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ARAB REPUBLIC OF EGYPT
COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)



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CURRENCY EQUIVALENTS

Currency unit	=	Egyptian pound (EGP)
USD 1.00	=	EGP 4.25
EGP 1.00	=	USD 0.27

WEIGHTS AND MEASURES

1 feddan (fd)	=	0.42 hectare (ha)
1 ha	=	2.38 fd

ABBREVIATIONS AND ACRONYMS

AAAID	Arab Authority for Agricultural Investment and Development
APIP	Agricultural Production Intensification Project
COSOP	Country Strategic Opportunities Paper
EU	European Union
IDA	International Development Association
IBRD	International Bank for Reconstruction and Development
IFPRI	International Food Policy Research Institute
MALR	Ministry of Agriculture and Land Reclamation
NGO	Non-Governmental Organization
NLASP	Newlands Agricultural Services Project
NWC	North-West Coast
O&M	Operation and Maintenance
PBDAC	Principal Bank for Development and Agricultural Credit
PIM	Participatory Irrigation Management
SME	Small and Microenterprise
T&V	Training and Visit System of Extension
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WID	Women-in-Development
WBSP	West Beheira Settlement Project
WFP	World Food Programme
WUA	Water Users' Association

GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT

Fiscal Year

1 July – 30 June

EXECUTIVE SUMMARY

Purpose

1. IFAD has financed seven projects in Egypt. This Country Strategic Opportunities Paper (COSOP) represents the first step in developing a further set of interventions. The purpose of the COSOP is to propose a strategic approach for future IFAD operations, taking into account the Government's development priorities, opportunities and constraints; IFAD's mandate and specificity; and lessons learned from previous and ongoing IFAD and other donor operations and experiences in Egypt.

Economic, Agricultural and Rural Poverty Context

2. Egypt's economy, propelled by structural reforms over the last two decades, is showing signs of moving towards permanent sustainable growth. However, major difficulties remain in creating employment for a workforce expanding by about 500 000 (about 3%) annually.

3. Agriculture directly contributed 15.7-17.3% to gross domestic product (GDP) from 1993/94 to 1997/98, and about 20% indirectly from ancillary industries such as processing and marketing. Agriculture provides direct employment to 33% of the work force, and to a large proportion in associated services. In 1986 the Government began to reform the then inward-looking agricultural policy. Agriculture is now among the most liberal and progressive economic sectors. There have been impressive gains in output of many crops as farmers have responded to incentives and reaped the benefits of high yields from new varieties. Crop production is very intensive on the limited cultivation area, and unit area yields of some of Egypt's crops are among the highest in the world. In spite of these encouraging trends, Egypt remains one of the world's largest food importers.

4. Egyptian agriculture is characterized by smallholdings (about 50% of holdings are less than 1 feddan (fd) in area), with very limited advisory and credit services to small farmers, except in some donor-supported projects.

5. Poverty is endemic in Egypt, with 26.5% of the population classified as poor. The incidence of poverty and "ultra poverty" is highest in Upper Egypt, although a larger absolute number of poor households is found in Lower Egypt because of the concentration of population there.

IFAD Present Strategy and Operations

6. IFAD has financed seven projects in Egypt, with total investment of about USD 158 million. These interventions were guided by a strategy developed in 1979 of supporting two of the government's priority sectors in agriculture. Evaluations of these projects show that they have largely attained their objectives and have contributed to improved incomes and living conditions of large segments of the small-scale farming communities in the project areas. They have also positively influenced public policy on land tenure, on other land settlement, agricultural extension modalities, and a farming-system approach to technology generation.

Strategic Framework for IFAD

7. Through necessary reforms and structural adjustments, Egypt has taken most of the medium- and longer-term steps considered necessary to support future development. Through its "Vision 2017" the Government has clearly stated its goals and strategies. This COSOP seeks to adapt IFAD operations, to Egypt's policy context and to establish synergy between IFAD's specificity and the government's policy and planning framework for rural poverty alleviation.



8. Creating and expanding sustainable employment opportunities in rural areas is a paramount government objective. To provide support to this objective, this COSOP proposes a sharper focus on the “newlands” and similar areas in the north-west coast (NWC) area of Egypt. The Government invests considerable resources in reclaiming large areas of newlands for distribution to poor and disadvantaged groups. Under the government land-reclamation programme, investment is primarily in hardware, with very little investment in social services, and no investment in the provision of agricultural support services. Consequently, poor settlers face difficulties in settling and farming, and a considerable percentage move back to the “oldlands” and abandon their newland farms. “Horizontal expansion” in the newlands provides direct employment opportunities in farm production for small farmers and the unemployed. This employment will not be sustainable without post-settlement support services.

9. Small farmers in Egypt spend a high proportion of their incremental income on locally produced non-farm goods and services. Accordingly, the growth of small-farm production and incomes in the newlands creates an effective demand for goods and services produced by small and microenterprises (SMEs). It is estimated that for every full-time worker engaged in agricultural production in the newlands, 1.25 jobs are generated in agriculturally driven non-farm SME activities. The bulk of SME job opportunities go to newland inhabitants that do not have access to land. Thus the employment impact of newland development would derive more from SMEs stimulated by rising farm incomes than directly from employment in farm production.

10. Viable farming and increased farm income in the newlands are largely dependent on farmers being able to market their produce, but the present marketing system in the newlands is inefficient, resulting in significant post-harvest losses, low farmgate prices and reduced farm incomes. The development of both SMEs and marketing (which is dominated by small enterprise) require expanding the access of farmers and entrepreneurs to credit and other financial services. The development of SMEs will require intensive skills training, as well as improved access to microfinance. Investments in SMEs are likely to be of particular benefit to women, provided there is adequate provision for their inclusion in training and microfinance programmes.

What Comparative Advantage Does IFAD Bring to the Newlands?

11. IFAD remains one of the lead donors in providing assistance to agriculture and rural development. The Fund has established a strategic niche in the newlands by financing projects that provide post-settlement and agricultural support services crucial to the establishment of viable farming. IFAD has pioneered new and innovative methods of technology generation and transfer, and was successful in securing beneficiary involvement in sustaining project benefits. It has instituted the principle of cost-recovery policy in respect of artificial insemination and soil and water laboratory services.

What Innovation Would IFAD promote?

12. The main thrusts for IFAD support would include: (i) technology transfer, focusing on adopting technologies generated through Egypt’s recognized agricultural research efforts in the oldlands and adapting them to newland conditions, testing these on farmers fields using a farming-system research approach, and providing farmers with intensive training and advice; (ii) improved water-use efficiency and improved long-term sustainability of the irrigation system through change to more efficient sprinkler and drip systems, with greater beneficiary involvement in the management of the pressure irrigation system; (iii) increased attention to off-farm enterprises; (iv) support to formal and rural finance institutions in dealing with very small farmers in the newlands, while at the same time exploring modalities through which wholesale credit can be channelled to non-governmental organizations (NGOs) or community-based organizations; and (v) support to marketing and agro-processing.



Targeting

13. Future projects in the newlands and NWC would mainly target small farmers (especially those who lost their right to farmland as a result of the recent land tenancy reform law), women and members of Bedouin communities.

What More Could IFAD Do in the Newlands?

14. Despite the demonstrated success of IFAD-financed projects in resolving some of the major constraints, many challenges remain. IFAD can assist in the build-up and consolidation of more client-oriented and participatory institutional models for technology transfer; irrigation system management; and development of new modalities for delivering rural financial services, including village banking. It can also assist in the establishment of modern marketing and agro-processing systems that give fair prices to producers and lay the foundation for modernizing the food distribution system and promoting the production of horticultural products.

Main Opportunities for Project Interventions

15. **Consolidation and expansion of activities in the newlands.** This would potentially benefit additional settlers, especially tenants displaced from the oldlands as a result of the tenure reform law under the structural adjustment programme.

16. **Natural resource management initiatives in NWC.** There are project opportunities in the NWC in dryland areas exposed to degradation as a result of erratic rainfall patterns and unsustainable land-use practices.

17. **Project selection criteria.** The considerations that would guide the selection of projects include the poverty status of the target group, the proportion of poor in the target group and the consolidation of previous IFAD investments.

Opportunities for Strategic Linkages with other Donors

18. As a lead donor in agriculture and rural development, IFAD will seek strategic partnerships that complement the Funds' efforts. The World Bank is actively looking for strategic alliances with other donors in order to avoid duplication, and to arrive at a blend of cofinancing that would be attractive to the Government. There are also opportunities for cofinancing using the proceeds of the Italian Debt Swap funds on the basis of the Rome Millennium Initiative. There are also opportunities for involving the Arab Authority for Agricultural Investment and Development (AAAID) in marketing and agro-processing initiatives in the newlands through its establishment of commercial companies, or through participation in equity financing of private or joint-venture companies. IFAD would use its newland expertise and contacts to mobilize significant donor resources, through direct cofinancing or through broad programme support to newland and NWC development.

Outreach and Partnership Possibilities with NGOs, National and Local Initiatives

19. IFAD may be able to cooperate with NGOs in the provision of rural financial services. Some international and local NGOs are active in this field. However, the Government is wary of religiously oriented NGOs and is also reluctant to channel loan resources to NGOs willing to be involved in project implementation. Thus NGO cooperation will be limited by the extent to which the government policy environment allows IFAD to support NGO pilot activities.



Areas for Policy Dialogue

20. As a relatively small, specialized lending institution, the best opportunity for meaningful policy dialogue with the Government is to lead by example through strategic initiatives in project design and concrete successes in project implementation. The proposed focus on the newlands offers an ideal opportunity to work with the Government and experiment with new approaches to rural finance, marketing and participatory irrigation management.

21. **Rural finance.** There are major problems in effectively supplying credit and savings services to beneficiaries in IFAD projects. Action and policy reorientation is required to review and resolve the constraints hindering credit delivery to small farmers, including how to reorient the agricultural credit bank (Principal Bank for Development and Agricultural Credit [PBDAC]) to serve the needs of the poor, and how to open rural finance to other players, including civil-society organizations. Likewise, the Government has shown great reluctance to accept NGOs and grass-roots organizations as providers of financial services. There is a need to open a policy dialogue on the importance of legislative and administrative measures that would provide opportunities for NGOs and grass-roots participatory institutions to participate in the provision of rural financial services.

22. In order to address this challenge, IFAD strategy will be to work with the Government and other financial sector stakeholders to develop new and innovative approaches. The point is not that IFAD should aim to reform the rural financial sector per se, but rather that it would set an example and lead the way in working with PBDAC (and other providers of rural credit) to identify new solutions that address the interests of the rural poor. Over time, the ultimate goal of this strategy is to set a precedent and lead the way for a gradual shift in national policy.

23. **Participatory irrigation management.** The Government has indicated its intent to shift emphasis from its role as the central (or sole) actor in developing and managing water-supply systems, towards promoting participatory approaches in which water users will play an active role in the management of irrigation systems and cost sharing. Important institutional and legislative measures have been taken recently to promote the establishment of sustainable participatory irrigation management (PIM) associations. However, despite these measures, the development of water users' associations (WUAs) as effective partners in irrigation management remains at an early stage. In the newlands, the concept of PIM is not yet effectively operational for a variety of economic, financial and institutional reasons. Discussions will be initiated as part of the proposed IFAD investment package, with the aim of overcoming these constraints in order to create an environment in which WUAs can serve the interests of small farmers.

24. **Marketing.** While the private sector is destined to play a major role in marketing in Egypt, government responsibility will be to create an environment in which private-sector operators can confidently engage in marketing initiatives. It may also have to provide investment incentives to these operators to invest in marketing enterprises and infrastructure. In the past, this issue of incentives proved a stumbling block to the implementation of a marketing pilot project under International Development Association (IDA) funding. IFAD will work to facilitate discussions between the Government and private-sector stakeholders to identify an appropriate framework to support the marketing of perishable crops.

25. **Sustainability.** The extension system in the newlands, where the normal administrative structure found in the oldlands does not exist, has to be established independently of Ministry of Agriculture and Land Reclamation (MALR) institutions. The sustainability of such services after project completion and the cessation of project funding has to be ascertained. This is a challenge that needs resolution. Alternative approaches that can be discussed include cost recovery (user fees) and provision of technology transfer services through the private sector.



Lending Framework

26. The COSOP proposes two new operations in Egypt during the period 2000-2003, for loan amounts of about 25 million United States dollars (USD) and USD 12 million, respectively. The first intervention is the West Nubaria Rural Development Project, targeting small farmers and landless settlers (mainly farmers dispossessed of their tenancies as a result of the implementation of land-tenure reform). The second operation is a natural resource management initiative in NWC.



ARAB REPUBLIC OF EGYPT

COUNTRY STRATEGIC OPPORTUNITIES PAPER (COSOP)

I. BACKGROUND

1. This Country Strategic Opportunities Paper (COSOP) was prepared following extensive discussions with Egyptian policy-makers and the management personnel of ongoing IFAD-supported projects. In the preparation of the COSOP, use was made of various government documents including "Vision 2017," which outlines the Government's long-term development strategy, and the documents of the Fourth Five-Year Plan (1997/98-2001/02). The paper benefited from the findings of a project implementation performance review of ongoing IFAD projects in Egypt, conducted in 1999, and a mid-term evaluation of the Newlands Agricultural Services Project, carried out by the IFAD Office of Evaluation and Studies in 1999. In preparing the COSOP, extensive use was made of IFAD's Evaluation Knowledge System (EKSYST) in drawing lessons from experience, and the Project and Portfolio Management System (PPMS) in data retrieval and analysis. Programme Development Team discussions were invaluable in finalizing the document. During COSOP formulation, discussions were held with multilateral and bilateral donors in Egypt to inform them of IFAD strategic thrusts and seek complementarity and cofinancing.

2. This COSOP represents the first step in developing a further set of interventions in Egypt. It proposes a strategic approach for future IFAD operations, taking into account the Government's development priorities, opportunities and constraints, IFAD's mandate and specificity requirements, and lessons learned from previous and ongoing IFAD and other donor operations and experiences.

II. ECONOMIC, SECTORAL AND RURAL POVERTY CONTEXT

A. Country Economic Background

3. From an estimated 2.5 million people in 1800, the population had risen to about 63 million in 1999. With about 97% of all people living in the Nile Valley and Delta, the population density for these areas (excluding Cairo) is about 1 643 people/km². Rapid population increase is still a serious concern, although the annual rate fell from 3.0% in 1985 to 2.1% in 1996. Life expectancy at birth was nearly 70 years in 1999. Key social and economic indicators are summarized in Appendix I.

4. Since 1952, there have been major improvements in health and education. Primary school intake was 98.5% in 1992, with enrolment for girls being 92.3%. Although health care is free, only 14% of women receive regular prenatal care, and only 55% of children under five receive any medical attention. Nevertheless, there has been a steady improvement in health, and infant mortality was reduced from 179 per 1 000 births in 1960 to 66 per 1 000 by 1993. While the quality of life of the average citizen has improved, the United Nations Development Programme (UNDP) classed Egypt as 109 out of 175 countries in its Human Development Index in 1997. In the Gender-Related Development ranking, Egypt was in the 100th position.

5. The decade 1985-95 saw macroeconomic instability and slow economic growth. An Economic Reform Programme was initiated in 1987. Further economic reforms and a comprehensive structural adjustment programme were instigated in 1991. These macroeconomic initiatives have been highly successful. Between 1991 and 1998, the annual gross domestic product (GDP) growth increased from 1.9 to 5.6%, inflation fell from 21.1 to 3.6%, and the current-account deficit was virtually eliminated. The net foreign exchange reserves increased to 19.8 billion United States dollars (USD) and the Egyptian pound remained relatively stable. Export performance was maintained at around 20% of



GDP. The reform programmes laid the foundations for public-sector reform, with privatization and liberalization of trade and investment policies designed to provide long-term improvement of the economy. GDP per capita increased from USD 720 to USD 1 200 between 1994 and 2000.

6. However, in 1997/98 the economy was subjected to a number of external shocks that adversely affected growth, including a sharp decline in oil prices and a slump in tourism in response to a number of terrorist incidents. The budget deficit increased to about 4% of GDP; foreign exchange reserves declined and put pressure on the exchange rate. The government allowed the exchange rate to depreciate gradually to a level sufficient to restore Egypt's export competitiveness. Robust growth resumed in 1999 (the government estimate for GDP growth in 1999/2000 was 6.5%), reflecting improvements in both tourism and oil prices.

7. Currently, Egypt is undertaking a further Agricultural Policy Reform Programme, heavily supported by the United States Agency for International Development (USAID), which seeks to further liberalize agricultural policy and create a more conducive environment for private investment. The economy, propelled by structural reforms over the last two decades particularly, is showing signs of moving towards permanent sustainable growth. However, there are still problems – the newly achieved growth may be fragile and will depend on sustaining the pace and coverage of reform and investment in areas that will generate high returns. Major difficulties remain in creating employment for a workforce expanding at about 500 000 people (about 3%) annually. There are major imbalances in economic and social equity, with a wide (and widening) gap between rich and poor, and great disparity between the living standards in major cities and elsewhere.

B. The Agricultural Sector

8. The agricultural sector is of major importance to the Egyptian economy. In 1995, agriculture employed about 30% of the country's labour force, accounted for some 17% of GDP and nearly 20% of trade exports. Egyptian agriculture is confined to the Nile Valley and Delta, and some recently reclaimed adjacent desert lands. Cropped land amounts to some 8 million feddans (fd) (3.4 million ha), a per capita share of only 0.13 fd (0.05 ha), one of the lowest in the world. Farming is characterized by small holdings, nearly 50% of farms are less than 1 fd each and 84% of small farmers hold only 50% of the total farm area. Fragmentation is common, although leasing does play a role in consolidating fragmented holdings. Land is occupied through ownership, tenancy or sharecropping. Under the leasing regulations followed until recently, there was wide disparity between the rent amount (which is tied to the rarely revised land tax) and the economic value of the land as determined by supply and demand. Additionally, the landowner had no control over rented land since the tenant could achieve statutory tenancy. The law was amended in 1992 to allow rental value to approach market rates and to allow the landowner the right to buy back the tenancy contract.

9. Soils in the Nile Valley are fertile; the ambient temperature and plentiful sunshine favour year-round growth, and irrigation water has been available throughout the year. Almost all land is double cropped, reaching a cropping intensity of close to 200%. Although there are water quality and management issues, water resources are still less of a constraint than in other countries in the region. With irrigation and the abundance of sunshine, unit area yields in the "oldlands" are among the highest in the world for several cereal and horticultural crops. Despite this, Egypt remains a food-deficit country and imports nearly 40% of its food needs. However, Egypt has a comparative advantage in a number of export crops, and an increasing proportion of acreage is being devoted to export crops (cotton, rice, fruits, vegetables and flowers).

10. The most important constraint hindering agricultural growth and self-sufficiency is the availability of irrigated land in a country that receives hardly any rainfall. Egypt's population is confined to the Nile Valley and Delta and their desert fringes, just 4% of the total land area. Table 1 shows per capita cropland over the years 1897-1998, and clearly illustrates why Egyptians seem to be



so preoccupied with increasing cropped acreage and have been engaged in land reclamation for centuries.

Table 1: Per capita cropland, 1897-1998

Year	Total Population (million)	Total Cropped Acreage (million fd)	Cropland per capita (fd)
1897	9.7	4.9	0.51
1947	18.9	5.7	0.30
1972	34	6.6	0.20
1998	62	8.0	0.13

11. Modern land reclamation dates back some 200 years, and the irrigated area had expanded from 2.0 million fd in the 1700s to about 5.0 million fd by 1900. The focus was on the alluvial soils of the Nile Valley and Delta. The Government started a new programme of expansion in the 1950s, with increasing emphasis on desert reclamation. From 1952 to 1978, about 0.9 million fd were reclaimed (“old newlands”). Since 1978, an additional gross area of 1.6 million fd has been reclaimed (“new newlands”). The target set for reclamation over the two decades to 2017 in the Government’s long-term strategy is a gross area of 4.3 million fd, of which some 2.5 million fd would be available and suitable for agriculture. The “newlands,” being uninhabited prior to reclamation, lack the administrative structure and support services that are crucial if these lands are to realize their full potential. A World Bank review concluded that, while physical reclamation was relatively straightforward, agricultural services, adequate social infrastructure and credit were essential to achieve reasonable yields and returns on investment.

12. Since the mid-1970s, the agricultural sector as a whole has continued to show reasonable growth, at 2% per annum, although its contribution to GDP has contracted from 29% to around 17%. The potential of the sector is greater than the present level of production and, to realize this potential, the Ministry of Agriculture and Land Reclamation (MALR) initiated a broad reform programme in 1987. This programme included the removal of crop area assignments and delivery quotas, the abolition of feed and fertilizer subsidies, the promotion of the private sector for input trading, removal of restrictions on the movement and milling of rice by the private sector, raising land rents, privatization of public agricultural production companies, and the liberalization of agricultural product prices.

13. Egypt’s economic reform programme within the agricultural sector has been very successful, and agriculture is now among the most liberal and progressive economic sectors. There have been impressive gains in output of many crops as farmers have responded to appropriate technology transfer and price incentives. Between 1982 and 1998, the changes in Egyptian agriculture included: (i) increase in the cultivated area from 6.2 to 8.0 million fd, as a result of reclamation of newlands; (ii) total cereal production increased from 8.5 to 18 million tonnes (t), while vegetable production nearly doubled, from 8 to 15.2 million t; and (iii) yields of all major crops increased significantly, with Egypt leading the world in rice and sugar cane yields (3.6 and 48 t/fd respectively), while the yields of wheat and maize were among the world’s highest. Egypt has now attained self sufficiency in rice, vegetables, fruits, dairy products, eggs, poultry and fish. It is an exporter of cotton (2.2 million kantars (100 000 t)), rice (350 000 t) potatoes (320 000 t), onions and early season grapes. Food self-sufficiency in wheat increased from 25 to 55%, and the overall food gap declined. The newlands contribute significantly to fruit, vegetable and oilseed production (the Government has now taken a decision to limit all future expansion in fruit-tree plantations to the newlands).

C. The Rural Poverty Context

14. Using reference poverty lines and per capita consumption levels (260 Egyptian pounds (EGP) and EGP 203 per person per month for urban and rural areas respectively), the International Food



Policy Research Institute (IFPRI)¹ estimated that 26.5% of the Egyptian population (nearly 16 million people) was living in poverty in 1997. Poverty was higher in rural than in urban areas. In rural areas, 29.1% of the 36 million inhabitants (almost 10.4 million people) were living in poverty, compared to 23.1% of the urban inhabitants. Inadequate social services, landlessness, small farm size and inadequate off-farm income opportunities are the main causes of rural poverty. Characteristic features of poverty include:

- (i) the incidence of poverty and extreme poverty is highest in Upper Egypt, though the concentration of population in Lower Egypt means that a larger absolute number of poor households are found there;
- (ii) poverty is inversely related to farm size;
- (iii) poorer households tend to be larger. The average household size declines from about 8.0 for the extremely poor to 5.4 for the non-poor;
- (iv) the dependency ratio increases significantly with poverty;
- (v) casual wage labourers (about 28% of the working population in rural areas) are poorer than farmers (about 27% of the population). About 63% and 47% of these categories are considered poor;
- (vi) poverty is higher among non-cultivators than cultivators;
- (vii) the extremely poor have substantially less access to facilities such as schools, hospitals and markets than the poor and non-poor, who tend to have similar access; and
- (viii) woman-headed households make up nearly 20% of all households and generally have only half the income of man-headed households.

D. National Strategies for Poverty Alleviation

15. Since the 1952 revolution, successive governments in Egypt have sought to promote social equity and progress among the people. Over time, various configurations of income distribution and social development policies have been used to achieve these. After an initial emphasis on land reform (1952-1961) and nationalization measures (1956-1966), governments have relied increasingly on taxation and subsidies as transfer mechanisms. Priority was also given to the establishment of a comprehensive social infrastructure in education and health care in order to promote human resource development and raise living standards.

16. Despite rapid economic expansion, active social policies and steadily rising income and living standards, Egypt remains one of the poorer members of the international community, with an annual per capita GDP of only USD 1 400 in 1999 (*World Development Report*). Its world rank is number 120 in GDP terms and number 119 in the Human Development Index. Although poverty has declined significantly, it remains an important obstacle to improved human development.

17. Egypt formerly had an extensive food-subsidy system. This system has been quietly reformed and now covers only four basic staples, *baladi* bread, *baladi* flour, cooking oil and sugar. The bread and flour price subsidies are universal, while the oil and sugar subsidies target the poor through a ration-card system. Problems besetting the subsidy system are many, and include its high absolute cost (over USD 1 000 million annually), poor targeting vis-à-vis the needy, and the distortions it causes to producers and processors in the market. Nonetheless, the subsidy system has been instrumental in improving the access of the poor to basic nutrition.

18. To protect the poor and vulnerable from the adverse short-term effects of structural adjustment, a Social Fund for Development was established in 1991. This Fund supports labour-intensive projects aimed at improving the quality of life and creating jobs in target areas, as well as providing credit for small and microenterprises (SMEs).

¹ Datt, G., Joliffe, D., & Sharma, M. 1998. A Profile of Poverty in Egypt: 1997. Washington, D.C: IFPRI



19. In 1998, Egypt formulated a long-term development strategy, "Vision 2017," which gives priority to the creation of employment opportunities as the surest way to combat poverty. The strategy recognizes the close relationship between employment growth and poverty reduction. Job creation is viewed favourably by Egypt's policy-makers because of Egypt's high poverty head count (25%), its high levels of unemployment (9-15%), the rapid growth rate of its labour force (3%) relative to past high population growth rates, and its slowing rate of labour migration. The Government has made job creation its primary instrument to tackle the issue of poverty. Rapid job creation is to be achieved by raising the annual GDP growth rate to 7% (three times the population growth rate) in order to create enough jobs for more than half-a-million new entrants into the labour market each year.

20. In terms of the agricultural sector, this strategy recognizes that Egypt is becoming increasingly integrated into the world economy. In the long term, this means, on the one hand, less government support for the sector, but, on the other, lower barriers for agricultural exports. The agricultural strategy therefore calls for a high rate of agricultural growth, largely based on "horizontal expansion" of cropped area, and "vertical expansion" through improved farming techniques that improve yields and adjust the crop mix towards higher value horticulture crops and livestock. This should result in higher total factor productivity: "vertical intensification." Such a policy is expected to result in higher job creation, increased exports, significant increase in rural incomes, and poverty alleviation as large numbers of low-income farmers become part of the growth process. Increased exports would come mainly from the traditional export crops of cotton and rice, as well as from horticultural crops, in which Egypt has a significant comparative advantage and for which enhanced export opportunities exist, both to the Gulf and, more recently, to the European Union (EU).

21. The new economic direction in Egypt envisages a limited role for government in agricultural development, placing heavy reliance on the private sector and market forces in the production, processing and marketing of produce and in providing non-public support services. Accordingly, the public-sector investment programme in agriculture will be limited to: (i) the irrigation superstructure; (ii) newland reclamation and settlement; and (iii) support to the research system, with limited provision of extension services where the private sector is not yet in a position to provide such services.

22. Egypt aims to achieve an agricultural growth rate at the upper end of the fast-growth middle-income countries (4-6%). This is to be achieved by: (i) exploiting the country's significant potential to reclaim new lands; (ii) increasing yield of traditional crops; (iii) encouraging the production of high value horticultural crops; and (iv) increasing livestock production, especially through small producers. In this way, the country will exploit its comparative advantage in producing *berseem* and summer green fodder crops for livestock on small farms, with high-quality production and low labour costs.

III. STRATEGIC FRAMEWORK FOR IFAD

A. Present Strategy and Operations

23. IFAD has financed seven projects in Egypt, with an investment of about USD 158 million. These were guided by a strategy developed in 1979 of supporting two of the government priorities in the agricultural sector, namely: (i) increasing unit-area productivity in the oldlands; and (ii) promoting smallholder settlement and cultivation in the newlands. Three of the projects have closed, three are ongoing and one is not yet effective.

24. **Project implementation.** The three completed projects experienced lengthy implementation delays. The reasons included lengthy ratification procedures, cumbersome procurement procedures for civil work, and problems with coordination in the heavily bureaucratic Egyptian context. Availability of counterpart funds was a problem in earlier projects, but no longer relevant for ongoing projects due to a much improved government budgetary situation. The design of later projects took these factors



into consideration, and recent projects have avoided being involved in large civil works. In the newlands, IFAD projects provide post-settlement support services and begin only after the completion of the significant amount of construction involved in the initial reclamation phase. IFAD operations clearly show that once projects are over the hurdle of lengthy ratification procedures, implementation does progress at a satisfactory rate.

25. **Development impact.** IFAD Office of Evaluation and Studies has conducted evaluations of four projects (54-EG, 114-EG, 157-EG, and 306-EG). These indicate that IFAD projects in Egypt, despite delays and a number of problems, have largely attained their objectives and have contributed to improved incomes and living conditions of large segments of the small-scale farming communities in the project areas.

26. The **West Beheira Settlement Project (WBSP)** (54-EG) rehabilitated a state farm, privatized it by distribution in small parcels (5 to 10 fd) to some 1 700 small farmers, and provided technology transfer and credit services to the farming community. The project achieved its primary objective of increasing smallholder productivity and disposable income. Maize yields in the project area exceed 4 t/fd, which is three to four times higher than in adjacent areas and among the highest in Egypt. Household income from farming in 1991 was estimated at EGP 8 242 (USD 2 500), or nearly five times the estimated pre-project income. The project demonstrated, above all, the success of private smallholder ownership in stimulating agricultural productivity and profitability in an area that, under state farming, was plagued with inefficiency and low yields and was a continuous drain on the national treasury. The project was one of the major forces behind Egypt's privatization of 500 000 fd of public agricultural production companies in favour of smallholders. The Report of the IFAD Rapid External Assessment (1994) states "Not only have the project's objectives been achieved but, more significantly, it has influenced public policy on land tenure on other land settlement projects in the West Beheira region." After WBSP closed, the project beneficiaries on a voluntary basis agreed to pay an EGP 25 levy on each feddan to fund a small unit to manage the irrigation and drainage an infrastructure on their behalf. This is the first example in Egypt of farmers contributing voluntarily to system management.

27. The **Minya Agricultural Development Project (MADP)** (114-EG) established a modified training and visit (t&v) extension system, which proved both effective and sustainable and has been adopted by the Government as a model to be followed in other governorates.

28. The **Newlands Agricultural Services Project (NLASP)** (306-EG) provided a coordinated array of agricultural support services in technology transfer, on-farm water management and credit to assist smallholder settlers in Egypt's reclaimed newlands in establishing sustainable and profitable farming systems. According to the project's mid-term evaluation report (1999), the project "has provided many successful examples for providing assistance to new irrigation settlements in arid environments. This has been achieved by the mobilization of an extremely efficient extension system backed by capable technical specialists, research facilities and effective management." A large training programme, plus demonstrations and excursions, have enabled the majority of farmers, whether traditional or graduates to come to grips with and address the difficult realities of farming and settling in the desert.

29. IFAD interventions in NLASP resulted in reducing absenteeism among settlers, from 87 to 10%. Summer cropping intensity has increased from 50 to 90%, while winter cropping intensity has increased from 65 to 95%. Through extension advice, training and credit, the cropping pattern has shifted perceptibly towards high-value crops, with field crops decreasing from 69 to 48% and horticultural crops increasing from 31 to 52%. Disposable farm incomes have increased from EGP 3 050 to EGP 11 708 per farm household. Thus the project not only provided suitable modalities for supporting newland development, but it has also transformed project areas in the newlands into economically viable investments.



30. The **Agricultural Production Intensification Project** (APIP) (355-EG) introduced the concept of farming-system technology generation and dissemination. The early indications are that this approach is producing significant farm income and enhancing technologies, and that Egypt's strong, commodity-based research system is being gradually won over to the farming-system approach.

B. Lessons of Experience

31. IFAD has been in Egypt for over 20 years and has considerable experience in and knowledge of the country, and of the agricultural sector in particular. This knowledge has been invaluable in improving the design of more recent projects.

32. **Project complexity.** The economic and institutional constraints for implementation in Egypt have been significant, and the larger and more complex the project, the greater the problem. The nature of Egyptian bureaucracy is such that ministries and bodies with overlapping responsibilities often share decision-making. Coordination between different bodies is limited, so that decision-making is usually complex and time consuming. This implies that future projects should be simple in design, have clearly defined objectives, target groups and geographic focus.

33. **Organization and management.** The rate of project implementation improves as project control comes closer to the local level. However, in the interest of ensuring adequate budgets and cash flows, effective representation at the national level is very important. In this regard, the steering committee and national coordinator modality has been very useful.

34. **Research and technology generation.** Although basic crop recommendations are available, they do not sufficiently reflect regional climatic or soil differences – especially between old valley lands with heavier soils, and newlands with light, sandy soils – or address small-farmer resource endowments and constraints. Until recently, the integrated, whole-farm system has been largely ignored. The situation with technology in the newlands has initially been unsatisfactory, with extension recommendations based on oldland practices often proving inappropriate under newland conditions. Projects need to concentrate on developing improved farming systems by field testing and modifying, as necessary, existing crop and livestock technology.

35. **Extension and technology transfer.** Extension has been successful in the transfer of appropriate improved technologies and management practices to small farmers and has significantly helped them improve productivity. However, the T&V system along classical lines (i.e. a low ratio of extension workers to farmers) proved difficult to sustain with local funding. An alternative system, based on a much greater extension-worker-to-farmer ratio, serviced by a better paid and adequately equipped extension force and using large numbers of contact farmers, has proven to be more cost effective. NLASP and APIP have successfully tested such systems. Any future IFAD interventions in extension should gear the size of its operations to the amount of recurrent operating costs that the borrower is able and willing to fund. More attention should be given to the use of mass media and, in the medium term, the privatization of some extension service should be tried.

36. **Participatory irrigation management (PIM).** The water-supply situation in the newlands is critical, and a major determinant of successful outcome to farming. Water users' associations (WUAs) and similar community groupings, which are designed to assume responsibility for management and maintenance of the conveyance system, are essential to sustainability. While most settlers recognize the importance of WUAs in the equitable distribution of available water, uneven water availability, either due to design shortcomings or to lax enforcement of rules against excess abstraction by front-end water users, have acted as a disincentive to the successful operation of WUAs in many instances. The post-project experience of WBSF has also proved that farmers are willing to pay for system management if they are obtaining commensurate incremental benefits, and that WUAs can effectively undertake operation and maintenance (O&M). Furthermore, associations of WUAs have been able to represent their members' interests and interact with and lobby the authorities. Such participatory



groups can be useful mechanisms for empowerment of the poor and can often form a basis for undertaking other activities.

37. **Credit.** Except where IFAD has intervened, poor smallholders, women and landless people do not have access to the formal financial sector for farm development, seasonal inputs or off-farm microenterprise credit. According to beneficiary surveys, the provision of credit is one of the most tangible focuses for providing opportunities for IFAD's target beneficiaries, particularly poor women and landless people. Experience with small-farmer credit in IFAD-supported projects in Egypt indicates that, given the correct circumstances (appropriate technology and financial viability), the poor are creditworthy. In NLASP, the Principal Bank for Development and Agricultural Credit (PBDAC) proved to be an unwilling partner because the on-lending terms did not provide sufficient incentives to provide profit from handling the project credit line. This highlights the need to provide sufficient financial rewards for credit-delivery institutions in future initiatives.

38. **Marketing.** Most of the improved technologies in the newlands produce highly perishable products (fruits, vegetables and milk) that require a marketing infrastructure, which currently is not available. To be successful in achieving the goal of increasing farm returns, improved technology packages must produce to market demand and within the constraints of marketing facilities. Unless the issue of marketing is addressed, it would be counterproductive to promote technologies that produce perishables.

39. **Gender and development.** Past projects invariably perceived women as domestic workers and not as farmers, income earners and managers of agricultural resources. Extension staff are generally unaware of the division of labour among men and women in farming systems. Consequently, extension and training related to actual farming activities in which women are involved is very limited. However, given social taboos against mixing of the sexes in rural Egypt, special units providing extension services to women together with an emphasis on agriculture proved effective means of targeting rural women.

C. Strategic Niche and Proposed Thrusts

40. Through its reforms and structural adjustments, Egypt has taken most of the medium- and longer-term steps to assist with future development. Through its "Vision 2017," it has clearly stated its goals and strategies.

41. This COSOP seeks to adapt IFAD operations to Egypt's policy context and establish synergy between IFAD's specificity – which calls for support to poverty alleviation and improved food-security initiatives – and the government's policy and planning framework for rural poverty alleviation, as expressed in "Vision 2017" documents. In this way, IFAD can assist in the realization of those government strategic goals that fall within the boundaries of IFAD's mandate, and at the same time ensure government ownership and commitment.

42. Creating and expanding sustainable employment opportunities in rural areas is a paramount objective of the Government. To provide support to this objective, the COSOP proposes a sharper focus on the newlands and similar lands in the north-west coast (NWC) area.

43. The Government invests considerable resources in reclaiming large areas of newlands for distribution, on concessional terms, to poor and disadvantaged groups, including the unemployed, the landless, and small farmers, especially those who lost their tenancies in the oldlands as a result of the implementation of land-tenure reforms under the structural adjustment programme. Under the government land-reclamation programme, investment is primarily in hardware (irrigation and drainage infrastructure, settlement construction, and provision of potable water, electricity and roads). Very little is invested in social services (education and health), and no investment is made in provision of agricultural services (technology, water management and rural finance). Consequently,



poor settlers face difficulties in settling and farming, and a considerable percentage move back to the oldlands and abandon their newland farms.

44. "Horizontal expansion" in the newlands provides direct employment opportunities for small farmers and the unemployed in farm production. At present, the newlands are allocated in plots of 2.5 fd per smallholder settler (down from 5 fd in earlier schemes), and each plot is assumed to provide full-time employment for one person. The Government's plans call for the reclamation of some 500 000 fd of newlands on the fringes of the Nile Valley and Delta for distribution to smallholder settlers. This would create between 100 000 and 200 000 full-time jobs in agricultural production.

45. Small farmers in Egypt spend a high proportion of their incremental income (48-50% according to IFPRI) on locally produced non-farm goods and services. Accordingly, the growth of small-scale farm production and incomes in the newlands creates effective demand for goods and services produced by SMEs (an area, incidentally, where women are substantially represented), such as rural house construction, furniture, local garments, shoes, baskets, hats, mats, tailoring, education, local travel and services. It is estimated that for every full-time worker engaged in agricultural production in the newlands, 1.25 jobs are generated in agriculturally driven non-farm SME activities. The bulk of SME job opportunities would go to newland inhabitants that do not get access to land. Thus the employment impact of newland development would occur more from SMEs stimulated by rising farm incomes than directly from employment in farm production.

46. Viable farming and increased farm income in the newlands are largely dependent on farmers being able to market their horticultural and milk produce and get fair rewards for their work. The present marketing system in the newlands (infrastructure, linkages and finance) is inefficient, resulting in significant post-harvest losses, low farmgate prices and reduced farm incomes. The system also hinders the attainment of government objectives for increased exports and improved food self-sufficiency for an expanding urban population.

47. The development of both SMEs and marketing (which is dominated by small enterprise) requires expanding the access of farmers and entrepreneurs to credit and other financial services. Studies show that SMEs within the agriculture-driven, non-farm sector of the economy are characterized by their large, labour-intensive input and small capital requirements. Most of these studies also point to credit constraints for the sector. Consequently, the development of SMEs would require intensive skills training, as well as improved access to microfinance. Investments in SMEs are likely to be of particular benefit to women, provided there is adequate provision for their inclusion in training and microfinance programmes.

48. Newlands development is currently an area of strategic priority to the Government. It is where significant public-sector investment will be directed until 2017. It is also where, with appropriate support, significant jumps in productivity and incomes are possible. The newlands environment is more suitable for horticultural crops and for significant increases in livestock numbers, which accords well with the national strategy of shifting to high-value production and promoting agricultural exports.

What comparative advantage does IFAD bring to the newlands?

49. Given the tremendous needs of the Egyptian economy and its size, most donors have elected to apply the bulk of their resources to meet the needs of sectors other than agriculture. IFAD, despite its relatively modest programme in financial terms, remains one of the lead donors in providing assistance to agriculture and rural development. IFAD was the first donor to recognize the special needs of the smallholder settlers in the newlands. The Fund has established a strategic niche in the newlands by financing projects that provide post-settlement and agricultural support services crucial to the establishment of viable farming and to maximizing returns from the Government's considerable investment in reclamation of the newlands. IFAD has pioneered new and innovative methods of



technology generation and transfer, and was successful in securing beneficiary involvement in sustaining project benefits. It has instituted the principle of cost-recovery policy in respect of artificial insemination and soil and water laboratory services. Within IFAD newland projects, small farmers have clearly demonstrated their willingness to financially contribute to sustaining their extension service.

What innovation would IFAD promote?

50. Over the next five years, this COSOP recommends that IFAD provide project support in the newlands to raise agricultural productivity and farm incomes and optimize returns from the Government's significant investments in newland agriculture. Projects would establish post-settlement support services that would improve the access of the poor and small farmers to technology, finance and marketing, and institute and deepen participatory processes in the management of resources.

51. **Technology transfer.** The farming conditions in the newlands are quite different from the oldlands. The soils and water relationships are different. Irrigation costs are higher: pressure irrigation systems have higher capital and recurrent pumping costs. Labour costs are also higher because of a tight labour-supply situation. The cropping pattern in the newlands is inclined towards an increased proportion of high-value crops and livestock, activities that can withstand the higher production costs and increase gross margins. Technology transfer would therefore focus on adopting technologies generated through Egypt's recognized agricultural research efforts in the oldlands and adapting them to newland conditions, testing these on farmers fields using the farming-system research approach, and providing farmers with intensive training and advice. IFAD's considerable expertise in technology transfer in the newlands clearly shows that extension service effectiveness in training and advising farmers hinges on wider consultation and involvement of the farming community, and on a proper staff incentive structure. The mid-term evaluation of NLASP also indicated that farmers value the extension service and are willing to contribute to its financing. In future projects, it would therefore be possible to test various options for wholly or partially privatizing extension services along similar lines to those being adopted with veterinary services (specifically, the artificial insemination service).

52. **Farmer or beneficiary organization.** Farmer organizations can play major roles in IFAD projects in the newlands. While technical solutions can improve water-use efficiency (e.g. conversion to more efficient pressure irrigation systems), farmer participation in system management is crucial to sustaining system operation and ensuring equitable access to water. The development of farmer organizations, such as WUAs, to take charge of O&M of pumping equipment and canals, water allocation, and the setting and collection of water charges will receive priority attention in future operations. In marketing, farmer organizations and cooperatives would be encouraged in order to increase small-farmer bargaining power and allow for realization of economies of scale. Farmer and women's groups and associations will be encouraged to retail credit obtained from formal institutions and to provide rural financial services.

53. **Off-farm income generation.** Agriculture accounts for, at most, 50% of total income in rural areas. It is therefore imperative to give due consideration to raising family income from off-farm enterprises. Because newland farmers spend a large part of their incremental income on SME products and services, there are ample opportunities for SME development in farming-related activities (marketing and processing of farm products), enterprise-development services (management advice, training, financial management and auditing), and for the establishment of other community services in these recently populated areas. Most studies point to skill and credit constraints in the SME sector. Women are also substantially represented in this sector, so special effort needs to be made to include them in institutional credit and training programmes. SMEs in processing, marketing, provision of machinery hire and non-agricultural services would make a significant contribution to off-farm income generation. There is an intricate link between rising farm income and demand for SME



products; consequently, programmes to expand SMEs would be successful in their aggregate impact on poverty reduction and employment creation only when agricultural growth is providing an effective demand for the products of such SMEs.

54. **Rural finance.** Rural finance is essential to facilitate the adoption of improved technologies and is therefore a key to unlocking the potential for farmers to increase agricultural productivity and diversify into high-value crops. It is also an essential requirement to expand SMEs. PBDAC is destined to remain the main source of formal rural credit. Generally, PBDAC has been reluctant to deal with very small farmers in the newlands because loans are expensive to process, loan rates are government imposed and are low compared to commercial rates, repayments rates are low and loans are not backed by collateral. To be an effective partner in the newlands, PBDAC must improve its efficiency and tailor loan conditions to borrower circumstances. As newland settlers have no title to land to offer as collateral, alternative approaches need to be found to safeguard PBDAC interests. Mechanisms through which PBDAC channels wholesale credit to non-governmental organizations (NGOs) or community-based organizations need to be explored, as well as various modalities for village banking, involving both savings and loans to agriculture as well as to SMEs.

55. **Marketing.** Unlike the oldlands, the newlands lack a pre-existing marketing system. Unfortunately, a spontaneous marketing system did not develop as was originally hoped. It is increasingly evident that marketing of newland production is becoming a significant bottleneck to faster growth and to higher incomes, as well as to newland contribution to higher exports. Local markets are lacking in the newlands, and producers are forced to find markets in remote urban centres, increasing the role of the middlemen and reducing producer profit margins. The marketing infrastructure (transport, cold storage, grading and packing facilities) is poor, leading to high rates of loss and waste that limit efficient marketing and negatively affect small farmers' income. Producers are not well organized into unions and cooperatives. This limits their bargaining power and their ability to capture the benefits of economies of scale and export markets (exporters have shown unwillingness to deal with individual small farmers). The marketing chain is dominated by a few large wholesalers, with a large number of middlemen and agents operating in series and selling to each other, thereby skimming a significant portion of the consumer price (farmgate price is only about 18% of consumer price). Market information is lacking, not only in terms of prices and volume but also in respect of quality standards. Marketing initiatives are important in order to increase the farmer share of the final consumer price and to minimize bottlenecks.

56. **Participation.** In future projects, community empowerment would be a major goal, particularly in newland situations where traditional communities are absent. Beneficiary involvement in the management of the pressure irrigation system in most of the newlands constitutes an appropriate area for PIM. Furthermore, experience has shown that organized communities are in a much better position to articulate demand for appropriate services from authorities.

57. **Gender and improved food security and nutrition.** More attention will be given to women beneficiaries and to implementers of farming and off-farm activities. As settlements age, the proportion of families to individual settlers increases and this favourably affects the development of communities, and in particular the growing potential for activities that involve cooperation, self-help and labour exchange. An initial step in any future IFAD-supported initiative would include a detailed socio-economic survey of the situation of rural women in the project area. The results of such a survey, together with a pooling of locally available experience and the identification of reasons for past failures with women's activities (if any), would establish a more solid basis for project activities. The concept of women contact farmers will be expanded so they can play a significant role in the transfer of technologies to women in a setting in which contact between men and women workers is proscribed. Women-in-development (WID) activities would be elaborated to deal with food processing, backyard gardening, handicrafts and small businesses (groceries, bakeries, potteries, etc.).



58. **Targeting.** Small farmers, women and unemployed secondary-school leavers are legitimate IFAD target groups and have been supported under IFAD projects in Egypt. In the newlands, the Government included graduates as settlers to diffuse social resentment and discontent, and the consequent political tensions created when educated people with heightened expectations discover that they cannot find gainful employment. An educational asset is not useful if the job market cannot provide employment opportunities. Recent evaluations indicate that graduates have not yet served as role models for the less-educated landless settlers with farming backgrounds, nor have they achieved higher productivity. They have, however, been effective as pace setters in technology adoption, managers of community institutions and SME entrepreneurs, particularly in marketing and in the provision of technical and professional services that are lacking in these areas. Recently, with the economy picking up and creating more jobs for skilled and educated graduates, the policy of allocation of reclaimed land shifted away from graduates towards favouring small farmers, especially those dispossessed as a result of reform of the land-tenure regulations. Future projects in the newlands and NWC would target primarily small farmers (especially those who lost their right to farmland as a result of the new land-tenancy reform law), the unemployed (secondary-school leavers and university graduates), women, and members of Bedouin communities.

What more could IFAD do in the newlands?

59. Despite the demonstrated success of IFAD-financed projects in resolving some of the major constraints on the realization of the full agricultural potential of the newlands, many challenges remain. Newlands lack the usual government administrative and service support institutions that abound in the oldlands. IFAD can assist with the building and consolidation of more client-oriented and participatory institutional models for technology transfer and irrigation system management. PBDAC, the formal agricultural credit institution, has shown great reluctance to operate with newland small farmers, whom it perceives as risky clients with no collateral guarantees, and to provide the support that rural SME requires to grow and prosper. IFAD can assist with the development of new modalities for delivering rural financial services, including village banking. Marketing remains an important bottleneck that is hindering newland farmers in achieving significant financial rewards from their hard work and perseverance. By focusing on these strategic areas, IFAD can, in collaboration with the Arab Authority for Agricultural Investment and Development (AAAID), help with the establishment of a modern marketing and agro-processing system that gives fair prices to producers and lays the foundation for modernizing the food distribution system and promoting the production of horticultural products.

D. Main Opportunities for Project Interventions

60. **Consolidation and expansion of activities in the newlands.** The overall performance of NLASP is impressive. Another 16 700 settlers (about 33% graduates and the rest displaced farmers) are, or soon will be, in the process of settlement, in addition to the 25 000 already settled. A new large-scale development (145 000 fd) is to take place north-west of the Delta. There are still numerous issues to be addressed, such as effective credit modalities, marketing support and PIM. If they were successfully resolved, the multiplier effect to the other areas would be considerable. NLASP, with its ongoing research and demonstration activities, also presents an opportunity to further the farming-system approach to research and extension, which would be applicable in many other newland developments.

61. **NWC natural resource management initiatives .** Significant NWC dryland areas have been exposed to degradation as a result of the erratic rainfall patterns and the unsustainable land-use systems practised in these marginal areas. The degradation has adversely affected the income of Bedouin communities and threatened the sustainability of the resources at their disposal. The International Development Association (IDA) and IFAD have discussed cooperation in a natural resource management project that would have as an objective the conservation, rehabilitation and sustainable utilization of natural resources in the NWC using community-based participatory



development approaches. There are opportunities to tackle poverty by broadening agricultural opportunities through newland development and water harvesting, as well as halting and reversing the accelerating trend of resource degradation, through participatory natural resource management initiatives using existing social organizational structures.

62. **Project selection criteria.** Within the newlands and NWC, a number of considerations would be used to guide the selection of projects for IFAD's support. Such considerations will include the poverty status of the target group, as well as the proportion of poor in the target group; the consolidation of previous IFAD investments, particularly where further attention is likely to yield major dividends, with prospects for replicability and multiplier effects; and opportunities for cofinancing and cooperation with other donors.

E. Opportunities for Strategic Linkages with other Donors

63. As a lead donor in agriculture and rural development, IFAD will seek strategic partnerships that complement the Funds efforts. At present, IFAD and the World Food Programme (WFP) complement each other in the newlands without being cofinanciers in the traditional sense, with IFAD providing post-settlement support services. WFP is providing income support to small farmers during the first four years of settlement, when they are struggling to achieve marginal productivity. EU is providing credit for livestock purchase in the NLASP project area. In addition, NLASP is operating adaptive research facilities established in earlier days by an initiative of UNDP and the Food and Agriculture Organization of the United Nations (FAO), and using the artificial insemination facilities of a Kreditanstalt für Wiederaufbau (KfW)-funded project. IDA is cofinancing the IFAD-initiated East Delta Newlands Agricultural Services Project (EDNLASP).

64. Egypt has graduated from IDA terms and is now eligible only for International Bank for Reconstruction and Development (IBRD) loans. The Government has indicated its readiness to proceed with projects only if their financing is at least 40% concessional. Since normal IBRD terms are only 27% concessional, the World Bank is actively looking for strategic alliances with other donors in order to avoid duplication and to combine its resources with more concessional ones to arrive at a blend that would be attractive to the Government. The World Bank's country agricultural strategy for Egypt for 2001 is in preparation and consultations with donors, including IFAD, have started. The World Bank and IFAD are currently discussing cooperation in the NWC.

65. There are opportunities for cofinancing using Italian Debt Swap funds on the basis of the Rome Millennium Initiative. Most newland communities are lacking a number of social services, including housing, domestic water supply, health and education. Debt swap proceeds could be used to bridge any gaps in such services, while IFAD resources could be focused on agricultural development initiatives.

66. In the area of marketing, in particular, there are also opportunities for involving AAAID in marketing and agro-processing initiatives in the newlands through establishment of commercial companies or participation in equity financing of private or joint-venture companies. The recently signed agreement between IFAD and AAAID provides a basis for dialogue among the two institutions and the Government.

67. Most donors in Egypt have included support for WID activities. A WID Donor Coordinating Subgroup, chaired by the United Nations Children's Fund (UNICEF), provides a channel for sharing information and addressing gender issues. IFAD would liaise with this organization while planning any WID activities, and would consider cofinancing appropriate initiatives. WFP has particular expertise in gender issues and has expressed interest in collaborating with IFAD in the development of gender mainstreaming and analysis training and materials; functional and literacy training materials; and training of trainers.



68. IFAD would use its newland expertise and contacts to mobilize significant donor resources, through direct cofinancing or through broad programme support to newland and NWC development.

F. Outreach and Partnership Possibilities with NGOs, National and Local Initiatives

69. IFAD may be able to cooperate with NGOs in the provision of rural financial services. Some international NGOs (Cooperative for Assistance and Relief Everywhere [CARE]), Catholic Relief Services [CRS]), have been active in this field, as have some smaller local NGOs. A major problem is that NGO regulation in Egypt is somewhat restrictive. The Government is wary of NGOs that are religious in nature and is also reluctant to channel loan resources to NGOs willing to be involved in project implementation. Thus NGO cooperation will be limited by what the Government is willing to allow, and by the extent of IFAD support for NGO pilot activities.

G. Areas for Policy Dialogue

70. As a relatively small, specialized lending institution, the best opportunity for meaningful policy dialogue with the Government is to lead by example through strategic initiatives in project design and concrete successes in project implementation. The proposed focus on the newlands offers an ideal opportunity to work with the Government and experiment with new approaches to rural finance, marketing and PIM. By carefully monitoring the impact of these project components, the IFAD programme should help establish a precedent for the inclusion of appropriate poverty-oriented and participatory approaches in other locations and, eventually, at the scale of macro-level policy. This has already happened: the success of the West Beheira Settlement Project, as stressed in the Report of the IFAD Rapid External Assessment (1994), "has influenced public policy on land tenure on other land settlement projects in the West Beheira region." IFAD will also work in close cooperation with other, large-scale donors, such as the United States Agency for International Development (USAID) and the World Bank, to coordinate policy and share lessons learned.

71. **Rural Finance.** There are major problems in effectively supplying credit and savings services to beneficiaries in IFAD projects for both agricultural production and SME development. Availability of credit is essential for improving farmer access to the inputs and pressure irrigation systems that are a key to successful adoption of high-value packages. Action and policy reorientation is required to review and resolve the constraints hindering credit delivery to small farmers, including how to reorient the agricultural credit bank (PBDAC) to serve the needs of the poor and how to open rural finance to other players, including civil-society organizations. Likewise, the Government has shown great reluctance to accept NGOs and grass-roots organizations as providers of financial services. The sad experience of the failure of private-sector investment companies in the 1980s, leading to the loss of billions of dollars of small-scale investor savings, has largely coloured the attitude of the Government towards community-based financial services. There is a need to open a policy dialogue on the importance of legislative and administrative measures that would provide opportunities for NGOs and grass-roots participatory institutions to participate in the provision of these services.

72. In order to address this challenge, IFAD strategy will be to work with the Government and other financial-sector stakeholders to develop new and innovative approaches. The newlands offer an ideal setting for this dialogue since this area has not been clouded by past experience. The point is not that IFAD should aim to reform the rural financial sector per se, but rather that it should set an example and lead the way in working with PDBAC (and other providers of rural credit) to identify new solutions that address the interests of the rural poor. Over time, the ultimate goal of this strategy is to set a precedent and lead the way for a gradual shift in national policy. IFAD will augment this approach and help build momentum for the shift at the macro-level by staying in close contact with other donors and sharing lessons learned.

73. **Participatory irrigation management (PIM).** The Government has indicated its intent to shift emphasis from its role as the central (or sole) actor in developing and managing water-supply



systems, towards promoting participatory approaches in which water users will play an active role in the management of irrigation systems and cost sharing. Important institutional and legislative measures have been taken recently to promote the establishment of sustainable PIM associations. However, despite these measures, the development of WUAs as effective partners in irrigation management remains at an early stage and there is a good opportunity for IFAD to share its experience in this field. In the newlands, the concept of PIM is not yet effectively operational for a variety of economic, financial and institutional reasons. Discussions will be initiated as part of the proposed IFAD investment package, with the aim of overcoming these constraints and creating an environment in which WUAs can serve the interests of small farmers.

74. **Marketing.** While the private sector is destined to play a major role in marketing in Egypt, government responsibility would be to create an environment in which private-sector operators can confidently engage in marketing initiatives. It may also have to provide investment incentives to these operators to invest in marketing enterprises and infrastructure. In the past, this issue of incentives proved a stumbling block to the implementation of a pilot marketing project under IDA funding. IFAD will work to facilitate discussions between the Government and private-sector stakeholders to identify an appropriate framework to support the marketing of perishable crops. Again, the newlands are an ideal setting for this dialogue and for improving understanding of the incentives private-sector traders need to enter a new area.

75. **Sustainability.** The extension system in the newlands, where the normal administrative structures found in the oldlands do not exist, has to be established independently of MALR institutions. The sustainability of such services after project completion and the cessation of project funding is a challenge that needs resolution. Alternative approaches might include cost recovery (user fees) and the provision of technology transfer services through the private sector.

H. Lending Framework

76. Egypt has been the major borrower of IFAD resources in the region. Among the international financial institutions, IFAD is also a leading provider of assistance to rural and agricultural development initiatives in Egypt, having provided four loans, totalling over USD 100 million, between 1992-1998. Egypt's public external debt is relatively low, at USD 28 000 million. Government policy is to keep the debt constant and will therefore restrict borrowing to what it repays. It has indicated its readiness to borrow from these institutions for projects, provided that:

- (i) the project is in a priority sector or area;
- (ii) the overall financing package for any programme or project is at least 40% concessional;
and
- (iii) the final borrowing entity within government has the capacity to repay the loan.

77. Egypt has been an exemplary IFAD borrower and has always been current in meeting its IFAD debt-service obligation. As of 1 November 2000, Egypt's debt outstanding and disbursed amounted to SDR 121.44 million. In 1999, loan disbursements amounted to SDR 6.2 million (USD 8.55 million) and repayment amounted to SDR 3.8 million (USD 5.23 million).

78. The COSOP proposes two new operations in Egypt during the period 2000-2003, for loan amounts of about USD 25 million and USD 12 million, respectively. The first operation is the West Nubaria Rural Development Project, targeting small farmers and landless settlers (mainly farmers dispossessed of their tenancies as a result of the implementation of the land-tenure reform). The second operation is a natural resource management initiative in the NWC area.

APPENDIX I

COUNTRY DATA

EGYPT

Land area (1997; thousand km²)⁽¹⁾	995	GNP per capita (USD) 1998⁽²⁾	1 290
Total population (1998; million)⁽¹⁾	61.4	Average annual real rate of growth of GNP per capita, 1990-98⁽²⁾	2.7
Population density (1998; people per km²)⁽¹⁾	62	Average annual rate of inflation, 1990-98⁽²⁾	9.7
Local currency	Egyptian pound (EGP)	Exchange rate: USD 1 = EGP 4.25	
Social Indicators		Economic Indicators	
Population (average annual population growth rate) 1980-98 ⁽¹⁾	2.3	GDP (USD million) 1998 ⁽¹⁾	82 710
Crude birth rate (per thousand people) 1998 ⁽¹⁾	24	Average annual rate of growth of GDP ⁽¹⁾ 1980-90	5.4
Crude death rate (per thousand people) 1998 ⁽¹⁾	7	1990-98	4.2
Infant mortality rate (per thousand live births) 1998 ⁽¹⁾	49	Sectoral distribution of GDP, 1998 ⁽¹⁾	
Life expectancy at birth (years) 1998 ⁽¹⁾	67	% agriculture	17.5
Number of rural poor (million) (approximate) ⁽¹⁾	7.9	% industry	32.3
Poor as % of total rural population ⁽¹⁾	23.3	% manufacturing	25.9
Total labour force (million) 1998 ⁽¹⁾	22.7	% services	50.2
Female labour force as % of total, 1998 ⁽¹⁾	29.7	Consumption, 1998 ⁽¹⁾	
Education		General government consumption (as % of GDP)	10.2
Primary school gross enrolment (% of relevant age group) 1997 ⁽¹⁾	101.1	Private consumption (as % of GDP)	74
Adult literacy rate (% of total population) 1997 ⁽³⁾	52.7	Gross domestic savings (as % of GDP)	15.8
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1996 ⁽³⁾	3 289	Merchandise exports, 1998 ⁽¹⁾	4 403
Prevalence of child malnutrition (height for age; % of children under 5) 1992-98 ⁽¹⁾	24.9	Merchandise imports, 1998 ⁽¹⁾	14 617
Prevalence of child malnutrition (weight for age; % of children under 5) 1992-98 ⁽¹⁾	11.7	Balance of merchandise trade	-10 214
Health		Current account balances (USD million)	
Health expenditure, total (as % of GDP) 1990-98 ⁽¹⁾	3.8	before official transfers, 1998 ⁽¹⁾	-7 165
Physicians (per thousand people) 1990-98 ⁽¹⁾	2.1	after official transfers, 1998 ⁽¹⁾	-2 762
Percentage population without access to safe water 1990-97 ⁽³⁾	13	Foreign direct investment, 1998 ⁽¹⁾	1 076
Percentage population without access to health services 1981-92 ⁽³⁾	1	Government Finance	
Percentage population without access to sanitation 1990-97 ⁽³⁾	12	Overall budget surplus/deficit (including grants) (as % of GDP) 1997 ⁽¹⁾	-2
Agriculture and Food		Total expenditure (% of GDP) 1997 ⁽¹⁾	31
Food imports as percentage of total merchandise imports 1998 ⁽¹⁾	21.2	Total external debt (USD million) 1998 ⁽¹⁾	31 964
Fertilizer consumption (hundreds of grams per ha of arable land) 1995-97 ⁽¹⁾	3 899	Present value of debt (as % of GNP) 1998 ⁽¹⁾	28.6
Food production index (1989-91=100) 1996-98 ⁽¹⁾	139.7	Total debt service (% of exports of goods and services) 1998 ⁽¹⁾	9.5
Land Use		Nominal lending rate of banks, 1998 ⁽¹⁾	13
Arable land as % of land area, 1997 ⁽¹⁾	2.8	Nominal deposit rate of banks, 1998 ⁽¹⁾	9.4
Forest area (km ² thousand) 1995 ⁽¹⁾	0.3		
Forest area as % of total land area, 1995 ⁽¹⁾	0		
Irrigated land as % of cropland, 1995-97 ⁽¹⁾	99.8		

SOURCES: (1) World Bank. 2000. *World Development Report*.
(2) World Bank. 2000. *Atlas*.
(3) UNDP. 1999. *Human Development Report*.

LOGICAL FRAMEWORK

Narrative Summary	Verifiable Indicators	Means of Verification	Assumption/Risks
<p>GOALS Contribute to the eradication of poverty through expanding employment opportunities and improve the socio-economic well-being of the rural poor.</p>	<ul style="list-style-type: none"> • Improvement in poverty indicators (income, access to health, water, education, etc.) 	<ul style="list-style-type: none"> • Socio-economic surveys and National Statistics 	<ul style="list-style-type: none"> • Better distribution of economic growth benefits, successful implementation of economic adjustment programmes
<p>OBJECTIVES</p> <ul style="list-style-type: none"> • Sustainably improve the socio-economic well being of small farmers, unemployed youth, landless, herders and rural women settled in the newlands and the north-west coast area of Egypt. • Assist with the development and evolution of pro-poor policies and institutions especially in rural finance, SME and marketing and farmer organizations. 	<ul style="list-style-type: none"> • Number of rural poor in programme or project areas • Level of income of rural households in programme or project areas • Level of social indicators: literacy rate, access to health services and potable water, food security, etc. • Increased volume and accessibility of rural finance • Increase in farmgate price as a % of consumer price • Increase in rural wage rates 	<ul style="list-style-type: none"> • Baseline surveys • Participatory Rural Assessments in programme and project areas • Impact assessment reports • Government statistics in programme and project areas 	<ul style="list-style-type: none"> • Economic reforms continued • Government strategy for poverty alleviation sustained and implemented • Donor assistance and support materialized
<p>OUTPUTS</p> <ul style="list-style-type: none"> • Social infrastructure improved • Profitable farms developed • Local economy diversified and strengthened through the establishment of non-farm enterprises • Marketing improved • Responsive rural financial institutions established 	<ul style="list-style-type: none"> • Successful adoption of improved technologies for desert agriculture • Diversification of household income • Increased volume and accessibility of rural finance • Improvement in welfare indicators 	<ul style="list-style-type: none"> • Selective participatory impact assessments • Government of Egypt and Donor Statistics 	<ul style="list-style-type: none"> • Project interventions targeted to the poor with minimal leakage • Participation-friendly policy and institutional framework

KEY FILES

Table 1: Rural Poverty and Agriculture Sector Issues

Priority Area	Government of Egypt	IFAD	Major Issues	Actions Needed
Newland Agriculture	Moderate	High	<ul style="list-style-type: none"> • Initial low fertility and need for soil fertility build up • Low incomes in the first few years • Problems with erosion and sandy soil mobility • Poor knowledge of desert agriculture • Poor adaptive research focus • Low level of support to farming community • Marketing problems 	<ul style="list-style-type: none"> • Finance for soil improvement • Income support (from WFP) • Shelter belt planting • Training in desert agriculture • Technology transfer • Social post-settlement support services • Marketing improvements
Irrigation	High	Moderate	<ul style="list-style-type: none"> • Modern irrigation systems not well understood by farmers • Poor involvement of farmers in system management • Problems with reliability and affordability of power supply for system operation • Problem with irrigation water supply at the upper system level • Portable sprinkler systems operation onerous, with high maintenance need • Unplanned conversion to flood irrigation causes problems with overall water adequacy in the system and causes problems with tail-enders 	<ul style="list-style-type: none"> • Farmer training in modern irrigation systems • Participatory irrigation management (PIM) • Better water resource management, PIM • Finance for system conversion • Legal enforcement of rules and PIM
Community Development	Moderate	Moderate	<ul style="list-style-type: none"> • Low levels of support services in health and education • Poor and inadequate housing • Lack of commercial and other services 	<ul style="list-style-type: none"> • Improve coordination with service institutions and community organizations • Investments to improve housing and essential services • Improve conditions for SME development with finance and training
Rural Finance	Moderate	High	<ul style="list-style-type: none"> • Lack of rural financial services for SME, women • PBDAC not geared to serving needs of poor 	<ul style="list-style-type: none"> • Need for different types of rural financial institutions and village banking initiatives. However, that may require strengthening of regulatory and supervision capacity • Reform of PBDAC to enhance capacity to serve the poor on sustainable basis
Gender	Low	High	<ul style="list-style-type: none"> • Illiteracy or low skills levels, or both • Access to assets • Poor village social services 	<ul style="list-style-type: none"> • Literacy and skill training • Improved access to financial services • Improved water and health services



Table 2: Target Group Priority Needs and Project Proposals

Typology	Priority Needs	Project Response
Landless	<ul style="list-style-type: none"> • Better income-earning prospects • Rural infrastructure and social services • Better access to assets 	<ul style="list-style-type: none"> • Income generation activities, including microenterprises • Community development • Skill and basic management training
Small Farmers	<ul style="list-style-type: none"> • Technical packages and training • Improved access to land and other productive resources (especially water) • Institutional support to PIM • Improved animal support services • Better access to off-farm income opportunities 	<ul style="list-style-type: none"> • Extension and adaptive research and farmer training • Agricultural development • On-farm water management (including appropriate water harvesting methods) • Paravet and community animal health services • SME development
Women	<ul style="list-style-type: none"> • Literacy and skill training • Improved rural services • Better access to rural finance • Empowerment 	<ul style="list-style-type: none"> • WID • Community development • Village banking • Women groups



Table 3: Institutional Matrix (Swot Analysis)

Institution	Strengths	Weaknesses	Opportunities and Threats	Remarks
Ministry of Agriculture and Land Reclamation (MALR)	<ul style="list-style-type: none"> • Large field presence • Qualified staff 	<ul style="list-style-type: none"> • Changing circumstances require changing mission • Overstaffing • Limited operating budget • Poor incentives 	<ul style="list-style-type: none"> • Reform of programme agenda implies re-examination of role of MALR • Transfer some functions to private sector, NGOs and farmer organizations 	
Agricultural Research Centre (ARC)	<ul style="list-style-type: none"> • Qualified pool of research staff 	<ul style="list-style-type: none"> • Poor management • Lack of operating funds • Location away from capital • Limited experience among researchers 	<ul style="list-style-type: none"> • New strategy focuses on economic potential and constraints • Greater attention to rainfed agriculture and traditional systems • Increase interaction with farming community, with emphasis on adaptive research and demonstration on farmer fields 	
Principal Bank for Development and Agricultural Credit (PBDAC)	<ul style="list-style-type: none"> • Good branch network • Experience with small farmers 	<ul style="list-style-type: none"> • Poor poverty focus • High transaction costs • Overstaffing 	<ul style="list-style-type: none"> • Government commitment to improve PBDAC and the resource base • Willingness to experiment with other modalities for provision of rural financial services • Existence of many competing programmes on very concessional basis mostly administered by PBDAC 	
NGOs (national)	<ul style="list-style-type: none"> • Good social solidarity 	<ul style="list-style-type: none"> • Weak resource base • Religious affiliation of most 	<ul style="list-style-type: none"> • Restrictive legal framework • Strong state control • Unwillingness of the Government to allow them to operate in finance sector 	
Private sector	<ul style="list-style-type: none"> • Good affinity and willingness • Reasonable financial resources • Willingness to engage in export ventures 	<ul style="list-style-type: none"> • Weak legal framework 	<ul style="list-style-type: none"> • Encouraging judicial developments • Government of Egypt-declared policy in support of privatization. 	



Table 4: Donors Operations/Partnership Potential

Donor	Nature of project or programme	Project or Programme Coverage	Status	Complementarity and Synergy Potential
IDA/World Bank	<ul style="list-style-type: none"> • Agricultural and rural development • Irrigation improvement 	<ul style="list-style-type: none"> • Newlands/oldlands • Countrywide 	<ul style="list-style-type: none"> • Ongoing • Ongoing 	<ul style="list-style-type: none"> • High • Weak
EU	<ul style="list-style-type: none"> • Livestock credit 	<ul style="list-style-type: none"> • Newlands 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • High
FAO	<ul style="list-style-type: none"> • Technology transfer and policy advice • Rural finance; policy advice; institutional development 	<ul style="list-style-type: none"> • Countrywide • Countrywide 	<ul style="list-style-type: none"> • Ongoing • Ongoing 	<ul style="list-style-type: none"> • Moderate • High
WFP	<ul style="list-style-type: none"> • Food aid 	<ul style="list-style-type: none"> • Newlands 	<ul style="list-style-type: none"> • Ongoing 	<ul style="list-style-type: none"> • High
UNDP	<ul style="list-style-type: none"> • Poverty alleviation and policy advice • WID • Microfinance 	<ul style="list-style-type: none"> • Countrywide • Countrywide • Countrywide 	<ul style="list-style-type: none"> • On going • Ongoing • Ongoing 	<ul style="list-style-type: none"> • Moderate • Moderate • Moderate
USAID	<ul style="list-style-type: none"> • Technology transfer • Policy analysis advice 	<ul style="list-style-type: none"> • Countrywide • National 	<ul style="list-style-type: none"> • Ongoing • Ongoing 	<ul style="list-style-type: none"> • Moderate • Moderate



Table 5: Stakeholders Matrix/Project Actors and Roles

Component	Sub-component	Project Coverage	Perennial Institution Involved	Potential contractors	Other Partners in Execution
Agricultural Development	<ul style="list-style-type: none"> • Extension • Applied research • Veterinary services • Agricultural credit 	<ul style="list-style-type: none"> • Widespread coverage in most projects 	<ul style="list-style-type: none"> • MALR • ARC* • PMUs** 	<ul style="list-style-type: none"> • Private sector (seed companies, irrigation equipment makers, etc.) • Universities • Farmers Union • Private Veterinarians 	<ul style="list-style-type: none"> • NGOs
Community Development	<ul style="list-style-type: none"> • Rural infrastructure • Income generating activities (SME development) 	<ul style="list-style-type: none"> • Widespread coverage in most projects 	<ul style="list-style-type: none"> • Community groups • NGOs 	<ul style="list-style-type: none"> • Communities • Local contractors (private sector) 	<ul style="list-style-type: none"> • NGOs
Rural Finance		<ul style="list-style-type: none"> • Widespread coverage 	<ul style="list-style-type: none"> • PBDAC • NGOs • Village-based savings and credit institutions 	<ul style="list-style-type: none"> • Rural Financing Institutions • Local NGOs 	<ul style="list-style-type: none"> • UN Agencies • International NGOs
Water Management					
Women in Development	<ul style="list-style-type: none"> • Extension • Credit • Income generation activities 	<ul style="list-style-type: none"> • Widespread coverage 	<ul style="list-style-type: none"> • PMUs** • MALR • NGOs • Women groups 	<ul style="list-style-type: none"> • Women Union • NGOs 	<ul style="list-style-type: none"> • IDA • Bilateral donors

* Agriculture Research Centre

** Project Management Units