Investing in rural people

Arab Republic of Egypt

Promotion of Rural Incomes through Market Enhancement Project

Supervision report

Main report and appendices

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Abbreviations and acronyms

AMAL	Advanced Marketing & Agribusiness Logistics Project
ARC	Agricultural Research Council
ARDF	Agricultural Research and Development Fund
AWPB	Annual Work Plan and Budget
BOT	Board of Trustees
CDA	Community Development Association
CIB	Commercial International Bank
EFSA	Egyptian Financial Supervisory Authority
EIU	Economic Intelligence Unit
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
HEIA	Horticulture Export Improvement Association
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
NBE	National Bank of Egypt
NPCU	National Project Coordination Unit
PFI	Participating Financial Institution
PRIME	Promotion of Rural Incomes through Market Enhancement Project
PSC	Project Steering Committee
RIMS	Results and Impact Management System
SFD	Social Fund for Development
SLA	Subsidiary Loan Agreement
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 "**Promotion of Rural Incomes through Market Enhancement Project (PRIME**)" Project. 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 PRIME constitutes a USD 108 million development investment financed by Government of the Arab Republic of Egypt (USD 7.6 million), the International Fund for Agricultural Development (IFAD) (USD 70 million loan and USD 1 million grant), SFD (USD 1.0 million), ARDF (USD 10.9 million) and beneficiaries (USD 17.7 million).

B. Overall assessment of project implementation

5. Egypt has been experiencing political and economic instability following the 2011 revolution. Real GDP growth declined to 2.1% 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 (EIU) 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. EIU projections indicate fairly stable average lending rates in the range of 11.3-11.8% p.a., but this does not seem to take into consideration the recent increase in deposit rates, which will lead to higher cost of funds of banks, and subsequently to higher lending rates.

[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.

6. The Promotion of Rural Incomes through Market Enhancement Project is a joint eight year investment by the Government of Egypt (GOE) and the International Fund for Agricultural Development (IFAD). It comprises two financing instruments of IFAD, Loan No. I-860 and Grant No. I-C-1338 EG. PRIME is implemented by three agencies: the Ministry of Agriculture and Land Reclamation (MALR), the Social Fund for Development (SFD) and the Agricultural Research and Development Fund (ARDF) under the Agricultural Research Council (ARC). Its implementation institution will be the National Project Implementation Unit (NPCU) under the MALR. The project is supervised by IFAD.

7. The Agreement between the GOE and IFAD was signed on 12 April 2012 and approved by the President of Egypt on October 14, 2012. The completion date would thus be 31 March 2020, and the closing date 30 September 2020. Following the GOE regulations, the fiscal year will be from 1 July to 30 June of the following year. The Subsidiary Loan Agreement was signed between the Ministry of International Cooperation and both of ARDF and the SFD on 26 October 2013. The effectiveness date was postponed in 2014 to 2013 in view of the substantial delays caused by the revolution. Implementation has only recently begun, and the disbursement rate is consequently very low.

8. In the rural finance component, two parallel approaches are being envisaged: a first one through the Social Fund for Development (SFD), which passes on the loan funds to the National Bank of Egypt, a large commercial bank, for its on-lending to clients, and the second one through ARDF, which passes on loan funds to Commercial International Bank (CIB), which acts as fund manager for on-lending to 12 selected participating financial institutions (PFIs). While SFD has already concluded a subsidiary loan agreement (SLA) with CIB, the progress has been slow because both SFD and NBE had sufficient funds available, which they wanted to disburse prior to the IFAD funds. In any case, the first loans have been disbursed, and disbursement should speed up in 2016. As regards ARDF, the draft SLA does is technically and legally deficient and would need to be improved substantially before a no-objection could be granted. The template for the on-lending agreements between CIB and the PFIs has also not yet been finalized. As there are several issues to be solved prior to the finalization of these cascading agreements, there is some probability that the process will take at least some more months before all conditions for approval have been met. The capacity of the ARDF to handle a fund of this magnitude and its legal status are also questionable. A number of institutional adjustments at the level of ARDF are therefore recommended to overcome these constraints. In case the disbursement rate under the facility by ARDF would still be below USD 1.5 million by May 2016 and to USD 3.5 million (i.e. 10% of the amount allocated to ARDF) by November 2016, the next supervision mission should review the amount allocated to ARDF and re-allocated it to SDF, in case SDF has demonstrated its disbursement capacity. In such case, the principle accessibility of the technical loan monitors currently retained by ARDF by the PFIs would ideally be assured through adequate measures.

9. Meetings of the board of trustees (BOT) of ARDF, which is to approve all loans, are chaired by the Minister of Agriculture and Land Reclamation. In his absence, no meetings can take place, as no alternate member in the committee has been appointed. Meetings of the BOT have taken place only very irregularly, which PFI, CIB and ARDF representatives cite as one important obstacle for the smooth implementation of the project. This situation needs to be rectified in the next weeks in order to pave the way for rapid implementation.

10. A main weakness of PRIME design is the insufficient allocation of funds for capacity development. This applies to both the rural finance and the marketing components. Capacity development is indispensable for the MFIs/CDAs supported in their microfinance activities through SFD, as well as to PFIs as regards modern instruments and approaches to value chain financing. Substantial capacity development is also need to enhance the understanding of farmers, farmer organizations and other actors in the value chains and to conclude concrete arrangements that benefit farmers. Unless these capacity development activities are carried out diligently, the success of the investments to be made with the loan funds will be limited.

Moreover, disbursement rates to CDAs are likely to be low unless CDAs gain more confidence in more complex lending operations, which they will obtain only through some selective capacity development. Innovative concepts are needed and to be developed to make agriculture and the financial sector more dynamic and responsive, more productive and more profitable. Without capacity development as transmission belt, the final outcomes and impacts of PRIME may be limited. It is therefore recommended to increase the allocations for CD by an amount of USD 2.3 million. A list of potential capacity development measures and their estimated costs is presented in Appendix 8.

Agreed action		Responsibility	Agreed date
1.	To appoint an alternate for the Minister of Agriculture and Land Reclamation to attend meetings of the BOT of ARDF in his absence	MALR	31.12.15
2.	To either increase government funding of the PRIME through cash contributions or reallocate an amount of about USD 2.3 million for capacity development purposes under components 1 & 2, taken from the credit funds	MALR, MIC, MOF, IFAD	1.3.16
3.	To recommend the re-allocation for ARDF to SFD, or to other suitable intermediaries, in case the disbursement rate under the facility by ARDF would not reach USD 1.5 million by May 2016 and USD 3.5 million by November 2016; this may include the CIB	IFAD Supervision Mission	15.5.16 and 15.11.16

C. Outputs and outcomes

11. The project will be implemented in the seven Governorates of: Qena, Sohag, Assiut, Menia and Beni Suef in Upper Egypt and Beheira and Kafr-el-Sheikh in Lower Egypt. Target groups include smallholder households, unemployed youth, landless labourers, women and female-headed households, and small and medium entrepreneurs.

12. The PRIME project has two components, other than project implementation, namely:

1. **Marketing Support Component** with four sub-components:
   - (1) Organising and strengthening Farmer Groups/Associations;
   - (2) Market Intelligence;
   - (3) Value Chain Linkages;
   - (4) Market Oriented Production;
2. **Rural Finance Component** with three sub-components:
   - (1) Market Based Credit Research & Development;
   - (2) Credit Facility;
   - (3) Strengthening Financial Intermediaries;

13. A first Annual Work Plan and Budget (AWPB) for the first 18 months for the period January 2014 to June 2015 has been prepared based on agreements reached in various meetings and planning workshops attended by key representatives of the NPCU, ARDP,SFD, GPCUs in the seven Governorates and other key stakeholders. After this period, it will be followed by AWPBs following the government fiscal year. Apart from this awareness creation, no significant activities have been carried out up to June 2015. The first AWPB amounted to EGP 75.78 million or USD 10.83 million, the second one for July 2015 to June 2016, amounts to EGP 117.99 million, equivalent to USD 15.42 million.

Component 1: Marketing Support Component

1.1 Organizing and strengthening Farmer Groups/Associations

14. In September 2014, a pilot household survey was conducted "Project impact on forming marketing associations (FMAs) households" with recommendations to help the project realize its goals:

- Support and raise the efficiency of the FMAs activities to have a more active role in serving the members of these associations;
- Contacting exporters and agro-processing factories for marketing and exporting specific crops, e.g. vegetables, medicinal and aromatic plants;
- Coordination between project implementation agencies for technical and financial support; FSR farmers do not have sufficient access to credit provided under the project, therefore, usually resort to commercial banks, and informal credit from buyers and input suppliers;
- Open outlets for the distribution of the seedlings\seeds needed by farmers; this may hinder the dissemination and adoption of farming systems in project area, and would ideally be done through the marketing associations under the project.

15. The majority of respondents under the study are old people. There is a need to pay more attention to young people who are vigorous and whose behavior is easy to change compared to their elder. All farmers participating in survey were males. Women need to be more encouraged to participate in marketing activities.

16. As a result of the discussions held in Qena Governorate, and the enormous agricultural potential of this governorate, it is recommended to use Qena governorate as pilot case under PRIME to test and implement some new approaches and formula. Advantages are also that a number of farmers have adopted advanced farming practices from UERDEP project, that the governorate with its provincial capital seems to be well administrated with fairly good infrastructure to Luxor (International airport and road to Cairo, which takes about nine hours by truck) and that the South Valley's Association for Society Services could become an important partner. The association, however, needs direction to emphasize commodities already grown in the area, such as tomatoes, onions, grapes, cantaloupes, green beans and garlic. New farmland has been reclaimed from the dessert with good irrigation where farmers are more open to adopt new growing practices and selection of crops with good market potential. Using these farmers as a successful operational nucleus will encourage others (smaller farmers) to follow. Upper Egypt has 10 to 14 days crop harvest 'earliness' to northern governorates, which can be very lucrative and ideal for export.

17. It would be useful to promote the establishment of a professional nursery for fruits and vegetables with seedlings to be sold to the farmers to improve field productivity and to plant cultivars/varieties needed and accepted in the markets. This should be complemented by loans to entrepreneurs to invest in refrigerated trucks or containers on hire to PRIME cooperators.

18. USAID has built in 2008 a large packinghouse with cold storage rooms, which is at present totally unutilized. The facility was turned over to the Association Almostukbal for Upper Egypt. Its manager is interested to cooperate with PRIME. This would place PRIME in a unique situation to strengthen farmers and FMAs by facilitation of a value added chain for fruits and vegetables after harvest in collecting, sorting, grading, packing and cooling. The facility has to be moderately upgraded to obtain international quality certification.

1.2. Market Intelligence

19. Three candidates (among 33 applicants) have been interviewed for the position of a marketing advisor, and one candidate has been found to best comply with the requirements. The contract with the retained candidate should be concluded soon. His responsibilities shall include: (1) Build capacity for fresh fruits and vegetables "from field to fork" by establishing a value added chain with the benefit to farmers, commodity associations, traders, wholesale and retail

markets, processors and the consumers in local and export markets; (2) Arrange for internationally recognized quality certification; (3) Select and support existing and organize new commodity associations and guide them in marketing activities; (4) Open channels for fruits and vegetables for fresh markets and for processing by bringing traders together with commodity associations; (5) Create an atmosphere of trust among all involved in growing, trading and processing fruits and vegetables; (6) Make processors aware of opportunities; (7) Continuously collect data on market demand for quantity and quality and prices of marketable produce for fresh and processing and feed/discuss with commodity associations; (8) Analyze survey reports, decide on actions and follow up in the field; (9) Assist farmers and commodity associations in the selection and planting the right cultivars/varieties required in the market for fresh and processing; (10) Look for new opportunities and actors for fruits and vegetables (fresh and processing); (11) Identify bottlenecks from “field to fork” to enhance sales of fruits and vegetables; (12) Coordinate the packinghouse in Qena; and (13) Maximize the demand of loans to free farmers from lending money from traders and input suppliers. It is expected that with the start of duty of the marketing advisor in December 2015, the implementation of the entire component will speed up.

20. Farmers need help for forward crop contracting at the time of planting as they are used to in sugar cane or sugar beet with the mill. PRIME must link FMAs with buyers for fresh produce and processing. Good examples are onions, grapes, cantaloupes, pumpkins, bananas, and probably also date palm.

21. In 2013, a consultancy firm presented the results of a survey on “Marketing and Capacity Building Under Upper Egypt Rural Development Project (UERDP)”. Their findings are also highly relevant for PRIME, namely:

- Problems of agricultural marketing that face the project areas;
- Current status of marketing associations;
- 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.

1.3. Value Chain Linkages

22. USAID has just started the Advanced Marketing & Agribusiness Logistics Project (AMAL), implemented with the Horticultural Export Improvement Association (HEIA) as resource partner and ACDI/VOCA as facilitator. AMAL will work in Upper Egypt to help smallholders in food security to fight malnutrition. Its main target will be decreasing time-to-market cost for export, for local supermarkets and for processors. They will use HEIA’s packinghouse in Luxor as Centre of Excellence for classroom training. PRIME should also use this facility for training of partners and beneficiaries, especially for staff of participating FMAs and for workers/supervisors of the packinghouse at Qena. HEIA itself may not immediately be considered a partner of PRIME for marketing of fresh produce. Multiple other opportunities for partnerships with the private sector do exist.

23. It is recommended to facilitate an exposure programme for a small professional delegation to Morocco to study commercial post harvest fruit and vegetable operations. Such a tour must be carefully organized and its outcomes be monitored and followed-up closely after return.

1.4. Market Oriented Production

24. Multiple opportunities for collaboration with the private sector to enhance marketing of products in Upper Egypt do exist and should be carefully explored. This will be the task of the Marketing Advisor to be recruited soon.

25. Overall, the Marketing Support Component is rated as moderately unsatisfactory.

Agreed action		Responsibility	Agreed date
4.	To recruit a Marketing Advisor	NPCU	As soon as possible
5.	To prepare monthly activity plans against work plans and targets, and submit these to the NPCU and the IFAD Country Programme Officer	Marketing Advisor	At the end of each month of service till completion
6.	To facilitate a study tour for a few professionals in the field of marketing to Morocco, eventually complemented by one or two key persons from the PFIs	NPCU	2nd quarter of 2016

Component 2: Rural Finance Component

26. The entire IFAD loan is planned to be used for lending to a range of borrowers. Of the total amount allocated for lending, 60% have been earmarked for microfinance up to EGP 25,000 through MFIs, the balance to SME lending. The different windows include:

- Lending by SFD to CDAs, with ceilings between EGP 10,000 and 25,000 per borrower;
- Lending by SFD to individual borrowers and MSEs in the range of EGP 25,000 to 1 million;
- Lending through banking partners, such as the National Bank of Egypt (NBE), at the risk of the partner bank, and up to an amount of EGP 1 million;
- Lending of ARDF to participating financial institutions, mostly commercial banks, facilitated through a fund management agreement with a commercial bank, the CIB, for amounts up to EGP 1 million.

27. Tentatively, of the total allocation for lines of credit of USD 70 million, half has been earmarked for SFD, and the other part to ARDF. The Ministry of International Cooperation (MIC) has signed subsidiary loan agreements (SLAs) with both SFD and ARDF in October 2013. SFD has in the meantime concluded a SLA with NBE, upon no-objection by IFAD. SFD has received an amount of USD 1.25 million to finance the lending operations in November 2014. The SLA between SFD and NBE is for a total contract volume of EGP 105 million (≈USD 13.125 million) in four equal tranches of EGP 26.25 million. The first tranche has been disbursed by SFD to NBE in August and September 2015. After considerable delays, a first loan has been disbursed by NBE in September 2015 to a livestock farmer, who increased the number of animals for fattening and dairy. Other disbursement to clients that took place since September 2015 amounted to EGP 19.183 million (≈USD 2.4 million), which will be reflected in the new disbursement records as of 15 November 2015 only, after the end of the mission. SFD is further in the process of discussing with other banks about their involvement in PRIME, such as the Industrial and Workers Bank of Egypt, which has shown interest in financing food processors, which the bank considers being part of its industrial finance mandate.

28. In the field, where the Qena branch of NBE has been visited, there are signs that the agreement between SFD and NBE is not fully understood at the branch level. While the terms and conditions have been explained orally during the start-up workshops about two years ago, and again retained in detailed operational instructions prepared by SFD and NBE, some of the objectives may not have been fully understood. This may eventually lead to the use of the facility for standard agricultural production projects, and not to value addition, food processing, storage or marketing projects as envisaged under the project. It is therefore important to take the managers and loan officers of NBE on board through a new round of awareness creation in the governorates, and to combine this with some technical training on modern tools of financing agriculture and value chains.

29. No lending activities have taken place under the direct lending window to SMEs and to MFIs. The latter has been due to a halt of all lending to MFIs in view of the licensing requirements introduced by a new Decree in November 2014, under which all microcredit institutions need to

apply for a temporary and then for a permanent license for their operations. The deadline for submission of applications to the Egyptian Financial Supervisory Authority (EFSA) is 15 November 2015. SFD has assured the mission that it will restart lending operations soon after this date to all MFIs which have received a temporary license from EFSA and have submitted their application for a final one to EFSA before the deadline, even if the final licenses would be distributed by EFSA only much later than this deadline, and if the deadline would be extended again, as happened in the past. It is expected that lending by SFD to CDAs in five governorates (excluding Qena and Assiut, for which funding is still available under the UERDP) will pick up early in 2016.

30. As regards the ARDF operations, the institution has not been able to conclude a SLA with its retained partner, CIB, for the past 25 months. During the mission, ARDF submitted a two page draft agreement, which does not correspond to the barest minimum requirements for such a legal document. The legal agreement between CIB and PFIs is also only in draft stage, and has thus not yet been granted non-objection. The management capacity of ARDF is supposedly one of the most important impediments for the smooth implementation of the agreement. ARDF has a total staff of 12, about 1% of the staff of SFD, including three executive directors in charge of research, of which one is also in charge of fund management, one financial manager, one monitoring specialist, one secretary, one administrative officer, one admin assistant, and four drivers. The Fund lost its fund manager as a result of the reduction of salaries and allowances by the government. It is evident that with this limited staff strength, which are in charge of several other fund operations as well, the ARDF will not be in a position to play its role meaningfully under PRIME.

31. All loans under this window are appraised first by the respective PFI. The loan appraisal and verification process of ARDF involves 21 loan monitors, which are part-time experts engaged in their respective technical fields to assess the technical feasibility and financial viability of the proposed investments, and a technical committee comprising of 15 highly qualified technical experts, who are presently paid EGP 300 per session. Upon approval by the technical committee, proposals are to be submitted to the Board of Trustees of ARDF. As stated above, this organ is hampered by the fact that the Minister of ALR is the chairperson, and that no meetings can take place in his absence. Given the enormous range of duties of the minister, the number of meetings per year has significantly declined since this modus has been introduced about two years ago. It should be noted that the PFIs, most of which do not have much in-house expertise in agriculture, do very much valuate the support coming from the technical experts, but complain about the significant delays experienced.

32. A study commissioned by IFAD to analyze the Rural Finance Components in IFAD funded projects in Egypt, which was prepared in September 2015, revealed that the PFIs are interested to increase the loan ceiling of presently EGP one million to two million. The main argument is that some of the value addition and processing investments cannot be adequately financed with the current ceiling. As it appears premature to make any changes already at this stage, when lending has not fully started, it is opportune for the next supervision mission to look at and address this matter. The Rural Finance Component is rated as moderately unsatisfactory.

Agreed action		Responsibility	Agreed date
7.	To undertake a due diligence of the ARDF, to be financed from its own resources, and determine adjustment needs in terms of legal status, institutional set-up, staffing, business model, operations, fund management, accounting, overall risk management, safeguards, monitoring, reporting and audit, and share this with the MALR, NPCU and IFAD.	ARDF	31.1.16
8.	In case additional staff would be needed, to agree with the MALR on a salary level that would permit attracting qualified staff	ARDF, MALR	15.2.16
9.	To change the revenue sharing formula for capitalization and use	ARDF Board of	1.2.16

	for research, by introducing a system that favours lending activities, not deposits in banks	Trustees	
10.	To share with IFAD and the NPCU the audited financial statements for the past three years and all future years of participation under PRIME	ARDF Executive Director	15.12.15 and then annually upon completion of audit
11.	To conduct a refresher awareness creation for NBE branch staff in the governorates, to be combined with some technical training on modern tools of financing agriculture and value chains.	SFD, NBE, NPCU	completed by 1.2.16
12.	To conduct a capacity assessment combined with a needs assessment for capacity development of CDAs in the seven governorates	SFD	completed by 1.4.16
13.	To assist MFIs to better analyze and understand their own financial situation by changing the reporting approach showing the evolution of the MFI over the year along key performance parameters, in addition to the mere output oriented current reporting system	SFD	31.12.15
14.	To assess the options for developing a common MIS for smaller MFIs in collaboration with MFIs, EFSA and the Egyptian Union of Microfinance (EUMF), which can be locally supported at lower costs than current systems	SFD	by 31.1.16

D. Project implementation progress

33. **Management performance.** The NPCU responsible for the implementation of the PRIME project is the same as the one established for the UERDP, with the same personnel. The unit is embedded in the MALR and staffed by ministerial personnel acquainted with GOE and IFAD procedures, who work for the project on a part-time basis. In each of the seven Governorates, a Governorate PCU (GPCU) is established, with mirroring functions. SFD, and its regional offices, are responsible for the implementation of activities related to the SLA signed by SFD. The ARDF only operates in the capital, but uses the CIB network and a network of consultants experienced in different agronomic and agribusiness fields to appraise loans. Activities pertaining to marketing and value chain development (VCD) are implemented by SFD and ARDF as regards their own domains, while the national and promotional activities are vested with the NPCU. The work of the NPCU is overseen by a Programme Steering Committee, which provides policy guidance, approves AWPBs, approves participation of implementing partners and facilitates operational issues.

34. The mission views the dedication of the NPCU and of the GPCUs in Qena and Assiut positive. Proactive implementation of the project, compliance with mission recommendations, and M&E are the domains with weaker performance. The SFD team is professional and dedicated to the objectives of the institution, and SFD has been a good partner under UERDP, with high levels of commitment and responsiveness. The management capacity of the ARDF is low, as this organization does not have sufficient staff in relevant fields and adequate experience in fund management and collaboration in multi-stakeholder initiatives such as PRIME. No Project Implementation Manual (PIM) has yet been drafted and submitted to the respective authorities for approval.

35. The NPCU has so far under the UERDP maintained good and close relationships with the two GPCUs. Under PRIME, with seven governorates, it will be imperative to better structure and streamline several aspects of implementation, in particular data and report transmission in accordance with agreed formats, and timely transmission of data relevant for M&E purposes. Furthermore, the NPCU should engage more proactively in the condensation of lessons from each sector, governorate and domain, and make these accessible to all partners and GPCUs. This will in particular apply to the marketing and value chain development activities, which are not likely to start with the same vigor in all governorates at the same time. Good knowledge

management will help those governorates in the second line to catch up and avoid mistakes made at early stages. Unless knowledge management is firmly institutionalized, this is a learning from UERDP, mutual learning and cross fertilization are not likely to take place. As a result, it is recommended to the NPCU to prepare a summary report on important points and lessons learnt at regular intervals.

36. Other points of project management to be improved include the quality and accuracy of the AWPBs, aggregation of data, outreach to women and the youths. Attention to and follow-up on sub-components and activities not easily implementable has generally been poor. Efforts to implement mission recommendations has generally been insufficient. The overall management of the UERDP was assessed to be **moderately unsatisfactory**.

Agreed action	Responsibility	Agreed date
15. Consolidate and analyze lessons learnt from project experience in a bimonthly report with a view to facilitate mutual learning and cross fertilization	NPCU on the basis of GPCU reports and experience at national level	First report by 31 February 2016, then every 2 months
16. Draft a Project Implementation Manual and submit for approval	NPCU	28 February 2016

37. **Monitoring and Evaluation.** The M&E Unit is part of the central NPCU and comprises two M&E officers. During the project period, given the absence of reporting on lending activities under the credit line component, the Unit has collated data on the main project activities, which were workshops and training activities for service providers and beneficiaries, to share information and get started with project operations. During 2015, the baseline survey has been commissioned and the draft survey report has been received. The mission discussed the PRIME Logical Framework with the NPCU and SFD with a view to streamlining and validating the selected indicators and to align its format with IFAD corporate requirements, such as the inclusion of RIMS indicators, and made the necessary adjustments (see Appendix 2). RIMS reporting requirements have been discussed with SFD and NPCU and RIMS reporting will from now on cover the period of the AWPB which, in the case of Egypt, is the period July to June.

38. Currently, the M&E activities consist of a compilation of quarterly and annual progress reports focusing on activities, with insufficient information and analysis on results. The project does not possess a modern MIS system, and data is maintained in spreadsheet format. The capacity to direct and supervise more complex results assessments and ensure quality delivery needs to be strengthened. 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 adequate studies and assessments on relevant outputs and results and lack of exposure on how modern M&E functions could be implemented within a strategic framework (results-based-management). The performance of the M&E system is therefore rated **moderately unsatisfactory**.

39. **Gender focus**. As the UERDP achieved good outreach to women under the microfinance activities, this is most likely to continue under PRIME. The fact that the NPCU only updates the outreach and RIMS data sheets once per year does not facilitate solid understanding of actual performance and proper follow-up. It is recommended to the NPCU to consolidate the outreach, output and outcome performances on a quarterly basis, and to react more proactively on any eventual gender bias and to engage in a dialogue with partners on how to overcome such. This would of course be done in an understanding of the of the prevailing environment in which the project operates, the apparent limitations of what could be achieved, and the time horizons needed. The gender focus of the UERDP is rated **moderately satisfactory**.

40. **Poverty focus**. Few of the implementation activities have actually been implemented, but preparations are underway to start the microfinance activities with the MFIs and CDAs in the

new five governorates once the issue of licensing will be addressed in November 2015. It is expected that some of the lending of PFIs and SFD to value chain operators, including FMAs and commodity groups, will also have a good poverty focus. Most of the other loans of SFD, NBE, ARDF and PFIs will be geared at SMEs, however with employment benefits for the rural poor[2]. Prior to the start of disbursements to CDAs/MFIs, the poverty focus of the PRIME is therefore rated **moderately satisfactory**.

41. **Effectiveness of targeting approach.** The project's targeting approach comprised the direct selection of two seven governorates for their levels of poverty. The self-targeting approach of CDAs under UERDP, by which the low maximum loan values granted to borrowers served to keep the relatively better-off out, may only prevail during the next years, but should be removed as soon as possible to allow borrowers in their second and third rounds of borrowing to achieve higher business and profit levels. The targeting of value chains and commodities with high relevance to the poor will be the main options to achieve outreach to the rural poor. Given the limitations of this approach, especially at the beginning of the marketing activities, which are dictated by economies of scale, demand of customers, availability of private sector partners, sufficient production potential, prices, capacity of associations and interest of producers, this point will remain an important challenge. As a consequence, the Marketing Advisor to be recruited should be requested to prepare a note on the poverty outreach potential for each value chain and marketing operation supported under the project, and consolidate this experience in half annual reports to be submitted directly to the NPCU, PSC, IFAD, partners and implementation support missions. The effectiveness of targeting is rated **moderately satisfactory**.

42. **Innovation and learning**. At this stage, when implementation is about to take off, it is premature to assess the aspect of learning. As implementation is progressing, such points will be coming out, and they will be captured on the basis of the actual experiences. For SFD, it will be the first time to collaborate with a commercial bank, the NBE, to pass on a large line of credit, and rather than keeping funds for its own lending activities. Previously, the institution only used funds for direct lending, or passed funds on through CDAs or the Principal Bank for Development and Agricultural Credit, which is a government-owned financial institution. Collaboration with a commercial bank, which maintains the banking secret and cannot be instructed through the government system, has its own challenges, and requires new and less directive forms of collaboration. In the Egyptian context, this is an innovation, and it will be seen whether SFD moves further in this direction by recruiting other competent banks in the future. Overall, innovation and learning is rated **moderately unsatisfactory**.

43. **Partnerships.** The collaboration with SFD, and of SFD with NBE and CDAs, works well. The partnership with the ARDF is impeded by the very limited management capacity of this small unit and a lack of responsiveness observed. The partnership between ARDF and CIB seems to work well, as does the business partnership between CIB and its 12 partner banks, even though concrete lending operations have not yet started. No relationships have been established so far with the private sector, without which the component cannot develop satisfactorily. SFD, the only operational project partner at this stage, is actively engaging in project activities with IFAD, NPCU and the beneficiaries. SFD is making good efforts to design new financial products, in a participatory manner with smallholders, which ultimately will increase the access of smallholders to credits and markets.

44. **Climate and environmental focus**. The main focus of the PRIME is on rural finance and marketing, not on climate change adaptation or environmental protection. Judging from the first set of loans granted by NBE, the list of pipeline projects compiled by the CIB, and the anticipated range of activities funded by the CDAs in Qena and Assiut, the PRIME project is neutral to climate and environmental concerns, and its activities do not constitute a harm. The

[2] The first loan granted by NBE under PRIME assisted a farmer to establish a cattle farm, where he created ten new jobs with a loan of EGP 150,000, even though the staff earned low wages in this rural area.

predominant mode of fertilization of farmland is still through dung and composting. As a result, this point is rated **moderately satisfactory**. In case the next supervision missions would find evidence for lack of compliance of investments financed by banks and SFD with environmental standards and norms, the NPCU should prepare a high level training of the relevant financial institutions in this domain[3].

Agreed action	Responsibility	Agreed date
17. To validate the revised logical framework as presented in the attachment	GOE, IFAD	31.12.15
18. To assess the potential and actual relevance and impact of value chain and marketing interventions of different partners on the poor and low income groups, document the results in notes, and ensure that commodities and operations are included that have a potential positive impact on the poor	NPCU/Marketing Advisor, with FMAs and commodity groups and private sector partners	Ongoing till completion
19. To assess the compliance of investors funded under the project with environmental standards and norms, and seek redress in case these would not be respected	NPCU	As from January 2016 till project completion

E. Fiduciary aspects

45. **Financial management**. A Financial Management (FM) assessment was conducted to review the adequacy of the arrangements in place for the Project. The assessment also included a review of the actual expenditures incurred since the start of the project. The National Project Coordination Unit (NPCU) is the overall coordinating agency ofthe project and the implementing agency for the activities financed from the IFAD grant proceeds, while the Social Fund for Development(SFD) and ARDF are the implementing agencies of the rural finance component financed by IFAD loan. Based on the FM supervision, the FM rating of this Project is concluded as **moderately satisfactory**.

46. **Organization and staffing**. The finance management of the NPCU of MALR consists of a part time finance manager based in Alexandria Governorate who is responsible for the overall financial management of the project and its records. The finance department of SFD is responsible for the overall financial management of the SFD operations including PRIME, and staffed with qualified and experienced personnel.

47. **Budgeting**. IFAD loan and grant budget are viewed by the Government as part of the national budget. The MALR prepares its annual budget for all planned activities and submit it to the Ministry of Planning for approval, and before its finally approved by Parliament.

48. Before the end of each fiscal year, the NPCU prepares a consolidated AWPB for the following year for activities planned by the NPCU, ARDF and SFD for the approval of the project steering committee, and subsequently submit it to IFAD for review and concurrence. To further enhance the quality of the AWPB to meet IFAD requirements, the mission recommends that the project prepares realistic and achievable consolidated AWPBs and show the budgeted amount by component and sub-component in order to facilitate the periodic informative monitoring reports of budgets against actual to facilitate management decisions.

49. **Funds flow and disbursement arrangements**. Disbursements from the project bank accounts are subject to a sufficient level of review, checks and balances. The Project NPCU maintains and administers a designated account in USD opened at the Central Bank of Egypt for the grant proceeds and an operating bank account in EGP opened also in the same bank to pay eligible expenditure of the project. The operating account receives funds from the designated

[3] Experience in other projects implemented in China, Viet Nam and Pakistan have shown that banks may be keen to see such offers very positively and adopt practices as it suits their self-marketing and enhances their comparative advantages.

account. In addition, the project operates another two designated bank accounts in USD for the payment of eligible expenditures from the loan proceeds, the first one managed by SFD, the second by ARDF. SFD has contracted the National Bank of Egypt (NBE) as financial intermediary to carry out the rural lending targeting small and medium enterprises, while ARDF works through CIB as fund manager.

50. The mission noted during the field visit to NBE branch in Qena governorate, that the bank branch management and technical credits staff do not have a complete and clear understanding of the agreement signed between SFD and NBE at headquarters level on the targeted beneficiaries and loan purposes. Therefore, the mission recommends the two parties to jointly and urgently work on clarifying the arrangements made to branches staff to smooth the implementation of rural finance activities.

51. **Commitments and actual expenditures**. The total amount of actual expenditures and committed amount (signed contracts) as of October 31, 2015 is approximately equivalent to USD 13.746 million which represents 13% of the total project cost as per the design document; financed by IFAD loan (USD 13.600 million) for rural finance, IFAD grant (USD 0.045 million) and the MALR (USD 0.101 million). The committed amount is related to the rural finance component and results from the SLA signed between SFD and NBE.

52. The total amount of actual expenditures as of October 31, 2015 is USD 3.513 million, financed by IFAD loan (USD 3.4 million), IFAD grant (USD 0.017 million) and the MALR budget (USD 0.096). The actual expenditure represents 3% of the total project cost. The actual expenditures from the loan proceeds is related to the first tranche of (EGP 26.250 million) of the EGP 105 million agreement signed with the NBE.

53. The expenditures of USD 3.4 million represent 5% of the 70 million loan. The actual expenditures on the grant totalling USD 0.017 million represent 1.7% of the total grant allocation. The ARDF did not incur any expenditures since the effectiveness of the project.

54. There is a high probability that one of the deficiencies under the UERDP, i.e. not to properly record the contributions of all partners and the government, will be repeated under PRIME. It is therefore imperative for the NPCU to enlighten SFD and ARDF to properly record their own eligible expenses as contributions to the project, and inform the NPCU accordingly. In addition, the NPCU should ensure that all expenses incurred by the Government would be fully acknowledged in the expense framework.

55. **Actual expenditures on AWPB 2014/2015 and 2015/2016**. The actual expenditures reported against the AWPB of 2014/2015 was zero. Moreover, the total amount of the actual expenditures, including government contributions, against 2015/2016 AWPB as of October 31, 2015, is considerably low, especially of the NPCU and ARDF. The total expenditure is equal to USD 3.513 million (of which funded USD 3.4 million under the loan and USD 0.017 million under the grant and USD 0.096 under MALR), which represents 23% of the total planned amount (USD 15.4 million).

56. **Internal control**. The internal control system in place within the MALR and SFD deemed satisfactory. Segregation of duties does exist at the NPCU of MALR and SFD. The payments from project banks accounts, recording and posting of transactions are subject to sufficient level of controls. Payments currently processed by the NPCU financial manager are reviewed by the financial controller (FC) of the Ministry of Finance assigned to MALR, and approved by the director. As required by law, the FC reviews and verifies every transaction against the supporting documents and has to certify the transaction before the issuance of the bank checks.

57. Most payments are made using bank checks, only small payments from the IFAD grant are allowed to be paid by cash through advances, which then must be justified by presenting the supporting documents. All transactions are further subject to ex-post review by a government auditor from the Central Audit Organisation.

58. **Accounting**. The NPCU uses manual book-keeping/ledger for the accounting of the grant transactions maintained by the part time finance manager. The expenditures for Government budget are recorded at (MALR) level using another manual book-keeping too. However, SFD uses an accounting system for the loan proceeds. It is highly recommended to the NPCU to acquire an appropriate accounting software for accounting and reporting purposes. If the software frequently used by IFAD-funded projects (TOMPRO) would be deemed to be too expensive, a software locally available and supported should be acquired.

59. **Financial reporting and monitoring**. The project currently does not produce consolidated financial and monitoring reports currently given the low burning rate. The mission recommends that the project produces financial and monitoring reports from now onward by component, sub-component, category and financier and on monthly basis and share it with concerned stakeholders.

60. **Internal audit (moderately satisfactory**). The SFD has an internal audit department at central and regional level, and the financed project-related transactions arecovered by an internal audit department in accordance to the deportment annual work plan. The audit department objective includes, inter-alia, ensuring that procedures set in the operational manual are complied with, conducting internal audit missions, and reinforcing the coordination among the various operating aspects of this entity. In addition, the internal audit department covers projects funded through the associations and the small projects funded through intermediaries. The mission recommends to the audit department to include in its annual program of work end-use checks besides the outsourced monitoring agency.

61. **Fixed assets register**. The MALR follows the fixed assets on a manual assetsregistry and in line with government's established procedures. Following a recommendation of the external auditor, fixed assets should also be coded.

62. **Designated accounts**. As of October 31, 2015, three WAs, two from SFD and one from ARDF have been processed for the fiscal years 2014/2015 and 2015/2016 from the IFAD loan for an amount of USD 5.250 million (SFD USD 4 million and ARDF USD 1.250 million). The closing balance, as of October 31, 2015, is USD 0.6 million for the SFD designated account and USD 1.25 million for the ARDF. No payments have been done from ARDF's designated account yet. IFAD will start the recovery of the authorised allocation to ARDF if disbursement does not pick up in the coming six months. As regards the ARDF, its revenue sharing formula to allocate revenues from bank investments for research purposes, and interest from lending to capitalize the loan funds, favors keeping funds in interest earning deposit accounts in banks, rather than disbursing funds to beneficiaries.

63. As regards the IFAD grant, only one WA had been processed on the fiscal years 2014/2015 and 2015/2016 for an amount of USD0.187 million. The closing balance of the designated account, as of October 31, 2015, was USD 0.157million.

64. **Disbursement (moderately unsatisfactory**).The disbursement percentages, including and excluding the authorised allocation to the designated account for the loan were 8% and 0% respectively. While for the grant they were 20% and 0% respectively. Cash outflow projection over the coming year indicates an increase in the loan disbursement by SFD to pay for the upcoming tranches related to its agreement with NBE.

65. **Counterpart funds (moderately unsatisfactory**). Government counterpart contribution to the project is allocated on yearly basis and is neither sufficient nor timely. The funds flow to MALR on a quarterly basis and the first quarter 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. The total approved counterpart budget for the FY 2015/2016 was EGP 125,000 only. The mission recommends that the NPCU follows up closely with GOE to ensure adequate allocation and timely flow of these funds.

66. **Compliance with loan covenants (moderately unsatisfactory**). Compliance with loan covenants has been rated as moderately unsatisfactory. The project is in compliance with Financing Agreement with exception of (i) semi-annual narrative and financial reports are submitted late to IFAD; (ii) late flow of the counterpart contribution; and (iii) delays in submission of AWBP for 2015/16.

67. **Procurement (moderately satisfactory**). The project has not carried out any significant procurement tasks, since the major project activities related to marketing and rural finance has not been launched yet . In the meanwhile, minor procurement activities have been conducted by the NCPU, and 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.

68. **Statement of Expenditure review**. No WA has been submitted for replenishment so far. The mission selected and examined three payment vouchers related to the grant for a total amount of EGP 0.115 million and found the supporting documents adequate and easily retrievable. It was however noted that the an advance payment to the service provider of the baseline survey was paid against no advance guarantee.

69. **Quality and timeliness of audit (moderately satisfactory**). As there were no expenditures incurred during the FY 2014/2015, the audit report has been waived. Consequently, the first audit report for the project will cover the period from the project effectiveness date and up to June 30, 2016. The first audit report will therefore be due by December 31, 2016. The mission recommends to the NPCU to soon finalise the procurement and appointment of the external auditor.

Agreed action	Responsibility	Agreed date
20. To request the internal audit department to include an end-use check of borrowers as part of their annual work programme	SFD	from now onward
21. SFD headquarters to work closely with NBE to clarify the agreement concluded on loan purposes, targeting, mode of collaboration, monitoring and reporting	SFD, NBE	31 December 2015
22. To produce financial and monitoring reports by component, sub-component, category and financier on a monthly basis and share it with concerned stakeholders	NPCU	From now onward
23. To prepare realistic and achievable AWPBs	NPCU, SFD, ARDF	continuously
24. To finalize the procurement and appointment of the external auditor	NPCU	31 December 2015
25. To urge SFD, ARDF and partner governorates to record their expenses related to the project and submit these in an agreed format to the NPCU on a quarterly basis	NPCU, SFD, ARDF, 7 Governorates	By 15.12.15 to start recording in the 4th quarter of 2015
26. To purchase a software package for accounting purposes	NPCU	31 December 2015

F. Sustainability

70. Sustainability of the project will depend on a number of factors, relative to each component. Under the marketing component, this will require the sustainability of farmer marketing associations, commodity groups or cooperatives, as the case may be. Farmers need to understand the requirements of the consumer and the dynamics of markets in order to benefit from the vast opportunities. In addition, they need to organize themselves well enough so as to be seen as a qualified partner in value chains, behave in accordance to long term objectives, and learn how to negotiate better deals than before. To accelerate this learning process, and create opportunities for steeper learning curves of farmers, investments into the capacity of farmers and their associations are needed. The same applies to the other actors of the value

chains, from transporters to input suppliers, processors, exporters and financiers. Especially banks need to understand the particularities of working with and financing value chains and their operators, what to look out for, and how to manage the associated risks. Sustainability prospects for the PRIME initiatives are comparatively low unless the parallel investments in capacity development are made.

G. Conclusion

71. The PRIME Project has started late, with about three years of delay, even though the effectiveness date has been postponed by mutual agreement, and it was considered the date of signing the Subsidiary Loan Agreement with project partners. There are signs that under the rural finance component, the activities related to the SFD will pick up in the next months, thus leading to a higher disbursement rate for this part of the credit funds. As regards the ARDF, there are a number of impediments and institutional constraints that need to be addressed urgently. Under its current status and capacity, it is not very likely that this small unit will be able to absorb the amounts as earmarked. This would carry the risk of continuous lagging behind the disbursement schedule, and subsequently low overall rating of the Project. As the internal affairs of the ARDF are not subject to influence under the Project, because ARDF is a partner, not a beneficiary, this risk could only be mitigated by way of reducing funds to ARDF, and ultimately by excluding the institution from the partnership privilege.

72. As regards the Marketing Support Component, there has been a near complete vacuum as regards a vision on how to advance marketing and value chain development in the regions and among partners. It is expected that the recruitment of a market advisor, the initiatives commenced by the mission and the interest of potential private sector partners would lead to a better understanding on the side of the PRIME implementers about what to do in the near future, and to more visible and effective implementation activities. It has become clear that this component is not self-executing at present, and requires substantial inputs from the MALR, ARDF, SFD and IFAD to make it a success.

73. The experience in Egypt, and elsewhere, has clearly shown that mere access to credit will not advance the country and the agricultural sector, and certainly not the fate of the rural poor. Investments financed through loans will depend to a large extent on the availability of high quality non-financial services to become effective and relevant for the rural poor. The ultimate impacts of PRIME without additional funds for true capacity development will be limited.

Appendix 1: Summary of project status and ratings

Basic Facts

Country	Egypt	Project ID	1571 [1100001571]	Loan/DSF/Grant/ASAP FI No.	1000004150, 1000004151
Project	Promotion of Rural Incomes through Market Enhancement Project			Top-up Loan/DSF/Grant/ASAP FI No.	

Date of Update	15-Nov-2015			
Supervising Inst.	IFAD			
No. of Supervisions	1	No. of Implementation Support/Follow-up missions	3	
Last Supervision		Last Implementation Support/Follow-up mission	25-Aug-2015	

					USD million	Disb. rate %
Approval	13-Dec-2011			Total financing	108.22	
Agreement	10-Apr-2012	Effectiveness lag	4.0	IFAD Total	71.00	
Entry into force	10-Apr-2012	PAR value	--------	IFAD loan	70.00	4
First disbursement	20-Nov-2014			DSF grant		
MTR	--	Last amendment		IFAD grant	1.00	20
Original completion	30-Jun-2020	Last audit		ASAP grant	0.00	0
Current completion	30-Jun-2020			Domestic Total	37.22	
Current closing	31-Dec-2020			Beneficiaries	17.74	0
No. of extensions	0			National Govern	7.55	0
				Other Domestic	11.93	0
				External co-financing Total	--	

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

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Marketing Support	3	3	1. Institution building (organizations, etc.)	3	3
2. Rural Finance	3	3	2. Empowerment	3	3
			3. Quality of beneficiary participation	3	4
			4. Responsiveness of service providers	3	4
			5. Exit strategy (readiness and quality)	4	4
			6. Potential for scaling up and replication	4	4

B.5 Justification of ratings

The project entered into force in 2013 and in the midst of the political volatile situation, the start-up workshop was held in

December 2013. However, IFAD was unable to make the first disbursement until December 2014, with first approved AWPB in June 2014. Hence, ratings are based on limited actual implementation time. The low rating of the two components, results from the fact that ARDF has not been able to undertake the necessary steps for loan disbursement, including the preparation of SLAs, while SFD has recently advanced with disbursement. Under the marketing component, only very few activities have been initiated yet. However, the project has recently recruited a marketing advisor, who is expected to advance this component rapidly in partnership with the private sector and SFD. . Since the project has not launched any major activities related to rural finance and marketing, the disbursement rate and counterpart contribution are very low. Certain improvements in rating under B1 and B4 are due to the start of implementation of the rural finance activities and good contributions made by SFD, NBE and CIB in this regard.

Overall Assessment and Risk Profile

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

Rationale for implementation progress rating:
Progress is as yet limited due to a late start of implementation. Progress in the Marketing Support component is hampered by the absence of a concept on how to implement the component, and the absence of expertise in the NPCU. This is likely to improve with the recruitment of a market advisor. In the Rural Finance component, SFD has recently started disbursements, which will show in the next disbursement records. The second partner, ARDF, has not been able to make any disbursement at all, as it has not put into place the necessary systems and procedures, and has not even concluded the required legal documents yet. The overall rating results from the predominant rating as moderately unsatisfactory of the project.

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

Rationale for development objectives rating
SFD has signed the contract with the National Bank of Egypt and started to disburse loans recently. While ARDF and the Commercial Investment Bank (CIB) have a list of requests for loans pending approval by the ARDF Board of Trustees, the necessary legal agreements, systems and procedures are not yet in place. Discussions have been held with SFD and CIB to ensure that in case ARDF would prove not to be able to play its agreed role in the project, funds can be allocated to SFD, with disbursements through the NBE or other partner banks, or through the CIB. It is therefore likely that PRIME will be able to achieve its Development Objectives.

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

Fiduciary aspects	Some weaknesses remain to be tackled: Accounts are maintained manually and internal audit arrangements are inadequate.
Project implementation progress	The arrangements for disbursement under the line of credit from SFD to NBE are in place, and loan disbursements have recently picked up. While the ARDF has an established partnership with CIB, several weaknesses exist. Improvements require: (1) the appointment of an alternate to the Minister of Agriculture and Land Reclamation, who chairs all meetings of the Board of Trustees of ARDF, to allow the board meet in the absence of the Minister; (2) the recruitment of a competent fund manager by ARDF; (3) the conduct of a due diligence of ARDF to identify and overcome institutional and operational constraints; and (4) the change of the revenue sharing formula of ARDF, which presently favours the keeping of funds in idle deposits, instead of investing them in the agriculture sector. In case ARDF would not be able to improve its capacity and performance, funds can be channelled to CIB through SFD. As regards the Marketing Support component, the new market advisor needs to develop a concept for component implementation and establish contacts with the private sector. As a result, the risks appear to be within manageable limits.
Outputs and outcomes	The limited progress in linking Farmers Marketing Associations (FMAs) to markets, especially commercial operators may create a risk when it comes to members' willingness to remain engaged in these associations. Partnerships with many MFIs in five new governorates also need to be established, their performance be assessed by SFD, and lending to them started, once the MFIs have received their final operating license.
Sustainability	At current levels, the 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. This requires an additional funding by the Government or the reallocation of funds from the line of credit to various capacity development measures. This in turn requires a change of the Financing Agreement.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
In the absence of the Minister, the Board of Trustees of ARDF cannot meet and approve loans	To appoint an alternate for the Minister of Agriculture and Land Reclamation to attend meetings of the BOT of ARDF in his absence	MALR	31.12.15
To achieve the objectives of PRIME, more funds for capacity development are needed	To either increase government funding of the PRIME through cash contributions or reallocate an amount of about USD 2.3 million for capacity development purposes under components 1 & 2, taken from the credit funds	MALR, MIC, MOF, IFAD	1.3.16
Inadequate capacity of ARDF to manage a line of credit of this magnitude	To recommend the re-allocation for ARDF to SFD, or to other suitable intermediaries, in case the disbursement rate under the facility by ARDF would not reach USD 1.5 million by May 2016 and USD 3.5 million by November 2016; this may include the CIB	IFAD Supervision Mission	15.5.16 and 15.11.16

Additional observations: --

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

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Indicators	Units of Measurement	Baseline	End Target	Information Sources	Frequency	Responsibility	
Project Goal: Rural poverty is reduced in seven governorates of Lower and Upper Egypt.	Prevalence of rural poverty in targeted Governorates, disaggregated by gender	Percentage points	52% of the rural population of Egypt estimated to live below the poverty line (PDR)	Reduction in the share of rural people living in poverty in targeted governorates	Secondary (National Statistics; Egypt Poverty Assessments MDG/ SDG Report; etc.)	The status of GOAL indicators should be reported twice during the project life-cycle as follows: a) during year 1 (benchmark/baseline); b) before completion	The PRIME National Project Coordination Unit (NPCU) is responsible to collect the secondary and primary information that is needed to report on the status of the selected Goal Indicators	-Political stability; -Government continues its commitment to poverty reduction and transformation of the agriculture sector in Egypt
	Av. HH Assets Ownership Index in targeted Governorates (**RIMS-Level 3**)	Percentage (to be reported as share of targeted HHs with improvement in household asset ownership, disaggre-gated by male and female headed HHs)	2015 baseline assessment	Increase in the share of households reporting improvement in asset ownership in targeted Governorates	Project Impact Surveys			
	Prevalence of under 5 child malnutrition in targeted areas (**RIMS-Level 3**)	Percentage	Baseline data to be gathered	Reducing of child malnutrition	Secondary (WHO, UNICEF, FAO, National Ministry of Health, MDG report, etc.)			
Project Development Objective: Incomes of targeted HH increased	Av. annual income for 50,000 rural HH increase (head of HH disaggregated by gender and age)[4]	EGP/Year	2015 baseline assessment	20% increase in average HH incomes[5]	Impact survey	Reported twice during the project life-cycle : a) during year 1 (benchmark/ BL); b) before completion	The NPCU is responsible to conduct Impact Assessment Surveys to periodically report on PDO Indicators	-Favourable government policies; -Prices are relatively stable
Component 1: MARKETING SUPPORT								
OUTCOME 1: Agricultural production and profitability levels (crops and	Increase in agricultural and livestock production (**RIMS 2.2.2, 2.4.1**)	-RIMS ranking from 1-6, where 1 is "highly unsatisfactory" and 6 "highly satisfactory (to be assessed based on	2015 baseline survey	RIMS ranking reaches 5 or 6	-M&E Progress Reports -Impact surveys	Annually	M&E Unit	Minimum disruption in the agriculture sector

4 The intention of age disaggregation is to capture impact on the youths, especially, but not limited to increase in employment. The age range of youths for the employment effect is 18 to 35years of age. Registration forms for the various project activities may ask for age, or for Yes/NO response to a question whether the applicant is a youth (aged between 18 and 35), whichever is more practicable.

5 The EFA at the time of design has estimated that HH incomes can be increased between 20% and 60% as a result of improved marketing. Not all targeted HH, however, are producing for market, nor will all targeted HH be able to participate in or benefit from marketing activities introduced by the project, and not all participants in training will obtain a loan to finance their investments. Thus, for the impact indicator HH income which will be measured for all 50,000 targeted HH, the end target increase in av. HH incomes has been lowered from 40% to 20%.

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Indicators	Units of Measurement	Baseline	End Target	Information Sources	Frequency	Responsibility	
livestock) of targeted beneficiaries are raised sustainably.	Likelihood of sustainability of the marketing groups formed or strengthened (**RIMS 2.4.4**)	the no. of targeted HHs reporting production/profit increase). -RIMS ranking from 1 to 6 (to be assessed based on the no. of groups able to generate a profit from operations after 3 years)		8,400 farmers are organized in functional and sustainable associations[6] to change substantially the rural income structure of all actors involved				
	Farmers' post-harvest losses and unsellable share of produce	Percentage	Conduct surveys during year one of operations	-Reduce post-harvest losses by at least 30%[7]; -Reduce unsellable share of produce to 10%	-FOs to establish database with statistics; -HH Impact surveys	Seasonally (once every year in selected value chains)	M&E Unit	
	Av. prices[8] of key products in targeted areas	EGP	2015 baseline assessment	Sales prices increased by at least 30% by mid term	-Project M&E reports -Buyers' contract information (prices paid for products) -HH Impact surveys	Annually	M&E Unit	
Output 1.1: Strengthening of Farmer Marketing Organizations	-Marketing groups formed / and strengthened (**RIMS 1.4.4**) -Members in marketing groups, by gender (**RIMS 1.4.5**)	- No. of organizations strengthened -Membership of strengthened organizations (total no. of men and women)	The baseline data is considered as "zero" basis	200 FOs [9] strengthened with 20% of their membership being female	-Project M&E reports	Quarterly	M&E Unit	Farmers' organisations function properly and roles are recognised by authorities
	-Members of FOs trained in post-production, processing and marketing and income generating activities (**RIMS 1.4.1,**	No.		-2,300 members of supported FOs provided with training, of whom at least 400 are women	Project M&E reports	Quarterly	M&E Unit	

6 Original target of '20,000 farmers organized in 500 associations' is unrealistic; also for UERDP this target was changed. Following the same assumptions as for UERDP, the target is set to on average 30 groups/organizations per governorate and on average 40 members per group/organization.

7 Unrealistic target value reduced from 50% to 30%, which would represent an optimal outcome under the circumstances. This takes into consideration that this is in addition ot the target of reduction of unsellable produce. This target value should be reviewed critically by the MTR in the light of the achievements.

8 Indicator is changed from 'farm-gate' price to 'price'. In the Egyptian context, farming produce is not sold at 'farm-gate', but at collection points, or at later stages in the 'value adding chain' process. The essential point of this indicator is that sales prices increase, no matter where they are realized.

9 This target has been reduced from 300 Farmer Organizations (FOs) to 200 FOs and 25% female membership to 20% female membership. Also refer to footnote 3.

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Indicators	**Units of Measurement**	**Baseline**	**End Target**	**Information Sources**	**Frequency**	**Responsibility**	
	1.5.3)							
Output 1.2: Training and capacity building in production technologies, required standards, use of cultivars and other marketing activities.	No. of types of (a) training and (b) capacity building: - identified; - and delivered No. of individuals involved in farming and non-farming activities trained and whose capacity to deliver the produce at expected quantity and quality levels has been enhanced.	-No. and quality of identified capacity building measures; -Implement feed-back assessments for participants & report on ratings 1 to 6. -% of contractual arrangements of FOs continued at least for 2 cropping seasons. -Farmers' success to sell to contractors or buyers	Baseline data is set to "zero"		M&E reports Data from contractors (contract farming, wholesaler, or other) Data from packaging houses FO data bases (to be established)	Quarterly or 6-monthly, depending on product seasonality	PMU M&E Unit	
COMPONENT 2: RURAL FINANCE								
OUTCOME 2: Increased access to sustainable financial services in project targeted areas for enhancing rural investments.	Effectiveness of improved access of the poor to financial services **(RIMS 2.3.2**)	No. of people, groups and enterprises accessing financial services in project targeted areas	2015 baseline assessment	To be defined	-Project M&E reports -	Annually	M&E Unit, SFD and ARDF/CIB	Financially attractive investments available
	Sustainability: Improved performance of the financial institutions (**RIMS 2.3.3**)	-Portfolio at risks; -Operational self-sufficiency of MFIs and ROA of banks; -Operating expenses ratio	2015 baseline assessment	RIMS ranking reaches 5 or 6.	-Project M&E reports	Annually	M&E Unit, SFD and ARDF/CIB	
	No. of full-time job equivalents generated by SMEs in project targeted areas (**RIMS 2.5.1**)	No. of new em-ployees, disaggre-gated by gender, age & type of employment (part/full time)	2015 baseline assessment	To be defined	-Project M&E reports -Impact Surveys	Annually	M&E Unit	
Output 2.1: Strengthening of financial service providers in project targeted areas	Staff of banks and non-bank fin. institutions trained, by gender **(RIMS 1.3.5)**	No. of women and men	The baseline should be "zero"	To be defined or extracted from the PDR	Project M&E reports	Quarterly	M&E Unit, SFD and ARDF	Identified commercial banks and NBFIs interested in participating in the Project
	Gross loan portfolio disbursed and outstanding, by PFI type **(RIMS 1.3.10, 1.3.11)**	EGP	Baseline data to be gathered		-Project M&E reports	Quarterly	M&E Unit, SFD and ARDF	
Output 2.2: Loans disbursed to	No. of active borrowers (individuals) from PFIs,	No. of women and men, by age and	The baseline should be	-About 6,000 women receive loans;	Project M&E reports	Quarterly	M&E Unit, SFD and ARDF	

Results Hierarchy	Indicators				Means of Verification			Assumptions
	Indicators	Units of Measurement	Baseline	End Target	Information Sources	Frequency	Responsibility	
farmers, (unemployed) youths, groups and SMEs from project resources	by gender, age and type of PFI (**RIMS 1.3.8**)	employment status	"zero"	-About 30,000 clients of whom 40% receive more than one loan				
	No. of FIs participating in the project, by type (**RIMS 1.3.4**)	No.	The baseline data is set to "zero".	At least 300	M&E reports	Quarterly	M&E Unit	
	No. of active borrowers (enterprises) from PFIs, by type of PFI (**RIMS 1.3.9**)	No.	The baseline should be "zero"	Repeat loans taken by 25% of about 1,123 SME clients; Repeat loans taken by 10% of 174 medium sized clients	Project M&E reports	Quarterly	M&E Unit	

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

Action Area		Action Agreed	Date	Whom	Progress
Project Implementation	1.	To appoint an alternate for the Minister of Agriculture and Land Reclamation to attend meetings of the BOT of ARDF in his absence	31.12.15	MALR	
	2.	To change the ARDF revenue sharing formula for capitalization and use for research, by introducing a system that favours lending activities, not deposits in banks	1.2.16	ARDF Board of Trustees	
	3.	To share with IFAD and the NPCU the audited financial statements for the past three years and all future years of participation under PRIME	15.12.15 and then annually upon completion of audit	ARDF Executive Director	
	4.	To conduct a refresher awareness creation for NBE branch staff in the governorates, to be combined with some technical training on modern tools of financing agriculture and value chains.	To be completed by 1.2.16	SFD, NBE, NPCU	
	5.	To conduct a capacity assessment combined with a needs assessment for capacity development of CDAs in the seven governorates	To be completed by 1.4.16	SFD	
	6.	To assist MFIs to better analyze and understand their own financial situation by changing the reporting approach showing the evolution of the MFI over the year along key performance parameters, in addition to the mere output oriented current reporting system	31.12.15	SFD	
	7.	To assess the options for developing a common MIS for smaller MFIs in collaboration with MFIs, EFSA and the Egyptian Union of Microfinance (EUMF), which can be locally supported at lower costs than current systems	by 31.1.16	SFD	
	8.	To recruit a Marketing Advisor	As soon as possible	NPCU	
	9.	To prepare monthly activity plans against work plans and targets, and submit these to the NPCU and the IFAD Country Programme Officer	At the end of each month of service till completion	Marketing Advisor	
	10.	To facilitate a study tour for a few professionals in the field of marketing to Morocco, eventually complemented by one or two key persons from the PFIs	2nd quarter of 2016	NPCU	

	11. To undertake a due diligence of the ARDF, to be financed from its own resources, and determine adjustment needs in terms of legal status, institutional set-up, staffing, business model, operations, fund management, accounting, overall risk management, safeguards, monitoring, reporting and audit, and share this with the MALR, NPCU and IFAD.	31.1.16	ARDF
	12. In case additional staff would be needed, to agree with the MALR on a salary level that would permit attracting qualified staff	15.2.16	ARDF, MALR
	13. To assess the potential and actual relevance and impact of value chain and marketing interventions of different partners on the poor and low income groups, document the results in notes, and ensure that commodities and operations are included that have a potential positive impact on the poor	Ongoing till completion	NPCU/Marketing Advisor, with FMAs and commodity groups and private sector partners
	14. To assess the compliance of investors funded under the project with environmental standards and norms, and seek redress in case these would not be respected	As from January 2016 till project completion	NPCU
Outputs Sustainability Fiduciary Aspects	15. To request the internal audit department to include an end-use check of borrowers as part of their annual work programme	from now onward	SFD
	16. SFD headquarters to work closely with NBE to clarify the agreement concluded on loan purposes, targeting, mode of collaboration, monitoring and reporting	31 December 2015	SFD, NBE
	17. To produce financial and monitoring reports by component, sub-component, category and financier on a monthly basis and share it with concerned stakeholders	From now onward	NPCU
	18. To prepare realistic and achievable AWPBs	Continuously	NPCU, SFD, ARDF
	19. To finalize the procurement and appointment of the external auditor	31 December 2015	NPCU
	20. To urge SFD, ARDF and partner governorates to record their expenses related to the project and submit these in an agreed format to the NPCU on a quarterly basis	By 15.12.15 to start recording in the 4th quarter of 2015	NPCU, SFD, ARDF, 7 Governorates
	21. To purchase a software package for accounting purposes	31 December 2015	NPCU
Other	22. To either increase government funding of the PRIME through cash	1.3.16	MALR, MIC, MOF,

contributions or reallocate an amount of about USD 2.3 million for capacity development purposes under components 1 & 2, taken from the credit funds		IFAD
23. To recommend the re-allocation for ARDF to SFD, or to other suitable intermediaries, in case the disbursement rate under the facility by ARDF would not reach USD 1.5 million by May 2016 and USD 3.5 million by November 2016; this may include the CIB	15.5.16 and 15.11.16	IFAD Supervision Mission
24. Consolidate and analyze lessons learnt from project experience in a bimonthly report with a view to facilitate mutual learning and cross fertilization	First report by 31 February 2016, then every 2 months	NPCU on the basis of GPCU reports and experience at national level
25. To validate the revised logical framework as presented in the attachment	31.12.15	GOE, IFAD
26. Draft a Project Implementation Manual and submit for approval	28 February 2016	NPCU

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								
Sub-component								
Sub-component								
Component 2								
Component 3								

NB: Apart from a very small number of loan disbursements under the Rural Finance component and a few preparatory steps under the Marketing Support component, no further implementation activities have been conducted yet. Furthermore, the mission revised the logical framework substantially, which requires an adjustment of the monitoring system. As a result, this Appendix shall be completed only be the next supervision mission.

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)	Actual (USD '000)	Committed, but not yet paid	Total	% disbursement
IFAD Loan	70,000	3,400	10,200	13,600	19.4%
IFAD Grant	1,000	17	28	45	4.5%
Government	19,479	96	5	101	0.5%
Beneficiaries	17,742	0	0	0	0.0%
Total	108,221	3,513	10,233	13,746	12.7%

* Government including ARDF & SFD

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

Component	IFAD Loan			IFAD Grant			Government			Beneficiaries			Total		
	Appraisal	Committed	%	Appraisal	Committed	%	Appraisal	Committed	%	Appraisal	Committed	%	Appraisal	Committed	%
A Marketing Support Component	**0**	**0**		**948**	**0**	**0%**	**12,038**	**0**	**0%**	**0**	**0**		**12,986**	**0**	**0%**
1 Strengthening of farmers marketing group	0	0		455	0	0%	3,003	0		0	0		3,458	0	0%
2 Market intelligence	0	0		206	0	0%	3,605	0		0	0		3,811	0	0%
3 Value chain linkages	0	0		217	0	0%	875	0		0	0		1,092	0	0%
4 Marketing oriented production	0	0		70	0	0%	4,555	0		0	0		4,625	0	0%
B Rural Finance Component	**70,000**	**13,600**	**19%**	**52**	**0**	**0%**	**1,304**	**0**	**0%**	**17,742**	**0**		**89,098**	**13,600**	**15%**
1 Marketing-based credit research & development	0	0		0	0		901	0		0	0		901	0	0%
2 Credit facility	70,000	13,600		52	0	0%	0	0		17,742	0		87,794	13,600	15%
3 Strengtheingn financial institution	0	0		0	0		403	0		0	0		403	0	0%
C Project Management & Coordination Unit	**0**	**0**		**0**	**45**		**6,137**	**101**	**2%**	**0**	**0**		**6,137**	**146**	**2%**
1 National Project Coordination Unit	0	0		0	1		1,414	96		0	0		1,414	97	7%
2 Governorate Project Coordination Units	0	0		0	44		4,723	5		0	0		4,723	49	1%
Total	**70,000**	**13,600**	**19%**	**1,000**	**45**	**5%**	**19,479**	**101**	**1%**	**17,742**	**0**		**108,221**	**13,746**	**13%**

* Government including ARDF & SFD

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

Category	Allocation (1)	Disbursement (2)	WA pending (3)	Balance (4) = (1) - (2) - (3)	% disbursement (2) / (1)
Authorized allocation for designated account SFD		2,789	0	-2,789	100%
Authorized allocation for designated account ARDF		852	0	-852	100%
Credit facility	44,140	0	0	44,140	0%
Total	44,140	3,641	0	40,499	8%

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 (2) / (1)
Advance of funds	0	128	0	-128	100%
Studies, workshop & training	630	0	0	630	0%
Total	630	128	0	502	20%

Table 5D: Payments on AWPB 2015 (6 months) by financier & by component as at 31-10-2015 (USD '000)

Component		Allocated					Payments					
		Loan	Grant	Govt.	Beneficiaries	Total	Loan	Grant	Govt.	Beneficiaries	Total	% of allocated
A	**Marketing Support Component**	**0**	**255**	**152**	**0**	**406**	**0**	**0**	**0**	**0**	**0**	**0%**
1	Strengthening of farmers groups	0	96	11	0	107	0	0	0	0	0	0%
2	Market intelligence	0	20	16	0	36	0	0	0	0	0	0%
3	Value chain linkages	0	11	44	0	55	0	0	0	0	0	0%
4	Marketing oriented production		127	81	0	208	0	0	0	0	0	0%
B	**Rural Finance Component**	**1,280**	**44**	**16**	**701**	**2,040**	**0**	**0**	**0**	**0**	**0**	**0%**
1	Marketing-based credit research & development	0	0	3	0	3	0	0	0	0	0	0%
2	Credit facility	1,280	0	12	0	1,292	0	0	0	0	0	0%
3	Strengthening financial institution	0	44	0	701	745	0	0	0	0	0	0%
D	**Project Management & Coordination Unit**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	
1	National Project Coordination Unit	0	0	0	0	0	0	0	0	0	0	
2	Governorate Project Coordination Units	0	0	0	0	0	0	0	0	0	0	
	Total	**1,280**	**298**	**167**	**701**	**2,447**	**0**	**0**	**0**	**0**	**0**	**0%**

Table 5E: Payments on AWPB 2015/2016 by financier & by component as at 31-10-2015 (USD '000)

Component		Allocated					Payments					
		Loan	Grant	Govt.	Beneficiaries	Total	Loan	Grant	Govt.	Beneficiaries	Total	% of allocated
A	**Marketing Support Component**	**0**	**247**	**188**	**0**	**435**	**0**	**0**	**0**	**0**	**0**	**0%**
1	Strengthening of farmers groups	0	89	17	0	105					0	0%
2	Market intelligence	0	20	15	0	34					0	0%
3	Value chain linkages	0	11	58	0	69					0	0%
4	Marketing oriented production	0	128	99	0	227					0	0%
B	**Rural Finance Component**	**14,339**	**0**	**49**	**0**	**14,388**	**3,400**	**0**	**0**	**0**	**3,400**	**24%**
1	Marketing-based credit research & development	0	0	22	0	22					0	0%
2	Credit facility	14,339	0	0	0	14,339	3,400				3,400	24%
3	Strengthening financial institution	0	0	27	0	27					0	0%
D	**Project Management & Coordination Unit**	**0**	**19**	**581**	**0**	**601**	**0**	**17**	**96**	**0**	**113**	**19%**
1	National Project Coordination Unit	0	19	581	0	601		1	96		97	16%
2	Governorate Project Coordination Units	0	0	0	0	0		16	0		16	
	Total	**14,339**	**266**	**819**	**0**	**15,424**	**3,400**	**17**	**96**	**0**	**3,513**	**23%**

NB: * Government including ARDF & SFD

Appendix 6: Compliance with legal covenants: Status of implementation

Section	Covenant	Target/Action due date	Compliance status/date	Remarks
Section B Para 7	There shall be three Project accounts for the benefit of the NPCU, the ARDF, and the SFD in banks proposed by the Borrower/ Recipient and acceptable to the Fund.	Before disbursement	Complied with	
Section B Para 8	The Borrower/Recipient shall provide counterpart financing for the project in accordance with AWPB in cash and in kind.	Annually	Partially complied with	The government contribution to the project was neither sufficient nor timely.
Schedule 1, Para 5	Project Steering Committee. The Minister of Agriculture and Land Reclamation (ALR) shall establish a high ranking inter-ministerial Project Steering Committee (PSC) for overall policy decisions and guidance at the national level. The PSC shall be chaired by the Minister of ALR or his representative, with members including, but not necessarily limited to, representatives of the Project area Governorates, the Ministry of Planning and International Cooperation (MOPIC), the Agricultural Research and Development Fund (ARDF), the Social Fund for Development (SFD) and representatives from the private sector. The PSC shall meet at least once quarterly, and on an ad hoc basis as and when necessary. It shall have the primary responsibility of guiding the Project implementation activities and in all matters of policy regarding the Project. Specifically, the PSC shall: (i) ensure that Project activities are in compliance with the Government's policies; (ii) approve the consolidated Project AWPB; (iii) oversee the section of the technical assistance for the marketing support component; (iv) oversee the effective coordination between the marketing support and rural finance components; (v) decide about innovative measures to use Project resources such as the establishment of a venture capital fund for equity investments in agro-industries; (vi) ensure that Project interventions are coordinated with other development programmes and projects; and (vii) oversee and monitor the systematic implementation of the Project and recommend changes where necessary in coordination with IFAD.	At Project start	Partially compiled with	The PSC is not meeting regularly.
Schedule 1, Para 6	National Project Coordination Unit (NPCU). The NPCU shall be headed by a National Project Coordinator (NPC) appointed by the Lead Project Agency and acceptable to IFAD. The NPCU shall report to the Minister of MALR and the Project Steering Committee. The NPC shall serve as the PSC secretary and the NPCU shall provide secretariat services to the PSC. The NPCU staff shall include at least: Project Manager, acceptable to IFAD, Marketing Advisor, Gender & Poverty Targeting Advisor, National Credit Coordinator, Financial Manager, M&E Officer, Accountant and support staff. The NPCU shall be responsible for coordination and liaison with implementing partners, overall project programming, preparation of AWPBs, financial management including disbursement, procurement, preparation for audits, etc. The NPCU shall recruit technical assistance providers and oversee and supervise their work. The NPCU shall be responsible for ensuring the systematic collection of baseline data, monitoring and evaluation, progress reporting and liaison with the Government and IFAD. The NPCU shall enter into a Framework for		Partially compiled with	NPCU is not fully staffed yet.

Section	Covenant	Target/Action due date	Compliance status/date	Remarks
	Collaboration Agreement with the Project Parties which shall be submitted to the Fund prior to its finalization for its no objection.			
Schedule 1, Para 7	Governorate Project Coordination Unit (GPCU). At governorate level, seven Project Coordination Units shall be established and shall have the primary responsibility for preparation of Governorate-level AWPBs, selection of Project districts and villages, identification of farmer organizations and strengthening them, ensuring participation of women, working closely with technical assistance providers, coordination with ARDF and SFD and ensuring their participation in Project meetings and site visits, management of Project funds at the governorate level, monitoring and evaluation, etc. Each GPCU's staff shall include at least a Governorate Project Coordinator (GPC), who shall be a senior official, acceptable to IFAD, a Governorate Project Manager, acceptable to IFAD, an Agriculture Extension Officer for farmer organization, a Female Mobiliser, a Market Facilitation Officer, an M&E officer, a Governorate Credit Coordinator, an accountant and support staff.		Not compiled with	The GPCUs are not established yet.
Schedule 1, Para 8	Implementation. The National Project Coordination Unit at the National Level and the seven Governorate Project Coordination Units at the Governorate level shall coordinate the implementation of the Marketing Support Component and the following subcomponents of the Rural Finance Component: Market Based Credit Research & Development; and Strengthening of Financial Intermediaries. The ARDF of the MALR and the SFD shall implement the Rural Finance Component. The ARDF and the SFD shall each be responsible for delivery of one-half of the funds for micro-loans (USD 42.0 million), small loans (USD 14.0 million) and medium-sized loans (USD 14.0 million). Both ARDF and SFD shall use their standard operational policies, practices and procedures, to be revised as when needed.		Partially compiled with	The marketing component implementation is in its early stages and thus no effective coordination has taken place yet.
Schedule 1, Para 9	Project Implementation Manual (PIM). The NPCU shall prepare a draft Project Implementation Manual acceptable to the Fund and submit it for approval to the Lead Project Agency. When so approved, a copy of the PIM shall be provided by the Lead Project Agency to the Fund. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.		Not compiled with	No PIM available
Schedule 1, Para 10	Mid-Term Review (MTR). A Mid-term Review shall be conducted at the end of Project Year four, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Lead Project Agency and IFAD.		Due at mid term	MTR is not due yet
Section 7.01(b) Para ii	Before each Project Year, the Lead Project Agency shall, if required, submit the draft Project AWPB to the oversight body designated by the Borrower/Recipient for its review. When so reviewed, the Lead Project Agency shall submit the draft Project AWPB to the Fund for comments no later than sixty (60) days before the beginning of the relevant Project Year. If the Fund does not comment on the draft Project AWPB within thirty (30) days of receipt, the AWPB shall be deemed acceptable to the Fund.	No later than 60 days before the beginning of each Fiscal Year	Partially complied with	The NPCU submitted an AWPB for the FY 2015/2016 with delays, and the consolidated AWBP does not show the budgeted amount by component and sub-component.

Section	Covenant	Target/Action due date	Compliance status/date	Remarks
Section 7.05	Procurement of goods, works and services financed by the Financing shall be carried out in accordance with the provisions of the Borrower/Recipient's procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines. Each Procurement Plan shall identify procedures which must be implemented by the Borrower/Recipient in order to ensure consistency with the IFAD Procurement Guidelines.		Complied with	
Section 8.02(a)	The Lead Project Agency shall : establish and thereafter maintain an appropriate information management system in accordance with the Fund's Guide for Project Monitoring and Evaluation with which it shall continuously monitor the Project.		Partially complied with	Only SFD has an information management system
Section 8.03(a)	The Lead Project Agency, or other party so designated in the relevant Agreement, shall furnish to the Fund periodic progress reports on the Project, in such form and substance as the Fund shall reasonably request.		Partially complied with	The quality of project progress reporting requires substantial improvement.
Section 9.01	The Project parties shall maintain separate accounts and records in accordance with consistently maintained appropriate accounting practices adequate to reflect the operations, resources and expenditures related to the project until financing closing date, and shall retain such accounts and records for at least ten (10) years thereafter.		Complied with	Separate accounts records are maintained. The NPCU follows manual accounting while SFD and ARDF have an accounting software.
Section 9.02	Submission of Financial Statements.	Within 4 months after the end of each fiscal year	N/A	Given the slow start of the project and slow disbursement no financial statement were prepared for the FY 2014/2015.
Section 9.03	Audit Reports on project accounts of each year to be submitted to the Fund. Furthermore NPCU, through, SFD shall submit to the Fund the reply to the management letter of the auditors.	Within 6 months after the end of each fiscal year. And within one month, the reply to management letter of the auditors	N/A	The external audit report has been waived for the FY 2014/15 because of the low disbursement. The NPCU will need to appoint an external auditor soon.

Appendix 7: Knowledge management: Learning and Innovation

Learning

As the implementation process has only very recently started, not points for learning can be stated yet.

Innovation: Describe any interesting innovation noted during supervision

As the implementation process has only very recently started, not innovations can be stated yet.

Appendix 8: Exemplary list of potential capacity development measures

Comp.	# of activity	Type of activity	Unit	No.	Unit costs in USD	Total costs in USD	Remarks
Marketing Support Component	Activity 1	Marketing Advisor 2 for 3.5 years	Salary/ month	42	2,000	84,000	Need to decentralize and deepen the support services to 7 governorates once estab-lished at national level
	Activity 2	Marketing Advisor 3 for 2.5 years	Salary/ month	30	2,000	60,000	
	Activity 3	Travel and DSA for MA 2	Cost/ month	42	250	10,500	
	Activity 4	Travel and DSA for MA 3	Cost/month	30	250	7,500	
	Activity 5	Technical training of farmers, FMAs, cooperatives, workers at packing stations	Cost/ participant /day	2500	50	125,000	Farmers are at the centre of initiatives, need substantial training
	Activity 6	Training experts honoraria	Cost/day	220	300	66,000	For both national and int.experts
	Activity 7	Training experts travel and per diem	Cost/day	120	400	48,000	
	Activity 8	Cost of certification	Cost/ product	10	10,000	100,000	Based on needs in the value chains
	Activity 9	Meetings, workshops, negotiation fora, technology briefings, investment briefings	Cost/ meeting	107	1,800	192,600	Coordination between actors in many value chains indispensable
	Activity 10	Exposure visits (participants)	Cost/ participant	24	1,600	38,400	Help realize action potential
	Activity 11	Feasibility studies on exports, transport, busi-ness opportunities, packing, value addition, etc.	Cost/study	18	18,000	324,000	Costs for nat. and internat. experts
	Activity 12	Farmer Academy: internet, apps and short streams covering agricultural production and marketing practices	Cost/ product-service	15	12,500	187,500	Great potential in Egypt to disseminate key information to large numbers of farmers through new media
	Activity 13	Field demonstrations	Lump sum/year	4	20,000	80,000	Take up success from UERDP
	Activity 14	Farmer's field days	Lump sum/year	4	14,000	56,000	Deepen technical issues
					Sub-total	**1,379,500**	

Comp.	# of activity	Type of activity	Unit	No.	Unit costs in USD	Total costs in USD	Remarks
Rural Finance Component	Activity 1	Technical training of 350 CDAs in 7 governorates on product development, loan appraisal, financial ratios, reporting, governance, serving the poor, women and the youth, etc.	Cost/ participant/ day	3000	40	120,000	CDAs need to deepen their technical management to become more efficient, responsive and competitive
	Activity 2	Coaching of CDAs through on-site visits	Cost/expert day	150	350	52,500	Highly effective took
	Activity 3	Awareness creation and technical training for banks on agricultural finance opportunities	Cost/session	8	1,500	12,000	Potential for high leverage if senior management become interested
	Activity 4	Technical training of CDAs on non-financial support services and coaching of micro-enterprises	Cost/participant/day	600	60	36,000	High potential effect on clients and their loyalty to CDAs
	Activity 5	Technical training of CDAs on serving the youth	Cost/participant/day	300	60	18,000	Highly relevant for Egypt
	Activity 6	Networking and exchange fora between governorates for CDAs	Cost/exchange for 12 participants	15	9,000	135,000	Very useful tool to spread innovation and good practices
	Activity 7	MIS screening and tendering	Lump sum	1	10,000	10,000	Indispensable for CDA evolution and professionalization
	Activity 8	Integrated software solution for CDAs	License cost	350	1,800	630,000	
	Activity 9	./. Contributions of CDAs	Cash/CDA	350	900	-315,000	Cost sharing
	Activity 10	Technical training of commercial banks/PFIs in risk management, loan appraisal, collateral arrangements etc. within value chain operations	Cost/ training	6	36,900	221,400	Needed to help banks understand the mechanisms of value chains, requires qualified trainers, with associated high costs
					Sub-total	**919,900**	
					Grand total	**2,299,400**	