Investing in rural people

Arab Republic of Egypt

Upper Egypt Rural Development Project

Supervision report

Main report and appendices

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Contents

Abbreviations and acronyms		ii
A.	Introduction	1
B.	Overall assessment of project implementation	1
C.	Outputs and outcomes	2
D.	Project implementation progress	8
E.	Fiduciary aspects	11
F.	Sustainability	14
G.	Conclusion	15

List of tables

Table 1: Microfinance Operations – Selected Indicators – Jul. 2008 to Sep.2015	4
Table 2: Microfinance – Sectoral Loan Distribution – Jul. 2008 to Sep. 2015	5
Table 3: Microfinance – CDA Loan Recovery (2nd phase loans) as of September 2015	5
Table 4: Projection of disbursements of micro credits to CDAs up to March 2017	6
Table 5: Outreach of project activities as of September 2015	10

Appendices

Appendix 1:	Summary of project status and ratings	17
Appendix 2:	Updated logical framework: Progress against objectives, outcomes and outputs	21
Appendix 3:	Summary of key actions to be taken within agreed timeframes	23
Appendix 4:	Physical progress measured against AWPB, including RIMS indicators	27
Appendix 5:	Financial performance by financier; by component and disbursements by category	31
Appendix 6:	Compliance with legal covenants: Status of implementation	33
Appendix 7:	Knowledge management: Learning and innovation	37

Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
CDA	Community Development Association
EFSA	Egyptian Financial Supervisory Authority
EUMF	Egyptian Union of Microfinance
FAO	Food and Agriculture Organization of the United Nations
FM	Financial Management
FMA	Farmer Marketing Association
FSRU	Farming Systems Research Unit
GDP	Gross Domestic Product
GOE	Government of Egypt
GPCU	Governorate Project Coordination Unit
IFAD	International Fund for Agricultural Development
M&E	Monitoring and Evaluation
MALR	Ministry for Agriculture and Land Reclamation
MFI	Microfinance Institution
MIC	Ministry of International Cooperation
MIS	Management Information System
MOF	Ministry of Finance
NPCU	National Project Coordination Unit
PBDAC	Principal Bank for Development and Agricultural Credit
PRIME	Promotion of Rural Incomes through Market Enhancement Project
PSC	Project Steering Committee
RIMS	Results and Impact Management System
SEDO	Small Enterprise Development Organisation
SFD	Social Fund for Development
SME	Small and Medium Enterprise
UERDP	Upper Egypt Rural Development Project
WA	Withdrawal Application

A. Introduction[1]

1. An IFAD mission visited Egypt from 31 October 13 November 2015 to supervise the Upper Egypt Rural Development Project (UERDP). In Cairo, the mission met with H.E. Dr. Esam Fayad, Minister for Agriculture and Land Reclamation (MALR), H.E. Dr. Sahar Nasr, Minister for International Cooperation (MIC), Dr. Dina Al Khishin, Supervisor, Foreign Agricultural Relations Department at MALR, Ms Soha Soliman, Managing Director, Social Fund for Development (SFD), Mr Abdel Hamid El Haggan, Governor of Qena, and staff of the National Project Coordination Unit (NPCU), SFD, Agricultural Research and Development Fund (ARDF) and MALR. It also had the opportunity to meet with representatives of participating financial institutions in Qena and Cairo. Field visits were undertaken to selected community development associations (CDAs) and farmer marketing associations (FMAs) to visit micro-enterprises supported and meet with women and men farmers and borrowers. In Cairo, the mission also met with a large number of private sector representatives engaged in buying, processing and exporting fruits and vegetables. During the mission, a three days field visit to Qena Governorate has been undertaken from 3-5 November. The planned field trip to the Delta Region had to be cancelled for security reasons as a result of the floods.

2. This Aide Memoire reflects the mission's key findings and recommendations, and records the agreements reached with Government authorities. The issues and recommendations were discussed and agreed at three wrap-up meetings in Cairo on 11 and 12 November 2015, the first chaired by Ms Soha Soliman, SFD, the second by Dr. Amany Youssef and the third by Dr. Nevine Badr and Dr. Howaida El Hawary.

3. The mission would like to express its appreciation for the excellent collaboration, support and hospitality extended by the Government at central and governorate levels.

4. The UERDP constitutes a USD 20 million development investment financed by Government (almost USD 3.7 million) and IFAD (loan of USD 15 million and grant of USD 1 million). The project is contributing to reducing poverty and improving livelihoods of the rural poor in Qena and Assiut governorates of Upper Egypt. Its investments focus on enhancing access to modern farming technologies and financial services, promoting the creation of employment opportunities, and increasing household incomes. The project was approved by IFAD in December 2006, became effective in September 2007, and the completion point was extended from September 2015 to 31 March 2017. A mid-term review was undertaken in May 2012.

B. Overall assessment of project implementation

5. Egypt has been experiencing political and economic instability following the 2011 revolution. Real GDP growth declined to 2.2% in 2011/12 and 2.1% in 2012/13 and 2013/14. After the holding of presidential elections in May 2014 and of the first round of parliamentary elections in October 2015, the situation has substantially improved, although occasional security alerts remain. Projections by the Economic Intelligence Unit predict economic growth of 4.1% in 2015 and 4.3% in 2016, before slowly climbing to 5.1% in 2019. The annual inflation rate for 2015 is projected around 10.4%, the fiscal deficit to fall to 9.3% in 2015/16, and the exchange rate is expected to fall slowly from about USD 1:EGP 8.0 at present to USD 1.0:8.4 in 2019. Available data clearly indicate a negative impact of the political uncertainty and social unrest in previous

[1] Mission composition: Mr Michael Marx, Team Leader, Senior Credit and Rural Finance Officer, FAO TCIC; Dr Wilfried Schnitzler, Marketing Specialist; Ms Sylvia Schollbrock, Portfolio Adviser, NEN; Mr Aziz Al-Athwari, Loan Officer for Egypt, CFS, IFAD; Mr Moez Makhlouf, Finance Specialist; Mr Mohamed Hebara, Country Programme Officer; Ms Fathia Bahran, Country Programme Officer. Mr Abdelhaq Hanafi, Country Programme Manager, IFAD, supported the mission and led the negotiations with the Government of Egypt for an agreement on findings and recommendations for the project. Mr.Sayed Hussein, NPCU Director, Mr. Khaled Farid, Mr.Sameh Moheiy, NPCU, Dr. Howaida El-Hawary, Ms Rabab Yousry, both SFD, accompanied the mission during the field visit in Qena. Dr. Abbas Zaki, FSRU Director, also participated in the field visits.

years on investment levels and income opportunities of the rural poor, who are only slowly recovering from the economic set-back of recent years.

6. Within this context, it is the mission's assessment that project implementation performance is **moderately satisfactory**. Benefits continue to be delivered to the target groups, with direct and indirect outreach to a large number of rural people to date (above 100,000) and a good gender balance in the distribution of benefits. The project's microfinance operations managed by SFD are excellent; some 44,571 loans have been disbursed until Sep. 2015, generating EGP 230,482,650 (appr. USD 28.8 million at current exchange rates) of investments in poor rural areas creating some 48,660 employment opportunities[2]. The aggregate loan repayment rate of 98% testifies to the positive economic returns generated, the credit discipline of borrowers, and the institutional discipline of CDAs and the robustness of the project's microfinance model. With respect to agriculture, the MALR's extension and farming systems research activities coordinated by the NPCU/GPCUs are promising, with substantial training provided to farmers and with modern technologies developed which are adopted by farmers.

7. Given the extension of UERDP to 31 March 2017, and about 16 months to the anticipated completion date, the main challenge for all parties is to ensure that the expected results will actually be achieved. The key issue of concern is the disbursement of the line of credit by SFD, where an amount of USD 4.3 million remains available for lending to CDAs. The second concern is to consolidate all positive and negative lessons learnt from project implementation so as to make these available to the PRIME project, which has started. Third, performance under the marketing activities has not been very successful. It will be important to ensure that the PRIME project, tasked to show results in seven governorates, will be in a position to advance faster and reach further than the UERDP. Finally, if the CDAs remain a pillar in the government's strategy for financial inclusion of the poor in rural areas, then more capacity building activities to enable these duly play their role are necessary.

C. Outputs and outcomes

Component 1: Private Sector Development

1.1. Marketing and Enterprise Development

8. Very few activities have been left over for implementation under this sub-component. Under the 2014/15 AWPB, only an amount of USD 3,000 has been invested, mostly to hold meetings with farmers, an amount equivalent to 8% of the AWPB allocation. Under the AWPB 2015/16, an amount of USD 10,000 has been earmarked for activities. As the project is nearing completion, no allowances are available to support substantial technical support activities during the project extension period, which the MALR has agreed to finalize. SFD has supported the UERDP by helping field officers to establish a Management Information System (MIS) in 25 FMAs (of which 17 in Qena and 8 in Assiut) to support the roles of marketing committees in these associations, by developing tools and guidelines for FMA/CDA governance, the marketing committees and contract farming.

9. The NPCU has not largely complied with the recommendations of previous supervision missions. Since the last mission, some training workshops have been conducted in both governorates. As at the end of December 2014[3], 51 marketing associations with 4121 members have been created (of which 372 women), and 771 persons have been trained (of which 313 women).

[2] It has been noted in previous mission reports that the term "creation of employment opportunities" in the project design report has been retained since inception under the monitoring and evaluation (M&E) framework of the UERDP, rather than real employment created under UERDP, measured in full-time job equivalents, and that the method of data generation is questionable. These data cannot be used to measure the impact of the UERDP at completion point. This approach should not be repeated under PRIME.

[3] The RIMS is updated only once per year.

10. Agricultural marketing in place is rudimentary. Although considered critical to enable poor farmers access to markets for increasing their financial returns, the mechanisms to support such activities are neither yet fully understood by the various actors, nor are there sufficient physical structures to allow this. The support mechanisms under UERDP are not in place to move the activities much further. Farmers' activities are at present rather output than outcome oriented. Marketing Associations are not yet properly linked to farmer associations. There is no critical mass of stations for collection of harvested produce, its sorting, cleaning, packing and cool storage to provide a value chain. Farmers would have to group in larger regional unions to better avail of credits and to aggregate critical quantities and qualities of selected kinds of fruits and vegetables required by traders/exporters to supply various domestic and export markets. There is no quality chain management in place to establish a value chain for required international certification. Neither the NPCU nor the structures in the GPCUs or in SFD have sufficient expertise and capacity to mentor and guide the process.

11. Despite the recommendations of previous missions, the reporting format on marketing remains only output oriented and incomplete. The mere reporting of x quantity of a commodity without collecting information about the prices and price differences does not permit to see any changes or progress.

12. The mission was presented with the final report of December 2013 on "Consultancy in Marketing and Capacity Building under Upper Egypt Rural Development Project (UERDP)" prepared by a consulting firm. The report presents five items related to the process of assessing marketing opportunities, namely:

- Problems of agricultural marketing that face the project areas;
- Current status of FMAs;
- How to help the members of FMAs reach the inputs and outputs of the market;
- Presence of services and organizations that support marketing from the perspective of farmers;
- The way forward for agricultural marketing associations.

13. A pilot Household Survey was conducted in September 2014 on the "Project impact on Farming Marketing Associations (FMAS) Household". The recommendations are detailed and constructive and should be implemented at once in the PRIME project. A recent report (unfortunately with data from 2010 and without prices and quality description of marketable produce) identified production quantities of crops marketed through FMAs in 2010 in Sohag Governorate. Among many crops, tomato with 3500 t/year and green beans with 1000 t/year may be considered relevant for marketing.

14. Training courses are an important tool in capacity building but content has to be carefully evaluated and must have practical relevance. At present, the best would be to conduct class room workshops. The mission reviewed the "Scientific Materials of Training Course" and "First Training Course: Market Needs Training", which seem to be adequate as regards content.

15. The mission was presented with a proposal on "Marketing Information System in Qena Governorate". Unfortunately, the proposal was found not to be operational. For example, no or technically not feasible recommendations were provided as regards who should collect the prices. A market intelligence system should ideally be implemented under PRIME.

16. Overall the performance of the Marketing and Enterprise Development activities is **moderately unsatisfactory.**

1.2. Financial Services

17. The SFD provides financial services to the project's target populations through two financial instruments: (1) microfinance for income-generating activities, administered by community development associations (CDAs) which serve as financial intermediaries for micro-loans to their members; and (2) investment finance for small-enterprises granted by the Principal Bank

for Development and Agricultural Credit (PBDAC). Overall the Financial Services Component is rated as **Satisfactory.**

1.2.1. Microfinance

18. Since early 2013, SFD grants its 3-year loans to CDAs at 9.5% p.a. on a declining balance, while CDAs charge their clients a flat rate of 14% flat for both one and two year loans. The effective annual lending rate is thus around 27% for one year loans and 13% for two year loans. Prior to 2013, the lending rate of SFD was 10.5-10.8% p.a. for three and five year loans respectively, while the ceiling for CDA lending rates was 16% flat. As a consequence, the margins for the CDAs have declined. CDAs apparently do not inform their borrowers on the effective rate of interest, and prefer to grant shorter terms, in view of the higher income thus realized. This is contrary to the interest of borrowers, who are often keen to extend the loan period.

19. Since inception, SFD has lent an amount of EGP 60.44 million 68 CDAs under 69 loan contracts, from which the CDAs were able to disburse 44,571 loans worth EGP 230,482,650 to their clients. This implies a revolving of 384% over the amounts received. Average loan sizes have remained relatively stable, just above EGP 5,000, which is the most frequent and standard amount of loans granted by the CDAs. While amounts correspond to the capacity of the CDAs and are an expression of their risk aversion, borrowers want and need bigger loans to move on with their businesses. Among the total of 44,571 borrowers, 18,790 or 42.2% have been women, indicating the ability of the CDAs to equitably involve their communities and obtain approval for a more equitable participation of women in the economy. Institutionally, the repayment rates at the level of CDAs have been very good, with amounts in arrears in the range of 1-2% only. Beyond a few days, no single default on repayment obligations has occurred so far between SFD and CDAs, as shown in the table below.

Table 1: Microfinance Operations – Selected Indicators – Jul. 2008 to Sep.2015

Indicator	Unit	Assiut	Qena	Total
SFD Loan Portfolio				
Borrowing CDAs	number	28	41	69
SFD Loan Disbursement to CDAs	EGP	31.9	28.4	60.3
SFD Loan Recovery Rate (from CDAs)	%	99.80%	97.4%	98.5%
CDA Loan Portfolio - Aggregate				
Loans Disbursed	number	21,308	23,259	44,567
Loan Amounts Disbursed	EGP mil.	110,8	119,6	230
Loan Amounts Disbursed	USD mil.	13.9	15.0	28.9
Revolved percentage	%	347%	421%	384%
Average Loan Size	EGP	5,199	5,142	5,170
CDA Loan Portfolio - Women				
Loans Disbursed to Women	%	42%	43%	43%
Loan Amounts Disbursed to Women	%	39%	43%	41%
Average Loan Size	EGP	4,898	4,977	5,128

Source: elaborated by the mission based on SFD data

20. The sectoral distribution of the loan portfolio (Table 2) shows that rural micro-investments are concentrated in three sub-sectors: livestock, particularly fattening of cattle and small ruminants and milk production (48% of loans); commercial activities such as micro-trade and village shops (32%); and a range of rural services (15%). Loans for other purposes, including agriculture production, are minimal. This situation has remained fairly stable in the past years, and it is not likely that this situation will change in the near future. CDAs should not be seen as a provider of finance for value chain development (e.g. under PRIME), but larger financial institutions should be targeted for this.

Table 2: Microfinance – Sectoral Loan Distribution – Jul. 2008 to Sep. 2015

Sub-Sector	Unit	Assiut	Qena	Total
Livestock sub-secor	% of loans	55%	46%	48%
Commercial activities	% of loans	28%	34%	32%
Rural services	% of loans	15%	11%	15%
Micro-industrial & handicrafts	% of loans	1%	8%	4%
Other	% of loans	1.0%	1%	1%

Source: elaborated by the mission based on SFD data

21. The CDA aggregate loan recovery rate as of September 2015 amounts to 98% (Table 3), which is an excellent achievement also in light of the social and economic upheaval of 2011-2012. This indicates continued positive economic returns generated by the micro-loans financed, the credit discipline of borrowers, the recovery endeavours of CDAs, the good relations and the robustness of the microfinance model. The mission commends SFD and CDAs for their immediate and systematic loan follow up by officials on loans falling into arrears.

Table 3: Microfinance – CDA Loan Recovery (2nd phase loans) as of September 2015

Indicator	Unit	Assiut	Qena	Total
Loan Amounts Due	EGP million	16.4	21.7	38.1
Loan Amounts Recovered	EGP million	16.3	21.7	37.4
Loan Recovery Rate	%	99.9%	97.0%	98.0%

Source: SFD

22. By 13 November 2014, the Government enacted Presidential Decree no.141 of 2014 on the microfinance sector. Microfinance is defined as financing of economic productive, service or commercial purposes with the value not exceeding EGP 100,000, which may be increased annually. Following the Decree, all CDAs are requested to apply for a license under one of three categories: ‘A’ for large-scale MFIs operating nationwide, ‘B’ for medium sized MFIs operating in an entire Governorate, and ‘C’ for small, community-based MFIs. All MFIs supported under UERDP belong to the C category. According to SFD data, all supported CDAs in Qena and Assiut Governorates obtained a temporary license and submitted their application for a final one before the due date. The new regulations, enforced by the Egyptian Financial Supervisory Authority (EFSA), which regulates and supervises the entire financial service industry in Egypt, including all non-banking financial institutions and markets, prohibit MFIs from accepting deposits, but permit other forms of lending, such as leasing, ‘Murabaha’ and trading. The deadline for submission of applications has been extended to 15 November 2015, but it is highly unlikely that EFSA will be able to grant licenses to all applicants within a short period thereafter. Under these circumstances, the SFD opted for a temporary stop on all fresh lending to CDAs until these have received their final operating license from EFSA. As a result, no further disbursements took place since the last supervision mission. SFD has stated in meetings that it would, by the end of the deadline of 15 November, consider all CDAs already served as eligible for further lending provided that they had a temporary license from EFSA, and that they have submitted a complete set of application documents to EFSA before the deadline. As the conditions for a C-license are very light, the probability that all supported CDAs in Qena and Assiut will obtain their final license is very high.

23. From the available resources of EGP 96.5 million, an amount of EGP 62.0 million has already been contracted with CDAs, leaving a balance of EGP 34.5 million. At the time of the mission, applications for new loans by CDAs of EGP 3.5 million have already been submitted to the credit committee of SFD, and amounts of EGP 9.5 million for Assiut for 8 CDAs and of EGP

15.2 million for 10 CDAs in Qena were presently appraised at Governorate level. Under the assumption that all these loans will be approved and disbursed, the unallocated balance left for disbursement would amount to EGP 6.3 million. As per the credit regulations of SFD, loans to CDAs are to be disbursed in four tranches, with a new tranche permitted for disbursement once 50% of the amounts received before under the agreement are disbursed. The experience of SFD as regards the absorption capacity of CDAs is that tranches are usually disbursed in intervals of 1-3 months, thus total disbursements would take 6-12 months in most cases. SFD further estimated that disbursements could start in March 2016. SFD assumes that it will be possible to disburse EGP 28.2 million of the available resources before March 2017, and that special efforts to ensure full disbursement before completion are needed. The mission agreed with SFD on a monthly reporting by SFD to the NPCU and IFAD on the disbursement situation, and on a reporting format[4]. The table below shows the projected disbursements of SFD to CDAs up to December 2016.

Table 4: Projection of disbursements of micro credits to CDAs up to March 2017

Projected disbursement	**2016**	**2017**	**Total**
Amount in EGP	27,650,000	7,000,000	3,465,0000
Amount in USD (at 1.0:8.0)	3,456,250	875,000	4,331,250

Source: SFD

24. The capacity of all CDAs visited in microfinance is comparatively low, compared to other countries in the sub-region and compared to the number of years of experience and existence. No systematic, in-depth and professional assessment of their capacity and performance has yet been done. The same applies to a capacity development needs assessment. Deficits of the CDAs, as far as the mission could observe, are related to their MIS, performance analysis, understanding of risk management, and planning and structuring of products and services in general. The loan tracking system provided by SFD helps very much in generating information as stipulated by SFD, but is technically very limited. Few CDAs use an accounting system. Loan appraisal is adequate for the low loan amounts, but would need improvement if higher loan amounts were granted (as requested by CDAs and clients)[5]. Information about the effective interest rate charged would also have to be revealed to borrowers correctly under the transparency guidelines of the new regulations. Against the comprehensive recommendations of the previous mission, the CB activities have not been undertaken. The new microfinance law will force all NGOs to use a unified MIS and an electronic accounting system.

25. The Egyptian Union for Microfinance (EUMF) is the apex body of all MFIs licensed under the new law; membership is compulsory for all licensed MFIs. The objective is to raise the awareness of microfinance activities, to promote good/best practices in running microfinance programs, design curricula and organize training programs for MFIs and to improve the skills of the MF/NGOs staff.

26. The performance of financial services under the project is rated **moderately satisfactory**, with the performance of participating CDAs seen as satisfactory.

Agreed action	**Responsibility**	**Agreed date**
1. Undertake all efforts to ensure full disbursement of the available resources under UERDP to CDAs before 31.3.17	SFD	immediately till completion

4 The format, prepared in a spreadsheet program, lists the borrowing CDAs, governorate, date of EFSA licensing, date of loan application, amount requested, amount approved, date of SFD approval, amount and date of loan contract, and amount and date of first to fourth tranche disbursement, and the total disbursements till date. SFD is also requested to update its assessment on the probability that all amounts contracted would be disbursed by 31 March 2017. The second sheet then calculates the percentage of disbursement against the remaining funds EGP 34.5 million.

5 The current average loan amount is equivalent to 5% of the maximum amount permitted under the new microfinance regulations.

2.	Report monthly on the disbursements to CDAs	SFD	starting Jan 2016 on Dec 2015
3.	Commission a first assessment of UERDP impacts on CDAs	NPCU	2nd half of 2016
4.	Shift the implementation of a systematic capacity building needs assessment of CDAs and preparation of a CD plan for CDAs to PRIME	NPCU, SFD	immediately

1.2.2 Small and Medium Enterprise Finance

27. Enterprise financing operations are managed by the SFD's Small Enterprise Development Organisation (SEDO) and administered by PBDAC on the basis of a Subsidiary Financing Agreement (SLA) signed in April 2009. The objective of this activity was to finance small enterprises which support the rural sector, create employment opportunities and provide a range of services in the targeted rural areas.

28. SFD lent small and medium enterprise (SME) funds to PBDAC at a declining interest rate of 9.25%, while PBDAC onlent these to final borrowers at a declining interest rate of 12.25%, thus a 3% spread. Between 2009 and 2011, PBDAC disbursed 197 loans (of which 31% to women) amounting to the full incremental credit allocation of EGP 5 million (Table 4). These loans financed agriculture and livestock (84% of total amount), trading (10%), beekeeping (3%), and farm transport (3%). Repayment of the EGP 5.0 million to SFD by PBDAC was completely finished by July 2015.

Component 2: Agriculture Competitiveness Enhancement

29. The departments of MALR at Governorate level are responsible for Agriculture Competitiveness Enhancement component. The activities within this component include the demand-driven on-farm farming system research as well as the support to the demand-driven extension services. The on-farm farming systems research aims at introducing new varieties and crops with potential markets as well as promotion of crop intensification and diversification for increased farm income and resilience through enhanced productivity, improved efficiency in the use of water and fertilizers and reduced cost of production. Most of the planned activities of this component for 2013/14 and 2014/15 have been completed despite the low disbursement level due to the inaccessibility of allocated funds by the GOE for this component. The disbursement against the AWPB was 69%.

30. **2.1 Farming Systems Research.** Through the applied farming systems research, new high-yielding varieties as well as crops newly introduced to the area have been tested on demonstration extension plots where farmers were invited to field and harvest days to compare their respective performance and yield with those of new varieties. These improved varieties that were selected by the farmers would enter the various farming/cropping systems models. The models include intercropping and relay planting with other crops. The fine-tuning of the cropping systems used is decided upon in a participatory way together with the farmers who would evaluate the outcome at the end of the season with the researchers, extension agents and their fellow farmers. Ten models have been developed in the past years.

31. **2.2. Extension.** The subcomponent is closely linked to the on-farm research on farming systems and includes support through on-farm demonstrations, technical backstopping to farmers, and training of the newly established FMAs/CDAs. During 2014/2015, 20 extension demonstration sites were implemented in the project area, 8 field days conducted and 7 training courses conducted for FMAs. In addition, avian flu prevention was added, with 6 field visits, 3 seminars and four training courses with 19 demonstration sites in Qena on tomatoes, wheat, fodder, beans, and onions, and seven in Assiut on tomatoes, wheat and fodder crops.

32. **2.3. Gender and youth.** As per the results of pilot impact assessment study, there is a clear need for the project to involve more women and youth in the activities of Component 2. The limited gender representation had been indicated in the previous supervision mission and the

project team has taken some action to improve the situation. The local culture of the Upper Egypt communities is not in favour of women to work in the field outside their homes, which reduce their participation in field agricultural training. They participate in training provided in closed areas, and in particular in the domains of livestock and food processing. The mission repeats the recommendation that UERDP (and PRIME) should include in the agricultural competitiveness/marketing component some innovative activities that are tailored to enhance the gender involvement in this component. These could include activities to involve women in the evaluation of newly introduced varieties (vegetables, cereals and legumes) in terms of their taste, cooking quality, and postharvest qualities (drying periods, susceptibility to postharvest pests, storage capacity under their local household conditions, etc.). Furthermore, more efforts should be made to involve the youth in production activities. These could be provided with the needed capacity building for taking the responsibilities of such tasks, especially within cooperatives such as leading the extension support to their fellow members of their cooperative, follow-up and dissemination of market and price information, etc., or involve them in technical issues such as support in operations and maintenance of irrigation systems (drip or sprinkler), machinery, agrochemical applications, as well as the establishment of nurseries. Overall the performance of the Agricultural Competitiveness Enhancement Component is **moderately satisfactory.**

Agreed action	Responsibility	Agreed date
5. Prepare a methodology for an impact assessment of the activities, with more respect for solid methods than the surveys conducted so far	FSRU/MALR	2nd quarter 2016

D. Project implementation progress

33. **Management performance.** The NPCU is responsible for the implementation of the UERDP and the PRIME projects in the country funded by IFAD. The unit is embedded in the MALR and staffed by experienced ministerial personnel acquainted with IFAD procedures, who work for the project on a part-time basis. At the Governorate level, the NPCU is supported by two GPCUs, one in Assiut and the other in Qena. SFD, and its regional branches, are responsible for the implementation of all activities related to financial services at the project target area. The work of the NPCU is overseen by a Programme Steering Committee. Its functions are to provide policy guidance, approve the AWPB, approve participation of implementing partners and facilitate in resolving operational issues.

34. The mission views the competence and dedication of the NPCU/GPCU and SFD teams positive. The progress that the project attained so far is the result of the commitment of project staff and the constructive partnership with SFD. The mission is pleased to note that some knowledge and experience sharing arrangements with other IFAD projects in the country, such us the West Noubaria Rural Development Project (closed in December 2014), has worked well. The unit will also remain in charge of the PRIME, which would contribute to structured knowledge management. Improvements would certainly be possible as regards interaction between the GPCUs in Qena and Assiut. This could serve as a model for knowledge and experience sharing at the local level, and can be replicated in other IFAD's project in the country, particularly the PRIME.

35. Moreover, since the current GPCUs will be also responsible for the PRIME implementation in Assiut and Qena Governorates, it is of great importance for the mentioned GPCUs to consolidate and analyze the lessons learnt from UERDP. Sharing this experience with the other five governorates included in the PRIME would ensure a smooth implementation of the PRIME activities at the Governorate levels.

36. Aspects of project management to be improved include the quality and accuracy of the AWPBs, aggregation of data, outreach to women and the youths, among others. Compared with the previous mission, attention to and follow-up on sub-components and activities not easily

implementable has generally been poor. Efforts to implement mission recommendations have generally been insufficient. The overall management of the UERDP was assessed to be **moderately satisfactory**.

Agreed action		Responsibility	Agreed date
6.	Consolidate and analyze lessons learnt from project experience with a view to facilitate learning	NPCU on the basis of GPCU reports and suggestions	by 31 February 2016

37. **Monitoring and Evaluation.** M&E under the UERDP is vested with the central GPCU, which collates data coming from the two governorates, financial institutions and other partners. The unit compiles quarterly and annual progress reports focusing mostly on inputs and outputs, with insufficient information and analysis on results. Impact dimensions, and the extent to which the overall goals and objectives are reached, are not adequately addressed. The project does not possess a modern MIS system, and data is maintained in spread sheet format. Accounts are kept manually. The first level RIMS indicators are an integral part of the M&E system. The capacity to direct and supervise external, more complex impact surveys and ensure quality delivery on time is not visible. Most of the deficiencies can be explained by insufficient technical capacities of the staff involved, a lack of proper understanding in the Ministry of how data could be used to derive at management and strategic decisions, an inadequate budget to verify data and conduct interim and final surveys on relevant outputs and impacts, lack of exposure on how modern M&E functions could be implemented within a strategic framework. As it is not likely that the PRIME as successor project will be able to achieve its objectives without substantial improvements of the M&E support services, it will be necessary to put much more attention and focus on this when establishing and operationalising the M&E system for PRIME, and to request supervision missions to dedicate sufficient time to improving the performance of the unit, on-the-job. The performance of the M&E system is therefore rated **moderately unsatisfactory**.

38. **Gender focus**. In terms of outreach, the UERDP shows good results as regards microfinance, where 42% of borrowers have been women. The achievements are due to the dedication and commitment of the CDAs to gender focus and balance, and less to project initiatives. However, the involvement of women as decision makers and beneficiaries has been limited as regards the other components, as remarked above and in previous reports. Inadequate efforts have been made to reach out to women in all activities other than microfinance. The project also did not develop a project gender mainstreaming strategy, as requested, and thus does not have any implemented activities on it to date. Due to the lack of focus, of both researchers and project staff, some of the surveys did not even envisage comprising the outcomes of project measures on women, nor did they provide a breakdown of results by gender, even though the data existed. On the other hand, it must be acknowledged that in the environment in which the project operates, and the political turmoil from which the country suffered, an equitable distribution of resources between women and men was very difficult to achieve. The gender focus of the UERDP is therefore rated **moderately satisfactory**.

39. **Poverty focus**. Most of the financial services have been clearly directed at the economically active poor, as per the project appraisal document, with the explicit and planned exception of loans granted by PBDAC, which followed other objectives.

40. UERDP has achieved steady and significant progress toward delivering benefits to the target groups. The project has been able during the past four years of the project life to direct the micro finance and extension activities to the rural poor who are cultivating less than five feddans, some landless labourers and female headed households, despite the difficulties that (expectedly) come along with such focus. The poverty focus of the UERDP is therefore rated **satisfactory**.

41. **Effectiveness of targeting approach.** The project's targeting approach was supposed to comprise the direct selection of two poor governorates, the direct selection of poor villages within the selected governorates and some self-targeting of project activities as the small loan sizes which are attractive to households below the poverty line, and not to better-off households. The UERDP has been able to cover by its micro finance activities those villages indicated nationally as poorer villages in the two governorate. The CDAs have thus effectively delivered micro finance to enterprises at village level without much effort to restrict elite capture. These simple approaches have worked, in combination with the dedication of CDAs towards the rural poor. The effectiveness of targeting is rated **moderately satisfactory**. A breakdown of project outreach to individuals is shown in Table 5.

Table 5: Outreach of project activities as of September 2015

Target Group "category"	Total number of people to be reached by the end of project implementation (appraisal targets)	Number of people reached so far (cumulative)	
		Total number	Of which women
People in marketing groups formed/strengthened	3,500	2,557	346
People trained in business/entrepreneurship	3,000	771	313
People receiving project services	80,000	88,235	17,936
People trained in crop production practices/ technologies	7,200	93,607	34,108
People trained in livestock production practices/technologies	7,200	2,210	839
Staff of service providers trained	160	1,696	350

42. **Innovation and learning**. Three approaches have worked quite well under the UERDP. The first one relates to the application of participatory approaches at the beginning of the project to establish linkages first with Marketing Associations and the private sector to initiate a dialogue between actors/players, and the second one to involve CDAs as financial intermediaries. The third one relates to the combined approach to fund the development of new cropping patterns through applied research, their testing in demonstration plots, the selection of the most convenient and preferred techniques by farmers, the involvement of government extension services, the expansion of demonstration by extension officers to other farmers, and tentative and first impact studies on the outcomes. The approach to create or strengthen marketing associations has not succeeded so far, within a component that has not been properly conceived, structured and implemented. Even though the microfinance approach through CDAs has started well, the provision of credit-only support appears as a risky fallacy, and should be changed under the successor project PRIME. The ability to develop innovations, to assess these and learn from the respective outcomes, and re-insert these into strategic management is rated **moderately satisfactory.**

43. **Partnerships.** The close collaboration with the Farming Systems Research Unit (FSRU) has evolved very well and produced results that are relevant to many smallholders in the concerned governorates. SFD has generally performed well, with the exception of a more strategic view on the development of CDAs. PBDAC has adequately implemented its whole contract amount of EGP 5 million, within the limitations discussed in previous supervision mission reports.

44. The mission has observed that the project team together with FSRU and other implementing partners were able to ensure a high level of participation from the beneficiaries in all project activities. Beneficiaries were consulted before and during the implementation of project activities related crop diversification. Moreover, financial products have been tailored to the

specific seasonal and consumption needs of the farmers, ensuring better access to these products.

45. **Climate and environmental focus**. The main focus of the UERDP is on micro and agricultural finance, marketing and development and application of new cropping patterns. No major direct, secondary or side effects on the environment have so far been observed. The research conducted under the project has led to a number of inter-cropping models, which reduce water and fertilizer consumption of the plants in the range of 20-30%, and thus have a marginally positive environmental impact. As regards the quality of natural asset improvement and climate resilience, no impacts have been identified. The climate and environmental focus of UERDP is rated **moderately satisfactory**.

E. Fiduciary aspects

46. **Financial management**. A Financial Management (FM) assessment was conducted to review the adequacy of the arrangements in place for the Project. The FM rating of this Project is **moderately satisfactory**.

47. **Organization and staffing**. The finance management team of NPCU of MALR consists of two Accountants and an assistant at HQ and an accountant at each of the coordination units in Qena and Assiut Governorates. While the Financial Department is responsible for the overall financial management of SFD funded projects including UERDP.

48. **Budgeting**. IFAD loan and grant budget is viewed by the Government as part of the national budget. The MALR prepares its annual budget including all its activities and submit it to the Ministry of Planning for approval before its final approval by the Parliament.

49. Before the end of each fiscal year, the NPCU prepares a consolidated AWPB for the following year for activities planned by the NPCU and SFD from the grant and the loan proceeds respectively and submit for IFAD review and concurrence. To further enhance the quality of the AWPB to meet IFAD requirements, the mission recommends that the consolidated AWBP would show the budgeted amount by component and sub-component in order to facilitate the monitoring of budgeted against actual expenditures on a periodic basis.

50. **Funds flow and disbursement arrangements**. Disbursements from the project bank accounts are subject to a sufficient level of review, checks and balances to ensure sufficient level of control exist. The Project has one designated account in USD opened at the Central Bank of Egypt and one operating bank account in EGP opened also at Central Bank of Egypt, for the grant, to pay eligible expenditure of the project in local currency. The operating account receives funds from the designated account. These two bank accounts are managed by the NPCU. In addition, the project has another designated bank account in USD opened at National Bank of Egypt, managed by the Social Fund for Development (SFD), for the payment of eligible expenditures on the loan. All payments on the loan are made using checks or bank transfers; no cash payments from IFAD loan proceeds are allowed.

51. **Commitments and actual expenditures**. The total amount of commitments (signed contracts) as of October 31, 2015 is USD12.8 million, financed by IFAD loan (USD 11.2 million), IFAD grant (USD 0.9 million) and MALR (USD 0.7 million) and represents 65% of the total project cost (see Appendix 5).

52. The total amount of actual expenditures as of October 31, 2015 is USD12.6 million, financed by IFAD loan (USD10.9 million), IFAD grant (USD0.9 million) and the MALR (USD0.7 million). This represents 63% of the total funds allocated for the project and 98% of the total commitments (see Appendix 5).

53. Sixteen months before the project completion date, the actual expenditures on IFAD loan still low. From the IFAD loan which totals about USD 15.2 million, the actual expenditures are USD 10.9 million (72%). However, the actual expenditures on the grant totals USD 0.9 million (98%).

The actual expenditures on the MALR contribution are low and represent only 20% (USD 0.741) of the planned amount (USD 3.714). The expenditures by category on the loan and the grant are presented below in Appendix 5.

54. **Actual expenditures on AWPB 2014/2015**. The total amount of the actual expenditures, including the government contributions, against 2014/15 AWPB as of October 31, 2015 is considerably low. The total expenditures is equal to USD 0.55 million (loan USD 0.4 million; grant USD 0.05 million and government USD 0.1 million) which represents12% of the total planned amount of USD4.5 million. This low rate is mainly due to the introduction of a new microfinance law which requires NGOs/CDAs to be licensed before managing micro-credit. According to this law, the associations should be licensed by November 15, 2015, and consequently, the SFD could then sign contracts and transfer the funds to them to finance microcredits.

55. **Internal controls**. The internal control system in place within the MALR and SFD conforms to the government system and has been deemed satisfactory by IFAD. It ensures the separation of functions through several controls mechanisms. The payments from project bank accounts are subject to a high level of controls. Payments are currently processed by UERDP financial officers and jointly approved by the NPCU director and the head of the Central Directorate of Financial Affairs, MALR and reviewed by the assigned financial controller (of the Ministry of Finance) to MALR. As required by law, he reviews and verifies every transaction against the corresponding documentation, and then certifies transactions before checks are issued. IFAD grant payments are recorded manually into ledgers by the accountant of the NPCU.

56. Most payments are made using checks, only small payments from IFAD grant at regional level, are allowed to be done by cash as advances and which then justified by presenting the supporting documents. All transactions are further subject to ex-post review by a government auditor from the Central Audit Organisation.

57. **Accounting**. The NPCU does not use accounting software for the financial monitoring. All expenditures except the revolving fund component are manually recorded at the NPCU level in a manual ledger by the accountants of NPCU. In addition, the expenditures for Government budget are recorded at the Ministry of Agriculture and Land Reclamation (MALR) level using another manual register.

58. The MALR maintains Project accounts bank reconciliation updated for the two banks in USD and in EGP for the IFAD grant on a quarterly basis. The mission recommends that the bank reconciliation statements to be carried out more frequently on a monthly basis.

59. **Financial Reporting and Monitoring**. Financial reports prepared by the NPCU, on Excel sheet, include a statement of expenditures by component and by financier, a statement of sources and uses of funds by financier and by component. However, the financial reports do not include commitments by financier, category, component, and sub-component.

60. Payments made by SFD for the financial services component are recorded in a computerized financial system. This system is installed at central and regional level and it allows detailed information on the beneficiaries, projects, amounts, etc. The financial reports of the financial services are produced by this system.

61. **Internal audit**. At the NPCU level, there is a financial controller, under the Ministry of Finance, who does not perform the normally prescribed and entrusted role of an internal auditor. He reviews and verifies every transaction against the corresponding documentation, as per government requirements, before submission to MALR for payment.

62. The SFD has an internal audit department at central and regional level, and the financed project-related transactions are covered by an internal audit department in accordance with the departmental annual work plan. The audit department has a well established statement of mission objectives which attempts, among others, ensuring that procedures set in the

operational manual are enforced, internal audit missions are conducted, and the coordination among the various operating aspects of this entity is undertaken. In addition, the internal audit sector has a check list for the audit of projects funded through the associations and another check list for the audit of small projects funded through intermediaries. The mission recommends to the audit department to include in its annual program of work the end-use checks besides the outsourced monitoring agency.

63. **Fixed assets register**. The MALR keeps it manual assets registry in line with government's established procedures. However, assets are not coded as recommended by the external auditor. Consequently, fixed assets funded by the project should also be tagged and physically counted on yearly basis. This recommendation should be implemented for both UERDP and PRIME.

64. **Designated accounts**. As of October 31, 2015, only one Withdrawal Application (WA) 12 from SFD had been processed in the fiscal years 2014/2015 and 2015/2016 from the IFAD loan for an amount of USD 0.521 million. The closing balance, as of October 31, 2015, was USD 784,926. The mission recommends timely submission of WAs at least every three months or when substantial amounts are spent.

65. For the IFAD grant, the closing balance of the designated account, as of October 31, 2015, is USD 36,694 and EGP 258,442 (approx.USD 32,305) for the operating account.

66. **Disbursement (moderately unsatisfactory).** The disbursement percentages, including and excluding the authorised allocation to the Special Accounts for the loan were 75.14% and 69% respectively, while for the grant, they were 100% and 64.11% respectively. Cash outflow projection over the coming year indicates an increase in the loan disbursement towards the completion date. The last WA on the grant was processed in 2013 and therefore the mission recommends NPCU to fast track the submission of WA on the grant.

67. **Counterpart funds (moderately unsatisfactory).** Government counterpart contribution to the project is allocated on yearly basis and is neither sufficient nor timely. The funds flows to MALR on quarterly basis and the first quarter payment is normally transferred three months after the beginning of the fiscal year, so during this period the project cannot pay for any expenditure that is planned under counterpart contribution budget. As of October 31, 2015, USD 0.741million representing 20% of the total counterpart allocated amount has been paid on the MALR.

68. **Compliance with loan covenants**. The Project’s compliance with Loan Covenants is **moderately satisfactory**. The Mission notes partial compliance under “Progress Reports to be submitted to IFAD on annual basis”, as the Project submitted basic progress reports.

69. **Procurement (moderately satisfactory**). The overall procurement assessment carried out by the mission shows that in general, goods, works and services financed by IFAD have been procured in accordance with the national shopping procurement method. The procurement department’s performance is rated as **moderately satisfactory**.

70. **Statement of expenditure review**. The mission selected and examined eight payment vouchers related to the loan for a total amount of EGP 3.45 million and five payment vouchers related to the grant for a total amount of EGP 0.010 million and found the supporting documents are adequate and easily retrievable. The main findings are that the NPCU reported expenditures under components 2 and 3 (Agriculture competitiveness enhancement and Project coordination) out of the grant proceeds, while the project appraisal does not include any allocation for these components under the grant. The nature and eligibility of some of the incurred expenditures are to be validated.

71. As regards trainers hired by NCPU, competitive procurement procedures have not always been respected. Furthermore, despite the fact that the NPCU has hired some trainers for several assignments, it did not issue contracts with these trainers for each assignment.

72. **Audit**. Quality and timeliness of audit have been rated as **moderately satisfactory**. Financial statements for the year ended June 2014 have been audited by Grant Thorton – Mohamed Hilal, a private auditor. The auditors conducted their audit in line with International Standards of Auditing. The audit report and management letter were received in February 2015 with two months delays. Auditors expressed an unqualified opinion on the financial statements, designated account, and eligibility of Statement of expenditure. The auditors' performance and financial statement were rated **moderately satisfactory**. At the time of this mission the draft audit report and management letter for the year ended June 2015 was shared by the project and is subject to finalisation.

Agreed action		Responsibility	Agreed date
7.	Fast track the submission of the long awaited WA	NPCU	30 November 2015
8.	SFD internal audit to include an end-use check as part of their annual work programme	SFD	from now onward
9.	Capacity building training for CDA's accounting team on preparing financial and income statements	SFD	From now onward
10.	Implementation of the external audit recommendations	NPCU / SFD	31 January 2016
11.	The project to prepare financial reports for the year as well as for cumulative period since the beginning of the project life by component, sub-component and financing source	NPCU/SFD	Quarterly basis
12.	NPCU to justify the eligibility of the expenditures incurred on components 2 and 3	NPCU / IFAD	15 December 2015
13.	Utilize the financial statements template shared with the NPCU for the follow-up of the project actual expenditures and commitments in the future	NPCU / SFD	ongoing
14.	Prepare the AWPBs by component, sub-component, category and financing source	NPCU	in the next AWBP

F. Sustainability

73. **Institutional sustainability.** In the short term, the overall sustainability of CDAs as financial intermediaries appears to be assured, given their reasonable use of the loans, their ability to reach out to the lower segments of society, the good repayment rates, and their level of acceptance in society. The new regulations pertaining to microfinance will highly likely lead to an overall strengthening of the sector, although only after considerable efforts by all parties and partners. Before CDAs can improve their performance up to the minimum defined by the regulations, and up to the expectations of their clients, substantial holistic capacity development will be needed. CDAs will in particular need to improve their efficiency levels in order to reduce their lending rates, which requires new operating approaches, MIS, products and much increased loan volumes. For this to happen, SFD needs to be convinced about CDAs' capacity, which calls for joint initiatives of SFD, EFSA, the newly formed apex body for microfinance, Egyptian Union for Microfinance (EUMF), and development partners. It is evident that the zero investment policy into CD pursued under the UERDP and PRIME is a fallacy.

74. **Social sustainability (Empowerment).** The overall sustainability of CDAs as socio-economic institutions is assured, while the sustainability of FMAs in this respect is not yet assured.

75. **Economic and financial sustainability.** The economic and financial sustainability of microfinance services under the project is assured in the short run, given the good loan recovery rates by CDAs and SFD. The new regulations pertaining to microfinance will highly likely lead to an overall strengthening of the sector, although only after considerable efforts and investments by all parties and partners. The new regulation will create the legal ground that will enable IFAD to replicate the lessons learnt and the results of the microfinance activities in future IFAD investment in the country.

76. Taking the tentative results of the various studies conducted as base, it is highly probable that running the rates of return on investments at project completion will show positive results, well in excess of the opportunity cost of capital, and very robust in the face of political and economic turmoil at the macro level.

77. **Technical sustainability.** The project's technical sustainability will again depend on the nature of linkages between FMAs and agribusinesses, as well as on the support with which MALR extension services are able to support CDA borrowers. This is not yet established.

78. **Environmental sustainability.** N/A

79. **Exit strategy.** The CDAs will continue to revolve microfinance loans to expanding numbers of borrowers in the post-project period. In line with national policy, MALR will continue extension services through its statutory budget; there is limited scope at the moment for introducing cost recovery for extension services. The marketing associations need a new vigour and thrust, under PRIME, before exit would be possible.

G. Conclusion

80. The overall assessment of the mission is that project implementation performance is **moderately satisfactory**.

81. With about sixteen months to completion, the main challenges of the project implementers are to ensure that the overall objectives and goals are achieved during the remaining time. The key to this is an accelerated disbursement of SFD of the remaining credit line to CDAs in a sustainable manner. This requires concerted efforts on the side of SFD at Governorate and headquarters levels in identifying suitable CDAs, following up on their applications and appraisals, ensuring minimum delays for internal appraisal and approval processes, including the credit committee, and constant follow-up of SFD on CDA internal disbursement to their clients. This necessitates closer interaction between the SFD, NPCU and IFAD on the disbursement situation, and a monthly reporting to share results among the relevant actors. A second concern is the ability to draw the lessons from UERDP for the implementation of PRIME; this relates mostly to the marketing activities, for which a thorough and effective concept beyond the appraisal report has yet to be developed. Finally, the project's M&E system and financial management need improvements to ensure compliance with IFAD's requirements.

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Egypt	Project ID	1376	Loan/DSF Grant No.	716
Project	Upper Egypt Rural Development Project			Top-up Loan/DSF Grant	n.a.

Date of Update	24-Novl-2014		
Supervising Inst.	IFAD		

No. of Supervisions	6	No. of Implementation Support/Follow-up missions	1
Last Supervision	12-24 NOV 2014	Last Implementation Support/Follow-up mission	30-Jan-2008

					USD million	Disb. rate %
Approval	**14-Dec-2006**			Total financing	19.85	
Agreement	**07-Mar-2007**	Effectiveness lag	9.5	IFAD Total	16.13	
Entry into force	**24-Sep-2007**	PAR value	--------	IFAD loan	15.18	75
First disbursement				DSF grant		
MTR	**10-Jun-2012**	Last amendment		IFAD grant	0.95	100
Original completion	**30-Sep-2015**	Last audit	February 2015	Domestic Total	3.71	
Current completion	**31-Marr-2017**			Government (National)	3.71	20
Original closing	**31-Mar-2016**			External Cofinancing Total		
Current closing	**31-Sep-2017**					
No. of extensions	**1**					
Requested completion	**31-Marr-2017**					
Requested closure	**31-Sep-2017**					

Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	4	4	1. Quality of project management	5	4
2. Acceptable disbursement rate	4	3	2. Performance of M&E	3	3
3. Counterpart funds	3	3	3. Coherence between AWPB & implementation	4	3
4. Compliance with financing covenants	4	4	4. Gender focus	4	4
5. Compliance with procurement	5	4	5. Poverty focus	5	5
6. Quality and timeliness of audits	3	4	6. Effectiveness of targeting approach	5	4
			7. Innovation and learning	4	4
			8. Climate and environment focus	4	4

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Agriculture Competitiveness Enhancement	4	4	1. Institution building (organizations, etc.)	5	5
2. Project Coordination	5	4	2. Empowerment	4	4
3. Financial Services	6	5	3. Quality of beneficiary participation	5	5
4. Marketing & Enterprise Development	3	3	4. Responsiveness of service providers	4	4
			5. Exit strategy (readiness and quality)	4	4
			6. Potential for scaling up and replication	4	4

B.5 Justification of ratings

Egypt has been experiencing political and economic instability following the 2011 revolution. Real GDP growth declined to about 2% during the period 2011-14, and growth for 2015 is about 4%. As a result of political uncertainty and continuing social unrest, vulnerability particularly of the poorer segments of the population has increased. Project implementation slowed down consequently in 2012-14 and reduced the flow of services and benefits to target groups. This motivated IFAD to grant an extension of the UERDP by 18 months to assist implementing agencies achieve their targets and beneficiaries to reap benefits. When SFD was about ready to implement the remaining activities, a new law on microfinance was passed which prevented SFD from lending to CDAs before they obtained a license. The disbursement rate of the lending activities is therefore low. This led to a decline in rating on several aspects. However, the outreach of the project in general, the quality of the lending activities of CDAs to their clients, and the repayment rates are still very good, confirming positive economic returns generated the credit discipline of borrowers, the institutional discipline of CDAs, and the robustness of the project's microfinance model. With respect to agriculture, MALR's extension and farming systems research activities are promising, with substantial training provided to farmers and with modern techniques developed in close cooperation with farmers. Agricultural marketing activities, which are critical for enabling poor farmers to access markets and increase financial returns, are delivering sub-optimal results. The SME financing activities are frozen due to PBDAC's reluctance to revolve principal repayments into new loans. The SFD's internal controls are robust and functioning. However, weaknesses are noted at NPCU level, although the promptness and quality of audit improved. The NPCU thus needs some improvement to fully comply with IFAD's requirements. Counterpart funds of the GOE have not been forthcoming as anticipated, with a disbursement rate of only 20%. While it was noted during the last mission that contributions of SFD and GOE have not been recorded systematically since inception, no data on this have been compiled by the NPCU, even though the above percentage is likely to be much higher.

Overall Assessment and Risk Profile

		Last	Current
C.1	Physical/financial assets	4	4
C.2	Food security	5	5
C.3	Quality of natural asset improvement and climate resilience	4	4
C.4	Overall implementation progress (Sections B1 and B2)	4	4

Rationale for implementation progress rating:
The Small Enterprise Development Organisation (SEDO) of the SFD has supported marketing activities through a range of activities. It has developed marketing templates and distributed processors/exporters/local market contact lists to support the marketing information system used by FMAs and marketing committees; this was expected to assist FMAs to plan their agricultural production annually, and to estimate exporters' contracted volumes for the next season. The extension methodology applied to date seems to be adequate for the introduction and adoption of new technologies and improvement of crop and livestock production activities. The methods applied include training sessions (classroom and field-based), workshops, demonstration plots on farmers' fields linked to field days and harvest days, exchange visits, and home visits to single or clusters of households (particularly for women, or for situations requiring surveillance and intervention).Disbursement on the line of credit by SFD is behind schedule, much of this can be attributed to the social and economic circumstances of the country since 2011 and the need for CDAs to comply with new licensing requirements introduced in November 2014.

C.5	Likelihood of achieving the development objectives (section B3 and B4)	4	4

Rationale for development objectives rating:
An impact assessment of the project's microfinance and SME finance commissioned in 2012 noted that: (1) the project has been successful in instilling the principles of sustainability and cost recovery at grassroots/civil society level; (2) CDAs used as financial intermediaries were found to be well governed and sustainable institutions; (3) the project has positively impacted on the lives of borrowers by empowering them to increase their incomes and subsequently their household expenditure on food, health and education; and by creating incremental employment opportunities. Reaching outreach target at project completion will depend on the ability of SFD to fully disburse the line of credit to CDAs without endangering repayment rates.

C.6 **Risks** *Short description of major risks for each section and their impact on achievement of development objectives and sustainability*

Fiduciary aspects	Several weaknesses are noted at NPCU level. Accounts are maintained manually. The disbursement rate against the AWPB has been low, although the result for 2014/15 has been mostly caused by the new law on microfinance, which prevented further disbursements. The timeliness of audit report submission improved. No systematic records have been maintained on the provision of Government's contribution to the project in a timely manner, and the data available at the time of the mission indicate that these contributions are not adequate.
Project implementation progress	Microfinance activities performed by SFD through CDAs have shown highly satisfactory results so far. However, the disbursement rate under the line of credit is however only 74%, 16 months before the extended completion point. Full disbursement and reaching the outreach targets will require significant

	efforts and coordination by SFD, and very close monitoring by IFAD and the NPCU. The project has supported several associations to market their products on contractual basis with traders for the local market (in Assiut and Qena) or with exporters (mainly in Qena). As previous missions noted, the relationships between CDAs/FMAs and traders/exporters show weaknesses, in particular as regards the application of contract farming in commodities without price premium, inadequate capacity on the side of the traders contracted, inconsistent demand, output delivery problems, quality deficiencies, lack of food quality and safety certification, among others. The marketing component remains the weakest component of UERDP, with adverse effects on training, extension, farming systems research and the flow of benefits.
Outputs and outcomes	Limited progress in linking Farmers Marketing Associations (FMAs) to markets, especially commercial operators (exporters-agro-processors-traders) may create a risk regarding members' willingness to remain engaged in these associations hence the expected project outcome of empowering them. While the engagement of private sector partners should become a priority, there are no funds under UERDP to pursue this; consequently, this should be transferred to PRIME, the successor project. Unless some capacity development is provided to CDAs, their ability to satisfy client demand, expand their loan portfolio and fully absorb the credit line is not established. Achieving outreach and impact targets will ultimately depend on the ability of SFD to disburse loans to CDAs during the remaining 16 months.
Sustainability	The current financial intermediation system is viable and sustainable. In the medium and long run, additional investments are needed to assist CDAs provide relevant services in line with demand, and at affordable prices and acceptable terms and conditions. There is an urgent need to coordinate capacity development for CDAs with EFSA and EUMF, and eventually other donors. While MALR will continue funding extension services through its statutory budget; there is limited scope at the moment for introducing cost recovery for extension services.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
15. Undertake all efforts to ensure full disbursement of the available resources under UERDP to CDAs before 31.3.17	SFD	immediately till completion	
16. Report monthly on the disbursements to CDAs	SFD	starting Jan 2016 on Dec 2015	
17. Commission a first assessment of UERDP impacts on CDAs	NPCU	2nd half of 2016	
18. Shift the implementation of a systematic capacity building needs assessment of CDAs and preparation of a CD plan for CDAs to PRIME	NPCU, SFD	immediately	

Additional observations: By September 2016, the preparation for a final impact assessment of the UERDP should be started, and the respective study commissioned.

Appendix 2: Updated logical framework: Progress against objectives, outcomes and outputs

Narrative Summary	Verifiable indicators	Means of verification	Risks/Assumptions
Goal			
Poverty reduction and improved livelihoods of smallholder households, the landless labourers, female headed households and the unemployed youth in the project area.	• Poverty indicators. (Improvements in HH assets); • Reduction in the prevalence of malnutrition for children under five (weight for age, height for age, weight for height); • Reduction of gender gap rate in unemployment.	• National Household Living Standard Surveys for project Governorates; • Baseline and socio-economic surveys (gender-disaggregated); • Representative household surveys at mid-term and project completion (gender-disaggregated); • Participatory impact monitoring to complement household surveys; • Project monitoring reports.	• Continued Government commitment to pro-poor macro-economic policies and institutional reforms; • Recent decline in economic growth (since early 2011) reversed; • Enabling policy framework for women employment.
Purpose/objective			
Project target group has improved access to credit, has better employment opportunities and increased income.	• No of target group, men and women, able to access repetitive credit for micro-enterprise development and income generating activities; • No of full time and temporary jobs created, by gender; • Percentage increase in income of project target group, by gender.	• GOE employment statistics; • Baseline and socio-economic surveys (gender-disaggregated); • Representative household surveys at mid-term and project completion (gender-disaggregated); • Participatory impact monitoring to complement household surveys; • Independent assessments (including evaluations); • Project monitoring reports.	• Decentralization policies continued; • Collaboration with gender advocacy agencies established.
Outcomes			
• Farmers adopted technologies for improved production and yields; • Farmers competitiveness and marketing enhanced; • Intermediate institutions offer sustainable services for production, and livestock; • Financial intermediaries operating in a sustainable manner.	• Percentage increase in crop and livestock production and crop yields by the small farmers and gender; • Increase in crop and livestock production and returns per unit land and water; • Number of farmers of FMAs adopting technology, by gender. • Increase in volume of trade generated and margin of profit by SMEs and income generating ventures; • % of portfolio at risk (outstanding balance of overdue loans); • Number of intermediary institution achieving operational sustainability.	• Surveys and questionnaires; • Participatory validation method at village level.	• Trade opportunities on international markets; • Urban markets continue to maintain increased demand for agricultural produce.
Outputs			
• SMEs developed and opportunities for sustainable employment and	• Number of marketing associations established; • Number of people in marketing groups	• Project monitoring reports; • Annual progress and supervision reports.	• Best practice by SFD and MFIs implemented.

Narrative Summary	Verifiable indicators	Means of verification	Risks/Assumptions
income generation expanded; • Capacities of SMEs improved; their productivity; • Financial services enhanced and accessible on sustainable basis; • Demand driven farming system research and extension for crop and livestock expanded; • Marketing groups formed and strengthened; • Community groups formed and strengthened.	strengthened, by gender; • Enterprises developed by type, size; • Number of people trained in entrepreneurship/businesses, by gender; • Number of active borrowers, by gender; • Volume of loans provided; • Number of on-farm research carried out on high value crops and livestock; • Number of women and men attending training, extension, demonstration activities (ratio in range of 50%); • Number of people in community groups trained/strengthened.		• MALR decentralization of extension and research continues.

Appendix 3: Summary of key actions to be taken within agreed timeframes

Action agreed (Recommendations (1)-(14) from the 2013, 1.-17. from the 2014 supervision missions)	**Responsibility**	**Agreed date for action to be taken**	**Progress in completion of action**
(1) Conduct market intelligence and value chain mapping for key cash crops to facilitate market linkages with traders and exporters. Assess and strengthen the technical capacities of FMAs/CDAs to meet volume and quality requirements, and their institutional capacities to manage supply contracts and support their members.	NPCU; GPCUs; MALR	as a top priority	Value chain mapping done without follow up by FMAs/CDAs FMA/CDA assessment still not done
(2) Facilitate contracts between processors/traders and 1-2 FMAs/CDAs in each governorate, in line with proper supply chain management principles and procedures. These will also serve as models for expansion of contract farming arrangements. In the process, support FMAs/CDAs to improve their contract negotiation skills.	NPCU; GPCUs; MALR	by August 2013	Occasionally done where opportunities arose, but data captured only comprise crop quality and location of sales by year.
(3) Establish a product traceability mechanism, particularly for the supply contracts referred to above; train independent agricultural technicians from the private sector or extension to support FMAs/CDAs in this respect.	GPCUs; FMAs/CDAs	by August 2013	Some training on value chains of questionable quality for FMA and CDA members financed under PRIME
(4) Diversify the loan portfolio to improve the prospects for growth and sustainability of the activities financed.	SFD, CDAs	ongoing basis	Not deemed relevant if a directed increase in the agric portfolio was intended
(5) Strengthen linkages among MALR, SFD and CDAs to ensure provision of support to each and every borrower.	MALR, SFD, CDAs	as a top priority	Not done, not realistic and feasible in the UERDP context
(6) SEDO to recover its outstanding funds from PBDAC, on the basis of advice from its legal department. SEDO to identify and assess alternative financial institutions which may be interested in initiating enterprise financing.	SFD, SEDO, PBDAC	as a priority	PBDAC has fully repaid the loan to SFD and is now keen to get additional funds for lending, which is not considered opportune unless the bank is restructured
(7) Revert to the option of not concentrating demonstration plots in a few locations, but rather spread them based on availability of qualified farmers; and ensure access by FMA and CDA members (field and harvest days).	FSRU/MALR	from 2013/14 onwards	Partially done, last session conducted in August 2015
(8) Include gender perspectives in the adoption assessments, and disaggregate the adoption data by gender.	FSRU/MALR	ongoing basis	Not done

Action agreed (Recommendations (1)-(14) from the 2013, 1.-17. from the 2014 supervision missions)	**Responsibility**	**Agreed date for action to be taken**	**Progress in completion of action**
(9) Convert NPCU and GPCU staff to full-time basis.	MALR	FY 2013/14	Not done; not acceptable to MALR
(10) Ensure that the 2013/14 AWPB is realistic and pragmatic	NPCU; SFD	FY 2013/14	Only partially done. Overtaken by events
(11) Consider purchasing software for data analysis.	NPCU; MALR	as appropriate	Not done NPCU wishes to get a copy of the WNRDP MIS in Jan. 2016
(12) The Government should provide its full contribution to the project in a timely manner, in compliance with its statutory obligations under the project.	MALR; MIC; SFD	on priority basis	No systematic recording of all contributions made; using current data set, GOE contributions are behind schedule
(13) Project expenditure patterns should be stabilized to the extent feasible, with a trend towards full disbursement of IFAD and GOE funding by the project completion date.	NPCU/MALR and SFD	2013/14 & 2014/15	Partially done; main deficiencies are absorption of line of credit
(14) Based on SFD's high level of proficiency in financial management, SFD to consider coordinating a joint meeting of its development partners (loan disbursement managers) to facilitate an agreement on standardized interim financial reporting to enhance efficiencies.	SFD	by 30 December 2013	Formulation of recommendation not precise ('consider'). On the substance, standardized report forms are attached to each contract that CDAs sign. CDAs are held to report monthly
1. Review newly evaluated and introduced cultivars (e.g. tomato, garlic) for acceptance to farmers for a proportion of marketable and non-marketable yield, to traders, and to consumers in the various markets, including suitability for transport, packaging and long storage life in the retail chain	NPCU; GPCUs; MALR	by June 2015	Not done
2. Ensure that introduced farming/cropping models will be continuously extended to farmers after termination of UERDP	NPCU; GPCUs; MALR	after project completion	Done
3. Organize a study tour of selected experts to Europe or Morocco to study the functions and modalities of farmers' and agricultural commodity marketing cooperatives as well as wholesale markets for fresh fruits and vegetables to understand the need for quality and packaging: to become more attractive to traders; to better penetrate such markets; and to obtain export and domestic certification. The tour may be also implemented in coordination with the PRIME Project	MALR; SDF	first half of 2015	Change location from China to Morocco, include representatives from financial sector and agric/value chain sectors. Recommended for 2016 under PRIME

Action agreed (Recommendations (1)-(14) from the 2013, 1.-17. from the 2014 supervision missions)	**Responsibility**	**Agreed date for action to be taken**	**Progress in completion of action**
4. Assess the feasibility of engaging well established production, processing and export promotion agencies to assume a foster role for FMAs in the UERDP and PRIME Governorates, and to explore terms for possible cooperation for export of fresh fruits and vegetables, such as the (1) Horticultural Export Improvement Association (HEIA), (2) Union of Producers & Exporters of Horticultural Crops (UPEHC), and (3) Egyptian Spices & Herbs Export Development Association (ESHSEDA)	MARL; SFD	by March 2015	To be transferred to PRIME. To be implemented by the Marketing Adviser, and included in his/her TOR
5. Conduct a first assessment of UERDP impacts and needs for capacity building and prepare a systematic capacity development plan for CDAs in the next three years	SFD	1st quarter 2015	Not done. SFD considers involving EUMF and other agencies in capacity development. A serious needs assessments for CD and actual CD delivery would need to be done; this may be financed under PRIME, subject to the reallocation of credit funds for this purpose
6. Undertake an institutional assessment of the farmer cooperatives or associations and FMAs to allow better prioritization and the targeting of interventions needed by PRIME, covering technical and managerial capacity development needs and options for aggregation of well established groups	FSRU/MALR	1st quarter 2015	Not done under UERDP; under PRIME, a simple scoring system (29 items) for FMAs and CDAs has been developed and 70 FMAs and CDAs have been assessed through this tool in May 2015.
7. Improve the methodology to assess the agricultural competitiveness activities for the final impact assessment and obtain non-objection from IFAD prior to engaging consultants	FSRU/MALR	at beginning of the final year of implementation	Not yet due
8. Improve the gender participation in the agricultural competitiveness component where opportunities exist	FSRU/MALR	ongoing basis	Not done
9. Promote better interaction between the GPCUs in Qena and Assiut governorates to serve as a model for knowledge and experience sharing at the local level, to be replicated in PRIME	NPCU	immediately	Some activities done, such as exchange visits, but not properly documented, which defeats the purpose. To be implemented under PRIME, if possible

Action agreed (Recommendations (1)-(14) from the 2013, 1.-17. from the 2014 supervision missions)	**Responsibility**	**Agreed date for action to be taken**	**Progress in completion of action**
10. Consolidate and analyze lessons learnt from project experience with a view to facilitate learning under PRIME	NPCU on the basis of GPCU reports and suggestions	by 31 February 2015	Not done
11. Purchase an accounting software to maintain the proceeds of loan and grant financing	NPCU	by 31 March 2015	Not done
12. Issue withdrawal applications to IFAD to justify the outstanding advance of the Grant financing (USD 349,291.05)	NPCU	by 30 September 2015	Not done, expected for Nov. 2015
13. Submit a recovery plan to IFAD and initiate the justification of the loan initial deposit of USD 1.5 million	SFD	by 31 March 2015	Not yet due; submission to be done by 1.9.16
14. The 2013/2014 Audit Report to provide separate opinions on the Designated Accounts and withdrawal applications/statement of expenditures	NPCU	immediately	TOR amended for the 2014/15 financial year
15. Ensure timely submission of a complete Audit Report in accordance with the stipulations	NPCU	by 31 December 2014	Done in Feb. 2015, with 2 months delay; draft audit report for 2014/15 already in draft version at time of mission
16. Separate the duties of financial management and procurement, thus mandating a person other than the financial officer to manage procurement	NPCU	by 31 December 2014	Not done. Since July 2015, all procurement has been transferred to the MALR Procurement Dept. No more procurement expected under UERDP.
17. MIC, as representative of the Borrower, to submit a request for extension of 12 months, thus a project completion by 30 September 2016 and a closure by 31 March 2017	MIC	immediately	Done, with request for extension of 18 months, not 12 months as recommended

Appendix 4: Physical progress measured against AWPB, including RIMS indicators

Component/ *Sub-component or Output*	**Indicator**	**Unit**	Period: [Insert date: dd-m-yy] to [Insert date: dd-m-yy] **AWP&B**	**Actual**	**%**	**Cumulative Actual**	**Appraisal Target**	**%**
Component 1								
Sub-component								
Component 2								
Component 3								

Component		**Allocated**				**Payments**				
		Loan	**Grant**	**Govt.**	**Total**	**Loan**	**Grant**	**Govt.**	**Total**	**% disbursed over payments**
A	**Private sector development**	**4,300**	**7**	**23**	**4,330**	**408**	**3**	**0**	**410**	**9%**
	Marketing and SME development	0	7	23	30	0	3	0	3	8%
	Financial services	4,300	0	0	4,300	408	0		408	9%
B	**Agriculture competitiveness enhancement**	**0**	**33**	**40**	**73**	**0**	**36**	**30**	**66**	**90%**
	On-farm farming system research	0	20	10	30	0	20	15	35	118%
	Agriculture extension	0	13	30	43	0	16	15	31	71%
C	**Project coordination units**	**0**	**10**	**87**	**97**	**0**	**18**	**59**	**77**	**79%**
	Total	**4,300**	**50**	**150**	**4,500**	**408**	**57**	**89**	**553**	**12%**

N.B.: The NPCU does not prepare AWPBs in strict accordance with components, sub-components and their respective indicators, as per the standard model for supervision mission reports. This does not permit to present physical progress against AWPB and RIMS indicators. In addition, the current data table on all three levels have mixed the results of both the UERDP and the PRIME, and are therefore not correct. The above table only presents payments against the AWPB

Progress against RIMS indicators

Impact and outcomes	Indicators (with global target if available)	Achievement (as per M&E data)	RIMS Rating (by project)	RIMS Rating (by supervi-sion mission)
		Impact Level		
Overall Goal. Poverty reduction and improved livelihoods of smallholder households, the landless labourers, female headed households and the Unemployed in the project purpose. Project target group has improved access to credit, has better employment opportunities and increased		Based on the Pilot Household Survey (P.H.S) on Farming Marketing Associations(FMAs) household, the study showed that there are an increase about 95% of respondent in farming income which could be attributed to three main reason:	n.a.	
		* The FSR intensification approach as reported by 76% and 81% of respondents in Assiut and Qena respectively (project aver 87.5%)		
		* Followed by, increased yield per feddan according to 57% and 90% of respondents in Assiut and Qena respectively (project aver 73.5%)		
		* And last, comes the use of non- traditional improved and hybrid cultivates according to 43% and 38% or respondents in Assiut and Qena respectively (project aver 40.5%)	n.a.	
		Outcome level		
Private sector development				
(a) Marketing and SME Development	About 50 FMAs are strengthened	The project improved FMAs farmers' technical efficiency through a number of diverse training activities. 86% of farmers received direct technical training in the application of FS and the cultivation of new hybrid cultivars while 79% received information through field meetings with researcher and extension workers. 37 of the planned 50 FMAs are currently operational.	4	3
		SFD has supported the UERDP with the needed data-templates-marketing and suppliers lists to establishing Marketing Information System (MIS) in the UERDP Marketing Associations. In this area, SFD has supported UERDP field Officers to establishing Marketing Information System in Four Marketing Associations (MAs) (3 in Qena, 1 in Assiut) to support the roles of marketing committees in these associations. Developed the "Egypt Agricultural Directory 3013-2014," which circulated among UERDP MAs to raise its efficiency of production and marketing operations.		
(b) Financial Services	Thru 69 CDAs strengthened under the UERDP, 39,215 loans were disbursed to date, of which 43% to women	1. Under microfinance services, 69 NGOs should receive loans worth EGP 62,040,000. So far, EGP 58,840,000 (representing 95% of the total funds) has been disbursed. Total number of loans-end beneficiaries: 39,215 Total number of job opportunities created: 43,344. 2. Under small enterprise finance, PBDAC was sub-contracted and disbursed EGP 5 million, i.e. the total allocated. Total amount disbursed to end clients: EGP 5 million. Total number of loans to end beneficiaries disbursed: 197. Total number of job opportunities created: 591		5
Agriculture Competitiveness Enhancement	14,400	12,928 or 90% of the appraisal target beneficiaries were trained on adapted crop production. Sustainability of new agro practices assessed for FSR farmers at 93% and adoption by neighbouring farmers at 92%).	5	5

Physical progress measured against other indicators

Outputs by component	Indicator	AWPB (planned)	Actual	Actual/ planned	Appraisal (global)	Cumulative	%
Private sector development							
(a) Marketing and SME development	Marketing groups formed/strengthened	5	2	40%	50	50	100%
	People in marketing groups formed/strengthened (men)	200	202	101%	15700	2211	14%
	People in marketing groups formed/strengthened (women)	40	45	113%	12300	346	3%
	People trained in business/entrepreneurship (men)	NA			2000	458	23%
	People trained in business/entrepreneurship (women)	NA			1000	313	31%
	Enterprises accessing financial services facilitated (SEDO)	NA			200	197	99%
	No. of full time and temporary jobs created, by gender				30600	25913	85%
(b) Financial Services	Community groups formed/strengthened	10	6	60%	100	68	68%
	People in community groups formed/ strengthened (men) (SEDO&MFCS)	3772	4415	117%	11325	20026	177%
	People in community groups formed/ strengthened (women) (SEDO&MFCS)	923	3139	340%	2875	14181	493%
	Financial institutions participating in project (SEDO & MFCS)	6	6	100%	101	69	68%
	Active borrowers (men) SEDO		32				
	Active borrowers (women) SEDO		9				
	Active borrowers (men) MFCS		6679				
	Active borrowers (women) MFCS		4642				
	Value of gross loan portfolio (SEDO &MFCS) in '000	3 000	6 055.3				
	Volume of loans provided					23 400	
Agriculture competitivenes s Enhancement	People trained in crop production practices and technologies (men)	384	225	59%	5760	1912	33%
	People trained in crop production practices and technologies (women)	96	36	38%	1440	492	34%
	People trained in livestock production practices and technologies (men)	336	116	35%	5760	1321	23%
	People trained in livestock production practices and technologies (women)	84	103	123%	1440	781	54%
	Staff of service providers trained (men)	96	33	34%	120	1308	1090%
	Staff of service providers trained (women)	24	71	296%	40	318	795%
Outreach (no. of units receiving project services)							
Households		2281	2491	109%	20000	16359	82%
Individuals	5955	8385	141%	80000	65437	82%	
Communities					2993	387	13%

N.B.: The above two tables have been reproduced from the 2014 Supervision Mission report. The NPCU only updates these tables once per year, and will finalize the next update by December 2015.

Appendix 5: Financial performance by financier; by component and disbursements by category

Table 5A: Financial performance by financier as at 31-10-2015

Financier	Appraisal (USD '000)	Disbursement (USD '000)	Balance	% disbursement
IFAD Loan	15,184	11,698	3,486	77%
IFAD Grant	952	996	-44	105%
Government	3,714	741	2,973	20%
Total	19,850	13,435	6,415	68%

Table 5B: Financial performance by financier by component (USD '000)

Component		IFAD Loan			IFAD Grant			Government			Total		
		Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%	Appraisal	Actual	%
A	Private sector development	15,184	10,913	72%	952	395	41%	565	24	4%	16,701	11,332	68%
B	Agriculture competitiveness enhancement	0	0		0	178		615	149	24%	615	327	53%
D	Project coordination units	0	0		0	358		2,534	568	22%	2,534	926	37%
	Total	**15,184**	**10,913**	**72%**	**952**	**931**	**98%**	**3,714**	**741**	**20%**	**19,850**	**12,585**	**63%**

Table 5C a: IFAD loan disbursements as at 31-10-2015 (SDR '000)

Category	Allocation (1)	Disbursement (2)	Balance (1) - (2)	% disbursement (2) / (1)
Authorized allocation	0	641	-641	100%
Credit fund	10,050	6,911	3,139	69%
Total	10,050	7,551	2,499	75%

Table 5C b: IFAD grant disbursements as at 31-10-2015 (SDR '000)

Category	Allocation (1)	Disbursement (2)	WA pending (3)	Balance (4) = (1) - (2) - (3)	% disbursement excluding pending (2) / (1)
Advance of funds	0	226	0	-226	0%
Contractual services, TA, studies and training	635	409	0	226	64%
Total	635	635	0	0	100%

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Article II. Section 2.03 (a)	As soon as practicable after the date hereof, the Borrower, through SFD, shall open and thereafter maintain in a commercial bank, acceptable to the Borrower and the Fund, a Special Account , dominated in USD, for the purpose of financing the loan activities. The Special Account shall be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower and accepted by the Fund.	As soon as practicable	Complied with	
Article II. Section 2.03 (c)	The SFD, on behalf of the Borrower, shall be fully authorised to operate the Special account in accordance with Section 4.08 of the General Conditions.	Continuous	Complied with	
Article II. Section 2.04(a)	As soon as practical, the Borrower, through MALR, shall open and thereafter maintain in a commercial bank, acceptable to the Borrower and the Fund, a Grant Bank Account, dominated in USD for the purpose of receiving grants proceeds. The Grant Bank Account shall be protected against set-off, seizure or attachment on terms and conditions proposed by the Borrower and accepted by the Fund.	As soon as practicable	Complied with	
Article III. Section 3.02(a)	The representatives of the MALR and SFD in each GPCU shall prepare a draft consolidated AWPB for the Loan and Grant, for each Project Year on the basis of Community Action Plans (CAPs). The draft AWPBs shall include a procurement plan in accordance with the Procurement Guidelines and in respect of expenditures to be financed from the grant.	60 days before beginning of each year	Partially complied with	The consolidated AWPBs are not based on CAPs. The most recent AWPBs did not contain a procurement plan
Article III. Section 3.02(b)	Each GPCU shall submit the draft AWPB to the NPCU for its clearance. When so cleared, and with exception of the AWPB for the project year, the NPCU shall submit the relevant draft consolidated AWPB to the Fund, for their comments , not later than 60 days before the beginning of the relevant Project Year. If the Fund does not comment on the draft AWPB within 30 days after receipt, the respective AWPB shall be deemed cleared by the Fund. The NPCU shall submit the AWPB for the Project year no later than (60) days after the Effective date	60 days before beginning of each year	Partially complied with	The consolidated AWPB have at times been submitted to the Fund with delays. The most recent AWPB 2015/16 was submitted in May 2015, slightly less than the 60 days stipulated
Article III. Section 3.03 (a)	The Borrower shall the proceeds of Financing available to the Lead Project Agencies and each other Project Party in accordance with the AWPBs to carry out the Project in accordance with this Agreement. In particular, the Borrower shall make IFAD loan	After Effectiveness	Complied with	The loan proceeds are fully managed by SFD.

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
	proceeds available to the SFD through a subsidiary loan agreement			
Article III. Section 3.03 (b)	The Borrower shall make adequate budgetary allocations for the Project in accordance with AWPBs.	Annually	Partially complied with	The flow of fund from government allocation was neither timely nor sufficient in recent years.
Article IV. Section 4.01	Monitoring. As soon as practicable but in no event later than 3 months after the effective date, the NPCU shall establish and thereafter maintain an appropriate information management system in accordance with the Fund's Guidelines for Project Monitoring and Evaluation with which it shall monitor the Project, in accordance with this agreement	No later than 3 months after the Effective Date	Partially complied with	Only SFD has an information management system
Article IV. Section 4.01	Progress Reports. The NPCU, through MALR and SFD, shall submit to the Fund annual progress reports on project Implementation, no later than two (2)months after the end of each year during the project Implementation Period	No later than 2 months after the end of each year	Partially complied with	Reports are submitted with delays
Article IV. Section 4.03 (a)	Mid-Term Review. The Fund and the Lead Project Agencies shall carry out a review of Project implementation no later 48 months after the Effective Date.	48 months after the Effective Date	Compiled with	
Article V. Section 5.02 (b)	The NPCU, through SFD, shall deliver such audited financial statements to the Fund within six months of the end of each Fiscal Year. The NPCU, through SFD, shall submit to the Fund the reply to the management letter of the auditors within one month of receipt thereof.	Within six months of end of each Fiscal Year	Partially complied with	The audited financial statement for the Fiscal Year ended June 2014 was submitted with delays
Schedule 3, Para 1.1	MALR will be responsible for the implementation of the Grant and SFD for the Loan		Complied with	
Schedule 3, Para 2.1	Project Steering Committee (PSC): a) *Composition*: The PSC will be chaired by the Minister of the MALR, or his representative, with membership of the Governors of Assiut and Qena, or their representatives, representative of Ministry of International Cooperation, Ministry of State for Economic Development and Ministry of State for Development, the Managing Director of the SFD and a high office representative of the National Council for Women. The National Project Coordinator will be an ex-officio of the PSC and the NPCU will serve as its Secretariat. (b) *Responsibilities*: At the National Level, the PSC will have a primary responsibility of guiding the project implementation activities, approving AWPBs and other key policy decisions		Partially complied with	The current PSC is apparently not composed as stipulated

Section	Covenant	Target/Action Due Date	Compliance Status/Date	Remarks
Schedule 3, Para 2.2	National Project Coordination Unit (NPCU): a) Establishment. The Borrower through MALR and SFD, Shall: (1) establish a NPCU in Cairo and (2) select and appoint the National Project Coordinator and all positions following a transparent and competitive process. b) Composition. The NPCU shall be headed by the National Project Coordinator and composed of an accountant , a monitoring officer and a secretary , c) responsibilities : The NPCU shall have the following responsibilities: coordinate Project activities among stakeholders and office of Governors and SFD, prepare the PIM, arrange for audit preparation, submit to the Fund progress reports, withdrawal applications and Audit Reports		Complied with	
Schedule 3, Para 3	Governorate Project Coordination Unit (GPCU), a) Establishment. At each governorate, a small Project Coordination unit (GPCU) will be established with the same composition and responsibilities as the NPCU, for each respective governorate.		Complied with	
Schedule 3, Para 5.1 & 5.2	The NPCU shall prepare a draft Project Implementation Manual within six months from the effective date and submit to the Fund for comments and approval.	6 months from effective date	Not complied with	No PIM in place
Schedule 3 A, Para 1	Pest Management Practices. As part of maintaining sound environmental practices as required by section 7.15 of the General Conditions, the Project Parties shall maintain appropriate pest management practices under the project and, to that end, the Borrower shall ensure that pesticides procured under the Project shall not include any pesticide either prescribed by the Int. Code of Conduct on the Distribution and Use of Pesticides of the FAO, as amended from time to time, or listed in Tables 1 (Extremely Hazardous) and 2 (Highly Hazardous) of the WHO Recommended Classification of the Pesticides by Hazard Classification 1996-1997, as amended from time to time		No information available	It is unknown whether in the past, the FSRU in charge of agricultural research has used any pesticides, and whether these are prohibited as listed in the FA. The PIM and contracts prescribe that the FSRU should only use bio-fertiliser and bio-pesticides.
Schedule 3 A, Para 2	Gender Focus. The Borrower shall ensure that equity between male and female is applied in the recruitment of project staff and the beneficiaries are equally targeted within the project		Partially complied with	Gender distribution if fairly equitable as regards (1) staff in the NPCU and the GPCUs, and (2) lending activities, but imbalanced as regards marketing, research and extension activities

Appendix 7: Knowledge management: Learning and innovation

Learning

What has worked well under the UERDP are:

(1) the participatory approaches applied at the beginning of the project to establish linkages first with Marketing Associations and the private sector, to initiate a dialogue between actors/players, and to establish lists and rosters of products, product maps, and lists of produce requirements by buyers/processors as required by the market;
(2) the use of CDAs as financial intermediaries;
(3) the use of microfinance to reach out to women;
(4) the involvement of SFD to refinance CDAs;
(5) the involvement of the FSRU to develop new techniques and models of production, with less consumption of inputs (water, fertilizer) other than seeds, but higher productivity;
(6) on-farm demonstrations to farmers to facilitate their understanding, which led to reasonable adoption rates (as preliminarily measured, to be confirmed).

What has not worked so well includes:

(1) the entire marketing activities, in the absence of a competent, knowledgeable person in charge;
(2) the recording of sales of farmer associations to traders;
(3) efforts to establish contract farming;
(4) the wider dissemination of the new production models of FSRU within Upper Egypt;
(5) instilling culture of orienting microfinance services towards good international practices;
(6) building the capacity of CDAs and transforming their microfinance activities gradually into more professional microfinance institutions.

The main reasons for the above deficiencies include the absence of a sound concept for marketing (points 1, 3 above), the absence of a knowledgeable person in charge of the implementation of the marketing sub-component (points 1, 2, 3 above), complacency, the absence of a driver and sufficient funding (point 4 above), and the absence of a vision and adequate funding (points 5, 6 above).

Innovation: Describe any interesting innovation noted during supervision

In much of North Africa, Near East, Eastern Europe and Central Asia, governments have adopted a policy to borrow mostly for infrastructure and loan funds from IFIs, such as IFAD. Such borrowing for hard items is opposed to ‘soft’ items, such as capacity development in all forms, which are tried to be kept as small as possible. The cases of both UERDP and PRIME have shown that a single constraint, such as lack of access to capital for investments or operating costs, may soon be overcome, once banks and microfinance institutions start lending without artificial barriers. Once this is achieved, the next level of development is more difficult to overcome, and requires enhanced capacity within the lending institutions, and of the clients. Unless such capacity building has been accomplished successfully, the system remains stagnant, does not contribute fully to the development process, keeps micro entrepreneurs poor rather than helping them to get out of poverty. During the field visits and the ensuing discussions, there seems to have been a growing sentiment among the participating representatives that new approaches are now needed, with MFIs in the centre. These will have to use better software to generate data to learn how to move on, new products and services, and a deeper understanding of good microfinance practices and how to understand and assess their current and potential new clients, to protect the poor and the MFIs. This process of learning from the clients and the staff of MFIs will need to be enhanced to decision makers in the ministries in charge of international cooperation and finance in order to maintain a momentum for a paradigm shift in these countries.

Some MFIs only pay their accountants and bookkeepers a monthly salary of EGP 150, less than USD 20. When SFD offered them a loan tracking software to enable the MFIS prepare the required data, many of them accepted this, especially as SFD covered the cost of the software for the first year. When the MFIs were asked to renew their licenses, they refused to pay for the comparatively low and affordable costs, saying that they could finance four additional accountants a year for the cost of the software license. This clearly shows the cost consciousness of the MFIs, their reluctance to invest into their own systems and development as a result of the unclear future, and the lack of exposure to more developed systems. This further shows that it may not be appropriate to assume that MFIs would be ready to assume the cost of loan tracking software at all costs, and that the procurement of a quick technical solution without a definite buy-in from the end users may not be a sustainable approach.