IFAD

Enabling poor rural people to overcome poverty

Arab Republic of Egypt

Upper Egypt Rural Development Project

Supervision report

Main report and appendices

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Contents

List of Tables

Appendices

Abbreviations and acronyms

CDAs	community development associations
FMAs	farmer marketing associations
FSRU	Farming Systems Research Unit
GPCUs	Governorate Project Coordination Units
HMAs	handicraft marketing associations
MALR	Ministry for Agriculture and Land Reclamation
MOPIC	Ministry of Planning and International Cooperation
NPCU	National Project Coordination Unit
PBDAC	Principal Bank for Development and Agricultural Credit
RIMS	Results and Impact Management System
SEDO	Small Enterprise Development Organisation
SFD	Social Fund for Development
UERDP	Upper Egypt Rural Development Project

Arab Republic of Egypt

Name of project: **Upper Egypt Rural Development Project**

Supervision mission: 13-24 May 2013 supervision report

A. Introduction[1]

1. An IFAD mission visited Egypt from 13 to 24 May 2013 to supervise the Upper Egypt Rural Development Project (UERDP). In Cairo, the mission met with H.E. Mr Ahmed Al Gizawy, Minister for Agriculture and Land Reclamation (MALR), H.E. Ms Ghada Waly, Managing Director, Social Fund for Development (SFD) and senior officials of the Ministry of Planning and International Cooperation (MOPIC), the National Project Coordination Unit (NPCU), SFD and MALR. In Assiut and Qena governorates, the mission met with the respective Governorate Project Coordination Units (GPCUs) and the local offices of SFD. It also had the opportunity to meet with H.E. the Governor of Qena. 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 important partners such as the African Development Bank. Detailed mission programme and persons met is presented in Appendix 9.

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 two Wrap Up meetings in Cairo on 23 May 2013, the first chaired by H.E. Mr Ahmed Al Gizawy, Minister for Agriculture and Land Reclamation, and the second by Ms Souad Mahmoud, Acting General Director, Regional Financial Organisations, MOPIC, with the participation of MALR, SFD and NPCU representatives.

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

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

B. Overall assessment of project implementation progress

5. Egypt is experiencing political and economic instability following the 2011 revolution. Real GDP growth declined to 2.2% in 2011/12 and is predicted to fall to 2% in 2012/13. Political uncertainty and continuing social unrest are dampening growth and increasing vulnerability, particularly of the poorer segments of the population. These factors have constrained project implementation in 2012/13 and disrupted the flow of services and benefits to target groups.

6. Within this context, it is the mission's assessment that project implementation performance is moderately satisfactory. Performance in delivering benefits to the target groups continues to be strong, with direct and indirect outreach to over 150,000 rural people to date and a good gender balance in the distribution of benefits. The project's microfinance operations managed by SFD are excellent; some

[1] Mission composition: Mr Mohamed Shaker Hebara (country programme officer), Ms Lourdes Lim (programme assistant), Ms Wafaa El Khoury (senior technical advisor – agronomy), Ms Lakshmi Moola (finance officer), Mr Aly Shousha (consultant – agriculture value chains specialist), and Mr Omer Zafar (country programme manager). Mr Sayed Hussein (NPCU director), Mr Khaled Farid (NPCU M&E officer), Ms May Shams El-Din (senior officer, international cooperation, SFD) and Ms Rabab Yousry (officer, micro finance, SFD) participated in the mission's field visits in Qena and Assiut and in meetings in Cairo.

27,500 loans have been disbursed to date, generating EGP 130 million (US$ 23.4 million) of investments in poor rural areas and creating some 30,000 employment opportunities. The aggregate loan repayment rate of 98.9% testifies to the positive economic returns generated, the credit discipline of borrowers, the institutional discipline of CDAs, and the robustness of the project's microfinance model. With respect to agriculture, the MALR's extension and farming systems research activities coordinated by the NPCU/GPCUs are promising, with substantial training provided to farmers and with modern technologies developed which are adopted by farmers.

7. The project is however facing several challenges which require decisive corrective action on priority basis. There has been a significant decline in project expenditure in 2012/13 which may be attributable to prevailing social and economic instability as well as the challenges encountered by project management. Agriculture marketing activities, which are critical for enabling poor farmers to access markets and increase financial returns, are delivering sub-optimal results. The SME financing activities are frozen due to PBDAC's reluctance to revolve principal repayments into new loans. Finally, the project's financial management requires improvement to ensure compliance with IFAD's requirements.

8. The mission suggests that project management should prioritise: (i) a systemic increase in project expenditure in 2013/14 and 2014/15; (ii) re-orientation of agriculture marketing operations based on a value chain approach, with market considerations driving the process; (iii) selection of an alternative financial institution(s) to continue SME lending operations; and (iv) increased attention to compliance with IFAD's financial management requirements. Furthermore, the project is encouraged to increase internal linkages among its components (in particular between agriculture services and microfinance operations) ideally in synergy with the OFIDO and PRIME projects which would address similar issues; and to consider developing a coordination mechanism in Upper Egypt for all three projects.

C. Outputs and outcomes, by component

Agriculture Competitiveness

9. It is the mission's assessment that the implementation performance of this component is below expectations and hence moderately unsatisfactory.

10. The departments of MALR at governorate level are responsible for providing demand-driven agricultural technical assistance to extension agents and to the members of CDAs and FMAs. Technical support to CDA borrowers aims to ensure that the enterprises being financed are technically appropriate and successful, while support to FMA farmers aims to help them fulfil market requirements, improve farm incomes, and reduce the risks of crop losses and price fluctuations through crop intensification and diversification.

11. **Extension**. Despite its limited resources, MALR continues to execute extension activities with farmers in Qena and Assiut governorates, in close cooperation with the research service (SIDS). In 2012/13, numerous training sessions were provided for CDA borrowers and FMA members, focusing on technical and managerial capacity building. In the absence of a systematic approach linking farmers' organisations with markets, this support remains essentially supply-driven. However, in a few cases, the extension provided is linked to specialised requirements stipulated in marketing contracts (grapes and medicinal plants).

12. The extension methodology applied to date seems to be adequate for the introduction and adoption of new technologies and improvement of crop and livestock production activities. The methods applied include training sessions (classroom and field-based), workshops, demonstration plots on farmers' fields linked to field days and harvest days, exchange visits, and home visits to single or clusters of households (particularly for women, or for situations requiring surveillance and intervention). As agreed at mid-term, the respective GPCUs have developed adoption targets for newly-introduced technologies, and have completed adoption assessments for the 2010-2011 and 2011-2012 seasons (the 2012-2013 season assessment will be completed following harvest).

13. **Farming Systems Research**. Farming systems research is implemented by the Farming Systems Research Unit (FSRU) using demonstration plots on the fields of progressive farmers. The productivity increases the efficiency of water, fertiliser, and labour use, the financial returns, and the adoption rates of selected farming systems is recorded. As in previous years, the farming systems intensification models promoted are based on the preferences of farmers, while the crop varieties introduced are selected by farmers based on comparative on-farm demonstration trials. As agreed at mid-term, the demonstration plots are concentrated in villages where FMAs have been established, and on the fields of FMA members. Adoption rates of new technologies are monitored in terms of the numbers of adopters and the areas cultivated with these technologies. In Qena, for example, 11 plots have been established to demonstrate clover followed by cotton intercropped with tomato or cantaloupes, and 9 plots are devoted to corn or sorghum followed by tomato intercropped with fava beans or wheat; in 2013, 126 farmers adopted the former and 81 the latter technology.

14. Over the past year, attempts to locate demonstration plots on FMA members' fields have been problematic, as it is difficult to find progressive farmers in new FMAs who are willing to host demonstrations of complex new technologies and who are capable of managing them professionally. Furthermore, experience has shown that the adoption of farming systems technologies by farmers is not dependent on their proximity to demonstration sites.

Agreed action	Responsibility	Agreed date
Revert to the option of not concentrating demonstration plots in a few locations, but rather spread them based on availability of qualified farmers; and ensure access by FMA and CDA members (field and harvest days).	FSRU/MALR	from 2013/14 onwards
Include gender perspectives in the adoption assessments, and disaggregate the adoption data by gender.	FSRU/MALR	ongoing basis

Private Sector Development

15. It is the mission's assessment that the implementation performance of this component is satisfactory (this represents a balanced judgement between the highly satisfactory performance of the microfinance subcomponent and the average performance of the marketing/SME development and enterprise financing sub-components).

Marketing and SME Development

16. Since 2010 there has been good progress in the creation of new marketing associations and the strengthening of existing ones. The majority of these organisations are farmer marketing associations (FMAs) while a minority are handicraft marketing associations (HMAs). In Qena the FMAs are registered as agricultural cooperatives, while in Assiut the focus is on CDAs registered as NGOs (several CDAs are also active in agriculture and marketing). In Assiut, the project is supporting 12 CDAs/FMAs; in Qena it supports 22 FMAs, while another 7 are being created. Women constitute 21% of association members in Assiut and 11% in Qena.

17. Following the mid-term review, the project made efforts to scale up its agriculture marketing activities. A private sector consultant was commissioned to conduct a study for identification of marketing opportunities. A manual for marketing associations, containing a database of exporters and traders, has been developed for use by FMAs and technical support staff. A marketing specialist was contracted to strengthen private sector linkages and to follow up on marketing operations. For logistical reasons, this specialist is working for the project on a part-time basis only.

18. The Small Enterprise Development Organisation (SEDO) of the SFD has supported marketing activities through a range of activities. It has developed marketing templates and distributed processors/exporters/local market contact lists to support the marketing information system used by FMAs and marketing committees; this would assist FMAs to plan their agricultural production annually, and to estimate exporters' contracted volumes for the next season. It supported an FMA to prepare for and participate in an international agricultural exhibition on medicinal and aromatic plants in Bahrain (International Garden Show, Feb.-Mar. 2013).

19. The project has supported several associations to market their products on contractual basis with traders for the local market (in Assiut and Qena) or with exporters (mainly in Qena). These contracts cover fruit (grapes, pomegranate), vegetables (beans, tomato, onion, okra, garlic, pepper) and aromatic and medicinal plants (fennel, marjoram). The mission's analysis of the relationships between CDAs/FMAs and traders/exporters reveal that: (i) they seem to be randomly implemented, with only few cases of repeat contracts in following years; (ii) the reasons for inconsistent demand for these products is not clear (possibly a combination of market disruptions, economic instability, output delivery problems, quality deficiencies, lack of food quality and safety certification); (iii) larger farmers appear to dominate the export market. Despite the project's efforts, marketing continues to be its weakest area, with adverse effects on training, extension, farming systems research and the flow of benefits.

Agreed action	Responsibility	Agreed date
Conduct market intelligence and value chain mapping for key cash crops to facilitate market linkages with traders and exporters. Assess and strengthen the technical capacities of FMAs/CDAs to meet volume and quality requirements, and their institutional capacities to manage supply contracts and support their members.	NPCU; GPCUs; MALR	as a top priority
Facilitate contracts between processors/traders and 1-2 FMAs/CDAs in each governorate, in line with proper supply chain management principles and procedures. These will also serve as models for expansion of contract farming arrangements. In the process, support FMAs/CDAs to improve their contract negotiation skills.	NPCU; GPCUs; MALR	by August 2013
Establish a product traceability mechanism, particularly for the supply contracts referred to above; train independent agricultural technicians from the private sector or extension to support FMAs/CDAs in this respect.	GPCUs; FMAs/CDAs	by August 2013

Financial Services

20. The SFD provides financial services to the project's target populations through two financial instruments: (i) microfinance for income-generating activities, administered by community development associations (CDAs) which serve as financial intermediaries for micro-loans to members; (ii) investment finance for micro-enterprises administered by the Principal Bank for Development and Agricultural Credit (PBDAC).

Microfinance

21. From 2008 to 2012, the SFD's financing to CDAs carried a simple interest rate of 10.5% for 5-year loans and 10.8% for 3-year loans, while CDAs onlent these funds to their members at a flat rate of 16% (earning a substantial interest spread to cover its administrative costs). In early 2013, SFD's simple interest rate to CDAs was reduced to 9.5% for 3-year loans, while CDAs' interest rate to members declined to 14% flat (reducing CDAs' spread accordingly). The CDAs use these funds to provide micro-loans to their members.

Table 1: Microfinance Operations– Selected Indicators – Jul. 2008 to Feb. 2013

Indicator	Unit	Assiut	Qena	Total
SFD Loan Portfolio				
Borrowing CDAs	number	21	33	54
SFD Loan Disbursement to CDAs	EGP	19.1	26.1	45.1
SFD Loan Recovery Rate (from CDAs)	%	109.94%	99.7%	104.5%
CDA Loan Portfolio - Aggregate				
Loans Disbursed	number	14 342	13 160	27 502
Loan Amounts Disbursed	EGP mil.	67.4	62.6	130.0
Loan Amounts Disbursed	USD mil.	12.4	11.0	23.4
Revolved percentage	%	354%	240%	288%
Average Loan Size	EGP	4 697	4 760	4 727
CDA Loan Portfolio - Women				
Loans Disbursed to Women	%	39%	42%	41%
Loan Amounts Disbursed to Women	%	42%	41%	41%
Average Loan Size	EGP	4 969	4 598	4 784

Source: elaborated by the mission based on SFD data

22. The performance of microfinance services under the project is highly satisfactory, and the performance of SFD and participating CDAs continues to be excellent. Between July 2008 and February 2013 the SFD disbursed EGP 45 million to participating CDAs to finance over 27,500 micro-loans (Table 4). These funds have to date generated EGP 130 million (US$ 23 million equivalent) of investments in communities across Assiut and Qena governorates, with a principal revolved ratio of 288%. The recovery rate of SFD loans to CDAs is now 104.5%, showing early repayments ahead of requirements. These are commendable achievements.

23. The sectoral distribution of the loan portfolio (Table 5) shows that rural micro-investments are concentrated in three sub-sectors: livestock, particularly fattening and milk production (48% of loans); commercial activities such as micro-trade and village shops (32%); and a range of rural services (15%). It is noted that loans for agriculture production are minimal. It would be desirable for SFD and CDAs to diversify the loan portfolio in order to overcome the community-level demand constraint and allow micro-enterprises to grow and prosper.

Table 2: Microfinance – Sectoral Loan Distribution – Jul. 2008 to Feb. 2013

Sub-Sector	Unit	Assiut	Qena	Total
Livestock sub-secor	% of loans	51%	43%	48%
Commercial activities	% of loans	30%	35%	32%
Rural services	% of loans	18%	11%	15%
Micro-industrial & handicrafts	% of loans	1%	8%	4%
Other	% of loans	0.3%	2%	1%

Source: elaborated by the mission based on SFD data

24. The CDA aggregate loan recovery rate on second phase loans as at March 2013 amounts to 98.9% (Table 6), which is an excellent achievement also in light of the social and economic upheaval of 2011-2012. This demonstrates the positive economic returns generated by the micro-loans financed, the credit discipline of poor borrowers, the institutional discipline of CDAs, and the robustness of the microfinance model. The mission notes the immediate and systematic loan follow up by SFD and CDA officials with respect to loans falling into arrears.

Table 3: Microfinance – CDA Loan Recovery (2nd phase loans) – Mar. 2013

Indicator	Unit	Assiut	Qena	Total
Loan Amounts Due	EGP mil.	14.4	17.3	31.7
Loan Amounts Recovered	EGP mil.	14.2	17.2	31.4
Loan Reovery Rate	%	98.3%	99.5%	98.9%

Source: elaborated by the mission based on SFD data

25. The mission clarified that the SFD may also utilise other financial institutions (in addition to CDAs) in order to provide micro-loans directly to a wider range of borrowers and villages.

Agreed action	Responsibility	Agreed date
Diversify the loan portfolio to improve the prospects for growth and sustainability of the activities financed.	SFD, CDAs	ongoing basis
Strengthen linkages among MALR, SFD and CDAs to ensure provision of support to each and every borrower.	MALR, SFD, CDAs	as a top priority

Enterprise (SME) Finance

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

27. The SFD lends SME funds to PBDAC at an interest rate of 9.25%, while PBDAC onlends them to final borrowers at 12.25% and accrues a 3% interest spread. Between 2009 and 2011 PBDAC disbursed 197 loans (of which 31% to women) amounting to the full incremental credit allocation of EGP 5 million (Table 7). These loans financed agriculture and livestock (84% of total amount), trading (10%), beekeeping (3%), and farm transport (3%).

28. The mid-term review mission found that PBDAC is not revolving the principal funds repaid by borrowers. The SFD informed the present mission that the situation has not changed; the bank is not issuing new SME loans. This is reportedly due to PBDAC's high loan default rates in the project governorates, which prevent it from new lending operations, as well as the perceived high risks in the unstable economic environment. In any case, PBDAC has already repaid EGP 2.9 million to SFD, and apparently intends to continue repaying the remainder.

Table 4: SME Finance – Selected Indicators – May 2013

Governorate	Total Loans		Outstanding Loans		Repayment	
	Number (#)	Amount (EGP)	Number (#)	Amount (EGP)	Amount (EGP)	Arrears (EGP)
Assiut	55	1 990 000	27	499 268	1 490 732	0
Qena	140	2 970 000	52	444 490	2 525 510	154 306
Luxor	2	40 000	0	0	40 000	0
Total	197	5 000 000	79	943 758	4 056 242	154 306

Source: SFD

Agreed action	Responsibility	Agreed date
SEDO to recover its outstanding funds from PBDAC, on the basis of advice from its legal department. SEDO to identify and assess alternative financial institutions which may be interested in initiating enterprise financing.	SFD, SEDO, PBDAC	as a priority

D. Project implementation performance

29. **Project management performance**. The Project Steering Committee (PSC) provides adequate strategic and policy support to the NPCU and SFD as required. The NPCU and GPCUs are staffed as expected, but all managers and staff operate on part-time basis only as they are MALR staff members with separate ongoing Ministry responsibilities. This has adverse effects on project management, operations and reporting.

30. **Implementing Partners**. The performance of project implementing partners such as SFD and MALR services is outlined in the outputs and outcomes section above.

31. **Annual Work Plans & Budgets**. The project's AWPB for 2012/13 was overly ambitious as indicated earlier. It is important to ensure that the 2013/14 AWPB is realistic and pragmatic. The SFD has already taken measures to ensure that its future AWPBs are more realistic.

32. **Monitoring and evaluation**. The performance of the M&E system is moderately satisfactory. The GPCU-based M&E system caters mainly for the production of quarterly progress reports focusing on inputs, with insufficient information and analysis on results. The project does not possess a modern MIS system, and data is maintained in spread sheet form. The first level RIMS indicators are an integral part of the M&E system.

33. As noted by the mid-term review, the GPCU M&E units are limited to reporting quantitative data (e.g. number of CDAs, beneficiaries, loans) due to insufficient technical competencies and resources to conduct household impact surveys. GPCU and SFD staff report that they may not have the capacity to design and conduct surveys and to analyze the data collected. To address this issue, the mission proposed the execution of a pilot household impact survey mobilising CDAs/FMAs, with consultancy support as required. The SFD will be responsible for CDAs, while GPCUs will handle FMAs. The survey will target a sample of 20 beneficiaries for each CDA/FMA, with the gender ratio of respondents corresponding to the gender balance of the loan portfolio. The proposal was discussed with the SFD and GPCU in Assiut, both of which confirmed that it could be undertaken. The NPCU discussed the proposal with the SFD, and it was agreed that the two parties will work together on this initiative. A step-by-step activity schedule and calendar for the survey will be provided in the supervision report.

Activity	**Responsible**	**Time**
Develop questionnaires	IFAD	June/July 2013
Review draft questionnaires	SFD/GPCU	August 2013
Distribute questionnaires to all CDAs and FMAs	SFD/GPCU	Sept 2013
Select sample of 20 beneficiaries for each CDA and FMA on random basis	SFD/GPCU	Sept 2013
Completion of questionnaires	SFD/CDAs/GPCUs	Oct-Dec 2013
Collect completed questionnaires	SFD/CDAs/GPCUs	End Dec 2013
Handover completed questionnaires to GPCU	SFD	beginning Jan 2014
Data processing and analysis	GPCUs/NPCU	Jan-Feb 2014
Release of first draft report	GPCUs/NPCU	early Mar 2014

34. It was recognised at mid-term that the project needed to develop staff capabilities in data analysis in order to facilitate the preparation of second-level RIMS indicators. The NPCU addressed this by hiring an M&E consultant to provide such training. Together with the staff of two other IFAD operations, a 5-day training event focusing on M&E and logical framework was conducted in January 2013; and another 2-day training focused on RIMS 2nd level indicators was executed in March. Based on the quality of the draft 2012 RIMS report as well as conversations with project staff, it appears that the training had not been fully effective in upgrading staff skills. The issue of identifying supporting indicators to justify the ratings for the second level RIMS indicators remains to be resolved. As the project is still to finalize the 2012 RIMS report, the mission trained the NPCU, GPCUs and SFD regional office in Assiut on ways to identify supporting indicators for the second level. The mission also provided clarifications regarding necessary improvements to reporting on the 2012 RIMS results; it is expected that RIMS reporting in the future will be smoother.

Agreed action	**Responsibility**	**Agreed Date**
Convert NPCU and GPCU staff to full-time basis.	MALR	FY 2013/14
Ensure that the 2013/14 AWPB is realistic and pragmatic	NPCU; SFD	FY 2013/14
Implement the household impact survey.	NPCU; GPCUs; SFD	starting in June 2013
Consider purchasing software for data analysis.	NPCU; MALR	as appropriate

35. **Gender focus**. The gender distribution of the loan portfolio is also satisfactory; women borrowers account for 41% of the number and value of loans. While this represents a very good achievement in the context of Upper Egypt, an increase to 50% would be optimal.

36. **Poverty focus**. In geographical terms, the project's microfinance and extension activities are directly targeted to villages which are nationally classified as being poorer villages at Governorate levels. In socio-economic terms, the small average size of micro-loans sanctioned serves as a self-targeting mechanism.

37. **Effectiveness of targeting approach**. The project's targeting approach is triple-tiered, as follows: (i) direct selection of poor governorates; (ii) direct selection of poor villages within the selected governorates; (iii) self-targeting of project activities at field level, particularly with respect to microfinance in light of the small average loan sizes which are attractive to households below the poverty line and are not considered desirable by better off households.

38. **Knowledge management**. The project is linked to the KARIANET knowledge management network. Furthermore, synergies have been established and maintained between UERDP and the IFAD-financed West Noubaria Rural Development Project (WNRDP) in the Delta. Several visits to the WNRDP project in Beheira governorate have been organized for farmers to learn from successful farming and marketing experiences of smallholders, and for project staff in the context of an advanced program for the project's M&E.

39. **Partnerships**. At the macro level, the UERDP has generated a robust partnership between the two executing agencies, namely the Ministry of Agriculture and Land Reclamation and the Social Fund for Development. At the micro level, the project has generated strong synergies among the participating CDAs, the governorate SFD offices, and the governorate extension services. It would be useful for the central MALR to seek partnerships with development financiers and/or the private sector to cofinance the agriculture competitiveness activities.

E. Fiduciary aspects

40. **Financial management**. SFD operations and staffing are decentralised to enable efficient business response. For loan proceeds the finance function is not decentralised, allowing SFD regional officers to focus on their clients. SFD finance staff have the required qualifications and organisational structure. Staffing at the NPCU and GPCU levels is also found to be adequate, given the number of transactions processed.

41. **Budgeting**. Annual SFD budgets are prepared on timely basis, and are incorporated into the AWPBs submitted by the NPCU to IFAD. The SFD's budgeted amount for the 2012-2013 fiscal year is USD 3.7 million, while expenditure to 30 April 2013 amounts to USD 1.0 million, or 28% of the target. This raises concerns regarding (i) the over-estimation of AWPB projections, and (ii) recent project implementation trends. SFD informed the mission that it has already taken steps to ensure that its annual budgets are more realistic.

42. **Disbursement**. IFAD loan disbursement to date amounts to SDR 6.6 million (65% of the loan amount), and IFAD grant disbursement amounts to SDR 0.6 million (full grant disbursement). The balance of loan funds available is SDR 3.5 million, equivalent to about EGP 36.3 million (Table 1).

Table 5: IFAD Loan and Grant Disbursement – May 2013

Source	Category	Allocation (SDR)	Disbursement (SDR)	Disbursement (%)	Balance (SDR)
IFAD Loan	Credit Line	10 050 000	5 303 239	52.8%	4 746 761
	Advance of Funds	0	1 259 343	-	-1 259 343
	Total	10 050 000	6 562 582	65.3%	3 487 418
IFAD Grant	Contracts, TA, Training, Studies	635 000	633 741	99.8%	1 259
	Advance of Funds	0	1 259	-	-1 259
	Total	635 000	635 000	100.0%	0

Source: official IFAD disbursement records, 10 May 2010

43. Project disbursement performance is mixed compared with linear disbursement projections (Table 2). The disbursement factor, which compares disbursement with the project time elapsed, is slightly below parity for the IFAD loan, far above parity for the IFAD grant, and clearly unsatisfactory for the Government contribution.

Table 6: Disbursement Factor – July 2008 to May 2013

Source of Funds	Funds Disbursed (%)	Time Elapsed (%)	Disburse-ment Factor
IFAD Loan	65%	70%	0.94
IFAD Grant	100%	70%	1.43
GOE contribution	15%	70%	0.22

Source: mission analysis

44. Aggregate project expenditure to end-April 2013 amounts to EGP 60.3 million (Table 3). The project's annual expenditure pattern demonstrates an inconsistent trend of implementation, which may be attributable to social and economic instability since early 2011 as well as the challenges encountered by project management. The balance of funds available from IFAD and Government (at current exchange rates) amounts to some 56.4 EGP million, to be spent for eligible activities by completion in September 2015.

Table 7: Project Financial Performance – July 2008 to April 2013

(all figures in EGP million)

Source of Funds	2008/09	2009/10	2010/11	2011/12	2012/13 (to April)	Total Spent	Balance Available
IFAD Grant	0.08	0.93	1.28	1.34	0.89	4.52	0
IFAD Loan	19.82	3.79	9.70	12.60	6.65	52.55	36.29
GOE Contribution	0.55	0.75	0.57	0.75	0.60	3.22	20.13
Total	20.45	5.46	11.54	14.69	8.14	60.29	56.42

Source: mission elaboration based on NPCU/MALR and SFD data

45. Separate USD bank accounts are held by the SFD and NPCU for loan and grant funds respectively. There have been no interruptions in the flow of funds from IFAD to the ultimate beneficiary. The mission clarified to SFD that, should SFD's own resources be used to pre-finance eligible project activities, they could be reimbursed by IFAD in USD. It was further clarified that placement of the Special Account balance in savings accounts and overnight deposits would be acceptable, while placement in time-deposits is not eligible as the funds would not be used for the purposes intended.

46. **Internal Controls**. The SFD's internal controls are robust and functioning. However, several weaknesses are noted at NPCU level: accounts are maintained manually; internal audit arrangements are inadequate; and audited financial statements are prepared by the auditor.

47. **Accounting**. SFD accounts are maintained on an accrual basis in an Oracle-based system which is accessible also by its regional offices. Reconciliations are conducted on a monthly basis; the mission found that the accounts are reconciled. NPCU accounts are maintained manually and on a cash basis, and reconciled monthly.

48. **Financial Reporting and Monitoring**. While the SFD prepares monthly financial reports to cater for specific end-user needs, the semi-annual financial reports are not being submitted to IFAD. Financial statements are prepared in a timely manner for the SFD as a whole, and audited by independent auditors. The audit report is publicly disclosed. On the other hand, no financial reports are prepared by the NPCU; at the end of the fiscal year, the financial statements are prepared for NPCU accounts by the external auditor prior to the audit.

49. **Counterpart funds**. As counterpart funds are provided in kind and are not separated for SFD and GOE, it was not possible for the mission to determine the amount of contribution received from each source, specifically with respect to in-kind contributions.

50. **Compliance with loan covenants**. The Financing Agreement (Article V section 5.02) requires SFD is to appoint the independent auditor. However, since loan and grant effectiveness the NPCU assumed responsibility for appointing the auditor. While the Agreement (section 5.01) also requires the project to submit annual consolidated financial statements to IFAD, these have never been submitted.

51. **Procurement**. The project's procurement activities are minimal, as almost all project funding is allocated for financial services. In any case, its performance in executing procurement actions is in line with national requirements and IFAD's guidelines.

52. **Internal Audit**. The SFD's internal audit sector is adequately staffed and has an appropriate mandate; however, the mission was informed that the unit reports to the managing director while ideally it should report to an audit committee or Board of Directors. While an internal audit unit exists in the Ministry of Finance, no internal audit has been conducted to date.

53. **External Audit**. The FY 2011/2012 audit report was submitted to IFAD late. The mission ascertained that the financial statements presented in the audit report were prepared by the auditor rather than the project as required.

Agreed action	Responsibility	Agreed Date
The Government should provide its full contribution to the project in a timely manner, in compliance with its statutory obligations under the project.	MALR; MOPIC; SFD	on priority basis
Project expenditure patterns should be stabilised to the extent feasible, with a trend towards full disbursement of IFAD and GOE funding by the project completion date.	NPCU/MALR and SFD	2013/14 & 2014/15
Based on SFD's high level of proficiency in financial management, SFD to consider coordinating a joint meeting of its development partners (loan disbursement managers) to facilitate an agreement on standardised interim financial reporting to enhance efficiencies.	SFD	by 30 December 2013
Submit annual financial statements to IFAD within two months of the end of each fiscal year.	NPCU in coordination with SFD	starting with FY 2012/13
Contract an independent accountant/financial management consultant to prepare project financial statements since inception; change the independent external auditor with immediate effect; ensure that SFD is responsible for project audit processes, in line with the Financing Agreement.	NPCU; SFD	by 30 June 2013

F. Sustainability

54. **Institutional sustainability**. The overall sustainability of CDAs as financial intermediaries is assured in light of the loan portfolio turnover indicators combined with the high loan recovery rates. It will be important for SFD to continue to review the financial and operational sustainability of each CDA,

and to implement corrective measures where necessary, over the next 18 months. The financial sustainability of the project-supported FMAs will depend on their ability to enter into forward contracts with agribusinesses in support of their members. At the project's current stage, FMAs sustainability is not assured. Recommendations on achieving linkages with agribusinesses are provided earlier in this report.

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

56. **Economic and financial sustainability**. The economic and financial sustainability of microfinance services under the project is assured, in light of full loan recovery by SFD and almost full loan recovery by CDAs. It is highly probable that running FIRR and EIRR analyses at project completion will produce highly positive results, well in excess of the opportunity cost of capital, and very robust in the face of political and economic turmoil at the macro level.

57. **Technical sustainability**. The project's technical sustainability will again depend on the nature of linkages between FMAs and agribusinesses, as well as on the support which MALR extension services are able to support CDA borrowers.

58. **Environmental sustainability**. N/A

59. **Exit strategy**. The CDAs will continue to revolve microfinance loans to expanding numbers of borrowers in the post-project period. In line with national policy, MALR will continue extension services through its statutory budget; there is limited scope at the moment for introducing cost recovery for extension services.

G. Other

60. In the fourth quarter of 2012, IFAD commissioned an impact assessment of the project's microfinance and SME finance activities (UERDP: Microfinance and SMEs Rural Finance, Impact Assessment Report, December 2012). The assessment concluded as follows:

- the project has been successful in instilling the principles of sustainability and cost recovery at grassroots/civil society level; CDAs used as financial intermediaries were found to be well governed and sustainable institutions;
- the project has positively impacted on the lives of borrowers by empowering them to increase their incomes and subsequently their household expenditure on food, health and education; and by creating incremental employment opportunities.

61. **Physical and financial assets**. The impact assessment conducted in Nov-Dec 2012 reveals that the project has improved the productive and financial assets of its target groups (which is to be expected under a project with 27,500 borrowers and 98.9% aggregate loan repayment). The full impact on physical and financial assets will be documented within the context of the project completion report.

62. **Food security**. The impact assessment conducted in Nov-Dec 2012 for UERDP reveals that 95% of interviewees have increased their spending on food, both in terms of quantity and quality, after receiving loans.

63. **Increase in incomes**. The impact assessment conducted in Nov-Dec 2012 reveals that the project has had a major positive impact on the incomes and productive assets of borrowers, with positive spin off in terms of increased spending patterns for basic needs. Beneficiaries can now afford health services and spend on their children's education (i.e. buying school books). Others have acquired assets (appliances) either for household use or for business. This information has been verified on selected basis during the mission. A rigorous impact assessment will be undertaken within the context of the project completion report.

64. **Policy impact**. N/A

65. **Other impacts**. N/A

H. Conclusion

66. The mission suggests that project management should prioritise: (i) a systemic increase in project expenditure in 2013/14 and 2014/15; (ii) re-orientation of agriculture marketing operations based on a value chain approach, with market considerations driving the process; (iii) selection of an alternative financial institution(s) to continue SME lending operations; and (iv) increased attention to compliance with IFAD's financial management requirements. Furthermore, the project is encouraged to increase internal linkages among its components (in particular between agriculture services and microfinance operations) ideally in synergy with the OFIDO and PRIME projects which would address similar issues; and to consider developing a coordination mechanism in Upper Egypt for all three projects.

67. IFAD and the Government of the Arab Republic of Egypt endorse the findings of the supervision mission.

Appendix 1: Summary of project status and ratings

Project 1376 [716] Upper Egypt Rural Development Project

Basic Facts

Country	Egypt			Project ID	1376	Loan/DSF Grant No.	716
Project	Upper Egypt Rural Development Project					Top-up Loan/DSF Grant	
Date of Update		01-Jul-2013					
Supervising Inst.		IFAD/IFAD					
No. of Supervisions	4	No. of Implementation Support/Follow-up missions	1				
Last Supervision	26-May-2013	Last Implementation Support/Follow-up mission	30-Jan-2008				

					USD million	Disb. rate %
Approval	14-Dec-2006			Total financing	19.85	
Agreement	07-Mar-2007	Effectiveness lag	9.5	IFAD Total	16.13	
Entry into force	24-Sep-2007	PAR value	--------	IFAD loan	15.18	65
First disbursement				DSF grant		
MTR	10-Jun-2012	Last amendment		IFAD grant	0.95	99
Original completion	30-Sep-2015	Last audit	27-Sep-2012	Domestic Total	3.71	
Current completion	30-Sep-2015			Government (National)	3.71	15.56
Original closing	31-Mar-2016			External Cofinancing Total		
Current closing	31-Mar-2016					
No. of extensions	0					

Project Performance Ratings

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

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

B.5 Justification of ratings

Egypt is experiencing political and economic instability following the 2011 revolution. Real GDP growth declined to 2.2% in 2011/12 and is predicted to fall to 2% in 2012/13. Political uncertainty and continuing social unrest are dampening growth and increasing vulnerability, particularly of the poorer segments of the population. These factors have constrained project implementation in 2012/13 and disrupted the flow of services and benefits to target groups. Within this context, the project performance is considered moderately satisfactory. Performance in delivering benefits to the target groups continues to be strong, with direct and indirect outreach to over 150,000 rural people to date and a good gender balance in the distribution of benefits. The project's microfinance operations managed by SFD are excellent with 27,500 loans provided to date, generating EGP 130 million (USD 23.4 million) of investments in poor rural areas and creating some 30,000 employment opportunities. The aggregate loan repayment rate of 98.9% testifies to the positive economic returns generated, the credit discipline of borrowers, the institutional discipline of CDAs, and the robustness of the project's microfinance model. With respect to agriculture, MALR's extension and farming systems research activities are promising, with substantial training provided to farmers and with modern technologies developed which are adopted by farmers. Agric. marketing activities, which are critical for enabling poor farmers to access markets and increase financial returns, are delivering sub-optimal results. The SME financing activities are frozen due to PBDAC's reluctance to revolve principal repayments into new loans. The SFD's internal controls are robust and functioning. However, weaknesses are noted at NPCU level & thus financial management requires improvement to comply with IFAD's requirements. For counterpart funds GOE has disbursed only 15% of its expected contribution although 70% of the project period has elapsed.

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		
C.4	Overall implementation progress (Sections B1 and B2)	5	4

Rationale for implementation progress rating
The Small Enterprise Development Organisation (SEDO) of the SFD has supported marketing activities through a range of activities. It has developed marketing templates and distributed processors/exporters/local market contact lists to support the marketing information system used by FMAs and marketing committees; this would assist FMAs to plan their agricultural production annually, and to estimate exporters' contracted volumes for the next season. The extension methodology applied to date seems to be adequate for the introduction and adoption of new technologies and improvement of crop and livestock production activities. The methods applied include training sessions (classroom and field-based), workshops, demonstration plots on farmers' fields linked to field days and harvest days, exchange visits, and home visits to single or clusters of households (particularly for women, or for situations requiring surveillance and intervention). Please refer also to B.5

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

Rationale for development objectives rating
In the fourth quarter of 2012, IFAD commissioned an impact assessment of the project's microfinance and SME finance activities (UERDP: Microfinance and SMEs Rural Finance, Impact Assessment Report, December 2012). The assessment concluded as follows: (a) the project has been successful in instilling the principles of sustainability and cost recovery at grassroots/civil society level; CDAs used as financial intermediaries were found to be well governed and sustainable institutions; (b) the project has positively impacted on the lives of borrowers by empowering them to increase their incomes and subsequently their household expenditure on food, health and education; and by creating incremental employment opportunities.

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

Fiduciary aspects	Several weaknesses are noted at NPCU level: accounts are maintained manually; internal audit arrangements are inadequate; and audited financial statements are prepared by the auditor. Provision of Government's adequate contribution to the project in a timely manner.
Project implementation progress	The sectoral distribution of the loan portfolio shows that rural micro-investments are concentrated in three sub-sectors: livestock, particularly fattening and milk production (48% of loans); commercial activities such as micro-trade and village shops (32%); and a range of rural services (15%). It is noted that loans for agriculture production are minimal. It would be desirable for SFD and CDAs to diversify the loan portfolio in order to overcome the community-level demand constraint and allow micro-enterprises to grow and prosper. The project has supported several associations to market their products on contractual basis with traders for the local market (in Assiut and Qena) or with exporters (mainly in Qena). The mission's analysis of the relationships between CDAs/FMAs and traders/exporters reveal that: (i) they seem to be randomly implemented, with only few cases of repeat contracts in following years; (ii) the

	reasons for inconsistent demand for these products is not clear (possibly a combination of market disruptions, economic instability, output delivery problems, quality deficiencies, lack of food quality and safety certification); (iii) larger farmers appear to dominate the export market. Despite the project's efforts, marketing continues to be its weakest area, with adverse effects on training, extension, farming systems research and the flow of benefits.
Outputs and outcomes	Limited progress in linking Farmers Marketing Associations (FMAs) to markets, especially commercial operators (exporters-agro-processors-traders) may create a risk regarding members' willingness to remain in these associations hence the expected project outcome of empowering them. Engagement of private sector partners should become a priority in the second half of implementation.
Sustainability	Links with OFIDO, PRIME, WNRDP and other donors projects in Upper Egypt with similar approaches will contribute to strengthening delivery and to further maximising the prospects for sustainability.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
PBDAC has not established the revolving fund of SMEs lending as per its subsidiary agreement with SEDO/SFD.	SEDO to recover its outstanding funds from PBDAC, on the basis of advice from its legal department. SEDO to identify and assess alternative financial institutions which may be interested in initiating enterprise financing.	by Aug 2013	
Sectoral distribution of the loan portfolio	Diversify the loan portfolio to improve the prospects for growth and sustainability of the activities financed. Strengthen linkages among MALR, SFD and CDAs to ensure provision of support to each and every borrower.	Ongoing basis	
Facilitate market linkages	Conduct market intelligence and value chain mapping for key cash crops to facilitate market linkages with traders and exporters. Assess and strengthen the technical capacities of FMAs/CDAs to meet volume and quality requirements, and their institutional capacities to manage supply contracts and support their members.	as a top priority	
Facilitate market linkages	Facilitate contracts between processors/traders and 1-2 FMAs/CDAs in each governorate, in line with proper supply chain management principles and procedures. These will also serve as models for expansion of contract farming arrangements. In the process, support FMAs/CDAs to improve their contract negotiation skills.	by August 2013	
Overly ambitious AWBP	Ensure that the 2013/14 AWPB is realistic and pragmatic.	starting with FY 2012/13	
None submission of annual financial statements	Submit annual financial statements to IFAD within two months of the end of each fiscal year.	starting with FY 2012/13	
Financial management	Contract an independent accountant/financial management consultant to prepare project financial statements since inception; change the independent external auditor with immediate effect; ensure that SFD is responsible for project audit processes, in line with the Financing Agreement.	by 30 June 2013	
Assessment of project outputs	Conduct the household impact survey and consider purchasing software for data analysis.	Oct-Nov 2013	

Additional observations

Appendix 2: Updated Logical Framework

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

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

Appendix 3: Physical progress measured against AWP&B and appraisal targets – Period: 1-Jan 2012 to 30-April 2013

Impact and Outcomes	Indicators (with global target if available)	Achievements (as per M&E data)	RIMS Rating (by project)	RIMS Rating (by supervision mission)
Impact level				
Overall Goal. Poverty reduction and improved livelihoods of smallholder households, the landless labourers, female headed households and the unemployed youth in the		The impact assessment conducted in Nov-Dec 2012 reveals that the project has had a major impact on the incomes and productive assets of borrowers, with positive spin off in terms of increased spending patterns for basic needs. Beneficiaries can now afford to spend on health services and on their children's education like buying school books. In addition, 95% interviewees, reveals that they have increased their spending on food, both in terms of quantity and quality, after receiving loans.	na	6
Project Purpose. Project target group has improved access to credit, has better employment opportunities and increased			na	6
Outcome level				
Private Sector Development				
(a) Marketing and SME Development	About 48 FMAs are strengthened, however only 36 are currently operational.	Following the mid-term review, the project made efforts to scale up its agriculture marketing activities. A private sector consultant was commissioned to conduct a study for identification of marketing opportunities. A manual for marketing associations, containing a database of exporters and traders has been developed for use by FMAs and technical support staff. A marketing specialist was contracted to strengthen private sector linkages and to follow up on marketing operations.	4	3
(b) Financial Services	Thru the 62 CDAs strengthened by the project, about 27,500 loans were disbursed to date, of which 41% of these are to women.	The project's microfinance operations managed by SFD are excellent; some 27,500 loans have been disbursed to date, generating EGP 130 million (US$ 23.4 million) of investments in poor rural areas and creating some 30,000 employment opportunities. The aggregate loan repayment rate of 98.9% testifies to the positive economic returns generated, the credit discipline of borrowers, the institutional discipline of CDAs, and the robustness of the project's microfinance model.	6	6
Agriculture Competitiveness Enhancement	Of the 14,400, about 10,026 beneficiaries were trained on/adapted crop production practices and technologies, or 73% of the appraisal target.	FSR activities as highly promising economically and in terms of efficiency of use of water, land and inputs, and they seem to be highly appreciated by the farmers.	4	4

Physical progress measured against AWP&B and appraisal targets – (cont'd)

Output level							
Outputs by components	**Indicator**	**AWP&B (planned)**	**Actual (achieved)**	**%**	**Appraisal (global)**	**Cumulative (so far)**	**%**
Private Sector Development							
Marketing and SME Development Sub-	Marketing groups formed/strengthened	50	4	8%	50	48	96%
	People in marketing groups formed/strengthened(men)	2 150	1 381	64%	15 700	2 009	13%
	People in marketing groups formed/strengthened(women)	1 240	234	19%	12 300	306	2%
	People trained in business/entrepreneurship(men)	NA	0	#VALUE!	2 000	458	23%
	People trained in business/entrepreneurship(women)	NA		#VALUE!	1 000	313	31%
	Enterprises accessing facilitated financial services (SEDO)	NA		#VALUE!	200	197	99%
	No of full time and temporary jobs created, by gender				30 600	25 913	85%
Financial Services Sub-component	Community groups formed/strengthened	10	12	120%	100	62	62%
	People in community groups formed/strengthened(men) (SEDO &	3 772	4 291	114%	15 701	15 576	99%
	People in community groups formed/strengthened(women) (SED	923	2 814	305%	2 875	10 863	378%
	Financial institutions participating in project (SEDO & MFCS)	10	10	100%	101	63	62%
	Active borrowers(men) SEDO		105	#DIV/0!			#DIV/0!
	Active borrowers(women) SEDO		44	#DIV/0!			#DIV/0!
	Active borrowers(men) MFCS		7 152	#DIV/0!			#DIV/0!
	Active borrowers(women) MFCS		4 768	#DIV/0!			#DIV/0!
	Value of gross loan portfolio (SEDO & MFCS)		6 430 601	#DIV/0!			#DIV/0!
	Volume of loans provided					23 400	
Agriculture Competitiveness Enhancement	People trained in crop production practices and technologies (me	609	523	86%	5 760	1 524	26%
	People trained in crop production practices and technologies (wc	159	140	88%	1 440	456	32%
	People trained in livestock production practices and technologie:	250	303	121%	5 760	1 017	18%
	People trained in livestock production practices and technologie:	62	72	116%	1 440	558	39%
	Staff of service providers trained (men)	374	268	72%	120	1 155	963%
	Staff of service providers trained (women)	101	56	55%	40	233	583%
Outreach							
Households receiving project services		2 410	2521	105%	20 000	12 605	63%
Individuals receiving project services(men/women)				#DIV/0!	80 000	88 235	110%
Communities receiving project services				#DIV/0!	2 993	387	13%

Appendix 4: Progress against previous mission recommendations

Action agreed	Responsibility	Agreed date for action to be taken	Progress in completion of action
Decrease considerably the number of FMAs/HMAs set at appraisal as a target, and consolidate the most promising ones for project support to ensure sustainability by project completion. This will be done through the formulation of a set of criteria to rank FMAs/HMAs according to their degree of preparedness. The most prepared among the FMAs/HMAs will constitute the new project target and will be linked on a priority basis to markets and credit.	SEDO/NPCU/GPCU/	July 2012	done
Following the ranking of FMAs/HMAs, the project should inform IFAD of the FMA/HMA with the highest potential, which will constitute the revised target to be reached by project completion.	NPCU	August 2012	In progress
Recruit a marketing specialist to support the project in the implementation of the marketing sub-component during the remaining half of implementation period.	NPCU/SFD/SEDO	August 2012	done
SFD/SEDO to take on the responsibility of implementing the marketing and enterprise development sub-component as per appraisal stipulation.	SFD/SEDO/NPCU	Immediate	ongoing
Establish a Market Information System within each FMA/CDA to improve access to market and production information and enhance market linkages.	GPCU/SEDO	September 2012	ongoing
SEDO should ascertain that PBDAC has established a revolving fund of the loans repayment and interests and relending it to finance SMEs in the project area.	SFD/SEDO	June 2012	PBDAC is under transition
In addition to the GIRAFE criteria, SFD should conduct an assessment of profitability and viability of the current 54 CDAs (at least once a year).	SFD (at Governorate level)	Yearly	ongoing
Upgrade monitoring of CDAs, particularly in relation to overdue loans, micro loans repayments and cost control.	SFD (at Governorate level)	September 2012 and continuous	continuous
To increase outreach, an adjustment of SFD credit policy may be considered: Loan conditions should be based on thorough evaluation of CDAs profitability and loan quality (best performing CDAs should get a premium on its interest rate and better loan conditions).	SFD	December 2012	not agreed
SFD should initiate the formulation of an exit strategy in such a way that CDAs can be eventually linked to the formal banking sector.	SFD	September 2012	not agreed
Ensure that the training courses provided to the FMAs/CDAs are specifically designed to respond to their technical constraints and market needs.	GPCU Extension (MALR) / SEDO/marketing specialist	Immediate and continuous	ongoing
Establish a post-training assessment system to improve effectiveness of training in addressing market–related constraints and development of further training when needed.	M&E staff of the GPCU Extension (MALR)	July 2012	to be verified
Ensure that the FS research demonstration fields in 2012/2013 are located in fields of members of the FMAs/CDAs, especially those with potential market contracts.	FSRU and the GPCU Extension (MALR)	July 2012	ongoing
Concentrate the demonstration fields of the different FS models in few selected villages linked to FMA/CDAs rather than scattering them.	FSRU and the GPCU Extension (MALR)	As soon as possible	to be verified

Action agreed	Responsibility	Agreed date for action to be taken	Progress in completion of action
Establish targets for the estimated adoption of the research FS models used in terms of area and number of beneficiaries reached by the end of the project.	FSRU and the GPCU Extension (MALR)	August 2012	ongoing
Establish the methodology of assessment of the adoption rate and initiate the assessment.	GPCU Extension (MALR) supported by FSRU	September 2012	led by MALR
Recruit M&E consultant to assist/train staff of both GPCUs and SFD in Qena and Assiut, NPCU and SFD in Cairo in matters related to preparation of 2nd level RIMS indicators reporting. It is highly recommended to recruit the same consultant that had trained the West Noubaria Rural Development Project.	NPCU	June 2012	done
Identify in close collaboration with the M&E consultant suitable outcomes and 2nd level RIMS indicators with targets where appropriate; Adjust appraisal targets as per MTR recommendations and initiate the required households sample surveys/studies.	NPCU/GPCUs	Immediately after training provided by the M&E consultant and not later than end December 2012.	Partially done
M&E consultant to fine-tune the draft updated logical framework presented in Appendix 6 following identification of 2nd level RIMS indicators.	NPCU/GPCUs	end December 2012	ongoing
Launch meetings at the village level to validate impact results in a participatory manner.	NPCU/GPCUs	Soon after data were collected.	Survey did not yet take place
Purchase of SPHYNX or similar software for data analysis.	NPCU	As soon as possible	Not as yet
The Project Financial manager should draft a financial manual to include the rules, regulation and accounting procedures to be followed by the project to ensure efficiency and sustainability of the financial management and operation.	NPCU	November 2012	not yet done
The Project Accountant should ensure that all vouchers are properly referenced and filed with their respective claims.	NPCU	Continuously	in process
A proper filing system should be established to ensure the easy access for the project staff member to the filing.	NPCU	September 2012	in process
A sub account should be opened at CBE and the amount of US$30,000 belonging to (the Agriculture Production Intensification Project -APIP) should be transferred from the project account to the new subaccount so that the account for the IFAD grant reflect only IFAD grant amount.	NPCU	Before the end of July 2012	Issue resolved
The Project Accountant should prepare monthly bank reconciliation for the bank accounts. This is a tool of internal control and in order to make sure that the monthly account has been recorded and reconciled properly.	NPCU	Continuously	in process
It is highly recommended to keep an asset register with the supporting documents at both governorate and headquarter level.	NPCU	Continuously	not yet implemented

Action agreed	Responsibility	Agreed date for action to be taken	Progress in completion of action
A separate management letter addressing the adequacy of accounting and internal control systems should be submitted by the external auditor to advise the NPCU about the weakness points for the internal control system.	NPCU and UERDP External Auditor	Annually	will be done for the FY 2012/13 audit
It is recommended to hire a new external auditor starting with the year 2012/2013.	NPCU	More Discussions with NPCU is needed	Will start with FY 2012-13
It is recommended that the NPCU should hire a competent financial officer with experience in donor-funded projects to ensure smooth operation of the project for the remaining period especially for loan closing and project completion.	NPCU	ASAP	project is close to completion

Appendix 5: Financial: Actual financial performance by financier; disbursements by category and by component (12 May 2013)

Table 5A: Financial performance by financier

Financier	Approved (US$ '000)	Current (US$ '000)	Disbursement (USD '000)	Per cent disbursed
IFAD loan	15 183.0	15 183.0	10 205.6	67.22%
IFAD grant	952.0	952.0	996.0	104.62%
Government	3 714.0	3 714.0	575.8	16%
Total	19 849.0	19 849.0	11 777.4	59%

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

	IFAD loan			IFAD Grant			Government/SFD			Total		
Component	**Current**	**Actual**	**%**	**Current**	**Actual**	**%**	**Current**	**Actual**	**%**	**Current**	**Actual**	**%**
A. Private Sector Development	-	-										
1. Marketing & SME Development	-	-	-	698.0	570.0	82%	552	101	18%	1 250	671.0	53.68%
2. Financial Services	15 183.0	10 205.6	67%	254.0	220.0	87%	13	0	0%	15 450	10 425.6	67.48%
Subtotal Private Sector Development	15 183.0	10 205.6	67%	952.0	790.0	83%	565	101	18%	16 700	11 096.6	66.45%
B. Agricultural Competiteveness Enhancement	-	-	-	-	-		615	187	30%	615	187.0	30.43%
C. Project Coordination and Management	-	-	-	-	-		2 534	335	13%	2 534	335.0	13.22%
Total	15 183.0	10 205.6	67%	952.0	790.0	83%	3 714	623	17%	19 849	11 618.6	58.54%

N.B.: The amount under the IFAD Grant refers to actual expenditures, thus does not tally with the disbursement amount.

Table 5C: IFAD loan disbursements (SDR, as at 12 May 2013)

	Category Description	Original Allocation	Current Allocation	Disbursement	Balance	Per cent disbursed	W/A Pending
I	Credit Fund	10 050	10 050	5 303	4 747	53%	
II	Initial deposit	0	0	1 259	0	0%	
	Total	10 050	10 050	6 562	3 488	65%	0

Figure 1: IFAD loan/grant disbursement, comparisons between original and revised allocations and actual disbursement

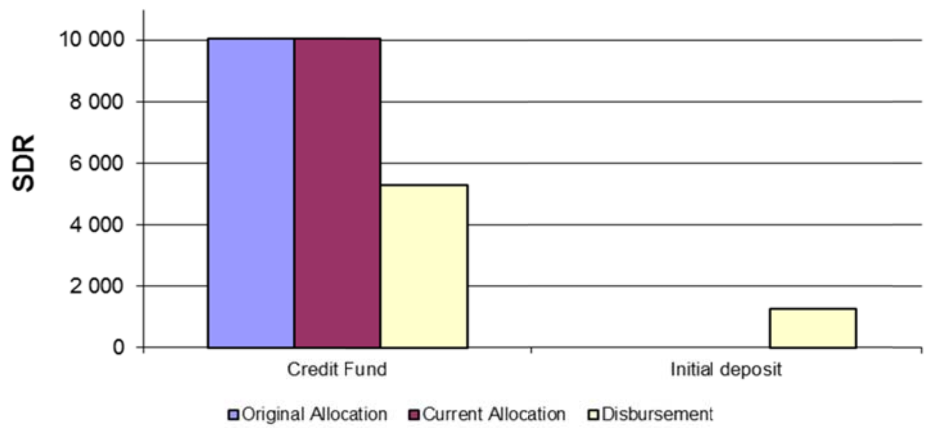
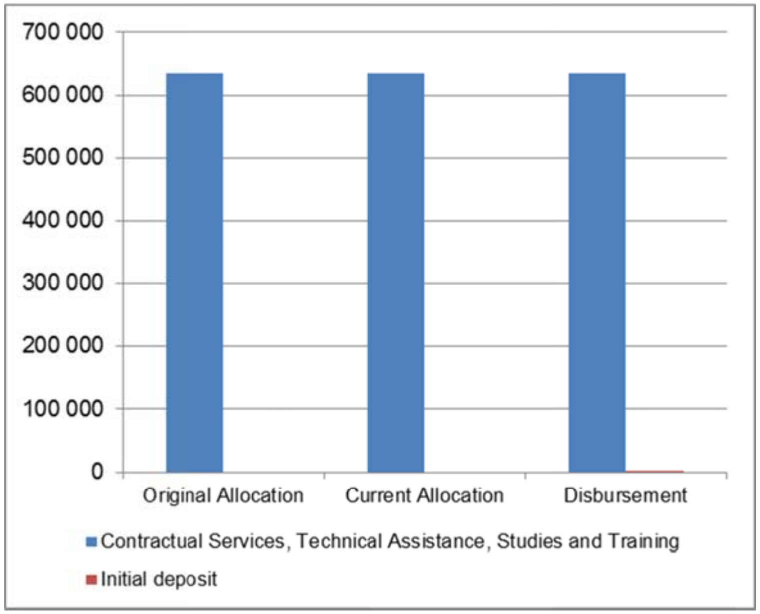


Table 5D: IFAD grant disbursements (SDR, as at 12 May 2013)

	Category Description	Original Allocation	Current Allocation	Disbursement	Balance	Per cent disbursed	W/A Pending
I	Contractual Services, Technical Assistance, Studies and Training	635 000	635 000	633 741	-1 259	100%	
II	Initial deposit	0	0	1 259	1 259	100%	
	Total	635 000	635 000	635 000	0	100%	0

Figure 2: IFAD loan/grant disbursement, comparisons between original and revised allocations and actual disbursement



Appendix 6: Compliance with financing agreement covenants: Status of implementation

Section	Covenant	Target / Action Due Date	Compliance Status / Date	Remarks
	MALR and SFD shall ensure that proceeds of the grant and the loan are exclusively used to finance eligible expenditures in line with agreement and the General Conditions.	On-going	compliance	
	A consolidated Annual Work Plans and Budgets for the loan and grant, with procurement plan, to be submitted for its review and comments.	No later than 60 days before beginning of each Fiscal Year	compliance, with delays	
	Availability of project resources.	Yearly in accordance with AWP&B	compliance, apart from GOE contributions	
	The Borrower shall make adequate budgetary allocations for the Project in accordance with AWP&B.	Annually	partial compliance	Only 15% of total contribution provided to date.
	Procurement of goods, works and services carried out in accordance with the procedures laid down in Schedule 4.		compliance	
	Monitoring, establishment of information management system.	3-month after effectiveness	compliance	
	Progress Reports to be submitted to IFAD on annual basis.	No later than 2 months after the end of each year	compliance, but quality is an issue	
	A Mid-Term Review to be carried out jointly by the Lead Project Agencies and IFAD.	No later than 48 months after the Effective Date	compliance	
	Submission of Financial Statements.	Within 2 months after the end of each fiscal year	non-compliance	
	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 with one month the reply to management letter of the auditors	partial compliance; delays and lack of management response	Two month delay for the last audit report

Appendix 7: Learning and innovation[2]

Learning: What has worked particularly well in this project during this period? What have been the reasons for this?

In an effort to establish market linkages between Marketing Associations and the private sector, two workshops were organized. These workshops have helped initiate a dialogue between agricultural producers in Upper Egypt and potential buyers, including products at hand (through crop maps), products required by the market (type of product, variety, quality, quantity, time), constraints faced by different actors along the value chain.

Another important lesson learned (which also constitutes an innovation in Upper Egypt promoted by the project), is about the importance of Community Development Associations (CDAs). These are village/community-based associations in the remote areas, which engage in multiple social activities – such as agriculture, nurseries, schools (up to middle school), burial services, legal assistance, carpet wavering, charitable work, and others - to serve the community. Most importantly, these CDAs provide a line of credit for micro-finance, and finance income generating activities for individual borrowers. This constitutes an important channel to reach the non-bankable rural poor through micro-finance. Furthermore, the economic and social services provided by CDAs to its members are particularly relevant in times of difficulties for formal government services to reach the rural poor.

Learning: What has not worked so well? What have been the reasons?

The MTR highlighted the over ambitious targets set at design, including for instance the 400 Marketing Associations to be established/supported by the project. This target is particularly high, given Upper Egypt's remoteness from main national markets, the fragmentation of farmers' landholdings, and – in general – private companies' reluctance to deal with individual small farmers. In this context, it is important to revise project quantitative targets periodically to ensure that they are accurate and correspond with socio-economic conditions together with the capacity of the involved implementing agencies.

Another opportunity for improvement – which is also related to the organization of workshops, already mentioned above – is that of ensuring strengthened partnerships with the private sector, through their engagement with smallholders organized into associations. In fact, on one hand private companies will rarely be likely to interact with individual (non-organized) small farmers. On the other hand, the likelihood of these FMAs' sustainability can only improve through direct interaction between reliable private sector companies and association members, or in other words, if members can witness tangible benefits from their involvement in these associations (in terms of improved access to markets, and better marketing conditions and incomes). The project should ensure a certain level of preparation of FMA participants before the workshop, through production of crop maps, for instance; on the other hand, private companies (traders, exporters, agroprocessors) should be selected among those with the real willingness to engage with these FMAs. It should be understood by both parties (producers and buyers) that improved qualities and compliance to certain requirements translates into premium prices. Arrangements that do not follow this equation (and especially those detrimental to small farmers) should not be pursued. The initiation of such linkages necessitates the engagement of specialized institutions/organizations.

There appears to be a large unmet demand for microfinance, which to-date has been partly addressed through the systematic constitution of the revolving funds in the CDAs. In this context, there is a need to analyse the nature of this demand for microfinance, in order to customize the credit terms and conditions accordingly.

[2] This section is adapted from the thorough analysis produced during the MTR of 2012.

Innovation: Describe any interesting innovation noted during supervision

The Project has successfully organized Marketing workshops, in an effort to establish market linkages between FMAs and the private sector. This constitutes a contextual innovation, especially in the remote areas of Upper Egypt, where access to national and international markets represents a major constraint for farmers. The workshops were conducive towards the identification of main marketing constraints as well as opportunities for FMAs in the project area. The events were attended by project beneficiaries, FMA representatives, government representatives (also from the extension department), SFD members, and private sector actors (a range of representatives from seed companies, insecticide companies, manufacturers/exporters). Concrete recommendations have emerged from these workshops, embracing stakeholders' different points of view, and most importantly those of farmers and of the private sector. Some preliminary arrangements between producers and buyers have been established, and discussions are currently being undertaken to finalize contractual arrangements.

Another innovation, as previously mentioned, is that of CDAs in Upper Egypt, especially at a time when the formal government services cannot provide the economic and social services – provided through CDAs – to the rural poor. The outreach of these CDAs has proved successful, and in fact is a model to be scaled up by other IFAD and other donors' projects (the IFAD-supported PRIME is expected to scale up this approach).

Appendix 8: Supervision mission schedule and persons met

Date	Description
13 May	Mission arrives in country (air travel Rome/Cairo/Luxor)
	Road travel Luxor - Qena
14 May	Meeting with GPCU - Qena
15 May	Field visit Qena; meetings with beneficiaries
16 May	Meetings in Qena with SFD, GPCU, Governor, other stakeholders
	Road travel Qena – Assiut (depart 8.00, arrive 12.00)
17 May	Meeting with GPCU - Assiut
18 May	Field visits Assiut; meetings with beneficiaries
	Meetings in Assiut with SFD, GPCU, Governor, other stakeholders
19 May	Return to capital city (air travel Assiut – Cairo)
	Meetings with NPCU, MALR and SFD
20 May	Preparation of mission *Aide Memoire*
	Morning: participation in IFPRI Conference with CAPMAS Afternoon: meetings with EU and WB
21 May	Preparation of mission *Aide Memoire*
22 May	Finalisation of mission *Aide Memoire* and circulation to key officials
23 May	Two separate wrap up meetings to discuss key findings and recommendations with (i) MALR; (ii) MOPIC NPCU, SFD
24 May	Return to Rome

Complete list of people met

Government Agencies

H.E. Mr Ahmed Al Gizawy, Minister for Agriculture and Land Reclamation
Ms Souad Mahmoud, Acting General Director, Regional Financial Organisations, MOPIC
Ms Bassma Hassan, Economic Researcher (for Cooperation with international, regional and Arab financing organizations sector), MOPIC
H.E. Mr Adel Labib Governor of Qena

Eng. Mostafa El Sayad, Executive Director, West Noubaria Rural Development Project

Dr Mohamed Samir Abo Soliman, Director of PMU for On-Farm Irrigation Development in the Oldlands Project

NPCU, Cairo

Eng. Sayed Hussein, Director, National Project Coordination Unit, UERDP
Mr Khaled Farid, NPCU M&E officer
Ms Fatma El Zhraa Shoib, M&E assistant
Ms Hanaa Mahmoud, M&E assistant
Mrs Hoda El Rifai, Accountant/Finance Officer

GPCU Qena

Eng. Eman Mohamed Aly, Governorate Project Director
Mr Hosam el Barbary, M&E officer
Dr Abbas Zaki, Farming System and Research Unit
Mr Ashraf Aly, Finance Officer

GPCU Assiut

Mr Ahmed Refaat, Governorate Project Director
Mr Hamdy Mohamed Khalil, M&E officer
Mr Ibrahim Noaman, Finance Officer

Social Fund for Development, (SFD)

Ms Ghada Waly, Managing Director,

Ms Hanaa El Hilaly, Director General, Central Sector for Planning & International Cooperation

Ms Amany Youssef, Director General, Microfinance Central Sector

Ms Nevine Badr El-din, Deputy Director, Microfinance Central Sector

Ms Howaida El Hawary, Head of Monitoring Sector, Central Sector for Planning & International Cooperation

Mr Gamal Mosalam, Director, Business Development Sector, Central Sector for Non-Financial Services

Mr Zoheir El Shandweily, Head of Agribusiness Department, Central Sector for Non-Financial Services

Mr Seif Kamel, Deputy Manager, Agribusiness Department, Central Sector for Non-Financial Services

Ms Rabab Yousry, Officer, Microfinance Central Sector

Ms May Shams El-Din, Senior Officer, Central Sector for Planning & International Cooperation

Dr Amal Gamal Eldin, Sector Director; Finance and Operations

Mr Hossam Fathy Aziz, Head of Central Sector, Internal Audit

Mr Mohamed Ahmed Soliman, Officer Operation Department, Finance and Operations

<u>Qena Regional Office</u>

Mr Amr Ibrahim Abdullah, Manager, Qena Regional Office

Ms Mariam Nayrouz Nashed, M&E Officer

Mr Montaser Abdel Rahim, Deputy Manager

Mr Mahmoud Abdo Hindawy, Microfinance unit officer

Mr Mohamed Ghareeb Shabeeb, Microfinance officer

Mr Mahmoud Ahmed Mohamed Zidan, Microfinance officer

<u>Assiut Regional Office</u>

Mr Romeh Mohamed Abdel Haseeb, Manager, Assiut Regional Office

Mr Ibrahim Abdel Latif Mohamed, Deputy Manager

Mr Amgad Mohamed Selin, Small Enterprises Unit Officer

Mr Ossama Ahmed Ali, Microfinance Officer

Mr Eid Ragab, Internal Audit Officer

Appendix 9: Summary of implementation support provided by IFAD

IFAD provided continuous supervision and implementation support to project management on a daily basis by the IFAD Country Office and on periodic basis from IFAD HQ.