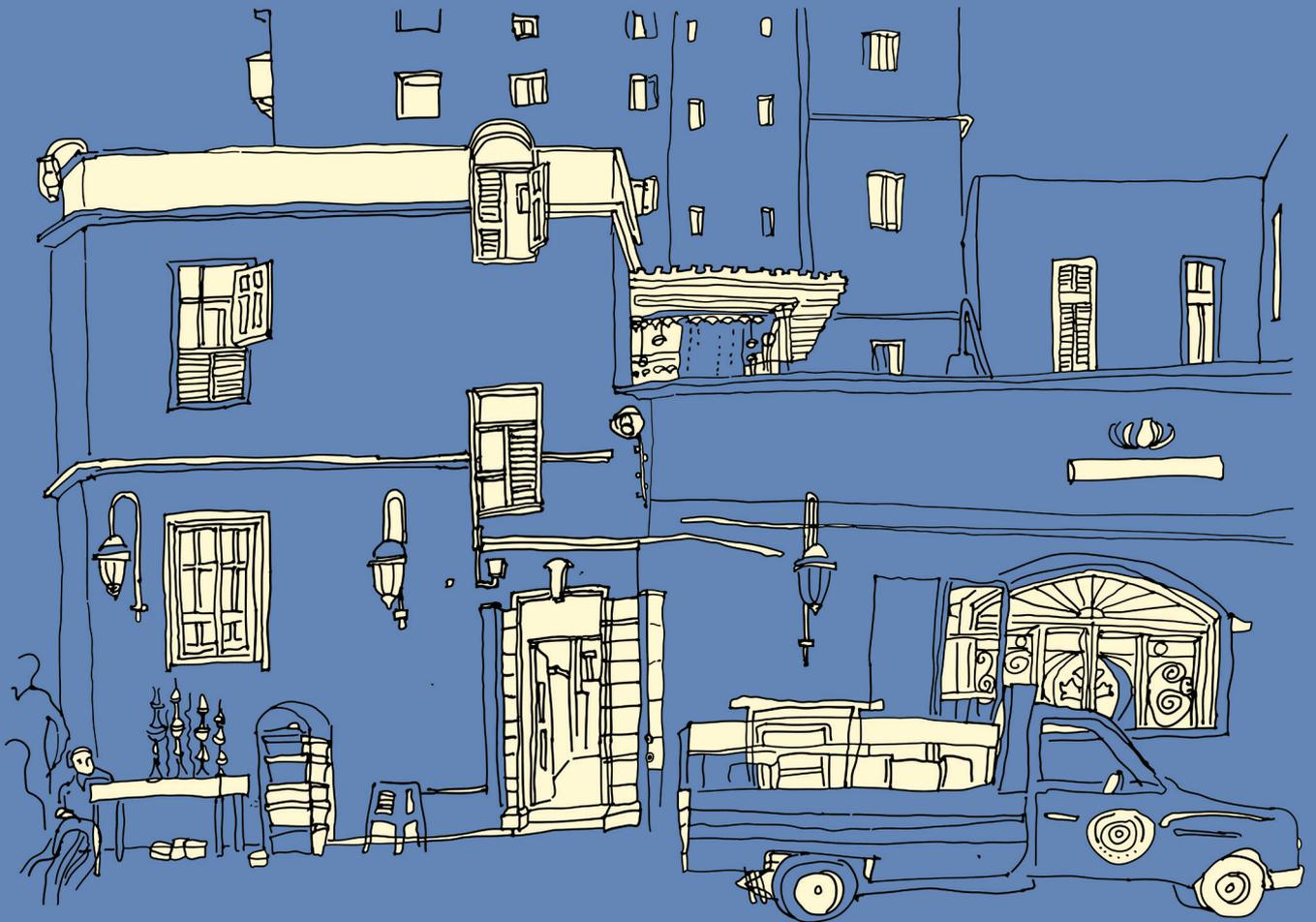


THE IMPACT OF EFFECTIVE LOCAL ADMINISTRATION ON LOCAL INVESTMENT FLOWS

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ABOUT THE SEMINAR AND EGYPT TOMORROW ECONOMIC FORUM (ETEF)

The seminar, titled “The Impact of Effective Local Administration on Investment Flows at the Local Level,” was held under CIPE’s Egypt Tomorrow Economic Forum (ETEF). Formed in late 2012, ETEF is a forum that consists of a diversified group of Egyptian entrepreneurs (predominately youth), with interest in working towards promoting economic growth and development in Egypt. In early 2013, members of the forum developed an economic vision for Egypt and identified priority areas for improvement in order to realize this vision. Since then, CIPE has been working with ETEF members to further explore and discuss strategic issues related to each of their identified priority areas.

To support the forum, CIPE follows a two-track, complementary approach. The first track involves holding seminars for a limited number of forum participants to discuss specific issues/topics relevant to the ETEF economic vision and priorities identified. These seminars serve as capacity building and knowledge sharing venues to a great extent. The second track entails hosting issue-specific seminars that bring together a wider group of stakeholders – legislators, senior government officials, opinion leaders, business associations’ leadership, media, and academics – to share their expertise and knowledge and engage in a more elaborated and detailed discussion of issues. The latter track contributes to enriching the debate on many important issues and challenges and developing a clearer and more in-depth view and appreciation of these issues to support stakeholders in developing sound economic strategies and policies.

BRIEFING ON THE SEMINAR



On April 16, 2018, Egypt Tomorrow Economic Forum, the Center for International Private Enterprise (CIPE) hosted a seminar to discuss the role of local administration in promoting investment and enhancing economic development at the local level. This seminar is especially timely given the fact that two critical bills – the Unified Planning bill⁽¹⁾ and the Local Administration draft bill⁽²⁾ – are currently under review and discussion in the Egyptian House of Representatives.

⁽¹⁾ The Unified Planning draft bill sets a framework for the state to regulate the planning and execution of national projects based on their merit, costs, and sources of funding. The Egyptian Government gave its preliminary approval of the bill on December 20, 2017. As per Egypt Today, on December 28, 2017, the Minister of Planning, Monitoring, and Administrative Development pointed out that the law is in line with the state's policies to push towards and generalize decentralization. She said, «As part of the national vision of the Economic Sustainable Development Plan 2030, the new planning law encourages innovation as it pushes towards a more competitive and diverse economy under the country's current framework.» The law further assures equal disbursement of government funding among the country's provinces, contending that it offers provincial governors flexibility in terms of spending government funds to give more space to stalled development projects to grow and evolve.

⁽²⁾ The Local Administration draft bill is currently under debate in the executive branch of the government and Parliament. The details have yet to be finalized.

SEMINAR PROCEEDINGS

CIPE Egypt Program Officer, **Lobna Afify**, opened the seminar by providing background information on ETEF and explaining that the seminar was primarily held to set the scene for an upcoming National Dialogue Retreat CIPE is planning to hold in partnership with the World Bank in July 2018. She encouraged participants to engage in the discussion and share their views and suggestions so that they can be incorporated into the upcoming retreat.

Dr. Reem Abdel Halim, an ETEF member, Assistant Professor of Economics at Cairo University, and advisor to Industrial Development Agency at the Ministry of Trade and Industry, moderated the discussion. In her opening remarks, she emphasized that local administration and local development does not only concern the government, but is also important to all development partners at both the central and local levels. She argued that, at some level, the role of the business sector and civil society organizations in matters relevant to local administration could even surpass that of the government.



Dr. Abdel Halim then introduced the four panelists:

1. Dr. Khaled Zakaria, Advisor to the Minister of Planning, Monitoring, and Administrative Reform (MPMAR)
2. Dr. Hisham Helbawy, Director of the Upper Egypt Local Development Program (UELDP)
3. Dr. Khaled Abdel Halim, Deputy Director of the UELDP
4. Dr. Mohamed Nada, Urban Development Specialist at the World Bank

Dr. Khaled Zakaria, Advisor to the Minister of Planning, Monitoring and, Administrative Reform (MPMAR) Remarks:

Dr. Zakaria focused on the new Unified Planning bill, which is currently under review and discussion at the House of Representatives' Planning and Budget Standing Committee. His presentation focused on explaining the relevance of the bill to local administration and development, specifically the aspects of the bill that pertains to local planning. Dr. Zakaria noted that replacing the current Planning Law is long overdue as it was enacted in the seventies under a very different social, economic, and political context. He emphasized that the new bill reflects the most recent and up-to-date practices and trends in planning.

Dr. Zakaria presented the three principles relevant to local administration and development in the Unified Planning bill; supporting decentralization, advancing equitable and balanced development, and promoting the engagement and participation of local communities in the development process.



He explained that both the Unified Planning bill and the Local Administration draft bill⁽³⁾, which is also up for discussion, underscore and uphold the concept of decentralization enshrined in the 2014 Constitution. Both bills attempt to translate the constitutional provisions related to decentralization into practice. In other words, both bills will represent the legal backbone of a decentralized system once enacted.

According to Dr. Zakaria, the Unified Planning bill is designed to address the glaring disparities between the different regions and governorates and within the individual governorate itself. These disparities are reflected in many of the Sustainable Development Indicators

⁽³⁾ The Local Administration draft bill was drafted by the Ministry of Local Administration

Promoting the engagement and participation of local communities, the third principle guiding the bill, underscores the idea that, at its very essence, local development is a community affair, not strictly a government matter. Hence, operating in an open manner and promoting local community participation is a crucial part of the local development process. He described local administration as a school of democracy and asserted that the unified Planning bill seeks to introduce a participatory framework for planning at the local level.

Dr. Zakaria moved on to highlight eight of the Unified Planning bill's features introduced to address the shortages in the current law. These features are informed by the experiences and challenges of local units⁽⁴⁾ in planning and distinguish the Unified Planning bill from the current Planning law:

- *Linking economic and social planning with urban planning:* Currently, there is a total disconnect between social and economic planning undertaken by the MPMAR and urban planning undertaken by the General Organization for Physical Planning, Ministry of Housing, Utilities, and Urban Development. More often than not, there is overlap and conflict between the two sets of plans, and one plan usually includes projects that are not reflected in the other set of plans. The new Unified Planning bill promotes the linking of both planning exercises to avoid overlap and contradictions.
- *Relaxing expenditure requirements for the annual budget allocation:* Under the current law, governorates are required to expend their annual budget allocation within the specific fiscal year for which the funds are allocated. This requirement forces governorates to engage in random expenditure practices as they scramble to expend any remaining funds prior to the end of the fiscal year for fear of losing them. This practice reduces the efficiency and effectiveness of public spending. The new bill introduces the concept of multi-year budget ceilings that are to be developed and negotiated with MPMAR based on comprehensive development plans. Under this scenario, governorates will not have to scramble to expend funds with the approaching end of the fiscal year, as they will be able to carryover funds from one fiscal year to the next (for up to three years), thus improving the efficiency of public spending. When the ceiling is reached, governorates are expected to have expended their allocation and completed their projects.
- *Allowing transfers of allocated funds between projects:* Currently governorates face many problems in the event that they need to transfer funds between projects. In most cases, their requests are either denied or at best delayed. The new Unified Planning bill provides governorates with some flexibility to transfer funds between projects, albeit with some controls. Governorates will

⁽⁴⁾ Local Units in Egypt function at different levels: the Governorates, the Centers (Markaz), the Cities, the Districts, and the Villages.

be required to simply notify MPMAR in the event they wish to transfer funds between projects. A no-response by the ministry is considered tacit approval. This flexibility should facilitate project implementation and management at the local level.

- *Promoting the concept of joint projects between local units:* Most projects that involve more than one governorate are centrally designed, funded, and managed (roads, fisheries, etc.). The Unified Planning bill gives the right to different levels of local administration, from the governorate level to the village level, to engage in joint projects within the same governorate. This promises to optimize public expenditures, achieve economies of scale, limit waste of public funds, and avoid duplication.
- *Reinvigorating the regional planning bureaus⁽⁵⁾:* The Unified Planning bill seeks to revitalize the regional planning bureaus in Egypt's seven economic regions⁽⁶⁾. Currently these bureaus are neglected, weak, and underutilized. The bill introduces new tasks and responsibilities for these regional bureaus. MPMAR will work with other relevant ministries to upgrade and promote these bureaus, not only to oversee governorate level planning but also to oversee local projects, assess performance, and identify problems. It is envisioned that these bureaus will build relations and network with local units and civil society. In other words, under the new bill, the role of the regional planning bureau will be revitalized, further developed, and brought into better alignment with the spirit of the new law and the move towards decentralization.

⁽⁵⁾ These bureaus are regional offices affiliated to the Ministry of Planning, Monitoring, and Local Administration.

⁽⁶⁾ Source: State Information Service in Egypt as of April 16, 2018. Under presidential decree no. 475 of 1977, Egypt is divided into seven economic regions as follows:

- Cairo region, which includes the governorates of Cairo, Giza, and Qalubia.
- Alexandria region, which includes the governorates of Alexandria, Beheira, Matruh, and the Noubareya district.
- The Delta region, which includes the governorates of Monufiya, Gharbiya, Kafr El-Sheikh, Damietta and Dakahliya.
- The Suez Canal region, which includes the governorates of Sinai, Port Said, Ismailia, Sharkiya, and the northern part of the Red Sea governorate.
- Northern Upper Egypt region, which includes the governorates of Beni Suef, Menia, Fayoum, and the northern part of the Red Sea governorate.
- Assiut region, which includes the governorates of Assiut and the New Valley.
- The Southern Upper Egypt region, which includes the governorates of Sohag, Qena, Aswan, and the southern part of the Red Sea governorate.

- *Addressing the problems of stalled projects:* Land-related issues and other legal disputes are key challenges hindering project implementation and resulting in long delays. To address this problem, the new draft requires entities to provide adequate evidence confirming that no material obstacles to project implementation exist (legal disputes, land jurisdiction issues, etc.) when submitting projects for funding. Completed feasibility studies must also be submitted with proposed projects.
- *Improving project selection:* The bill embraces an approach that will improve the efficiency of project selection. It will provide forms, templates, and preparation guidance to facilitate the process. Project rationalization, a concept promoted by the bill, will help ensure that proposed projects are directly aligned with governorate-level plans and specific strategic performance indicators included in the Sustainable Development Strategy: Egypt's Vision 2030. On some level, this approach is a form of performance-based budgeting whereby the focus will shift to project results and their relationship to the performance indicators contained in the different national and local level strategies.
- *Promoting the targeting of development gaps:* Planning under the Unified Planning bill will focus primarily on closing development gaps. Rather than being institution-centric, the planning exercise will use these development gaps as its prominent analytical lens. With this shift, it is possible that, for a given fiscal year, an entity/unit may receive no budget allocation in Chapter 6 of the General State Budget, while another, which suffers from significant development gaps, receives an increased budget allocation compared to the previous fiscal year.

Dr. Hisham ElHelbawy, Director of the Upper Egypt Local Development Program (UELDP):

Dr. ElHelbawy began his presentation by recognizing the frustration surrounding issues of local administration and local development. He argued that, ideally, the three laws relevant to local development (the Unified Planning bill, the Local Administration draft bill, and the Unified Building Law No. 119) should be combined into a single law. He stated that the three laws overlap in many areas, including local planning, which is addressed differently in the three laws. As such, there is a dire need to unify the way issues are addressed across the different laws, including synchronizing urban planning with social and economic planning.

Dr. Helbawy stressed that the way local administration units operate is critical to local development ; and should be treated, as equally important, as the legal framework. Thus, local administration units' operations practices should be well-examined and analyzed to address the many challenges confronting local development. Generally speaking, any local administration system has three main inter-connected elements and that a whole-system approach is required when addressing its challenges.

The three elements include: policies related to the management of the development process, systems and operations of local administration, and local development programs. Dr. Helbawy reiterated Dr. Zakaria's point regarding the democracy dimension of local administration, adding that, in many instances, communities and countries are more concerned with, and in need of, democratizing development as opposed to politics. Ensuring meaningful representation, promoting local participation in the management of local communities, and striking a balance between the executive branch and people's representatives are key to democratizing the development process. In fact, delivering better services and realizing genuine, sustainable development outcomes require strong local administrative bodies, both executive and local community leaders.



Dr. Helbawy then explained the structure of the local administration system in Egypt – four urban governorates⁷⁾, and 23 governorates with a rural/urban mix – highlighting its multiple layers. In the context of the current local administration law, he believes that this structure has resulted in weakened local administration units that are unable to respond to citizen needs. In brief, the system generated local projects that do not enjoy the participation or buy-in of the local communities and do not address local needs, leaving citizens unsatisfied and needs unmet.

Another manifestation of the current unfavorable legal framework is the poor allocation of funds, whether allocated from national or local resources, due to overlapping institutional relations and vertical and horizontal lines of command. Dr. Helbawy expanded on the issue of prevalent geographic and sector disparities, noting that they exist between Upper and Lower Egypt and between urban and rural areas. In some governorates in Upper Egypt, 60 percent of the population lives below the poverty line, compared to 20 percent in the Delta (the

⁷⁾ The four urban governorates in Cairo as of the date of this paper are Cairo, Alexandria, Port Said, and Suez.

national average is 28 percent). He stressed that at the heart of effective local development is citizen participation, which he acknowledged is weak. Disparities in the capacity of the local administration units – even within the same governorate – are a major concern and affect the local development process. Organizational structures also vary from one governorate to the other, and even the organizational structure of the Ministry of Local Development (MoLD) does not echo the organizational structure of governorates. All these deficiencies necessitate drastic and comprehensive reforms that should be guided by the concept of decentralization.

Dr. Helbawy went on to enumerate the desired outcomes from reform efforts, including building a strong local administration system, increasing citizen satisfaction, realizing local development, mobilizing local resources, enhancing participation, improving services, and increasing the efficiency of public spending. He identified the three pillars guiding the effort to develop the local administration system as:

1. The constitutional provisions that support decentralization and the constitutional provision that mandates the economic and urban development of border and underprivileged areas
2. The new Local Administration draft bill, which he said should be combined with the Unified Planning bill in a single law, since parliamentary review and discussion of two separate bills to guide local development provisions might create problems and conflicts.
3. Community participation, good governance, and improving the planning system. Achieving comprehensive local development requires having in place an overarching framework in addition to appropriate tools to carry out the process. Addressing the planning process in isolation from organizational or institutional issues would derail development.

Dr. Helbawy then explained the rationale for having local development plans, specifically the five Local Development Goals, promoting decentralization, serving the neediest areas, supporting local administration units, strengthening participatory planning, and introducing a level of certainty and transparency in budget allocation. He noted that the on-the-ground reality confirms the need to change the situation, and reiterated that the change should entail more than improving on and developing these local development programs. Dr. Helbawy stated that a few months ago, the UELDP submitted a proposal to MPMAR detailing a three-track approach to enhancing local development. The proposal includes:

1. Improving development policies including: advancing decentralization, adopting good governance, fast tracking development in the most deprived areas, and promoting human development.

2. Enhancing local administration systems through adopting modern management practices and tools, building knowledge communities, and promoting participation.
3. Upgrading local development programs through implementing development programs that seek to promote social justice, improve the lives of Egyptians by providing better services, advance local economic development, and support sustainable development.

Dr. Khaled Abdel Halim, Deputy Director of the Upper Egypt Local Development Program (UELDP):

Dr. Abdel Halim began by stating that, at present, the local administration system is still in its founding phase. He acknowledged that it is difficult to discuss details in the absence of the basic prerequisites for achieving real and meaningful local administration system reform. In his view, the central agencies still have command over the reform process. Like Dr. Helbawy, he highlighted two key principles that should guide the reform of local administration: 1) decentralization, as mandated in the 2014 Constitution, which should entail the transfer of power, authority, and funds to the local level; and 2) good governance at the local administration level. He expanded on the latter, pointing out the various elements that should be considered when discussing principles of good governance: effectiveness, efficiency, participation, transparency, accountability, responsiveness, justice, fairness, rule of law, and combatting corruption.

Dr. Abdel Halim outlined a number of areas that are key to bringing about real change in the local administration system:

1. Institutional development, which entails reviewing, developing and reforming the structures, roles, functions, and tasks of the local administration units at all levels. MPMAR has undertaken an effort to this end; however, it has not been completed. Dr. Abdel Halim called for resuming this effort in an orderly and principled manner, keeping an eye on promoting decentralization.
2. Improving human resource management. It is important to enable, empower, and incentivize employees at the local level who remain among the most undercompensated civil servants despite assuming most of the burden of serving local communities.
3. Upgrading local administration systems and operations, including not only planning, but also the information systems that feed the planning process.
4. Developing monitoring and evaluation systems and functions at the local level.
5. Building the capacity of local level civil servants.

On the local economy, he said that, while the 2014 Constitution specifically references decentralizing the management of economic resources and structures, the reality on the ground is very different. Developing the local economy is not currently treated as an inherent function of local administration. A case in point is the new Investment Law, which concentrates all powers with central authorities; the Ministry of Investment, and the General Authority for Investment and Free Zones. Likewise, the Industry Law places the power to allocate industrial land use in the hands of the Industrial Development Authority. Previously, governorates possessed this authority. He added that the hegemony of national-level authorities extends to other sectors, including tourism and mining. He stressed the need for a meaningful reform of the legal framework governing the management of economic resources and the role and functions of the various ministries working in areas relevant to economic affairs.



Dr. Abdel Halim emphasized that reforms should be undertaken with an eye towards promoting decentralization and good governance. He moved on to discuss the structures required to manage the local economy, stressing the need for sound arrangements, institutional structures, and mechanisms at the local level that enable and support local economic development.

Drawing from the experience of the UELDP, Dr. Abdel Halim highlighted a number of these structures that can facilitate economic development at the local level. He noted that establishing such structures is particularly important since, by and large, executive councils across governorates do not appear to be much concerned with economic development.

Among the structures he suggested are *Governorate-level Economic Councils*, which include in its membership, representatives from the executive branch, private sector, and civil society; *Local Development Forums*, which hold consultative sessions with citizens, business associations, and other civil society organizations; and *Local Economic Development Units* (these preceded the UELDP).

He acknowledged that, while governorates do have Investment Offices, economic development is more comprehensive and extends beyond their mandate. In this regard, he proposed the creation of a model adopted in many countries, which he referred to as local economic development authority, a dedicated entity to manage economic development at the local level. In this model, the authority would be chaired by the governor and include representatives from the private sector in its membership. He reiterated that transferring the authority to manage the local economy to the local level is key to the success of decentralization and the reform of local administration because a robust economy managed by the private sector and enabled by the executive is the engine of local development. As such, planning the local economy is an integral part of decentralization and local administration reform.



Dr. Abdel Halim briefly touched on the topic of urban planning, noting that urban strategic plans represent a lost opportunity. While substantial participatory effort goes into developing these plans, they are not linked to social and economic plans, do not receive any budget allocations, and are created by regional planning bureaus. It is thus essential that urban planning becomes a local-level exercise to enhance the sense of ownership of these strategies. He stressed that urban strategic plans could and should be viewed as important instruments for enhancing the engagement of local communities and as important tools to negotiate local funding levels with the national government, particularly because local units do not have full control of their resources. The process guiding urban strategy planning should be reformed and, while developing these strategies, planners should work to secure the concrete commitment of the various stakeholders involved in the strategy's development. If this is done, urban strategies can become an integral part of local development efforts. Finally, Dr. Abdel Halim suggested expanding the conceptual foundation of current local development programs and transforming them into more comprehensive and expanded programs. In other words, he suggested using them as channels for carrying out more integrated urban improvements and economic development, including investment and infrastructure development in addition to service provision.

Dr. Mohamed Nada, ETEF member and Urban Development Specialist at the World Bank Remarks:

Dr. Mohamed Nada provided an overview of scope of planning and implementation available in any given governorate. In every governorate, there are several major players involved in local development:



1. The five Local Development Goals, which represent seven to eight percent of the total capital investment in any governorate, and over which governors enjoy some level of control.
2. The eleven directorates (health, education, youth and sports, agriculture etc.), whose operations are subject to the current Planning Law and national authorities. These directorates, over which governors have administrative authority but little else, do not engage in vigorous planning. Rather, they prepare wish lists, which are sent up to the MPMAR for consideration. While the current Local Administration Law calls for a unified plan for each governorate, the process is very blurry in reality and governorates end up with twelve plans: eleven developed by the directorates and one covering the five local development programs. Moreover, public oversight mechanisms are either weak or absent. These are vaguely addressed in the Executive Regulations of the Local Administration Law, and the regulations itself compound the problem.
3. The various national service and economic agencies or entities, which are gradually enjoying expanded authority compared to local units.
4. The domestic and foreign private sector, which lacks an adequate mechanism to engage with governors, especially since local level investment departments are extremely weak.

Against this reality, and while the issue of decentralization has been at the forefront of debates over the past 12 years, there appears to be a gradual shift toward more centralization. Thus, governors are left with limited authority over local development in their respective governorates (with control of approximately 10% of all investments). Dr. Nada attributed part of the problem to the legal framework governing local administration and development, including the current Local Administration Law and the Planning Law. In his view, the latter is responsible for generating a very fragmented sectoral approach to planning.

As for spatial planning, Dr. Nada explained that it can address many of the deficiencies of sectoral planning; however, under the current legal and institutional arrangements, governors have no authority to enforce the implementation of such plans. The new Unified Planning bill law is expected to address this problem by linking urban planning with social and economic planning, while simultaneously starting the gradual transfer of authority to the local level. He stated that Egypt is at a historic juncture; a respected House of Representatives is in place and the government appreciates and recognizes the importance of adopting a comprehensive approach to local administration and development – conditions that will likely generate enabling laws. In this regard, he emphasized the importance of developing enabling executive regulations to guide the implementation of these laws.

Dr. Nada concluded his presentation by giving a brief overview of the Upper Egypt Local Development Program, stressing that it is an Egyptian-led effort with funding provided by the World Bank. The program provides the governorates of Sohag and Qena with flexibility and opportunities to locally develop and implement well-integrated plans that engage all public and private actors, both local and national, in the process.

KEY POINTS AND THEMES FROM THE FLOOR DISCUSSION

The panel was followed by a discussion with the audience, who raised some questions and suggestions, reflecting on the various challenges of the current system. Below are the most salient issues raised:



- *Local Level Capacity:* Many participants stressed the need for building the capacity of local administration officials. Local administration suffers from a serious lack of capacity, which is reflected in its low efficiency and effectiveness. The lack of specific expertise in managing industrial zones in particular was noted as detrimental to industrial development at the local level and results in random decisions being made. A member of Parliament described engaging with local administration units as a complete struggle. He lamented MoLD's lack of capacity to function effectively, which he viewed as ironic especially given its involvement in reforming the local level. Many participants stressed that the lack of transparency and oversight mechanisms to hold local administrations accountable compound the problems. They underscored the importance of having strong, meaningful oversight and accountability mechanisms.
- *Land Management:* A number of participants highlighted the issue of land allocation at the local level, noting that overlapping jurisdictions over land allocation is a major problem. One participant went so far as to say that the government's land management practices essentially amount to trading in land, as it generates lucrative revenues. This, in his view, is a serious concern and affects the ability of SMEs to secure land for their enterprises.
- Overlapping and sometimes conflicting responsibilities (e.g. between investment and industrial development authorities) is disruptive and negatively affects investment at the local level.

- One of the participants voiced his concern over the request of the Minister of Local Development to transfer the jurisdiction over cooperatives to the Ministry of Social Solidarity. He stressed the important role that cooperatives play in promoting local development and views this move as opening the door for corruption.



- Other ideas raised by participants included: encouraging private-sector-led management of local services; engaging academic institutions in local development; and exploring how reforming local administration and local development can serve the objectives of financial inclusion and the move towards a cashless economy.

ISSUES TO CONSIDER MOVING FORWARD

The following topics require more attention and further in-depth discussion:

- The scope and pace of desired change to best achieve the ultimate goal of improving local administration and local economic development.
- The linkages and intersections between the two bills on planning and local administration.
- The linkages between the different plans and strategies at both the local and central level.
- Monitoring and evaluation.
- Engaging all partners – the private sector, civil society organizations, and academia as well as the government.
- Public oversight.
- Institutional development and building local staff capacity.
- Improving the efficiency and effectiveness of local-level investment.



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