.92
F - TRAINING	1.04	2.08	3.12	0.31			0.31	3.43
G - EVALUATION RESEARCH	0.78	0.78	1.56					1.56
H - CONTINGENCY	1.55	1.56	3.11					3.11
I - TOTAL	37.01	116.39	153.40	6.45	53.26	5.91	72.22	229.22

INPUTS	U.S (in LE MILLION) 1 $	2 LE	3 TOTAL	G.O.E (in LE MILLION) 4 MLG/MPIC	5 MOF	7 LOCAL	8 TOTAL	9 LD II TOTAL LE	RATIO OF INPUT FX TO INPUT COST	RATIO INPUT TO TOTAL
A - BLOCK GRANT										
- URBAN	5.53	[illegible]	22.13	1.11		1.11	2.21	24.34	23%	13
- PROVINCIAL	[illegible]	[illegible]	79.70	3.99		3.99	7.97	87.67	23%	45
SUB TOTAL	[illegible]	[illegible]	101.83	5.09		5.09	[illegible]	112.02	23%	57
B - MAINTENANCE FUND					44.16		44.16	44.16	0%	23
C - PVO GRANT FUND										
- URBAN		3.83	3.83			0.19	0.19	4.08	0%	2
- PROVINCIAL		9.06	9.06			0.45	0.45	9.52	0%	5
SUB TOTAL		12.89	12.55			0.65	0.65	13.60	0%	7
D - STAFF SUPPORT										
- TECHNICAL AGENCY					0.70		0.70	0.70	0%	0.4
- INCENTIVE FUND					4.00		4.00	4.00	0%	2
SUB TOTAL					4.70		4.70	4.70	0%	2
E - TECHNICAL ASSISTANCE	4.12	4.12	8.23					8.23	50%	4
F - TRAINING	[illegible]	1.73	2.59	0.26			0.26	2.65	30%	2
G - EVALUATION RESEARCH	[illegible]	[illegible]	1.29					1.29	50%	1
H - CONTINGENCY	[illegible]	1.29	2.53					2.58	50%	1.4
I - TOTAL	[illegible]	[illegible]	129.48	5.35	48.25	5.74	[illegible]	[illegible]	17%	100

FPEXP-2A
LAST REVISED ON 7/10/85

TABLE 10 :- LD II SUMMARY FINANCIAL PLAN
ESTIMATED USAID EXPENDITURES BY FISCAL YEAR

INPUTS		(IN US$ MILLON)						(IN LE MILLON)					
		1	2	3	4	5	8	1	2	3	4	5	6
	GOE FY :	85/86	86/87	87/88	88/89	89/90	TOTAL	85/86	86/87	87/88	88/89	89/90	TOTAL
	USG FY :	FY 86	FY 87	FY 88	FY 89	FY 90		FY 86	FY 87	FY 88	FY 89	FY 90	
A - BLOCK GRANT FUND													
- URBAN		5.28	13.60	2.78			26.66	4.4	15.4	2.3			22.13
- PROVINCIAL		21.63	48.02	26.40			96.03	18.0	39.9	21.9			79.72
SUB TOTAL		26.91	66.62	29.18			122.69	22.3	55.3	24.2			101.85
B - MAINTENANCE FUND													
C - PVO GRANT FUND													
- URBAN		1.90	1.90	0.88			4.68	1.6	1.6	0.7			3.88
- PROVINCIAL		2.00	6.00	2.92			10.92	1.7	5.0	2.4			9.06
SUB TOTAL		3.90	7.90	3.80			15.60	3.2	6.6	3.2			12.95
D - STAFF SUPPORT													
- TECHNICAL AMANA													
- INCENTIVE FUND													
SUB TOTAL							0.00						0.00
E - TECHNICAL ASSISTANCE		0.35	4.78	4.79			9.92	0.3	4.0	4.0			8.23
F - TRAINING		0.15	1.16	1.04	0.62	0.15	3.12	0.1	1.0	0.9	0.5	0.1	2.59
G - EVALUATION/RESEARCH			0.40	0.70	0.10	0.35	1.55		0.3	0.6	0.1	0.3	1.29
H - CONTINGENCY		0.23	0.44	1.00	1.00	0.44	3.11	0.2	0.4	0.8	0.8	0.4	2.58
I - TOTAL		31.54	81.30	40.51	1.72	0.94	156.0	26.2	67.5	33.6	1.4	0.8	129.49

FFEIP-2B
LAST REVISED ON 7/6/85

TABLE 11 : LD II SUMMARY FINANCIAL PLAN
ESTIMATED GOE EXPENDITURES BY FISCAL YEAR

INPUTS		(IN US$ MILLON)						(IN LE MILLON)					
		1	2	3	4	5	8	1	2	3	4	5	8
	GOE FY :	85/86	86/87	87/88	88/89	89/90	TOTAL	85/86	86/87	87/88	88/89	89/90	TOTAL
	USG FY :	FY 86	FY 87	FY 88	FY 89	FY 90		FY 86	FY 87	FY 88	FY 89	FY 90	
A - BLOCK GRANT FUND													
- URBAN		0.53	1.86	0.27			2.66	0.4	1.5	0.2			2.21
- PROVINCIAL		2.16	4.80	2.63			9.60	1.8	4.0	2.2			7.97
SUB TOTAL		2.69	6.66	2.91			12.25	2.2	5.5	2.4			10.18
B - MAINTENANCE FUND		17.73	17.73	17.73			53.20	14.7	14.7	14.7	0.0	0.0	44.16
C - PVO GRANT FUND													
- URBAN		0.09	0.10	0.04			0.23	0.1	0.1	.0			0.19
- PROVINCIAL		0.10	0.29	0.16			0.55	0.1	0.2	0.1			0.46
SUB TOTAL		0.19	0.39	0.20			0.78	0.1	0.2	0.1			0.46
D - STAFF SUPPORT													
- TECHNICAL AMANA		0.22	0.05	0.23	0.21	0.15	0.84	0.18	0.04	0.19	0.17	0.12	0.71
- INCENTIVE FUND			1.20	2.41	1.20		4.82		1.00	2.00	1.00		4.00
SUB TOTAL		0.22	1.25	2.64	1.41	0.15	5.67	0.18	1.04	2.19	1.17	0.12	4.71
E - TECHNICAL ASSISTANCE							0.00						0.00
F - TRAINING		0.00	0.07	0.07	0.07	0.10	0.31	0.0	0.1	0.1	0.1	0.1	0.26
G - EVALUATION/RESEARCH							0.00						0.00
H - CONTINGENCY							0.00						0.00
I - TOTAL		20.84	26.10	23.55	1.48	0.25	72.22	17.22	21.58	19.51	1.23	0.21	59.75

FPEXP-2C
LAST REVISED ON 7/29/85

TABLE 12 : LD II SUMMARY FINANCIAL PLAN
ESTIMATED USAID AND GOE EXPENDITURES BY FISCAL YEAR

INPUTS	(IN US$ MILLON)						(IN LE MILLON)					
	1	2	3	4	5	8	1	2	3	4	5	8
GOE FY :	85/86	86/87	87/88	88/89	89/90	TOTAL	85/86	86/87	87/88	88/89	89/90	TOTAL
USG FY :	FY 86	FY 87	FY 88	FY 89	FY 90		FY 86	FY 87	FY 88	FY 89	FY 90	
A - BLOCK GRANT FUND												
- URBAN	5.84	20.45	3.03			29.32	4.8	17.0	2.5			24.34
- PROVINCIAL	23.79	52.87	28.98			105.64	19.7	43.9	24.1			87.68
SUB TOTAL	29.63	73.32	32.01			134.96	24.6	60.9	26.6			112.01
B - MAINTENANCE FUND	17.73	17.73	17.73			53.20	14.7	14.7	14.7	0.0	0.0	44.16
C - PVO GRANT FUND												
- URBAN	1.99	2.00	0.92			4.91	1.7	1.7	0.8			4.08
- PROVINCIAL	2.10	6.29	3.08			11.47	1.7	5.2	2.6			9.52
SUB TOTAL	4.09	8.29	4.00			16.38	1.7	5.2	2.6			9.52
D - STAFF SUPPORT												
- TECHNICAL AMANA	0.22	0.05	0.23	0.21	0.15	0.84	0.18	0.04	0.19	0.17	0.12	0.71
- INCENTIVE FUND	0.00	1.20	2.41	1.20	0.00	4.82		1.00	2.00	1.00		4.00
SUB TOTAL	0.22	1.25	2.64	1.41	0.15	5.67	0.18	1.04	2.19	1.17	0.12	4.71
E- TECHNICAL ASSISTANCE	0.35	4.78	4.79	0.00	0.00	9.92	0.3	4.0	4.0	0.0	0.0	8.23
F - TRAINING	0.15	1.23	1.11	0.69	0.25	3.43	0.1	1.0	0.9	0.6	0.2	2.85
G - EVALUATION/RESEARCH	0.00	0.40	0.70	0.10	0.35	1.55	0.0	0.3	0.6	0.1	0.3	1.29
H - CONTINGENCY	0.23	0.44	1.00	1.00	0.44	3.11	0.2	0.4	0.8	0.8	0.4	2.58
I - TOTAL	52.40	107.44	63.90	3.20	1.19	228.22	41.84	87.52	52.34	2.66	0.99	185.34

C. Methods of Financing

1. Introduction

Two distinctive features of the LD II financial plan are the use of a local currency PIL disbursement mechanism to disburse USAID local currency Block Grant contributions, and the significant amount and varied sources of GOE cash contributions. This section describes in more detail the mechanism used to provide funds by both the USAID and GOE.

2. USAID Financing

a. Matching Block Grant Fund

Approximately 25%, or $30.7 million, of the USAID Block Grant contribution is expected to be disbursed in U.S. dollars, and 75%, or about $92.0 million, would be disbursed in local currency. The following procedures would be used in each case:

(1) U.S. dollar disbursements would be used to finance importation of equipment of U.S. source and origin, using USAID Regulation I procedures. Disbursements would be made directly to suppliers through direct AID L/Coms when procurements occur. As described in the BSDS component description (Section II E. 1. c, page 28), each governorate would determine the actual portion of its annual Block Grant it plans to use as foreign exchange. This amount would be subject to approval by the ILDC subcommittees.. No more than 25% of each governorate's annual allocation could be used as foreign currency. The balance would be applied in local currency uses.

(a) Equipment procurement plan

To justify its foreign exchange funding level, each governorate would prepare a detailed equipment requirements analysis. Procurement would begin after approval of each analysis by the ILDC subcommittee. The existing procurement unit at the MLG would procure all equipment on behalf of governorates as it is now doing under the DSF activity. The procurement unit would issue tenders, open and evaluate bids and select bids for award. USAID will review and award bids as recommended by the unit and the ILDC. Once approved, USAID would issue direct L/Comms to the selected bidder. The MLG unit would hire a customs clearance and delivery agent who would be responsible for delivery of all equipment to the governorates.

(2) Local Currency disbursements would be used to finance local costs of subprojects. These local currency disbursements would be made using a Project Implementation Letter mechanism similar to the one currently used on the Basic Village Services and Neighborhood Urban Services Project.

(a) Rationale for use of PIL disbursement mechanism: The primary purpose of LD II is to promote a decentralized planning and

99

budgeting process and to develop the capacity of governorates, village councils, and districts to participate fully in every aspect of planning, managing, and financing local development projects. It is necessary that disbursements occur in a way that supports the project purpose. This requires that local government units (governorates, village councils and districts) be afforded full control over, and responsibility for, local currency Block Grant funds. Any effort to limit the control of local units over these funds would result in a diminishing of the project purpose. Furthermore, the nationwide scope of the project involving 860 village councils and 26 urban districts, means that project sites and accounting stations are so numerous and so widespread that it would be virtually impossible to implement the program if funds were subject to a conventional USAID cash advance mechanism. Experience on the BVS, NUS and DD I projects, as reported in several evaluations and two audits, have demonstrated that local government units and the MLG (through ORDEV) have adequate accounting capability to control and report on use of local currency funds. The U.S. Comptroller General's ruling of November 28, 1984, concurred in use of this disbursement mechanism when the project purpose requires it(Working Paper 27, Annex 8).

(b) Practical implications of using the PIL disbursement mechanism:

USAID would disburse local currency funds against a set of approved project plans prepared according to the decentralized planning process described in Section II (BSDS component description) and Section VI (Implementation Plan). After disbursement occurs, local currency funds would be GOE-owned currency. This has the following practical implications:

- Local currency Block Grant funds provided by USAID could be commingled with contributions from the GOE and each local unit;

- Funds in all special accounts from MLG to governorates, villages and districts would be allowed to collect interest (Working Paper No. 27, Annex 8);

- Any fees or revenues generated in the course of project implementation (for example, penalty fees for contractor non-performance) may be retained in local accounts for project use.

These practical implications are essential to further the project purpose for the following reasons: 1) local units would not be burdened with the impossibly large number of extra accounts which would be needed if commingling of funds were not possible; 2) the collection of interest would provide some hedge against inflation in cases of slow contractor performance or occasional procedural delays in contracting or implementation; 3) ability to retain penalty fees would give local units greater incentive to monitor contractor performance and demand timely project completion. Currently, any penalty fee or other revenue generated in the course of implementation must be transfered to

180

the Ministry of Finance. The last two points are particularly important as slow contractor performance is a major cause of delays in subproject implementation (Working Papers 26 and 29).

(c) Methods of Disbursement

Each participating governorate would prepare an annual implementation plan and budget. These plans would be approved by the ILDC. The ILDC would submit to USAID a summary of approved plans showing amounts provided for each governorate and separating smaller (less than LE 100,000 each) and larger (more than LE 100,000) projects within each governorate.

Before disbursing any funds, USAID would verify that CPs have been met. If the CPs are met, USAID would commence local currency disbursement of the Block Grant funds. The rate of disbursement of the block grants would be tied to the rate of approval of the project plans. The total amount provided to each governorate would not exceed the value of its approved plans. In case of larger projects,(over LE 100,000 each) funds would be disbursed in two or more increments based on an agreed timetable. The local currency funds provided by USAID would be deposited in a special account at the Ministry of Local Government (MLG). The MLG would expeditiously disburse the funds to the local services and development accounts in each governorate. Governorates in turn would disburse funds to the appropriate markaz district or village council responsible for implementing specific projects. All disbursements would be held in separate local services and development accounts in each local unit. In all cases, the transfer of funds from USAID to the special account at the MLG would be considered a disbursement, not an advance. Section D below further discusses funds control and management.

b. Financing of Technical Assistance

All Technical Assistance would be procured following the appropriate USAID Handbook procedures. All expatriate TA contracts would be USAID direct contracts. Major Host Country Contracts with foreign firms are not anticipated. Use of PASAs is not anticipated, but may be possible in the case of training programs. Appropriate justification and approval would be obtained on a case by case basis. Special efforts will be made to make maximum use of 8-A qualified firms where feasible.

c. Financing of Training

Local training would be financed in the following ways:

1) on a pass-through basis as part of expatriate technical assistance contracts;

2) on a cost-reimbursement basis with Egyptian government institutions such as ORDEV, the Saqqara Training Center and individual governorates; and,

3) on a revolving-advance basis with GOE training institutions. Revolving advances would not be used unless a clear need is present and other alternatives are not feasible.

-101-

Overseas training would be procured through PASA's or USAID direct contracts.

d. Financing of Evaluation

Part of the LD II purpose is to create a new organizational structure for reviewing and coordinating GOE local development policies. As part of this effort, a technical body,(the Amana) would be formed (see Section III Organization and Management, page 47). A key role for the Amana would be to conduct research and evaluations of LD II and other GOE local development activities, using local expertise. In supporting the Amana's development, USAID may contribute local currency to fund a technical assistance budget for the Amana. Use of such contributions would depend on prior AID review and approval of individual contracts. Prior to any such contribution, a special assessment would be made of the Amana's ability to control and report on use of funds.

3. GOE Financing

a. Block Grant Fund

The GOE contribution to the LD II Block Grant Fund would occur through a central local matching grant program as described earlier (see the BSDS description in Section II). Contributions by the Ministry of Planning would be made through the standard GOE Bab III budget. The LD II planning cycle is phased to coincide with the annual budget preparation and approval process, starting with the second year of funding (see Section VI). For the first year, a special mid-year supplemental appropriation would be required in order for bab III funds to be made available. Local contributions by governorates, districts, or village councils, would be made from each unit's autonomously-controlled local services and development fund. These contributions can be made at any time, as they are not tied to a national planning process. They would be timed, however, to meet the CPs for disbursement.

b. Maintenance Fund

The GOE Maintenance Fund contribution would be provided from central sources. The Ministry of Finance would make a direct allocation to each governorate to cover maintenance requirements. This allocation would be made through the GOE Bab II recurrent cost budget. Over time, it is hoped that local units would have the authority to assume responsibility for financing a greater portion of recurrent costs in their jurisdiction.

c. PVO Contributions

Local units would contribute 5% of the USAID allocation to PVO subprojects. This contribution would be made from the local services and development accounts. In addition, PVOs would make significant in-kind contributions.

102

d. Technical Amana

The Amana budget (see Annex 3) includes staff support and salary incentive costs. This contribution would be made by the Ministry of Finance through the Bab I budget. The incentive fund would be used for salary incentives to officials working on LD II activities. These incentives would be distributed according to standard GOE personnel regulations covering payment of incentive funds. Special guidelines would be issued by the ILDC to supplement these standard regulations, and to ensure that these funds are linked to LD II project activities (see the discussion of incentive funds in the Organization and Management Section, page 53).

e. Training

Following the practice established under the NUS project, the GOE would provide funds to finance training activities through a Ministry of Finance Bab II allocation.

D. Funds Control and Management

All GOE and USAID funds would be controlled and managed according to the established respective standards and practices of each government. USAID funds control and management are determined by the method of financing used for disbursement. These practices are described in the USAID Handbook series and supporting USG rules and regulations.

In order to initiate disbursement of local currency Block Grant funds, the GOE would submit a letter of request indicating the number and type of projects which have been reviewed and approved for each governorate. The letter of request would also state if conditions precedent to disbursement have been met and whether performance in use of previously disbursed funds is satisfactory. Supporting documentation would be attached. While USAID would not formally approve individual subprojects, it reserves the right to review, at any time, subproject plans which have been proposed for LD II funding. As in the past DSS I Program, USAID and contractor staff would be closely involved at various steps of the project preparation, review and approval process. In response to the GOE letter of request, USAID would disburse funds using a Project Implementation Letter. As with all USAID disbursements, a Project Officer Administrative Approval Statement would be required.

After disbursement by USAID, LD II local currency Block Grant funds would be GOE-owned currency, controlled, managed and audited according to standard GOE procedures and regulations.

The GOE would maintain two separate reports on the use of local currency Block Grant funds. The first would be a "Quarterly Block Grant Cash Management Report" showing the dates of each successive transfer of funds from the MLG special account to individual governorates, districts, markaz and village councils. The second report would be a "Quarterly Progress Report" showing the financial progress and completion status of each individual LD II and DSS I subproject. In addition, a quarterly report on PVO grant funds and LD II local O&M funds would be prepared.

E. Audit

All USAID funds would be subject to U.S. Government audit rights. In addition, local currency Block Grant funds would also be subject to GOE audit. Each local government unit would be responsible for maintaining a complete set of records on every LD II local services and development account for all LD II-related activities (e.g. capital grants, as well as O&M financing), for up to three years after the LD II project activity completion date. These records would be made available to USAID and GOE auditors upon request.

VI. PROGRAM IMPLEMENTATION PLAN

A. Schedule of Early and Key Events

The more important early, key events required to implement the project are summarized in Chart V and discussed below.

1. Policy Formulation

The GOE would implement several important policy changes before the LD II disbursements begin. These changes, including contributions to capital and maintenence from local and central budgets are specified in the CPs listed at the beginning of this PP (page ix).

2. Management/Planning Systems

A prompt beginning to the project would depend on GOE action to organize and staff the technical secretariat (Amana) and the subcommittees of the ILDC.

Workshops on new planning, management, budgeting and accounting systems would be introduced in order to assist with the preparation of the FY 86/87 annual plans and budgets.

The ILDC subcommittees would plan allocations to be made from the USAID FY85 obligation, in Oct/Nov. 1985. Governorate (GLDCs) would plan allocations to local units Nov/Dec. 1985. Local units would then plan and budget for projects to be funded from the FY1955 obligation made by USAID in early 1986.

When these plans are approved by the GLDCs and ILDC, the planning process is complete and USAID would disburse funds to the governorates as soon as all CPs have been met.

3. Technical Assistance

Terms of Reference(TOR) and Requests for Bids (RFB) would be drafted for TA contracts to assist the Amana; the BSDS(urban and provincial); local resource mobilization; and PVOs. Five will be completed by Dec. 1985.

USAID would amend existing BVS TA contracts, by October 1985, to provide necessary additional staff to start the LD II planning cycle through orientation workshops and planning seminars. USAID would advertise, select and negotiate TA contract for evaluations prior to March 1986.

CHART V: Schedule of Early, Key Events

	Event	Primary Responsibility	Target Date
1.	USAID approval of Project Paper and Authorization	USAID	AUG. 85
2.	GOE & USAID sign Project Agreement	GOE/USAID	SEPT. 85
3.	GOE organizes ILDC and Amana	MLG	OCT. 85
4.	USAID amends existing BVS contract to provide necessary staff to start 1st LD II planning cycle	USAID	OCT. 85
5.	GOE provides budget supplemental for Block Grant and Maintenance Funds	MPIC/MOF	OCT./NOV. 85
6.	USAID and Amana prepare and issue RFP's for TA	USAID/Amana	OCT./DEC. 85
7.	Steering Committees plan allocations to Governorates	ILDC	OCT./NOV. 85
8.	Orientation workshops for participating local units of government	Existing TA Consultants.	NOV. 85/FEB. 85
9.	Governorates plan allocations to local units	Governorates	NOV./DEC. 85
10.	Local units plan/budget projects.	Villages/Districts	JAN./MAY 86
11.	Governorates and ILDC approve local units project plans/budgets	Governorates/ILDC	APRIL/MAY 86
12.	MPIC and local units deposit FY86 Block Grant contributions	MPIC	JUNE 86
13.	Conditions Precedent for initial disbursement satisfied	GOE	JULY 85
14.	AID funds requested & disbursed	ILDC/USAID	JULY/AUG. 86
15.	Sub-project implementation begins	Governorates	SEPT. 86

106

Event	Primary Responsibility	Target Date
16. Evaluation	Consultants/Amana	FEB. 86
17. Review I of Program	ILDC	MARCH, 86
18. LD II Assessment	Consultants	OCT. 86

B. The Planning and Budgeting Process

LD II would institutionalize a self-sustaining, decentralized, system for delivering basic services. The major steps in the process are summarized below. These steps would take place in overlapping, annual planning and implementation cycles which coincide with the GOE national planning and budgeting cycle.

Each cycle involves:

1- assessment of needs and past program performance;
2- allocation of resources to meet identified needs;
3- planning of projects;
4- implementation of projects;
5- maintenance;
6- and evaluation of results, (return to 1).

The main actors in the process are the ILDC and its subcommittees, governorate executive and popular councils through their GLDCs, markaz or district executive and popular councils, and, in provincial governorates, village executive and popular councils.

The BSDS process in LD II as follows:

1. Allocation of Block Grant funds and MOF Maintenance funds to governorates by ILDC and subcommittees, based on assessment of needs, prior implementation performance in DSS I, and absorptive capacity.

2. Allocation of Block Grant funds and maintenance funds by governorate executive and popular councils to individual districts in urban areas and to Marakez and village councils in provincial governorates.

3. Assessment of specific capital investment and maintenance needs by popular and executive councils at all levels (governorate, district, markaz and village council).

4. Selection, planning, and budgeting of specific projects and maintenance by governorates, districts, marakez and village councils within the limits of available resources. Individual projects at all levels are integrated in LD II annual plans prepared by each governorate, and would be coordinated with other governorate investment and maintenance efforts.

5. Approval of specific project plans by village, district and governorate popular councils.

6. Presentation of plans by governorate executive and popular councils to ILDC subcommittees.

7. Approval of governorate plans and budgets by the ILDC subcommittees.

8. MPIC, MOF and governorates deposit matching contributions in governorate Basic Services Delivery Accounts and matching maintenance contributions in governorate Basic Service Maintenance Accounts.

9. Disbursement of Block Grant, by USAID and MPIC, and maintenance funds by MOF, to governorates which in turn disburse grants to local units.

10. Implementation of specific projects by governorates, districts, marakez and village councils with technical assistance form governorate level staff, line ministries and consultants, as needed.

11. Maintenance of completed subprojects by responsible local units.

12. Monitoring of progress and results on periodic basis at local levels, and aggregation of results in semi-annual program review by Governorates and Amana. Findings used for assessment of relative needs and absorptive capacity, and determination of governorate funding allocating levels in the first step of the next planning cycle.

The timing of the LD II Planning and Implementation Cycles is shown on Chart VI, page 74.

\\06

CHART (5) - TIMING OF THE LD II PLANNING & IMPLEMENTATION CYCLES

ACTIVITY / Calendar Year	1985		1986				1987				1988			
Quarter	3	4	1	2	3	4	1	2	3	4	1	2	3	4
CYCLE 1*														
1. AID obligation FY85	1													
2. GOE supplemented allocation FY 86/87 for O&M		1												
3. ILDC subcommittee plans FY 86 alloction to Governorates		1												
4. GLDCs plan alloction to local units		1												
5. District/Villages plan/budget Projects and O/M		1	—	1										
6. GLDCs and ILDC approve project plan/budgets.				1	1									
7. Central/local levels deposit capital and O&M contribution to meet CPs					1									
8. AID funds requested & disbursed					1	1								
9. Project implementation by local units					1	—	—	—	—	—	1			
			CYCLE II #2								CYCLE III #3			
1. GOE plans capital & maintenance contributions			2	2			3	3						
2. AID Obligation FY 86				2										
3. ILDC plan allocation to governorates.			2	2			3	3						
4. GLDC Plan allocation to local units				2	2			3	2					
5. District/villages plan/udget projects and O&M					2	—	2		3	—	3			
6. CLDCs & ILDC approve local units plan/budgets.							2	2			3	3		
7. Centeral/local levels deposit capial and O&M to meet CPs									2				3	
8. AID funds requested & disbursed									2	2			3	3
9. Project implementation by local units										2	—	—	—	→ 9/88; 3 → 9/89

* First Cycle is shortened because of late start

-74-

VII. MONITORING AND EVALUATION PLAN

A. Introduction.

Monitoring and evaluating the program are essential processes that must be undertaken by all local units, (village to governorate), and the LDCS, if the the basic strategy of the program is to be realized. The underlying strategy of LD II would be "learning by doing." The "doing" is the subprojects and the "learning" is the monitoring and evaluating that can improve the process in the future. The "learning" is central to building local institutions that can continue similar development activities in the future. "Learning" would be accomplished also when the councils' local development plans are evaluated by the governorates, the Amana, and the ILDC, prior to funding the subprojects. It would also be accomplished when the local units report on project progress each quarter, act to solve problems, and engage in formal evaluations of the entire program.

The "learning" system of the program would be institutionalized in a management information system (MIS) and would be the continuation of the independent evaluations and assessments that have characterized DSS I. The LD II MIS system would be built on the existing MIS systems developed during DSS I in the BVS, NUS and DD I activities. The evaluations and assessments would be conducted jointly by the Amana and USAID.

B. LD II's Monitoring System

Monitoring would focus on the delivery of inputs, implementation of the strategy to produce outputs and progress towards the program purpose. Monitoring information would be compared with original work plans and schedules in order to quickly identify implementation problems. Solutions to problems would also be clearly identified and carefully monitored.

The responsibility for monitoring the program rests with the Amana, appropriate officials in the participating governorates, and USAID. Together, they would develop a monitoring plan during the first six months of the project and build it into the project's management information system (MIS). The development and implementation of this system would build upon, and be closely coordinated with, the monitoring systems previously established for all DSS I projects.

Each stage of the local development process would be monitored closely, using an integrated MIS. The MIS would use appropriate technology in each unit of local government. Plans, implementation, and financial records would be kept manually in the villages and districts and reported quarterly to the governorate planning and development offices. Completion and acceptance reports would also be included in the information system of the local unit.

110

In governorate centers, the records would be placed on the computer for checking, analysis and reporting - both to the governorate LDCs, and also back to the districts and villages. The governorates, in turn, would report to the ILDC and to the Amana every quarter. The Amana would analyze the data and use it for overall program review. As LD II progresses, additional information would be added to reflect the new emphases of the second phase. Data concerning the operation and maintenance of infrastructure and equipment would be included as well as information regarding local resource mobilization.

The sources of information for monitoring would include:

a. Project agreement and PILs.
b. Implementation and workplans.
c. The Amana's management information system.
d. Consultations by LAD staff with GOE, contractor and other participants.
e. Financial reports.
f. Contractors' quarterly and annual reports.
g. Audits.
h. Site visits.
j. Special studies, such as technical reports, research, sector assessments, and evaluations.

The ILDC and USAID would conduct joint semi-annual program reviews as part of the monitoring activity.

C. LD II's Evaluation System

Evaluations assess whether the desired results are being achieved, and whether the program purposes continue to be appropriate to the country's development needs. They take a broad look at the fit between inputs, outputs, purposes and goals, and review the assumptions underlying the links between them. The LD II program provides a unique opportunity to test the hypotheses that decentralizing the planning and management of development, improving access to development resources, and increasing participation by local people in their own development will improve the quality of life of those same people.

The basic framework for the evaluation is provided by the logical framework (Annex 1). Specific baseline information has been provided by the working papers for LD II (Annex 8), the evaluations of DSS I activities (Annex 9), and the information system developed by BVS, NUS and DD I. Baseline data and performance indicators, which can be measured periodically, would be included in the Amana's computerized information system. Throughout the evaluations, special attention would be paid to assumptions affecting the project strategy and also to the intended and unintended impact that the project would have upon the participants and their environment.

External evaluations, independent of project authorities, would be carried out regularly. The first would take place in February, 1986, preceding the writing of the PP amendments for the FY 87 obligations. A second evaluation, which would be a longer effort assessing the entire local development sector, would take place in November, 1986, just prior to the writing of the proposed LD III project paper.

VII. SUMMARY OF PROGRAM ANALYSES. (ANNEX 2)

A. Summary of Economic Analysis (Annex 2A)

LD II project would spend the equivalent of approximately LE 400 million (in constant 1986 LE) over a period of three years. These expenditures would provide for operations and maintenance for subprojects from DSS I and for new subprojects for water/wastewater system, roads, canal maintenance and similar activity. Assuming the funds are spent in roughly the magnitude and timing outlined in the PP, and operation and maintenance functions are carried out as planned and continued into the future, the projection can be expected to show a real economic rate of return of 9.5 percent (Annex 2-A).

B. Summary of Institutional Analysis (Annex 2B)

The design of LD II is both structurally and institutionally sound. The major institutional problems which exist under the current decentralization program have been addressed in he Organization and Management Section(page 47). Those problems are:

1. the lack of an appropriate level policy-making body;

2. weak horizontal linkages between technical departments and between executive and elected councils, at all levels of government; and,

3. a multiple command structure within local government.

The concern for policy determination has arisen from the experience of DSS I in which program responsibility was divided between four separate project committees. Although a Sector Steering Committee was formed, it never became functional. Under the current design effort, concerned ministries and governors have met frequently in the Amana to discuss program issues and have recommended the formation of a policy based ILDC.

The issue of weak horizontal linkages and poor coordination of programs has been addressed through the establishment of coordinating bodies at each level. The ministries and governorates will coordinate programs through the ILDC and its subcommittees, the Amana, and through the governorate LDCs. Required submission of meeting minutes and attendance records to the subcommittees will solidify the process.

While a multiple command structure within the governorate directorates is a somewhat unavoidable stage in the evolution from central ministry control to governorate control of local development, the establishment of these coordinating bodies should contribute substantially to the facilitate of transition.

Finally, the joint participation of popular and executive council members in the govenorate level IACs should strengthen the ties between these two branches of local government. Under the joint LDCs, technical expertise located in the executive branch would be combined with a popular voice to provide a stronger base for project selection and implementation. Maintaining the system of popular council approval for all LD II plans would ensure that the local communities have the final say in the program.

C. Summary of Technical & Enviornmental Analyses (Annex 2C)

1. Technical Analysis

a. Introduction

The implementation of LD II subprojects will be the responsibility of local government. There is, nevertheless, considerable concern with the technical issues involved with subproject implementation because, technically sound, high quality subprojects are a primary indicator of an increased institutional capacity of the local government's planning process to induce development.

The anticipated LD II subactivities which involve major technical issues are rural water supply, wastewater/sanitation, rural roads, solid waste management, and local urban upgrading activities.

b. A Brief Description of Each Activity

(1) Rural Water Supply

More than 1,600 rural water supply projects were implemented under the DSS I/BVS Project, comprising 60% of BVS activities. Projected demand remains high for an additional 1,000 projects for LD II and beyond.

Technical issues encountered with DSS I water supply projects that will be addressed under LD II are as follows:

The design and construction of many DSS I water projects were sub-standard. The village units have not received adequate technical assistance from the engineering offices of their marakez and governorates, nor the private firms who have constructed many of their projects. Also, preventive maintenance is rare. As a result, water

113

system leakage is between 25 and 70 percent. Water storage tanks often leak or are off-line, forcing villages to rely on pumping, which is expensive and inefficient. These problems sometimes cause back-siphonage, which contaminates village water supplies.

LD II would stress the upgrading, and operations and maintenance of existing DSS I water systems. An appreciation for quality in design, craftmanship in construction, and a philosophy of preventive maintenance showed be developed by local project implementers. This would be accomplished through technical assistance and training stressing craftsmanship and considers operations and maintenance from the design stage onwards.

During DSS I choice of the appropriate technology has been a problem with water purification systems. The compact water purification plants now being supplied by USAID and private-sector firms are complicated and, in many cases, over-designed. Operations and maintenance costs are high, and qualified operators are few. Compact water demineralization plants require the importation of expensive chemicals.

LD II will emphasize technology appropriate to local needs and local water conditions.

(2) Wastewater/Sanitation

There are no wastewater systems with effective treatment in Egyptian villages. The demand for wastewater systems is extremely high, but the per-unit cost, compared with the per-unit cost for potable water systems, is two to four times higher. LD II would focus on this area, but would not be able to satisfy all the demand.

DSS I is now exploring low-cost appropriate technology wastewater systems through pilot activities. LD II would continue the search for appropriate systems that are affordable, and can be operated and maintained by local units.

(3) Rural Roads

DSS I financed over 4,000 km of rural roads to connect villages and hamlets to main roads. For LD II, the demand for rural roads remains high.

DSS I roads, while generally well constructed, have some problems with alignment, elevation, and operations and maintenance. LD II would focus on upgrading existing roads and improving maintenance. Equipment service centers, with a dual function of servicing equipment, and providing hands-on training for mechanics, would be developed in each governorate.

(4) Solid Waste Management

Over 4,000 tons of solid waste are generated per day in Cairo. Only half of the solid waste generated in Alexandria is collected.

DSS I has provided LE 80,000 per urban district for solid waste management. While the activities have been successful, the solid waste problem is so enormous that more will be required. Also, DSS I has focused only on the collection side of the problem; disposal requires attention under LD II.

(5) Local Urban Upgrading Activities

Urban upgrading activities have occurred in six areas: infrastructure, education, health, social services, markets, and training. These activities have achieved some success, but three problem areas stand out that would receive more attention under LD II.

Often the designs used on subprojects are inefficient, inappropriate, and inadequate. A lack of qualified supervision is responsible for much of the poor quality construction work, which then becomes an operations and maintenance problem. Maintenance of public facilities is usually poorly performed.

LD II would provide intensive training for district engineers. Engineers and supervisors would be encouraged to visit their field sites. The GOE would contribute LE 5.0 million to LD II for incentive pay. Maintenance training at the district and governorate level would be intensified.

2. Environmental Considerations (Annex 2C)

The program area can be divided into three environmental regions: 1) the Nile Valley, 2) the low-income urban areas of Cairo, Alexandria, Port Said, Suez, and 3) the desert. The Nile Valley and the urban areas, are of paramount importance, as more than 90% of the beneficiaries of LD II live there.

The dominating physical feature of the project area, the Nile River, is the source of life for Egypt and is also a source environmental concerns for LD II due to the negative environmental impacts of resulting from the necessity to exploit the river to support explosive population growth in the Nile Valley.

a. The Provincial Areas.in the Nile Valley

In the valley hamlets, villages, and towns, are grouped in 860 administrative areas, officially called "village units". The village units have high population/arable land ratios, and lack adequate infrastructure. The major environmental concern, is the inefficient

115

over-use of domestic and agricultrual water that has resulted in high groundwater under villages. This causes the weakening and collapse of structures, the flooding of latrines, and the emergence of pools of stagnant water.

DSS I has attempted to meet the high local demand for potable water, by funding 1,600 rural water-supply projects. Since the GOE, USAID and local governments have all recognized the environmental consequences of the delivery of potable water without accompanying wastewater systems, the final phase of BVS focused on the development of appropriate wastewater systems. LD II would, through the local government planning process, continue to develop and implement wastewater solultions and re-emphasize the up-grading and the operations & maintenance of existing DSS I infrastructure. This approach would continue in LD II and, if successful, should help mitigate existing environmental problems in villages.

b. The Urban Areas

The major environmental problems in the urban areas are the result of a combination of explosive population growth, insufficient and inadequate infrastructure, and lack of maintenance of existing infrastructure. These combined factors have caused enormous environmental problems, characterized by high levels of air pollutión, overloaded sewerage systems, pools of septic water in crowded neighborhoods, and mountains of uncollected solid waste.

The DSS I/NUS Project has attempted to mitigate several specific urban environmental concerns through interventions in solid waste management, the up-grading of district equipment maintenance facilitates, the installtion of water and sewer household connections, the construction of lavatories in schools, and street paving and lighting. While the above projects have had some success, the enormous environmental problems of the urban areas have not been solved, mainly due to the enormous stress placed on the service systems by rapid population growth.

The LD II Project would continue the environmental conservation efforts begun during DSS I and focus on problem areas that have hindered NUS activities, namely the completion and up-grading of existing DSS I activities and the improvement fo the operations and maintenance systems.

c. The Desert Areas

The desert areas cannot support the high population densities characterisitc of the rural/urban settlements of the Nile Valley. However, overcrowding in the valley has stimulated attempts at land reclamation and resettlement in desert areas. This has placed great stress on the already fragile desert environment. More water is required by more people, and its cost continues to rise as deep wells remove finite amounts of fossil water reserves.

The environmental situation in the desert coastal areas is not as critical in the inland areas. Here, villages exist through the catchment and storage of seasonal rainfall and by wells that tap the brackish water aquifer. Coastal towns import water from the Nile by railway, truck and pipeline.

The DSS I/DSF/BVS Projects have aided local governments in exploiting the desert areas. Deep well pump sets and generators have been supplied to inland desert areas and desalination units have been supplied to coastal settlements. LD II would reevaluate its desert-area interventions to consider the fragile desert environment, the high per capita costs of those interventions, and the appropriateness of the technology to be employed. Existing equipment and practices, supplied under DSS I would be evaluated over time, and improved or displaced if necessary.

D. Summary of the Social Soundness Analysis (Annex 2D)

The sociocultural and political environment in which the LD II program would be carried out is one of increasing local autonomy and limited, but increasing, democratization of decision-making for the provision of basic services to urban and rural citizens. The LD II Program objectives are consistent with the GOE philosophical commitment to decentralization.

By law, local government units have substantial administrative and management responsibilities to carry out a wide range of tasks in the delivery of basic local services. They lack sufficient resources, experience and technical assistance to effectively plan and implement activities. During the DSS I Program, local government has proven that it can assess local needs and plan projects. However, it did not receive adequate technical assistance from the directorate offices located in the districts and the governorates, so that high quality projects could be implemented. Measures to correct these problems would be included in LD II.

LD II is a continuation of the DSS I and is designed to assist the GOE establish the capacity to plan and implement local development plans. The continuation of the process set in motion by DSS I is compatible with the sociocultural and political environment of increasing local autonomy for the provision of basic services to urban and rural citizens.