



Enabling poor rural people
to overcome poverty

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The International Fund for Agricultural Development

ARAB REPUBLIC OF EGYPT

**PROMOTION OF RURAL INCOMES THROUGH MARKET
ENHANCEMENT (PRIME) PROJECT**

Final Project Design Report

Volume I

Main Report and Working Papers

ARAB REPUBLIC OF EGYPT
PROMOTION OF RURAL INCOMES THROUGH MARKET ENHANCEMENT (PRIME)
PROJECT

FINAL PROJECT DESIGN REPORT

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CURRENCY EQUIVALENTS

Currency Unit	=	Egyptian Pound (EGP)
USD 1.00	=	EGP 5.525
EGP 1.00	=	USD .181

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres
1 feddan fd	=	0.42 ha
1 ha	=	2.38 fd

FISCAL YEAR

1 July – 30 June

ABBREVIATIONS AND ACRONYMS

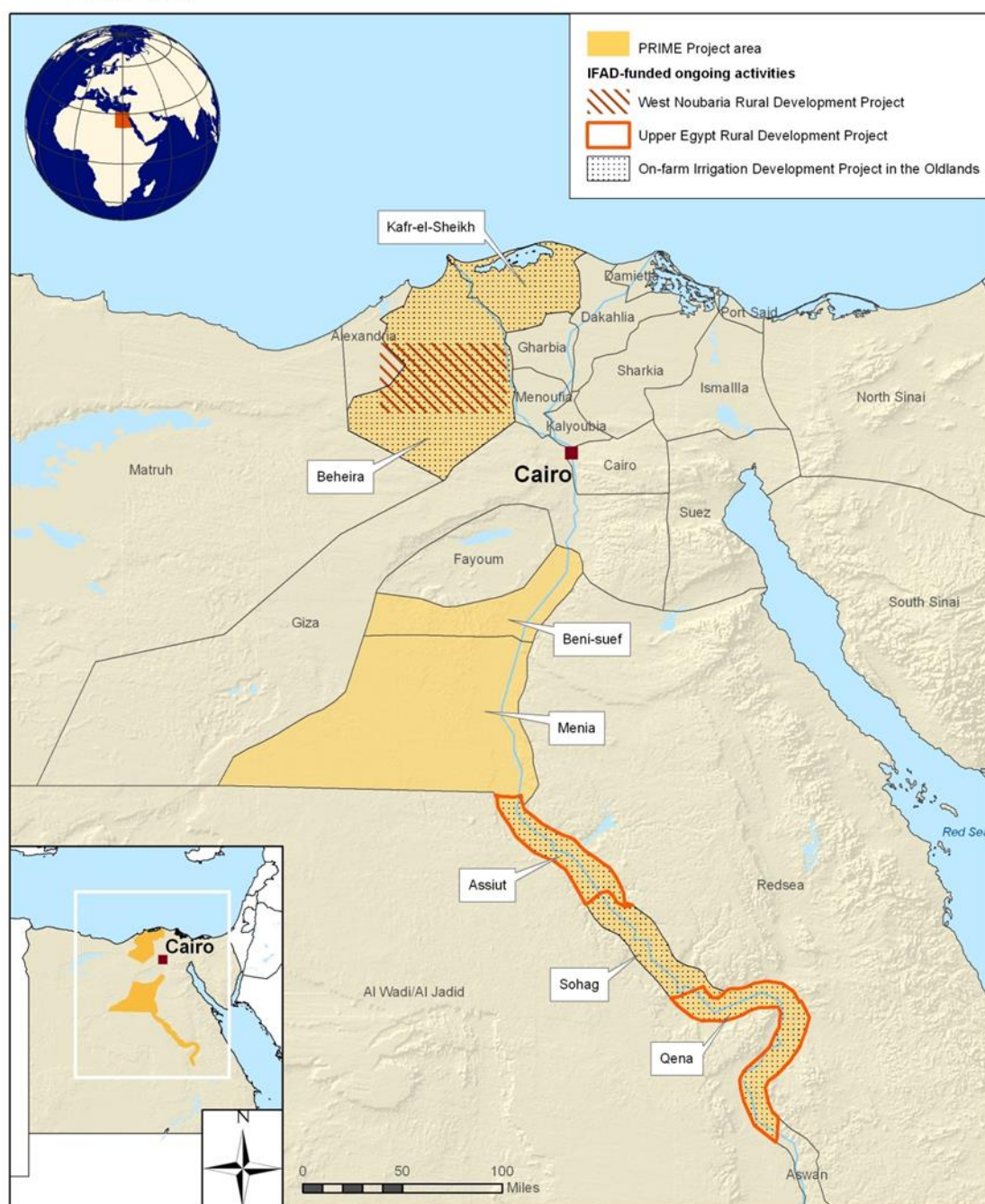
AfDB	African Development Bank
APIP	Agricultural Production Intensification Project
ARC	Agricultural Research Center
ARDF	Agricultural Research and Development Fund
CDAs	Community Development Associations
CIB	Commercial International Bank
COSOP	Country Strategic and Opportunities Paper
EDNASP	East Delta Newlands Agricultural Services Project
EHDR	Egypt Human Development Report
EIRR	Economic Internal Rate of Return
GOE	Government of Egypt
GPCU	Governorate Project Coordination Unit
GPSC	Governorate Project Steering Committee
HEIA	Horticultural Export Improvement Association
LIFE	Livelihood and Income from the Environment Programme
MA	Marketing Associations
MALR	Ministry of Agriculture and Land Reclamation
MFI	micro finance institutions
MOPIC	Ministry of Planning and International Cooperation
MSEs	Micro and Small Enterprises
MTR	Mid-Term Review
NGOs	Non-Governmental Organizations
NPCU	National Project Coordination Unit
PCB	participating commercial banks
PBDAC	Principal Bank for Development and Agriculture Credit
PRIME	Promotion of Rural Incomes through Market Enhancement
PSC	Project Steering Committee
RIMS	Results and Impact Management Systems
SEDO	Small Enterprise Development Organization
SFD	Social Fund for Development
UERDP	Upper Egypt Rural Development Project

MAP 1 – IFAD OPERATIONS IN THE COUNTRY

Arab Republic of Egypt

Promotion of Rural Incomes through Market Enhancement - PRIME

Design report



6-12-2010



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

EXECUTIVE SUMMARY

A. Background and Rationale

1. Based on a request from the Government of the Arab Republic of Egypt (GOE), the International Fund for Agriculture Development (IFAD) has designed a project titled Promotion of Rural Incomes through Market Enhancement (PRIME) for investment in enhancing smallholder farmer's capacity for marketing. The current document outlines the design of the proposed project including its rationale, approach, project area, project components, implementation arrangements, financial plan and flow of funds, monitoring and evaluation arrangements. The report follows the new format for Staff Appraisal Reports at IFAD. Given that a major share of project investments will be used for the provision of rural financial services, the project design adheres to IFAD's guiding principles for rural finance interventions. Consistent with the objectives of IFAD's strategic framework and the objectives of the agriculture strategy of the government, the aim of the proposed investment is to contribute to the reduction of poverty by enabling the smallholder farmer increase his income, reduce his production losses and establish better links with markets.

2. **Agricultural growth** is not only important to growth in national income, but also vital to growth in employment, food security and reduction of poverty in Egypt. Within the agriculture sector, Egypt enjoys a significant comparative advantage in the production and export of high value horticulture and livestock products, herbs and medicinal plants. This comparative advantage is based on its favourable agro-climatic conditions, counter-seasonal production capabilities and physical proximity to important markets. Together horticulture accounts for 36 per cent of the value of all crops produced and livestock contributes another 35 per cent of the total value of agriculture GDP. Together these two sub-sectors account for 53 per cent of the agriculture GDP in Egypt. Focus on these commodities can help both the agriculture and non-farm sectors. The underlying hypothesis of this investment project is that the focus on these sub-sectors can enhance agriculture growth, create additional demand in the non-farm sector, absorb landless labour and youth, create opportunities for women and contribute to poverty reduction and gender equity. Empirical studies of the agriculture sector confirm that the enhanced utilization of new agricultural technology can play a crucial role in increasing total factor productivity, increasing labour and agricultural wages.

3. There is a close statistical tie between growth in agriculture and poverty reduction in Egypt. Many rural people are landless, either relying entirely on wage labour for their survival, or working as sharecroppers or tenants on smallholdings in addition to wage labour. Growth in the agriculture sector can reduce poverty as well as stimulate growth in the rural non-farm sector as farmers spend half of increments to income on this sector. Thus, rise in farm income can drive demand for the large, employment-intensive, non-tradable, rural non-farm sector. The extra job creation allows underemployed labour to be absorbed or real wages to rise with concomitant rapid decrease in poverty. The proposed project would stimulate growth in the non-farm sector by specific allocation of financial services for this sector and strengthening the linkages between the agriculture and non-farm sector. The proposed project is IFAD's response to fill a much needed gap in the smallholder farmer's capacity for organization and access to financial and outputs markets and create opportunities to improve agriculture-derived livelihoods of poor rural producers.

4. **Recent Events.** The economy took an immediate hit following the political upheaval of January 25th 2011. The crucial Tourism sector collapsed, transport and exports were disrupted and investor and consumer confidence were shaken. A series of labour strikes for higher wages began. Additional spending on wages, pensions, subsidies and a compensation fund are already committed, but revenue collection

remains weak which would put pressure on GOE budget. Pressures to increase minimum wages and employment could add to the pressure. Domestic consumer's prices and inflation increased and real GDP growth is expected to decrease. The agriculture sector was hard hit. The price of fuels continued to increase affecting mainly the poor in rural areas, and agricultural exports slowed down. The decrease in remittances is expected to affect rural poor household income, and rural youth unemployment is likely to increase as a result of the inflow of returnees from Libya. It is now an opportune time for the International Community to support Egypt through the transition particularly the poor rural areas.

5. **Rural and Agriculture Finance.** Limited access to finance remains a key binding constraint for the development of rural economies. Most smallholders do not have access to finance which inhibits the timely purchase of agriculture inputs especially for the high cost inputs required to produce horticulture crops and livestock production. This limits the amount of land a farmer can plant to high value crops and leads to considerable under-employment in the agriculture sector. This lack of capital, often, also leads to tied transactions as the farmer tries to secure finance from the trader who binds him/her in a contract in which he has limited bargaining power. Provision of funds for horticulture and livestock sector is an effective tool for poverty alleviation given that these commodities have become increasingly tradable with demand not constrained by the domestic market and the fact that they use rather little land relative to their value of output. There are also financial constraints along the value chain of specific commodities in the agriculture sector. Traders and processors are also limited by their working capital constraints and can only procure, transport and process limited quantities of the available agriculture produce. The result is a high degree of loss for the farmer and limited volume of up-take along the value chain.

6. A wide gap exists between the large and increasing unmet demand for finance by rural micro, small and medium enterprises and the very limited formal supply for such finance. Meanwhile the SMEs sector is one of the primary sources of employment growth particularly for youth. Thus, for IFAD, a crucial dimension of the needed response to reduce rural poverty and unemployment in Egypt is to support accelerated growth of agriculture related micro, small and medium enterprises.

B. Development Objective and Outcomes and Indicators

7. The development goal of the PRIME Project would be to contribute to the reduction of rural poverty in Egypt. The development objective would be to increase the incomes of 50,000 rural households including smallholder farmers, landless labourers, women, unemployed youth, small and medium entrepreneurs by integrating them in the agriculture value chain.

8. The outcome of the project would include the following (i) increase in farm-gate prices for small-holder farmers through better organization, negotiation, information and access to markets (ii) reduction in production losses through access to finance for use of new technology, access to post-harvest, transport and processing facilities and integration in the agriculture value chain; and (iii) increase in assets and employment through enhanced opportunities for on and off-farm rural employment. The project is expected to enhance farmer's capacity for organization, enhance food security and link them to agriculture value chains for better access to markets. It would enhance farmer's capacity to interpret and respond to market signals, equip them to produce for the domestic and international markets through facilitation of direct links with processors and exporters.

C. Project Area

9. The Project would be implemented in the seven Governorates of Qena, Sohag, Assiut, Menia and Beni Seuf in Upper Egypt and Beheira and Kafr-el-Sheikh in Lower Egypt. The selection of the Governorates is based on (i) the incidence of poverty in these Governorates; (ii) their potential for production of horticulture crops, livestock, herbs and medicinal plants; (iii) the agro-ecological variation in the Governorates which enables capitalizing on their year round production potential; and (iv) the potential to capitalise on IFAD's previous investments in irrigation and institutional development at the farm level.

D. Main Components

10. The PRIME project would include three components namely; (i) Marketing Support Component; (ii) Rural Finance Component; and (iii) Project Management and Coordination Component. These components are designed to strengthen smallholder farmer institutions and human capacities, enhance access to improved technologies for production, post-harvest, transport and processing through access to finance and increased access to markets.

11. The Marketing Support Component would have four sub-components (i) Organising and strengthening Farmer Groups/Associations; (ii) Market Intelligence; (iii) Value Chain Linkages; and (iv) Market-Oriented Production. The Rural Finance component would have three sub-components (i) Market Based Credit Research & Development; (ii) Credit Facility; and (iii) Strengthening Financial Intermediaries. This component is designed keeping in view the six guiding principles of the IFAD Decision Tools for Micro-finance (2010) and the Rural Finance Policy (2009). The Project Management Component would finance all the incremental costs of project management and coordination.

E. Project Implementation

12. The PRIME project would be implemented under the overall leadership of the Ministry of Agriculture and Land Reclamation (MALR) as the Lead Project Agency. The Ministry would appoint the Agriculture Research Centre (ARC) as the main implementing agency for PRIME. A high ranking inter-ministerial Project Steering Committee (PSC) would be set up for overall policy decisions and guidance at the national level. A National Project Coordination Unit at the national level and seven Governorate Project Coordination Units at governorate level would be responsible for the implementation of the project. ARC will assign the task for the delivery of financial services for the funds allocated for SMEs and part of the micro-finance funds to the Agriculture Research and Development Fund (ARDF). ARDF would use its affiliated banks for the delivery of the rural finance services. Part of the funds for the microfinance sector would be provided to the Social Fund for Development for on-lending through non-bank MFIs, NGOs, CDAs, etc. The division of the microfinance funds between ARDF and SFD would be based on performance and would be reflected in the subsidiary agreements with both.

13. Several options were considered for the implementation of the Rural Finance component by the Project Design Mission. The Design Mission reviewed the strengths and weaknesses of potential partners. These included the Principal Bank for Development and Agriculture Credit (PBDAC), the Agriculture Research and Development Fund (ARDF) with its agent manager the Commercial International Bank (CIB) and the Social Fund for Development (SFD). For many years, IFAD persisted with using PBDAC and its branches as the main credit provider despite its slow disbursement rate. While PBDAC has recently embarked upon a restructuring exercise which offers considerable promise, this process is by no means complete and there is little to suggest that its performance in serving smallholders would improve in the near future. IFAD's experience

with the Social Fund for Development has been positive especially for channelling funds to the smallholder farmers and unemployed youth for on-farm and off-farm activities. The Design Mission also reviewed the CIB/ARDF arrangement and felt it appeared to be a promising avenue especially for higher loan brackets such as small and medium scale lending.

F. Project Costs, Financing, Benefits and Sustainability

14. The total project costs including physical and price contingencies are estimated at US\$108.22 million (EGP 655.53 million) over an eight year project period. The project would be financed by an IFAD loan of US\$70.0 million, on intermediate terms and an IFAD grant of US\$1.0 million. The Government of Egypt (GOE) would finance US\$7.6 million to cover project management costs and all applicable taxes, duties and salaries of Government employees and share part of the cost of providing capacity building and technical assistance to farmer associations under the Market Support Component. The Agriculture and Research Development Fund would provide US\$10.9 million as its contribution in staff resources, technical assistance, operating costs of staff and training of their partners and the Social Fund for Development would be expected to provide US\$1.0 million for the staff and operating costs and strengthening of their financial partners. The beneficiaries are expected to provide US\$17.7 million towards financing of investments in agriculture inputs, agro-enterprises and development of off-farm enterprises.

15. **Beneficiaries.** The PRIME project would benefit 50,000 poor rural households in the seven project Governorates. The Marketing Support Component would organize 20,000 small farming households including 6,000 women directly. These households are expected to be members of around 500 Farmer Groups or Associations mostly existing and some new ones. Special care would be taken to include those producers who have benefitted from IFAD's irrigation investments and ensure that the enhanced production advantages translate into increased incomes through market linkages. About 150 of these Farmer Marketing Groups of Associations would be specifically for women. The project is expected to provide access to financial services to smallholders, women, rural entrepreneurs and small and micro entrepreneurs over eight year implementation period. The Rural Finance Component would expect to provide microloans to 30,733 households, mostly in micro-loans with an average loan size of EGP 8,000. Small loans with an average loan size of about EGP 75,000 would be provided to 1,123 enterprises while the medium sized loans with an average of EGP 500,000 would be provided to around 174 enterprises. Women would form 30 per cent of the beneficiaries under the Marketing Support Component and 30 per cent of the beneficiaries of the microloans and 10 per cent of the beneficiaries of the small loans.

16. **Financial and Economic Analyses.** Both financial and economic analyses were conducted to determine the viability of the project. Financial analysis was carried out based on crop budgets, farm models which best represent the growing potential and farming systems in the selected project area and representative enterprise models. In the assumptions incremental income is derived from (i) improvement and introduction of new production technology; (ii) access to on farm land levelling, soil improvement, investments in improve irrigation and fertilization practices due to access to production credit; and (iii) the introduction of new crop rotation including high value crops due to better understanding of farming as a business, access to credit and better access to markets. The financial results indicate that the household benefits after financing would increase in all farm models ranging from 36 per cent to 109 per cent.

G. Economic Analysis

17. The stream of net benefits was determined for both the “without” and the “with” project situations. The analysis shows that the project is likely to contribute to enhancing Egypt’s welfare, as it has a positive economic net present value of EGP 436 million (net benefits discounted at 12 per cent). The project’s contribution to economic welfare comes from higher levels of market-oriented production, marketing, consumption and employment resulting from the relaxation of the credit constraint and access to know how and market information.

H. Sustainability

18. There are several ways in which the project is designed to enhance the sustainability of the institutional arrangements that are being put in place under the project. These include enhancing the capacity of the farmer associations and enabling long-term contractual relationships with collectors, processors, exporters, etc. These two factors are expected to last beyond the project period and be based on the mutual benefit to be derived from the partnership between the producer groups and the private sector. In addition, there are several aspects designed to make the provision of financial services sustainable. These include using existing channels for the delivery of financial services which are both operationally sustainable, strengthening of micro finance institutions which are delivering services to the rural areas and small holder farmers, leveraging commercial finance for the agriculture sector by enabling commercial banks to better assess agriculture risk and provide resources from their own funds to the sector, allowing the financial institutions to charge market based interest rates and to sustain their operations beyond the project life. The funds for ARDF and SFD will both be used as revolving fund for dedicated use for the rural and agriculture sector at the end of the project.

LOGICAL FRAMEWORK MATRIX

Narrative Summary	Objectively Verifiable Indicators	Monitoring Mechanism & Information Sources	Assumptions/ Risks
A. PROJECT GOAL			
<ul style="list-style-type: none"> - To contribute to the reduction of rural poverty in seven governorates of Lower and Upper Egypt. - (52% of the rural population of Egypt was estimated to be living below the poverty line). 	<ul style="list-style-type: none"> - Percentage of households with improvement in household asset ownership in targeted Governorates; compare male and female headed (RIMS mandatory impact indicator:3rd level) - Percentage of households with improved incomes; (RIMS 2nd level indicator) - Reduction in the prevalence of malnutrition for children under five (RIMS mandatory impact indicator:3rd level) 	<ul style="list-style-type: none"> - Household income, Expenditure and Consumption Surveys of Egypt; - Egypt Integrated Household Survey; - Egypt Poverty Assessments; - Nutritional Surveys of Egypt. 	<ul style="list-style-type: none"> - Political stability; - Government continues its commitment to poverty reduction and transformation of the agriculture sector in Egypt.
B. PROJECT OBJECTIVE			
<p>The <u>development objective</u> is improved production and profitability in horticulture, livestock and medicinal plants and herbs for 50,000 rural households, including small farmer households, women, unemployed youth and small and medium entrepreneurs.</p>	<ul style="list-style-type: none"> - At least 75% of the targeted 50,000 HHs report increased incomes from better access to markets and financial services (RIMS 2nd level); - 40% increase in average HH incomes; - 20% reduction in production losses (RIMS 2nd level); - 40 to 80% % of the households adopt improved cropping patterns on 50% of their landholding; - 50% of the households reduce their cost of production through introduction of improved technologies, market linkages and better integration in value chains. 	<ul style="list-style-type: none"> - Baseline and socio-economic surveys (gender-disaggregated); - Project RIMS annual reporting and impact surveys, PCR; - Project surveys at baseline, mid-term and Completion; - Annual surveys of HHs. 	<ul style="list-style-type: none"> - Favourable government policies; - Prices are relatively stable.
COMPONENTS OUTCOMES AND OUTPUTS			
COMPONENT 1: MARKETING SUPPORT			
OUTCOME:			
Increased farmers' ability in obtaining better and more stabilised farm-gate prices for their products.	<ul style="list-style-type: none"> - 20,000, farmers organized in 500 associations; - 6,000, farmers provided livestock training; - 10,000farmers provided horticulture training; - 4000, farmers provided Global GAP training; - 2000 Certified under GlobalGap. - Farm gate prices increased by at least 30% by Mid Term 	<ul style="list-style-type: none"> - Progress Reports; - Annual Reports; - M&E Reports. 	<ul style="list-style-type: none"> - Minimum disruption of the agriculture sector by incidence of disease or extreme weather events.
OUTPUTS:			
<ul style="list-style-type: none"> - 300, Farmer Organizations /Associations strengthened with a membership of 20,000 of whom 4600 are women; - 2000 members provided organization training of whom 300 are women; - Members from 300, organizations provided training in market intelligence, horticulture and livestock production; - 4000 farmers qualified in Global Gap Audit and 1000 certified; - 5000 market linkages established for smallholder farmers from which 1000 are women. 	<ul style="list-style-type: none"> - No. of smallholder farmers organized by gender; - No of members trained in organization development by gender; - No of farmers trained in improved production techniques; - No of farmers trained in market intelligence; - No of farmers audited for GlobalGAP; - No of farmers certified; - No of farmers linked to markets by gender. 	<ul style="list-style-type: none"> - Progress Reports; - Annual Reports; - M&E Reports; - TF/CF Reports; - RIMS survey. 	<ul style="list-style-type: none"> - Farmers' organisations functions and roles recognised by authorities.

Narrative Summary	Objectively Verifiable Indicators	Monitoring Mechanism & Information Sources	Assumptions/ Risks
COMPONENT 2: RURAL FINANCE			
OUTCOME 2.1: Farmers' production losses reduced.	– Number of people accessing technical advisory services facilitated by project.	– Progress Reports; – Annual Reports; – M&E Reports; – RIMS survey.	– No deterioration in the existing markets for livestock and crops.
OUTPUTS: – About 30,000 clients of whom 40% accessed to more than one loan; – Repeat loans taken by 25% of about 1,123 clients for small enterprise development loan2.1.3 Repeat loans taken by 10% of about 174 medium sized clients.	– Number of research-for-development extension/dissemination events attended by target HHs.	– Progress Reports; – Annual Report; – Case studies.	– Identified commercial banks and NBFIs interested in participating in the Project.
OUTCOME 2.2: -Increased access to rural finance by target groups along the selected value chains; -Increased assets and employment for target beneficiaries.	– Number of new jobs created by project SMEs and share of employment by women (RIMS 2) ; – % of assets increase for target beneficiaries ; – Portfolio at risk; outstanding balance of overdue loans (RIMS 2), – Number of intermediary financial institutions strengthened	– Evaluation Reports. – Progress Reports.	– Financially attractive investments available.
OUTPUTS: – About 6,000 women provided loans for livestock production; – About 9000 unemployed youth provided loans for off-farm activities of which 3,000 will be women.	– No of loans provided by gender; – Volume of loans provided by gender; – Loans by size; – Loans by enterprise.		– Free market rules maintained for crops and livestock.

Narrative Summary	Objectively Verifiable Indicators	Monitoring Mechanism & Information Sources	Assumptions/ Risks
COMPONENT 3: PROJECT MANAGEMENT & COORDINATION			
OUTCOME: Efficient, cost effective and gender sensitive use of project and complementary donor resources.	<ul style="list-style-type: none"> – PMU established in Cairo; – Office and field equipment provided to NPCU; – Project Steering Committees set up; – TAs recruited; – MIS installed; – Surveys and studies completed; – Accounting system established; – AWP&Bs prepared and presented; – Audit reports submitted. 	<ul style="list-style-type: none"> – Progress Reports; – Annual Reports; – M&E Reports; – RIMS survey; 	<ul style="list-style-type: none"> – Government and IFAD contribution is delivered on time and all resources are acquired on time; – Project staff assigned is competent and qualified for the tasks assigned.
OUTPUTS: <ul style="list-style-type: none"> – Project Steering Committee established; – Staff for NPCU recruited; – AWP&B prepared and approved; – Office equipment and vehicles provided; – TA services recruited; – M&E system established in NPCU and GPCU; – Accounting system established; – Surveys and studies completed; – Regular audits completed. 	<ul style="list-style-type: none"> – NPCU established and functional; – Committees established and effective; – Accounting system established & functional; – M&E system functional and reports generated; – staff trained and capacity enhanced; – List of studies conducted; and – Mission rating. 	<ul style="list-style-type: none"> – Mission reports; – Progress reports; – Annual reports. 	<ul style="list-style-type: none"> – M&E systems are established and staffed by qualified teams.

ARAB REPUBLIC OF EGYPT
PROMOTION OF RURAL INCOMES THROUGH MARKET ENHANCEMENT (PRIME)
PROJECT

FINAL PROJECT DESIGN REPORT

I. INTRODUCTION

1. The Government of the Arab Republic of Egypt (GOE) made a request to the International Fund for Agriculture Development (IFAD) for investment in enhancing smallholder farmer's capacity for marketing on 26 May 2010. In response to this request, IFAD commissioned some preliminary background field work in 2010 and two successive Project Design Missions. The final PRIME design mission¹ visited Egypt from 15 to 30 May 2011, following internal reviews by IFAD and by the Government of the Draft Design Report. The mission based its work plan on the findings of the earlier design missions (November 2010), the Government response to the Draft Report, and IFAD's internal review of the same. It was guided by the GOE Sustainable Agriculture Development Strategy (SADS) Towards 2030, and IFAD's own Strategic Framework (2011-2015) and sector its policies.

2. The mission met with His Excellency the Minister of Agriculture and Land Reclamation Dr. Ayman Abou Hadid and was guided by his directions and insights. It also met with senior officials of Ministry of Agriculture and Land Reclamation (MALR), Ministry of Planning and International Cooperation (MOPIC), the Agriculture Research and Development Fund (ARDF), the Social Fund for Development (SFD), the Commercial International Bank (CIB), Principal Bank for Development and Agriculture Credit (PBDAC), the National Bank of Egypt (NBE), Bank of Alexandria, and worked with the in-country members of the Country Programme Management Team (CPMT). The mission held meetings with representatives of the African Development Bank, UNIDO, USAID, and the French Agency for Development (AFD) and other donors. The mission met with representatives from the Private Sector, Agri-Business, Service Providers, Agro Processors, Exporters, Union of Producers & Exporters of Horticulture Crops, Horticulture Export Improvement Associations and Buffalo Producers Association. The design missions visited the Governorates of Qena, Sohag, Assiut, Beheira, Kafr-el-Sheikh and Beni Seuf.

3. The mission wishes to extend its sincere thanks to officials and staff of the concerned Ministries, particularly Dr. Adel Al Beltagy, Chairman Agricultural Research and Development Council (ARDC); Mr Mohamed Hammam, Assistant to the Minister in charge of International Organizations at MOPIC and his staff, Ms Hanaa El Hilaly, Director-General (Planning & International Cooperation Group) at SFD and her staff and Dr. Magdi Anwar Hassanein, Head of MALR's Foreign Agricultural Relations and his staff. The mission would like to record its special appreciation to Engineer Sayed Hussein Mohammed the Director of the International Funding Agencies of MALR and his staff, for coordinating the mission's programme and providing invaluable logistical support.

4. The current document outlines the design of the proposed Promotion of Rural Incomes through Market Enhancement Project (PRIME) including project rationale, approach, project area, project components, implementation arrangements, financial plan and flow of funds, monitoring and evaluation arrangements. The report follows the

¹ The mission was composed of Dr. Mona Bishay (Mission leader), Mr. Ashok Khosla (Credit and Agro Processing Specialist), and Ms. Tamara Nicodeme (Marketing Specialist). Dr Abdelhamid Abdouli (IFAD Country Programme Manager for Syria) accompanied the mission during part of its work in Egypt, provided oversight and guidance throughout the mission's work and participated in key meetings and the final wrap-up meeting. Dr. Aziz Merzouk, IFAD's Country Programme Manager, joined the mission during its last week and shared his experience in similar projects in the NENA region and elsewhere.

new format for Project Design Document at IFAD. Given that a major share of project investments will be used for the provision of rural financial services, the project design adheres to IFAD's guiding principles for rural finance interventions.²

I. STRATEGIC CONTEXT AND RATIONALE

A. Strategic Context

5. **Country and Rural Development Context.** Despite impressive economic growth in recent years, Egypt faced many challenges in maintaining sustainable economic growth, and addressing economic, social and regional inequalities. While overall progress has been made over the last decade, there are clear divisions between a moderately well-off urban sector and a poor rural sector. The global economic slowdown that began in 2008 has adversely affected growth and employment in Egypt. The real sector, especially micro, small and medium enterprises (MSEs) has been negatively affected by the slowdown in economic growth. The SME sector is of major importance for income and employment generation as it accounts for over 99 per cent of Egyptian enterprises, 85 per cent of non-agricultural private-sector employment, and almost 40 per cent of total employment. As the Global economy recovered growth in GDP increased to 5.1 per cent in 2009/10 and was projected at 6 per cent for 2010/2011. However, unemployment remained high at around 10 per cent, the share of youth without jobs had reached about 25 per cent and inflation persisted at 10 per cent. The sense of unequal access to economic opportunities and a divide between the rich and the rest had also been growing, especially in the last decade and led, among other factors, to the recent national uprising.

6. **The Critical Post Revolution Situation.** The economy took an immediate hit following the political upheaval of January 25th 2011. IMF³ data indicate that tourism, representing 11 per cent of GDP, collapsed, investor and consumer confidence were shaken and exports were disrupted. A series of labour strikes for higher wages began. The shock hit the buffers in the financial system but has not led to a financial crisis. There were substantial capital outflows in January-March, but the authorities accommodated the outflows with a drawdown of reserves. Official reserves stood at US\$30 billion at end- March, still at a comfortable level of nearly six months of imports. The exchange rate depreciated by only 2 per cent over the period. No formal controls on capital outflows were introduced, but the pace of outflows remains slow as large transfers are scrutinized.

7. IMF data also indicate that the fiscal deficit is expected to widen by 2 per cent of GDP this fiscal year. Additional spending on wages, pensions, and a compensation fund are already committed in response to popular demand, but revenue collection remains weak. Pressures to increase minimum wages and employment could add to the deficit. Previous plans by the Government to phase out subsidies have been stalled and the Government announced in May 2011 that the new 2011/2012 budget will include a 20 per cent increase in subsidies on essential commodities. The temporary disruption of economic activities and prevailing uncertainty led to the decrease in domestic spending which may linger on further depressing economic growth and budget revenues.

8. Real GDP is expected to contract significantly, yielding an annual real GDP growth of only 1-2 per cent in the fiscal year ending June 2011. There is considerable uncertainty about the speed of recovery. The authorities expect growth to be higher in the coming year and a gradual recovery to about 4 per cent growth is foreseen in 2011/12. Central Bank of Egypt (CBE) reports that domestic consumer inflation for April 2011 was up by 12.1 per cent. The largest area for increase was Food and Beverages

² Decision Tools for Rural Finance. IFAD. 2010.

³ IMF BRIEF: EGYPT, May 2011.

which rose by 21.7 per cent in April 2011.⁴ Within this category, the prices of fresh fruits and vegetables alone rose by an unprecedented 52 per cent during April 2011. Higher prices of basic foods are particularly sensitive to the lesser privileged sections of society and will directly impact the poverty index. In light of the sharp decline in tourism (estimated at 60 per cent), a slowdown in remittances (due to unrest in neighbouring Arab countries) and higher food import prices, the current account deficit is projected to widen to 3.3 per cent of GDP in 2010/11. Recent official figures (May 2011) reveal that the number of unemployed has risen by about 700,000 between January and March and that the unemployment rate increased to 11.9 per cent. The Government announced in April 2011 that “It will support employment intensive activities through supporting national projects and promoting Small and Medium Enterprises as effective vehicles for job creation”.

9. While the expectations of the population have no doubt risen, following 25th of January, short term economic challenges are still likely to persist. IMF /World Bank briefs indicate that unemployment is likely to continue rising, food and fuel prices are likely to remain high, as well as government’s borrowing costs, which will impose significant additional demands on the fiscal accounts. Non-performing loans are expected to rise. The balance of payments is expected to remain under pressure as the current account deficit widens and foreign investments wait for elections to take place. In its position paper for IMF Spring Meeting (April 2011) the World Bank expressed the view that “It is now an opportune time for the International Community to support Egypt through the transition.” The International Community has indicated its willingness and commitment to financially support Egypt through this fragile period, but a good part of the pledges made will only materialize in 2012/2013.

10. **The agriculture sector was hard hit.** The agriculture sector is a key sector in the Egyptian economy, providing livelihoods for 55 per cent of the population, directly employing about 30 per cent of the labour force and contributing 13 per cent of GDP and 20 per cent of total foreign exchange earnings. In rural households in Egypt, 42 per cent of total income comes from non-farm sources, and this ratio increases for the poor who are dependent on off-farm employment and remittances. Following the January 2011 events prices of domestic and imported agricultural inputs increased as a result of disruption of transport, the depreciation of the Egyptian Pound and pile stocking by traders. The price of fuels continued to increase affecting mainly the poor and agricultural exports slowed down. Informal estimates made by some exporters met by the Design Team indicate that horticulture exports decreased by a significant 50-60 per cent for the first four months of 2011. The decrease in remittances is expected to affect rural poor household income, and rural youth unemployment is likely to increase as a result of the inflow of returnees from Libya. Farmers’ expectations for improvement in their living standard have increased, post revolution, and requests for reform and further support by government are being voiced by rural communities. It is however too early to estimate the long term impact of the events of 25th of January and beyond on the economic and social development of rural Egypt.

11. **Rural poverty is still widespread.** The population of Egypt was estimated to be 83 million with a Gross National Income of US\$ 2,070 per capita in 2009.⁵ Around 40 per cent of Egyptians, or about 33 million were estimated to be poor according to the latest estimates.⁶ About 19.6 per cent were estimated to live in absolute poverty and 21 per cent were near poor and a small drop in incomes or increase in prices would make many of them fall back into poverty. While urban poverty is decreasing, poverty is increasing in rural areas.⁷ The percentage of urban poor dropped from 30 to 26 per cent

⁴ Central Bank of Egypt, Monthly Inflation Developments – April 2011.

⁵ World Bank, 2009.

⁶ Poverty Assessment Update (2007) - World Bank and Government of Egypt’s Ministry of Economic Development.

⁷ However, increase of extreme poverty primarily affects urban areas.

between 2000 and 2005⁸ but rural poverty only changed marginally during this period and went from 51.9 to 51.8 per cent, with an increase in the absolute number of rural poor. Furthermore, there are very stark inter-governorate and even inter-district differences in terms of poverty. Rural poverty is higher in Upper Egypt - where a quarter of Egypt's population lives. The region accounts for 66 per cent of the extreme poor in the country, 51 per cent of its poor, and 31 per cent of the near poor. Poverty mapping suggests the concentration of poverty in specific "pockets", even within rural Upper Egypt. Almost one third of all the Egyptian poor are in the governorates of Sohag, Assiut and Menia.

12. Gender gaps go unabated. Despite large achievement in opportunities for women since the 1980s, significant gender gaps still exist. Women still have difficulties in participating in economic life, accessing education and health services, while their active participation in politics is severely limited. The most significant gender gap is in the participation in the labour force, with only 23 per cent of women included in the labour force in 2005. Only 7 per cent of public sector employees are women, compared to 15 per cent overall. Employed women in the rural areas are principally engaged in agriculture (55 per cent); education sector (15 per cent); health, social work and public administration (25 per cent). Generally, rural women occupy the lower tier of jobs across sectors which are characterized by limited need for skills and low pay. Inequalities in earned income remain high, with women estimated to earn the equivalent of only 26 per cent of men's income.

13. The Government's Poverty Reduction Strategy. In its efforts to address poverty alleviation, and protect vulnerable segments of society, the Government of Egypt has adopted a multi-pronged strategy. The principal goal of the GOE is to attain higher GDP growth rates, maintain broad macroeconomic balance, and broaden the economy's capacity to absorb labour. This strategy gives priority to the creation of employment opportunities as the surest way to combat poverty. The GOE has been pursuing this poverty reduction strategy through five main avenues: (a) economic growth for increasing income and employment through investment in productive sectors; (b) increasing the efficiency of the agriculture sector, particularly water and land utilization to enhance yields, income and food security for the poor; (c) human development of the poor for raising their capability through education, health, and local level organizations; (d) women's advancement and closing of gender gaps; (e) safety net measures for the poor, especially women, against anticipated and unanticipated income/consumption shocks through targeted and other efforts; and (f) participatory governance for enhancing the voice of the poor.

14. Government Agricultural Strategy. Agricultural policy in Egypt has gone through significant reforms since early 1990s. The compulsory purchase of all crops has been eliminated and input subsidies phased out. The Government's present strategy of agricultural development (Sustainable Agriculture Strategy Towards 2030) is based on the premise that the development of efficient agriculture and export opportunities would spur significant agricultural production to the levels that would bring the poor smallholder farmers into the mainstream of economic activity, and in the process, would enhance food security, incomes and create employment opportunities for the rural on-and-off farm sector. In addition, the strategy identifies the need to strengthen producer associations to better market small farmer production, and to make market information more freely available, to enact and enforce laws and regulations that concern product standards; link agricultural extension more closely to research, and to develop the extension role of the private sector.

15. The agriculture sector is assessed to be critical for the future of the country's prosperity. However, it is constrained by many factors. The climate is arid with very low

⁸ The latest figures on poverty are based on 2005 data even though the report was issued in 2007.

rainfall. The Nile River is the main and almost exclusive source of surface water for Egypt. Agriculture depends exclusively on the Nile and consumes 77 per cent of its annual water supply. Yields in the old lands are among the highest in the world for several key crops (i.e. rice, sugarcane, wheat, maize, cotton, and sorghum) but yield improvements slowed down markedly in recent years, and Egypt still has to import about 40 per cent of its food requirements. In addition, there is extreme shortage of land and increasing fragmentation of holdings. Egypt has one of the poorest man/land ratios in the world. Total cultivated land is estimated to be around 8.9 million feddan⁹ (i.e. about 3 per cent of the total land area). Land distribution is also very skewed. Farms are predominantly small with a total of 81 per cent owning less than 3 feddans or 38 per cent of the country's entire cultivated area.

16. **Egypt's principal horticultural crops** are grown by 1.2 million small holder farmers mainly to meet domestic demand. Farmers are not well organized and are unable to undertake collective marketing which would reduce their transactions cost, increase bargaining power and enable them to take advantage of economies of scale. The Agriculture Cooperatives established by the Government are not designed to assist the smallholder with marketing functions. Farmers make land allocation and production decisions based on a range of factors such as household consumption requirements, capacity to invest in agricultural inputs, a steady cash flow during the year and the expectation that last year's prices are a good guide to determining future product prices. In their decision-making they are attempting to mitigate the risk inherent in the agriculture sector by diversifying crop production. As a result, farmers even with small holdings, grow a range of agriculture products. This makes marketing even more complex and high cost.

17. **There is a lack of post-harvest and marketing facilities** and low levels of agricultural processing. Estimates show that production losses exceed 30 per cent for horticulture produce, 20 per cent in legumes and tubers and 10 per cent in cereals.¹⁰ The high degree of perishability of horticulture and dairy produce leads to rapid quality deterioration and a consequent reduction in prices leading to reduced farmer incomes. There is a high degree of variability in prices of agricultural commodities and limited market information. The farmer gets the lowest share of the retail price of most agricultural commodities. An analysis of the differentials in the farm-gate and retail prices shows that the farmer gets between 10 per cent to 35 per cent of the farm-gate price for perishable commodities (tomato, lettuce, pepper, eggplant, guava, squash, orange, etc.) and between 40 to 60 per cent of the more durable products (potato, garlic, lemon, etc.).

18. **Rural and Agriculture Finance.** Limited access to finance remains a key binding constraint for the development of rural economies. Most smallholders do not have access to finance which inhibits the timely purchase of agriculture inputs especially for the high cost inputs required to produce horticulture crops and livestock production. This limits the amount of land a farmer can plant to high value crops and leads to considerable under-employment in the agriculture sector. This lack of capital, often, also leads to tied transactions as the farmer tries to secure finance from the trader who binds him in a contract in which he has limited bargaining power. Provision of funds for horticulture and livestock sector is an effective tool for poverty alleviation given that these commodities have become increasingly tradable with demand not constrained by the domestic market and the fact that they use rather little land relative to their value of output. There are also financial constraints along the value chain of specific commodities in the agriculture sector. Traders and processors are also limited by their working capital constraints and can only procure, transport and process limited quantities of the available agriculture

⁹ Agriculture Census 1999/2000. Economic Affairs Sector. MALR. Government of Egypt.

¹⁰ Sustainable Agricultural Development Strategy Towards 2030. Ministry of Agriculture and Land Reclamation. Arab Republic of Egypt. October 2009.

produce. The result is a high degree of loss for the farmer and limited volume of up-take along the value chain.

19. The formal financial sector has been progressively liberalized since the early 1990s. The commercial banking sector has considerable liquidity but it does not have the risk appetite nor the skills and knowledge to provide services to the agriculture sector. While the number of private commercial Banks are increasing, the State continues to play a major role in Egypt's financial sector, with a few state owned commercial banks still playing a relatively important role in the market. The Principal Bank for Development and Agriculture Credit (PBDAC) has been the country's main bank for provision of agriculture credit. However, it is currently undergoing a restructuring process as its past record of agriculture lending shows poor outreach to the smallholder and sizeable portfolio at risk.¹¹

20. Finance **to micro, small and medium enterprises**. It is estimated that only 5 per cent of the potential microfinance market currently receives credit. The Central Bank of Egypt (CBE) reports that bank loans to SMEs remain limited to less than 1 per cent of total loans and that the agriculture sector receives less than 5 per cent of total commercial bank credit.¹² Egypt's market penetration rate is among the lowest in the region. It is estimated that a total of EGP 8.5 billion is needed to meet unsatisfied demand within the SME sub-sector alone.¹³ The lack of SME finance, particularly in the rural sector, reflects at least three sets of factors: the restructuring and reforms of the financial sector undertaken since 2004; the recent financial crisis; and factors specific to SMEs. The financial restructuring affected the overall measured provision of credit in the Egyptian economy, as indicated by the sharp decline in private credit-to-GDP from 65 per cent in June 2003 to 40 per cent in June 2009, as well as a decline in the loan-to-deposit ratio from 70 per cent to 50 per cent in the same period. In addition, stronger regulation and supervision led both state owned and private banks to adopt more cautious lending policies particularly to agriculture and required better provisioning of bad loans. As a result, credit shrunk further. Moreover, the crisis has limited credit to SMEs, as a result of the retrenchment of foreign capital to Egyptian markets, slower deposit growth, and a further increase in the degree of risk aversion by banks.

21. Not only do financial services not reach the poor in the rural sector but the provision of services is hampered by the lack of appropriate loan products. The existing loan products are not designed to address the special characteristics of agricultural and agri-business lending to SMEs and are not able to remove some of the constraints along the value chain which require innovation in product development, flexibility in lending terms and collateral requirements and reduction in the cost of rural lending through the use of new instruments techniques. Most loan products are of a uniform type and fail to meet the varied needs of the actors along the value chain. Thus even where some services reach the clients, they are inappropriately designed, costly and do not help in enhancing productivity or employment in rural areas. There is need to continue the process of innovation and technology development which would help to expand the provision of financial services to rural areas on a cost-effective and sustainable basis.

22. Promoting SMEs, which are overwhelmingly privately-owned, is a government priority. The policy efforts in recent years have included the issuance of the Small Enterprise Law 141 of 2004, designating the Social Fund for Development (SFD) as the agency responsible for SME and microfinance development; the creation of the Small Enterprise Development Organization (SEDO) in SFD mandated to establish, develop, support, and finance small enterprises for job creation purposes; the endorsement of the National Microfinance Strategy in 2005; the issuance of a Ministerial Decree granting tax

¹¹ The Bank has recently cleaned its books and written off between EGP 4 to 5 billion from its outstanding loan portfolio.

¹² Central Bank of Egypt. 2010.

¹³ World Bank. September 2010.

and public procurement benefits to SMEs; the establishment of Egypt Enterprises Center at the General Authority for Investment and Free Zones (GAFI) leading regulatory reforms to improve the business climate for SMEs; and the formation of the Small Enterprise Unit at the Egyptian Banking Institute (EBI) to build the capacity for banks' lending to SMEs, and the SMEs themselves in their ability to deal with banks.

23. The Government has established some alternative avenues for rural finance provision with donors' assistance. Examples are the SFD mentioned above and the ARDF. These provide financial services to rural areas and the agriculture sector through special directed credit lines. SFD is now a major player in the provision of micro-finance in the country and operates as a wholesaler of financial services (see Para 78, Annex 5 and WP5) through its Micro Finance Sector (MFS) and its SEDO windows to micro entrepreneurs, NGOs and Community Development Associations (CDAs). It has also been used by many to pass on funds to commercial banks. The policy of lending to SFD to on-lend to commercial sector appears flawed as there is little value added in this approach and it adds to the cost of loans. However, those using the SFD option do it on the grounds of reducing their transactions cost. SFD is one of the few organizations which is helping to develop second tier financial institutions to broaden the outreach to rural areas. SFD's current portfolio for agriculture lending is only 10 per cent of its total lending. Special measures are required to ensure that SFD funds flow to the agriculture and agri-business sector through the MFIs, CDAs and other financial institutions at the community level.

24. ARDF is a fund owned by the Ministry of Agriculture and Land Reclamation (located in the ARC) and managed by the Commercial International Bank (CIB) on their behalf. It was created to consolidate the revolving credit funds provided to the Ministry in several European Union (EU) funded projects targeted at the agriculture sector. ARDF operates through 11 affiliated commercial banks¹⁴, who in turn, provide both individual and collective loans directly or through selected Associations and Cooperatives. ARDF has provided credit mainly to the small and medium sized enterprises¹⁵ and its experience in micro credit is nascent. It lends to a wide cross-section of farming business users and brings together diverse skills and borrowing entities (see Para 79, Annex 5 and WP 5). It has a strong technical capacity in Cairo and in the Governorates and provides technical support to borrowers thorough the processes of loan applications and utilization. Its investment income provides much needed support and technical assistance for research and development in the agriculture sector. It would need support to extend its outreach to the smallholders along the potential value chains, to strengthen its vision for agri-business investment and to leverage commercial bank resources for the agriculture and agribusiness sector.

B. Rationale

25. **Agriculture growth, non-farm rural sector and employment opportunities.** Agricultural growth is not only important to growth in national income, but also vital to growth in employment and reduction of poverty in Egypt. Empirical studies of the agriculture sector confirm that the enhanced utilization of new agricultural technology can play a crucial role in increasing total factor productivity, increasing labour and agricultural wages.¹⁶ Furthermore, there is a close statistical correlation between growth

¹⁴ Commercial International Bank –which is also the agent Bank, Bank of Alexandria and San Paolo, National Bank of Egypt, Banque du Caire, Export Promotion Bank, Egypt-Gulf Bank, Principal Bank for Development and Agricultural Credit, Misr International Bank, Arab African International Bank, Barclays Bank, Misr National Bank.

¹⁵ About 80% of its financing is for SME financing.

¹⁶ Dr. Ahmed Qadry Bahloul. Total Factor Productivity and Sources of Long-Term Growth in Egyptian Agriculture Sector. Institute of Efficient Productivity. Zagazig University.

in agriculture and poverty reduction in Egypt.¹⁷ Many rural people are landless, either relying entirely on wage labour for their survival, or working as sharecroppers or tenants on smallholdings in addition to wage labour. Growth in the agriculture sector can reduce poverty as well as stimulate growth in the rural non-farm sector as farmers spend half of increments to income on this sector.¹⁸ Thus, rise in farm income can drive demand for the large, employment-intensive, rural non-farm sector. The extra job creation allows underemployed labour to be absorbed or real wages to rise with concomitant rapid decrease in poverty. Agricultural income in Egypt accounts for less than 25 per cent of total rural income. By contrast, non-farm income is the single most important source, accounting for 42.2 per cent of total rural income in Egypt.¹⁹ The proposed project would stimulate growth in the non-farm sector by specific allocation of financial services for this sector and strengthening the linkages between the agriculture and non-farm sector and between smallholders producers and internal and external markets.

26. Within the agriculture sector, Egypt enjoys a significant comparative advantage in the production and export of high value horticulture, livestock products, herbs and medicinal plants. This comparative advantage is based on its favourable agro-climatic conditions, counter-seasonal production capabilities and physical proximity to important domestic, regional and international markets. Horticulture accounts for 36 per cent of the value of all crops produced and livestock contributes another 35 per cent of the total value of agriculture GDP.²⁰ Together these two sub-sectors account for 53 per cent of the agriculture GDP in Egypt. Focus on these commodities can help both the agriculture and non-farm sectors. The basic rationale of this investment project is that the focus on these sub-sectors can enhance agriculture growth and food security, create additional demand in the non-farm sector, absorb landless labour and unemployed youth, create opportunities for women and contribute to poverty reduction and gender equity.

27. **Market opportunities for smallholders in high value products.** Based on careful analysis of the un-met profitable demand, market windows open for the smallholder farmers in the target governorates of vegetables, fruits, herbs and medicinal plants amount to over US\$1.5 billion. These are gaps in the market looking for serious suppliers. The current contribution of smallholder farmers' share in the total Egyptian vegetables and fruit exports is estimated to be around US\$348,872, representing less than a third of the total exports. However, the share of the smallholder farmers is varied greatly from one export item to the other. There are large opportunities for small farmers to benefit from these market opportunities. Another lucrative market for smallholders is the food processing industry which requires more than 1.5 million tons of fruits and vegetables a year. The project target governorates have huge potential to improve and enhance the dairy and livestock production (traditionally the domain of rural women) and strengthen linkages with dairy industrial sector. For smallholder farmers to benefit from these untapped opportunities in local, regional, and export markets, farming must necessarily be seen as a business – one that is fully integrated into markets and value chains and responds to market incentives and signals. The PRIME project aims at enabling smallholder farmers, through proper arrangements with other value chain actors e.g. traders, exporters and processors, to penetrate and compete effectively in the lucrative local and export markets, i.e. the European Markets (EU), Gulf Cooperation Council (GCC), Russia, Far-East and CIS markets.

28. The value chain approach would underline all production and marketing support activities to ensure win-win sustainable linkages. Marketing support will be commodity-focus and would initially focus on the three most promising sub-sectors: horticulture,

¹⁷ John Mellor. Faster, More Equitable Growth – The Relation Between Growth in Agriculture and Poverty Reduction. Agricultural Policy Development Project Research Report No. 4. October 1999.

¹⁸ John Mellor 1995 and 1986. International Food Policy Research Institute. (IFPRI).

¹⁹ Richard H. Adams, Jr. Nonfarm Income, Inequality, and Land in Rural Egypt. PRMPO/MNSED. World Bank, Washington, DC 20433.

²⁰ Government of Egypt Agriculture Directorates and Animal Wealth Department.

livestock and herbs and medicinal plants. These sub-sectors have been selected based on: (i) lucrative marketing opportunities for organized smallholder farmers; (ii) different microclimates and off-season production enabling year round supply; (iii) high opportunity for participation of women; (iv) high opportunity for the formation of business linkages along the value chain; and (v) high potential for enhancing household incomes and generating jobs along the value chain.

29. Addressing smallholders' structural constraints. Smallholder farmers suffer from weak organization capabilities, production fragmentation, lack of market information, lack of proper marketing and managerial training, lack of marketing infrastructure, weak linkages to the markets, and unavailability of quality inputs for proper marketing. The fragmented nature of production and lack of organization prevent them from capitalizing on economies of scale or the market opportunities available to them. The smallholder farmer has limited access to new technology, finance and markets, especially export markets, thus losing significant income earning opportunities. Evidence suggests that smallholders dealing with private sector value chain operators (processors and/or exporters) can achieve substantial income gains through increases in their farm gate prices varying between 20 to 60 per cent by type of produce (see WP4). The exporters and processors are interested in procuring high quality produce as efficiently and cost-effectively as possible and some provide inputs as credit in kind to smallholders. It suits the private sector to negotiate contracts with a few large commercial farmers or with smallholders producers organized in associations rather than dealing with many fragmented small holdings.

30. Small holders are interested in contract farming to secure a higher and fixed price, guaranteed market outlets and quality inputs. However, only a small fraction of the farmers have contractual arrangements which pre-determine the price. Donors experience (USAID, IFAD and others) indicate that this requires the build up of strong committed Farmers Associations (FAs), and establishing win-win linkages along the value chain with processing and marketing actors. In some areas, traders or middle men have emerged in the farming sector and established collection centres where farmers can deliver farm produce at higher prices. But, there are few of these and only for specific export oriented commodities such as artichokes, strawberries, peppers, etc. Experience suggests that contract farming have a high chance of success if it is undertaken between exporters/processors/traders and farmers formed into well prepared, organized and trained associations that can become reliable output suppliers and can play a more effective role in bargaining and setting the terms of the contract. Farmers Marketing Associations like the ones established under the USAID-financed El Shams project, the IFAD-financed West Noubaria and Upper Egypt Rural Development Projects, though requiring time investment in training and capacity building, can become a viable supplier and can be successfully linked with market intermediaries, processors and exporters, thus increasing rural income and employment opportunities. The project would build on and scale up the experience of these successes through strengthening farmer's associations and supporting farmers in organizing themselves into producers/ marketing associations and link them in contractual arrangements with traders, processors and exporters.

31. On the other hand, the dependency of smallholder farmers on the individual exporters can be risky. Export market failure can be transferred to the smallholder farmers. Lack of understanding of the modern agribusiness value chain and ensuing competition is a weakness for some Egyptian exporters. The produce export business can be complicated and risky for unqualified exporters. The project would deal primarily with experienced Exporters, but would also train promising exporters/processors on managing their businesses appropriately to react to market signals and changes, focus on long-term strategic planning, build long term relationships with market players and producers, and implement value-driven strategies rather than short-term price driven arrangements. PRIME would focus on developing demand-pull, value-driven chains and

ensuring appropriate information flow which will play a crucial role in allowing exporters, processors and producers to make informed short and long-term decisions.

32. Congruence with the IFAD New Strategic Framework. In line with IFAD's new Strategic Framework 2011/2016 and guided by it, the project would assist the target groups viewing farming as a business to access market opportunities, reduce transaction costs, undertake collective investment in processing and marketing facilities, develop the off-farm sector and integrate it with the farm sector to capitalize on the synergies between the two. As per directions of the new Strategic Framework, the project would strengthen smallholder capacity for market oriented production through a series of training opportunities on how to access marketing intelligence, strengthen organizational capabilities and create sustainable linkages with the private sector. It will also assist actors along the value chain to access finance and to invest in enhancing production for the market, reduce post-harvest losses and increase farm gate prices (through SMEs investments in processing facilities, collection and chilling centers, refrigerated trucks and increasing the capacity of the agribusiness sector) in the three selected sub sectors. The project would also assess the feasibility of investing in in-land fisheries, processing of yellow maize for poultry feed, to further contribute to labour intensive and rural women led activities.

33. The proposed IFAD project would thus fill in important gap in the smallholders' economy which will improve market-derived livelihoods of the rural poor through assisting them in implementing linkages to urban and international markets. As such PRIME responds to one of the main tenants of IFAD's strategic framework 2011-2016 that states that *"small scale agriculture needs to be integrated into dynamic rural spaces where rural urban linkages play an ever greater role, and where non-farm small, medium and micro enterprises within and around agricultural value chains increasingly provide employment, entrepreneurial opportunities and empowerment for many poor rural people"*. This is also very much in line with the objectives of the Agriculture Strategy of the GOE Towards 2030, that aims at the reduction of rural poverty and food insecurity by enabling the smallholder farmer increase his income, reduce his production losses and establish better links with markets.

34. IFAD's unique and incremental contribution to the agriculture and off-farm sector through this project would be a clear focus on the New Strategic Framework principles of engagement which take into consideration that one size does not fit all and hence its design of a project which takes into consideration the strengths and weaknesses of the implementing partner as well as the target group. IFAD's stress on targeting would ensure that the poor rural people who have the capacity to take advantage of the economic opportunities provided by the new project include women, the landless and unemployed youth. The project is especially designed to empower poor rural people and would assist them in building their individual assets, knowledge, skills, collective organizations and assist women and youth as well as assist producer organizations develop their skills and knowledge required to bargain effectively with private sector organizations. The project is innovative in the manner in which it approaches the promotion of marketing linkages and the provision of rural financial services and its plans to leverage commercial capital for scaling up investments in the rural and agriculture sector (see Paras below). The project expects to catalyse effective partnerships between the smallholder farmers and the private sector and financial institutions, promote national leadership in project and programme management and ensure the sustainability of these arrangements through lasting benefits and positive outcomes for all participants.

35. Large unmet demand for credit by micro, small and medium enterprises. Overall, lack of access to finance has been a major factor constraining the growth of micro enterprises, SMEs and employment particularly in the rural sector. Lack of formal credit often limits SMEs from formal entry and from sustained growth. Small

manufacturing firms, particularly those in the rural sector are more than twice as likely as large ones to identify themselves as seriously constrained by access to credit as such as well as access to a wide array of financial services to sustain their business. This is detrimental to production growth and employment creation. An analysis of Egyptian enterprise survey data for the 2009 Investment Climate Assessment (ICA) found an important positive relationship between firm efficiency/productivity and access to financial services. The analysis also showed that firms' employment growth is strongly related to access to both working capital and investment finance.

36. A recent IFC market assessment (World Bank, 2010) shows that 60 per cent of small business owners identified lack of financing as a key constraint. The study estimates that 3.7 million out of a total estimated number of 8.8 million micro and small enterprises would potentially like and qualify for a loan. There are an estimated 1.6 million active microfinance clients. The study concludes that more than 2.1 million micro and small enterprises do not have access to credit and other financial services (which represents a funding gap of almost US\$500 million) although this may be a conservative estimate and not include all informal enterprises. USAID statistics indicate a considerably larger percentage of non-served SMEs and that only an estimated 5 per cent received finance. SFD reports that its lending programme only meets a fraction of the potential demand of SMEs (World Bank 2010). Recent studies indicate that only 10 to 15 per cent of the active demand for microfinance has been met in Egypt, which leaves about 15 million potential microfinance clients (see WP5).

37. Shortage in Banks finance to SMEs and the Importance of the Credit Line. While Egypt has a well-developed banking system; credit to the private sector remains concentrated on the largest and best-established enterprises. SMEs are particularly deprived. According to Central Bank of Egypt (CBE), over half of credit extended to the private sector goes to less than one per cent of their clients. CBE also reports that bank loans to small enterprises remain limited to less than 1 per cent of total loans and that the agriculture sector receives less than 5 per cent of total commercial bank credit. Banks that have micro finance units operate within defined loan brackets catering to specific segments through conventional products. Formal financing whether from banks or non-bank institutions plays a limited role in financing enterprises, especially micro and small firms. Only 13 per cent of small firms have access to finance as opposed to 36 per cent for large firms (World Bank 2010).

38. Compounding this dearth of SMEs finance, only a small portion of the funds mobilized by the Egyptian banking system are lent to the productive sectors and even less to the private sector and the small enterprises. Bank credit shrunk in recent years as a result of the financial restructuring undertaken since 2004 which led to a decline in the ratio of private credit to GDP and the loan to deposit ratio (see Para 20). The situation exacerbated following the January 2011 events as total non-government deposits declined by 4 per cent in March 2011 compared to December 2010 and was expected to decline further. The Egyptian banks are increasingly investing in treasury bills and government bonds, reflecting their inefficiency in identifying profitable private projects and their highly risk-averse lending policies. Their practice excludes the use of guarantees and/or portfolio insurance and new product development is inexistent or very slow. They held about 91 per cent of all outstanding treasury bills as of December 2008. While banks are liquid, they are willing to use only a very small fraction of their resources for lending and much of it is allocated to finance government debt. Moreover as little as 0.19 per cent of banks clients receive as much as 51 per cent of banks credit. Banks are bound to their conservative risk assessment strategies which disfavour micro, small and medium enterprises and create a severe shortage of credit for these enterprises particularly those agriculture related. It is highly unlikely that this situation will change without a well-designed support programme combining actual credit delivery to rural SMEs with other capacity building and reorientation measures to entice banks to finance the real economy. PRIME is designed to do this.

39. Design team interviews reveal that Banks see SMEs as a high risk market, where several constraints in the areas of financial infrastructure and their informality contribute to the risks. Banks consider the administrative costs of small scale lending as very high and their staff do not have the instruments, techniques and adequate banking skills for dealing with SMEs. Banks' lending products to SMEs are very limited and not adjusted to SMEs needs. The availability of large collateral is still the only basis for obtaining bank loans. Bankers interviewed by the design team have expressed that average loan: capital ratio of about 60:40 is sought for lending to medium enterprises. In the case of small enterprises their comfort levels drop to 20:80 or even lower. Small enterprises are invariably unable to come up with so much capital in their projects and commercial borrowing becomes somewhat of a distant dream. Thus, despite having adequate resources, the risk perception of Banks, their desire to invest safely, and the limited instruments and risk management techniques used continue to deter them from investing in the SMEs sector at the expense of support to widespread income and employment growth. **As such, a wide gap exists between the large and increasing demand for finance by micro, small and medium enterprises and the very limited supply of such finance.**

40. Another factor explaining Banks' reluctance to finance SMEs could be the nature and term of Bank deposits. The 2009 Annual Report of Al-Ahly Bank states that as of 31 December only 3.5 per cent of total deposits are more than one year maturity. Hence over 96 per cent of deposits are of short term maturity and Banks may not see it suitable for SME financing.

41. On the other hand, Egyptian SMEs face several other issues limiting their access to credit. These include lack of capacity to prepare a business plan and loan application, opaque or non-existent financial statements, and insufficient collateral. SMEs also face non-financial issues, including a cumbersome legal and regulatory framework as well as a highly bureaucratic system. They suffer from a lack of adequate business development services, adequate information, advanced technology, and skilled labour. There are also gender related constraints in terms of access to finance.

42. Despite these constraints, the numbers of SMEs and the employment they generate have continued to increase. SMEs have been the primary source of employment growth in the labour force over the last ten years, albeit much of it in an informal way. The number of SMEs has grown at an average annual rate of over 4 per cent, and associated employment has increased at an annual rate of over 5 per cent (World Bank 2010). However, even this growth was not enough to reduce poverty. The current slow-down in economic growth threatens to worsen poverty and unemployment even further. **Thus, for IFAD, a crucial dimension of the needed response to reduce rural poverty and unemployment in Egypt is to support accelerated growth of agriculture related micro, small and medium enterprises.**

43. The PRIME project has been designed to address the above mentioned constraints on the side of rural and agriculture related SMEs as well as on the side of the Banking sector to support agriculture and agri-business SMEs achieving their potential. PRIME will increase access to value chains centered SMEs finance, through a line of credit managed by commercial banks (through ARDF) and SFD associated with capacity building for both commercial banks and SFD. The Project will support SMEs along the selected value chains in a wide range of business services to enhance their capacities and skills to better access bank loans. Promoting SMEs is a strong GOE priority and policy and institutional efforts have been devoted to this end over the last decade (see Para 22). PRIME would support GOE policy in this regard and together with other Donors (e.g. UNIDO, AFD, AfDB and the WB) would strongly advocate for the necessary modification in the legal and policy framework in favour of SMEs and rural organizations. PRIME is also fully responding to the IFAD's Strategic Framework 2011-2015 which calls for IFAD support to be integrated into dynamic rural spaces where rural urban linkages play an

ever greater role, and where non-farm activities within and around agricultural value chains increasingly provide employment and entrepreneurial opportunities for many poor rural people.

44. Enhancing risk taking capabilities of FSPs to Finance agribusiness SMEs.

There is a need to enhance commercial sectors risk appetite for agriculture and rural SMEs lending hence increasing access to finance across the selected value chains. The project will support a range of financial institutions which can potentially be able to deliver services to the agriculture sector and related SMEs. The project would provide funds to the Agriculture and Research Fund (ARDF) for the provision of loans for on-lending to the agriculture and rural non-farm sector. While the ARDF has provided funds to the agriculture sector through Commercial Banks it has not provided funds along the agriculture value chain. Its financing has covered many agricultural and rural sub sectors and has gone mostly to medium and large enterprises on short term basis. The project would help ARDF and its partners commercial banks better understand the value of financing small, medium and micro enterprises along the agriculture value chain, and strengthen their capacity to manage the risk of lending to the agriculture sector and related SMEs. The project would also use the technical capacity which has been developed by the ARDF at the Governorate level to enhance the quality of funding proposals and help to assess the feasibility of different agribusiness enterprises. The project would strengthen ARDF and associated Commercial Banks capacity for meeting the financial needs of rural women small enterprises on a sustainable basis. The project expects to leverage the liquidity available with the affiliated Commercial Banks through enhancing their risk appetite for agriculture and agribusiness funding over the long-term by strengthening their capacity in this area and reorienting their skills as needed. Through enhancing their understanding of agri-business lending it is hoped that ARDF would encourage its affiliates to develop innovative approaches in rural finance as well as non- financial products for the smallholder entrepreneurs.

45. The project would also provide funds to the Social Fund for Development to build its capacity to provide microfinance to the rural agriculture and non-farm sector through microfinance institutions. The project expects to strengthen SFD's capacity for rural and agriculture lending which has been a small part of its loan portfolio in the past. Earlier projects have used SFD but have not required it to work closely with the project staff or the farmers to develop loan products in a participatory manner in the field. The current project would require both ARDF experts and SFD staff to be based in the project office and make regular visits to the field with project and technical staff. ARDF experts and SFD staff would help smallholder farmers, women and unemployed youth and off-farm entrepreneurs develop proposals for financing and monitor implementation on a regular basis. This is expected to lead to the development of appropriate loan products and increase the flow of financial resources to the agriculture and rural sector. This would enhance the synergies between the different project components. This modality of working is expected to transform the manner in which ARDF and SFD operate and interact with smallholder farmers on a permanent basis. The interaction of smallholder farmers with Commercial Banks and MFIs is also expected to open up the potential of a range of formal sector financial services such as savings, insurance and remittance services.

46. Link with IFAD's ongoing Projects and Donors support. The project would also capitalize on the investments made by previous and ongoing IFAD projects. The project would benefit from previous successful experience of WNRDP (see para 30) and include in its activities the farmer market associations established by the Upper Egypt Rural Development Project (UERDP) and On-Farm Irrigation Development in the Oldlands Project (OFIDO) in the selected Governorates. The project would help to further strengthen their links with markets as well as help to enhance their access to finance the agriculture value chain. The PRIME project would not only build on the activities of these two projects, but will go much beyond their existing framework and bring them into the

wider sets of support within the newly introduced concept of value chains and the enhanced linkages with actors and markets. This would be an important innovative aspect brought in by PRIME that will spill over to the ongoing project activities, enhancing their income and employment generating capabilities and increasing the synergies along the Egypt Country Programme. Linking with OFIDO would be critical because the project is designed to enhance agriculture production through enhanced irrigation investments. The project would, in its agreement with ARDF, make a special stipulation for provision of rural financial services to beneficiaries of the irrigation investments. The PRIME project would add an integrated value chain approach to financing for these projects, focus on medium enterprises and strengthen the links between the private sector and farmer associations.

47. There are important ways in which the current IFAD investment fits and links with the activities and policies of other international funding agencies. The United States and the European Union are the largest providers of development assistance to Egypt with other major donors being the African Development Bank, the World Bank, etc. The current project builds on the positive features of some of their projects. The design of the new project incorporated the lessons from the USAID funded El-Shams project and avoids those aspects which were not very successful. The current investment would utilize the funding channels established by the European Union and the Ministry of Agriculture and Land Reclamation for directing greater resources flows to the agriculture sector and the microfinance sector. By strengthening the capacity of the commercial banks to better understand and assess agriculture risk, the IFAD investment expects to ensure a permanent flow of resources from the commercial sector to the rural areas.

48. IFAD will play an active role in the existing Donors coordination mechanism to focus attention and resources of like-minded donors and join hands in building capacities of commercial banking to engage more fully in lending agribusiness SMEs. The current investment is also poised to coordinate its investments closely with the World Bank and the African Development Bank which are both designed to use the Social Fund for Development. By demonstrating how SFD approach needs to be modified in the implementation of rural financial services to build the synergies along the agriculture value chain, add real value in channelling funds to market intermediaries and better link the farm and off-farm sector, the current project would assist in making other donor investments more strategic. The project would also use the horticulture master plan being prepared by JICA for Assiut and Menia during project implementation.

49. Furthermore, the Development Adviser and Permanent Representative of France to FAO from the French Development Agency (AFD) accompanied the IFAD CPM to Egypt to survey opportunities for investment or co-financing with IFAD. AFD has indicated its willingness to provide US\$ 35 million for financing to the SME sector through ARDF. This investment would be tailored to adopt the IFAD approach. The final design mission met with a UNIDO delegation in Cairo, discussed the design of the PRIME project and explored options for parallel financing. Building on previous experience in Upper Egypt, UNIDO's potential parallel financing would be in the areas of technical assistance in support of post-harvest practices; strengthening managerial capacity for farmers associations; and promotion of market linkages between small producers and agro-exporters. This will complement wider interventions made by IFAD and would represent a collaborative and coordinated donors efforts aiming to strengthen the organizational capabilities of farmers groups and enhancing their income earning potential.

II. PROJECT DESCRIPTION

A. Project Area and Target Group

50. The Promotion of Rural Incomes through Market Enhancement (PRIME) Project would be implemented in the seven Governorates of Qena, Sohag, Assiut, Menia and Beni Seuf in Upper Egypt and Beheira and Kafr-el-Sheikh in Lower Egypt.

51. The selection of the Governorates is based on (i) the incidence of poverty in these Governorates; (ii) their potential for production of horticulture crops, livestock, herbs and medicinal plants; (iii) the agro-ecological variation in the Governorates which enables capitalizing on their year round production potential; and (iv) the potential to capitalise on IFAD's previous investments in irrigation and institutional development at the farm level.

52. The selected governorates are clearly among the very poorest in Egypt according to various sources and surveys. The incidence of poverty varies in each selected Governorate from about 11.2 per cent to 61 per cent. Assiut is the poorest, closely followed by Beni Seuf, Sohag, Menia and Qena. In Lower Egypt, Beheira is the second poorest governorate and Kafr-el-Sheikh is in the middle range. However, within each governorate certain areas have much higher poverty rates than others. The project area has 1.45 million poor rural households of which 500,000 households are involved with horticulture crops growing on a total cropped area of about 926,000 feddans. These figures represent about 37 per cent of the horticulture farming households in the country and have a similar proportion of land under horticulture crops. Many of the smallholders own one or two animals depending upon the availability of land for production of fodder crops. The project would include the households involved in the production of livestock especially in Governorates like Kafr-el-Sheikh which is more oriented towards livestock production with a major share derived from the sale of milk.

Table 1: Proposed Target Group for the Project

Governorate	Total number of Rural HH	Poor rural Households	Total households growing horticultural crops	Total area under horticultural crops (feddan)
Qena	493,000	192,270	53,390	59,103
Sohag	643,000	305,425	46,555	32,969
Assiut	528,000	322,080	32,450	40,721
Menia	728,000	224,952	52,513	85,418
Beni Suef	371,000	153,965	52,326	63,506
Beheira	870,000	204,450	156,681	574,883
Kafr-el-Sheikh	468,000	52,416	54,082	69,626
Total	4,101,000	1,455,558	447,997	926,226

Sources: Poverty ratios from UNDP HDR 2010; rural population and household sizes from Agriculture Census. Economic Affairs Sector. MALR.

53. The target group for this project would include the following:

- (a) **Smallholder Households** cultivating around 3 feddans as their main source of livelihood. These households can hold one head of cow and some goats and poultry. They also engage in seasonal wage labour on larger holdings or in other petty jobs. The family is nuclear and counts 7 to 9 persons. Illiteracy is at 27 per cent with those who can read and write or who have completed some degree of education making up 73 per cent. The measures used to cope with poverty consist of withdrawing children from school, foregoing medical expenditure, and restricting other types of expenditures such as meat consumption and purchase of clothes.

- (b) **Landless labour.** They are mostly men, with rudimentary education, and no access to agricultural land. The majority works only part of the time and there is considerable under-employment. They do not own any working capital (machinery, tools, etc.). In a few cases, they maintain animals for transportation. They live equally in extended and nuclear families, and the family size ranges from 5 to 9 persons. Their strategy for coping with poverty is similar to the smallholders.
- (c) **Unemployed Youth.** This category consists of both men and women. The participation of women in the labour force is very low in all governorates but more so in Upper Egypt and they represent a higher proportion of the rural unemployed. Reasons for this are related to the limited employment opportunities and the difficulty of accessing those that are available due to mobility constraints, restrictions to practise certain occupations, and inconsistency between education degree and job market requirements. Many of the graduate women hold degrees in handicrafts and in clerical/administrative work for which employment opportunities are limited. A larger proportion of the unemployed youth are educated (at least to secondary level).
- (d) **Women and Female Headed Households.** Illiteracy is widespread among this group compared to others and reaches over 50 per cent. They rely mostly on assistance from the Government in form of social safety nets or pension. The other source of livelihood is poultry. They do not engage in crop related activities particularly in Upper Egypt. They usually rely on their children's labour to supplement family income. The family size is relatively smaller than for the other groups. This socio-economic group has been particularly badly hit from the avian flu with grave consequences on the level of protein consumption at household level and on education attainment as the revenues from poultry were stated as being used to pay for education fees.
- (e) **Small and medium entrepreneurs.** One of the major constraints to the growth of the agriculture sector is the lack of access to finance for the small and medium enterprises. According to a recent assessment by the International Finance Corporation around 2.1 million small and medium enterprises do not have access to finance. Many of these small and medium enterprises are a critical part of the agriculture value chain and are engaged in agribusiness. Lack of finance for them limits their capacity to export and process surplus production of the small holder farmer. This compounds the losses and adds to the high degree of price uncertainty in the horticulture and dairy sector. This group has found it difficult to access formal sources of credit and will be an important target group for the overall growth and productivity of the sector.

B. Development Objective, Outcomes and Indicators

54. The development goal of the PRIME Project would be to contribute to the reduction of rural poverty and to the increase of food security in Egypt. The development objective would be to increase the incomes of 50,000 rural households including smallholder farmers, landless labourers, women, unemployed youth, small and medium entrepreneurs by integrating them in the agriculture value chain.

55. The outcome of the project would include the following (i) increase in farm-gate prices for small-holder farmers through better organization, negotiation, information and access to markets; (ii) reduction in production losses through access to finance for use of new technology, access to post-harvest, transport and processing facilities and integration in the agriculture value chain; and (iii) increase in assets and employment

through enhanced opportunities for on and off-farm rural employment. The project is expected to enhance farmers' capacity to organize themselves into associations and better interpret and respond to market signals. It will equip them to produce for the domestic and international markets and assist them to implement linkages to the value chain through contractual agreements with processors and exporters (see WP4 for further discussions on contractual agreements).

56. The intermediate indicators which would be used to measure the success of both the marketing and financial services provided under PRIME would include the following (i) increase in volume of horticulture and livestock products marketed; (ii) reduction in production losses; (iii) increase in farm-gate prices; (iv) increase in assets of women and unemployed youth; (v) increase in employment of women and un-employed youth; (vi) increase in the volume of lending for the rural off-farm and agriculture sector; and (vii) increase in the physical facilities available for processing and transporting high value horticulture and livestock products.

C. Main Components

57. The PRIME project would include three components namely: (i) Marketing Support Component; (ii) Rural Finance Component; and (iii) Project Management and Coordination Component. These components are designed to strengthen smallholder farmer institutions and human capacities, enhance access to improved technologies for production, post-harvest, transport and processing through access to finance and increased access to markets.

Component 1: Marketing Support Component (US\$ 11.448 million)

58. The Marketing Support Component would have four sub-components (i) Organising and strengthening Farmer Groups/Associations; (ii) Market Intelligence; (iii) Value Chain Linkages; and (iv) Market Oriented Production.

59. Organising and strengthening Farmer Groups/Associations. Organizing smallholder farmers and enhancing their organizational and management capacity, production skills and providing them collective marketing opportunities is key to the transformation of Egyptian agriculture. The project would strengthen arrangements for collective marketing for small holders through mobilising informal farmer groups, strengthening existing farmer associations and where required, through creation of new marketing oriented associations. The project would begin with a survey of the institutional landscape in the targeted districts to assess which existing organizations would be the most appropriate to achieve the objectives of the project. Synergies would be built with the organizations established under previous IFAD financed projects by selecting associations formed by them especially the Farmer Marketing Associations in Beheira under the West Noubaria Rural Development Project, the Upper Egypt Rural Development Project and those established at the basin level by the On-Farm Irrigation Development in the Oldlands (OFIDO) project. Existing organizations such as those established by the USAID financed El-Shams projects would also be included where appropriate. The project expects to work with up to 500 Farmer Organizations or Farmer Market Associations with a combined membership of 20,000 farmers over the life of the project. Of these at least 30 per cent would be women farmers. The design team interviewed a large number of service providers who were involved with previous donors support (e.g. ACDI-VOCA, CARE, North-South Cooperation, PlaNet Finance) and several others in upper and lower Egypt and ensured their capacities and willingness to provide services on demand and through a competitive process (see Annex 4 and WP4).

60. Market Intelligence. Under the Market Intelligence sub-component the project would improve the farmer's capacity to read market signals in order to be able to respond to the market needs, understand market trends, and plan their production to maximize their returns. Farming as a Business (FaaB) and Crop Budgeting (CB) training

will be given to advise smallholder farmers on profitability and marketing alternatives for their products. The Extension Staff and value chain actors would be trained on types of the data needed to take informed decisions, simple cost-effective data acquisition techniques, simple market data analysis techniques and effective information dissemination tools.

61. Value Chain Linkages. The project would facilitate the smallholder farmer link with market intermediaries along the value chain in the agriculture sector. The commodities which would be selected for establishing such links would be based on market demand. There is demand for green-beans, tomatoes, onions, artichokes, pomegranates, citrus, grapes, dairy, in-land fisheries, yellow maize for livestock and poultry feed, and herbs and medicinal plants, etc. The agriculture commodities in each Governorate would be selected based on agro-ecological variation, potential market size, potential profitability, estimated competitive position, and export potential (see Annex 4 for the detailed selection criteria Criteria). The project would develop up to 53 value chain assessments in the selected Governorates (Annex 4). PRIME will focus in the beginning on a manageable number of (three to four per governorates) to show success and promising implementation approaches and build replicable and scalable models. After implementation of the first seven value chains a review should be carried out to evaluate the effectiveness of the value chain approach, including the value chain financing approach by the banks, and the feasibility/desirability of adding new value chains and the rate at which they should be added. Preparation/implementation of additional value chains should be based on the findings of the review. The project would play an active role in assisting beneficiaries to establish market linkages for members of the Farmer Marketing Groups and/or Associations. Technical assistance would be provided to the project staff to facilitate such contacts. The project is expected to link smallholder farmers to markets which would include local wholesale markets, supermarkets, other retail outlets and contract farming with processors and exporters. The project would assist the market intermediaries access financial services for investing in a range of production and marketing facilities and infrastructure along the value chain. The feasibility of providing options for quasi-equity investments which can serve to strengthen the links between FMAs and agro-processors and exporters would be investigated in the early stages of project implementation for possible testing on a pilot basis (see Para 69-70 and WP5).

62. Market-Oriented Production. Under the market oriented production sub-component the project would provide demand-driven extension advice and technical assistance for the introduction of new production technologies that would enhance yields, reduce losses and increase the volume marketed. Strong emphasis would be placed on the following themes: (a) promoting farming as a business and basic marketing skills; (b) introduction of high-value crops with potential markets, such as non-traditional and organic fruits, vegetables, dairy products, herbs and medicinal plants. The training to farmers would be provided through a cascade model in which Master Trainers would be prepared for providing training to farmers in the Farmer Market Groups and Associations. At least 30 per cent of the Master Trainers would be women. The project expects to train 500 men and women directly and another 20,000 indirectly during the life of the project. Training and improved inputs are also expected to be provided by private collectors, traders and exporters for growing high value crops. The project would also assist 4,000 farmers for qualifying under the Global Good Agriculture Practices (GlobalGap) and assist up to 2,000 farmers obtain the required certification (see Annex 4). A principal challenge for the project would be to find a cost effective mechanism for the certification of farmers in partnership with private sector processors and exporters.

Component 2: Rural Finance Component (US\$ 88.933 million)

63. This component would have three sub-components (i) Market Based Credit Research & Development; (ii) Credit Facility; and (iii) Strengthening Financial

Intermediaries. This component is designed keeping in view the six guiding principles of the IFAD Decision Tools for Micro-finance (2010) and the Rural Finance Policy (2009).

64. **Consultation with Stakeholders.** This component would be implemented by the Agriculture Research and Development Fund (ARDF) and the Social Fund for Development (SFD). In designing the main features of this component the IFAD design team interacted intensively with potential implementation partners (ARDF and SFD) and with financial service providers including the main commercial banks partnering with ARDF and the NGOs and CDAs (SFD clients) in the selected governorates. Past experiences, successes and challenges in the framework of the IFAD country programme relative to servicing the target group were examined and assessed. The proposed scope for rural and agri-business finance and priority activities under the project were jointly developed and agreed with stakeholders. Most importantly a number of extended stakeholders meetings including potential beneficiaries were held in Cairo and the selected Governorates to gain an in-depth understanding of constraints and potential, and validate findings. Furthermore the team consulted widely with all donors involved in rural finance, agricultural value chain and SMEs (WB, AfDB, UNIDO, AFD, and others) and agreed on a coordination mechanism and potential parallel cofinancing to ensure synergies and complementarities. Lessons learnt from previous IFAD and other donors interventions were particularly heeded. Other implementation alternatives considered and reasons for selecting the proposed one are described in Para 77-81.

65. ARDF would be responsible for the disbursement of part of the micro-loans and the entire small and medium enterprise portfolio through its 11 affiliated banks (see Para 24). SFD would disburse part of the micro-loans for the agriculture sector and off farm rural enterprises through MFIs, NGOs, CDAs and other financial intermediaries working at the community level. The underlying approach that would be adopted in the implementation of this component would be the value chain approach which would be used as the business model to integrate the different players along the agriculture value chain for each commodity. This has important implications for how the component would be implemented in partnership with the financial institutions, smallholder producers and the market intermediaries who link each segment of the value chain. The design team assessed the absorption capacities of each of SFD and ARDF and is assured of their ability to absorb additional funds (see Para 77-81, Annex 4 and WP5). The implementation of this component would be closely integrated with the Marketing Support Component.

66. The **Market-Based Credit Research & Development** sub-component would focus on developing a range of appropriate loan products for the agriculture sector along the value chain. At the outset, ARDF, SFD and their implementing partners would ensure that their staff receive training and orientation in the basic principles of agriculture value chain financing, loan product development and feasibility analysis. The loan products would be developed in a participatory manner with the FMGs, FMAs, women, unemployed youth and other potential agribusiness clients and ensure that the loan size, tenure, collateral requirements and repayment schedule accord with the nature of the crop or enterprise which is being financed. This participatory approach was discussed with and agreed by all stakeholders concerned and it was agreed that FSPs will play a leading role. The design of the products would address the need for the range of products required along the value chain starting from the smallholder producer to the transporter, processor, exporter, etc. ARDF and SFD would work closely with Project staff and help develop proposals for financing in close coordination with the Marketing Advisors and Marketing Coordinators at the Governorate level to capitalise on the marketing opportunities identified under Component one.

67. The project would provide business advisory services to individual entrepreneurs dealing with different horticulture and livestock products and assist them in determining the economic viability of the selected enterprises. Small and medium entrepreneurs

would also be provided these services but at a cost to be shared between the project and them. These feasibility proposals would be prepared by a pool of approved experts of ARDF and technically qualified staff of SFD. It is expected that ARDF and SFD would provide financing for improved varieties of horticulture crops, collection centres, packing houses, milk chilling centres, small-dairy processing units, refrigerated trucks, tomato processing and dehydrating units, herbs and medicinal plants processing, in-land fisheries, yellow-maize dryers, etc. The provision of financial services along the value chain would ensure that all borrowers are able to maximise the returns from their investment and minimize their marketing risk.

68. The **Revolving Fund** would include three separate lines of credit for the targeted clients in the selected governorates: (i) the first would be microloans (US\$42.0 million) for on and off-farm activities; (ii) the second would focus on the small scale enterprise sector (US\$14.0 million); while (iii) the third would make funds available for medium-enterprises (US\$14.0 million) where there is a clear rationale for financing based on the potential to link the smallholder farmer to this enterprise through contractual arrangements. The overall rationale for the credit line is explained in details in section B. The project is expected to disburse 60 per cent of the funds in micro-loans and 40 per cent in small and medium sized loans. About 30 per cent of the micro-loans would be targeted to women (with priority to traditional home based enterprises, e.g. poultry and small ruminants), and 30 per cent would be used for off-farm rural enterprises to ensure that landless labourers, unemployed youth are able to secure a sustainable source of livelihood. The revolving funds would be dedicated for use in the rural and agriculture sectors even beyond the project life until the maturity of the IFAD loan.

69. **Innovative Risk Sharing to support Agribusiness Investment (see WP5).** The project would introduce a pilot scheme for risk sharing in financing agribusiness investment along the identified value chains which would directly link growers to entrepreneurs (processors/exporters) and encourage private sector investment in the agro-industry business. The project would test on a pilot basis the concept of cofinancing new businesses through a private-public partnership, to be spearheaded by ARDF. This initiative will eventually be contributed to by public funds and private sectors agencies including commercial banks, agro processors/ exporters and producers. The purpose is to support newly created agri-business Companies to stand on their own, through encouraging Banks and private entities to invest in these companies. This pilot initiative will aim at partnering with selected new agro-business Companies with valid business plans to contribute Equity capital for business formation. This will encourage Banks, private sectors exporters and the producers themselves to invest in these companies. Working capital for the business conduct will be taken from banks on standard commercial terms. The initiative would support project objectives of enhancing the link between farmers producers and processors/exporters along the value chain and expand rural employment opportunities.

70. A detailed feasibility study would be undertaken for the “Innovative Pilot Agribusiness Risk Sharing Initiative” during the first implementation year of the project to be financed by the IFAD grant to the order of US\$50,000. Pending the results of this study an amount of US\$160,000 (approximately EGP 1.0 million) would be earmarked from project funds for this purpose. If the feasibility of this initiative is not assured, the PRIME MTR planned in year 4 will present a proposal for reallocations of the previously earmarked amount for this purpose.

71. **Strengthening Financial Intermediaries.** The provision of financial services especially the micro-loans would be undertaken by a range of implementing partners such as NGOs, Community Development Associations, Farmer Market Associations and Agriculture Cooperatives. Many of them would need to be strengthened to provide financial services to their members in a sustainable manner. They would be provided training in best practise microfinance which would enable them to properly assess and

screen the loans, assess its cost and how to introduce cost-effective mechanisms for lending, develop business plans, enhance services and products, strengthen staff training, improve credit and financial analysis, improve their loan tracking/MIS capabilities, upgrade their financial management and cash handling capacities, implement stronger accounting, audit skills and determine portfolio quality. The capacity of Commercial Banks involved in the implementation of part of the rural finance portfolio would be strengthened in terms of orientation and additional skills/techniques to better assess the risk of lending to the agriculture and agri-business sector and how to implement agriculture value chain financing. The cost of this sub-component would be shared by ARDF and SFD. In addition, IFAD would also provide technical assistance to enable SFD to develop an operational vision about preferred designs for microcredit lending instruments, which would be reflected in its business plan.

Component 3: Project Coordination and Management (US\$ 5.610 million)

72. This component would finance all project management costs. The project would provide support for the establishment of a National Project Coordination Unit (NPCU) to coordinate project activities at the national level and in the selected Governorates. Provisions would also be made for the establishment of a Governorate Project Coordination Unit (GPCU) in all the seven project Governorates. GPCUs would be responsible for coordination and monitoring project activities according to annual work plans and budgets approved by the Project Steering Committee (PSC). Provisions would also be made for studies, surveys and technical support for design and installation of an M&E system to measure the progress and impact of the project. The financial management and overall monitoring would be the responsibility of the NPCU.

D. Lessons Learnt

73. The project design fully reflects lessons from recent analytical work on the agriculture sector in Egypt, particularly those outlined in the Government's Agriculture Strategy, the experience of IFAD's on-going and completed activities in the country and the region, donor projects and international best practice. In 2004, the experiences of GOE/IFAD cooperation over the past 25 years were subject to a Country Programme Evaluation (CPE) which analyzed and documented the lessons from these experiences. These lessons were also reviewed to strengthen design. In addition a number of relevant development projects funded by other donors are being implemented all over Egypt and these projects also provide useful insights and recommendations for future operations. The key lessons from these experiences have been used to structure and formulate the design of the current IFAD investment.

74. Some of the important lessons that emerge from this analysis include the following: (i) the importance of including the non-farm rural sector as key for employment generation and poverty alleviation in rural areas; (ii) greater focus on marketing interventions and linking farmers with markets, particularly through contractual farming; (iii) need to develop the capacity of producer groups to enable them to realise economies of scale, enhance their bargaining power and compete with large farms; (iv) recognition of the strengths and limitations of small holder farmer groups and caution in treating them as corporate entities; (v) the use of specialist expertise for establishing linkage with markets as Government and NGO staff generally do not have the orientation or training for this purpose; (vi) maximising synergies between the marketing support activities and provision of rural financial services by ensuring joint field visits, team meetings and closely coordinating the work plan and targets; (vii) the importance of providing financial services along the value chain including farmers, market intermediaries, small and medium sized entrepreneurs dealing with agriculture produce; (viii) use of a plurality of institutional arrangements to ensure the delivery of financial services to the different value chain actors; (ix) ensuring a broad spectrum of financial services including loans, savings, leasing and insurance services; (x) use of

existing institutions and implementation arrangements enhances the sustainability of project interventions; (xi) dedicated resources and staff for women's participation ensures the likelihood of their inclusion in project activities; and (xii) simplicity in design and coordination among all stakeholders are essential for successful implementation of the project interventions.

75. Recent Supervision reports of UERDP (July 2011) further shed lights on important lessons of relevance to PRIME. The finance earmarked for SMEs in UERDP has been quickly absorbed and repaid and the implementing partner is ready to absorb more funds. This indicates the following: (i) shortage of liquidity in the traditional banking system for medium to long-term SMEs financing; (ii) inability of SMEs to borrow from other banks; and (iii) a real need for funding of investment opportunities, coupled with limited supply of funds for SMEs in the banking system. PRIME will be responding to this need.

III. PROJECT IMPLEMENTATION

A. Approach

76. The approach to project implementation would include the following thrusts:

- (a) The project would adopt a demand-oriented approach to institutional growth and strengthening at the village level in appreciation of the fact that strengthening existing associations or forming new ones would only be sustainable if the farmers have a strong reason and motivation for collective action. The project would begin with informal groups and consolidate these into formal associations as and when required based on some basic criterion. In as much as possible the project would work with existing Farmer Associations and create new ones only as a last resort.
- (b) The PRIME project would adopt a market-oriented approach to agriculture production and marketing. It would focus on those crops in which there is a large differential between farm-gate and wholesale and retail prices and for which there is an export and processing potential.
- (c) The project would adopt a value chain approach to the development of horticulture and livestock production, and herbs and medicinal plants, and marketing. It would identify the different value chain actors and work with all of them to build synergies and arrangements which are to the mutual benefit of all especially the smallholder farmer.
- (d) The project would recognise the role of the different actors in the value chain and would assign roles and responsibilities which are consistent with the strengths, capacity, skills and experience of each participating partner. It would not try and replace existing market intermediaries but would work to ensure more efficient and competitive markets in which farmers are able to get a higher share of the market price, reduce losses and increase their incomes.
- (e) The project would ensure that there is a strong linkage between the rural finance and the marketing components to ensure that the rural financial services flow to the agriculture and rural sector and capitalise on the synergies between the various components.
- (f) Gender mainstreaming and women's empowerment would be incorporated as an integral part of all project initiatives and specific targets would be included to ensure the participation of women in different project activities. PRIME

would develop and/or adapt tools to disseminate knowledge among field actors and target groups on pro-poor and gender approaches. This will include establishing linkages with ongoing regional Knowledge network (e.g. Karianet), and building on lessons learnt in previous IFAD interventions.

- (g) The project would be designed to ensure sustainability by creating incentives for the smallholder farmer, market intermediaries and providers of financial services to continue to work together based on mutual benefit and advantage.
- (h) A Project Implementation Manual has been prepared and presented as Volume II.

77. Implementation Options Considered. The Project Design Team considered several options for the implementation Rural Finance activities (the largest project component). The Team reviewed the strengths and weaknesses of potential partners. These included the Principal Bank for Development and Agriculture Credit (PBDAC), the Agriculture Research and Development Fund (ARDF) with its agent bank the Commercial International Bank (CIB) and the Social Fund for Development (SFD). For many years, IFAD persisted with using PBDAC and its branches as the main credit provider despite its slow disbursement rate. While PBDAC has recently embarked upon a restructuring exercise which offers considerable promise, this process is by no means complete and there is little to suggest that its performance in serving smallholders would improve in the near future. Its loan default rate is higher than other banks, its portfolio is occasionally subject to write-off defaulting loans by GOE decree and the Bank still engages in marketing fertilizers and other inputs.

78. SFD has the experience, capacity, market knowledge and required skills to implement part of the micro finance component of PRIME. It has been subject to a number of Donors reviews, with positive assessment, the most recent of which was in the context of the World Bank Loan in 2010 (for a full description of SFD, see WP5). Its strength lies in its network of implementing agencies at governorates and village levels (NGOs, CDAs, Banks and training institutions). It has current contracts with 390 NGOs in upper and Lower Egypt and has widespread presence at governorate and village levels. Its managerial capabilities has recently been expanded and restructured (see Annex 5). It has a proven capacity to wholesale (on-lend) funds to NGOs and CBAs. It has lent an average of US\$84 million yearly to retail micro finance institutions over the last 5 years. IFAD's experience with the Social Fund for Development, particularly through the implementation of UERDP, has been positive especially for channelling funds to the smallholder farmers and unemployed youth for on-farm and off-farm activities. The most recent supervision mission of the project noted that the achievements in microfinance through NGOs and CDAs are significant and very successful in empowering community organizations towards effectively servicing their constituency. It also noted that the number of active borrowers exceeds the annual targets by far and so did the number of staff trained from financial institutions (UERDP Supervision Report, July 2011). Given SFD good track record with IFAD and other donors, its commercial orientation, its managerial autonomy, its credibility in the market and its competent Board, SFD is considered a very good partner. The proposed additional SFD on-lending from PRIME can be easily absorbed within its currently enhanced capacity. SFD would need to be strengthened in agriculture value chain based lending for which it will receive some capacity building under PRIME. IFAD would also provide technical assistance to enable SFD to develop an operational vision about preferred designs for microcredit lending instruments, which would be reflected in its business plan.

79. The Design Mission also reviewed the CIB/ARDF arrangement and felt that it is a promising avenue especially for higher loan brackets such as small and medium scale lending (see also Main Report Para 24, Annex 5 and WP5). ARDF outstanding loan

portfolio (April 2011) is around US\$ 61.0 million, its average loan size is US\$70,000 and about 57 per cent of its lending in value terms is for short term loans (one year) and the rest medium to long term which shows higher emphasis on the two latter categories compared to other financial institutions. Its added strengths are (i) its technical staff in Cairo and its existing large technical capacities in the Governorates provide technical assessment of the proposed loans and technical support to borrowers during loan utilization; (ii) it lends to a wide cross-section of farming business users ranging from purchase of milking animals to processing of farm products and brings together diverse skills and borrowing entities: users' profile includes 89 large companies, 182 associations and 588 individual; (iii) Loan recovery rate is currently 100 per cent and exposure sectors are well dispersed including horticulture (35 per cent) dairy and livestock (33 per cent), irrigation and agricultural machinery (17 per cent), and poultry and others (15 per cent); (vi) its lending through CIB and associated Banks carry near commercial interest rates of 7.5 per cent, 8.5 per cent and 9.5 per cent (plus 2 per cent administrative fees) for short, medium and long term loans respectively; and (vi) through its investment income, the ARDF provides much needed support and technical assistance for research and development in the agriculture sector. The lending utilization rate of its own funds is about 40 per cent to allow it to invest the remaining funds in other instruments to use the proceeds in financing agriculture research activities as per its mandate.

80. Based on the above assessment as well as intensive stakeholders consultations the design team selected ARDF of the Ministry of Agriculture and Land Reclamation and SFD as the principal partners for the implementation of the Rural Finance Component. It is proposed that SFD manage the microfinance loans only and CIB/ARDF mechanism would be used for the small and medium loans and a part of the micro-loans for agriculture value chain financing. SFD would on-lend only through non-bank MFIs while ARDF would use the commercial banking sector as well as MFIs, and selected Agriculture Cooperatives. ARDF would use CIB as the fund manager for agricultural value chain financing, agro-processing and provision of post-harvest facilities. The use of ARDF and SFD as partners would thus allow the maximum flexibility and competition in the choice of partners. Both ARDF and SFD would use their standard operational policies, practices and procedures. However, both are expected to play an active role in the field in interacting with Farmer Associations. The technical team of ARDF would provide a hand to support the NPCU and GPCUs where staff from SFD will be based to ensure their active engagement. The ARDF and SFD governorate focal point for PRIME would be located in the GPCU and would undertake on-site visits on a regular basis with project staff for development and overseeing of financial proposals and business plans for the marketing support and rural finance components together with Farmer Marketing Groups (FMG) and Associations (FMAs).

81. The design Team was assured by ARDF and SFD that they will provide the additional needed support to the beneficiaries through loan product development, provision of technical assistance, capacity building of financial intermediaries and providing business advisory services for post-harvest and agri-business development. In addition, the loans approval process was reviewed with ARDF, SFD and the participating Banks and it was agreed that a number of new measures to streamline the process and speed up approval procedures, particularly for smaller loans, will be introduced. This will be explained in details in the PIM and discussed in the start -up workshop.

B. Organizational Framework

82. The project coordination and management arrangements are designed with the aim of maximising the use of existing institutions and capabilities in the country. The proposed project coordination and management arrangements are driven by five major considerations: (i) to use, as far as possible, existing institutions and capabilities with arrangements for building their capacity where required; (ii) to recognize the

comparative advantage of the different type of institutions and use each participating institution based on its strength; (iii) to ensure effective coordination and synergies between the various project components to realise optimal benefits from the current investment; (iv) the importance of decentralizing decision making as close to the grass roots as possible in line with the policy of government and to allow for effective participation of key stakeholders in decision making processes; and (v) the imperative of having an effective and efficient project management structure.

83. The PRIME project would be implemented under the overall leadership of the Ministry of Agriculture and Land Reclamation (MALR) as the Lead Project Agency. The Ministry would appoint the Agriculture Research Centre (ARC) as the main coordinating agency for PRIME. The ARC will assign the implementation of the Marketing support Component to the NPCU and the task for the delivery of financial services for the funds allocated for SMEs and part of the micro-finance funds to the Agriculture Research and Development Fund (ARDF). ARDF would use its affiliated banks for the delivery of the rural finance services. Part of the funds for the microfinance sector would be provided to the Social Fund for Development for on-lending through non-bank MFIs, NGOs, CDAs, etc. The division of the microfinance funds between ARDF and SFD would be based on performance and would be reflected in the subsidiary agreements with both.

84. **Project Steering Committee (PSC).** A high ranking inter-ministerial Project Steering Committee (PSC) would be set up for overall policy decisions and guidance at the national level. The Minister of MALR will designate the Chair of the PSC. Members of the PSC will include representatives of the project area Governorates, the Ministry of Planning and International Cooperation (MOPIC), ARDF, SFD and representatives from the private sector. A National Project Coordinator (NPC) would be appointed by the Minister of MALR and serve as the PSC secretary. The NPCU would provide secretariat services to the PSC. The PSC would meet at least once quarterly, and on an ad hoc basis as and when necessary. It would have the primary responsibility of guiding the project implementation activities and in all matters of policy regarding the project. Specifically, the PSC would: (i) ensure that project activities are in compliance with the Government's policies; (ii) approve consolidated project AWPB; (iii) oversee the section of the technical assistance for the marketing support component; (iv) allocate the microfinance funds between ARDF and SFD based on performance; (iv) oversee the effective coordination between the marketing support and rural finance components; (v) decide about innovative measures to use project resources such as the establishment of a venture capital fund for equity investments in agro-industries; (vi) ensure that project interventions are coordinated with other development programmes and projects; and (vii) oversee and monitor the systematic implementation of the project and recommend changes where necessary in coordination with IFAD.

85. **National Project Coordination Unit (NPCU).** The NPCU would be headed by a National Project Coordinator (NPC) appointed by the Minister of MALR and subject to IFAD no- objection. The NPCU would report to the Minister and Project Steering Committee. The NPCU staff would comprise a Project Manager, Marketing Advisor, Gender & Poverty Targeting Advisor, a National Credit Coordinator, Financial Manager, M&E Officer, Accountant and support staff. NPCU would be responsible for coordination and liaison with implementing partners, overall project programming, preparation of AWPBs, financial management including disbursement, procurement, preparation for audits, etc.). The NPCU would recruit technical assistance based on performance based contracts and oversee and supervise their work. It would be responsible for ensuring the systematic collection of baseline data, monitoring and evaluation, progress reporting and liaison with the Government. It would also be responsible for providing logistical and administrative support to supervision missions, mid-term reviews and project completion reports.

86. **Governorate Project Coordination Unit (GPCU).** At governorate level, Project Coordination Units (GPCUs) would be established and have the primary responsibility for preparation of Governorate level AWPBs, selection of project districts and villages, identifying farmer organizations and strengthening them, ensuring participation of women, working closely with technical assistance, coordination with ARDF and SFD and ensuring their participation in project meetings and site visits, manage project funds at the governorate level, monitoring and evaluation, reporting and support to supervision missions. The GPCUs would be located in the Governorate Directorate of Agriculture and would report to the NPCU. GPCUs would comprise a Governorate Project Coordinator (GPC), who would be a senior official with relevant experience, authority and good networking capability with the farming community and other project implementing partners. Other staff would include, Agriculture Extension Officers for farmer organization, Female Mobilisers, Market Facilitation Officer, M&E officer, a Governorate Credit Coordinator, technical assistance for overseeing participation of women, accountant and support staff. GPCUs would send progress report to the NPCU and maintain direct contact and interactions with relevant local level GOE agencies, private sector and civil society organizations involved with project implementation.

C. Planning M&E and Knowledge Generation

87. The M&E system would be divided in two overall key functions: **progress monitoring** and **impact monitoring/evaluation**. Both are part of a systematic, participatory learning process geared towards ensuring that a project attains its planned objectives and impact. **Progress monitoring** relates to the gathering of qualitative and quantitative data on Project activities, inputs and outputs that can help project management to continually take timely decisions and self-evaluate. Progress monitoring would be done at all levels; by NPCU, GPCU and implementing partners' staff and by the beneficiaries. It would measure physical and financial progress of the Project including specific information on number of farmers organized, marketing linkages established, no of loans and volume of lending provided by type. The M&E system would be based on performance indicators following the log frame. An attempt has been made to ensure the selection of SMART indicators (specific, measurable, attributable, reliable and time bound) and fulfil the RIMS requirements.

88. **Impact monitoring/evaluation** is the regular review and assessment of performance, relevance and sustainability of project activities and the changes occurring in the livelihood and income of project beneficiaries. It is important to alert management to changes required to ensure that the Project achieve its objectives. Impact monitoring/evaluation would be done through data gathering and analysis as well as through participatory assessment. Participatory assessment would take place through: (i) exchange of views and experiences of the villagers, Project staff and implementing partners; (ii) meetings with Farmer Market Groups/Associations where priorities and progress are discussed and assessed; (iii) special meetings would be conducted with women and unemployed youth to assess the impact on them; and (iv) participatory annual assessments/reviews of activities and plans such as through the AWPB exercise.

89. The overall responsibility for the M&E activities would lie with the M&E Officers at the NPCU and the M&E Officers in each GPCU. The staff of ARDF and SFD will be required to provide key indicators on the progress in the provision of loan funds by gender, training of staff and strengthening of Financial Intermediaries. They would collect and analyze the data gathered by the implementing partners at governorate level on the basis of agreed reporting format and timing. The M&E Officer at NPCU would consolidate and further analyze the input from GPCU M&E Officers, provide them with back up and technical support and coordinate the implementation of the Management Information System (MIS) for the Project. He/She would also be responsible for ensuring consistency, accuracy and timeliness of all reporting undertaken under the Project. All M&E activities would be based on the IFAD Guide for Project M&E. Immediately after the

formation of the GPCU, a local M&E expert would be used to assist the M&E officer in designing and establishing the M&E system. M&E officers would introduce a gender disaggregated system of data collection and reporting, to be followed by each project implementing partner, for each project sub-component. The system would be designed to capture the rate of implementation against planned targets and objectives, as set out in the project design document and reflected in the AWP/Bs.

90. The Project would conduct, at its onset, a **Start-up Workshop**, with the aim of sensitizing and training MALR, ARC, NPCU, GPCU, ARDF, and SFD in the project objectives and scope. At this workshop, time would be allocated for an M&E session in which the project logical framework would be reviewed and the indicators modified if needed.

91. A **Baseline Survey (BLS)** would be conducted in each Governorate and associated villages at project start up to assess the socio-economic baseline status of the project area and to measure the monitoring indicators before the project commencement. These would focus specifically on current level of farmer organization, access to markets, financial services and state of agri-business development. This survey would be part of the activities to be undertaken as part of the initial assessment of markets, value chain actors under the Marketing Support Component by the technical assistance and Marketing Coordinators as well as by ARDF and SFD staff as far as financial service provision is concerned for each Governorate. The results of this would be systematically recorded for each Governorate to allow for a comparative assessment during the Project life.

92. ARDF and SFD would be responsible for the monitoring of the Rural Finance Component using their own systems but in close harmonization with project monitoring system and indicators. The data would include no of loans, volume of lending, purpose for which loans were provided, average loan sizes by type and gender, percentage of repeat clients, portfolio quality, operational sustainability of MFIs, leverage of commercial funds by participating banks, introduction of new products or approaches by the banks, etc. All data would be gender disaggregated. Those qualified to report on the Micro-finance Information (MiX) would be encouraged to do so.

93. The Results and Impact Management System (RIMS) developed by IFAD since 2004 would be fully incorporated in the project M&E system. The system would be designed to allow for the RIMS first and second level indicators to be monitored on a regular basis to facilitate their computation and reporting at the end of the year. RIMS third level indicators would require specific surveys at the beginning, at midterm and at project completion. They would be measured and analyzed as part of the project's baseline surveys, the MTR and the Project Completion Report.

94. **Reporting.** The NPCU would be responsible for arranging a reporting system that would track the project's physical and financial performance and emerging impact. The reporting system would involve a brief Monthly Progress Reports by each GPCU covering its own work as well as the work of implementing partners at the governorate level, which would be reported to the GPCU on the basis of an agreed format and frequency covering financial, procurement and physical progress information together with a short narrative discussion of project developments and progress during the month. Project wide Quarterly Progress Reports would be issued by the NPCU consolidating the monthly reports of the GPCU for the information of the PSC and IFAD. An Annual Project Progress Report would be produced by NPCU at most six weeks after the end of each financial year and would be a summarized consolidation of the quarterly reports of the previous year. It would also include an analysis of the key issues during implementation, course corrections made and key lessons learnt and identify issue for policy dialogue with Government.

95. **Mid-Term Review (MTR).** A Mid-term review would be conducted at the end of project year three, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR would be carried out jointly by the Lead Project Agencies and IFAD.

96. At the end of the project a completion evaluation would be conducted, as an input into the **Project Completion Report (PCR)** through a formal survey preferably undertaken by a neutral agency with no previous involvement in project implementation. IFAD itself may also undertake such a formal Evaluation of the project through its Independent Office of Evaluation (IEO).

97. **Knowledge Management.** Given the Knowledge creating purpose of PRIME, the compilation and dissemination of project information, experiences and results on an ongoing basis within country and for IFAD headquarter is crucial. The explicit assignment of knowledge management and communication responsibilities to the M&E officer in the GPCU and the allocation of funds for communication and dissemination purposes would add value to the knowledge and learning output. This would be achieved through special brochures on certain thematic experience during project implementation as well as establishing links with local farmers' forums and community based organisations for discussing and sharing experiences as they emerge.

98. The IFAD country presence office would participate in all agricultural policy and coordination forums and organise yearly national project implementation workshops allowing project staff and other implementing partners in the seven Governorates to communicate and share lessons learned during the implementation of PRIME and across other IFAD projects such as Upper Egypt and OFIDO. In addition, the project would make substantial use of the on-going Cairo-based and IFAD-supported regional network "Knowledge Access in Rural Inter-Connected Areas (KARIANET) to learn from and share experience with IFAD projects in the NENA Region and with its partners. Particular emphasis will be given to adapting existing tools to disseminate knowledge among PRIME field actors and target groups on pro-poor and gender approaches including fair wages for employed women in the context of improved collaboration within the farming household. PRIME would also link with the Capacity Building in Managing for Results and Impact (CaMaRI) for continuous support in M&E.

D. Financial Management Procurement and Governance

99. **Financial Management.** The Ministry of Agriculture and Land Reclamation would be responsible for the overall financial management of the project and for coordinating all financial reports from implementing partners. The IFAD financing (loan and grant) would be disbursed over a period of eight years. All withdrawals from the loan and grant accounts at IFAD would be made on the basis of withdrawal applications submitted by the NPCU. The NPCU would maintain a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards. For that purpose, the NPCU would install an appropriate financial management and accounting system, and recruit qualified financial manager and accountant to implement this system.

100. The IFAD financing for the Marketing Support Component and Project Management would go directly to the NPCU which would then channel funding to GPCUs in accordance with the needs of the AWP/B for the particular year. The procurement of goods, works and services to be financed out of the loan and grant proceeds of IFAD financing would be carried out in accordance with IFAD procurement guidelines.

101. The part of IFAD financing destined for the implementation of Component 2: Rural Finance Component which is to be implemented by ARDF and SFD would be channelled in two ways. The National Project Coordination Unit at the National Level and the seven

Governorate Project Coordination Units at the Governorate level shall coordinate the implementation of the Marketing Support Component and the following subcomponents of the Rural Finance Component: Market Based Credit Research & Development; and Strengthening of Financial Intermediaries. The ARDF of the Ministry of Agriculture and Land Reclamation and the SFD shall implement the Rural Finance Component. The ARDF and the SFD shall each be responsible for delivery of one-half of the funds for micro-loans (US\$ 42.0 million), small loans (US\$ 14.0 million) and medium-sized loans (US\$ 14.0 million). Both ARDF and SFD shall use their standard operational policies, practices and procedures, to be revised as when needed.

102. ARDF, and SFD would cover the cost of their participation and provide for all training, operational costs and technical assistance through their own budgets. The Government would provide its share of funds directly to the NPCU and GPCUs.

103. **Procurement.** The Procurement of goods, works and services to be financed out of the proceeds of IFAD financing would be carried out in accordance with IFAD procurement guidelines, and by observing the following specific principles:

- (a) Procurement would be carried out in accordance with Financing Agreement and any duly agreed amendments thereto applying the "Guidelines for the Procurement of Goods, Works and Consulting Services under IFAD loans and grants" approved by the IFAD Executive Board in September 2010;
- (b) Procurement would be conducted within the project implementation period, except as provided under Article 4.10(a) (ii) of IFAD's General conditions for Agricultural Development Financing or where the financing agreement provides for retroactive financing and then within the limits therein specified;
- (c) The cost of the procurement is not to exceed the availability of duly allocated funds as per Financing Agreement;
- (d) Procurement is to be consistent with the duly approved annual work plan and budget (AWP/B) including a procurement plan for at least 18 months; and
- (e) Procurement is to result in the best value of money.

104. **Accounts.** The implementing partners would open three Designated Accounts (one for NPCU, one for ARDF and one for SFD) in the currency of the USA, in a bank acceptable to IFAD. These DAs would be managed by NPCU, ARDF and SFD as appropriate. The NPCU (and its affiliated GPCUs), ARDF and SFD would maintain independent accounts for IFAD financed activities and would ensure that internationally acceptable accounting procedures are fully implemented. With regards to the line of credit, in order to facilitate timely payments to financial intermediaries and end users, disbursement would be made through direct payment to the respective two Designated Accounts of ARDF and SFD. The initial deposit into the ARDF Designated Account would be about US\$1.5 million. The initial deposit into the SFD Designated Account would be about US\$0.5 million. The Designated Account for NPCU (Grant element) would be replenished according to the Annual Work Plan and Budget. The relevant documentation justifying these expenditures would be retained by NPCU, ARDF and SFD and made available for inspection to supervision missions and external auditors.

105. **Audit.** Major disbursements would be subject to internal audit by the internal auditors of the MALR, ARDF and SFD as appropriate. The project annual financing reports would be subject to annual audits to be carried out by acceptable independent external auditors, with necessary experience, acceptable to IFAD as stipulated in its "Guidelines on Audit". The auditor would examine the documentation related to expenditures carried out under Statement of Expenditure and provide an opinion on the operation of

Designated Account. The auditor would also examine the documentation related to procurement carried out under the project and provide an opinion on the procurement process used. The auditors would submit audited financial statements along with a long form report not later than six months after the end of Government of Egypt's fiscal year, which is June 30th. The auditors would also submit a Management Letter to the borrower. Supervision missions would report on the follow-up action being undertaken.

E. Supervision

106. Supervision Arrangements. The project would be directly supervised by IFAD. Project supervision and implementation support missions would be conducted every six months by IFAD covering implementation support and fiduciary functions in collaboration with CPMT. The composition of the mission in terms of technical expertise would be based on the annual supervision plan. The supervision plan would highlight in addition to the routine supervision tasks, the main thematic or performance area that requires strengthening and would imply deployment of additional inputs for capacity building, in-depth analytical studies or review of existing policies. One of the semi-annual supervision missions would be scheduled to coincide with an annual review workshop, to be scheduled by the NPCU close to the end of the financial year and to be attended by all stakeholders at both national and governorate level. This annual review workshop would provide an opportunity for the supervision mission to work closely with all stakeholders to identify progress, constraints, and to facilitate review and approval.

107. Project CPMT. The Country Programme Management Team (CPMT) is a resource group of stakeholders in IFAD's country programme who participate in the entire cycle from the COSOP through programme design, implementation and supervision. During implementation, the CPMT is the anchor for all country level activities. Managed by the CPM it will support him and the project management team in ensuring orderly implementation and achievement of project objectives. The broad in country CPMT will include the CPM, the IFAD legal counsel, loan officer, portfolio adviser, and senior representatives from MALR, ARDF, SFD, Commercial banks and FMAs, NGOs, CDAs and representatives from the private sector entities involved in the value chain activities (exporters, processors and traders). It will also include the country presence officer; the project directors of all ongoing IFAD-supported projects; and the co-financiers with presence in the country. Not all CPMT members will be involved in every process. The CPM will arrange the CPMT and its members in various configurations tailored to suit the specific task at hand. While the core members may be actively involved in most CPMT activities, others will likely be involved in only few where their position and/or expertise is of particular relevance. As such, the terms of reference for the CPMT and its membership will be task-specific.

F. Risk Identification and Mitigation

108. The potential risks of the Project and the mitigating measures envisioned are presented in the following box:

Risks	Risk Mitigation Factors	Rating
Weak motivation of Farmer Groups and Associations to work together	The project would adopt an approach which begins with identification of high return market opportunities for small farmers and producer groups that increases their benefits and hence their motivation for working together.	L
Price Volatility	The focus on farming as a business would assist farmers to read price signals better and be more aware of market gluts and shortages to minimize the risk of price volatility.	H

Risks	Risk Mitigation Factors	Rating
Decline in portfolio quality	<p>The lack of capacity in lenders and borrowers would be mitigated by training of both the staff of the lenders and the potential borrowers</p> <p>ARDF and SFD have a system for appraisal of each application and provide regular monitoring reports.</p> <p>The start-up of the I-Score credit bureau to which banks and non-bank finance companies (including the new MFIs) must report. I-Score is discussing the inclusion of data with the largest NGOs.</p> <p>The Egyptian Microfinance Network, supported by SFD, has recently launched a pilot online information sharing system for NGOs produced by Planet Finance which is compatible with I-Score.</p>	M
Exclusion of women	<p>This risk is being mitigated by dedicating 30 per cent of the budget for women participants and clearly specified targets for women in each project component. Women staff will be hired to ensure participation of women and the TORs of all staff will include their responsibilities regarding ensuring their participation.</p>	H
<p>Risk ratings: High Risk (H) - greater than 75 per cent probability that the outcome/result will not be achieved; Substantial Risk (S) -probability of 50 - 75 per cent that the outcome/result will not be achieved; Modest Risk (M) -probability of 25 - 50 per cent that the outcome/result will not be achieved; Low or Negligible Risk (L) - probability of less than 25 per cent that the outcome/result will not be achieved.</p>		

IV. PROJECT COSTS, FINANCING, BENEFITS AND SUSTAINABILITY

A. Project Costs

109. The total project costs including physical and price contingencies are estimated at US\$108.22 million or EGP 655.53 million over eight years project implementation period. Physical and price contingencies account for about 2 per cent of total project costs. The investment costs amount to US\$101.3 million or EGP 577.8 million representing 96 per cent of the total base cost, while the recurrent costs amount to US\$4.7 million or EGP 26.8 million representing 4 per cent of the total base costs. Project costs by components are summarized in Table 2, while a complete set of summary and detailed costs tables are attached in Annex 9. The Rural Finance Component accounts for 84% of the total base costs followed by the Marketing Support Component (11%) and the Project Management and Coordination Unit for about 5% of the total base costs. The capacity building accounts for 13.3 per cent of the expenditures category.

Table 2: Project Cost Summary

	(EGP '000)			(US\$ '000)			% For Exch	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
A. Marketing Support Component								
1. Strengthening/Formation of Farmers Mktng Groups/Assoc.	16 643	876	17 519	2 906	153	3 059	5	3
2. Market Intelligence	18 285	962	19 247	3 192	168	3 360	5	3
3. Value Chain Linkages	5 223	275	5 498	912	48	960	5	1
4. Marketing Oriented Production	22 140	1 165	23 306	3 865	203	4 069	5	4
Subtotal Marketing Support Component	62 292	3 279	65 570	10 875	572	11 448	5	11
B. Rural Finance Component								
Market-based Credit Research & Development	4 295	226	4 521	750	39	789	5	1
Credit Facility	500 367	59	500 426	87 783	10	87 794	-	83
Strengthening Financial Institutions	1 905	100	2 005	333	18	350	5	-
Subtotal Rural Finance Component	506 566	385	506 951	88 866	67	88 933	-	84
C. Project Management & Coordination Unit								
National Project Coordination Unit	6 456	967	7 423	1 127	169	1 296	13	1
Governorate Project Coordination Units	20 577	4 134	24 711	3 593	722	4 314	17	4
Subtotal Project Management & Coordination Unit	27 034	5 101	32 135	4 720	891	5 610	16	5
Total BASELINE COSTS	595 892	8 765	604 656	104 461	1 530	105 991	1	100
Physical Contingencies	3 676	273	3 950	642	48	690	7	1
Price Contingencies	43 674	3 250	46 924	1 433	107	1 540	7	1
Total PROJECT COSTS	643 242	12 288	655 529	106 535	1 685	108 220	2	102

B. Project Financing

110. The overall project costs of US\$108.22 million would be financed by an IFAD loan of USD 70 million and an IFAD grant of US\$1.0 million, representing 65 per cent and 1 per cent respectively of total costs. The Agricultural Research and Development Fund (ARDF) would contribute about US\$10.9 million, while the Government of Egypt is expected to provide US\$7.6 million. Their contribution would respectively represent 10.0 per cent and 7.0 per cent of the total project costs. The Government contribution would be used to fully finance the vehicles, equipment, goods and materials, technical assistance, and the incremental operating costs. The Social Fund for Development (SFD) would contribute US\$1.0 million (1%) while the Project Beneficiaries would contribute US\$17.7 million or 16 per cent of total costs, mainly as their share in the financing of agriculture production and investments in small and medium agribusiness enterprises. The proposed financing plan is summarized in Table 3.

Table 3: Project Financing Plan (US\$ million)

	Foreign	Local	Total	Per cent
IFAD Loan	-	70 000	70 000	64.7
IFAD Grant	66	934	1 000	0.9
GOE	960	6 591	7 551	7.0
ARDF	622	10 305	10 927	10.1
SFD	37	963	1 000	0.9
Beneficiaries	-	17 743	17 743	16.4
Total	1 685	106 535	108 220	100.0

C. Summary Benefit Analysis

111. **Project Benefits.** The PRIME project would provide a range of benefits to its participants. The organization of smallholders into effective commodity specific marketing associations is expected to lead to a wide range of benefits. Provision of technical assistance for access to market information and analysis techniques, training in farming as a business would allow them to orient their production to market demand and enable them better access to domestic and export markets, enhanced bargaining power for purchase of inputs and sale of outputs, improved access to financial services, better

margin on sales of produce, purchase of productive assets, creation of employment opportunities in the farm and off-farm sector, stimulation of demand for goods and services in the rural off-farm sector and increased opportunities for women to participate in economic activities. The access to financial services is expected to lead to investment in a wide range of production, post-harvest, processing and transport facilities for horticulture and livestock products. The project would also provide finance for innovation in investments such as in-land fisheries. The project would invest in small and medium agro-based and rural enterprises which would help to integrate the small producers into agriculture value chains. The project could also invest in an innovative venture capital fund to provide quasi-equity to producer groups and agro-processors to better link them. These activities are expected to increase the household income of all participating households as well as increase the capacity of the private sector for processing and exporting a higher volume of agriculture commodities from the target Governorates. Non-quantifiable benefits include the empowerment of small holders, the rural poor and women to take significant decisions affecting their livelihoods individually and collectively and lobby local governments and other institutions in favour of policy advocacy on their behalf.

112. Employment under PRIME. The high value crops and the enterprise activities proposed under PRIME are labour-intensive and hence expected to generate additional employment opportunities. On the basis of the assumptions and adoption rates under the various farm and enterprise models it is expected that PRIME would generate directly about 1.7 million labour days per year. In addition PRIME would be expected to lead to indirect increases in employment opportunities due to the increases in farm and non-farm incomes at local level, and the associated increases in demand hence production of consumer and producers goods.

113. Beneficiaries. The PRIME project would benefit 50,000 poor rural households in the seven project Governorates. The Marketing Support Component would organize 20,000 small farming households including 6,000 women directly. These households are expected to be members of around 500 Farmer Groups or Associations mostly existing and some new ones. Special care would be taken to include those producers who have benefitted from IFAD's irrigation investments and ensure that the enhanced production advantages translate into increased incomes through market linkages. About 150 of these Farmer Marketing Groups of Associations would be specifically for women. The project is expected to provide access to financial services to smallholders, women, rural entrepreneurs and small and micro entrepreneurs over eight year implementation period. The Rural Finance Component would expect to provide microloans to 30,733 households, mostly in micro-loans with an average loan size of EGP 8,000. Small loans with an average loan size of about EGP 75,000 would be provided to 1,123 enterprises while the medium sized loans with an average of EGP 500,000 would be provided to around 174 enterprises. Women would form 30 per cent of the beneficiaries under the Marketing Support Component and 30 per cent of the beneficiaries of the microloans and 10 per cent of the beneficiaries of the small loans.

114. Financial and Economic Analyses. Both financial and economic analyses were conducted to determine the viability of the project. Financial analysis was carried out based on: (i) crop budgets; (ii) farm models which best represent the growing potential and farming systems in the selected project area; and (iii) representative enterprise models. The key crops that were selected were based on the potential of the selected Governorates and included improved varieties of some typical crops like tomatoes, green beans, green onion, artichokes, basil, mint, grapes, citrus, milk, etc. In order to determine the project impact on individual farmers, detailed financial analysis of crops and farm budgets for six typical farm models in Upper and Lower Egypt was undertaken. The assumption of average size of landholding was made based on the existing landholding size in the target Governorates and ranged in size from one to four feddans. Assumptions were also made fairly conservatively about the proportion of cropped area

that would be planted under the new crops or on which the new technology would be used. Overall, it was assumed that the new crops would be planted on about 80,000 feddans of cultivated land in the selected Governorates. These models were used to arrive at incremental incomes at farm level due to project interventions.

115. In the assumptions incremental income is derived from (i) improvement and introduction of new production technology; (ii) access to on farm land levelling, soil improvement, investments in improve irrigation and fertilization practices due to access to production credit; and (iii) the introduction of new crop rotation including high value crops due to better understanding of farming as a business, access to credit and better access to markets. The financial results indicate that the household benefits after financing would increase in all farm models ranging from 36 per cent to 109 per cent.

116. For evaluating financial viability of enterprise models, a set of five typical agro-enterprises was selected which included sun-dried tomatoes, solar drying of herbs and medicinal plants, milk collection and processing, investment in refrigerated trucks and vegetable pack houses. These models represent the typical investment expected to be made in small and medium enterprises. For each typical investment, a simple cash-flow analysis was carried out to indicate the expected annual costs and returns using market prices and the prevailing terms and conditions of short and medium-term lending provided by ARDF to estimate cost of capital and loan amortization. The financial results show that the incremental returns are attractive and the entrepreneurs would be able to repay their loans with interest rates ranging between 8.5 per cent and 9.5 per cent in a period of three years and have additional net annual return ranging from EGP 67,602 to EGP 812,200 for small and medium enterprises.

117. **Economic Analysis.** To ensure that the Project will contribute to Egypt's economic welfare and hence to food security and poverty reduction, an economic analysis was conducted. The analysis shows that the project is likely to contribute to enhancing Egypt's welfare, as it has a positive economic net present value of EGP 436 million (net benefits discounted at 12%). The project's contribution to economic welfare comes from higher levels of market-oriented production, marketing, consumption and employment resulting from the relaxation of the credit constraint and access to know how and market information. Presently, numerous smallholder producers, micro and small enterprises have little or no access to credit and as a result they cannot expand their production and marketing. PRIME interventions to relax both these financial and non-financial constraint would enable the target group increase production and employment and thus increase the country's welfare and food security.

D. Sustainability and Scaling Up

118. There are several ways in which the project is designed to enhance the sustainability of the institutional arrangements that are being put in place under the project. These include enhancing the capacity of the Farmer Associations and enabling long-term contractual relationships with collectors, processors, exporters, etc. These two factors are expected to last beyond the project period and be based on the mutual benefit to be derived from the partnership between the producer groups and the private sector. In addition, there are several aspects designed to make the provision of financial services sustainable. These include using existing channels for the delivery of financial services which are both operationally sustainable, strengthening of Micro Finance Institutions which are delivering services to the rural areas and small holder farmers, leveraging commercial finance for the agriculture sector by enabling Commercial Banks to better assess agriculture risk and provide resources from their own funds to the sector, allowing the financial institutions to charge market based interest rates and can sustain their operations beyond the project life. The funds for ARDF and SFD will both be used as revolving fund for dedicated use for the rural and agriculture sector at the end of the project.

119. **Scaling-up** of IFAD achievements is inherently part of PRIME agenda. While PRIME brings in new features and a different approach from past interventions – namely introducing the concept of value chain and targeting all actors within the chain - it builds on successful elements of ongoing interventions (WNRDP and UERDP for market linkages and microfinance). The conceptual framework developed in IFAD's for scaling up has been used to illustrate that the essential ingredients of scaling up is embodied in the basic design characteristics of PRIME. The scaling up pathways under PRIME is a building block for a broader scaling up agenda in the Egypt Country Programme.

120. **Scaling-up idea and vision.** PRIME was designed to fill in a gap in the smallholder farmers access to output markets and rural finance, to take full advantages of existing remunerative marketing opportunities (urban and international), and to utilize Governorates technical, location, and climatic comparative advantages. The vision is to assist smallholders (organized into associations) establish **market linkages** with private sector operators along selected value chains to enhance their livelihood capacity and income, notwithstanding the small size of their lands. This would be done through building on and scaling up the successful experience of WNRDP and UERDP and introducing innovative dimensions of support across all qualifying actors along the value chain. PRIME would scale up the linkages established under the WNRDP and the UERDP (in which smallholders are currently interacting with a large number of private companies) in seven governorates in Lower and Upper Egypt. Such vision includes extending finance to small farmers and micro, small and medium enterprises to cement the created linkages along the value chains and satisfy part of the currently large unmet demand for rural and agribusiness finance. This vision will use experienced IFAD partners (SFD) as well as new promising partners (ARDF).

121. **Drivers for scaling-up** are: (i) the large existing unsatisfied market demand for commodities that are currently produced by smallholders (horticulture, livestock and herbs and medicinal products), and for which exporters and processors need to purchase increased quantities to satisfy demand; (ii) the huge unsatisfied demand for credit by the rural poor and agribusiness SMEs which call for rapid action to scale up the most promising solutions; and (iii) these products do not necessitate farmers to own large plots of lands and women are strongly involved in their production and processing. This scaling up is a reflection of existing championship in this field and of political and organizational leadership at a high level in GOE (e.g. MALR, MOPIC, SFD, ARDF and Commercial Banks). External catalysts are represented by financial and other support for SMEs by World Bank, AfDB, UNDP, UNIDO and IFAD. To ensure continuous momentum PRIME will provide incentives at institutional level in terms of capacity building/training to partners (SFD, ARDF, PFIs), to value chain actors, and to local level institutions as well as equal opportunities and selected quotas for women. These incentives would be associated with clear accountability to encourage actors to look at scaling up as a key criterion defining success.

122. **Scaling up spaces.** The **legal and policy space** are provided through the Government's Agriculture Strategy, the Micro finance strategy and all recently introduced laws facilitating the growth of SMEs. **Cultural space** is provided through participatory approaches involving women, youth, poor farmers and all other local stakeholders for **market linkages** and financial intermediaries for **microfinance**. The **learning space** would be provided through GOE creating a proper legal framework for Public Private Partnerships (PPP) that encourage increased interactions between smallholders and private sector market players, and donors interactions through the existing forum. The **institutional/organizational space** for scaling up is represented by the enhanced capacity of the ARDF and the SFD, and the affiliated commercial banks and non-bank local MFIs. The **financial space** is embodied by the GOE, ARDF, SFD contribution to PRIME, donors parallel cofinancing as well as the leveraging of commercial banks funds. The **partnership space** is illustrated by private sectors' eagerness to work closely with PRIME beneficiaries along the selected values chains, farmers associations' eagerness to

enter into win-win contractual agreements with processors and exporters and ARDF/SFD eagerness to work with all partners to implement the project. Partnership between IFAD and other donors (as explained above) would be a corner stone in implementation.

123. **Pathways to scaling up.** For **market linkages** sustainability will be ensured through strong contractual relationships between smallholders associations and the private sector and sustainable access to new agricultural technologies. The value chain approach will ensure the sustainable linkage between smallholders and market players. The **sustainability path** is assured through farmers associations partnerships with interested private companies (exporters, processors) and creation of commercial relationships that are mutually beneficial. For **microfinance**, strong financial intermediaries (including Banks, NGOs, CDAs, etc.) that are able to assess the viability of loan proposals and provide follow up support will represent the pathway to scaling up.

ANNEX 1 – COUNTRY AND RURAL CONTEXT BACKGROUND

A. Country Economic Background

1. Despite impressive economic growth in recent years, Egypt faced many challenges in maintaining sustainable economic growth, and addressing economic, social and regional inequalities. National development statistics suggest that while overall progress is being made, there are clear divisions between a moderately well-off urban sector and a poor rural sector. The global economic slowdown that began in 2008 has adversely affected growth and employment in Egypt but the year 2009/2010 has shown signs of recovery. Real growth rate of GDP has increased from 4.7 per cent in 2008/09 to 5.1 per cent in 2009/10 and to 5.6 per cent in the first two quarters of 2010/2011. Growth was projected at 6 per cent for 2010/2011. However, unemployment remained high at around 10 per cent, and the share of youth without jobs had reached about 25 per cent in recent years. Inflation persisted at the elevated level of above 10 per cent, and was concentrated in food items with the greatest impact on the poor. The sense of unequal access to economic opportunities and a divide between the rich and the rest had also been growing, especially in the last decade and led, among other factors, to the recent national uprising.

2. The **Post Revolution Situation**. The economy took an immediate hit following the political upheaval of January 25th 2011. IMFⁱ data indicate that tourism, representing 11 per cent of GDP, collapsed, investor and consumer confidence were shaken and exports were disrupted. Banks and the stock exchange closed temporarily. A series of labour strikes for higher wages began, mainly affecting the public sector. Personal security deteriorated as the police force largely disappeared, a situation that is only improving gradually. The shock hit the buffers in the financial system but has not led to a financial crisis. There were substantial capital outflows in January-March, including \$6 billion in foreign holdings of treasury bills. To preserve confidence, the authorities accommodated the outflows with a drawdown of reserves. Official reserves stood at US\$30 billion at end- March, still at a comfortable level of nearly six months of imports. The exchange rate depreciated by only 2 per cent over the period. No formal controls on capital outflows were introduced, but the pace of outflows remains slow as large transfers are scrutinized.

3. IMF data also indicate that the fiscal deficit is expected to widen by nearly 2 per cent of GDP this fiscal year ending in June 2011 (budgeted deficit was set at 7.9 per cent). Additional spending on wages, pensions, and a compensation fund are already committed in response of popular demand, but revenue collection remains weak. Pressures to increase minimum wages and employment could add to the deficit unless spending can be reprioritized. Previous plans by the Government to phase out subsidies have been stalled and the Government announced in May 2011 that the new 2011/2012 budget will include a 20 per cent increase in subsidies on essential commodities. Following the upheaval, the temporary disruption of economic activities and prevailing uncertainty have led to the decrease in domestic spending (private consumption and investment). This may linger on further depressing economic growth and budget revenues.

4. In the wake of the unrest, real GDP is expected to contract by 1½ per cent in the second half of the fiscal year, yielding annual real GDP growth of only 1-2 per cent in the fiscal year ending June 2011. There is considerable uncertainty about the speed at which economic activity will recover and leading economic indicators show mixed trends. The authorities expect growth to be higher in the coming year and a gradual recovery to about 4 per cent growth is foreseen in 2011/12. Inflation remains high and is projected to continue in the low double digits. In light of a sharp decline in tourism (estimated at 60 per cent), a slowdown in remittances (due to unrest in neighbouring Arab countries)

and higher food import prices, the current account deficit is projected to widen to 3.3 per cent of GDP in 2010/11. In May 2011 CAMPAS announced that the number of unemployed has risen by about 700,000 between January and March and that the unemployment rate increased to 11.9 per cent

5. Many short term economic challenges are still to be expected: the expectations of the population have risen following the revolution but growth has decelerated and unemployment will likely rise in the near term (exacerbated by Egyptians returning from Libya). Food and fuel prices increased following the uprising and remain at elevated levels and the government's borrowing costs have risen, imposing significant additional demands on the fiscal accounts. Non-performing loans will rise. The balance of payments will remain under pressure as the current account deficit widens and foreign investments wait for elections to take place. Making progress on the critical growth and social cohesion objectives set out by the new authorities will require maintenance of macroeconomic and financial stability together with meeting people's expectations. This will be a major challenge for the GOE. The International Committee has indicated its willingness and commitment to financially support Egypt through the fragile transition, but a good part of the pledges made will only materialize in 2012/2013.

6. **The Agriculture Sector.** The agriculture sector is a key sector in the Egyptian economy, providing livelihoods for 55 per cent of the population and directly employing about 30 per cent of the labour force. Although contribution of the sector to GDP has fallen over time, it still accounts for about 13 per cent of GDP and 20 per cent of total exports and foreign exchange earnings. Industries related to agriculture such as processing and marketing and input supplies account for a further 20 per cent of GDP. Despite the importance of agriculture any attempts to deal with poverty alleviation in Egypt must address both farm and off-farm sectors. In rural households in Egypt, 42 per cent of total income comes from non-farm sources, while 25 per cent is derived directly from agriculture and 9 per cent from livestock. The remaining 24 per cent comes from transfers, remittances and rental incomes. For agricultural households with less than 1 feddan of land, 67 per cent of total income comes from non-farm sources, such as seasonal work.

7. Agricultural production can be divided into four groups, which are complementary and interrelated: major crops, vegetables and fruits, forest trees (lumber wood trees) and medicinal, aromatic and ornamental plant crops. The major crops in Egypt include wheat (used as a staple food crop), maize (used primarily as coarse grain for animal feed), clover, cotton, rice (grown only in the Delta and the Fayoum Governorate in Middle Egypt), sugarcane (grown in Upper and Middle Egypt), fava beans, sorghum and soybeans. The national wheat and maize production do not meet the current local demand and each year additional amounts have to be imported – up to 50 per cent of total consumption in the case of wheat.

8. The agriculture sector was also affected negatively post 25th of January. Prices of domestic and imported agricultural inputs increased as a result of disruption of transport, the depreciation of the Egyptian Pound and pile stocking by traders. The price of fuels continued to increase. Agricultural exports slowed down temporarily. The decrease in remittances is expected to affect household income, and rural unemployment is likely to increase (particularly youth unemployment) as a result of the inflow of returnees from Libya. The MALR reported that during the upheaval there was a sudden increase in the illegal urban construction on agriculture land but the authorities clammed down rapidly and encroachment was contained. Meanwhile farmers' expectations for improvement in their living standard have increased, post revolution, and requests for reform and further support by government are being voiced by rural communities.

B. The Horticulture Sub-Sector in Egypt

9. In Egypt, horticulture production covers a wide range of products due to favourable climate conditions and the potential for irrigation which allows the production of a large range of products virtually all year round. The share of horticultural crops is 13 per cent of the total land under cultivation, but represents 36 per cent of the value of all crops produced. It has been estimated that, in Upper Egypt, non-traditional crops account for only 12 per cent of the net revenue of smallholders compared with 58 per cent in Lower Egypt. Horticultural crops are produced in sufficient quantities to meet domestic demand and to provide some surplus for export. Vegetables are grown in about 1.3 million feddans. The main vegetable crops are potatoes, tomatoes, watermelons, beans, peas, onions, melons, garlic, peppers, cucumbers, sweet potatoes, cabbage, and leaf vegetable crops. Fruits crop and trees for timber are grown on approximately 1 million feddans. The main fruit crops are citrus, grapes, mangoes, dates, bananas, olives and deciduous and evergreen trees. Medicinal, aromatic and ornamental crops represent a rapidly growing farm business of importance for both domestic and external markets. Smallholder farmers (1-3 feddans) are responsible for producing approximately 90 per cent of all vegetables for the domestic market, medium farmers (3-5 feddans) produce around 7 per cent and large farmers (> 5 feddans) account for 3 per cent of the production. Increase in the proportion of non-traditional crops in Upper Egypt would most likely contribute to a reduction in the level of poverty. The potential for horticultural production is high with an annual increase in demand estimated at 5.8 per cent for fresh vegetables and 5.2 per cent for fresh fruits.²¹ Upper Egypt is in a good position to take advantage of this increase. The crop season starts four to six weeks earlier and up to eight to ten weeks if crops are planted under plastic row tunnels, thereby allowing exporters to dominate the EU market for early horticultural produce. The increasing demand will have to be addressed through: (i) the reduction of post-harvest losses estimated at around 30 per cent; (ii) yield improvements and; (iii) expansion of areas under production.

C. The Dairy Sub-Sector in Egypt

10. Total milk production within Egypt is estimated to be 4.4 billion litres: 23 per cent is used in the farms, 38 per cent in the cheese and yoghurt production and 39 per cent as liquid milk. Out of the 1.7 billion litres of liquid milk, 20 per cent is industrialized milk solid in packages while 80 per cent is loose milk sold through the informal milk sector dominated by smallholders. The few industrial segments involved in dairy processing are forced to import dried skim milk. The main reason for limited supply of milk to the industrial sector is the small and fragmented dairy farming and the lack of organization for milk collection. Egypt's dairy sector is still largely traditional with a majority of the population consuming unpasteurized milk often delivered straight to the home in glass or aluminium bottles. It is estimated that nearly 80 per cent of Egyptians consume milk that has not been properly packaged or pasteurized, and which consists of a mix of buffalo and cow milk. This high per cent indicates potential for growth and a quality gap that producers will have to fill. The key characteristics of this sector are: (i) mainly primitive farms where around half of the dairy farmers are landless producing half the milk volume. It means that in most cases the milk producers do not have access to stable supply of good forage affecting the quality and quantity of milk produced; (ii) manual milking and unhygienic conditions; (iii) no chilled transportation and use of aluminium containers; (iv) chemicals are often added to extend shelf life; (v) sold informally in homes, markets and dairy shops (vi) lack of standards pertaining to milk quality, which is a disincentive for farmers to produce hygienic and better quality of milk; (vii) dominated by individual farmers who lack the economics of scale and expertise to deal directly with the processor; and (viii) sector dominated by middlemen who control pricing.

²¹ FAOSTAT, 2005.

11. Egypt has a large potential in milk production, however the levels of efficiency and productivity in the sub-sector are low. Organization of milk producers groups, increased involvement of the private sector in marketing and feed distribution channels and facilities including chilling plants, provision of credit and advisory services to smallholders are essential to achieve such an improvement. Small dairy producers need to gradually shift from the traditional dairy business to a more modern supply chain model. Therefore, some steps need to be taken to support smallholders and small processors. These include: (i) improving the supply of milk in quality in quantity through the establishment of milk producers groups which will facilitate access to expertise, training and basic equipment (e.g. quality testing equipment and refrigerated transportation); (ii) promotion of well-equipped milk collection centers (e.g. cooling tanks, quality testing equipment) where quality premium prices could be applied. The quality bonus would contribute to the sustainability of the smallholder dairy sector. In this regard the producers groups could also become milk collection centers; and (iii) clustering of small milk processors (cheese makers) to collectively use raw material, packaging facilities, and to assist them in finding assured market outlets through contracting with retailers and exporters.

D. Government Policy and Strategy

12. In its efforts to address poverty alleviation, and protect vulnerable segments of society, the Government of Egypt has adopted a multi-pronged strategy. The principal goal of the GOE is to attain higher GDP growth rates, maintain broad macroeconomic balance, and broaden the economy's capacity to absorb labour. This strategy gives priority to the creation of employment opportunities as the surest way to combat poverty. The GOE has been pursuing this poverty reduction strategy through five main avenues: (a) economic growth for increasing income and employment through investment in productive sectors; (b) increasing the efficiency of the agriculture sector, particularly water and land utilization to enhance yields, income and food security for the poor; (c) human development of the poor for raising their capability through education, health, and local level organizations; (d) women's advancement and closing of gender gaps; (e) safety net measures for the poor, especially women, against anticipated and unanticipated income/consumption shocks through targeted and other efforts; and (e) participatory governance for enhancing the voice of the poor.

13. Agricultural policy in Egypt has gone through significant reforms since early 1990s. The compulsory purchase of all crops has been eliminated and input subsidies phased out. The Government has formulated a new Sustainable Agriculture Development Strategy Towards 2030 for the agriculture sector in recognition of the fact that transformation of the agriculture sector is key for economic growth and development in Egypt. The main thrusts of the strategy are the promotion of growth in the efficient and environmentally sustainable management of land and water, market development and the promotion of the private sector, better involvement of rural women in the development process, and reforms that make agricultural institutions more responsive to the needs of farmers. In particular, the strategy identifies the need to: (a) strengthen producer associations and make market information more freely available; (b) enact and enforce laws and regulations on product standards; (c) link agricultural extension more closely to research; and (d) develop the extension role of the private sector. IFAD contributed to the development and finalisation of the business plan of the strategy through direct input, comments and financial contribution. Six national consultants and one international consultant have been recruited by IFAD to assist the MALR in establishing a business plan for the strategy.

14. The Government of Egypt acknowledges the importance and the potential of the horticultural sector. In this regard its agriculture strategy is focused on the enhancement of agriculture productivity in order to support competitiveness of agricultural products in

the local and export markets. This will be achieved through a number of initiatives with focus on horticulture, particularly for crops requiring low water usage and/or with high potential for export. The Government is putting great emphasis on increasing the per capita consumption and modernizing its milk sector. The Government also recognizes the main reasons why farm income in rural Upper Egypt is lower than it is in rural Lower Egypt. These are threefold: (a) agriculture in Upper Egypt is dominated by traditional low market-value crops and therefore generates less revenue per cropped area compared to Lower Egypt; (b) farmers in Upper Egypt are unable to finance the higher costs and greater risks of growing non-traditional crops; and (c) average farm holdings in Upper Egypt tend to be smaller than those in Lower Egypt: 82 per cent of land holdings in Upper Egypt are less than 3 feddan, compared to 58 per cent in Lower Egypt. In addition, rural poverty is exacerbated by the lack of sufficient alternative employment opportunities.

15. At the post-harvest level, marketing represents a significant bottleneck in Upper Egypt to more rapid growth and higher incomes. Local markets are underdeveloped, and the marketing infrastructure (transport, cold storage, grading and packing facilities) is poor, leading to a high rate of losses and waste, which limits efficient marketing and negatively affects the incomes of small farmers. Producers are not well organized into associations and cooperatives. This limits their bargaining power and their ability to capture the benefits of economies of scale and export markets. Market information for smallholders is lacking not only in terms of prices and volumes, but also in respect of quality standards, especially for European and Gulf markets. Addressing poverty issues requires a balanced approach that promotes the optimization of production from small, intensively managed agricultural holdings, the development of on- and off-farm small and microenterprises, and support for marketing.

16. Lack of small farmer organization is another key constraint that the Government now acknowledges as a major constraint to rural development. Agriculture Cooperatives have not filled the critical need to organize farmers and special farmer associations are required to undertake the host of activities required for the purpose of production and marketing in the agriculture and livestock sectors. Various donor funded programmes have proved that Farmer Marketing Associations (FAs) are an appropriate institutional platform for small farmers to organize themselves in order to access agribusiness support services. Besides they can become enterprise incubators and even service providers for their members. Therefore, FAs can play a key role in overcoming the key challenges of the horticultural and dairy sector. In the export sector most exporters demand that farmers become organized into specialized farmer associations open only to members active in the production of horticultural crops. This would provide the following advantages: (i) contracts could be signed with the entire group reducing administrative and logistical costs (ii) Global-GAP auditing and organic certification would be easier and cheaper; (iii) farmer association members can exercise peer pressure among members to foster compliance with agreements, production practices and delivery schedules; and (iv) specific training packages can be easily delivered. In recognition of this fact the Government has given considerable importance to establishing small producer organizations in its new Agriculture Strategy.

E. Donor Investments in Egypt

17. The United States and the European Union are the largest providers of development assistance to Egypt with other major donors being the African Development Bank and the World Bank. For 25 years the US has been by far the largest single donor to Egypt with some US\$2.0 billion annually (of which US\$1.3 billion was for military assistance). The EU and US have both been active in the agriculture sector. USAID's aid programming was strongly targeted on economic reform, notably: Private sector middle management skills, a strengthened environment for trade and investment and training in

information technology. Under the umbrella of its Agricultural Export and Rural Income (AERI) project, it has financed a range of agriculture sector activities including the establishment and development of Farmer Associations in Upper Egypt between 2004-2007. As far as the EU is concerned, the Country Strategy Paper (CSP) drafted under the European Neighbourhood Partnership Instrument (ENPI) provides a strategic framework for cooperation between the European Union (EU) and Egypt for the period 2007-2013. This document sets out the EU's policy and cooperation goals and its main priority objectives namely; political reform and good governance; competitiveness and productivity of the economy and socio-economic sustainability of the development process. A total of €558 million was allocated to the 2007-2010 National Indicative Programme. By combining the revolving funds made available under several EU projects to the agriculture sector, The Ministry of Agriculture and Rural Development has established the Agriculture Research and Development Fund for providing financial assistance to the agriculture sector. JICA is providing technical assistance for the development of a horticulture master plan for Assiut and Menia.

18. The World Bank, International Monetary Fund (IMF) and other multilateral donors are pursuing an ambitious economic reform agenda in Egypt rooted in the privatization and restructuring of national institutions and services. While the privatization of over half of Egypt's banking assets has perhaps received the most attention, the IFIs have encouraged the government to introduce private sector participation into a number of other sectors as well, such as the railways, ports, and the water, sanitation, and irrigation sector. While Egypt has consistently received the highest proportion of IFI lending in the region, the past few years have seen a sharp increase in borrowing following Egypt's reclassification by the World Bank as a "middle income" country. Combined with its willingness to implement business-friendly reforms this has heralded a major influx of IFI lending to private companies investing in Egypt. The European Investment Bank in particular has significantly increased its involvement, becoming the largest multilateral lender in the country and investing over €2.3 billion in private companies over the past five years alone, much of it for natural gas production. Saudi Arabia's Islamic Development Bank Group (IDB) has signed a deal with Egypt to offer the government US\$120 million in financial services. The funding will be used to back small to medium-sized enterprises in the country as well as building a combined cycle power generating station.

19. Overall, from fiscal 1999 to 2007, the Word Bank committed US\$2.1 billion for 18 investment Projects and one policy-based loan. The International Finance Corporation (IFC) has also been active, with loans and investments totalling US\$842 million across a diversified portfolio, and collaboration between the International Bank for Reconstruction and Development (IBRD) and IFC in Egypt has been adequate. Bank analytical work has helped in the design of recent economic reforms and in monitoring poverty. The Bank's support for financial sector reform covered among other things the restructuring and privatization of state-owned banks. Import tariffs were simplified and lowered, personal income and corporate tax rates were reduced and the tax base broadened, and tax administration reform progressed. The Bank also focused on development of water resources, infrastructure, and environment. For three decades, the Bank has been Egypt's principal development partner in irrigation and water management; the largely renewed irrigation system has contributed to recent increases in agriculture productivity and exports. Bank efforts to support the development of rural finance have been less successful.²² The Bank's present priorities are to support new programmes in (i) Agriculture and Rural development; (ii) Water Management and Distribution; (iii) Macro-Economic Support and Export Promotion; and (iv) Skills Development and Higher Education Reform. The World Bank has recently provided a US\$300 million loan

²² Egypt: Positive Results from Knowledge Sharing and Modest Lending. An IEG Country Assistance Evaluation 1999–2007 2009. Independent Evaluation Group Knowledge Programs and Evaluation Capacity Development (IEGKE).

to SFD for enhancing access to finance for the micro and small enterprise sector in Egypt.

20. The African Development Bank's (AFDB) current Country Strategy Paper (CSP) for Egypt covers the period 2007-2011. The CSP is well aligned with the government's development agenda. The design of the assistance strategy was underpinned by Egypt's vision 2022, its fifth Five-Year Plan (2002-2007) and its Ten-Point Action Plan, whose objectives are to promote private sector-led growth, modernize the Egyptian economy and integrate it into the global economy. The AFD Bank's Strategy Paper focuses on (i) private sector development and (ii) support to social development and protection. The AFDB's most recent investment in the country consists of an AFDB loan for US\$70.0 million to finance the Rural Income and Economic Enhancement Project in Egypt. The project is designed to fill a gap in the financial services market by providing long-term funding that is not available from commercial sources on competitive terms. Furthermore, the Bank intends to take the lead in developing the agribusiness portfolio of the Social Fund for Development (SFD) with a view to leveraging additional resources from other donors for SFD.

21. Several bilateral donors are also operating in Egypt including the French, the Netherlands, CIDA, GTZ, etc. for the small and medium enterprise sector. While most have been working in the social sector, the environment and climate change, some are more closely involved with the agriculture sector. The French Agency for Development (AFD) has prepared, in close cooperation with the Egyptian authorities, a Country Strategy (2009-2011) for Egypt and it intends to become in Egypt a major diversified development institution, using the whole range of available financial products, and also be active in policy dialogue and strategic counsel on national sector policies. To reach these development objectives, the French Government assigned to AFD a commitment objective of €150 million per year. Beyond its financial instruments (sovereign and non-sovereign loans, and now a grant for studies and technical supports), AFD intends to focus on infrastructure, water, and the banking sector, with innovative products that are interesting for local banks: financing of downscaling strategies, credit lines dedicated to the environment, to energy savings and clean energies. The three main development goals of AFD in the country are: (i) promoting the development of a modern, competitive, private sector; (ii) improving the living conditions of the population; and (iii) promoting a sustainable development respectful of the environment and of the country's cultural heritage. Its projects related to agriculture growth and development include the West Delta Irrigation (€25 million loan) co-financed by the World Bank, through a concessional loan to the Government of Egypt. The project intends to build a new irrigation scheme managed by a private operator under a Design-Build-Operate contract. This project is complementary to the precedent and brings technical assistance to the small farmers of the West Delta irrigation perimeter, so that they can take part in the new irrigation scheme.

22. IFAD has been collaborating with several donors in the country. The Italian Debt Swap Initiative in the West Noubaria Rural Development Project has successfully ended. In addition, the implementation of the multi-donor joint programme with funding from Spain MDG Achievement Fund on Environment and Climate Change is proceeding satisfactorily. Under this initiative and through a US\$0.5 million grant in favour of IFAD (out of US\$8.0 million for IFAD, UNDP, UNEP, FAO, UNESCO and UNIDO), IFAD is focusing on improving water management and providing drought resistant and heat tolerant crops to cope with the increase in temperature in collaboration with Ministry of Agriculture and Land Reclamation and its research centres.

Table 1: Country Data Egypt

Land area (km2 thousand) 2010	995,000
Total population (million) 2010	83 million
Population (average annual population growth rate)	1.9%
GDP Growth Rate (2007)	7.1%
GDP Per Capita Growth Rate (2007)	5.1%
Life Expectancy at birth (years)	71
Infant Mortality rate (per 1000 live births)	30
Child malnutrition (% of children under 5)	5
Adult Literacy male (as % of 15 and older)	83
Adult Literacy female (as % of 15 and older)	59

ANNEX 2 - POVERTY, TARGETING AND GENDER

A. Introduction

1. Despite recent rapid economic development, poverty remains a major problem in Egypt. There was a trend towards a decrease in poverty during part of the first decade of this century, with an overall drop at the national level from 40.5 per cent in 2004 to 35.7 per cent in 2008. Among all those below the upper poverty line, i.e. the extremely poor, poor and near poor, in rural areas 59 per cent of the population were poor in 2005 and this dropped to 46 per cent in 2008. Meanwhile, the Gini coefficient rose from 28.7 in 2005 to 30.5 in 2008 indicating a worsening of inequality and a reduced likelihood that growth will reduce poverty. With 46 per cent of the rural population poor in 2008, the situation in the past couple of years is likely to have worsened, given the two surges in food prices in 2008 and 2010, and the potential of this trend continuing, while neither wages nor farm gate prices are increasing at a comparable pace.

2. The small size of landholdings in the old lands combined with the effect of long use of the land, its reduced fertility and the worsening water and soil conditions reduce yields and thus worsen poverty. While on new lands, peak yields are often difficult to achieve due to the low quality soils and the use of too many chemicals. With the continuing rapid population increase, in order to reduce poverty, it is imperative to improve poor rural people's incomes by a combination of better management of the limited natural resources, cultivation of higher value crops, improved quality and yields of the produce and better marketing practices and facilities at all levels.

B. Rural Poverty at the national level

3. Rural poverty in Egypt continues to be a major problem and is attributed to a combination of factors, some of which can be alleviated through development initiatives. In addition to the basic problems of very smallholdings [58 per cent of the country's holdings are 1 feddan or less and 81 per cent are 3 feddan or less], most holdings are fragmented. Soil and water management are fundamental problems with reduced fertility and lack of adequate water [in quality and quantity]. Cropping patterns further contribute to rural poverty as many of the smallest holders could almost be said to be subsistence farmers due to the fact that they choose to cultivate staples, thus ensuring better household level food security, rather than crops which would provide them with more cash and hence improved ability to purchase their daily needs. Poor variety selection, inappropriate cultivation practices, weak extension and inadequate post-harvesting facilities worsen smallholders' comparative position in the markets.

4. While a high proportion of rural households depend on farming, due to the small size of holdings, agriculture is only one of their sources of income. Farm income is estimated to average between 25 and 40 per cent of total rural incomes, while non-farm incomes, in particular wages, account for a minimum of 40 per cent of rural household income. For the rural poor, 26 per cent of their income overall is from agriculture while 42 per cent is from wages and salaries. The main coping strategies of the poor are to engage in casual labour (on farm locally and off-farm locally or in the cities), dependence on the bread rations, and investing in education for the younger generation.

5. Young adults are particularly affected by the lack of employment opportunities. With many young men and women educated to the level of secondary technical school and whose families have made great sacrifices to ensure their education, their subsequent inability to find employment is a major setback for the whole household. In the absence of employment potential in private and public institutions, their main hopes are based on casual labour in urban and rural areas or establishing or working in new micro and small enterprises. For all those dependent on casual labour, (i.e. the landless

who are 100 per cent dependent on it, and the tenants, sharecroppers and micro holders for whom it is a major source of income, as well as landless women) the main problems are (a) insufficient opportunities locally, leading to the need for temporary migration to nearby or more distant cities or abroad; (b) the low level of daily wage rates; and (c) the lack of employment security or social protection in the case of diseases or accidents.

C. Poverty at the project area level

6. Within the rural areas, Upper Egypt is significantly poorer than Lower Egypt. With only 25 per cent of the total population, it has 66 per cent of the extremely poor, 51 per cent of the poor and 31 per cent of the 'near poor'. The proposed project governorates are among the very poorest governorates in the country with the following ranking according to UNDP which ranked 22 Governorates: Qena (18), Sohag (18), Assiut (20), Menia (21), Beni Suef (17), Beheira (15) and Kafr-el-Sheikh (16).

7. As elsewhere the causes of poverty in the project area are a combination of the following factors: very small holdings which are often fragmented, concentration on field crops, landlessness and the lack of employment opportunities. In addition, Upper Egypt has a far more limited access to international markets for high value crops due to the absence of cargo facilities in its airports and its distance from the sea. The very small holders, as well as tenants and sharecroppers have particularly low incomes and are in greatest need to improve their agricultural income due to the limitations of off-farm employment opportunities.

D. Gender aspects

8. For women, in addition to the factors listed above, poverty is often related to (a) their lack of access to working opportunities; (b) reduced access to financial services due to their inability to provide collateral for loans; (c) lower wages; and (d) their lack of skills including illiteracy. Women in some parts of Upper Egypt are further disadvantaged by social constraints on their activities outside the home: this restricts both the types of economic activities available as well as their ability to develop contacts and networks which could improve their access to knowledge.

9. Raising poultry has been a major source of income for poor rural women throughout Egypt for many decades. The recent culling of poultry and the new restrictions put on their husbandry have had a major impact in worsening living conditions for the poorest. While many still have animals, they tend to hide them and marketing of eggs and meat have become more difficult.

E. Rationale for the project

10. High value crops are already cultivated by some smallholders and form a significant part of their cash income, even when they use 10 per cent or so of their land for such crops. Large livestock and/or small ruminants are also owned by many rural households including the poor. Overall the main constraints to improving the incomes and living standards of smallholders are the following:

- (a) the high labour demands of vegetable crops which interfere with the time management of the poor who tend to spend many months a year away from home working as labourers for cash;
- (b) lack of fodder or housing for large livestock;
- (c) the instability of prices;

- (d) the perishability of their produce and lack of access to conservation and transport facilities [cold stores, refrigerated trucks, packing units etc.];
- (e) their selection of crops and varieties which do not necessarily fulfil market needs, as well as agricultural practices which are not optimal;
- (f) their quantitatively small production, combined with the dispersal of the producers;
- (g) their lack of knowledge of market conditions within the country but also with respect to potential processing and exports; and
- (h) their difficulties in reaching wholesale and other markets.

11. The project would therefore address these constraints by focusing investments on technical and managerial capacity building for smallholders, by improving their market linkages and support those involved in cultivating high value crops or marketing animal products.

12. In the project area as elsewhere the main community level institutions are the Community Development Associations and the Agricultural Cooperatives, both of which exist in most villages and whose level of activity and quality are highly variable. While by no means ideal institutions, both have potential and strengths; in the case of CDAs, they are voluntary and mobilize the more active members of the community and in the case of Cooperatives, they have a long history of work in agriculture and include all landholders who have access to it and are able to demand better services should these become available.

F. The Target group

13. Field investigations have indicated that an average rural household of 5 people would need 3 feddans of average quality land as well as 2 head of large ruminants to ensure an income above poverty level. This land would be cultivated largely with field crops but at least 1/5th of a feddan would be cultivated with vegetables or high value fruit trees. Most households with less than 3 feddan maintain themselves above the poverty line thanks to additional sources of income, in particular through raising large ruminants and casual or more stable employment locally or beyond. Off-farm income plays a major role in the economic life of the vast majority of rural households, and its importance increases in inverse ratio with the amount of land available for cultivation.

14. It is equally clear from the data below that the vast majority of landowning rural households have less than 3 feddan. In addition, although valid statistical data are not available on this subject, significant numbers of people are sharecropping or renting, and they would need at least 50 per cent more land than this to make ends meet. Fieldwork findings indicated that about 50 per cent of those holding under 3 feddans also have some supplementary income bringing them above the poverty line [from livestock, pensions, steady employment etc.].

15. On the basis of total rural population and of the poverty rates in each governorate, the following target group has been defined for the horticultural development activities of the project.

Table 1: Target Group for Project activities

Governorate	Total number of Rural HH	Poor rural Households	Total households growing horticultural crops	Total area under horticultural crops (feddan)
Qena	493,000	192,270	53,390	59,103
Sohag	643,000	305,425	46,555	32,969
Assiut	528,000	322,080	32,450	40,721
Menia	728,000	224,952	52,513	85,418
Beni Suef	371,000	153,965	52,326	63,506
Beheira	870,000	204,450	156,681	574,883
Kafr-el-Sheikh	468 000	52,416	54,082	69,626
Total	4,101,000	1,455,558	447,997	926,226

Sources: Poverty ratios from UNDP HDR 2010; rural population and household sizes from CAPMAS 2009 and Ministry of Agriculture and Land Reclamation Statistics. 2009.

16. With respect to off-farm activities, including packing plants, food processing and conservation facilities and other micro- and small enterprises, the project will work both with the households holding land and with the landless, with particular focus on women and youth. Hence the remaining 1 million poor rural households in these governorates will be the broad target group for capacity building and rural financial services.

17. Targeting will focus on the following groups, giving priority for investments to the poorest for Technical Assistance and employment creation on the one hand and on the other to those who have entrepreneurial experience and skills and are therefore likely to start up successful enterprises. Given the reluctance of the smallest holders to engage in the cultivation of horticultural crops, the project will give considerable attention and efforts to mobilizing them and ensuring their full understanding of the advantages of such a change in cropping patterns.

Table 2: Socio-economic characteristics of the target group by type of PRIME intervention

Target group	Proposed project interventions
All very smallholders (under 3 feddan, giving priority to those with less than 1 feddan) who currently cultivate high value cash crops, as well as those who could be persuaded to join them	Marketing associations and development of linkages with meaningful market partners, through capacity building, and assistance in arranging contracts
Smallholders and landless with livestock or who want to raise livestock, and in particular who process and sell milk, as well as poultry and small ruminants	Marketing associations and support with processing and marketing for entrepreneurs through credit and Technical Assistance
Women who are small land and/or livestock holders	TA to improve quality of produce combined with credit for SMEs
Landless men and women, and in particular young people	TA and advice on business development, entrepreneurial credit, employment on and off farm
Village level entrepreneurs	Business plan development, credit and equity capital

G. Targeting Strategy, approach and mechanisms

18. PRIME's targeting strategy is clearly in conformity with IFAD's Strategic Framework 2011-2015, as it is adapted to the specific context and requirements of smallholders who need support in both the marketing of their crops and in developing new more intensive cropping patterns to increase their income per land unit. It also specifically addresses

the needs of poor rural women and of landless youth insofar as it proposes investments which will both create paid employment for them and enable some of them to become small entrepreneurs through development of new rural businesses.

19. The project's targeting strategy and mechanisms will differ from one component to the other in order to adapt to the specific circumstances of each sub-target group, but will remain simple. The first strategic principle of project targeting strategy is that all project activities will be implemented in the same villages; if a village is involved in establishing marketing associations for its agricultural produce, it will also have access to the different types of credit and technical assistance for the establishment of off-farm enterprises and for milk processing and other credit investments.

20. PRIME will be working in seven governorates including the five governorates where OFIDO is operating. In these governorates, PRIME participating villages will be those where irrigation improvements are taking place through OFIDO. There the participants in OFIDO will be given priority for PRIME interventions though other smallholders, landless and women from the same villages will also be considered part of the target group.

21. Elsewhere, the selection of villages will be done on the basis of the following criteria:

- (a) the presence of over 60 per cent landholders with less than 1 feddan in the old lands and 60 per cent having 5 feddans or less in the new lands;
- (b) the presence of landless men and women interested in on and off-farm employment;
- (c) the presence of enough smallholders who already cultivate a total of 10 feddan of crops of interest to exporters/processors/wholesalers;
- (d) good likelihood of other very small holders farmers being interested in taking up cash and contract farming;
- (e) willingness to work together in a formal or informal group or association, possibly forming separate men and women's groups as appropriate;
- (f) interest of a reliable and trustworthy wholesaler/processor/exporter in making a contract with that village; and
- (g) willingness and ability of smallholders to take credit for SMEs.

22. Once suitable villages have been identified, the institution implementing the capacity building activities of the project will send a highly qualified team of mobilizers [including a man and a woman] to start the participatory process and develop the potential relationships with the proposed buyer of the produce. Working with the project will involve either using an existing community level organisation [CDA or agricultural cooperative] or establishing a new one, as necessary. To ensure sustainability of project interventions, all community level organisations and producers working with the project will be given significant amount of technical and managerial training. Details of the mechanisms and capacity building of the CBOs are to be found in the Implementation Manual.

23. Final selection will depend on the ability of the village population to have enough interested men and women to be involved in most project activities, at the very least contract farming and microfinance [particularly for women] and ideally also some processing investment such as a cool store or transport or packing facility providing jobs and established on a credit/equity basis between the group and the project.

24. The mobilization process is an essential element to assess whether the village is actually suitable for inclusion. Detailed discussions will be held with all likely smallholders and others to explain the project objectives and methodology and, if appropriate, a cooperation agreement will be signed by the interested farmers with the project. In the process of establishing a contractual relationship with an exporter/processor/wholesaler, the farmers will form an association which will be responsible for the contract. This association may or may not be formal but it needs to be open, allowing new farmers to join at any time for the following season. Efforts will be made to include female landholders and to maximise the number of very smallholders wherever possible.

25. Gender issues are particularly important in this project. While women in most parts of Egypt are heavily involved in the cultivation and harvesting of vegetables and are the prime care givers for livestock, few of them are landholders and many also do not own the livestock they care for. While sharing of responsibilities and benefits within the household has increased in recent decades, Egypt is still a country where men have more control over household incomes and expenditures than women. The specific needs of women landholders will be addressed alongside those of men and the project is setting specific quotas for women's participation: for the marketing support component, the target is to reach 6,000 women out of the total of 20,000 beneficiaries. With respect to other income generating activities, the project will focus on training and the supply of credit for livestock purchase and improved livestock husbandry as well as for village level scale processing of livestock by products. For those who do not have livestock, other income generating activities will be supported through training and credit. Overall 30 per cent of the funds available for micro and small credit will be reserved for women.

26. To ensure that women's concerns are taken into consideration and that even those whose movements are restricted are reached, the field extension teams in each governorate will have both men and women in equal numbers. In addition, efforts will be made to include women in senior positions in project management. The project budget is also disaggregated by sex wherever relevant, thus ensuring that specific funds are allocated to fulfilling project targets for women. For landless younger men and women, the project will create employment in vegetable packing and processing facilities, increase employment in harvesting and cultivation, as well as provide credit facilities for the establishment of small packing and processing plants which will develop local entrepreneurial initiatives as well as employment for young men and women.

ANNEX 3 - COUNTRY PERFORMANCE AND LESSONS LEARNED

A. Overview

1. Egypt is IFAD's largest recipient of financial assistance in the Near East and North Africa and was one of the first countries in the world to receive financing from IFAD. The fund has committed almost US\$238 million in loans in ten projects to Egypt since 1980 to support agricultural development and reduce rural poverty. While most projects have closed, two projects namely; the West Noubaria Rural Development Project and the Upper Egypt Rural Development Project are ongoing and a third, the On-farm Irrigation Development Project in the Oldlands (OFIDO) was recently initiated. Lessons from the ongoing and closed projects were fully incorporated in the design of the current investment. In 2004, the experiences of GOE/IFAD cooperation over the past 25 years were subject to a Country Programme Evaluation (CPE) which analyzed and documented the performance of IFAD-financed projects and the lessons emerging from the experience. The lessons which are identified in the ongoing review of the country portfolio have also been considered in the current design. In addition a number of relevant development projects funded by other donors also provide useful insights and recommendations for future operations which have been incorporated in the design.

2. IFAD's program in Egypt has comprised two main themes and groups of activities – support for settlement in newlands and support for productivity improvement in oldlands. The Sohag Rural Development Project (SRDP) added a further dimension and was an innovative and ambitious attempt to raise the capacity of rural communities to plan, implement, operate and maintain infrastructure projects in a poor Governorate of Upper Egypt. The CPE found that investment in newlands in the West Delta had clearly made a large difference to the quality of life for the targeted communities through improvements in economic and social infrastructure, improved farm productivity, marketing and water management. In the East Delta, the outlook at the time of evaluation was less bright, mainly because the environment for reclamation had been more difficult and challenges more severe. In the oldlands of Upper Egypt, IFAD had supported agricultural research and extension system in three governorates and had promoted in the last of these projects a number of innovative approaches. The CPE concluded that whilst small farms in Upper Egypt were highly productive, scope remained to raise the productivity of the main crops even further, particularly in Southern Upper Egypt, and to diversify production into new commodities of higher value. Overall the effectiveness of closed projects was assessed to be lower than it could have been for three main reasons. **First**, implementation everywhere (except for the Newlands Agricultural Services Project) was slower than planned and two projects (West Beheira Settlement Project and the Menia Agricultural Development Project) experienced major delays. Their implementation period extended to 11 and 16 years, respectively. **Second**, both IFAD and the GOE agreed to finance unplanned activities from project funds, and planned support for institutional development and for credit was reassigned to infrastructure. **Third**, achievements with respect to social and human capital development objectives – notably with respect to women and the landless – were below expectations.

3. The progress in the two ongoing projects is adjudged to be satisfactory. The West Noubaria Rural Development Project has substantially contributed to rural poverty alleviation in the project area through the establishment of a solid financial, economic and social assets base for project beneficiaries due to a gradual change from traditional to high value crops resulting in significant increases in farmers' income. The area irrigated by modern irrigation (drip or fixed sprinkler) has increased and has led to a saving of up to 40 per cent in irrigation water; increase of up to 25 per cent in productivity of crops, ease in operation and reduction in labour need; and gain in fertilizer use efficiency. The project has promoted contractual farming to enable the small producers' access markets through their associations. The Upper Egypt Rural Development Project has contracted two service providers to assist in the establishment

and strengthening of marketing associations in Qena and Assiut. However, the work is progressing somewhat slowly. A key weakness in the implementation of both these projects was the weak linkage between the market support activities and the rural finance component of the projects. While the Upper Egypt Project was organizing farmer associations there was limited capacity within the project to establish linkages of these associations with markets. The West Noubaria Project had been able to foster good partnerships as a result of its partnership with ACDI/VOCA which had helped to forge the partnership with the private sector.

4. Some key lessons have been learnt from the experience of IFAD, USAID, EU, the World Bank and the African Development Bank and have been used to structure and formulate the design of the current IFAD investment. Some of these are enumerated below:

- (a) The non-farm rural sector is key in employment generation, income enhancement and poverty alleviation in rural areas and is inextricably linked to growth in the agriculture sector. A sizable proportion of the incomes of small holder farmers, unemployed youth and landless households come from the non-farm sector. Growth in the agriculture sector fuels demand for its products and any project designed to increase rural incomes should also be poised to support growth in this sector. Policy makers have not always understood the nature and importance of the non-farm rural sector to poverty alleviation and it is only recently that this link is being acknowledged. The current project has made 30 per cent of the credit funds allocated for investment in non-farm activities in recognition of their importance.
- (b) Balance between production and marketing. A major focus of development projects has been on enhancing smallholder production without sufficient attention to how the existing and additional production would be marketed resulting in considerable post-harvest losses, lack of market access and consequent decrease in price. There is a need to balance investment on both aspects of production and marketing and assist the small-holder farmer understand farming as a business. The PRIME project would begin with a focus on markets and then work backwards to assist the small-holder in understanding how to analyse market information, use it for production decisions and link him with markets. This focus on marketing is what distinguishes this project from others.
- (c) Farming organizations, whether formal or informal are only sustainable as long as there is a strong reason for their existence thus rather than artificially trying to sustain these institutions it is best to strengthen their motivations for continuation. Too many projects rush to organize smallholders without properly putting in place mechanisms which would ensure that they would benefit from these institutional artifacts. The result is that there is emphasis on achieving the targets specified in the project document in terms of number of organizations to be created without examining how the members are benefitting and what measures could be taken to ensure that they receive benefits from their collective organization. The result is a rapid attrition in the organizations established even during the project period with little trace of these institutions at the end of the project period. The current project would first identify the benefits that would accrue from such organizations and then, in a participatory manner, identify with the small holders the type of organizational structure that best suits those functions.
- (d) Farmer Marketing Associations and Community Development Associations have generally not succeeded at managing grants which are given in isolation without giving due consideration to other factors key for a successful enterprise. Projects which have tried to provide grants to these associations to build their equity without adequately examining the management model,

strengthening their capacity or providing them working capital have not fared well. Besides not every Farmer Association created has the requisite capacity or motivation to work as a body corporate. The USAID El Shams project which provided considerable grant financing to the Farmer Associations failed in examining some of these underlying factors as a result of which much of the equipment provided by them is lying un-used. The PRIME project approach recognises that providing capital grants alone does not enable farmers to capitalise on business development opportunities. In addition, successful enterprises require working capital, business acumen and a strong willingness to work together with clear identification of how responsibilities and revenues would be shared. The PRIME project would not provide grants to these associations but where the associations meet a certain criterion, the possibility of making quasi-equity available to them through ARDF would be investigated. This follows the successful experience from India where an innovative risk sharing venture capital was established to enthrone private sector investment in agro-industry.

- (e) Project development staff and rural development NGOs are not generally well suited to undertaking business oriented activities which should be outsourced to professional management trained for the purpose. The Extension staff of Government agriculture departments and development NGOs has been used in many projects to provide market links between smallholders and the private sector. The staff from these agencies is generally not business oriented or trained in these functions. The PRIME project would engage technical assistance to use the services of professionally trained market specialists in undertaking these tasks. ACDI/VOCA and others have been providing such assistance in Egypt.
- (f) There is limited availability of appropriately designed loan products for the small-holder farmer and women in rural areas because the staff of most financial institutions designing loan products work in isolation and do not interact sufficiently with farmers or staff implementing other project components. As a result of these factors smallholder households are excluded from financial services and the synergy between the various project components is not fully leveraged. To rectify these weaknesses, the PRIME approach is designed to ensure the inclusion of the key implementing partners providing financial services and requires that the staff from ARDF and SFD be based in the Project Management and Coordination Unit at the National and Governorates levels and regularly accompany the project staff to the field and design loan products in close collaboration with the target group and provide them assistance in assessing the feasibility of their enterprises, develop financing plans and undertake monitoring in close coordination with them. This would also enable the synergies between the marketing component and the rural finance component to be fully capitalized.
- (g) In order to enhance farmer's access to markets it is important to provide financial services along the value chain including farmers, market intermediaries, small and medium sized entrepreneurs dealing with agriculture produce. The provision of financial services has been undertaken in a piecemeal and fragmented manner. In practice this means that links in the agriculture value chain are severed at several places because of lack of adequate financing. The farmer is not able to invest in high value crops because of the higher production costs. The collector of agriculture produce is able to procure only a limited volume of surpluses because he does not have sufficient working capital. The transporter is only able to procure a limited amount of goods because he is not able to secure the investment capital to invest in refrigerated trucks. Similarly, the processor or exporter is only able to process a limited amount of vegetables or fruits because he does not have enough equipment. Without access to additional funds the system works at

below capacity. The PRIME project would work with the different commodities such as tomatoes, artichokes, green beans, pomegranates, grapes, oranges, herbs, dairy, etc. along their value chains to assess the financial needs along the value chain and provide financing for each link in the chain.

- (h) A plurality of institutional arrangements is required to ensure the delivery of financial services to the different value chain actors. The formal banking sector has a low risk appetite for provision of financial services to the agriculture sector and its limited capacity, orientation for outreach to small holder farmers, women and unemployed youth. In Egypt, the commercial sector has provided funds to the agriculture sector to small and medium enterprises only in the presence of either directed lines of credit or through risk sharing arrangements. The microfinance sector is small but financial intermediaries such as MFIs, NGOs, CDAs and Market Associations have provided outreach to un-served populations but at a cost which is perceived to be high but is in keeping with best practice microfinance in which the MFI tries to cover its operational costs and provide the services on a sustainable basis. There are low levels of technology deployment in the microfinance sector and as such the cost of delivery has been much higher than those provided by the formal sector banks. The project would try and utilize a diverse range of institutional arrangements to ensure that all available avenues are used.
- (i) Project Complexity. Some of the IFAD supported projects have been categorized by design complexity, which defers the generation of project benefits and affect the achievement of Project objectives. One of the causes for complexity is the existence of multiple areas of interventions requiring the involvement of a multitude of organizations. However because of the multidimensional nature of rural poverty, and the fact that the poor often face multiple intertwined constraints and have complex coping strategies involving diverse activities, the maximization of outcome and impact from a major project activity may require the inclusion of subsidiary but complimentary interventions. Multiple project interventions should therefore be approached with this trade off in mind.
- (j) Implementation Arrangements. IFAD project experience has demonstrated that post project sustainability of interventions and benefits is enhanced when existing institutional capacities and capabilities in the country are used in the implementation of projects rather than creating parallel entities of a temporary nature. In these cases, experience has also demonstrated that there should be one body with prime responsibility for ensuring that implementing partners discharge their functions appropriately. Furthermore, decentralization of implementation down to the Governorate level units of technical ministries, has been used in the IFAD supported Sohag Rural Development Project and UERDP and has proved highly suitable and replicable, but requires working out at the outset details of how to ensure its success by clarifying roles and responsibilities, procedures, flow of fund arrangements and provision of incentives.
- (k) Dedicated Resources for Women's Participation. Dedicated resources are required to be allocated in the budget to ensure the participation of women. In addition, it is important to specify the responsibility of each team member regarding the participation of women and appoint dedicated human resources to oversee that the targets regarding the inclusion of women are achieved. PRIME has taken this three pronged approach to ensuring the inclusion of women in project activities.

ANNEX 4: DETAILED PROJECT DESCRIPTION

1. The PRIME project would include three components namely; (i) Marketing Support Component; (ii) Rural Finance Component; and (iii) Project Management and Coordination Component. The components are designed to work in close integration to highlight the synergies between them and provide financial services along the agriculture value chain. The components are designed to strengthen smallholder farmer institutions and human capacities, enhance access to improved technologies for production, post-harvest, transport and processing facilities through access to finance and increased access to markets.

Component 1: Marketing Support Component (US\$ 11.448 million)

2. The Marketing Support Component would have four sub-components (i) Organising and strengthening Farmer Groups/Associations; (ii) Market Intelligence; (iii) Value Chain Linkages and (iv) Market Oriented Production.

3. Organizing Smallholder Farmers. Smallholder farmers with less than 3 feddans are responsible for producing approximately 90 per cent of all vegetables for the domestic market. Organizing smallholder farmers and enhancing their organizational and management capacity, production skills and providing them collective marketing opportunities is key for the transformation of Egyptian agriculture. The project would strengthen arrangements for collective marketing for small holders through mobilising informal farmer groups, strengthening existing farmer associations and where required, through creation of new marketing oriented associations. The project would begin with a survey of the institutional landscape in the targeted districts to access which existing organizations would be the most appropriate to achieve the objectives of the project. Synergies would be built with the organizations established under previous IFAD financed projects by selecting associations formed by them especially the Farmer Marketing Associations in Beheira under the West Nubaria Project, the Upper Egypt Project and those established at the basin level by the On-Farm Irrigation Development in the Oldlands (OFIDO) project. Existing organizations such as those established by the USAID financed El-Shams projects would also be included where appropriate. The project expects to work with 300 Farmer Groups or Farmer Market Associations with a combined membership of 20,000 farmers over the life of the project. Of these at least 30 per cent would be women farmers who would be formed either in separate organizations or included with the men depending upon their preference.

4. Market Intelligence. Under the Market Intelligence sub-component the project would improve the farmer's capacity to read market signals in order to be able to respond to the market needs, understand market trends, and plan their production to maximize their returns. Farming as a Business (FaaB) and Crop Budgeting (CB) training will be given to advise smallholder farmers on profitability and marketing alternatives for their products. The Extension Staff and value chain actors would be trained on types of the data needed to take informed decisions, simple cost-effective data accusation techniques, simple market data analysis techniques and effective information dissemination tools.

5. Value Chain Linkages and identification. The project would facilitate the smallholder farmer link with market intermediaries along the value chain in the agriculture sector and would assist project beneficiaries implementing linkages to the value chains. The core of the chain linkages activities is to conduct careful chain mapping, set effective upgrade strategies to strengthen win-win linkages between the value chain actors and promote vertically coordinated value chain through "contract farming". The commodities which would be selected for establishing such links would be based primarily on market demand. There is demand for green-beans, tomatoes, onions, artichokes, pomegranates,

citrus, grapes, dairy, in-land fisheries, yellow maize for livestock and poultry feed, etc. The project will develop up to 53 value chain assessments for the 53 identified crops. After implementation of the first seven value chains a review should be carried out to evaluate the effectiveness of the value chain approach, including the value chain financing approach by the banks, and the feasibility/desirability of adding new value chains and the rate at which they should be added. Preparation/implementation of additional value chains should be based on the findings of the review. The 53 crops were identified in a Pre- Formulation study for PRIME²³. The Study applied the Un-met Profitable Demand (Market Window) concept defined as the volume of horticulture product in the target export market that has import demand capacity above current import levels during the seasonal export supply window for Egyptian horticulture producers/exporters at prices above break-even delivery cost level. It applied simultaneous analysis of the following four dimensional criteria for market screening and prioritizing:

- A. Potential Market Size
 - A1. Import Market Size (Imports as indicator of capacity to self-supply)
 - A2. Profitable Demand Market Size during the seasonal Export Window
- B. Potential Profitability and Value Added
 - B1. Margins per metric ton
 - B2. Total Profits for Profitable Demand volumes
- C. Estimated Competitive/Comparative Position
 - C1. Seasonal position
 - C2. Transport cost position
 - C3. Wage rate position
 - C4. Landed cost per unit
- D. Export Potential
 - D1. Production season and geographical position
 - D2. Availability of technology, quality production inputs, and proper infrastructure

6. PRIME will focus in the beginning on a manageable number of horticultural products (three to four per governorates) to show success and promising implementation approaches and build replicable and scalable models. After implementation of the first seven value chains a review should be carried out to evaluate the effectiveness of the value chain approach, including the value chain financing approach by the banks, and the feasibility/desirability of adding new value chains and the rate at which they should be added. Preparation/implementation of additional value chains should be based on the findings of the review. The most viable products based on the established criteria used above are artichokes, sweet pepper, garlic, green beans, green onions, mixed melons, sweet corn, herbs and spices, cherry tomatoes, potatoes, strawberry, and grapes). The agriculture crops promoted in each Governorate would be selected based on agro-ecological variation and other marketing and transport factors affecting cost. Preliminary results indicate that the most promising commodities for the export market in project governorates are: citrus (Kafr-el-Sheikh); garlic (Menia); grapes (Sohag, Qena, Menia); green beans (Qena, Assiut); green onions; herbs and medicinal plants (Menia, Sohag, Beni Suef, and Assiut); mozzarella cheese (Kafr-el-Sheikh); onions (Menia); pomegranates (Assiut, Qena); potatoes (Menia); strawberries (Menia and Kafr-el-Sheikh).

7. The project would play an active role in establishing market linkages for the members of the Farmer Marketing Groups and/or Associations. Technical assistance would be provided to the project staff to facilitate such contacts. The project is expected to link smallholder farmers to markets which would include local wholesale markets,

²³ ACDI/VOCA; Egypt: Assessment of current marketing arrangements and successful experiences in linking smallholder farmers to processors, exporters and local markets and role of marketing associations).

supermarkets, other retail outlets and contract farming with processors and exporters. The project would assist the market intermediaries access financial services for investing in a range of production and marketing facilities and infrastructure along the value chain. Options for innovative risk sharing agri-business finance (quasi-equity investments) which can serve to strengthen the links between FMAs and agro-processors and exporters would be further explored in the first stages on implementation (see MR Para 69-70 and WP5). The project would provide access to financial services for investing in a range of production and marketing facilities and infrastructure such as pack houses, milk collection centres, cold transport, nursery seedlings, composting facilities, processing of yellow maize, etc.

8. Market Oriented Production. Significant economic and physical crop losses is directly related to un-planned production and un-informed production decisions by smallholder farmers. Under the market oriented production sub-component the project would provide crop planning tools based on market needs. The crop planning process will be implemented in close coordination and cooperation with viable trading partners. Within the production planning exercise, PRIME would provide demand-driven extension advice and technical assistance for the introduction of new production technologies that would enhance yields, reduce losses and increase the volume of surpluses marketed. The training to farmers would be provided through a cascade model in which Master Trainers would be prepared for providing training to farmers in the Farmer Market Groups and Associations. At least 30 per cent of The Master Trainers would be women. Training will be conduct by the "Horticulture Specialist (HS) and Livestock specialists (LS)", preferably from the same area. Training to HSs and LSs would specifically be oriented towards developing an elite horticultural extension service that would eventually be able to support the sustainability, competitiveness, and growth of smallholder agriculture in Egypt. The project expects to train 500 men and women directly and another 20,000 indirectly during the life of the project. Training and improved inputs are also expected to be provided by private collectors, traders and exporters for growing high value crops. The project would also assist 4,000 farmers for qualifying under the Global Good Agriculture Practices (GlobalGap) and assist up to 2,000 farmers obtain the required certification. These estimates are based on previous donors experience in this area particularly those of USAID, on the length of project implementation period (8 years) and on the increasing availability of approved (GlobalGap) training firms in Egypt (see WP4). It has also been validated through discussion with concerned and knowledgeable partners and service providers. A principal challenge for the project would be to find a cost effective mechanism for the certification of farmers in partnership with private sector processors and exporters.

9. Implementation of the Marketing Support Component would include three successive phases: (i) Assessment phase; (ii) Selection phase; and (iii) Delivery phase.

10. During the Assessment phase three types of assessments would be conducted: (i) Organizational Assessment; and (ii) Market Assessment and Value Chain Actors Assessment in the project Governorates. The Organizational Assessment would be conducted to assess the level of smallholder farmer's institutions in the project area. This assessment would be used to assess the institutional landscape as far as smallholder farmers are concerned. The assessment will identify if there is need for strengthening existing Farmer Market Associations or create new ones. The extent to which Farmer Market Associations from earlier projects such as El-Shams, Upper Egypt or OFIDO project are active will also be assessed. The assessment will help to develop a strategy of the best mechanism for the participation of women in the Farmer Market Groups or Associations. In the initial project years, the Organizational Assessments would be conducted with technical assistance procured on a competitive basis. In subsequent years the project staff would be expected to conduct this assessment on their own. The project staff would be trained for the assessment process in the initial years.

11. A Market Assessment would be conducted in each Governorate to identify the key agriculture commodities that are produced and to determine their potential for marketing. The Governorate Departments of Agriculture would participate in this assessment and facilitate the process and provide information on existing crops and cropping pattern. Technical assistance will be procured to assist the project in conducting this market assessment. Based on the market assessment findings, the project would identify the key crops that are produced, identify potential for marketing, assess crop production practices, identify training needs, assist with soil analysis, crop water requirements and prepare extension and market information packages for each crop. Development of the extension and market information packages would be outsourced to reputable Technical Service Provider (TSP). It is expected that around 10 information packages would be developed by the technical service providers to cover ten enterprises highlighted as important for the project Governorates in the Market Assessment. The Marketing Advisor at the national level and the Marketing Facilitation Officers at the Governorate level would be trained to conduct these market assessments during the first assessments. There after these would be undertaken by the MFO on an on-going basis.

12. A Value Chain Actors Assessment would be conducted during the initial assessment phase. The purpose of the assessment would be to identify the key value chain actors for each target crop in the seven selected governorates. This exercise would identify the list of entrepreneurs, private companies, retailers, wholesalers, collectors, transporters, processors and exporters dealing with each selected commodity. It would identify production capacity, scope for expansion, key capacity and marketing constraints, export potential, financial resources and requirement, potential for linkage with Farmer Groups or Farmer Marketing Associations, potential for contract farming with smallholder farmers, need for Global GAP training and certification, scope for partnership, etc. The Value Chain Actors Assessment would be conducted by a reputable Technical Service Provider (TSP). The Market Advisor (MA) at the national level and the Marketing Facilitation Officer would be involved in this activity and use it as a training opportunity. This assessment would be conducted on an on-going basis and would be used to make annual plans, specify target commodities, plans for market linkages, proposals for financing along the value chain, etc.

13. During the selection phase, the districts within each governorate, villages within each district, and farmer groups within each village would be selected for participation in project activities based on (i) the targeting criteria; (ii) their willingness to participate; and (iii) their productive potential. The Marketing Advisor (MA), and the Marketing Facilitation Officers (MFOs) as well as HSs and LSs at the village level will lead this process. Once Smallholder Farmer Groups and Associations are selected, a baseline survey would be conducted to assess the current organizational, production and marketing capacity of the target smallholder farmers/farmer groups and associations.

14. In the Delivery Phase the following activities would be conducted:

- (a) Strengthening of Existing Groups/Associations: This activity will be implemented immediately after the selection of the target villages. The strengthening of the Farmer Groups and Associations will be designed to enhance their management, financial and marketing capacity. This training will be conducted with the aid of technical assistance. Better gender balance in the formation of the associations' executive committees and decision making bodies will be promoted.
- (b) Formation of New Groups /Associations: Formation of the new groups /associations will be done only where necessary. This activity would be demand driven based on the community needs and call for assistance. HSs and LSs will help the smallholder farmers to form such association by

providing them with institutional and technical assistance needed. The Project will ensure that the training of HSs and LSs to qualify them for this function will include pro-poor and gender sensitive approaches to enhance their capacity in this regard.

- (c) Formation of Women's Marketing Associations: Encouraging women's associations would be a key focus of the project. This activity would be demand driven based on the community needs and call for assistance. HSs and LSs will help the smallholder women farmers to form such association by providing them with institutional and technical assistance needed. Project will ensure that the selected HSs and LSs receive the appropriate training in gender differences, gender sensitive and economic empowerment approaches.
- (d) Equipment Support: There is provision for some support to be given to the newly formed associations. Training on using such facilities would be arranged for the association with some technical assistance from HSs and LSs.
- (e) Training in Farming as a Business would be given to smallholder farmers and FMG/Associations. This training would be outsourced through reputable Technical Service provider. Training of Farmers Group/Associations includes continuous support and coaching of small holder farmers on horticulture and livestock production the latter specifically targeted to women. These activities would be given by HSs and LSs for the individual and smallholder farmer groups.
- (f) Training in Basic Marketing Skills would be given to smallholder farmers and FMG/Associations. This training would be outsourced through reputable Technical Service providers. Training of Farmers Group/Associations includes continuous support and coaching of small holder farmers and women producers on horticulture and livestock production (particularly in traditional home based economic activities wherever relevant). These activities would be given by HSs and LSs for the individual and smallholder farmer groups.
- (g) Market Information Services: Market information services would be delivered to the smallholder farmers on an on-going basis and their representatives trained in how to acquire this for themselves. The Marketing Facilitation Officers together with the Agriculture Extension/Mobilization Officers would be responsible for linking smallholder farmers to the sources of information and helping them to interpret and respond to the market signals. HSs and LSs would assist smallholder farmers including women to utilize this information and knowledge in their decision making with regard to production planning and contracting. Information related to value chain actors, market links, sources of services, information related to service providers would be collected by the Marketing Advisor, Marketing Facilitation Officers, Agriculture Extension Staff delivered to smallholder farmers through their FMGs and FMAs. The FMAs will be trained to establish these links on their own as well.
- (h) Facilitating Market Linkages: Establishing market linkages for the smallholder farmer groups and associations is one of the key functions of the project. The Market Facilitation Officer at the governorate level will establish linkages between smallholder farmers and potential wholesalers, retailers, processors and exporters of the horticulture and livestock products. A key responsibility of the MFO will be to assess how best to strengthen these links on a sustainable basis.

- (i) *Contract Farming Arrangements:* The Market Facilitation Officer at the governorate level would take the lead in establishing the forward contracts in close coordination with the Marketing Adviser based on the industry demand. Agriculture Extension Officers and HSs and LSs would supervise and monitor the farmer groups and report to the Marketing Facilitation Officer on the progress in terms of participating farmers by gender, volume and value of products marketed through this process and prospects of their sustainability.
- (j) *Qualification/GlobalGAP Audit:* The agribusiness partners would be encouraged to qualify smallholder farmers for GlobalGAP, Organic production, and other market driven practices. This will encompass training on Good Agricultural Practices and GlobalGap standards for PRIME participants in the horticulture sub-sector, the livestock/dairy sector as well as medicinal and aromatic plants. For the livestock/dairy subsector emphasis will be put on avoiding the potential negative environmental effects and for the MAP special attention will be given to sustainable harvesting practices. These issues will be part of the PRIME training modules on market oriented production. This activity would be managed by a Technical Service Provider who would train HSs and coach small Farmer Groups and FMAs to deliver this knowledge and practice to smallholder farmers. Audit would be outsourced to specialized Technical Service Providers such as ECOA, QMS and similar service providers.
- (k) *Certification:* Certification would be sourced to specialized companies who are accredited to issue such certification. Trading partners would be involved in the process. Certification is an on-demand activity and would be conducted based upon market need. However, the Marketing Advisor at the national level and the MFO at the Governorate level would identify agribusiness partners who would defray the cost of certifying small holders through their farmer Market Associations. The Marketing Advisor would make arrangements with ARDF to sponsor part of the cost on a pilot basis as a win-win solution for all participants.
- (l) *Proposals for Financing and Linking with the Rural Finance Component:* The financing needs which are identified in the process of market assessment as well as on an ongoing basis will be developed into financing proposals and submitted for financing to ARDF and SFD partners under the PRIME project. The staff implementing the Rural Finance Component will work closely with the Market Support Component and the two will undertake field visits jointly and conduct their assessments jointly. PRIME will ensure that staff in charge of implementing both components receive appropriate training including gender sensitization.

Component 2: Rural Finance Component (US\$88.933 million)

15. This component would have three sub-components (i) Market Based Credit Research & Development; (ii) Credit Facility; and (iii) Strengthening Financial Intermediaries. This component is designed keeping in view the six guiding principles of the IFAD Decision Tools for Micro-finance (2010) and the Rural Finance Policy (2009).

16. This component would be implemented by the Agriculture Research and Development Fund (ARDF) and the Social Fund for Development (SFD). ARDF would be responsible for the disbursement of part of the micro-loans and the entire small and medium enterprise portfolio through its 11 affiliated banks. SFD would disburse part of the micro-loans for the agriculture sector and off farm rural enterprises through MFIs, NGOs, CDAs and other financial intermediaries working at the community level. ARDF and SFD would work closely with Project staff and help develop proposals for financing in

close coordination with the Marketing Advisors and Marketing Coordinators at the Governorate level to capitalise on the marketing opportunities identified under Component one. The project would also use the technical capacity which has been developed by the ARDF at the Governorate level to enhance the quality of funding proposals and assess feasibility of different agribusiness enterprises. The project expects to leverage the liquidity available with the affiliated Commercial Banks to enhance their risk appetite for agriculture funding for the long-term, especially given that the deposit utilization ratio for Egyptian banks did not surpass 50 per cent in any recent year.

17. The current project would also capitalize on the investments made by previous and on-going IFAD projects. The project would include in its activities the farmer market associations established by the Upper Egypt Rural Development Project (UERDP) and On-Farm Irrigation Development in the Oldlands Projects (OFIDO). This is specifically important in order to continue strengthening MFIs and CDAs and allows them continued access to institutional credit to enable them to capitalize a nucleus of loan portfolio that they own and continue availing credit beyond project life. Linking with OFIDO would be critical because the project is designed to enhance agriculture production through enhanced irrigation investments. The project would in its agreement with ARDF make a special stipulation for provision of rural financial services to beneficiaries of the irrigation investments.

18. The underlying approach that would be adopted in the implementation of this component would be the value chain approach which would be used as the business model to integrate the different players along the agriculture value chain for each commodity. Special effort will be made to ensure that financial products and services flow to or through different nodes in the value chain in order to increase the returns on investment, growth and competitiveness of that value chain, given that food processors, input suppliers and large commercial farms may often be the only source of credit available to their clients and suppliers. The adoption of this approach has important implications for how the component would be implemented in partnership with the financial institutions, smallholder producers and the market intermediaries who link each segment of the value chain. The implementation of this component would be closely integrated with the Marketing Support Component and special mechanisms for coordination have been designed to ensure that this happens during implementation.

19. The Market Based Credit Research & Development Sub-component would focus on developing a range of appropriate loan products for the agriculture sector along the value chain. At the outset, ARDF, SFD and their implementing partners (Participating Commercial Banks; NGOs and CDAs) would ensure that their staff receive training and orientation in the basic principles of agriculture value chain and SMEs financing, loan product development and feasibility analysis. The project would strengthen the capacity of ARDF and SFD to build their capacity to provide microfinance to the rural agriculture and non-farm sector. The project expects to strengthen SFD's capacity for rural and agriculture lending which has been a small part of its loan portfolio in the past. The project would secure technical assistance expertise needed to provide orientation and facilitate training for the implementing institutions on the processes of financial product development. These processes include; developing a market segmentation plan, development of ensuing appropriate client segmentation and client eligibility criteria, design and testing of market survey tools, prototype product design, product specification matrix development, product pricing, pilot-product launching, pilot testing and enhancement, and product roll out plan. The loan products would be developed in a participatory manner by ARD, SFD and their partners jointly with the FMGs, FMAs, women, unemployed youth and other potential agribusiness clients and ensure that the loan size, tenure, collateral requirements and repayment schedule accord with the nature of the crop or enterprise which is being financed. The design of the products would address the need for the range of products required along the value chain starting

from the smallholder producer to the transporter, processor, exporter, etc. This participatory approach has been discussed and agreed throughout the PRIME design process with the concerned partners and stakeholders (see MR Para 64).

20. Based on the identification of the financing requirements, ARDF and SFD would develop proposals for financing for all the players along a value chain. These proposals would be submitted for financing to the affiliated banks and MFIs and progress in loan approvals and disbursements will be closely monitored by ARDF and SFD Credit Coordinator working with the Project. Based on these proposals financing plans would be prepared for 2 to 5 years for each participating Commercial Bank or MFI in coordination with the GPCU and the NPCU. These plans would be incorporated into the Annual Working Plan and Budget (AWPB) for each Governorate and at the National level. Each plan would identify the range of products; potential credit services providers (with a brief assessment of their capabilities), the baseline indicators for credit services and the baseline indicators for the credit portfolio. The plan would also identify the required capacity building and training interventions needed for each of the credit services providers. In this regard, special focus would be given in the plan towards credit products targeting women and also towards other non-financial services needed to empower women for really benefiting from the credit offered.

21. The project would provide business advisory services to individual entrepreneurs dealing with different horticulture and livestock products and assist them in determining the economic viability of the selected enterprises. Small and medium entrepreneurs would also be provided these services but at a cost to be shared between the project and them. The feasibility of proposals would be prepared by a pool of approved experts of ARDF and technically qualified staff of SFD. It is expected that ARDF and SFD would provide financing for improved varieties of horticulture crops, collection centres, packing houses, milk chilling centres, small-dairy processing units, refrigerated trucks, tomato processing and dehydrating units, in-land fisheries, yellow-maize dryers, etc. The provision of financial services along the value chain would ensure that all borrowers are able to maximise the returns from their investment and minimize their marketing risk. The use of the revolving funds would be restricted to be re-channelled for use in the rural and agriculture sectors only even beyond the eight-year project life and until the maturity of the IFAD loan.

22. The Credit Facility Sub-Component would include three separate lines of credit for the targeted clients in the selected governorates: (i) the first would be microloans (US\$42.0 million) for on and off-farm activities; (ii) the second would focus on the small scale enterprise sector (US\$14.0 million); while (iii) the third would make funds available for medium-enterprises (US\$14.0 million) where there is a clear rationale for financing based on the potential to link the smallholder farmer to this enterprise through contractual arrangements. The project is expected to disburse 60 per cent of the funds in micro-loans and 40 per cent in small and medium sized loans. About 30 per cent of the micro-loans would be targeted to women and 30 per cent would be used for off-farm rural enterprises to ensure that landless labourers, unemployed youth are able to secure a sustainable source of livelihood. The credit facility would be used as revolving funds for dedicated for use in the rural and agriculture sectors even beyond the project life until the maturity of the IFAD loan.

23. PRIME would respond to the needs of various players in the value chain by offering credit to micro, small and medium enterprises, as well as for off-farm activities to women and landless youth in the targeted rural areas. The micro loans for on and off-farm activities are expected to have an average loan size of EGP 8,000 (US\$1400), an average tenor of one year and no grace periods; (ii) the small scale enterprise loans would have an average loan size of EGP 75,000 (US\$13,200), an average tenor of three years and an optional grace period of up to 2 years while (iii) the medium-enterprise

loans would be given where there is a clear rationale for financing based on the potential to link the smallholder farmer to this enterprise through contractual arrangements; with an average loan size of EGP 500,000 (US\$88,000), an average tenor of three years and an optional grace period of up to three years. It is expected that in the process of providing these loans, many small farmer households, women and youth would be included as clients of formal sector financial institutions and receive the full range of financial services targeted to low-income clients, including savings, money transfer and insurance products.

24. *Innovative Risk Sharing to support Agribusiness Investment (see WP5).* The project would introduce a pilot scheme for risk sharing in financing agribusiness investment along the identified value chains which would directly link growers to entrepreneurs (processors/exporters) and encourage private sector investment in the agro-industry business. The project would test on a pilot basis the concept of cofinancing new businesses through a private-public partnership, to be spearheaded by ARDF. This initiative will eventually be contributed to by public funds and private sectors agencies including commercial banks, agro processors/ exporters and producers. The purpose is to support newly created agri-business Companies to stand on their own, through encouraging Banks and private entities to invest in these companies. This pilot initiative will aim at partnering with selected new agro-business Companies with valid business plans to contribute Equity capital for business formation. This will encourage Banks, private sectors exporters and the producers themselves to invest in these companies. Working capital for the business conduct will be taken from Banks on standard commercial terms. The initiative would support project objectives of enhancing the link between farmers producers and processors/exporters along the value chain and expand rural employment opportunities

25. A detailed feasibility study would be undertaken for the “Innovative Pilot Agribusiness Risk Sharing Initiative” during the first implementation year of the project to be financed by the IFAD grant to the order of US\$50,000. Pending the results of this study an amount of US\$160,000 (about one million Egyptian Pounds) would be earmarked from project funds for this purpose. If the feasibility of this initiative is not assured, the PRIME MTR planned in Year 4 will present a proposal for re-allocations of the previously earmarked amount for this purpose.

26. *Strengthening Financial Intermediaries Sub-Component:* The provision of financial services especially the micro-loans would be undertaken by a range of implementing partners such as NGOs, Community Development Associations, Farmer Market Associations and Agriculture Cooperatives. Many of them would need to be strengthened to provide financial services to their members in a sustainable manner. They would be provided training in best practise microfinance which would enable them to properly assess and screen the loans, assess its cost and how to introduce cost-effective mechanisms for lending, develop business plans, enhance services and products, strengthen staff training, improve credit and financial analysis, improve their loan tracking/MIS capabilities, upgrade their financial management and cash handling capacities, implement stronger accounting, audit skills and determine portfolio quality. The Commercial Banks involved in the implementation of part of the rural finance portfolio would be oriented in how to better assess the risk of lending to the agriculture and agri-business sector, how to implement agriculture value chain financing, and how to use various instruments and techniques to mitigate the risks of financing micro, small and medium enterprises (e.g. guarantee funds, portfolio insurance, development of new lending products, etc.). The cost of this sub-component would be shared by ARDF and SFD.

27. Details of the training under this sub-component would be as follows:

- (a) Risk management in agriculture: Under this training, the PRIME technical assistance and management team would provide financial intermediaries, including commercial banks, with specialized training to mitigate risks associated with various types of agricultural and agri-business activities identified within the value chains. Areas covered would include evaluation of the surrounding environment, weather forecasting, crop failure, physical risk for living products, and the level of products tolerance. Another set of training shall be directed to the economic risks and how to mitigate it including inadequate costing of production and accordingly under/over pricing, etc.
- (b) Best practice microfinance: This training shall provide financial intermediaries with state of the art training and capacity building related to best practice microfinance. This training package is meant to provide the financial intermediaries with the ability to plan for its microfinance portfolio and successfully operate it to and expand its capital base to continue providing loans to the targeted groups beyond PRIME project life. Topics include but are not limited to the following: Governance in Microfinance, Product design, costing and pricing, Financial analysis and decision making in microfinance, strategic and operational planning, and budgeting for MFIs, Accounting for Microfinance, loan officer training and development of balanced incentive schemes, Loan portfolio audit/ internal audit/internal control policies and procedures, Monitoring and Evaluation for MFIs, etc.
- (c) Acquisition/Strengthening of Management Information Systems: This area is considered a corner stone for operating a healthy portfolio for Microfinance institutions; especially since the inherent risk is one of the highest in financial services institutions. Successful MFIs around the globe adopt loan tracking and automated general ledger systems to control its operations. Throughout the years, MFIs and consulting firms have developed Arabized loan tracking systems; some are standalone while others are automatically linked to the general ledger accounting systems. In Egypt, two major systems emerged; these are the Alexandria Business Association (Loan Tracker) and the Environmental Quality International (El-Mohassel) software. In addition, the software employed by banks may need strengthening to allow for capturing data fields that are not appropriate to the banks' MIS, such as number of labourers and other impact assessment indicators.

Component 3: Project Coordination and Management (US\$5.610 million)

28. This component would finance the costs of project management. The project would provide support for the establishment of a National Project Coordination Unit (NPCU) to coordinate project activities at the national level. Provisions would also be made for the establishment of a Governorate Project Coordination Unit (GPCU) in the entire seven project Governorates. GPCU would be responsible for coordination and monitoring project activities according to annual work plans and budgets approved by the Project Steering Committee (PSC). Provisions would also be made for studies, surveys and technical support for design and installation of an M&E system to measure the progress and impact of the project. The financial management and overall monitoring would be the responsibility of the NPCU.

ANNEX 5 - IMPLEMENTATION ARRANGEMENTS

1. The PRIME project would be implemented by a number of government and non-government institutions and private sector partners under the overall leadership of the Ministry of Agriculture and Land Reclamation (MALR). The Agriculture Research Centre (ARC) will have the overall responsibility for the implementation of the project as the Lead Agency. A National Project Coordination Unit (NPCU) would be established at the National Level and a Governorate Project Coordination Unit (GPCU) would be established in each Governorate to coordinate and manage project activities. The project would be implemented in close partnership the Agriculture Research and Development Fund (ARDF) and the Social Fund for Development (SFD). Commercial Banks will be involved as affiliated partners of the ARDF and MFIs and CDAs would partner with ARDF or SFD to provide access to financial services in rural areas. Services of technical experts with experience in providing marketing services and linkages such as the Industrialization Modernization Centre, ACDI/VOCA, etc., would be recruited on a competitive basis. Farmer Marketing Groups or Associations will be the key mechanism for the participation of smallholder farmers both men and women. The small rural entrepreneur, market intermediaries such as collectors, packers, transporters, processors and small and medium agribusinesses from the private sector will be key partners in the project.

Component 1: Marketing Support Component

2. The National Project Coordination Unit at the National Level and the Governorate Project Coordination Unit (GPCU) at the Governorate level would have the main responsibility for the implementation of the Marketing Support Component. The responsibility for the implementation of the various components would be shared between project staff and technical experts hired for that purpose. At the national level, the National Project Coordinator (NPC) and the National Project Manager (NPM) would have the main responsibility to ensure that all arrangements are in place for the implementation of this component. The Marketing Adviser (MA) would have the day to day responsibility for the implementation of all aspects of this component. At the Governorate level, the Governorate Project Manager (GPM) would have the main responsibility for the implementation of this component.

3. One of the first activities under this component would be the identification of Farmer Groups and Farmer Associations interested in participation in project activities. This task would be the main responsibility of a two member Mobilization team in each Governorate. The Agriculture Extension Officer of the MALR and a Female Mobilization Officer would undertake this task. In case the existing staff of MALR at the Governorate level do not have appropriate staff members to undertake this activity especially female staff, these would be hired on merit from the open market. These mobilization teams would work under the supervision of the Market Facilitation Officer. Special effort would be made to ensure that women are included in the activities of the project. The two member Mobilization team would have the task of monitoring and recording all information regarding the Farmer Groups or Associations including the history of each Group or Association, date of formation, membership by gender, the main crops produced, volume marketed, access to finance and changes over time in key indicators. A file would be maintained on each farm Group or Association linked to the MIS system of the project.

4. A Marketing Facilitation Officer (MFO) would have the day-to-day responsibility for the various activities under this component at the Governorate level. In each Governorate, he/she would be responsible for the overall work plans, procurement, implementation and monitoring of the component. The marketing coordinators would be responsible for all preliminary surveys in the project area including identification of

marketing players, potential for marketing of key horticulture and livestock products and for establishing key marketing linkages in the project area. In each Governorate, the MFO would be responsible for assessing the current marketing status, production possibilities, market needs, linking smallholder farmers with potential buyers, and monitor the progress in achieving project targets, outputs and overall objectives. The MFO would be responsible for the identification, procurement and monitoring of all technical partners required for the implementation of the component. He/She would also be responsible for selection of horticulture and livestock extension specialists at the village level and ensuring coordination with farmer Groups and Associations for all production planning, contracts management and monitoring and evaluation of all marketing activities. The MFO would ensure the inclusion of women in project activities and also ensure that the participants meet the targeting criteria specified for the project.

5. The Marketing Facilitation Officer (MFO) would identify and train a cadre of carefully selected horticulture and livestock specialists at the village level and deliver to them a carefully designed competency based hands-on training. Once trained, the Horticulture Specialists and the Livestock Specialists would work closely with the Farmer Groups and Associations and strengthen their capacity for production for the market. Selection of the potential HS and LS will be conducted in close coordination the Farmer Groups and Farmer Associations from within the selected village. Special effort would be made to ensure that the selected specialists have a high degree of motivation and experience for undertaking the required functions. The function of these specialists would include linking farmers with markets, monitor contract enforcement, disseminate new technologies and production practices; provide technical assistance, monitor activities, document success stories and lessons learned; and provided M&E data to help measure project outcomes and impact. Where available, preference would be given to women candidates. In order to make the services of the HS and LS sustainable the Farmer Groups/Associations and the private sector agribusiness partners will be encouraged to pay for the services of these extension agents.

6. Technical service providers would be selected for the assessment phase and for training of project staff, extension staff and smallholder farmer groups and associations. Technical service providers would assist in conducting the Organizational Assessment, Market Assessment and Value Chain Actors Assessment envisaged under the Marketing Support Component. Depending upon the purpose for which the TSP are to be recruited, their selection would be based on criteria that would include: (i) Proven experience and successful implementation of organizing and capacity building of smallholder farmers to respond to market signals and needs; (ii) Proven capacity to deliver marketing and technical assistance to smallholder farmer groups on horticulture and livestock with specific focus on market oriented production; (iii) Proven experience and understanding of the horticulture and livestock market dynamics and needs with specific focus on environmentally sound agricultural practices such as GlobalGAP and traceability systems; (iv) Proven experience in linking smallholder farmers to the market through well designed effective market intelligence systems; (v) Institutional capacity in forming task forces and technical assistant teams tailored to work with smallholder farmers; (vi) Good understanding of the Egyptian agriculture production context as well as social and cultural aspects; (vii) Reputable, reliable, committed and competent service provider; and (viii) commitment to ensuring that at least 30 per cent of the participants are women.

7. **Availability of service providers.** The PRIME design team assessed the willingness of the private sector stakeholders (exporters, processors and service providers) to interact with smallholder producers. They have all expressed a strong interest in engaging into contractual farming and in providing services on a competitive basis to farmers associations in the framework of PRIME. Some examples of these stakeholders are: **Horticultural Export Improvement Association (HEIA)** aiming at

improving the capacity of large and small Egyptian exporters through various means including through its quality control unit that offers direct technical assistance to member growers and shippers, but also sells its services to non-member producers. It helped establishing the perishables cold-storage terminal at Cairo airport; **Union of Producers and Exporters of Horticultural Crops** which (UPEHC) which provides a very wide spectrum of marketing and technical services to members and non-member producers; **Makro Egypt (an affiliate of Metro Cash and Carry)** is currently providing services to smallholder farmers in the Noubaria region, under the IFAD supported WNRDP and has recently announced the launch of a large scale export program, to support local farmers and suppliers in exporting to the international market; **Galina**. Galina-Agrofreeze is an Egyptian company specializing in growing and processing of vegetables and fruits. In the most modern processing plant, the company delivers its partners with the highest quality product all year round and is fully dedicated to the export market, it is the main supplier for the most prominent names in the industry, national as well as multinational companies and deals successfully jam and fruit yogurt producers, frozen vegetables re-packers, traders and fresh markets wholesalers and industries. With the aid of the most strict quality control measures, HACCP systems, EuroGAP and dedicated team, Galina is present in Europe, USA, Canada and Australia. **The Egyptian Buffalo Producers' Association** provides information and knowledge and enhance the capacity of farmers working in buffalo fattening, provides training for breeders, assist them with access to credit marketing and is establishing milk collection centres in Upper Egypt. **Agrofood** is an Egyptian company specialized in organic vegetables and fruits and deals with big supermarket chains nationally and internationally. It has a very successful record of contract farming with small farmers under WNRDP and is willing to replicate the successful collaboration under PRIME. To date, the company's interaction with smallholder farmers seem to have resulted in a win-win situation, with farmers benefiting from higher production volumes sold, and higher farm-gate prices.

8. Based on the 2011 Supervision Mission of WNRDP, the following companies have been and/or are currently engaged in contractual arrangements with smallholders in the West Noubaria Region alone: Al Nasr For Drying; Agro Food; Al Knana; Ragab; Al Noubaria For Sugar; Al Mghraby; Al Dieb; Al Wahsh; Wady Food; Tieba for Benut; Farm Frets; Al Aeen; Egests; Al Fraana; Agro Land; P&G; Agro Alex; Grand Group; Hero for Processing; Alex Jet; Al Shimaa; Unicco; Nana; Hasad Egypt; Al Nor; Haynes; Best for Juice; Galena; Al Gawhara; Americana; Tama Jet; Green Egypt; Al Gozor; Makro, Agromatico; Syngenta; Al Sammak; Upehc; Saqqara; El Wady El Akhdar; El Gebali; Seif; Alexandria Chamber of Commerce; Merete; El Sharbtly; Egypt for Supplying; Fatahallah Market; Green Corridor.

9. In addition within the framework of the USAID supported Agriculture Exports and Rural Income Projects (AERI), the USAID published a Guidebook containing an exhaustive list of service providers, associations and cooperatives in agribusiness and livestock production with a description of their functions (In Arabic). Finally ACIDI/VOCA, is one of the largest private agri-business service providers in Egypt and has been closely associated with USAID and other donors in the sector over the past 20 years and is providing a host of technical and agri-business specialized services for the rural and agri-business sector.

Component 2: Rural Finance Component

10. Several options were considered for the implementation of the Rural Finance component by the Project Design Mission. The Design Mission reviewed the strengths and weaknesses of potential partners. These included the Principal Bank for Development and Agriculture Credit (PBDAC), the Agriculture and Research for Development Fund (ARDF) with its agent manager the Commercial International Bank

(CIB) and the Social Fund for Development (SFD). For many years, IFAD persisted with using PBDAC and its branches as the main credit provider despite its slow disbursement rate. While PBDAC has recently embarked upon a restructuring exercise which offers considerable promise, this process is by no means complete and there is little to suggest that its performance in serving smallholders would improve in the near future (see also Para 77 in the MR). The Design Mission also reviewed the CIB/ARDF arrangement and felt it appeared to be a promising avenue especially for higher loan brackets such as small and medium scale lending through Commercial Banks. The technical capacity of ARDF in project governorates would also represent a great advantage in implementing the rural finance component, following up on borrowers activities in the field and establishing the required synergy with the project implementation team (see Para 77-81 in the MR). By strengthening the capacity of the commercial banks to better assess agriculture risk, the IFAD investment expects to ensure a permanent flow of resources from the commercial sector to the rural areas.

11. IFAD's experience with the Social Fund for Development has been positive especially for channelling funds to the smallholder farmers and unemployed youth for on-farm and off-farm activities. SFD has the experience, capacity, market knowledge and required skills to implement part of the micro finance component of PRIME. Given SFD good track record with IFAD, its commercial orientation, its managerial autonomy, its credibility in the market and its competent Board that is familiar with challenges associated with micro credit, SFD is considered a very good partner. It has currently contracts with 390 NGOs in upper and Lower Egypt and has widespread presence at local level. SFD has 1,220 staff members of which 720 work in the regional offices to ensure optimal outreach. Regional microfinance officers are now required to have a relevant financial background in order to be hired. Ahead of the receiving World Bank loan of US\$300 million, SFD has embarked upon expanding and restructuring its internal managerial capabilities and has recruited 17 managers plus other staff. SFD has a proven capacity to wholesale (on-lend) funds to NGOs and CBAs. It has lent an average of US\$84.0 million yearly to retail micro finance institutions over the last 5 years. The proposed additional SFD on-lending from PRIME can be easily absorbed within its currently enhanced capacity. SFD has recently introduced measures to improve the reporting requirement from the NGOs to make it less of a burden, and basing it on a few very important indicators for profitability, portfolio quality, efficiency and productivity, and liabilities-assets management. Nevertheless, SFD has the disadvantage of limited experience in agriculture value chain based lending for which it will receive some capacity building under PRIME.

12. The PRIME project would use the Agriculture Research and Development Fund (ARDF) of the Ministry of Agriculture and Land Reclamation and SFD as the principal partners for the implementation of the Rural Finance Component. The ARDF and the SFD shall each be responsible for delivery of one-half of the funds for micro-loans (US\$ 42.0 million), small loans (US\$ 14.0 million) and medium-sized loans (US\$ 14.0 million). Both ARDF and SFD shall use their standard operational policies, practices and procedures, to be revised as when needed. In order not to distort the market, both institutions will gradually move interest rates to end users to market rates. SFD would on-lend directly or through participating bank and MFIs while ARDF would use the commercial banking sector as well as MFIs, and Agriculture Cooperatives. ARDF would use the Commercial International Bank (CIB) as its fund manager for agricultural value chain financing, agro-processing and provision of post-harvest facilities as is its current practise. The use of ARDF and SFD as partners would thus allow the maximum flexibility in the choice of partners.

Synergies Between Marketing Support and Rural Finance Component

13. ARDF and SFD are expected to play an active role in the field in interacting with Farmer Associations. The technical team of ARDF would provide a hand to support the NPCU and GPCUs where staff from SFD will be based to ensure their active engagement. The ARDF and SFD governorate focal point for PRIME would be located in the GPCU and would undertake on-site visits on a regular basis with project staff for development and overseeing of financial proposals and business plans for the marketing support and rural finance components together with Farmer Marketing Groups (FMG) and Associations (FMAs). Negotiations would be conducted with both during appraisal to ensure that they provide additional support to the beneficiaries through loan product development, provision of technical assistance, capacity building of financial intermediaries and providing business advisory services for post-harvest and agri-business development. In order to strengthen the synergies between the Marketing Support Component and the Rural Finance Component several measures will be taken.

- (a) The Project staff and the ARDF technical specialists and SFD staff will all be located on the same office premises at the Governorate level.
- (b) The Project staff, the ARDF technical specialists and SFD will undertake village visits and meetings with Farmer Groups/Associations jointly to identify their needs for horticulture and livestock development and prepare proposals for financing for submission to the implementing partners of SFD and ARDF.
- (c) The Project staff, the ARDF technical specialists and SFD will undertake village visits and meetings with Women's Farmer Groups/Associations jointly to identify their needs for horticulture and livestock development and prepare proposals for financing for submission to the implementing partners of SFD and ARDF.
- (d) The Project staff and the ARDF technical specialists will undertake meetings with village chain actors jointly, assess their marketing constraints, needs for marketing infrastructure and jointly prepare the business plan which identifies their financial needs and develop proposals for submission to the implementing partners of ARDF.
- (e) The Project staff and the ARDF technical specialists and SFD will undertake village visits and meetings with unemployed youth and women jointly to identify their needs for off-farm enterprises and develop proposals for submission to the implementing partners of ARDF and SFD.
- (f) ARDF and SFD will ensure that their implementing partners such as the Commercial Banks and MFIs accompany the Project team to these village visits on a regular basis.
- (g) The project staff, ARDF, SFD and implementing Commercial Banks and MFIs will hold joint meetings on a weekly to discuss overall project work plan, targets and achievements to ensure maximum synergy between the two components.

14. Many earlier projects have used SFD as a funding channel to the rural poor areas but have not required it to work closely with the project staff or the farmers to develop loan products targeting agricultural activities in a participatory manner in the field. SFD staff would help smallholder farmers, women and unemployed youth and off-farm entrepreneurs develop proposals for financing both production and marketing activities and monitor implementation on a regular basis through their representative NGOs and

CDAs. This is expected to lead to the development of responsive loan products and increase the flow of financial resources to the agriculture and rural sector. This would enhance the synergies between the different project components. This modality of working is expected to transform the manner in which SFD operates and interacts with smallholder farmers on a permanent basis beyond the life of the project.

15. The current investment is also poised to coordinate its investments closely with the World Bank and the African Development Bank which are both designed to use the Social Fund for Development. By demonstrating how SFD approach needs to be modified in the implementation of rural financial services to build the synergies along the agriculture value chain, add real value in channelling funds to market intermediaries and better link the farm and off-farm sector, the current project would assist in making other donor investments more strategic. The project would also use the horticulture master plan being prepared by JICA for Assiut and Menia during project implementation.

16. The detailed implementation arrangements for each sub-component under Rural Finance are as follows:

Sub-Component 2.1: Market-Based Credit Research and Development

17. The first activity under this sub-component would be to provide orientation and training for representatives from affiliated CBs, MFIs, and CDAs on the fundamentals of market surveys and credit development/enhancement using Participatory Rapid Appraisal (PRA) techniques which fully involve the targeted population segments/clients. The NPCU shall follow standard tendering procedures in procuring the training services.

18. The second activity under this sub-component is to undertake a market appraisal/survey and credit products enhancement/development in each of the targeted governorates for the Small and Medium enterprises (by ARDF credit coordinators), as well as for the Micro enterprises (by the ARDF and SFD credit coordinators) in light of the identified marketing opportunities. The implementation of this activity shall be the responsibility of the ARDF/SFD national credit coordinators as lead persons in conjunction with the governorate level ARDF/SFD credit coordinators. The Gender and Poverty targeting advisor will ensure that the products and delivery approaches developed are responsive to the needs of the poor, women and unemployed youth. The output of this activity would be a Credit Product Specification Matrix” for each of the credit products to be offered by the project. The ensuing product specification matrices will be prepared in participation with the participating Banks, MFIs and CDAs.

- (a) Following the market appraisal/survey, the GPCU credit coordinators would identify the financing needs of the different value chain actors in the agriculture sector and the off-farm sector and with the help of their implementing partners would assess the technical feasibility of their proposals and assist them in strengthening these where required. These **financing proposals** would be submitted to the Commercial Banks, MFIs and CDAs for financing. ARDF and SFD staff would closely follow the approval and disbursement of the loans.
- (b) Based on the financing plans the Commercial Banks, MFIs and CDAs would develop a 2 to 5 year financing plan. This plan would be the primary responsibility of each GPCU project coordinator under the supervision and guidance of the national ARDF and SFD credit coordinators. The first year’s section of the plan would form the project’s AWPB. The plans would identify the range of products for micro, small and medium enterprises in each governorate.

- (c) Catering to the specific nature of female based organizations (MFIs and CDAs), as well as female owned/operated enterprises; a specific plan in each governorate would be developed in the same format and contents of the other plans. This plan shall be the joint responsibility of the GPCU credit coordinators with oversight of the national Gender and Poverty Targeting Advisor.
- (d) A separate section of the plan would identify major areas of capacity building needed for the participating institutions to facilitate planning for and providing needed capacity development interventions to allow for timely availability of technical assistance. With regards to the Monitoring and Evaluation of the financing plan; each GPCU would be responsible for monitoring its plan on a monthly basis and issue a monthly performance status report based on the key performance indicators.

Sub-Component 2.2: Credit Facility

19. This sub-component is concerned with the actual delivery of the credit services under the project. The ARDF and the SFD shall each be responsible for delivery of one-half of the funds for micro-loans (US\$ 42.0 million), small loans (US\$ 14.0 million) and medium-sized loans (US\$ 14.0 million). Both ARDF and SFD shall use their standard operational policies, practices and procedures, to be revised as when needed.

20. The selection of the ARDF fund manager the Commercial International Bank was done in an open and transparent manner in compliance with international competitive bidding procedures of the European Union. Consequently, the CIB had been entrusted with the overall management of the fund and had selected another 11 banks to participate in the programme. The participating MFIs and CDAs will be selected based on prior experience and solid record in microfinance. The selection process of participating MFIs would be based on transparent and objective criteria based on international standards such as those developed by PlaNet Finance (known as the GIRAFE scoring system). SFD has further developed the GIRAFE to cater for institutions with no prior experience in microfinance in order not to deprive active associations from embarking on microfinance activities. The GIRAFE criteria focus on 6 areas of assessment that are broken down into 24 quantitative and qualitative factors. These are: **G**overnance and decision making process, **I**nformation and management tools, **R**isk analysis and internal control, **A**ssets (focusing on portfolio quality), **F**unding: equity and liabilities, and **E**fficiency and profitability.

Sub-Component 2.3: Strengthening Financial Intermediaries

21. The training in risk management in agriculture will be provided by an expert organization. It would be the prime responsibility of the ARDF and SFD coordinators to ensure it is undertaken in a timely and appropriate manner. The funding for this training would be provided by ARDF. The training would be provided primarily to the staff of participating Commercial Banks, MFIs and CDAs. During the first year of the project, 24 trainees would receive this training and each year around 30 to 36 trainees from the financial intermediaries would receive the same training. Each training session shall include pre and post training tests to assess the level of knowledge and skills acquisition of the trainees.

22. The Training in Microfinance Best-Practices would be designed to equip the financial intermediaries with the knowledge and skills necessary to extend credit and monitor portfolio performance, as well as adequate accounting and financial analysis to operate a healthy portfolio. The responsibility of this activity would be entrusted to the Credit Coordinators at the National and Governorate level. In this regard, the SFD has developed a user-friendly training package for its intermediaries and requires its

qualification before extending loans. In terms of training services providers, there are qualified trainers/training institutes in Egypt that can provide such training. It is expected that this training shall cover all financial intermediaries and start from the onset of the project activities; each year, around 30 to 48 trainees shall be receiving this training. The cost of this training would be shared between the ARDF and the SFD.

23. *Facilitating Acquisition and/or Strengthening of Management Information System:* MIS and loan tracking systems are considered a key component of building the capacity of financial intermediaries especially those working in the microfinance sector. There are Arabized loan tracking software available in Egypt that have been adopted by MFIs, CDAs and also banks engaged in MF. The software providers are mainly Alexandria Business Association (The Loan Tracker) and Environmental Quality International (El-Mohassel). The costs for acquisition/strengthening of the MIS would be partially covered by the ARDF/SFD and with a cost sharing from the financial intermediaries. Also, some modifications/upgrading of the banks' MIS may be needed to capture information that is not commonly covered by their operating MIS such as impact related information. This activity would target institutions rather than individuals and it is expected that the project would work with a range of 8 to 12 institutions in this aspect on an annual basis.

Component 3: Project Management & Coordination

24. The PRIME project would be implemented under the overall leadership of the Ministry of Agriculture and Land Reclamation (MALR) as the Lead Project Agency. The Ministry would appoint the Agriculture Research Centre (ARC) as the main implementing agency for PRIME. The ARC would be responsible for the implementation of the Marketing Support Component, oversee the implementation of the Rural Finance Component and be responsible for the Project Management and Coordination Component. ARC will assign the task for the delivery of financial services for the funds allocated for SMEs and part of the micro-finance funds to the Agriculture Research and Development Fund (ARDF). ARDF would use its affiliated banks for the delivery of the rural finance services. Part of the funds for the microfinance sector would be provided to the Social Fund for Development for on-lending through non-bank MFIs, NGOs, CDAs, etc. The division of the microfinance funds between ARDF and SFD would be based on performance and would be reflected in the subsidiary agreements with both.

25. **Project Steering Committee (PSC).** A high ranking inter-ministerial Project Steering Committee (PSC) would be set up for overall policy decisions and guidance at the national level. The PSC would be chaired by the Minister of MALR or his representative, with members representing the project area Governorates, the Ministry of Planning and International Cooperation (MOPIC), ARDF, SFD and representatives from the private sector. A National Project Management and Coordinator (NPCU) would be appointed by the Minister of MALR and serve as the PSC secretary. The NPCU would provide secretariat services to the PSC. The PSC would meet at least once quarterly, and on an ad hoc basis as and when necessary. It would have the primary responsibility of guiding the project implementation activities and in all matters of policy regarding the project. Specifically, the PSC would: (i) ensure that project activities are in compliance with the Government's policies; (ii) approve consolidated project AWPB; (iii) oversee the section of the technical assistance for the marketing support component; (iv) allocate the microfinance funds between ARDF and SFD based on performance; (iv) oversee the effective coordination between the marketing support and rural finance components; (v) decide about innovative measures to use project resources such as the establishment of a venture capital fund for equity investments in agro-industries; (vi) ensure that project interventions are coordinated with other development programmes and projects; and (vii) oversee and monitor the systematic implementation of the project and recommend changes where necessary in coordination with IFAD.

26. **National Project Coordination Unit (NPCU).** The NPCU would be headed by a National Project Coordinator (NPC) appointed by the Minister of MALR and acceptable to IFAD. The NPCU would report to the Minister and Project Steering Committee. The NPCU staff would comprise a Project Manager, Marketing Advisor, Gender & Poverty Targeting Advisor, National Credit Coordinator, Financial Manager, M&E Officer, Accountant and support staff. The NPCU would be responsible for coordination and liaison with implementing partners, overall project programming, preparation of AWPBs, financial management including disbursement, procurement, preparation for audits, etc.). The NPCU would recruit technical assistance based on performance based contracts and oversee and supervise their work. It would be responsible for ensuring the systematic collection of baseline data, monitoring and evaluation, progress reporting and liaison with the Government. It would also be responsible for providing logistical and administrative support to supervision missions, mid-term reviews and project completion reports.

27. **Governorate Project Coordination Unit (GPCU).** At governorate level, Project Coordination Units (GPCUs) would be established and have the primary responsibility for preparation of Governorate level AWPBs, selection of project districts and villages, identifying farmer organizations and strengthening them, ensuring participation of women, working closely with technical assistance, coordination with ARDF and SFD and ensuring their participation in project meetings and site visits, manage project funds at the governorate level, monitoring and evaluation, reporting and support to supervision missions. The GPCUs would be located in the Governorate Directorate of Agriculture and would report to the NPCU. GPCUs would comprise a Governorate Project Coordinator (GPC), who would be a senior official with relevant experience, authority and good networking capability with the farming community and other project implementing partners. Other staff would include Governorate Project Managers, Agriculture Extension Officers for farmer organization, Female Mobilisers, Market Facilitation Officer, M&E officer, Governorate Credit Coordinator, technical assistance for overseeing participation of women, accountant and support staff. GPCUs would send progress report to the Governors and the NPCU and maintain direct contact and interactions with relevant local level GOE agencies, private sector and civil society organizations involved with project implementation.

Appendix 1 – Terms of Reference of Key Project Staff

National Project Credit Coordinator

The National Project Credit Coordinator (NPCC) shall be the primary responsible person for the development of market responsive credit products that build on the market linkages within the value chains identified for the project, and those targeting women and landless youth. H/she shall be housed within the National Project Coordination Unit and shall supervise the work of the seven Governorate Project Credit Coordinators in the seven targeted governorates.

The NPCC shall start from the onset of operations and shall be taking a major role in the mobilization of project and start-up activities. The NPCC shall directly report to the National Project Coordinator (NPC) and shall be held accountable by the (NPC) for realizing his part of the project targets as specified and agreed upon with the NPC. The NPCC shall be specifically required to:

1. Participate effectively in the training provided by technical assistance team in market assessment and credit product development.
2. Facilitate all training requirements for the technical assistance team in the areas related to the credit development and financial training areas.
3. Maintain a data base for training services providers to be used as a reference for future project training requirements.
4. Organize the training events (with adequate administrative support) for GPCU staff, especially governorate project credit coordinator (GPCC).
5. Participate in the actual market assessment and credit product development after receiving the training mentioned under point 1 above.
6. Provide guidance and support to the GPCC staff in the seven governorates in developing individual financing plans for each of the targeted governorate.
7. Assist in presenting the plans to the ARDF/SFD management and resolve any outstanding issues until all plans are approved.
8. Assist the GPCC in updating their plans annually and undertake regular visits to the field offices to help in resolving any problems in implementation.
9. Undertake regular visits (on a surprise basis) to participating financial intermediaries to check on the implementation and solve any problems that might arise.
10. Develop a comprehensive set of user-friendly reports for the rural finance component monitoring and evaluation purposes; with specific emphasis on compiling sufficient baseline indicators for each governorate and for the whole project.
11. Undertake a monthly exercise for preparing monitoring reports outlining areas of success and others where additional effort should be exerted. Including comparisons between targets and actual achievements and variance analysis.
12. Undertake any other assignments as may be directed by the NPC.

The NPCC should have at least 8 years of progressive experience in finance and microfinance and should possess excellent oral and writing skills in both languages (Arabic and English). The NPCC should have experience in analytical reporting and should be well versed in computer applications including Word, Excel and Power Point Presentation.

Governorate Project Credit Coordinator

The Governorate Project Credit Coordinator (GPCC) shall be responsible for the development of market responsive credit products at the governorate level that build on the market linkages within the value chains identified for the project, and those targeting women and landless youth. H/she shall be housed within the Governorate Project Coordination Unit and shall be supervised by the National Project Credit Coordinator (NPCC).

The GPCC shall start from the onset of operations and shall be taking a major role in the mobilization of project and start-up activities in his/her respective governorate. The GPCC shall directly report to the National Project Credit Coordinator (NPCC) and shall be held accountable by the (NPCC) for realizing his part of the project targets as specified and agreed upon with the NPCC. The GPCC shall be specifically required to:

1. Participate effectively in the training provided by technical assistance team in market assessment and credit product development.
2. Facilitate all training requirements for the technical assistance team in his/her respective governorate in the areas related to the credit development and financial training areas.
3. Obtain regular updates from the NPCC on the data base for training services providers to be used as a reference for future project training requirements.
4. Organize the training events (with adequate administrative support) for the participating financial intermediaries in coordination with the NPCC.
5. Lead the field work of the market assessment and credit product development in his/her respective governorate after receiving the training mentioned under point 1 above.
6. Provide continued field guidance and support to the financial intermediaries staff in his/her respective governorate in the course of developing its comprehensive financing plans.
7. Assist the NPCC in presenting the plans to the ARDF/SFD management and resolve any outstanding issues for his/her respective governorate until all plans are approved.
8. Perform annual updates to the governorate financing plan annually and undertake regular visits to the intermediaries' offices to help in resolving any problems in implementation.
9. Undertake regular visits to participating financial intermediaries to check on the implementation and solve any problems that might arise, accordingly bring these problems to the attention of the NPCC for advice and take necessary corrective actions in light of the NPCC guidelines and directives.
10. Develop a draft comprehensive set of user-friendly reports for the rural finance component monitoring and evaluation purposes to be revised and approved in format and contents by the NPCC; with specific emphasis on compiling a sufficient baseline indicators for his/her respective governorate.
11. Undertake a monthly exercise for preparing monitoring reports outlining areas of success and others where additional effort should be exerted to be discussed with the NPCC. Including comparisons between targets and actual achievements and variance analysis.
12. Undertake any other assignments as may be directed by the NPCC.

The GPCC should have at least 5 years of progressive experience in finance and microfinance and should possess excellent oral and writing skills, preferably in both languages (Arabic and English). The GPCC should have experience in analytical reporting and should be well versed in computer applications including Word, Excel and Power Point Presentation.

ANNEX 6 - PLANNING, MONITORING, EVALUATION AND KNOWLEDGE MANAGEMENT

A. Overview

1. This annex describes the planning, monitoring, evaluation and knowledge management arrangements for the PRIME project. Given that the current project focuses on marketing and rural finance and is based on capitalising the synergies between the two components, the planning, monitoring and evaluation arrangements are structured accordingly. The Project Design team has taken on board the guidance provided by IFAD's Results and Impact Management System (RIMS), Rural Finance Policy, Decision Tools and the technical notes, prepared from time to time to guide design teams.²⁴ IFAD's commitment to monitor the performance of its rural finance interventions is driven by the recognition that effective performance monitoring and greater transparency in microfinance/rural finance generate stronger institutions and increased competition in the sector, which in turn results in better financial products for rural poor people. PRIME's M&E system is based on the recognition that IFAD's interventions would produce better results when design, reporting, and monitoring focus explicitly on key measures of performance that are measured and reported regularly. Given that PRIME expects to negotiate Performance Based contracts with both the providers of rural financial services as well as the marketing services, special attention has been paid on how performance of partners would be assessed and monitored. The design acknowledges that the more transparent the results, the more likely IFAD is to learn from successes and failures, and to take corrective actions when needed.

B. Planning Arrangements

2. The planning arrangements for the project are key because of the need to coordinate the two main components of the project; the Marketing Support Component and the Rural Finance Component and ensure the synergy between the two during implementation. The preparation of the Annual Work Plans and Budgets (APW&B) would be used as the key tool for ensuring proper planning and coordination among the various components and partners. The overall planning of the project and preparation of the Work plans will be the responsibility of the National Project Coordination Unit at the national level. However, each of the Governorate Project Coordination Units will prepare their own annual plans and budgets. To facilitate joint planning and implementation among the teams implementing the Marketing Support and the Rural Finance activities, the Project mandates that all partners be based in the same location, prepare their plans in close coordination and in consultation with the target beneficiaries mainly the small holder farmers through the Farmer Groups and Farmer Market Associations. The AWP&B would also be used as the tool for consistent monitoring of development objectives and to evaluate project activities.

3. The Project would conduct, at its onset, a **Start-up Workshop**, with the aim of sensitizing and training the Ministry of Agriculture and Land Reclamation, the Agriculture Research Centre, National Project Coordination Unit, the Governorate Project Coordination Units, Agriculture Research Development Fund, Social Fund for Development, the Commercial International Bank and other potential implementing partners in the project objectives and scope. At this workshop, time would be allocated to familiarize all participating partners with the planning and annual work plan process as well as the monitoring and evaluation system. A special session would be included in the start-up workshop on M&E to brief participants about the project logical framework, progress reporting and evaluation arrangements. A session would also be held to

²⁴ Rauno Zander. Key Performance Indicators. Draft Technical Note. 2010.

familiarize the participants with IFAD's RIMS system, Performance Based Contracting System and Key Performance Indicators regarding rural and microfinance.

C. Monitoring Arrangements

4. The M&E system would be divided in two overall key functions: **progress monitoring** and **impact monitoring/evaluation**. Both are part of a systematic, participatory learning process geared towards ensuring that the project attains its planned objectives and impact. **Progress monitoring** relates to the gathering of qualitative and quantitative data on project activities, inputs and outputs that can help project management to continually take timely decisions and self-evaluate. Progress monitoring would be done at all levels; by NPCU, GPCU and implementing partners' staff and by the beneficiaries. It would measure physical and financial progress of the Project including specific information on number of farmers organized, marketing linkages established, no of loans and volume of lending provided by type and gender. The M&E system would be based on performance indicators following the logframe. An attempt has been made to ensure the selection of SMART indicators (specific, measurable, attributable, reliable and time bound) and fulfil the RIMS requirements.

5. Immediately after the formation of the NPCU and the GPCU, a local M&E expert would be used to help develop the **Management Information System** for the PRIME project at both the national and governorate levels. The system would be designed based on the requirements identified in the Project Logframe and in keeping with IFAD RIMS requirements and the guidance provided by the technical divisions of IFAD on M&E. The system would have the capacity to provide gender disaggregated data on all key indicators. The monitoring and evaluation officers at the national and governorates level will be familiarized with IFAD monitoring and evaluation requirements and in the operation and use of the system. The system would be designed to capture the rate of implementation against planned targets and objectives, as set out in the project design document and reflected in the AWP/Bs. The M&E Officers at the Governorate level would consolidate the Governorate data and compare it with the AWP&B to monitor progress on both physical and financial aspects of the project. The overall responsibility for the M&E activities would lie with the Project Manager at the National and Governorate levels. However, they would be assisted by the M&E Officers at the National and Governorate level in preparing all progress and monitoring reports. The M&E Officer at Governorate level would consolidate all information from project staff, technical service providers and financial service providers, etc. All staff providing monitoring and evaluation information would ensure consistency, accuracy and timeliness.

6. The staff of ARDF and SFD would be required to provide key performance indicators for the rural finance component. ARDF and SFD would be responsible for the monitoring of the Rural Finance Component using their own systems but in close harmonization with project monitoring system and indicators. The PRIME project would build on what exists at the level of the Financial Service Provider (FSP) so that reporting requirements are standardized to the largest extent possible. The KPIs for the rural finance component would track four levels of indicators. These would include (i) **Outreach indicators** namely number of active accounts (deposits, loans, other financial services), average outstanding loan or savings balance, average loan or savings balances as a percentage of GNI; (ii) **Financial / portfolio quality indicators** for lending performance, these standard financial indicators focus on portfolio quality and generally comprise portfolio at risk (PAR) for a specific number of days, arrears rate, repayment rate and loans at risk; (iii) **Profitability indicators** namely return on assets, return on equity and financial self-sufficiency; and (iv) **Efficiency indicators** which include Operating Expense Ratio and Cost per Client.. All data would be gender disaggregated. Those qualified to report on the Micro-finance Information (MiX) would be encouraged to do so.

7. The NPCU would be responsible for arranging a **reporting system** that would track the project's physical and financial performance and emerging impact. The reporting system would involve a brief Monthly Progress Reports by each GPCU covering its own work as well as the work of implementing partners at the governorate level, which would be reported to the GPCU on the basis of an agreed format and frequency covering financial, procurement and physical progress information together with a short narrative discussion of project developments and progress during the month. Project wide Quarterly Progress Reports would be issued by the NPCU consolidating the monthly reports of the GPCU for the information of the PSC and IFAD. An Annual Project Progress Report would be produced by NPCU at most six weeks after the end of each financial year and would be a summarized consolidation of the quarterly reports of the previous year. It would also include an analysis of the key issues during implementation, course corrections made and key lessons learnt and identify issue for policy dialogue with Government.

D. Performance Based Contracting

8. Key Performance Indicators (KPIs) can also be used to define appropriate **performance-based agreements** with partners. An agreement is considered to be "performance-based" when (1) it is as clear and specific as possible about the expected results and how these will be measured; and (2) it strengthens incentives for good performance by defining sanctions or benefits that are tied to the achievement of the expected results²⁵. There is a clear rationale for Including Performance Based Agreements (PBAs) with clearly defined KPIs in the PRIME project with both Technical Service Providers and Financial Service Providers. PBAs would increase accountability, make disbursement triggers more transparent, ensure that development objectives are met, enhance prospects of technical service providers and financial institution's commitment to project over time and upgrade management's ability to track performance.

9. The PRIME specific contractual relations between Technical Service Providers (TSPs) and Financial Service Providers (FSPs) would take two specific forms and include outcome based indicators that would serve as triggers for a staggered disbursement. The **Subsidiary Loan Agreements** (SLAs) with ARDF and SFD would identify the Key Performance indicators for the provision of rural financial services. This would in particular determine the allocation of loan funds between ARDF and SFD especially for the microloans. The **Management Agreements** with Technical Service Providers would clearly identify the outputs and outcomes expected from all those providing technical services under the Marketing Support Component and for the technical strengthening of participating financial service providers. The payment to all TSPs would be based on specified outputs and outcomes.

10. The PRIME design acknowledges that decentralised supervision and handholding would be required in particular for IFAD specific TSPs and FSPs. However, these are not new in Egypt and are increasingly becoming the norm. Nevertheless, there may be need for some start up training to establish how PBA triggers can be incorporated into standard contracts. The project staff will be provided guidance based on CGAP's Technical Guide on the subject and the five different steps in establishing a PBA would be followed namely (a) identifying the appropriate results / outcome based indicators to serve as triggers; (b) establishing realistic target levels for performance indicators; (c) identifying minimum performance thresholds; (d) identifying non-compliance measures; and (e) providing sample reporting formats and instructions on reporting.

²⁵ CGAP Technical Guide "Performance-Based Agreements: Incorporating Performance-Based Elements into Standard Loan and Grant Agreements" (2010).

E. Evaluation Arrangements

11. **Impact monitoring/evaluation** is the regular review and assessment of performance, relevance and sustainability of project activities and the changes occurring in the livelihood and income of project beneficiaries. It is important to alert management to changes required to ensure that the Project achieve its objectives. Impact monitoring/evaluation would be done through data gathering and analysis as well as through participatory assessment. Participatory assessment would take place through: (i) exchange of views and experiences with Project staff and implementing partners; (ii) meetings with Farmer Market Groups/Associations where priorities and progress would be discussed and assessed; (iii) special meetings would be conducted with women and unemployed youth to assess their views; and (iv) participatory annual assessments and reviews on a regular basis.

12. From the onset of operations, the project would establish baseline data and indicators that correspond to first²⁶, second²⁷ and third²⁸ level results. To the maximum extent possible, the project would also track the “anchor” indicators, namely (i) the number of households with improvements in household asset ownership; and (ii) the reduction (in percentage) in the prevalence of child malnutrition. A Project Logframe Analysis has been prepared which identifies the key indicators for each component based on RIMS.

13. The organizational assessment, market Assessment and value chain actors assessment which would be conducted in each Governorate would be used to compile **Baseline Information** for each Governorate. ARDF and SFD would also be required to provide information on the existing coverage in each Governorate as far as financial services are concerned. The information from these sources would be used to compile a base line profile for each Governorate. This would be used to assess the socio-economic baseline status of the project area and to measure the monitoring indicators before the project commencement. These would focus specifically on current level of farmer organization, access to markets, financial services and state of agri-business development. These surveys would be part of the activities to be undertaken as part of the initial assessment of markets, value chain actors under the Marketing Support Component through Technical Service Providers and ARDF and SFD staff as far as financial service provision is concerned for each Governorate. The results of this would be systematically recorded for each Governorate to allow for a comparative assessment during the Project life.

14. **Mid-Term Review (MTR).** A Mid-term review would be conducted at the end of project year three, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR would be carried out jointly by the Lead Project Agencies and IFAD based on terms of reference prepared by the Government, and approved by IFAD.

15. At the end of the project a completion evaluation would be conducted, as an input into the **Project Completion Report (PCR)** through a formal survey preferably undertaken by a neutral agency with no previous involvement in project implementation. IFAD itself may also undertake such a formal Evaluation of the project through its Independent Office of Evaluation (OE).

²⁶ Measure financial and physical progress, mostly quantitative, generally planned and implemented on an annual basis, either at the activity or output levels of the logframe.

²⁷ Measure improved functionality and/or behavioural change, more qualitative, corresponds to either the output or objectives levels of the logframe.

²⁸ Measure the combined effects of the 1st and 2nd level results, quantitative and measured at specific points during project life, refer to the goal level of the project log frame and sometimes to the objective level.

16. The Results and Impact Management System (RIMS) developed by IFAD since 2004 would be fully incorporated in the project M&E system. The system would be designed to allow for the RIMS first and second level indicators to be monitored on a regular basis to facilitate their computation and reporting at the end of the year. RIMS third level indicators would require specific surveys at the beginning, at midterm and at project completion. They would be measured and analyzed as part of the project's baseline surveys, the MTR and the Project Completion Report.

F. Knowledge Management

17. Given the Knowledge creating purpose of PRIME, the compilation and dissemination of Project information, experiences and results on an on-going basis within country and for IFAD headquarter is crucial. The explicit assignment of knowledge management and communication responsibilities will be a shared responsibility. The overall responsibility would belong to ARC and would be devolved through the Project Steering Committee (PSC) to the Project Manager and the Monitoring and Evaluation Officers at the National and Governorate level. The Technical Service Providers and all Financial Service Providers would have a key responsibility for sharing lessons learnt during the project through preparation of special case studies and Learning Notes. This responsibility would be reflected in their performance based contracts. The allocation of funds for communication and dissemination purposes would add value to the knowledge and learning output. This would be achieved through special brochures on certain thematic experience during project implementation as well as establishing links with local farmers' forums, community based organisations at the village level and with policy forums at the national level. The Project Steering Committee would have the responsibility for identifying the policy lessons and ensuring that these are communicated through special policy briefs.

18. The IFAD country presence office would participate in all agricultural policy and coordination forums and organise yearly national project implementation workshops allowing project staff and other implementing partners in the seven Governorates to communicate and share lessons learnt during the implementation of PRIME and across other IFAD projects such as Upper Egypt and OFIDO. In addition, the project would make substantial use of the on-going Cairo-based and IFAD-supported regional network "Knowledge Access in Rural Inter-Connected Areas (KARIANET) to learn from and share experience with IFAD projects in the NENA Region and with its partners. It would also link with the Capacity Building in Managing for Results and Impact (CaMaRI) for continuous support in M&E (see Main Report Para 98).

ANNEX 7 - FINANCIAL MANAGEMENT AND DISBURSEMENTS ARRANGEMENTS

1. **Financial Management.** The Ministry of Agriculture and Land Reclamation would be responsible for the overall financial management of the project and for coordinating all financial reports from implementing partners. The IFAD financing (loan and grant) would be disbursed over a period of eight years. All withdrawals from the loan and grant accounts at IFAD would be made on the basis of a consolidated AWPB prepared by the National Project Coordination Unit (NPCU) in consultation with Governorate Project Coordination Units (GPCUs) and approved by PSC and acceptable to IFAD. NPCU would maintain a full set of accounts in accordance with IFAD's requirements and internationally accepted accounting standards. For that purpose, NPCU would install an appropriate financial management and accounting system, and recruit qualified financial manager and accountant to implement this system.
2. **Flow of Funds.** The IFAD grant financing for the capacity building under the Marketing Support Component would be directed to a Project Designated Account managed by NPCU, which would then channel funding to GPCUs in accordance with the needs of the AWP&B for the particular year. The procurement of services to be financed from the IFAD grant proceeds would be carried out in accordance with IFAD procurement guidelines. The IFAD financing for the implementation of Component 2: Rural Finance Component which is to be implemented by ARDF and SFD would be channelled in two ways through separate Subsidiary Loan Agreements (SLA) with MOPIC and acceptable to IFAD. Both ARDF and SFD would receive IFAD funds through preparation of Withdrawal Application (WA) in consultation with NPCU.
3. ARDF, and SFD would cover the cost of its participation and provide the necessary training, operational costs and technical assistance from own budgets for their staff. The Government contribution for training and capacity building would be provided directly to the NPCU, while its share staff salaries would be directly provided to GPCUs.
4. **Annual Work Plan and Budget.** The Annual Work Plan and Budget (AWPB) would be prepared by the National Project Coordination Unit (NPCU), on the basis of inputs from the Governorate Project Units (GPCUs), approved by the Project Steering Committee (PSC) prior to submission to IFAD for no objection no later than 60 days before the beginning of the relevant Project year. The AWPB will show detailed activities, unit costs and monitoring indicators for results and impacts, as well as the modality of implementation. The AWP&B would include an 18-months procurement plan to be submitted separately to IFAD for non-objection.
5. **Accounts.** There would be three separate accounts for IFAD financing, two for IFAD loan (for ARDF and SFD) and one for IFAD grant (for NPCU) to facilitate the timely payments and annual requirements for IFAD financing (loan and grant) which would be made through direct payment to these Project Designated Accounts (DAs) to be opened in a bank acceptable to IFAD. These DAs would receive IFAD loan and grant funds in advance to finance IFAD's share of the Project expenditures according to the approved AWP&B. Flow of funds chart is presented in Annex 1.
6. **Disbursements.** The IFAD loan and grant would be disbursed over a period of eight years. The estimated disbursement schedule for the IFAD financing is shown in Table 1 below. Disbursements by IFAD for items of expenditures costing less than US\$50,000 or equivalent and for credit will be made against certified Statements of Expenditure. The responsibility for the financial management of the Project would rest with the NPCU and GPCUs which will retain the relevant documents and make them readily available for inspection and review by IFAD supervision missions and the

auditors. NPCU would ensure qualified staff and an appropriate financial management and accounting system for the grant accounts and respective expenditures. No taxes and duties would be financed from the IFAD loan proceeds.

7. The project disbursements by semester are summarized in Table 1.

Table 1: Disbursements by Semester (US\$ '000)

	Financing Available						Costs to be		
	IFAD					Total	Financed Project Costs	GOE	
	IFAD Loan Amount	Grant Amount	ARDF Amount	SFD Amount	Beneficiaries Amount			Cash Flow	Cumulative Cash Flow
1	-	-	-	-	-	-	4 126	-4 126	-4 126
2	2 230	96	493	63	587	3 468	4 126	-658	-4 784
3	2 230	96	493	63	587	3 468	4 941	-1 473	-6 256
4	2 981	48	714	51	739	4 533	4 941	-408	-6 665
5	2 981	48	714	51	739	4 533	6 066	-1 533	-8 198
6	3 652	111	874	77	904	5 617	6 066	-448	-8 646
7	3 652	111	874	77	904	5 617	7 023	-1 406	-10 051
8	4 535	48	777	55	1 151	6 566	7 023	-457	-10 508
9	4 535	48	777	55	1 151	6 566	7 624	-1 058	-11 567
10	4 932	68	822	65	1 262	7 149	7 624	-476	-12 042
11	4 932	68	822	65	1 262	7 149	8 109	-960	-13 002
12	5 259	60	858	59	1 328	7 563	8 109	-546	-13 548
13	5 259	60	858	59	1 328	7 563	8 392	-829	-14 377
14	5 620	43	793	65	1 426	7 948	8 392	-445	-14 822
15	5 620	43	793	65	1 426	7 948	7 829	119	-14 703
16	5 792	26	134	65	1 475	7 491	7 829	-338	-15 042
17	5 792	26	134	65	1 475	7 491	-	7 491	-7 551
Total	70 000	1 000	10 927	1 000	17 743	100 669	108 220	-7 551	-7 551

8. **Performance Based Contracts.** The PRIME design acknowledges that decentralised supervision and handholding would be required in particular for IFAD specific TSPs and FSPs. However, these are not new in Egypt and are increasingly becoming the norm. Nevertheless, there may be need for some start up training to establish how PBA triggers can be incorporated into standard contracts. The project staff would be provided guidance based on CGAP's Technical Guide on the subject and the five different steps in establishing a PBA would be followed namely (a) Identifying the appropriate results / outcome based indicators to serve as triggers; (b) Establishing realistic target levels for performance indicators; (c) Identifying minimum performance thresholds; (d) Identifying non-compliance measures; and (e) Providing sample reporting formats and instructions on reporting.

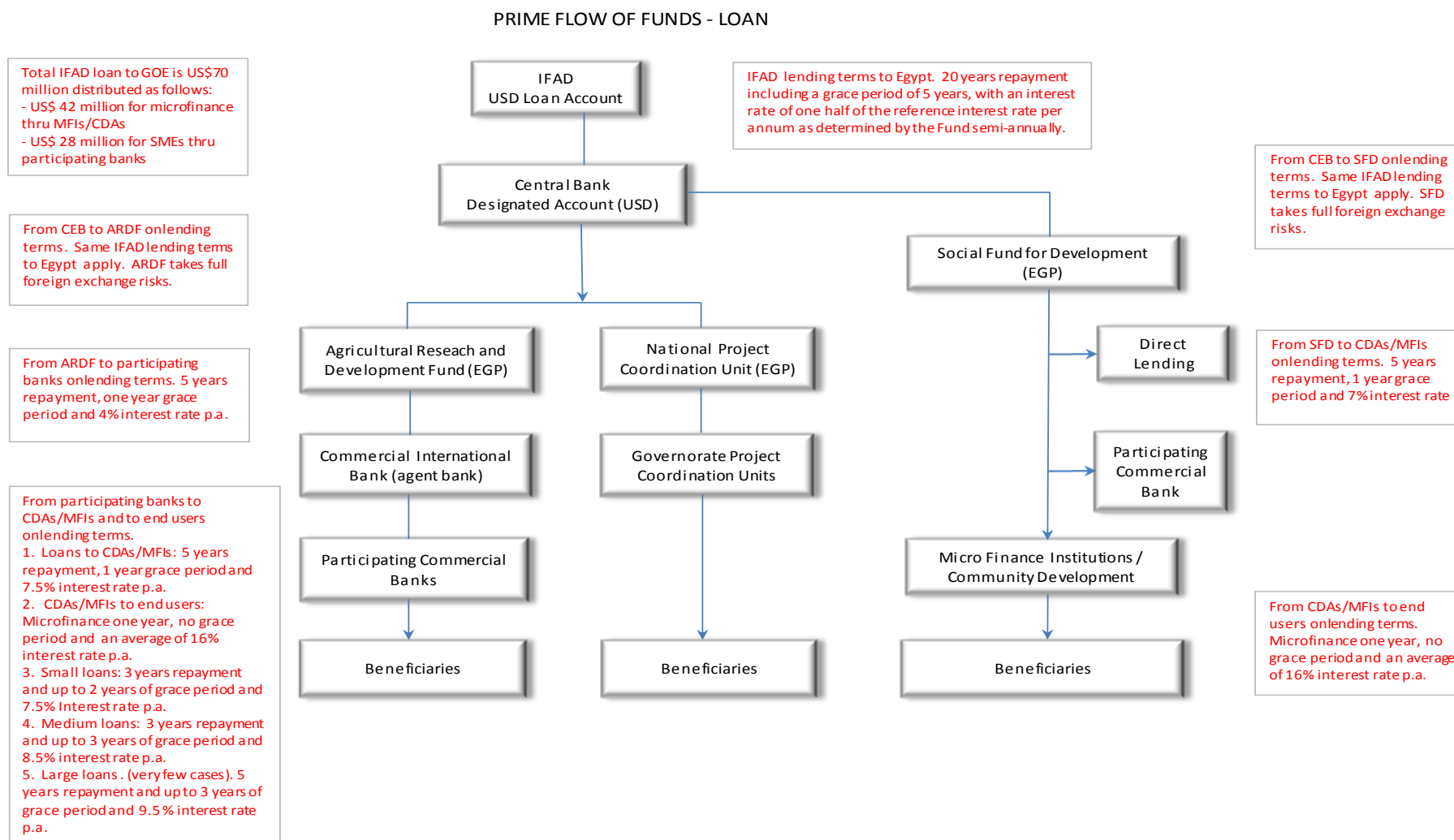
9. The IFAD specific contractual relations between Technical Service Providers (TSPs) and Financial Service Providers (FSPs) would take two specific forms and include outcome based indicators that would serve as triggers for a staggered disbursement. The Subsidiary Loan Agreements (SLAs) with ARDF and SFD would identify the Key Performance indicators for the provision of rural financial services. This would in particular determine the allocation of loan funds between ARDF and SFD especially for the microloans.

10. The **Management Agreements** with Technical Service Providers would clearly identify the outputs and outcomes expected from all those providing technical services under the Marketing Support Component and for the technical strengthening of participating financial service providers. The payment to all TSPs would be based on specified outputs and outcomes.

11. **Audit.** The Project would be audited separately for IFAD. The Borrower, through the NPCU, shall appoint independent auditors acceptable to IFAD, under the terms of reference cleared by IFAD, and in line with the IFAD Guidelines for Audits. The costs associated with the independent auditors would be financed by the Government. The contract for the audit would be awarded during the first year of Project implementation and thereafter, extended from year to year subject to satisfactory performance and IFAD clearance. Detailed TOR for the auditor would be prepared during Project appraisal.

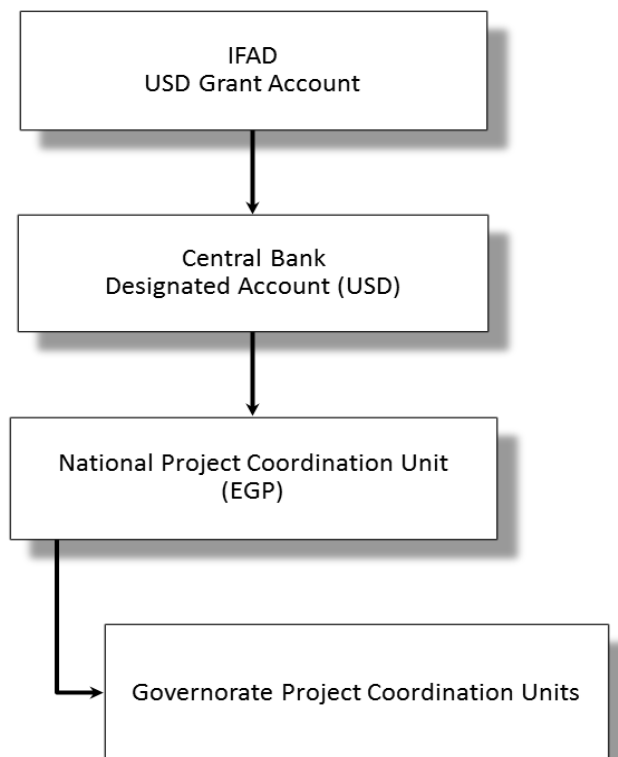
12. The auditors would provide a separate opinion on SOEs and each Project account with respect to the funding mechanism, use of Project resources, adherence to IFAD procurement procedures and guidelines, accountability of Project participants, and also to provide a management letter addressing the adequacy of the accounting and internal control systems and make recommendations. The Borrower, through the NPCU, would submit the Audit Report to IFAD not later than six months after the end of the fiscal year, and a reply to the auditors' recommendations in the management letter within one month of receipt thereof. IFAD supervision missions would report on the Borrower compliance with the loan covenants.

APPENDIX 1 – PRIME FLOW OF FUNDS DIAGRAM – Loan



Note: All lending terms to SFD or ARDF, to participating banks and CDAs/MFIs will be specified in the subsidiary agreements including a clause on revision of the lending terms as and when appropriate, according to market conditions and inflation rates. The revolving funds would be dedicated for use in the rural and agricultural sector even beyond project life until the maturity of the IFAD loan.

APPENDIX 1 – PRIME FLOW OF FUNDS DIAGRAM – Grant



ANNEX 8 - PROCUREMENT

1. **IFAD Requirements.** It is incumbent upon IFAD to meet its fiduciary obligations arising from the changing procurement environment in line with its mandate to enhance development effectiveness with emphasis on economy, efficiency and social equity, as per Article 7.1(c) of the Agreement Establishing IFAD. IFAD's management strives to contribute substantially to achieving this goal. In addition, as required under Article 7.2(j), IFAD "shall give appropriate preference to experts, technicians and supplies from developing countries". While, in practice, the specific procurement rules and procedures to be followed in the implementation of a project depend on the circumstances of the particular case, the following considerations generally guide IFAD's requirements: In line with the IFADs Procurement guidelines approved by the IFAD Executive Board in September 2010 and the provisions of the General Conditions, procurement of goods, works and services financed by IFAD should be carried out in accordance with the provisions of the borrower's procurement regulations, to the extent consistent with these guidelines.

2. **General Guidelines.** The following considerations generally guide IFAD's requirements for procurement: (i) the need for economy and efficiency in the implementation of the project, including the procurement of the goods and works involved and the recruitment of consultants; (ii) IFAD's interest in giving all eligible bidders from developed and developing countries the opportunity to compete in providing goods, works and consulting services financed by IFAD; (iii) IFAD's interest, as a development financing institution, in encouraging the development of domestic capacity to provide goods, works and consulting services; and giving appropriate preference to experts, technicians and supplies from developing countries; (iv) the importance of fairness, integrity, transparency and good governance in the procurement process; and (v) the recognition that competition is the basis for efficient public procurement. Borrowers shall select the most appropriate method for the specific procurement. The specific contracts to be financed under the project and their method of procurement shall be consistent with the loan agreement.

3. **Country Assessment.** Mission assessment of the country's national procurement system and regulations on whether they are consistent with the procurement policies, principles and standards of IFAD guidelines included a review of the: (i) level of practical application of existing laws, regulations and procedures covering procurement and the extent to which they comply with IFAD guidelines; (ii) level of the existing human capacity to undertake project procurement; (iii) organization and functions; (iv) support and control systems relating to procurement; (v) recordkeeping; and (vi) overall procurement environment within MALR as the lead agency. The latest Country Procurement Assessment Report (CPAR) carried out by the World Bank in December 2003 identified weaknesses in the Egyptian procurement system which posed a high risk for procurement. The Government of Egypt has since taken appropriate steps to develop and implement an adequate framework for enhancing integrity throughout its entire public administration system. This initiative falls under the auspices of the Ministry of State for Administrative Development (MSAD) who has dedicated a webpage under the title "Programme for Enhancement of Government Services".²⁹ Its aim is to raise the efficiency in the use of public funds. By creating an electronic portal for dissemination of procurement related information to all government agencies and publicly, including publishing the award of tenders, it expects to widen the circle of competition between suppliers and to promote the principles of transparency and equal opportunities.

²⁹ Link: http://www.edara.gov.eg/About%20MSAD/Programs/Back_Office_Program/Shopping
http://www.edara.gov.eg/About%20MSAD/Programs/Back_Office_Program/Shopping

4. **Use of National Systems.** The mission assessment of the current government procurement procedures and MALR capacity to procure required investments are generally in accordance with IFAD requirements and suitable for use for project procurement with some modifications. As a result the procurement of services to be financed from the proceeds of IFAD financing, at the time, would be carried out in accordance with IFAD procurement guidelines, taking into considerations the following principles: (i) procurement would be carried out in accordance with the Financing Agreement and any duly agreed amendments thereto; (ii) procurement would be conducted within the project implementation period, except as provided under Article 4.10(a)(ii) of IFAD's General conditions for Agricultural Development Financing; (iii) cost of the procurement is not to exceed the availability of duly allocated funds as per Financing Agreement unless otherwise agreed in accordance with amendments to the Financing Agreement; (iv) procurement would be consistent with the duly approved AWPB including a procurement plan for at least 18 months; and (v) procurement should result in the best value for money.

5. Procurement of services would follow methods described in the IFAD procurement guidelines. Contracts for the provision of training services and service contracts would be procured under Quality and Cost Based Selection (QCBS), direct purchase or single tender, depending on the requirements, the amount of contract and the availability of local or regional agencies with requisite expertise. Direct purchase or contracting procedures would be adopted for procurement of items or services amounting to less than US\$15,000 and for fixed budget procedures, subject to IFAD's prior review. Technical assistance, reviews and studies would be done through direct contracting on the basis of short lists and terms of reference acceptable to IFAD.

6. The PRIME project also envisages performance base contracts for both Technical Service providers and Financial Service providers. Thus during the procurement of these providers the performance criteria will be clearly specified on the basis of which disbursements would be made. All bidding documents and contracts for the procurement of services financed by IFAD loan and grant would include a provision requiring bidders, suppliers, contractors, sub-contractors and consultants to permit IFAD to inspect their accounts, records or other documents relating to the bid submission and contract performance and to have them audited by IFAD-appointed auditors and investigators, as appropriate.

Table 1: Procurement Arrangements for IFAD Financing (US\$'000)

	Procurement Method				Total
	Consulting Services: QCBS	Consulting Services: CQ	Financial Intermediaries	N.B.F.*	
A. Vehicles	-	-	-	261 666	261 666
B. Equipment, Materials & Goods	-	-	-	444 163	444 163
C. Capacity Building	-	14 289 927	-	55 372	14 345 298
D. Technical Assistance	51 788	-	-	214 168	265 956
E. Credit Facility	-	-	87 742 456 (69 999 767)	-	87 742 456 (69 999 767)
F. Salaries & Allowances	-	-	-	3 841 488	3 841 488
G. Operating Cost	-	-	-	1 319 072	1 319 072
Total	51 788	14 289 927	87 742 456 (69 999 767)	6 135 929	108 220 100 (69 999 767)

Note: Figures in parenthesis are the respective amounts financed by IFAD Loan

N.B.F.* refers to items not financed by IFAD.

<http://www.edara.gov.eg/About+MSAD/Tenders/>

7. Eighteen Months Procurement Plan. A preliminary 18-Month Procurement Plan has been prepared and presented in Table 2. This Plan would be further refined during appraisal.

Table 2: Preliminary 18-Month Procurement Plan`

PRIME - First 18 Months Procurement Plan																
Abbreviations:			CW: Civil Works C: Credit ARDF: Agricultural Research Development Fund Budget SFD: Social Fund for Development Budget CQ: Consultant qualification					DC: Direct Contracting IS: International Shopping QCBS: Quality-Cost Based Selection ICB: International Competitive Bidding				NCB: National Competitive Bidding LS: Local Shopping IC: Individual Consultant				
GB: Government Budget V: Vehicles EQG: Equipment & Goods TTAWS: Training, TA, Workshops & Studies RC: Recurrent Costs																
Financier	Com. Ref	Description	Exp. Category	Proc. Method	Total Project (US\$ 000)	2012 (US\$ 000)	2013 (US\$ 000)	Total First 18 Months (US\$ 000)	Unit	Unit cost	Prior/ Post Review	Starting Date	Bid Opening Date	Contract Award Date	End Date	Responsible Agency
	C.1	Marketing Support														
IFAD Grant	C.1.1	Organizing Smallholder Farmers														
	C.1.1.1	Organisational Assessment Training	TTAWS	QCBS	207	65	0	65	staff	527.0	Prior	03/2012				NPCU/GPCU
	C.1.1.3	Strengthening of Existing FMGs/FMAs /b	TTAWS	QCBS	438	43	74	70	farmer	176.0	Prior	06/2012				NPCU/GPCU
	C.1.1.4	Formation of New FMGs/FMAs /c	TTAWS	QCBS	521	43	74	70	farmer	176.0	Prior	06/2012				GPCU
	C.1.1.5	Formation of Women MAs /d	TTAWS	QCBS	1 251	104	178	193	farmer	176.0	Prior	06/2012				GPCU
	C.1.1.6	Equipment Support	EQG	NCB	873	86	148	160	number	425.0	Prior	06/2012	06/2012	07/2012		GPCU
		Sub-total C.1.1			3 290	341	474	558								
IFAD Grant	C.1.2	Market Intelligence														GPCU
	C.1.2.1	Market Assessment	TTAWS	QCBS	207	134	0	134	number packages	3510.0	Prior	06/2012				GPCU
	C.1.2.2	Marketing Information Packages	TTAWS	QCBS	106	34	35	51		1755.0	Prior	06/2012				GPCU
	C.1.2.3	Training in Farming as a Business	TTAWS	QCBS	1 265	65	152	141	farmers	53.0	Prior	06/2012				GPCU
	C.1.2.4	Training in Basic Marketing Skills	TTAWS	QCBS	1 265	65	152	141	farmers	53.0	Prior	06/2012				GPCU
	C.1.2.5	Marketing Information Services	TTAWS	QCBS	1 040	86	148	160	assoc.	1755.0	Prior	06/2012				GPCU
		Sub-total C.1.2			3 883	384	487	627								
IFAD Grant	C.1.3	Value Chain Linkages														
	C.1.3.1	Assessment of Value Chain Actors	TTAWS	QCBS	213	103	0	103	surveys	5265.0	Prior	06/2012				GPCU
	C.1.3.2	Facilitating Market Linkages	TTAWS	QCBS	841	35	89	80	linkages	53.0	Prior	06/2012				GPCU
	C.1.3.3	Contract Farming Arrangements	TTAWS	QCBS	59	19	20	29	models	1755.0	post	06/2012				GPCU
		Sub-total C.1.3			1 113	157	109	212								
IFAD Grant	C.1.4	Marketing Oriented Production Training														
	C.1.4.1	Horticulture specialists	TTAWS	CQ	520	43	74	70	Number	878.0	Prior	06/2012				GPCU
	C.1.4.2	Livestock specialists	TTAWS	CQ	520	43	74	70	Number	878.0	Prior	06/2012				GPCU
	C.1.4.3	Training of Farmer Groups	TTAWS	QCBS	2 080	172	295	319	groups	3 510.0	Prior	06/2012				GPCU
	C.1.4.5	Qualification/ GlobalGap Audit for FAs /a	TTAWS	CQ	840	43	101	93	Farmers	176.0	Prior	06/2012				GPCU
	C.1.4.6	Certification for FAs /b	TTAWS	CQ	755	39	90	84	Farmers	316.0	Prior	06/2012				GPCU
		Sub-total C.1.4			4 715	340	634	636								
	C.2	Rural Finance														
	C.2.1	Market-Based Credit Research & Development														
	C.2.1.1	Orientation & Training of ARDF/CBs/ACs /a	TTAWS	QCBS	24.16	7.64	0.00	8.00	staff	200	Post	06/2012				GPCU
	C.2.1.2	Orientation & Training for SFD/MFIs/CDAs	TTAWS	QCBS	24.16	7.64	0.00	8.00	staff	200	Post	06/2012				GPCU
	C.2.1.3	Participatory Market Appraisal & Credit Devt. for SME	TTAWS	QCBS	133.88	15.29	15.71	23.00	person day	100	Post	06/2012				GPCU
	C.2.1.4	Participatory Market Appraisal & Credit Devt. for Micro	TTAWS	QCBS	95.63	10.92	11.22	16.00	person day	100	Post	06/2012				GPCU
	C.2.1.5	Participatory Market Appraisal & Credit Development for	TTAWS	QCBS	66.94	7.64	7.85	12.00	person day	100	Post	06/2012				GPCU
	C.2.1.6	Devt. & Monitoring of Financing Plans for SMEs	TTAWS	QCBS	344.25	39.31	40.39	59.00	person days	2 000	Prior	06/2012				GPCU
	C.2.1.7	Devt. & Monitoring of Financing Plans for Microfinance	TTAWS	QCBS	172.13	19.65	20.19	30.00	person days	1 500	Prior	06/2012				GPCU
	C.2.1.8	Devt. & Monitoring of Financing Plans for Women (SM	TTAWS	QCBS	57.38	6.55	6.73	10.00	person days	2 000	Prior	06/2012				GPCU
		Sub-total C.2.1			918.51	114.64	102.09	166.00		0.0						
IFAD Loan	C.2.2	Credit Facility														
	C.2.2.1	Micro-loans	C	FIN. INT.	50 037	2 695	4 379	4 884	lumpsum		Prior	09/2012	09/2012	10/2012		SFD/ARDF
	C.2.2.2	Small Enterprise Loans	C	FIN. INT.	18 166	1 711	1 711	2 566	lumpsum		Prior	09/2012	09/2012	10/2012		SFD/ARDF
	C.2.2.3	Medium-Enterprise Loans	C	FIN. INT.	19 540	1 228	1 351	1 903	lumpsum		Prior	09/2012	09/2012	10/2012		SFD/ARDF
		Sub-Total C.2.2			87 743	5 633	7 441	9 353								
	C.2.3	Strengthening of Financial Institutions														
ARDF	C.2.3.1	Risk Management in Agriculture	TTAWS	QCBS	153	13	15	20.0	trainees	500.0	post					NPCU/ARDF/SFD
ARDF	C.2.3.2	Microfinance Best Practices	TTAWS	QCBS	205	17	20	27.0	trainees	500.0	post					NPCU/ARDF/SFD
ARDF/SFD	C.2.3.3	Acquisition/ Strengthening of MIS /a	TTAWS	QCBS	53	4	6	7.0	systems	500.0	post					NPCU/ARDF/SFD
		Sub-total C.2.3			411	34	41	54		1 500.0						
GB	C.3	Project Coordination and Management														
	C.3.1	National Project Coordination Unit (NPCU)														
	C.3.1.1	Vehicles /a	V	LS	33	33	0	33	number		Post	06/2012				NPCU
	C.3.1.2	Equipment and goods	EQG	NCB	110	116	0	116	unit		Prior	06/2012	06/2012	07/2012		NPCU
	C.3.1.3	Studies and workshops	TTAWS	QCBS	144	14	0	14	lumpsum		Post	06/2012				NPCU
	C.3.1.4	Technical assistance	TTAWS	QCBS	52	19	0	19	p/month		Post	06/2012				NPCU
	C.3.1.5	Training	TTAWS	QCBS	390	150	0	150	course		Prior	06/2012				NPCU
	C.3.1.6	Salaries/Allowances	RC	NCB/LS	1 076	123	126	186	p/year		Prior	06/2012				NPCU
	C.3.1.6	Vehicle O&M	RC	LS	60	7	7	10	per year		Post	06/2012				NPCU
	C.3.1.8	Office Operating Expenses	RC	LS	122	14	14	21			Post	06/2012				NPCU
		Sub-total C.3.1			1 987	476	147	549								
GB	C.3.2	Governorate Project Coordination Units (GPCUs)														
	C.3.2.1	Vehicles /a	V	NCB	230.00	230.00	0.00	230.00	number		Prior	06/2012	06/2012	07/2012		GPCU
	C.3.2.2	Equipment/ Goods	EQG	NCB	345.00	203.00	0.00	203.00	unit		Prior	06/2012	06/2012	07/2012		GPCU
	C.3.2.3	Studies and workshops	TTAWS	QCBS	22.00	19.00	0.00	19.00	lumpsum		Prior	06/2012				GPCU
	C.3.2.4	Salaries/Allowances	RC	NCB/LS	2 982.00	341.00	350.00	516.00	p/year/day		Prior	06/2012				GPCU
	C.3.2.5	Vehicle O&M	RC	LS	423.00	40.00	50.00	65.00	per year		Prior	06/2012				GPCU
	C.3.2.6	Office Operating Expenses	RC	LS	740.00	84.00	87.00	127.00	per year		Prior	06/2012				GPCU
		Sub-total C.3.2			4 742.00	917.00	487.00	1 160.00								
		Total components			108 802.5	8 397.0	9 922.1	13 315.0								

ANNEX 9 - PROJECT COSTS AND FINANCING

Main Features

1. The Promotion of Rural Incomes through Market Enhancement (PRIME) Project would include three components namely; (i) Marketing Support Component; (ii) Rural Finance Component; and (iii) Project Management and Coordination Component. The Marketing Support Component would have four sub-components (i) Organising and strengthening Farmer Groups/Associations; (ii) Market Intelligence; (iii) Value Chain Linkages; and (iv) Market Oriented Production. The Rural Finance Component would have three sub-components (i) Market Based Credit Research & Development; (ii) Credit Facility; and (iii) Strengthening Financial Intermediaries.
2. PRIME Project would be implemented in the seven Governorates of Qena, Sohag, Assiut, Menia and Beni Seuf in Upper Egypt and Beheira and Kafr-el-Sheikh in Lower Egypt. It would be financed over a period of eight years and the costs have been estimated on the basis of prices prevailing during Project formulation in November 2010.
3. **Physical and Price Contingencies.** A physical contingency of 5 per cent and has been applied on capacity building to account for the uncertainty regarding the exact implementation quantities, while price contingencies have been applied on all costs, with the exception of credit.
4. **Inflation.** Overall inflation in Egypt has followed trends in global price indices. For the purpose of this analysis, current CBE's estimates³⁰ have been used in line with estimates made by the Economist Intelligence Unit (EIU) of June 2011. For foreign inflation, rates of 2.1%, 2.0% and 2.1% have been used for the first three years while a rate of 2.2% has been used afterwards, these rates are in line with the projections of the EIU. Both local and foreign inflation rates have been compounded at mid-year as shown in Table 1.

Table 1: Inflation Rates

	Up to Negotiation	Up to Project Start	2012	2013	2014	2015	2016	2017	2018	2019
Inflation (in %'s) /a										
All										
Annual rates										
Local	3.0	0.0	11.8	11.6	9.1	7.5	7.6	7.6	7.6	7.6
Foreign	2.5	0.0	2.1	2.0	2.1	2.2	2.2	2.2	2.2	2.2
Compounded rates										
Local	3.0	0.0	5.9	18.3	30.4	41.2	51.9	63.4	75.9	89.2
Foreign	2.5	0.0	1.1	3.1	5.2	7.5	9.9	12.3	14.8	17.3

^a Yearly values are within Each Project Year

5. **Exchange Rate.** The exchange rate used for this analysis is the rate³¹ prevailing during Project appraisal at EGP 5.7 = US\$1.0. A constant purchasing parity rate has been used to project exchange rate during the project duration. Table 2 presents the resulting exchange rates actually used.

³⁰ Central Bank of Egypt (CBE), Monthly Inflation Developments, June 2011.

³¹ This rate did not change between the first and final design stages.

Table 2: Exchange Rates

Exch Rate	Up to Project start-up	Mid PY1	Mid PY2	Mid PY3	Mid PY4	Mid PY5	Mid PY6	Mid PY7	Mid PY8
EGP to US\$	5.70	6.00	6.60	7.10	7.50	7.90	8.30	8.80	9.20

6. **Taxes and Duties.** Technical assistance, studies, training and workshops are outsourced and contractors are responsible for their national tax liabilities. All items to be imported for the Project would attract import duties and customs of different proportions. Domestically purchased items are also subject to national and local taxes of different types, while VAT is applied, where appropriate, to costs of all transactions.

7. **Cost estimation for vehicles, equipment and Training.** Unit Costs for vehicles, equipment and materials have been quoted in EGP, for prices prevailing during project formulation. Estimates for vehicles and equipment were based on recent data available from donors financed projects or respective agents. The foreign exchange for vehicles, equipment, goods and materials reflects the fact that most of these goods are imported. The Mission estimated the unit costs and training activities with reference to expenditure and disbursement levels for training activities under other on-going IFAD projects in Egypt. These estimates were then cross-checked against those of the service providers, NGOs, and donor agencies financing development projects in Egypt. For each course, duration, numbers of participants, tuition, cost of venue, per diems, travel and course materials have been estimated.

A. Project Costs

8. The total project costs including physical and price contingencies are estimated at US\$ 108.22 million or EGP 655.53 million over eight years of the Project implementation period. The foreign exchange component totalling US\$ 1.69 million (EGP 12.29 million) representing 2 per cent of the total base costs. Physical and price contingencies account for about 2 per cent of total project costs. The investment costs amount to US\$ 101.3 million or EGP 577.8 million representing 96 per cent of the total base cost. While the recurrent costs amount to US\$ 4.7 million or EGP 26.8 million representing 4 per cent of the total base costs. Project costs by components with local and foreign exchange costs are summarized in Table 3.

Table 3: Project Costs Summary by Components

	(EGP '000)			(US\$ '000)			% For Exch	% Total Base Costs
	Local	Foreign	Total	Local	Foreign	Total		
A. Marketing Support Component								
1. Strengthening/Formation of Farmers Mktng Groups/Assoc.	16 643	876	17 519	2 906	153	3 059	5	3
2. Market Intelligence	18 285	962	19 247	3 192	168	3 360	5	3
3. Value Chain Linkages	5 223	275	5 498	912	48	960	5	1
4. Marketing Oriented Production	22 140	1 165	23 306	3 865	203	4 069	5	4
Subtotal Marketing Support Component	62 292	3 279	65 570	10 875	572	11 448	5	11
B. Rural Finance Component								
Market-based Credit Research & Development	4 295	226	4 521	750	39	789	5	1
Credit Facility	500 367	59	500 426	87 783	10	87 794	-	83
Strengthening Financial Institutions	1 905	100	2 005	333	18	350	5	-
Subtotal Rural Finance Component	506 566	385	506 951	88 866	67	88 933	-	84
C. Project Management & Coordination Unit								
National Project Coordination Unit	6 456	967	7 423	1 127	169	1 296	13	1
Governorate Project Coordination Units	20 577	4 134	24 711	3 593	722	4 314	17	4
Subtotal Project Management & Coordination Unit	27 034	5 101	32 135	4 720	891	5 610	16	5
Total BASELINE COSTS	595 892	8 765	604 656	104 461	1 530	105 991	1	100
Physical Contingencies	3 676	273	3 950	642	48	690	7	1
Price Contingencies	43 674	3 250	46 924	1 433	107	1 540	7	1
Total PROJECT COSTS	643 242	12 288	655 529	106 535	1 685	108 220	2	102

B. Project Financing

9. The overall project costs of US\$108.22 million would be financed by an IFAD loan of US\$ 70 million and an IFAD grant of US\$1 million, representing 65 per cent and 1 per cent respectively of total Project costs. The Agricultural Research Development Fund (ARDF) and the Government are co-financing the project by US\$10.9 million and US\$7.6 million representing 10.0 per cent and 7.0 per cent of total project cost. The Government contribution (including taxes and duties) would be used to fully finance the vehicles, equipment, goods and materials, technical assistance, and the incremental operating costs. The Social Fund for Development (SFD) would contribute US\$1.0 million (1.0 per cent) while the Project Beneficiaries would contribute US\$17.7 million or 16 per cent of total costs. The proposed financing plan is summarized in Table 4 below.

Table 4: Components Financing Plan (US\$ 000)

	IFAD Loan		IFAD Grant		GOE		ARDF		SFD		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Marketing Support Component																	
1. Strengthening/Formation of Farmers Mktng Groups/Assoc.	-	-	455	13.2	627	18.1	2 376	68.7	-	-	-	-	3 458	3.2	173	3 112	173
2. Market Intelligence	-	-	206	5.4	762	20.0	2 843	74.6	-	-	-	-	3 811	3.5	191	3 430	191
3. Value Chain Linkages	-	-	217	19.9	96	8.8	375	34.4	404	37.0	-	-	1 092	1.0	55	982	55
4. Marketing Oriented Production	-	-	70	1.5	502	10.9	4 053	87.6	-	-	-	-	4 626	4.3	231	4 163	231
Subtotal Marketing Support Component	-	-	948	7.3	1 987	15.3	9 648	74.3	404	3.1	-	-	12 987	12.0	649	11 688	649
B. Rural Finance Component																	
Market-based Credit Research & Development	-	-	-	-	45	5.0	584	64.8	272	30.2	-	-	901	0.8	45	811	45
Credit Facility	70 000	79.7	52	0.1	-	-	-	-	-	-	17 743	20.2	87 794	81.1	10	87 784	-
Strengthening Financial Institutions	-	-	-	-	0	-	387	96.1	16	3.9	-	-	403	0.4	20	382	-
Subtotal Rural Finance Component	70 000	78.6	52	0.1	45	0.1	971	1.1	288	0.3	17 743	19.9	89 098	82.3	76	88 977	45
C. Project Management & Coordination Unit																	
National Project Coordination Unit	-	-	-	-	1 258	88.9	78	5.5	78	5.5	-	-	1 415	1.3	182	1 196	37
Governorate Project Coordination Units	-	-	-	-	4 261	90.2	230	4.9	230	4.9	-	-	4 721	4.4	778	3 772	171
Subtotal Project Management & Coordination Unit	-	-	-	-	5 519	89.9	309	5.0	309	5.0	-	-	6 136	5.7	960	4 968	208
Total PROJECT COSTS	70 000	64.7	1 000	0.9	7 551	7.0	10 927	10.1	1 000	0.9	17 743	16.4	108 220	100.0	1 685	105 633	902

10. **Financing of Staff Salaries.** Incremental staff salaries and allowances both at national and governorate levels would be financed by the Government, while both ARDF and SFD would be equally contributing the incremental salaries of the credit coordinators at national and governorate levels.

11. **Financing of Taxes.** Overall taxes and duties are estimated to amount US\$ 0.90 million or 0.8 per cent of total Project costs. The Government will either waive off or finance the cost of all taxes and duties under the Project.

ANNEX 10 - ECONOMIC AND FINANCIAL ANALYSIS

1. **Overview.** The Promoting Rural Income through Marketing Enhancement (PRIME) Project is expected to enhance smallholder horticulture farmer's capacity for marketing through improved access to credit and establishment or strengthening of informal FMGs/ FMAs to sustainably access profitable marketing opportunities and respond to market signals, and enhance their linkages with market intermediaries (traders, processors and exporters). PRIME interventions intend to: (i) increase farm-gate prices for smallholder farmers, thus improve food security; (ii) reduce production and post-harvest losses; (iii) increase quantity and quality of horticulture and livestock produce; (iv) increase women's participation in marketing activities; and (v) increase rural youth employment. These targets would be achieved through appropriate marketing training and improved access to credit both for rural and agricultural sector.

2. To determine the impact of PRIME on individual smallholder horticulture farmers and entrepreneurs, detailed financial analysis of crop budgets, farm and enterprise models were used. The indicative farm investment and enterprise models used illustrate the potentials of profitability for the various activities. The results indicate that the interventions envisaged under PRIME would increase incomes for smallholder farmers, cash flows and returns to family from farm investments and indicate that improved access to markets and credit would justify the adoption of the proposed investments.

A. FINANCIAL ANALYSIS

3. **Objectives and Approach.** The objectives of this financial analysis are: (i) to assess the financial viability of the interventions proposed under PRIME for the smallholder farmers and their households and market intermediaries as well as for micro, small and medium entrepreneurs; (ii) to examine the impact of Project interventions on family labour, cash flow and household incomes; and also (iii) to establish a framework for the economic analysis. The approach undertaken is to determine whether: (i) Project interventions at on-farm and off-farm/ enterprise levels would offer sufficient financial incentives to attract the target group households; and whether (ii) the incomes generated by such productive and enterprise activities would be adequate for both smallholder horticultural farmers and entrepreneurs to timely re-pay their loans. The indicative crop and activity budgets were combined in the farm models presenting the situation of "with" and "without" project scenarios, while enterprise models present the "with" Project situation.

B. Project Benefits and Beneficiaries

4. **Project Beneficiaries.** Overall PRIME target group universe in the seven Project Governorates would include about 500,000 households mainly involved in the horticulture sector. For the purpose of this analysis however, the direct Project beneficiaries are defined as 10 per cent of the target group universe or about 50,000 rural household. Those who will take up and adopt the full package of PRIME interventions were estimated at 21,923 rural households, at an average size of five people per household. These direct beneficiaries would also benefit from the improved access to rural finance services in terms of micro, small and medium loans. Overall, it is estimated that about 30,733 households would benefit from micro loans, 1,123 households from small investment loans and about 174 households would benefit from medium loans. These loans would cover both seasonal on-farm and off-farm activities and various enterprise investments such as composting facilities, milk collection centres, sun-dried tomato facilities, pack houses, refrigerated trucks and solar dried facilities for high value herbs and spices.

5. The indirect beneficiaries of PRIME's interventions could include the unemployed and underemployed in the Project area, who are among the poorest sections of the population and who often depend on casual labour as an important source of livelihood.

Field discussions indicated that hired labour particularly for high value horticultural crop production and labour intensive enterprises is present at peak time. Other beneficiaries, could also include the financial intermediaries, mainly ARDF, SFD, Commercial Banks, MFIs, CDAs, FMAs, etc. which would benefit from the support and development of the microfinance sector, through provision of credit and strengthening the capacity building to expand their outreach.

6. **Project Benefits.** The Project would be expected to generate substantial economic benefits that could generally be classified on different levels. The increased horticultural production and incomes, at farm level for instance, would be accomplished through better agronomic practices, improved production quality, increased farm gate prices, reduced production losses, better access to credit and marketing facilities, integration of a large number of smallholder horticulture and livestock producers into organized commercial value chains and facilitate beneficial partnerships between the major value chain actors. At off-farm/ enterprise levels, PRIME would increase rural household incomes through more profitable and value-added activities.

7. The Project would also generate other benefits that include improved capabilities of FMGs/FMAs to become sustainable and efficient institutions by assisting them to organise themselves on a voluntary basis to interact more effectively with other stakeholders in the value chain. The support to FMGs/FMAs would include building their capacity on better value chain linkages, marketing oriented production and sustainably effective market intelligence to better access, analyse and disseminate relevant information that would reduce uncertainty, better support decision-making and enhance market accessibility. Project support to FMGs/FMAs is not only to effectively implement the Project, but also to build up their human and logistical capacity base. This support is expected to improve their leadership, management and negotiating skills. The successful implementation of PRIME activities would generate additional employment opportunities both for unskilled and skilled labour in the rural areas, as the growth in agricultural sector would rise farm income, reduce poverty and stimulate growth in the rural non-farm sector. PRIME would also stimulate growth in the non-farm sector by specific allocation of financial services and strengthening the linkages between the agriculture and non-farm sector.

Key Assumptions

8. **Micro, small and Medium Loans.** Micro, small and medium loans³² would be available to smallholder farmers, women and entrepreneurs through ARDF affiliated commercial banks, SFD and micro finance intermediaries/ CDAs/ FMGs/FMAs at market interest rate. All loans would be made in accordance with financial intermediaries' current terms and conditions.

9. **Exchange rate.** The exchange rate used in the analysis is EGP 5.70 to US\$1.0.

10. **Prices.** The financial prices for project inputs and products were based on information obtained during the field visits, discussions with farmers, entrepreneurs and government staff in the statistical departments of MALR at national and governorate levels as well as from the database of M&E systems of on-going IFAD projects. Information on labour requirements for various horticulture production models, prevailing wage rates, yields, input use, farm gate and market prices of the products, input prices and forward contracts were collected in interviews with farmers, entrepreneurs and other donors involved on marketing and value chain business.

11. **Labour.** It is assumed that farm labour is provided by the households or hired labour is used in conjunction with family labour at EGP 30 (US\$ 5.3) per day. Earnings

³² See WP-5 for further details.

are shown as returns per household labour-day for the “with” and “without” project scenario.

12. Traditional versus Market Oriented Crop Budgets. Crop budgets for thirteen representative crops were identified in terms of production, inputs and labour. These include tomato, artichoke, green beans, spring onions, mint, basil, sesame, wheat, maize, clover, pomegranate, seedless table grapes, and citrus, representing high value vegetables, herbs, spices and medicinal plants, grains, fodder and fruits. The crop budgets compare the situation “with Project” to the anticipated “without Project” for each type of cultivation. The major assumptions underlying the “without Project” situation include: (i) poor agronomic practices and inappropriate use of inputs; (ii) weak marketing skills, knowledge and access; (iii) inefficient marketing channels and poor asymmetries between smallholder horticulture farmers and other actors in the value chain; (iv) high transaction costs; (v) fragmentation and absence of economies of scale; and (vi) inefficient technologies and poor quality management systems. Beside the lack of transparency in the value chain, these factors have collectively hampered both agricultural production and productivity to reach its full potential and hence made it almost impossible for agriculture to break even.

13. The “with Project” situation is based on the assumptions that while low competitiveness hinders smallholder horticulture farmers’ ability to capture profitable market opportunities, their poor integration in the value chains in turn limits opportunities and incentives for them to become more competitive, thus creating a vicious circle for smallholder farmers. In the “with Project” situation, yields and income are expected to improve due to PRIME use of successfully proven marketing and market intelligence tools that focus on: (i) building well-informed, transparent, vertically integrated and efficient value chains for smallholder horticulture producers; (ii) training smallholder farmers to effectively respond to market signals; (iii) use of appropriate marketing mechanisms and coordination with other actors in the value chain; (iv) use of contract farming; (v) adoption of proper production planning; (vi) improving the quality and volume of horticulture production through improved agronomic practices and better hygiene systems; (vii) use of better post-harvest handling technologies, storage and transport facilities; and (viii) reduction of production costs through collective marketing. The results are summarized in Table 1.

Table 1: Crop Budgets: Yields and Income Assumptions (per Feddan)

Crops	Yields (MT)		Prices (EGP/MT)		Income (after labour cost)				% Incremental	Labour Requirement/ person days	
	WOP	WP	WOP	WP	WOP		WP		Income	WOP	WP
					EGP	US\$	EGP	US\$			
Tomato	21	28	350	390	1062	186	3635	638	242%	109	135
Artichoke*	25	27.5	0.50	0.54	4449	781	5574	978	25%	132	157
Green beans	5	6	1500	1530	2896	508	4172	732	44%	78	90
Spring onions	13	15	700	745	4,106	720	5861	1028	43%	58	70
Pomegranate	4	6	2000	2085	2610	458	6629	1163	154%	61	72
Seedless table grapes	8	10	1200	1230	3460	607	5639	989	63%	86	98
Citrus	6	8	1050	1100	1673	294	3754	659	124%	62	66
Mint	21	24	504	540	5597	982	6825	1197	22%	57	66
Basil	24	26	326	370	3747	657	4831	847	29%	51	58
Sesame**	550	620	9	10	925	162	1909	335	106%	49	50
Maize**	22	25	193	193	1907	335	2401	421	26%	31	31
Wheat**	18	21	240	240	2201	386	3181	558	45%	52	58
Clover****	4	5	2040	2040	4798	842	6603	1158	38%	39	44

*Yields in thousand units ** Yields in Kg ***Yield in Ardab **** Yields in cutting

14. **Livestock Budgets.** Mixed farming systems of crops and livestock is present in all PRIME governorates, but particularly dominant in Kafr-el-Sheikh, and constitutes a substantial contribution to total household income and nutrition. In recognition of the importance of livestock, a two-dairy cow indicative livestock activity model has been developed in terms of production, inputs and labour. The indicative model compares the “without Project” situation, where milk yields are averaged to 4 litres a day per dairy cow for an average lactation period of 6-months and a calving rate of 66 per cent. The low productivity per dairy cow is due to insufficient feed, poor husbandry practices and poor veterinary services. This situation is further constrained by the poor hygiene and low quality of the milk produced, limited marketing knowledge, inefficient milk marketing channels, and poor asymmetries between smallholder farmers and other actors in the milk value chain. While in the with-Project situation, due to a better feeding regime and appropriate veterinary services, the 2-dairy cow activity model anticipates an increase in production of milk to 6 litres per day, and an improved calving rate of 90 per cent. The 2-dairy cow model assumes the off-take of livestock is maintained so as to provide some cash income from sales while maintaining a constant number of breeding females. This strategy is in line with the need to maintain livestock numbers in balance with feed resources available. The household income after labour would increase from EGP 365 (US\$64) to EGP 1,114 (US\$195).

C. Farm and Enterprise Models

Key Assumptions

15. **Farm Models.** Seven farm models have been developed, based on the indicative crop models, representing the mixed farming system to assess the degree of incentive for target group households and estimate the benefits accruing to poor farm households participating in the Project. The models show smallholder horticulture farmers levels of financial returns in relation to their labour, inputs and financial investments. It also estimates the impact of market oriented production, better agronomic practices and improved access to credit and markets. No attempt has been made to quantify additional non-farm sources of income.

16. **Cropping Patterns.** All farm models maintain the existing cropping patterns, but with particular focus on market oriented production for high value crops, herbs, spices and medicinal plants and fruits.

17. **Family Labour Availability.** A household is assumed to comprise two members who would provide an equivalent of 200 person-days of family labour. Labour requirements have been included in the estimation of inputs required.

18. **On-farm Consumption.** On-farm consumption of food and feed grains, legumes and milk produced from the farm has been considered in the calculation of the cash flows and valued at their assumed opportunity cost.

19. **Enterprise Models.** The enterprise models proposed estimate the impact of market oriented production, the introduction of new technology practices and returns to labour are based on improved access to credit and marketing under the project. Six enterprise models were prepared to describe activities and benefits deriving from small and medium loans.

20. **Household Income.** Analysis of the farm and enterprise models confirms that PRIME interventions are financially attractive for participating households and therefore, exert a considerable positive effect on household income. The models also show attractive returns per family day of labour well above the prevailing nominal daily wage rate. Table 2 below presents the results of the financial analysis for the farm and enterprise models. For each investment a simple cash-flow analysis is carried out to show the expected annual costs and returns using market prices and the prevailing

terms and conditions of short and medium-term loans provided by ARDF and SFD-supported MFIs. The financial results show that the incremental returns are attractive and the beneficiary households would be able to repay their loan with interest rates ranging between 7.5% and 13%. All farm models analyzed achieve positive incremental net annual returns “with project” ranging from 36% to 109% of the returns without project for smallholder farmers. Similarly the micro, small and medium enterprises are profitable, with incremental net annual returns ranging from EGP 67,602 to EGP 812,200.

Table 2: Summary of Financial Analysis for Farm and Enterprise Models

	Cropping Intensity	Without Project	With Project	Incremental Net Returns	% Net Returns
Farm Model-1: Vegetables for Processing					
Gross value of production	200%	EGP 22 983	EGP 32 024	9 041	39%
Outflows		16 524	21 852	5 329	32%
Cash flow before financing		-2 470	942	3 412	-138%
Farm family benefit after financing		5 137	8 795	3 658	71%
NPV = 39,911					
Farm Model-2: Spring Onions for Exports					
Gross value of production	200%	23 858	32 151	8 293	35%
Outflows		15 877	20 867	4 991	31%
Cash flow before financing		-948	2 055	3 003	-317%
Farm family benefit after financing		6 724	9 970	3 246	48%
NPV = 36,256					
Farm Model-3: Herbs for Exports					
Gross value of production	200%	24 762	33 264	8 502	34%
Outflows		15 310	21 168	5 859	38%
Cash flow before financing		9 453	12 097	2 644	28%
Farm family benefit after financing		7 922	10 763	2 841	36%
NPV = 33,474					
Farm Model-4: Pomegranate for Export					
Gross value of production	100%	8 000	12 510	4 510	56%
Outflows		3 560	3 721	161	5%
Cash flow before financing		4 440	8 789	4 349	98%
Farm family benefit after financing		4 084	8 555	4 471	109%
NPV = 35,420.54					
Farm Model-5: Artichokes for Exports					
Gross value of production	200%	27 088	36 859	9 771	36%
Outflows		17 916	23 639	5 723	32%
Cash flow before financing		4 899	8 947	4 048	83%
Farm family benefit after financing		7 711	11 731	4 020	52%
NPV = 43,632.90					
Farm Model-6: Seedless Table Grapes					
Gross value of production	100%	28 800	36 900	8 100	28%
Outflows		15 420	16 983	1 563	10%
Cash flow before financing		13 380	19 917	6 537	49%
Farm family benefit after financing		11 838	18 847	7 009	59%
NPV = 61,725.90					
Farm Model-7: Citrus for High End Markets					
Gross value of production	100%	18 900	26 400	7 500	40%
Outflows		10 881	12 138	1 257	12%
Cash flow before financing		8 019	14 262	6 243	78%
Farm family benefit after financing		6 931	13 497	6 566	95%
NPV = 55,765.47					
Enterprise Model-1: Sun Dried Tomato Facility					
Gross value of production	NA	NA	2 044 000	2 044 000	
Outflows		NA	1 699 471	1 699 471	
Cash flow before financing		NA	344 529	344 529	
Farm family benefit after financing		NA	344 529	344 529	
IRR = 17.3%, NPV = 649,351.96					
Enterprise Model-2: Composting Facility					
Gross value of production	NA	NA	625 000	625 000	
Outflows		NA	504 000	504 000	
Cash flow before financing		NA	121 000	121 000	
Farm family benefit after financing		NA	121 000	121 000	
IRR = 20.1%, NPV = 293,211.28					
Enterprise Model-3: Refrigerated Trucks					
Gross value of production	NA	NA	600 000	600 000	
Outflows		NA	402 420	402 420	
Cash flow before financing		NA	197 580	197 580	
Farm family benefit after financing		NA	88 197	88 197	
IRR = 27.9%, NPV = 474,149.10					
Enterprise Model-4: Milk Collection Centre					
Gross value of production	NA	NA	5 550 000	5 550 000	
Outflows		NA	4 737 800	4 737 800	
Cash flow before financing		NA	812 200	812 200	
Farm family benefit after financing		NA	812 200	812 200	
IRR = 15.5%, NPV = 1,150,407.94					
Enterprise Model-5: Pack House					
Gross value of production	NA	NA	410 000	410 000	
Outflows		NA	152 800	152 800	
Cash flow before financing		NA	257 200	257 200	
Farm family benefit after financing		NA	67 602	67 602	
IRR = 43.0%, NPV = 614,818.13					
Enterprise Model-6: Herbs and Spices Drying Facility					
Gross value of production	NA	NA	560 000	560 000	
Outflows		NA	230 000	230 000	
Cash flow before financing		NA	330 000	330 000	
Farm family benefit after financing		NA	102 118	102 118	
IRR = 36.3%, NPV = 1,091,917.68					

D. ECONOMIC ANALYSIS

21. **Objectives.** The physical inputs and productions established in the financial analysis provided the basis to determine the viability of the project investment in terms of opportunity costs and quantifiable benefits to the economy as a whole. Therefore, the objectives of the economic analysis are: (i) to examine the overall Project viability, and (ii) to assess the Project's impact and the benefits from a broad welfare perspective.

Main Assumptions

22. **Project Life.** A 20-year Project life has been assumed for the economic analysis to account for the phasing of the project costs and benefits.

23. **Standard Conversion Factor (SCF).** Project inputs and outputs traded are valued at their respective market prices, and agricultural goods are expected to move freely within the project area in response to market demand. To adjust the local content of costs and goods assumed to be non-traded, a SCF was used in economic analysis, with no foreign exchange premium.

24. **Opportunity Cost of Capital and Labour.** An economic discount rate of 12 per cent has been used which is high relative to returns to savings but low relative to the cost of borrowing. While the opportunity cost of unskilled labour was assumed to be EGP 30 (US\$5.30) per day, a figure representative of daily agricultural wage during peak season. An SCF of 0.85 has been used for the financial wage rate to reflect the economic value of the abundant labour and the seasonal variations in employment opportunities.

25. **Project Costs.** Project costs have been converted to economic values by some adjustments that included removal of credit facility, price contingencies, taxes and duties. No residual values for capital investment items have been assumed.

26. **Project Benefits.** The analysis attempts to identify quantifiable benefits and costs that relate directly to the activities undertaken following implementation of critical activities under the marketing support and rural finance components. Direct quantifiable Project benefits would also arise from the complementarities with the IFAD-funded OFIDO Project's investments in irrigation water systems, marketing improvements in crop production and farm enterprises. The main quantifiable benefits arising from Project interventions are increased farm-gate prices, reduced production losses, improved horticulture productivity resulting from sustainably oriented marketing production, market intelligence, value chain linkages, reliable post-harvest facilities for high value crops, improved agronomic/husbandry practices, better quality and quantity of horticultural produce, better use of farm inputs and improved access to credit. Other economic benefits accruing from the Project interventions, but not quantified, comprise viable enterprise businesses and rural jobs in the service sector and social benefits. These benefits were not quantified due to unavailability of reliable relevant data.

27. **Benefits Estimation Procedure.** The incremental benefits stream comprises the economic net value of horticulture crop production and the benefits of the farm enterprises. Incremental benefits have been aggregated based on the phasing of the household and entrepreneur uptake during Project implementation period. The phasing was based on the rate at which new smallholder farmers and entrepreneurs are expected to participate in the Project interventions.

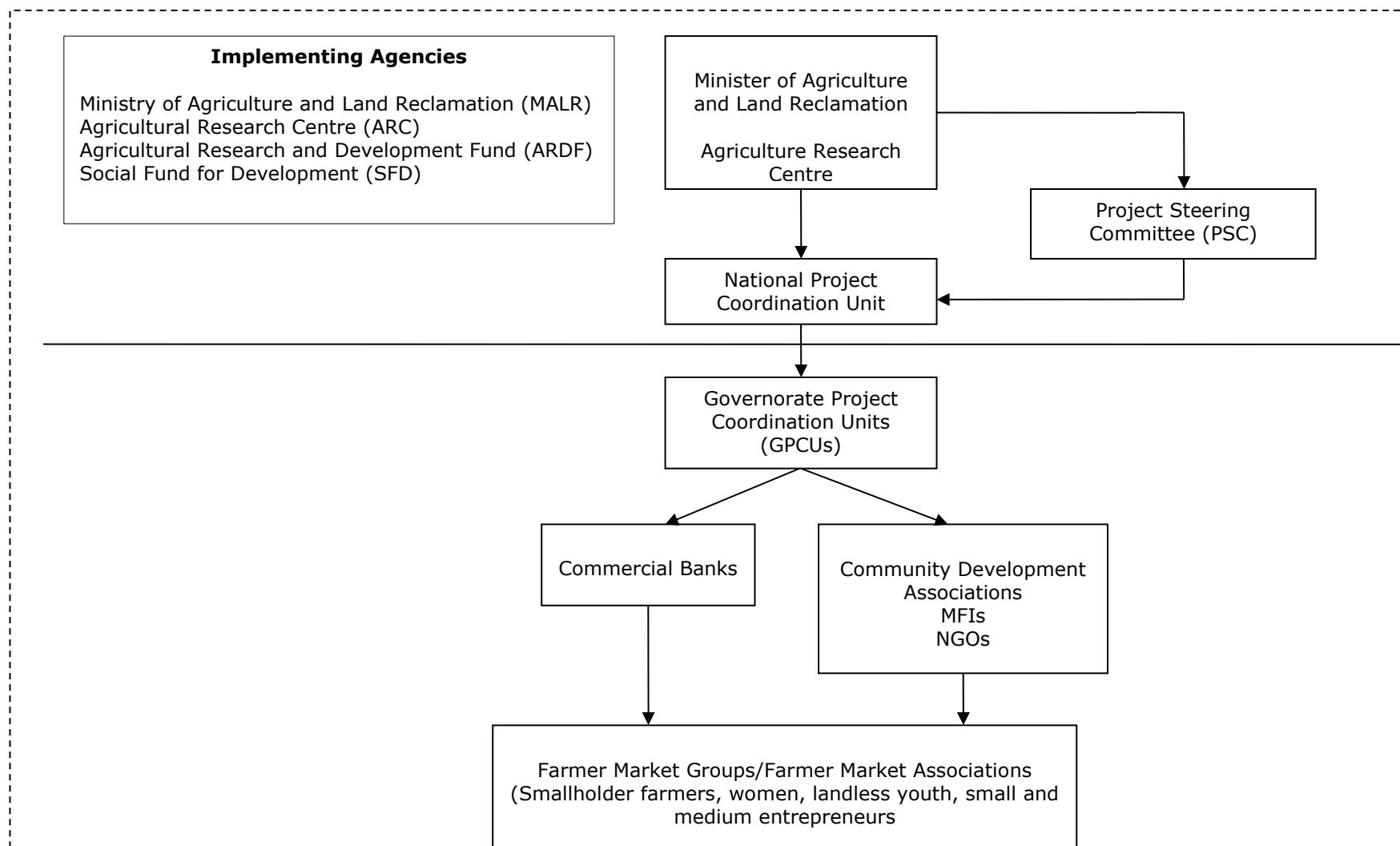
28. **Rates of Adoption.** At the start fairly conservative adoption rates have been assumed which would then gradually increase to 44 per cent of the total target households. Separate adoption rates have been considered for each farm model depending on the number of expected households participating by Governorate.

29. **Employment under PRIME.** The high value crops and the enterprise activities proposed under PRIME are labour-intensive and hence expected to generate additional employment opportunities. Based on the assumptions and adoption rates under the various farm and enterprise models it is expected that PRIME would generate about 1.7 million labour days per year, as direct employment effects. In addition, PRIME would be expected to have indirect positive impact on employment generation due to the increase in income in rural areas and the associated increase in demand for, hence production of, consumers and producers goods and services.

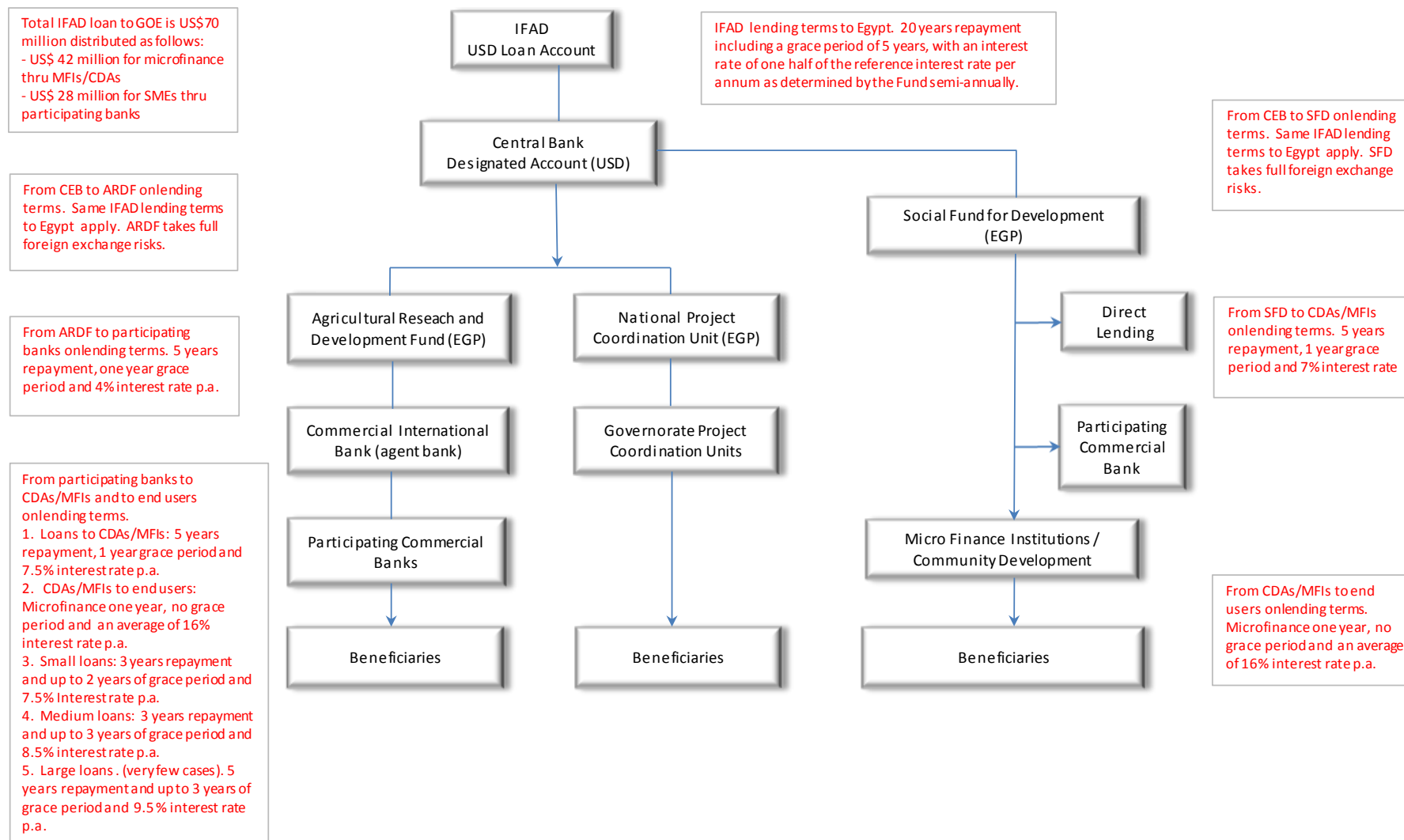
30. **Results of Economic Analysis.** The World Bank's Handbook on Economic Analysis of Investment Operations (January 26, 1998) recommends that the NPV should be used for project analysis, as the EIRR is not a good basis for making decisions.

31. To ensure that PRIME will contribute to Egypt's economic welfare and hence to food security and poverty reduction, an economic analysis was conducted using the NPV criterion. The analysis shows that the Project is likely to contribute to enhancing Egypt's welfare, as it has a positive economic net present value of EGP 436 million (net benefits discounted at 12%). The project's contribution to economic welfare comes from higher levels of market-oriented production, marketing, consumption and employment resulting from the relaxation of the credit constraint and access to know how and market information. Presently, numerous smallholder producers, micro and small enterprises have little or no access to credit and as a result they cannot expand their production and marketing. PRIME interventions to relax these financial and non-financial constraints would enable the target group to increase production, income and employment. As mentioned earlier PRIME would directly create 1.7 million labour days per year, and result in large indirect positive impact on employment generation due to increased income and demand in rural areas, thereby increasing the country's welfare and food security.

ANNEX 11 – PRIME ORGANIZATIONAL CHART AND FLOW OF FUNDS

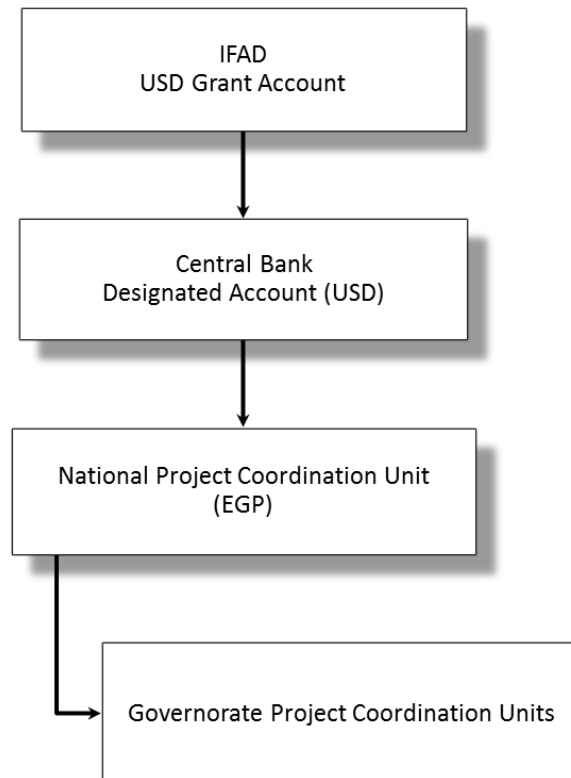


Prime Flow of Funds Diagram – Loan



Note: All lending terms to SFD or ARDF, to participating banks and CDAs/MFIs will be specified in the subsidiary agreements including a clause on revision of the lending terms as and when appropriate, according to market conditions and inflation rates. The revolving funds would be dedicated for use in the rural and agricultural sector even beyond project life until the maturity of the IFAD loan.

Prime Flow of Funds Diagram - Grant



JOB DESCRIPTIONS FOR KEY PROJECT PERSONNEL

Terms of Reference for National Project Credit Coordinator

The National Project Credit Coordinator (NPCC) shall be the primary responsible person for the development of market responsive credit products that build on the market linkages within the value chains identified for the project, and those targeting women and landless youth. H/she shall be housed within the National Project Coordination Unit and shall supervise the work of the seven Governorate Project Credit Coordinators in the seven targeted governorates.

The NPCC shall start from the onset of operations and shall be taking a major role in the mobilization of project and start-up activities. The NPCC shall directly report to the National Project Coordinator (NPC) and shall be held accountable by the (NPC) for realizing his part of the project targets as specified and agreed upon with the NPC. The NPCC shall be specifically required to:

1. Participate effectively in the training provided by technical assistance team in market assessment and credit product development.
2. Facilitate all training requirements for the technical assistance team in the areas related to the credit development and financial training areas.
3. Maintain a data base for training services providers to be used as a reference for future project training requirements.
4. Organize the training events (with adequate administrative support) for GPCU staff, especially governorate project credit coordinator (GPCC).
5. Participate in the actual market assessment and credit product development after receiving the training mentioned under point 1 above.
6. Provide guidance and support to the GPCC staff in the seven governorates in developing individual financing plans for each of the targeted governorate.
7. Assist in presenting the plans to the ARDF/SFD management and resolve any outstanding issues until all plans are approved.
8. Assist the GPCC in updating their plans annually and undertake regular visits to the field offices to help in resolving any problems in implementation.
9. Undertake regular visits (on a surprise basis) to participating financial intermediaries to check on the implementation and solve any problems that might arise.
10. Develop a comprehensive set of user-friendly reports for the rural finance component monitoring and evaluation purposes; with specific emphasis on compiling sufficient baseline indicators for each governorate and for the whole project.
11. Undertake a monthly exercise for preparing monitoring reports outlining areas of success and others where additional effort should be exerted. Including comparisons between targets and actual achievements and variance analysis.
12. Undertake any other assignments as may be directed by the NPC.

The NPCC should have at least 8 years of progressive experience in finance and microfinance and should possess excellent oral and writing skills in both languages (Arabic and English). The NPCC should have experience in analytical reporting and should be well versed in computer applications including Word, Excel and Power Point Presentation.

Terms of Reference for Governorate Project Credit Coordinator

The Governorate Project Credit Coordinator (GPCC) shall be responsible for the development of market responsive credit products at the governorate level that build on the market linkages within the value chains identified for the project, and those targeting women and landless youth. H/she shall be housed within the Governorate Project Coordination Unit and shall be supervised by the National Project Credit Coordinator (NPCC).

The GPCC shall start from the onset of operations and shall be taking a major role in the mobilization of project and start-up activities in his/her respective governorate. The GPCC shall directly report to the National Project Credit Coordinator (NPCC) and shall be held accountable by the (NPCC) for realizing his part of the project targets as specified and agreed upon with the NPCC. The GPCC shall be specifically required to:

1. Participate effectively in the training provided by technical assistance team in market assessment and credit product development.
2. Facilitate all training requirements for the technical assistance team in his/her respective governorate in the areas related to the credit development and financial training areas.
3. Obtain regular updates from the NPCC on the data base for training services providers to be used as a reference for future project training requirements.
4. Organize the training events (with adequate administrative support) for the participating financial intermediaries in coordination with the NPCC.
5. Lead the field work of the market assessment and credit product development in his/her respective governorate after receiving the training mentioned under point 1 above.
6. Provide continued field guidance and support to the financial intermediaries staff in his/her respective governorate in the course of developing its comprehensive financing plans.
7. Assist the NPCC in presenting the plans to the ARDF/SFD management and resolve any outstanding issues for his/her respective governorate until all plans are approved.
8. Perform annual updates to the governorate financing plan annually and undertake regular visits to the intermediaries' offices to help in resolving any problems in implementation.
9. Undertake regular visits to participating financial intermediaries to check on the implementation and solve any problems that might arise, accordingly bring these problems to the attention of the NPCC for advice and take necessary corrective actions in light of the NPCC guidelines and directives.
10. Develop a draft comprehensive set of user-friendly reports for the rural finance component monitoring and evaluation purposes to be revised and approved in format and contents by the NPCC; with specific emphasis on compiling a sufficient baseline indicators for his/her respective governorate.
11. Undertake a monthly exercise for preparing monitoring reports outlining areas of success and others where additional effort should be exerted to be discussed with the NPCC. Including comparisons between targets and actual achievements and variance analysis.
12. Undertake any other assignments as may be directed by the NPCC.

The GPCC should have at least 5 years of progressive experience in finance and microfinance and should possess excellent oral and writing skills, preferably in both languages (Arabic and English). The GPCC should have experience in analytical reporting and should be well versed in computer applications including Word, Excel and Power Point Presentation.

ANNEX 12 - ADHERENCE TO IFAD POLICIES

A. Overview

1. The International Fund for Agriculture Development has formulated a new Strategic Framework (2011-2015). The design of the PRIME project was assessed with reference to this strategic framework as well as the IFAD policies potentially relevant for the PRIME project such as targeting, land issues, the private sector, rural finance and the environmental and social screening guidelines. All of these were reviewed to ensure that the project is in line with existing IFAD policies. In addition, the Project Design Mission also reviewed some of the technical notes for guidance produced by the Technical Division regarding rural finance and the Decision Tools for rural finance projects. To support the environment and social screening process a working paper was prepared as well and is available in the Project Life File.

B. Strategic Framework (2011-2015)

2. IFAD's unique and incremental contribution to the agriculture and off-farm sector through this project would be a clear focus on its **six principles of engagement** which take into consideration that one size does not fit all. The design of the project takes into consideration the strengths and weaknesses of the implementing partner as well as the target group. IFAD's stress on targeting is addressed by ensuring that poor rural people who have the capacity to take advantage of the economic opportunities provided by the new project include women, the landless and unemployed youth. This focus is generally overlooked during implementation even if it is included in design. The project is especially designed to empower poor rural people and would assist them in building their individual assets, knowledge, skills, collective organizations and assist women and youth as well as assist producer organizations develop their skills and knowledge required to bargain effectively with private sector organizations. The project is innovative in the manner in which it approaches the provision of marketing linkages and the rural financial services and its plans to leverage commercial capital for scaling up investments in the rural and agriculture sector. The project expects to catalyze effective partnerships between the smallholder farmers and the private sector and financial institutions, promote national leadership in project and programme management and ensure the sustainability of these arrangements through lasting benefits and positive outcomes for all participants. In all these aspects, PRIME is well aligned with the new Strategic Framework.

C. Targeting- Reaching the Poor

3. IFAD's mandate defines its "target group"³³ as rural people living in poverty and food insecurity in developing countries. Within this broad group, IFAD strives to proactively reach the extremely poor people, as defined by MDG 1, who have the potential to take advantage of improved access to assets and opportunities for agricultural production and rural income generating activities. The people IFAD works with cannot be defined a priori in geographical or occupational terms, or even in terms of specific income thresholds. In any given context, IFAD – together with its partners – will identify target groups through a gender-sensitive poverty and livelihood analysis using available data, filling information gaps as needed and always incorporating the views of poor women and men, expressed directly or through their organizations. As guiding principles, in all operational situations IFAD will: focus on rural people who live in

³³ This strategy is based on extensive work within IFAD starting with a Policy forum on targeting in May 2005, followed by the work of a cross-departmental policy reference group, joint authorship by the Technical Advisory and Policy Divisions, and a management review at the Operational Strategy and Policy Guidance Committee. In June 2006, the paper was discussed at the informal seminar of the Executive Board to give Board Directors a space to bring their perspectives into this document.

poverty and food insecurity and are able to take advantage of the opportunities to be offered; expand outreach to proactively include those who have fewer assets and opportunities (in particular, marginalized groups such as minorities and indigenous peoples); have a special focus on women within all identified target groups, for reasons of equity, effectiveness and impact. Keeping in view these guidelines, a targeting strategy was identified through a diagnostic process and developed for this project.

D. Rural Finance Policy (2009) Decision Tools (2010) and Technical Note (2011)

4. The current design mission carefully reviewed the IFAD Rural Finance Policy, the IFAD Decision Tools for Rural Finance and the recently formulated Technical Note on Key Performance Indicators and Performance Base Contracts for rural finance service providers. The PRIME project design team reviewed IFAD's six guiding principles outlines in its rural finance interventions namely: (i) support access to a variety of financial services; (ii) promote a wide range of financial institutions, models and delivery channels; (iii) support demand-driven and innovative approaches; (iv) encourage – in collaboration with private sector partners – market-based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources; (v) develop and support long-term strategies focusing on sustainability and poverty outreach; and (vi) participate in policy dialogues that promote an enabling environment for rural finance. These binding principles were applied at the micro level, working with retail rural finance institutions and beneficiaries; at the meso level, focusing on financial infrastructure, such as second-tier institutions, and technical service providers; At the macro-level PRIME is expected to contribute to enhancing the overall policy for micro and rural finance which is at a nascent stage in Egypt but has gained prominence more recently. Thus there are opportunities to help the Government develop a supportive legal framework through policy dialogue opportunities that PRIME is expected to provide.

5. The PRIME design mission also reviewed the various steps for assessing the market, designing the project, selection of implementing partners outlined in the *IFAD Decision Tools for Rural Finance*. The decision to allocate funds for a credit line was kept, keeping in view the fact that the (i) market demonstrated a clear lack of liquidity for the rural and agriculture sector because of perceptions about agriculture risk; (ii) the line of credit would not undermine the initiatives of other donors or private-sector partners; and (iii) loans to retail financial institutions would be priced at commercial or near-commercial rates to avoid undermining their incentive to mobilize deposits or access other sources of capital. The partner FSPs would use this capital as part of their own strategic plan to develop new products and/or serve new markets in rural areas; are financially sound and have the capacity to efficiently and transparently absorb and manage the credit line; are independent of political interference and free to charge interest rates that allow cost recovery; endorse the CGAP Client Protection Principles in Microfinance; and share performance and outreach information with the MIX Market on an annual basis and submit the required performance indicators to the PMU regularly during implementation and supervision. Private, professional fund managers or institutions such as the Commercial International Bank and the Social Fund for Development and not the recipient government would manage the line of credit. Resources are allocated for the capacity-building of partner institutions to successfully manage rural finance operations and effectively use the additional capital. A clear exit strategy has been envisaged which develops linkages with other sources of refinancing and ensures that the target group would continue to access these services after the project ends (see Attachment).

6. The PRIME project reviewed the latest Technical Note (2010) on Key Performance Indicators and the guidelines regarding performance based contractors for both

Technical and Financial Service Providers.³⁴ These arrangements are reflected in the monitoring and evaluation indicators identified for the project as well as the manner in which the Subsidiary Loan Agreements and management contracts would be negotiated with the TSPs and FSPs.

E. Land Rights and Tenure

7. In late 2008, IFAD's Executive Board endorsed a new policy on access to land and tenure security, underscoring the importance of land issues to the organization. The PRIME project has been designing with full recognition that policies and legislation must recognize the many facets of land rights and usage. Above all, poor rural people must be able to participate in policy formulation to ensure that their needs and rights are adequately addressed and protected. However, securing land rights is a complicated business. Land tenure systems are diverse and complex. They can be formal or informal, statutory or customary, permanent or temporary. Some are legally recognized, others are not. Some involve private ownership, others are based on common property. There is no single land issue, and no single solution. Legally registered individual land rights are not always the best solution for poor rural people. Many depend on more flexible, diversified, decentralized and common-property systems, where they can exert greater influence. Sometimes improved tenancy arrangements meet the needs of small and landless farmers better than private ownership. Formal, individual legal titles can be expensive and may benefit elite members of society more than poor rural people. Policy frameworks need to accommodate and build on customary norms and practices. It is often better to develop traditional administrative systems than to establish new, formal systems of land ownership. This is particularly true of communal and common-property lands, which are very important to the livelihoods of poor rural people

8. In recognition of the fact that land tenure systems have a major impact on the outcome of development projects, access to land and productive resources is one of IFAD's key strategic objectives. Through its programmes and projects, the organization supports: land policy formulation, redistribution programmes, securing of collective and individual customary rights, strengthening of links between land tenure security and sustainable land management, and improving and securing women's access to land. None of this understanding of land issues will be infringed in the manner in which the project will be implemented. The project expects to work with small holder farming households who own less than 3 feddans and enhance the productivity of their lands.

F. Private Sector Development and Partnership Strategy

9. In September 2004, a comprehensive document representing IFAD's strategy for private-sector development and partnership was submitted to the Executive Board. The current design reviewed this strategy to ensure that the design provisions were consistent with this strategy as well as those which have been formulated more recently for partnering with the private sector. A key strategy around which this project has been designed is partnership with the private sector. The PRIME design acknowledges that IFAD has an essential part to play in equipping the rural poor to interact more equitably with new market forces and in making market relationships work for them.

10. The project recognizes that the economic environment in which rural poor people seek to earn a living has changed dramatically over the past 20 years. In most developing countries, the private sector is now responsible for the majority of employment and income-generating opportunities, and has become the driving force for poverty reduction. Poor rural producers represent a large part of the private sector in developing countries. Rural poor people also interact with other private operators on a daily basis. In order to promote private-sector development in rural areas the project

³⁴ Rauno Zander. Key Performance Indicators. Draft Technical Note.

has been designed to help smallholder farmers forge local, national, regional and global partnerships with the private sector that will benefit the target groups and enable them to overcome poverty. The strategy of the PRIME project has been organized along three broad lines of action for partnership with the private sector. These include: (i) policy dialogue for local private-sector development; (ii) investment operations to support local private-sector development; and (iii) partnership with the private sector to leverage additional investments and bring knowledge to rural areas.

G. Environment And Social Screening Note

11. The project is expected to have a direct positive social and environmental impact as a result of its activities in organizing farmers, adoption of efficient production practices, supporting the marketing of surplus farm produce and investing in marketing facilities which reduce wastage and post-harvest losses, assisting in diversifying employment opportunities in off-farm enterprises through access to finance and technical assistance, etc.

12. The proposed project is IFAD's response to fill a much needed gap in the smallholder farmer's capacity for organization. The fragmented nature of production and lack of farmer organization does not enable them to capitalise on economies of scale. The project would begin by organizing farmers and strengthening their institutions to enable them to access market opportunities, reduce their transaction costs, access finance, undertake collective investment in processing and marketing facilities and link them in contractual arrangements with the domestic market as well as with processors and exporters. The project would assist the target group view farming as a business and help him integrate into markets and value chains as well as develop the off-farm sector and integrate it with the farm sector to capitalize on the synergies between the two. The project would strength smallholder capacity for production for the market through a series of training opportunities on how to produce for the markets, assess marketing intelligence and create sustainable linkages with the private sector. The project would assist all the actors along the value chain access finance to make investments in enhancing production for the market. This would enable them to reduce post-harvest losses and increase farm-gate prices through investments in processing facilities, collection and chilling centers, refrigerated trucks. The project would increase the capacity of the agribusiness sector to process and export horticulture, dairy, herbs and medicinal plants. The project would also assess the feasibility of investing in in-land fisheries, processing of yellow maize for poultry feed, etc.

13. One of the most important investments of the project would be to focus on Good Agricultural Practices (GAP). GlobalGAP (previously EUREPGAP) has emerged in the last decade as the most important private voluntary standard in the horticulture sub sector. For African producers aiming to supply European retailers, GlobalGAP certification has become an increasing necessity and has been adopted in Egypt, Kenya, South Africa and recently Ghana. The GlobalGAP protocol defines the elements of good agricultural practices. It includes topics such as Integrated Crop Management (ICM), Integrated Pest Control (IPC), Quality Management System (QMS), Hazard Analysis and Critical Control Points (HACCP), worker health, safety, welfare and environmental pollution and conservation management. Certifying the food management system against the GlobalGAP requirements entails the following benefits. It enhances food safety and food safety management system, demonstrates commitment to producing/trading safe food, increases the product safety and quality confidence for the consumers/customers.

14. The project would establish links with GlobalGAP to assist in training farmers in its standards. GlobalGAP has developed an auditable standard promoting Good Agricultural Practices (GAP). The scope of GlobalGAP currently covers the production of fruit, vegetables, combinable crops, green coffee, tea, flowers and ornamentals, livestock, feed, nursery stock and aquaculture. GlobalGAP has support from major European

retailers and growers on a global basis. There are several agencies which provide certification, testing and verification services to the Food industry.

15. The Rural Finance Component would provide micro, small and medium sized loans for use by the agriculture sector mainly. However, 30 per cent of the microloans would be provided to the off-farm sector in rural areas. It is hoped that this would help to reduce the pressure on land and assist young men and women engage in enterprises that would help to diversify livelihoods. The micro-loans in the agriculture sector would be for an average of EGP 8,000 mainly for working capital in the agriculture sector. Typical activities would include purchase of agriculture inputs, livestock. The loans are not expected to be used for the purchase of hazardous chemicals and would not negatively affect the ecosystem. In any case, the guidelines for the Good Agricultural Practice (GAP) concerning requirements for lowering pesticide and chemical use would be applied to all agricultural products destined for the EU markets. In this context, the project's environmental impact would be neutral to positive on account of the possible uptake and adoption of improved crop and livestock production technologies as a result of enhanced access by poor rural households to reliable financial services. The small and medium-enterprise loans would be used for processing facilities which would help to reduce waste and help in better management of scarce resources. The types of facilities which would be invested in are expected to include sun-drying tomatoes, solar drying of herbs, solar drying of yellow maize for poultry feed, refrigerated trucks, pack houses for fruits and vegetables, green houses, milk processing facilities, equipment for freezing vegetables, etc. None of these investments generate any hazardous waste or threaten the environment in any way.

16. None of the project activities would be implemented in environmentally sensitive areas, such as national parks, wildlife reserves, classified forests, or have adverse impacts on archaeological and/or historical sites. The project would not support activities that might generate significant irreversible or cumulative environmental impacts and is therefore classified as category "B" according to IFAD's Administrative Procedures for Environmental Assessment. The classification is based on the available information gathered during the field visits and on-site assessment in the country.

ATTACHMENT 1

ADHERENCE TO IFAD’S RURAL FINANCE POLICY: WHEN TO OFFER A LINE OF CREDIT

i. The market demonstrates a clear lack of liquidity:

Yes, there is a shortage of liquidity particularly for lending to SMEs.

- Only a small portion of the funds mobilized by the Egyptian banking system are lent to the productive sectors and even less to the private sector and the small enterprises. Bank deposits and credit shrunk in recent years as a result of the financial restructuring and the financial crisis.
- Stronger regulation and supervision led banks to adopt more cautious lending policies particularly to agriculture and required better provisioning of bad loans. The crisis has limited credit as a result of the retrenchment of foreign capital to Egyptian markets, slower deposit growth, and a further increase in the degree of risk aversion by banks. The events of January 2011 led to further decline in deposits and credit which are expected to decline further
- The Egyptian banks are increasingly investing in treasury bills and government bonds, reflecting their inefficiency in identifying profitable private projects and their highly risk-averse lending policies. They held about 91 per cent of all outstanding treasury bills as of December 2008.
- Current liquidity in the banking system is unavailable for micro, small and medium enterprises. Credit to the private sector remains concentrated on the largest and best-established enterprises. Over half of credit extended to the private sector goes to less than one per cent of their clients.
- Banks are bound to their conservative risk assessment strategies which disfavour micro, small and medium enterprises and create a severe shortage of credit for these enterprises particularly the agriculturally related.
- Bank loans to small enterprises remain limited to less than one per cent of total loans and the agriculture sector receives less than 5 per cent of total commercial bank credit.
- Banks consider the administrative costs of small scale lending as very high and their staff do not have the instruments, techniques and adequate banking skills for dealing with SMEs. The availability of large collateral is still the only basis for obtaining bank loans hence limiting the percentage of Bank resources that can finance SMEs.
- SMEs funding reaches out to less than 5 per cent of the potential users. Only 13 per cent of small firms have access to finance as opposed to 36 per cent for large firms.
- Banks that have micro finance units operate within defined loan brackets catering to specific segments through conventional products.
- Commercial banks are providing mostly short-term loans, while the agriculture and agribusiness sectors require medium and long-term loans which the banking sector is incapable of providing from its typically short-term deposits (96 per cent).

- Formal financing whether from banks or non-bank institutions plays a limited role in financing enterprises, especially micro and small firms. MFIs, NGOs and CDAs are not allowed to generate by Law deposits and are dependent on private investors, donors and commercial banks for funds.

ii. *Private professional fund managers or institutions and not the recipient government manage the line of credit*

Yes.

- Both ARDF and SFD are independent entities created to deliver special role which is not managed by the government.
- ARDF have appointed CIB, a leading private commercial bank in Egypt to manage the ARDF fund against payment of a small service fee.
- ARDF operates through the CIB and another 10 affiliated commercial banks who in turn, provide loans directly to individuals and farmers Associations.
- SFD has entered into new alliances with the private sector to expand micro, small and medium enterprise financing (e.g. its most recent agreement with CIB to equally subscribe to a new jointly managed US\$100 million “Wholesale Finance Fund” to expand working capital lending to micro enterprises, and SEDO’s recent agreement with the National Bank of Egypt to expand lending to small and medium enterprises).
- SFD funds for small enterprises are retailed directly through a privately run entity (SEDO) and funds for microenterprises are lent to MFIs, NGOs and CDAs for retail lending.

iii. *Loans to retail financial institutions are priced at commercial or near-commercial rates to avoid undermining their incentive to mobilize deposits or access other sources of capital*

Yes.

- Loan rates given to financial institutions to extend medium term loans to SMEs are priced very near to the benchmark 5 per cent Post Office Savings Bank rates for commercial banks to mobilize their deposits. It will not undermine their incentive to mobilize deposits.
- The total value of such loans is small when compared to the commercial practices and do not pose any disincentive to regular commercial activities, including deposits from overseas Clients.
- The line of credit will not undermine the incentives of these institutions to access other sources of capital including from donors. IFAD loan funds will be used only for agriculture and the selected value chain related agribusiness. It will be used in the targeted districts in the targeted governorates, with certain quota to women and their traditional activities, and includes smaller loan sizes and enterprises. Other donors’ funds are utilized more generally. The World Bank and AFDB are providing resources for the larger SMEs across all sectors and the first on a national scope.

iv. *Partner retail financial institutions are financially sound, independent from political interference and free to charge interest rates that allow cost recovery*

Yes.

- The Net Interest Margin that is allowed to each of the 11 CIB participatory banks for ARDF loans is 3.5 per cent and compares well with typical performance with other sources of funds. Moreover, the 11 participating banks confirmed to the design mission that this 3.5 per cent plus the 1-2 per cent service charge allow them to recover their costs.
- CDAs charge their clients for microfinance an average rate of 15 per cent, allowing them a large margin to cover their cost, as is being the practice under current IFAD-supported UERDP.
- Commercial Banks are independently audited and comply with Central Bank of Egypt requirements for controls on liquidity, cash balances and reporting of every major transaction in real time.
- SFD is subject to GOE standard financial auditing requirements and has been evaluated/assessed positively a number of times by donors for efficiency and effectiveness, including in 2010 by the World Bank and AfDB. This resulted into two lines of credit of US\$300 million and US\$100 million from World Bank and AfDB respectively in 2010.

v. *Partner financial institutions have the capacity to transparently absorb and manage the financial resources*

Yes.

- ARDF operates through have 11 large commercial banks who manage SMEs loan disbursement, collection of interest and repayments.
- The Banks have large established capacity in Cairo and the Governorates and will receive selected capacity building in the skills needed to manage value chain agri-business lending.
- Apart from established internal capabilities, which have been strengthened recently, SFD has paired up with a large commercial bank to operate a Wholesale Financing Facility to expand funding to the microfinance sector. It will receive selected capacity building for targeted agriculture and rural sector micro lending.
- SFD have also paired up with two prominent commercial banks to manage SMEs loan disbursement, collection of interest and repayments.

vi. *Opportunities exist to create linkages with other sources of refinancing that will continue after the project ends*

Yes.

- The funds provided by PRIME are designed to be revolved till the end of the project period and beyond. Furthermore, the experience of commercial banks and SFD with value chains micro, medium and long-term finance under PRIME, and the capacity building they will receive are expected to leverage their own resources and be replicated in similar activities to be an integral part of their operations.
- The project would introduce a pilot scheme for risk sharing in financing agribusiness investment to encourage private sector investment in agro-industry. It would test on a pilot basis financing new businesses through a private-public partnership, to be spearheaded by ARDF. This initiative will eventually be contributed to by public funds and private sectors agencies including commercial banks, agro processors/ exporters and producers.

vii. *Accountable reporting and supervision arrangements can be put in place until the line of credit is repaid*

Yes.

- ARDF has access to commercial supervision services provided by CIB and to technical supervision provided by its technical team located in ARC, a pool of skilled scientists in agriculture finance and rural development.
- ARDF has recorded experience in effectively managing donors’ lines of credit (EU) and is committed to ensure the full repayment of the entire line of credit by the borrowing micro, small and medium enterprises and the adherence to IFAD’s requirements in reporting and supervision.
- SDF is servicing a series of lines of credit from different donors, including IFAD, has recently expanded its managerial capabilities by hiring 17 new Managers and other staff and has proven a reliable partner in supervision and reporting.

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5. Working Paper 2: Financial and Economic Analysis
6. Working Paper 3: Project Area, Poverty and Gender Analysis
7. Working Paper 4: Marketing Support Component
8. Working Paper 5: Rural Finance
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ⁱ IMF – Egypt, Post revolution Economic Situation, Spring Meeting May 2011