Investing in rural people

Arab Republic of Egypt

Upper Egypt rural development project

Supervision report

Main report and appendices

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Abbreviations and acronyms

AWPB	Annual Work Plan and Budget
BSR	Budget spending rate
CDA	Community Development Association
FAO	Food and Agriculture Organization of the United Nations
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
HMA	Handicraft Marketing Association
M&E	Monitoring and Evaluation
MALR	Ministry for Agriculture and Land Reclamation
MIS	Management Information System
MoF	Ministry of Finance
MOPIC	Ministry of Planning and International Cooperation
NPCU	National Project Coordination Unit
O&M	Operations and Maintenance
PBDAC	Principal Bank for Development and Agricultural Credit
PRIME	Promotion of Rural Incomes through Market Enhancement Project
PY	Project Year
RIMS	Results and Impact Management System
SEDO	Small Enterprise Development Organization
SFD	Social Fund for Development
SLA	Subsidiary Financing 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 10 to 24 November 2014 to supervise the Upper Egypt Rural Development Project (UERDP). In Cairo, the mission met with H.E. Dr. Adel al-Beltagi, Minister for Agriculture and Land Reclamation (MALR), Mr Mohamed Rashed, Undersecretary of State at the Ministry of International Cooperation (MIC), Dr Magdy Madkour Supervisor for the Central Administration of Foreign Agricultural Relations at MALR, Ms Hanaa El Hilaly, Director General for Planning and International Cooperation at the Social Fund for Development (SFD), and staff of the National Project Coordination Unit (NPCU), SFD and MALR. It also had the opportunity to meet with the senior management team of the Principal Bank for Development and Agricultural Credit (PBDAC) 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 important partners such as the PBDAC and the Horticulture Export Improvement Association (HEIA). During the mission, a six days field visit to Qena and Assiut Governorates has been undertaken from 12-17 November. A 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 three wrap-up meetings in Cairo on 23 and 25 November 2014, the first chaired by H.E. Dr Adel al-Beltagi, the second by Mr Mohamed Rashed, and the third by Ms Hanaa El Hilaly.

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

B. Overall assessment of project implementation

5. Egypt has been experiencing political and economic instability following the 2011 revolution. Real GDP growth declined to 2.2% in 2011/12 and 2.1% in 2012/13 and 2013/14. After the holding of presidential elections, the situation has substantially improved, although there are occasional security alerts. Projections by the Economic Intelligence Unit predict economic growth of 3.5% in 2014 and 4.9% in 2016, before slowly climbing to 5.9% in 2019. Even in the absence of detailed studies, it is evident that political uncertainty and social unrest in previous years had a negative impact on the investment and income opportunities of the rural poor and increased their vulnerability. These factors have constrained project implementation in 2012 and 2013, disrupted the flow of services and benefits to target groups and slowed down the overall implementation process.

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 a large number of 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 39,215 loans have been disbursed until Sep. 2014, generating EGP 196,412,050

[1] Mission composition: Mr Mohamed Shaker Hebara, Country Programme Officer, IFAD; Ms Wafaa El Khoury, Senior Technical Advisor Agronomy, IFAD; Michael Marx, Sen. Credit and Rural Finance Officer, FAO (team leader); Mr Vrej Hanna Jiyan, Program Officer, IFAD; Wilfried Schnitzler, Marketing and Value/Supply Chain Specialist, consultant; Denisa Butnaru, Finance Specialist, IFAD; Malek Haddad, Procurement Specialist, IFAD. Mr.Sayed Hussein, NPCU Director, Mr. Khaled Farid, Mr.Sameh Moheiy, NPCU, Dr. Howaida El-Hawary, Mr. SeifKamel, Mr. Ahmed Atef, all SFD, accompanied the mission during the field visit in Qena and Assiut. Dr. Abbas Zaki, FSRU Director, also actively participated in the field visits.

(approx. USD 28 million at current exchange rates) of investments in poor rural areas creating some 43,344 employment opportunities[2]. The aggregate loan repayment rate of 99% 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. Given that there are only a bit more than ten months before the anticipated completion date, the main challenge for all parties is to ensure that the expected results will actually be achieved. The key issue of concern is the disbursement of the line of credit to SFD, where an amount of USD 4,767,000 remains available for lending to CDAs. The second concern is to consolidate all positive and negative lessons learnt from project implementation so as to make these available to the PRIME project, which will effectively start in the immediate future. Third, performance under the marketing activities has not been very successful. It will be important to ensure that the PRIME project, tasked to show results in seven governorates, will be in a position to advance faster and reach further than the UERDP. Finally, if the CDAs remain a pillar in the government's strategy for financial inclusion of the poor in rural areas, then more capacity building activities to enable these duly play their role are necessary.

C. Outputs and outcomes

Private Sector Development

8. **Marketing and Enterprise Development**. The NPCU has largely complied with the recommendations of previous supervision mission. National workshops to support 2366 clients/beneficiaries have been conducted; 36 farmer marketing associations (FMAs) established and supported by the project with total members of 372 females and 3749 males in Qena and Assiut Governorates; 10 FMAs were assisted with institutional support; a marketing directory was prepared, printed and is being distributed to beneficiaries; the project executed a pilot household impact survey mobilizing CDAs/FMAs; new cultivars of tomato and garlic were introduced and field tested in the two Governorates; and nine cropping/ farming systems tested with farmers in the fields targeting water and fertilizer reductions, of which four schemes found acceptance with adoption rates moving from 12-16% in 2011/2012 to 25-48% in 2013/2014.

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

10. A printed Directory for Marketing Operations for fruits, vegetables and medicinal and aromatic plants has been prepared under the project to encourage FMAs to use such information to link with traders. At this stage, actions are still mostly sporadic and not consistent and continuing, and not driven by a concise implementation strategy. Enterprise development will only succeed when famers understand the rule of the markets. This will necessitate the concentration to grow only a relatively small number of crops which will allow at least a certain exclusivity by crop or season such as early

[2] It is unfortunate that the term "creation of employment opportunities" in the project design report has been retained since inception under the monitoring and evaluation (M&E) framework of the UERDP. What should have been measured is the real employment newly created under UERDP, measured in full-time job equivalents, not opportunities (which are not measurable). Furthermore, the method of data generation remains questionable, as loan application forms appear to have been used as source of information. These indicate at best an intention to recruit staff, not real jobs created after a certain period of time (e.g. at loan repayment). This approach should not be repeated under PRIME.

potatoes, not too pungent garlic, red and sweet onions, out of season melons, dates, figs, seedless grapes, pomegranates, etc. This will facilitate the process of certification (e.g. under Global Gap). Whenever possible, there must be an outlet for processing of non-marketable fresh produce to add value and reduce losses to be linked to private processors. Herbs and medicinal plants are lucrative but have to comply with very high international quality standards.

11. Farmers in Assiut Governorate appear to have a higher appreciation for the importance of marketing to increase income. Under the assistance of CARE from March 2004 to Sept. 2007, a union of regional marketing associations was formed to export fresh young green beans and dried aromatic herbs. Contacts were established between exporters and the Marketing Association, which in turn coordinated production with farmers. A nearby external facility furnished packing. After withdrawal of CARE, all activities came to a standstill, the main reason being the distrust of traders vis-à-vis farmers. There is a strong demand by the existing farmer associations for installing links to the market but there is insufficient knowledge how to do this, and also a lack of interest in doing this by themselves.

12. A major constraint of CDAs and FMAs for expanding credits in agriculture (crop production) results from poor marketing due to lack of value added by packaging. There is insufficient understanding how to match produce with the market. Farmers have solid know how of production functions due to good farm extension and new cropping systems (some of which were introduced under UERDP by Dr. Abbas Zaki Othman), but do not profoundly know how markets work. To meet the project objective: “Enhance capacities of SMEs to improve their productivity, competitiveness and marketing”, it would thus be necessary to build capacity and demand for credits and increase human development through stronger linkages among MALR, SFD and CDAs/FMAs, and by strengthening or building post-harvest facilities. This will also enhance the roles and opportunities of traders. Overall the performance of the Marketing and Enterprise Development activities is **moderately unsatisfactory.**

Agreed action	Responsibility	Agreed date
▪ Review newly evaluated and introduced cultivars (e.g. tomato, garlic) for acceptance to farmers for a proportion of marketable and non-marketable yield, to traders, and to consumers in the various markets, including suitability for transport, packaging and long storage life in the retail chain	NPCU; GPCUs; MALR	by June 2015
▪ Ensure that introduced farming/cropping models will be continuously extended to farmers after termination of UERDP	NPCU; GPCUs; MALR	after project completion
▪ Organize a study tour of selected experts to Europe or Morocco to study the functions and modalities of farmers' and agricultural commodity marketing cooperatives as well as wholesale markets for fresh fruits and vegetables to understand the need for quality and packaging: to become more attractive to traders; to better penetrate such markets; and to obtain export and domestic certification. The tour may be also implemented in coordination with the PRIME Project	MALR; SDF	first half of 2015
▪ Assess the feasibility of engaging well established production, processing and export promotion agencies to assume a foster role for FMAs in the UERDP and PRIME Governorates, and to explore terms for possible cooperation for export of fresh fruits and vegetables, such as the (1) Horticultural Export Improvement Association (HEIA), (2) Union of Producers & Exporters of Horticultural Crops (UPEHC), and (3) Egyptian Spices & Herbs Export Development Association (ESHSEDA)	MARL; SFD	by March 2015

13. **Financial Services** 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 their members, clients and associates; (ii) investment finance for micro-enterprises administered by the Principal Bank for Development and Agricultural Credit (PBDAC).

14. **Microfinance.** Since early 2013, SFD grants its 3-year loans to CDAs at 9.5% p.a. on a declining balance, while CDAs charge their clients a flat rate of 14% flat for both one and two year loans. The effective annual lending rate is thus around 27% for one year loans and 13% for two year loans. Prior to 2013, the lending rate of SFD was 10.5-10.8% p.a. for three and five year loans respectively. As a consequence, the margins for the CDAs have declined.

15. Since inception, SFD has lent an amount of EGP 58,840,000 to 57 CDAs under 68 loan contracts. The CDAs were able to disburse a total of 39,215 loans worth EGP 196,412,050 to their clients. This implies a revolving of 334% over the amounts received. Average loan sizes have remained relatively stable, just above EGP 5000, which is the most frequent and standard amount of loans granted by the CDAs. Among the total of 39,215 borrowers, 16,422 or 42% have been women, indicating the ability of the CDAs to involve their communities and obtain approval for a more equitable participation of women in the economy. Institutionally, the repayment rates at the level of CDAs have been very good, with amounts in arrears in the range of 1-2% only. Beyond a few days, no single default on repayment obligations has occurred so far between SFD and CDAs, as shown in the table below.

Table 1: Microfinance Operations – Selected Indicators – Jul. 2008 to Sep.2014

Indicators on SFD Loan Portfolio	Unit	Assiut	Qena	Total
Borrowing CDAs	Number	27	41	68
SFD Loan Disbursement to CDAs	EGP	29.4	29.4	58.8
SFD Recovery Rate on Loans due (from CDAs)	%	100	100	100
Loans Disbursed	Number	19,133	20,082	39,215
Loan Amounts Disbursed	EGP million	96.0	100.4	196.4
Loan Amounts Disbursed	USD million	12.4	11.0	23.4
Revolved percentage	%	327%	341%	334%
Average Loan Size	EGP	5,018	5,000	5,008
Loans Disbursed to Women	%	40%	42%	42%
Loan Amounts Disbursed to Women	%	39%	43%	41%

Source: SFD

16. The sectorial distribution of the loan portfolio (Table 2) shows that rural micro-investments are concentrated in three sub-sectors: livestock, particularly fattening of cattle and small ruminants and milk production (48% of loans); commercial activities such as micro-trade and village shops (32%); and a range of rural services (15%). As noted by previous missions, loans for agriculture production are minimal. The main reasons for this are that agricultural inputs are mostly provided through the agricultural cooperatives, at very competitive and subsidized prices, and that the loan amounts so far provided by the CDAs are too small for any engagement in supply or value chains, or for production inputs or investments in processing equipment. Taking into consideration the current demand of members, the other suppliers in the market, and the current capacity and financial products of CDAs, it is unlikely that CDAs will significantly increase the proportion of agricultural production loans in their portfolio. As a consequence, we do not share the recommendation of the previous supervision mission “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 – Sectorial Loan Distribution – Jul. 2008 to Sep. 2014

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

17. The CDA aggregate loan recovery rate of the second phase loans as of September 2014 amounts to 99% (Table 3), which is an excellent achievement also in light of the social and economic upheaval of 2011-2012. This indicates positive economic returns generated by the micro-loans financed, the credit discipline of borrowers, the institutional discipline of CDAs, and the robustness of the microfinance model. The mission commends SFD and CDAs for their immediate and systematic loan follow up by officials on loans falling into arrears.

Table 3: Microfinance – CDA Loan Recovery (2nd phase loans) as of September 2014

Indicator	Unit	Assiut	Qena	Total
Loan Amounts Due	EGP million	19.6	31.7	51.3
Loan Amounts Recovered	EGP million	19.1	31.3	50.4
Loan Recovery Rate	%	97.5%	98.6%	98.9%

Source: SFD

18. From the discussions in the field, the mission was made aware that the first round borrowers generally get a loan amount of EGP 5000, which corresponds often to the demand, absorption capacity and risk propensity of the client, and the risk absorption capacity of CDAs. With growing experience and professionalism, and confidence into one's ability to invest and repay, clients seem to be interested in larger amounts, in particular those engaged in livestock and trading activities. Loans in the magnitude of EGP 5000 help people to survive, but not to make a real living out of their micro-enterprises, and may force some to borrow elsewhere or from traders/suppliers at much higher cost than the rates charged by CDAs. However, many CDAs do not seem to be prepared to approve such increased amounts, probably for a mix of fear of default of the client and insufficient funds, combined with the desire to help as many clients as possible. It appears that this perception or performance is not static, but depending on further increases in experience and confidence by CDAs. As CDAs have a unique status and are able to reach out to lower income segments, the main question is whether the Government of Egypt (GoE) and SFD want to see a gradual increase of absorption of loans by CDAs. Should this be the case, a number of capacity building steps are needed to ensure the stability and continuity of the intermediation chain. These include: (1) undertaking a study of the current capacity of CDAs, their strengths, constraints and weaknesses, and their profitability; (2) engage technical assistance to elaborate two operational manuals for CDAs, one on loan management, and the other on record keeping and accounting[3]; (3) undertaking a feasibility study or a tender on software solutions for CDAs, which comprise standard loan tracking features as well as financial record keeping to prepare trial income statements and balance sheets; (4) assisting, and possibly subsidizing the acquisition of such software solutions by CDAs; (5) provision of training to CDAs on these tools and instruments; (6) facilitating the understanding of CDAs about the need to accompany their clients in the phases of micro enterprise expansion, also through increased loan amounts; and (6) assisting

[3] In preparing these manuals, it will be desirable to make distinguish between larger and smaller CDAs, and those with and without an electronic management information system (MIS)/loan tracking software;

CDAs in either designing loan products with repayment modes adjusted to borrower cash flows, or by adjusting repayment schedules of existing products to client cash flows[4].

19. Pursuing the above activities is most likely to have a positive impact on the professionalism and capacity of CDAs under both UERDP and PRIME, and also likely a condition for a further expansion of microfinance in Egypt. It is evident that these capacity building requirements do incur costs, for which there are no provisions and funds left under the UERDP, and for which the provisions under the PRIME are grossly inadequate. Even using a minimalist approach, where only the most important issues are addressed, and where the beneficiaries (CDAs) are requested to substantially contribute to the costs, the estimated costs for such activities under PRIME may not be less than USD one million, and even likely to be higher.

20. It is therefore recommended to SFD to use the remaining time under UERDP and the start-up phase under PRIME to conduct an assessment of the CDAs with a view to determine capacity development requirements for the next years. This activity will be outsourced and funded through the PRIME grant.

21. The performance of financial services under the project is rated Highly **Satisfactory**, and the performance of SFD and participating CDAs is seen as very good.

Agreed action	Responsibility	Agreed date
▪ Conduct a first assessment of UERDP impacts and needs for capacity building and prepare a systematic capacity development plan for CDAs in the next three years	SFD	1st quarter 2015

22. **Small and Medium Enterprise Finance**. Enterprise financing operations are managed by the SFD's Small Enterprise Development Organization (SEDO) and administered by PBDAC on the basis of a Subsidiary Financing Agreement (SLA) 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.

23. As reported before, SFD lends SME funds to PBDAC at an interest rate of 9.25%, while PBDAC onlent these to final borrowers at 12.25%, thus a 3% spread. Between 2009 and 2011, PBDAC disbursed 197 loans (of which 31% to women) amounting to the full incremental credit allocation of EGP 5 million (Table 4). These loans financed agriculture and livestock (84% of total amount), trading (10%), beekeeping (3%), and farm transport (3%).

24. The mid-term review mission and the 2013 supervision mission had stated that PBDAC has not re-lent any amounts repaid by borrowers as stipulated in the SLA, thus funds were not revolving. Despite the requests to comply with the SLA, both SFD and PBDAC confirmed that the situation had not changed and that PBDAC would not issue new loans. A number of reasons may have contributed to this reluctance, although no official response has yet been given by PBDAC to NPCU, SFD or IFAD missions[5]. Earlier, repayment rates were reported to be low, but have now significantly improved, with less than EGP 0.4 million outstanding, as shown in Table 4[6]. However, the margin of 3% may not entirely cover the operating costs and risks of the PBDAC, as per the approximate data provided by its Qena office[7]. PBDAC is somewhere in the beginning of a restructuring process that has not yet been agreed upon, and it may take substantial time before visible results can be seen. By the time of the mission, PBDAC had already repaid 86% of the loan amount, with three further installments to be made to bring this to zero by 1 July 2015. Given the remaining time, and the fact that some of the

[4] It has been observed during visits to CDAs that these apply standard microfinance techniques, and at times grant their loans with only very short, or no grace periods. Such practice is not commensurate for borrowers with only one major source of income, as in the case of crop production and cattle fattening. Repayment faster than actual cash flow depletes working capital, and therefore business opportunities, or reduces consumption, with all negative impacts.

[5] The perceived high risk rates as assumed by the previous supervision mission are certainly a fact, but are not likely to be a deterrent to PBDAC, a bank highly experienced in and established for the purposes of agricultural lending. This is however not to make any judgement on the risk management capacity of PBDAC.

[6] The table only shows outstanding amounts, without specifying what amount is in arrears.

[7] This represents an unfortunate approach to establish ceilings on mark-ups for participating banks without calculating their operating costs and risks under these transactions, and to regularly check whether margins remain adequate. Another question is whether the MIS of PBDAC would permit some transaction cost analysis for this purpose.

amount outstanding at SFD level is not yet due by the PBDAC clients, it does not make much sense to insist on repayment of any unused non-revolving amount or to push PBDAC to engage in the use and relending of funds, despite the high interest expressed by the bank to the mission and the list of potential clients in the two governorates with pre-approved loans for eligible projects.

Table 4: SME Finance – Selected Indicators as of September 2014

Governorate	Total loans		Outstanding		Repayment	
	No.	Amount	No.	Amount	No.	Amount
Assiut	55	1,990,000	55	134,682	0	1,855,318
Qena	140	2,970,000	24	231,904	116	2,738,096
Luxor	2	40,000	0	0	2	40,000
Grand Total	**197**	**5,000,000**	**79**	**366,586**	**118**	**4,633,414**

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

26. As foreseen in the AWPB, the planning of the on-farm and demonstration work of this component was done in a more participatory fashion. Initially, several workshops were organized for the extension teams of Farming Systems Research Unit (FSRU) and GPCUs to introduce the new improved farming systems and explain how to implement the farm models in the field. Then, as part of the preparation activities for the agricultural season 2013/2014, FSRU team held a meeting with the GPCU field team in each Governorate as well as with the contact lead farmers in each district to discuss the proposed activities for both research trials and extension plots during the season 2013/2014.

27. **Farming Systems Research.** Through the applied farming systems research, new high-yielding varieties as well as crops newly introduced to the area have been tested on demonstration extension plots where farmers were invited to field and harvest days to compare their respective performance and yield with those of new varieties. These improved varieties that were selected by the farmers would enter the various farming/cropping systems models. Ten models have been developed in the past years, of which during the previous seasons, five had been selected by farmers based on the prevailing agro-ecologies, and their adaptation to farmer's needs and local conditions. These were further enhanced and demonstrated to new farmers during the 2013/14 season, with a total of 17 on-farm implementation sites in both Governorates. These included the farming system models no. 4, 6 and 9 that were implemented in different sites in Qena, and no.2 and 4 implemented in Assiut Governorate.

28. Farming system models include intercropping and relay planting with other crops. The fine-tuning of the cropping systems used is decided upon in a participatory way together with the farmers who would evaluate the outcome at the end of the season with the researchers, extension agents and their fellow farmers. Lead farmers and members of the FMAs are trained on these farming systems which are being adopted by fellow farmers, as the pilot survey shows.

29. **Extension.** The subcomponent is closely linked to the on-farm research on farming systems and includes support through on-farm demonstrations, technical backstopping to farmers, and training of the newly established FMAs/CDAs. During 2013/2014, a total of 26 extension demonstration sites were implemented in the project area, with 19 demonstration sites in Qena on tomatoes, wheat, fodder, beans, and onions, and seven in Assiut on tomatoes, wheat and fodder crops.

30. FMAs/CDAs were trained in various production and post-production technologies and quality requirements of the market with the aim of helping them fulfill market requirements, improve farm incomes, and reduce the risks of crop losses and price fluctuations through crop intensification and diversification. During the past year, seven related training courses were provided in Qena and four in Assiut Governorate. Besides direct training, farmers were invited to a number of workshops, field and harvest days on these extension demonstration sites.

31. During 2013/14, the MARL continued providing through this component technical training to the SFD beneficiaries receiving microcredit support (in livestock and crop husbandry, apiculture, composting, etc.) with the aim of ensuring that the enterprises being financed are technically appropriate and successful. A total of nine training courses were provided in 2013/14 with support to 214 beneficiaries (of which 77 females) in the two project governorates.

32. The GPCUs in Qena and Assiut also provided training to their extension teams namely, the Village Extension Workers and the Extension Supervisors, who have the mandate to train farmers. A total of nine capacity building programs with a total number of 141 trainees (33 females) were provided in technical issues, organization of farmer groups and participatory or market-led extension. Training was also provided to the HMAs in their specialized needs in handicraft. This training is outsourced to specialized service providers.

33. The mission visited some extension demonstration sites as well as the farming system models implemented by farmers in their fields, and discussed with farmers about the new techniques. The plots and the enthusiasm of the farmers and the extension agents were no doubt impressive and encouraging. It is however, unfortunate that the level of field work planned in the AWPB could not be achieved due to the inaccessibility of sufficient Government funds, which were planned to cover the activities within this component. While the good work on farming systems and productivity increase is showing good results and adoption is increasing as the monitoring and the pilot impact study indicates, the larger impact is not so clear, as this activity is only partially – and occasionally – linked to the marketing of the products, which remains to be the weakest link in the project.

34. **Pilot impact assessment survey.** As per the recommendation of the previous supervision mission, a pilot impact assessment of the interventions in extension and farming systems for crop intensification on households of FMA members was completed. The survey was undertaken by the FSRU team on 20 famers in each of the Qena and Assiut Governorates. The questionnaires included socio-economic aspects (sex, age, education, marital status and family size), the increase in farming income as a result of the adoption of new technologies and how this additional income is used, the support provided by the project to the beneficiaries and how they perceived it in terms of training, production inputs, financial services and their timing, the impact of the interventions on family amenities, living conditions and employment, and finally the assessment on the adoption, constraints to and sustainability of this adoption. The study included an assessment of the services needed by farmers and their evaluation of what the project has provided and what would still be needed.

35. One of the weak aspects of this survey was the absence of females respondent in the assessment, and the domination of males above 55 years of age within the respondents. This reflects well the actual limited participation of females and the youth in the crop competitiveness activities of Component 2, since most of the women activities in the project target area are focused in livestock, and young people are involved mostly in on off-farm activities. The results also show that beneficiaries who participated in the training sessions and field days provided by the project made profits as reflected by their adoption of the technologies and willingness to pay in the future for the trainings. Around 95% of respondents indicated that they have achieved an average income increase of 54%, with an annual profit of over EGP 3000/feddan. Farmers used the incremental income mainly to improve their amenities at home or their educational or health situation. The survey also shows clearly that farmers want credit, mostly during the preparation of the winter season (September-November) which also coincides with the beginning of the school year, as well as in April-May during the preparation for the summer season. While farmers appreciated the increase in their yield and income through the introduction of new techniques, their constraints remain mainly the availability and affordability of quality seeds and seedlings and the weakness of marketing support.

36. This pilot impact assessment study provides a good general overview of the potential impact of the agriculture production interventions on the households' livelihoods, employment and improvement in income. It also reflects the constraints that farmers are still facing, and where interventions have to be targeted by the relevant stakeholders. However, it seems that some of the questions selected and how they were presented to respondents provided only limited options for the answers. Another open question relates to the information on sales prices and market acceptance of the produce. In addition, some further analysis could have been made to extract more information from the assessment. As a result, the design of the survey including the questionnaire content, interviewing methodology and data analysis should be improved in the final larger scale project impact assessments expected to be undertaken in the final project year. It is recommended to share with IFAD, prior to the initiation of the final impact survey, the suggested methodology, sample size, questionnaires and analysis methodology to optimize on the results that can be obtained.

37. **Gender and youth.** As per the results of pilot impact assessment study, there is a clear need for the project to involve more women and youth in the activities of Component 2. The limited gender representation had been indicated in the previous supervision mission and the project team has taken some action to improve the situation. The local culture of the Upper Egypt communities is not in favor of women to work in the field outside their homes, which reduce their participation in field agricultural training. They participate in training provided in closed areas, and in particular in the domains of livestock and food processing. The mission recommends that the project should include in the agricultural competitiveness component some innovative activities that are tailored to enhance the gender involvement in this component. These could include activities to involve women in the evaluation of newly introduced varieties (vegetables, cereals and legumes) in terms of their taste, cooking quality, and postharvest qualities (drying periods, susceptibility to postharvest pests, storage capacity under their local household conditions, etc.). Furthermore, more efforts should be made to involve the youth in production activities. These could be provided with the needed capacity building for taking the responsibilities of such tasks, especially within cooperatives such as leading the extension support to their fellow members of their cooperative, follow-up and dissemination of market and price information, etc., or involve them in technical issues such as support in operations and maintenance of irrigation systems (drip or sprinkler), machinery, agrochemical applications, as well as the establishment of nurseries.

38. Overall the performance of the Agricultural Competitiveness Enhancement Component is **moderately satisfactory.**

Agreed action	Responsibility	Agreed date
▪ Undertake an institutional assessment of the farmer cooperatives or associations and FMAs to allow better prioritization and the targeting of interventions needed by PRIME, covering technical and managerial capacity development needs and options for aggregation of well-established groups	FSRU/MALR	1st quarter 2015
▪ Improve the methodology to assess the agricultural competitiveness activities for the final impact assessment and obtain non-objection from IFAD prior to engaging consultants	FSRU/MALR	at beginning of the final year of implementation
▪ Improve the gender participation in the agricultural competitiveness component where opportunities exist	FSRU/MALR	ongoing basis

D. Project implementation progress

39. **Management performance.** The NPCU is responsible for the implementation of the UERDP and the PRIME projects in the country funded by IFAD. It is a unit embedded in the Ministry of Agriculture and Land Reclamation (MALR) and staffed by experienced ministerial personnel acquainted with IFAD procedures, who work for the project on a part-time basis. At the Governorate level, the NPCU is supported by two GPCUs, one in Assiut and the other in Qena. SFD, and its regional branches, are responsible for the implementation of all activities related to financial services at the project target area. The work of the NPCU is overseen by a Programme Steering Committee.

Its functions are to provide policy guidance, approve the AWPB, approve participation of implementing partners and facilitate in resolving operational issues.

40. The mission views the competence and dedication of the NPCU/GPCU and SFD teams very positive. The progress that the project attained so far is the result of the commitment of project staff and the constructive partnership with SFD. The mission is pleased to note that some knowledge and experience sharing arrangements with other IFAD projects in the country, such us the West Noubaria Rural Development Project (to close in December 2014), has worked well.

41. Meanwhile, the mission recommends that within the remaining period of time and the fund available for the Project, the NPCU should promote better interaction between the GPCUs in Qena and Assiut. This could serve as a model for knowledge and experience sharing at the local level, and can be replicated in other IFAD's project in the country, particularly the PRIME.

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

43. The overall management of the UERDP was assessed to be **satisfactory**.

Agreed action	Responsibility	Agreed date
▪ Promote better interaction between the GPCUs in Qena and Assiut governorates serve as a model for knowledge and experience sharing at the local level, to be replicated in PRIME	NPCU	immediately
▪ Consolidate and analyze lessons learnt from project experience with a view to facilitate	NPCU on the basis of GPCU reports and suggestions	by 31 February 2015

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

45. **Gender focus**. In terms of outreach, the UERDP shows good results as regards microfinance, where 42% of borrowers have been women. Much of the achievements here can be associated with the intrinsic dedication and commitment of the CDAs to gender focus and balance, and less to project initiatives. However, the involvement of women as decision makers and beneficiaries has been limited as regards the other components, as remarked above and in previous reports. The project also did not develop a project gender mainstreaming strategy, as requested, and thus does not have any implemented activities on it to date. Due to the lack of focus, of both researchers and project staff, some of the surveys did not even envisage to comprise the outcomes of project measures on women (e.g. in the case of the agricultural competitiveness impact study, see

above para 37), or provided a breakdown of results by gender, even though the data existed. The gender focus of the UERDP is therefore rated **moderately satisfactory**.

46. **Poverty focus**. Most of the financial services have been clearly directed at the economically active poor, as per the project appraisal document, with the explicit and planned exception of loans granted by PBDAC, which followed other objectives. Most of the research agendas under component 2 have been clearly geared at smallholder farmers, despite the difficulties that (expectedly) come along with such focus. The poverty focus of the UERDP is therefore rated **satisfactory**.

47. **Effectiveness of targeting approach.** The project's targeting approach was supposed to comprise the direct selection of two poor governorates, the direct selection of poor villages within the selected governorates and some self-targeting of project activities 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. These simple approaches have been applied in the case of microfinance, mostly due to the dedication of the CDAs towards the rural poor. The effectiveness of targeting is rated **satisfactory**. A breakdown of project outreach to individuals is shown in Table 5.

Table 5: Outreach of project activities as of September 2014

Target Group "category"	Total number of people to be reached by the end of project implementation (Appraisal Targets)	Number of people reached so far (cumulative)	
		Total number	Of which women
▪ People in marketing groups formed/strengthened	26,000	2,557	346
▪ People trained in business/entrepreneurship	3,000	771	313
▪ People receiving project services	80,000	88,235	n.a.
▪ People trained in crop production practices/ technologies	7,200	2,404	492
▪ People trained in livestock production practices/technologies	7,200	2,102	781
▪ Staff of service providers trained	160	1,626	318

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

49. **Partnerships.** The close collaboration with the Farming Systems Research Unit (FSRU) has evolved very well and produced results that are relevant to many smallholders in the concerned governorates.

50. **Climate and environmental focus**. The main focus of the UERDP is on micro and agricultural finance, on marketing and development and application of new cropping patterns. As such, the focus on environmental issues is a priori limited. Furthermore, environmental issues have not been part of the logical framework, and are thus not regularly observed or recorded. The main question therefore is whether and to what extent any major direct, secondary or side effects on the environment can be observed. As regards climate and environment focus, most measures supported do not appear to have any negative impact on the environment, with the exception that they consume marginal quantities of non-renewable energy (fuel) for transport of inputs to the (near-by) fields and of produce to the markets; however, much of this is done with donkey carts, not with automobiles. The research conducted under the project has led to a number of inter-cropping models, which reduce water and fertilizer consumption of the plants in the range of 20-30% for the main ones adopted by farmers, and thus have a marginally positive environmental impact. While the adoption rates have well gone beyond the directly involved farmers, the number of farmers acquainted with these models is still low and the overall impact thus small. As regards the quality of natural asset improvement and climate resilience, no impacts have been identified. The climate and environmental focus of UERDP is rated **moderately satisfactory**.

E. Fiduciary aspects

51. **Financial management.** The financial management performance is assessed to be **moderately satisfactory (4)**.

52. The financial management responsibility stands with MALR, through the NPCU, for the IFAD Grant and Government proceeds, and with SFD, for the IFAD loan funds.

53. **Staffing**. The NPCU financial team is composed of a Finance Manager and an assistant. The coordination units in Qena and Assiut Governorates are staffed with one accountant each. The tasks of the two accountants in the governorates range from requesting advances from the central unit for the implementation of project activities, cashing the advances once approved and submission of supporting documentation. The advances are requested on the basis of application notes, containing the description of the activity to be implemented, which is part of the agreed AWPB. The notes are approved by the Regional Coordinator and Accountant and subsequently submitted to the NPCU. At the Central level, the NPCU Director, National Programme Coordinator and the MoF Financial Controller in MALR provide a second round of approvals. Afterwards, the advances are granted through cheques. The justification has to be submitted by the regional units within two months. The advances are recorded by NPCU manually in the journal. The supporting documentation, once submitted, follows the same approval process. The procedure is identical for the activities implemented at central level.

54. The SFD Financial Sector Unit consists of four separate departments: Management Accounting, Financial Follow up of Convention, Accounts and Collection and Expense & Transfers. The financial staff has adequate experience and qualification. The personnel in charge of the administration of IFAD funds are part of Financial Follow up of Convention and Expense & Transfers departments. The Accounts and Collection Department monitors the repayment of loan installments. There is no financial management staff at regional level.

55. As for the distribution of roles and responsibilities at NPCU level, the Finance Assistant supports the day to day work of the Finance Manager in reviewing and preparing disbursement notes, performing eligibility checks in accordance with AWPB and availability of supporting documentation and preparation of the financial statements. The Finance Manger detains the control function and records manually the advances and related expenditures in the accounting journal.

56. The SFD Financial and Follow-up Department has the overall responsibility of the administration of loan proceeds. This entails preparation of withdrawal applications, monthly

reconciliation of the designated account, eligibility checks of the financial transaction requests and reporting. The Expense and Transfers Department is in charge of the actual disbursement to NGOs\CDAs. The two departments carry out monthly reconciliations of the incurred transactions.

57. As for the existing internal control set-ups, the NPCU follows the MALR approval processes for payments. All the financial transactions are performed through bank cheques and not bank transfers. The mission noted the following weaknesses in the internal controls: (1) the accounts are maintained manually and (2) the financial statements are not produced on regular basis. However, it is to be underlined that the financial reports required for the audit exercise are prepared by the NPCU Finance Manager and not anymore by the audit company, as recommended by previous missions.

58. The SFD internal controls are robust, both at the level of business units in charge of the implementation of activities and the financial unit. An independent Internal Audit Unit is undertaking an additional control function.

59. Overall, the SFD's Financial Management staffing is appropriate and the systems are robust and functioning. However, weaknesses are noted at NPCU level & thus financial management requires improvement to fully comply with IFAD's requirements.

60. **Accounting**. The NPCU accounts are maintained manually and on cash basis. The mission strongly recommends the purchase of accounting software, in the light of having the coordination unit responsible for the implementation of PRIME project.

61. The financial reporting is done in excel on the basis of the entries in the journal. However, the exercise is time consuming, cumbersome and leaves space for errors.

62. SFD accounts are maintained on accrual basis in an Oracle-based system. Additionally, the Financial and Follow-up Department uses an Oracle application to monitor the administration of loan proceeds (e.g. initial deposit, number of applications for replenishment, value, allocation and balance etc.).

63. **Flow of funds and accounts**. The IFAD loan and grant resources are deposited in two separate accounts in IFAD. As for the grant proceeds, the Borrower requests advances in line with the approved AWPBs. The funds are transferred in a Grant Designated Account, denominated in USD and opened at the Central Bank of Egypt. The signatories in charge of jointly operating the account are the National Programme Coordinator and the MoF Financial Controller in MALR. The closing balance, as of 17 November 2014 is USD 61,741.59.

64. For project implementation activities, MALR has opened a separate account in local currency (EGP) at the Central Bank of Egypt. The account receives funds from the Grant Designated Account. As already mentioned, all payments are made through bank cheques. The authorized signatories are the Nation Programme Coordinator and MoF Financial Controller in MALR. No petty cash system is currently in place.

65. As for the government contributions, NPCU is not using the account in local currency or opened an additional account. The funds allocated are "assigned" in the MALR account held at the Investment Bank of Egypt. The National Programme Coordinator and the MoF Financial Controller in MALR approve the payment of activities eligible under GoE financing.

66. The Loan Designated Account was opened by SFD at the National Bank of Egypt and operates on imprest basis. Two SFD staff, each part of a list containing three eligible officials, jointly operate the account. The closing balance, as of 17 November 2014 is USD 370,297.99. No Project Account in EGP or petty cash system is in place.

67. **Disbursement**. The disbursement performance is assessed to be **moderately satisfactory** (4).

68. At the present date, three withdrawal applications (WAs) under the grant had been submitted to IFAD and disbursed. All were requests of advances in line with AWPBs, of which two also provided justification of previous deposits. These amount to a total of USD 0.99 million, representing 100% of the financing. The outstanding unjustified advance stands at USD 349,291.65. The mission was

informed that the final WA justifying the mentioned advance would be submitted to IFAD up to project completion.

69. As for the loan, eleven WAs had been submitted and disbursed by IFAD, two under initial deposit and nine under replenishment modality, for a total amount of USD 11.17mill (equivalent to SDR 7.19 million). This represents 71.56% of the financing. During the current year, the initial deposit of USD 2 million was reduced to USD 1.5 million. The justification of such decision was the low disbursement performance. The mission reminded SFD of the conditions that trigger the recovery process of the initial deposit – 6 months prior completion or available balance in the loan account to be twice the initial deposit. Therefore, a future recovery plan that would not hinder the liquidity needs of the project was discussed.

70. **Current Annual Work Plan and Budget.** The overall estimated budget of the PY6 (July 1st,2013 – June 30th, 2014) was planned with a total sum of USD 3,260,000, of which USD 3,100,000 financed by IFAD (about 95.1%) and USD 160,000 as contributions by the GoE and SFD, equivalent to about 4.9%.

71. The actual disbursement for the PY6 is USD 1,142,000, which represents about 35% of the estimated budget. Therefore, as to better assess the accuracy of the planning of AWPBs through life time of the project, we have compared the planned AWPB with the actual AWPBs for each fiscal year through the period 2009 to 2014. Our appraisal shows that the yearly Budget spending rate (BSR) has sharply dropped since PY5 (2012/2013), after a regular increase from PY2. However, for the last fiscal year, the BSR shows a slight increase (+15%).

Table 6: Budget spending rates 2008-2014 (Expenditure/Budget in %)

2009-2010 PY 1	2010-2011 PY 2	2011-2012 PY 3	2011-2012 PY 4	2012-2013 PY 5	2013-2014 PY 6	2014-2015 PY 7
85.1	32.3	59.0	68.8	30.0	34.7	0.0

72. One of the reasons why the expenditures had declined may be due to the effects of the events in Egypt during preceding PY 5 and PY 6. Still, during PY 6, the project focused on “Financial Services” (92% of the PY 6 budget) and less on “Marketing and SME Development” (less than 1% of the PY 6 budget), whilst they are considered to be a priority as per recommendations of previous supervision missions. Hence, some adjustments are to be considered in PY 7 budget. In particular, the 2014/15 AWPB should be more realistic and pragmatic and in relation with the context.

73. Though, in financial terms the Project was lagged behind the targets mentioned in the AWPB, nevertheless, the scope of the implementation during the reporting year had encompassed all the activities enlisted in the AWPB . Therefore, coherence between **AWPB** and implementation should be **rated as moderately satisfactory (4)**.

74. **Counterpart funds**. The domestic co-financier of the project is the Government of Egypt, contributing in kind and in cash to project activities. The in kind contribution is represented by NPCU and GPCU staff salaries and other recurring costs. The cash contribution is provided for investment activities, but also for recurring costs (e.g. allowances, vehicles O&M, etc.). Once endorsed by the Project Steering Committee, the AWPB is sent for approval to the MoF, which allocates the budget for the financial year. The amount is “blocked” in the MALR account. For the 2014/2015 financial year, the MoF allocated approx. USD 0.45 million as contribution to project investments.

75. The past supervision missions had taken into consideration only the level of cash contributions, without including the in kind ones. The GoE amount estimated at appraisal comprises also the in kind values, as salaries of the NPCU staff and office running costs. The current mission, together with the NPCU staff, has calculated the overall amount of the GoE contribution in salaries at national and regional level.

76. SFD also provides in kind contribution to the implementation of project activities, however the institution did not track it in the past. The previous supervision mission already recommended the monitoring of the in kind support. By the time of the mission, no formal steps have been taken to

record systematically partner contributions. As a result of the discussions, SFD transmitted a first projection to show its commitments, with a total amount calculated at EGP 1,911,306, representing the costs of salary and wages for the average of 32 SFD staff working for the implementation of the UERDP. This first estimation does however not comprise a weighting of the estimated average time these 32 staff spent on UERDP, who may not have spent 100% of their time working for the UERDP, and also excludes monies spent on vehicles, office space rent, electricity and others.

77. The official records on the up-to-date government contributions represent 44% of the appraisal target. The performance of the counterpart funds is **considered moderately unsatisfactory (3).**

78. **Compliance with loan covenants.** The mission observed that the financial officer is also managing the procurement process. As there must be a segregation of duties between procurement and finance management, it is recommend to separate both duties. Compliance with the grant covenants is seen as **moderately satisfactory** (4). The details with regards to the status of implementation and compliance with Project Financing Agreement covenants are presented in Appendix 6.

79. **Procurement.** Public procurement in Egypt is regulated by Tender Law No. 89 adopted in 1998, hereinafter referred to as “EG-PPL89”. For the last Fiscal Year (2013/2014), the procurement process was consistent with the IFAD Procurement Guidelines and also in accordance with the EG-PPL89. Moreover, as the Procurement amounts were within the range which allows the procurement through the shopping as per the agreement with IFAD, this method was the only one used by the PCU.

80. The number of procurement dossiers is also decreasing. There were four procurement dossiers during PY 6, while the average between 2011 and 2013 was around seven per year.

81. For all components, the amounts of the procurement dossiers during PY6 range between USD 5,000 and USD 40,000. The procurement method adopted by the project follows the national shopping procurement method which the mission found the most appropriate. Moreover, the shopping procurement process has been combined with an additional step of review by a Bid Evaluation committee, as is the case with the national competitive bidding procurement process as per the Egyptian regulation. The compliance with **procurement** should be **rated as satisfactory (5)**.

82. **Documentation management.** All procurement documentation is securely filed in ring binders clearly identified. It would be very useful to enhance the filing facilities at the NPCU.

83. **Internal Audit**. The Ministry of Finance unit in the MALR carries out the internal audit function at the NPCU level. The unit has approval rights of advances, of justification of advances and rights to operate the Grant Designated Account. Nevertheless, no internal audit exercise has been conducted during the lifetime of the project.

84. The SFD Internal Audit Unit checks all the financial activities and projects following the first disbursement and prior the final one. The unit is staffed, between headquarters and regional offices, with approx. 30 internal auditors with the necessary certifications in auditing. It consists of four departments: loans audits, grant audits, regional office and financial audit. The loan audit department’s main responsibility is to review the projects financed by Fund lending with NGOs, banks and intermediately agencies and to ensure the implementation is in accordance with the contracts/agreements signed. The same for the grant audit department, its responsibility is to audit the grant funded projects. The regional office department reviews the activities of the offices in the field, and makes sure the operations are conducted in accordance with procedures and regulations. As for the financial department, its assignment is to assess the operations of all sectors/departments at headquarters. The unit also collaborates with the external auditors.

85. **External Audit**. The external audit exercise covers under its umbrella the two implementing partners – NPCU and SFD. The tender process and contracting are done by NPCU and the payment is made from the grant proceeds. The previous supervision mission has strongly recommended the change of the audit company. The recommendation has been implemented by NPCU and Grant

Thornton was awarded as preferred bidder. IFAD has provided its' no objection to the decision of the bidding evaluation committee.

86. The audit exercise covering the period July 2012 – June 2013 was carried out by Grant Thornton and submitted to IFAD in line with the corporate deadline (31 December 2013). The auditor provided an overall unqualified opinion stating that "the Project Financial Statements present fairly, in all material respects, the cash receipts, cash payments and balances". However, the Auditor did not provide a separate opinion on the use of the Designated Accounts and on withdrawal applications/statement of expenditures. The Management Letter, even though referred in the report, was not shared with IFAD.

87. Grant Thornton has just completed the July 2013 – June 2014 audit review. The report was not ready for the mission's review. The observations received with regards to the previous year exercise were shared with the auditor. NPCU was reminded of IFAD deadline of audit submission, which is 31 December 2014.

Agreed action	Responsibility	Agreed date
▪ Purchase an accounting software to maintain the proceeds of loan and grant financing	NPCU	by 31 March 2015
▪ Issue withdrawal applications to IFAD to justify the outstanding advance of the Grant financing (USD 349,291.05)	NPCU	by 30 September 2015
▪ Submit a recovery plan to IFAD and initiate the justification of the loan initial deposit of USD 1.5 million	SFD	by 31 March 2015
▪ The 2013/2014 Audit Report to provide separate opinions on the Designated Accounts and withdrawal applications/statement of expenditures	NPCU	immediately
▪ Ensure timely submission of a complete Audit Report in accordance with the stipulations	NPCU	by 31 December 2014
▪ Separate the duties of financial management and procurement, thus mandating a person other than the financial officer to manage procurement	NPCU	by 31 December 2014

F. Proposed changes to the Financing Agreement

88. Under the IFAD loan proceeds destined to the SFD loan funds, an amount of USD 9.9 million has so far been disbursed or transferred to SFD for immediate disbursement. This leaves a balance of USD 4.767 million for disbursement. Project completion has been initially set at September 2015. Total disbursements by SFD to intermediaries since inception so far was USD 9.9 million in 78 months, thus an average of USD 0.127 million/month throughout the project period. Using this average, SFD could disburse during the remaining ten months till completion an amount of about USD 1.3-1.5 million. However, disbursements of SFD to CDAs slowed down to about USD 1 million during the revolution, substantially below the levels before and afterwards.

89. Two reasons explain much of the slower than anticipated disbursement of loans by SFD. First, at appraisal, the EGP had a parity of 5.7 to the USD. Exchange rate at the time of the mission was USD 1.00 to EGP 7.15, thus a devaluation of the EGP vis-à-vis USD of about one quarter during this period. This devaluation provided the GoE with an extra of EGP 11 million for disbursements as exchange 'gains'. Second, the events in 2011-2013 considerably slowed down the investment and business activity in the country, which affected near everybody. During these two years, opportunities to sell products in near-by markets were very much reduced, as most Egyptians reduced their consumption. It may even be argued that the poor were affected disproportionally more by these events than middle and higher income groups. With presidential elections having been conducted, and parliamentary elections planned for 2015, it is expected by many observers that the restoration of stability has already led to an increased business activity, above the mere catching up with what was lost, and that this will prevail for the next years. The NPCU and SFD have requested the mission to assess the need for an extension.

90. Upon request by the mission, SFD has made a detailed projection to determine the realistic absorption capacity of CDAs in the two governorates as follows, which would permit SFD to fully absorb the IFAD loan amounts as appraised.

Table 7: SFD projection of disbursement of micro credits to CDAs from 12/14-12/16

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2015	0	350	0	500	4,975	0	500	0	4,975	0	500	0	11,800
2016	4,975	0	500	5,850	0	2,125	0	0	3,250	0	0	1,500	18,200
2017	1,750	0	3,250										5,000
Total	6,725	350	3,750	6,350	4,975	2,125	500	0	8,225	0	500	1,500	35,000

NB.: Projections made by SFD. Amounts in EGP ‘000

91. The mission therefore recommends to IFAD to approve a request by the GoE for a no-cost 12 months extension. This would extent project completion to 30 September 2016 and closure to 31 March 2017. This is done in an understanding that disbursements under lines of credit, such as this one, can be done up to project closure, provided that the respective documents establishing a payment obligation are signed before completion date.

Agreed action	Responsibility	Agreed date
▪ MIC, as representative of the Borrower, to submit a request for extension of 12 months, thus a project completion by 30 September 2016 and a closure by 31 March 2017	MCI	immediately

G. Sustainability

92. **Institutional sustainability.** In the short term, the overall sustainability of CDAs as financial intermediaries appears to be assured, given their reasonable use of the loans, their ability to reach out to the lower segments of society, the good repayment rates, and their level of acceptance in society. In the medium run, the key question is whether they can improve their capacities to keep pace with the growing demand by their clients. In the medium to long run, the question will be whether the intermediation system in which they operate, from external resources to SFD and then to CDAs and their borrowers, remains operational and competitive. Assuming that banks would become more active in this segment of expanding micro-entrepreneurs, or that new, larger and more specialized MFIs would be created on the basis of the new law on microfinance, the services of CDAs, especially interest rate and loan amount, may not be sufficiently attractive to potential clients in a highly cost-sensitive market.

93. Sustainability of CDAs could thus be significantly improved if additional capacity building would be provided to CDAs as described above. In the long run, CDAs would also have to expand their loan portfolios, offer new and adjusted loan products, and reduce their interest rates in order to remain competitive.

94. 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.

95. **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.

96. **Economic and financial sustainability.** The economic and financial sustainability of microfinance services under the project is assured in the short run, in the light of full loan recovery by SFD and almost full loan recovery by CDAs. Taking the tentative results of the various studies conducted as base, it is highly probable that running the rates of return on investments at project completion will show positive results, well in excess of the opportunity cost of capital, and very robust in the face of political and economic turmoil at the macro level.

97. **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. This is not yet established.

98. **Environmental sustainability.** N/A

99. **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.

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H. Impact

100. 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.

101. **Physical and financial assets.** The impact assessment conducted in Nov-Dec 2012 and discussions with borrowers revealed that the project has improved the productive and financial assets of its target groups (which is to be expected under a project with almost 40,000 borrowers and 99% aggregate loan repayment). The full impact on physical and financial assets will be documented in the project completion report on the basis of a deeper and wider impact assessment.

102. **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.

103. **Increase in incomes.** The impact assessment conducted in Nov-Dec 2012 revealed that the project has had a major positive impact. The survey, which covered 31 CDAs and a sample of 130 borrowers (65 in each governorate) from amongst the targeted group and beneficiaries, revealed that:

- 86% of respondents in Assiut and 89% in Qena observed an increase in income after receiving the loan, against 8% of borrowers who observed no changes and 6% in Assiut and 3% in Qena who indicated that their income even decreased after accessing the loan;
- 72% of the interviewed borrowers in Assiut and 77% in Qena indicated that they have purchased small assets after receiving the loan from the UERDP and upon increasing their income;
- 94% and 97% of the interviewees in Assiut and Qena have increased their spending on food (in terms of quantity, quality or both) after receiving the loans;
- 80% of respondents in Assiut and 85% in Qena stated that they had increased their spending on health services, be it to buy a medicine that was prohibitively expensive for them before acquiring the loan, or to visit a clinic or a doctor who was too expensive previously;
- 58% of respondents in Assiut and 62% in Qena indicated that they have increased spending on the education of their kids;
- 62% of respondents in Assiut and 66% in Qena were able to create additional jobs (other than the one for the enterprise owners);
- All interviewees felt more independent after accessing the loan
- 81% of the interviewees in Assiut and 85% in Qena felt more respected from their wives/husbands;
- All interviewees indicated that there was no effect of the loan on increases in work pressure and family problems;
- More than 85% of respondents in both Governorates indicated their keen interest in additional protective mechanisms, such as pension, health insurance and other forms of insurance.

104. Given the small sample size, and some methodological limitations, this information would have to be cross checked and confirmed through an in-depth impact assessment during the end of project impact assessment.

105. **Policy impact.** N/A

106. **Other impacts.** N/A

I. Conclusion

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

108. With about ten months before anticipated completion, the main challenges of the project implementers are to ensure that the overall objectives and goals are achieved during the remaining time. The key to this is an accelerated disbursement of SFD of the remaining credit line to CDAs in a sustainable manner. This means that while all efforts (in particular the capacity building measures discussed above) should be undertaken by SFD to disburse the line of credit, this should not be done at the expense of punctual repayment of clients. As UERDP faced a considerable slowdown of implementation activities during the revolution, which affected in particular loan disbursement at all levels, an extension of the implementation period by one year is needed. A second concern is the ability to learn the lessons from UERDP for the implementation of PRIME; this relates mostly to the marketing activities, for which a thorough and effective concept beyond the appraisal report has yet to be developed. Finally, the project’s financial management requires some improvements to ensure compliance with IFAD’s requirements.

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	n.a.
Date of Update		24-Novl-2014				
Supervising Inst.		IFAD				
No. of Supervisions	5	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	71
First disbursement				DSF grant		
MTR	10-Jun-2012	Last amendment		IFAD grant	0.95	98
Original completion	30-Sep-2015	Last audit	27-Sep-2012	Domestic Total	3.71	
Current completion	30-Sep-2015			Government (National)	3.71	36
Original closing	31-Mar-2016			External Cofinancing Total		
Current closing	31-Mar-2016					
No. of extensions	0					
Requested completion	30-Sep-2016					
Requested closure	31-Mar-2017					

Project Performance Ratings

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

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

B.5 Justification of ratings

Egypt has been experiencing political and economic instability following the 2011 revolution. Real GDP growth declined to about 2% during the period 2011-14. Political uncertainty and continuing social unrest are dampening growth and increasing vulnerability, particularly of the poorer segments of the population. As a result, project implementation slowed down in 2012-14 and reduced 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 satisfactory, with direct and indirect outreach to well over 50,000 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 almost 40,000 loans provided to date, generating almost EGP 200 million (USD 28 million) of investments in poor rural areas and creating more than 40,000 employment opportunities. The aggregate loan repayment rate of 99% 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 techniques developed in close cooperation with farmers. Agricultural marketing activities, which are critical for enabling poor farmers to access markets and increase financial returns, are delivering sub-optimal results. The SME financing activities are frozen due to PBDAC's reluctance to revolve principal repayments into new loans. The SFD's Financial Management staffing is appropriate and the systems are robust and functioning. However, weaknesses are noted at NPCU level & thus financial management requires improvement to fully comply with IFAD's requirements. As regards counterpart funds, GoE has, according to official records, disbursed only 36% of its expected contribution although more than 80% of the project period has elapsed. It should be noted that the contributions of SFD and GoE have not been recorded systematically since inception, and that SFD and the NPCU have started to compile a data base on all related expenses since 2008; once this would be shared with IFAD, and externally verified, the above percentage is likely to be much higher.

Overall Assessment and Risk Profile

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

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

		Last	Current
C.5	Likelihood of achieving the development objectives (section B3 and B4)	4	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. Reaching outreach target at project completion will depend on the ability of SFD to fully disburse the line of credit to CDAs without endangering repayment rates.

C.6	**Risks** *Short description of major risks for each section and their impact on achievement of development objectives and sustainability*	
	Fiduciary aspects	Several weaknesses are noted at NPCU level: accounts are maintained manually; internal audit arrangements are inadequate. While the latest audit report was submitted in time, but not complete. No systematic records have been maintained

	on the provision of Government's contribution to the project in a timely manner, and the data available at the time of the mission indicate that these contributions are not adequate.
Project implementation progress	Microfinance activities performed by SFD through CDAs have shown highly satisfactory results so far. However, the disbursement rate under the line of credit is however only 72%, ten months before completion point. Full disbursement and reaching the outreach targets will require additional investments in the capacity of the intermediaries (CDAs). Full disbursement of the credit line allocation cannot be achieved by September 2015, and requires an extension by another 12 months. The project has supported several associations to market their products on contractual basis with traders for the local market (in Assiut and Qena) or with exporters (mainly in Qena). As previous missions noted, the relationships between CDAs/FMAs and traders/exporters show weaknesses: (i) they seem to be randomly implemented, with only few cases of repeat contracts in subsequent 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, traders with only ad hoc contracts seek occasional supply to deliver); (iii) larger farmers appear to dominate the export market. The marketing component remains the weakest component of UERDP, with adverse effects on training, extension, farming systems research and the flow of benefits.
Outputs and outcomes	Limited progress in linking Farmers Marketing Associations (FMAs) to markets, especially commercial operators (exporters-agro-processors-traders) may create a risk regarding members' willingness to remain engaged in these associations hence the expected project outcome of empowering them. Engagement of private sector partners should become a priority in the second half of implementation. Unless some capacity development is provided to CDAs, their ability to satisfy client demand, expand their loan portfolio and fully absorb the credit line is not established.
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. Attempting to establish collaboration with other institution which may provide capacity building under grant funding should be approached by NPCU, SFD and IFAD. While MALR will continue funding extension services through its statutory budget; there is limited scope at the moment for introducing cost recovery for extension services.

Proposed Follow-up

Issue / Problem	Recommended Action	Timing	Status
PBDAC has not established the revolving fund of SMEs lending as per its subsidiary agreement	SEDO to recover its outstanding funds from PBDAC by July 2015. Given the remaining time till completion, there is no need for identifying alternative financial institutions interested in initiating enterprise financing.	by July 2015	
Facilitate market linkages	• Undertake an institutional assessment of FMAs and cooperatives to allow better prioritization and the targeting of interventions • In the time till completion, facilitate contracts between processors/traders and FMAs/CDAs in both governorate, in line with proper supply chain management principles and procedures, which serve as models for expansion of contract farming arrangements. • Organize a study tour of selected experts to Europe or Morocco to study the functions and modalities of farmers' and agricultural commodity marketing cooperatives as well as wholesale markets for fresh fruits and vegetables to understand the need for quality and packaging to become more attractive to traders; to better penetrate such markets; and to obtain export and domestic certification. The tour may be also implemented through the PRIME Project • Assess the feasibility of engaging well established production, processing and export promotion agencies to assume a foster role for FMAs in the UERDP and PRIME governorates, and to explore terms for possible cooperation for export of fresh fruits and vegetables, such as the Horticultural Export Improvement Association, Union of Producers & Exporters of Horticultural Crops, and Egyptian Spices & Herbs Export Development Association • Harmonize UERDP and PRIME approaches to market linkages	as a top priority	
Overly ambitious AWBP	Ensure that the 2014/15 AWPB is realistic and pragmatic.	starting with FY 2014/15	
Financial management	• Purchase an accounting software to maintain the proceeds of loan and grant financing • Contract an independent accountant/financial management consultant to prepare project financial statements since inception • Issue withdrawal applications to IFAD to justify the outstanding advance of the Grant financing (USD 349,291.05) • Submit a recovery plan to IFAD and initiate the justification of the loan initial deposit of USD 1.5 million • The 2013/2014 Audit Report to provide separate opinions on the Designated Accounts and withdrawal applications/statement of expenditures • Separate the duties of financial management and procurement, thus mandating a person other than the financial officer to manage procurement	by 30 June 2015	
Assessment of project outputs	Prepare sub-contracting of impact assessments of project outcomes and impacts	31 March 2015, unless project is extended	

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

Narrative Summary	Verifiable indicators	Means of verification	Risks/Assumptions
Goal			
Poverty reduction and improved livelihoods of smallholder households, the landless laborers, 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 AWPB and appraisal targets by Nov. 2014

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

Physical progress measured against AWPB and appraisal targets by Nov. 2014 (cont'd)

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

Appendix 4: Progress against previous mission recommendations

Action agreed	Responsibility	Agreed date for action to be taken	Progress in completion of action
Conduct market intelligence and value chain mapping for key cash crops to facilitate market linkages with traders and exporters. Assess and strengthen the technical capacities of FMAs/CDAs to meet volume and quality requirements, and their institutional capacities to manage supply contracts and support their members.	NPCU; GPCUs; MALR	as a top priority	Value chain mapping done FMA/CDA assessment not done
Facilitate contracts between processors/traders and 1-2 FMAs/CDAs in each governorate, in line with proper supply chain management principles and procedures. These will also serve as models for expansion of contract farming arrangements. In the process, support FMAs/CDAs to improve their contract negotiation skills.	NPCU; GPCUs; MALR	by August 2013	Occasionally done where opportunities arose, but no demonstration of results and continuity
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	Not done
Diversify the loan portfolio to improve the prospects for growth and sustainability of the activities financed.	SFD, CDAs	ongoing basis	Not deemed relevant if a directed increase in the agric portfolio was intended
Strengthen linkages among MALR, SFD and CDAs to ensure provision of support to each and every borrower.	MALR, SFD, CDAs	as a top priority	Not done, not realistic and feasible in the UERDP context
SEDO to recover its outstanding funds from PBDAC, on the basis of advice from its legal department. SEDO to identify and assess alternative financial institutions which may be interested in initiating enterprise financing.	SFD, SEDO, PBDAC	as a priority	PBDAC continues to repay its loans to SFD and is now keen to get additional funds for lending, which is not considered opportune unless the bank is restructured
Revert to the option of not concentrating demonstration plots in a few locations, but rather spread them based on availability of qualified farmers; and ensure access by FMA and CDA members (field and harvest days).	FSRU/MALR	from 2013/14 onwards	Partially done
Include gender perspectives in the adoption assessments, and disaggregate the adoption data by gender.	FSRU/MALR	ongoing basis	Not done
Convert NPCU and GPCU staff to full-time basis.	MALR	FY 2013/14	Not done
Ensure that the 2013/14 AWPB is realistic and pragmatic	NPCU; SFD	FY 2013/14	Only partially done
Implement the household impact survey.	NPCU; GPCUs; SFD	starting in June 2013	Done
Consider purchasing software for data analysis.	NPCU; MALR	as appropriate	Not done
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	No systematic recording of all contributions made; using current data set, GoE

			contributions are behind schedule
Project expenditure patterns should be stabilized to the extent feasible, with a trend towards full disbursement of IFAD and GoE funding by the project completion date.	NPCU/MALR and SFD	2013/14 & 2014/15	Partially done; main deficiencies are absorption of line of credit
Based on SFD's high level of proficiency in financial management, SFD to consider coordinating a joint meeting of its development partners (loan disbursement managers) to facilitate an agreement on standardized interim financial reporting to enhance efficiencies.	SFD	by 30 December 2013	Formulation of recommendation not precise ('consider'). On the substance matter, standardized report forms are attached to each contract that CDAs sign. CDAs are held to report monthly
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	Done
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	Done. The external Auditor was changed. As the cost of the audit exercise is eligible under the grant financing (administrated by the NPCU), it is obvious that the NPCU and not SFD is responsible for the process (tender, contracting, payment). The NPCU did not contract an independent accountant to prepare the project financial statements. However, since the last supervision mission, the unit has a new Financial Manager who prepared the financial statements, and not anymore by the external auditor.

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

Table 5A: Financial performance by financier-25 November 2014

Financier	Approved (USD '000)	Current (USD '000)	Disbursement (USD '000)	Per cent disbursed	Balance against design target (USD '000)	Balance against the USD value of the SDR amounts (USD '000)
IFAD Loan	15,183.0	15,183.0	10,809.0	71.2%	4,374.0	4,767.0
IFAD Grant	952.0	952.0	936.0	98.3%	16.0	61.0
Government of	3,714.0	3,714.0	1,329.0	35.8%	2,385.0	2,385.0
Total	19,849.0	19,849.0	13,074.0	65.9%	6,775.0	7,213.0

Table 5B: Financial performance by financier by component (USD '000)- 25 November 2014

	IFAD Loan			IFAD Grant			Government of Egypt			Total		
Component	Current	Actual	%	Current	Actual	%	Current	Actual	%	Current	Actual	%
Private Sector Development	**15,183.0**	**10,809.0**	**71%**	**952.0**	**936.0**	**98%**	**565.0**	**343.0**	**61%**	**16,700.0**	**12,088.0**	**72.4%**
Market and SME Development				698.0	690.0	99%	552.0	330.0	60%	1,250.0	1,020.0	81.6%
Financial Services	15,183.0	10,809.0	71%	254.0	246.0	97%	13.0	13.0	100%	15,450.0	11,068.0	71.6%
Agriculture Competitiveness							**615.0**	**326.0**	**53%**	**615.0**	**326.0**	**53.0%**
Programme Management and Coordination							**2,534.0**	**660.0**	**26%**	**2,534.0**	**660.0**	**26.0%**
Total	15,183.0	10,809.0	71%	952.0	936.0	98%	3,714.00	1,329.00	36%	19,849.0	13,074.0	65.9%

Table 5C: IFAD loan disbursements (SDR, as at 25 November 2014)

	Category Description	Original Allocation	Current Allocation	Disbursement	Balance	Per cent disbursed	W/A Pending
113808	Credit Fund	10,050,000	10,050,000	6,242,039	3,807,961	62%	
72653	Initial deposit			950,036	-950,036		
	Total	10,050,000	10,050,000	7,192,075	2,857,925	72%	0

Table 5C: IFAD grant disbursements (SDR, as at 17 November 2014)

	Category Description	Original Allocation	Current Allocation	Disbursement	Balance	Per cent disbursed	W/A Pending
113808	Contractual Services, TA and Studi	635,000	635,000	408,919	226,081	64%	
72653	Initial deposit			226,081	-226,081		
	Total	635,000	635,000	635,000	0	100%	0

Appendix 6: Compliance with legal 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 36% of total official contribution provided to date. Percentage may increase as a result of an initiative of NPCU and SFD, which needs to be verified
	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	Compliance for 2012/13	
	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	Audit report submitted on time; no opinion provided by auditor on designated accounts and withdrawal applications; Management letter not provided

Appendix 7: Knowledge management: Learning and Innovation

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

Participatory approaches applied at the beginning of the project to establish linkages first with Marketing Associations and the private sector worked well to initiate a dialogue between actors/players. This, and the following actions to establish lists and rosters of products, product maps, and lists of produce requirements by buyers/processors as required by the market (type of product, variety, quality, quantity, time), constraints faced by different actors along the value chain) initiated first business contracts and purchases/sales.

Using Community Development Associations (CDAs) as financial intermediaries has worked well. CDAs 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, literacy, microfinance and others - to serve the community. Most importantly, these CDAs provide micro-finance, and finance income generating activities by individual borrowers. This constitutes an important channel to reach the non-banked 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. This goes to a certain extent against the conventional experience that microfinance works best if isolated, and institutionally separated from other charitable and social support services.

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.

The marketing component has never worked. Flaws and deficiencies derived from a rudimentary design, which left many aspects (in particular implementation arrangements and approaches) open, the mandating of a unit within the ministry without clear specialization and expertise in marketing, the environment in a ministry, which is diametrically opposed to the private sector working principles that are needed to engage in marketing activities, the lack of personal responsibility for the activities, an inadequate budget, a funding exclusively from public sources (with all the associated risks), and the near absence of studies and market-related research in this domain. This confirms the experience made elsewhere that the creation of market linkages, and the transformation of atomized smallholder farmers with heterogeneous production, interests and capacity can hardly be achieved under a public or parasternal structure. Neither the ministry, nor the supervision missions and the mid-term review, attempted to find a holistic solution to the underlying problems.

It is risky to assume that loan funds are the ultimate response to the lack of capital for MSEs. The main ingredient here is knowledge, without which no intermediation chain can work. The provision of lending resources to CDAs without any significant investment in parallel into the capacity has worked because of the enormous commitment and engagement of personalities in the CDAs, and their desire to make the support to the poor a success. There appears to be a limit where such commitment will work, and this is usually at the borderline, or during the transition from voluntary to remunerated staff, part-time engagement to full-time and remunerated leadership, semi-professional to professional services, micro-loans to small loans, and manual to electronic management information system. The widespread hesitation of CDA leaders not to go much beyond the EGP 5,000 loan amount is a clear indication for the desire not to incur risks that cannot be absorbed. In well-educated societies, with a reasonable infrastructure, the rule of thumb is that 8-10% of the loan amounts should be set aside for surveys, studies, systems development and capacity building. This is neither the case in UERDP, nor in the PRIME project. Both IFAD and the GoE should revise their approaches here. A range of IFAD documents, policies and technical notes provide ample insights into the why, what and how to do this.

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 analyze the nature of this demand for microfinance, in order to customize the credit terms and conditions accordingly. The most immediate changes anticipated are an adjustment of the repayment schedule to the cash flow of the business activity funded for borrowers with only one source of income (agriculture), and an increase of the loan amounts for successful repeat borrowers. In the medium to long run, CDAs must also reduce their effective interest rates in order to remain competitive.

Innovation: Describe any interesting innovation noted during supervision

SFD has, with some donor support, provided some selected CDAs with a software solution for loan tracking. SFD wants to assess the outcomes by the end of 2015, after about 15-18 months of use of the programs. The incentive used was that SFD paid for the cost of installation and use during the first year, and that the CDA would then continue to pay for software use and maintenance. This approach is very laudable and will most likely have a positive impact on the concerned CDAs, judging from the discussions in the field. It would be highly useful to document the results and check all possible options to scale up and expand this approach.

In retrospect, the combined approach to fund the development of new cropping patterns through applied research, their testing in demonstration plots, the selection of the most convenient and preferred techniques by farmers, the involvement of government extension services, the expansion of demonstration by extension officers to other farmers, and tentative and first impact studies on the outcomes, has worked well in the case of the UERDP, and is worth replicating. Conditions for such scaling up are that all elements of the chain as listed above do exist and that all actors are prepared to collaborate as requested. If further spread to farmers, the investments made are likely to produce significant benefits, to be proved through an independent economic and financial analysis at project completion point along an improved methodology.

Appendix 8: Supervision mission schedule and persons met

Date	Description
10 November	Mission arrives in country (air travel to Cairo)
11 November	• Team meeting • Meeting with SFD Presentation of results • Meeting with NPCU/MALR: Presentation of results
12 November	• Travel to Luxor by air • Travel to Qena by car • Presentation of results at the Directorate of Agriculture, Qena Governorate • Presentation of results at the SFD offices in Qena • Visit to PBDAC regional office in Qena
13 November	• Field visits to CDAs, FMAs, extension officers, researchers
14 November	• Travel to Assiut by car
15 November	• Presentation of results at the PMU, Assiut Governorate • Presentation of results at the SFD offices in Assiut • Field visits to CDAs, FMAs, extension officers, researchers
16 November	• Field visits to CDAs, FMAs, extension officers, researchers
17 November	• Travel to Sohag by car • Travel to Cairo by air • Team discussion
18 November	• Meeting with NPCU
19 November	• Meeting with SFD
20 November	• Team discussion/production of Aide mémoire • Circulation of Aide mémoire
21 November	• Team discussion and elaboration of mission report
22 November	• Team discussion and elaboration of mission report
23 November	• Three different wrap-up sessions with MALR, MPIC, NPCU and SFD
24 November	Return to home stations

List of people met

Government Agencies

H.E. Dr. Adel el-Beltagi, Minister for Agriculture and Land Reclamation
Mr Mohamed Hammam, Assistant Minister in charge of International Organizations, MIC
Mr Mohamed Rashed, Undersecretary of State, Ministry of International Cooperation
Dr Magdy Madkour, Supervisor for Central Administration, Foreign Agricultural Relations, MALR
Ms Hanaa El Hilaly, Director General for Planning and International Cooperation, SFD

NPCU, Cairo

Eng. Sayed Hussein, Director, National Project Coordination Unit, UERDP
Ms Fatma El Zhraa Shoeib, M&E Director
Mr Khaled Farid, NPCU M&E officer
Ms Hanaa Mahmoud, M&E Assistant
Mr.Sameh Mohei, Accountant/Finance Officer
Ms Amal Talaat, Accountant Assistant

GPCU Qena

Dr. Amal Esmaeil, Governorate Coordinator
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 Mostafa Roushdy, Governorate Coordinator
Mr Hamdy Khalil, Governorate Project Director
Mr Ibrahim Noaman, Finance Officer
Ms.Naglaa Mohamed, M&E Assistant

Social Fund for Development (SFD)

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
Dr Howaida El Hawary, Head of Monitoring Sector, Central Sector for Planning & International Cooperation
Dr 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, Acting Manager, Monitoring Sector, Central Sector for Planning & International Cooperation
Dr Amal Gamal Eldin, Financial Sector Director
Mr Hossam Fathy Aziz, Head of Central Sector, Internal Audit
Mr Mohamed Ahmed Soliman, Deputy Manager, Financial Sector
Ms Dalia Nazih, Technical Support Office, Non-financial Services Central Sector
Dr Raafat Abbas Sheata, Head of Non-financial Services Central Sector
Eng. Samir Fahmy Badawy, Project Manager, RIEEP
Mr Ahmed Atef, Officer, Microfinance Central Sector
Eng. Ahmed Saleh Fadl, Dep. Manager, Microfinance Central Sector
Mr. Amr Hossam Elwy, Assistant General Manager, Banking Relations
Ms. Rania Youssry Hussein, Deputy Manager, Banking Relations Department

Qena Regional Office:
Mr Amr Ibrahim Abdullah, , Qena Regional Office Manager
Ms Mariam Nayrouz Nashed, M&E Officer
Mr Montaser Abdel Rahim, Non financial services unit officer
Mr Mahmoud Abdo Hindawy, Microfinance unit officer
Mr Mohamed Ghareeb Shabeeb, Microfinance officer
Mr Mahmoud Ahmed Mohamed Zidan, Microfinance officer
Mrs. Eman Mohamed Ali
Eng. Samir Fahmy Badawy, Rural Income and Economic Enhancement Project (RIEEP)

Assiut Regional Office
Mr Romeh Mohamed Abdel Haseeb, Manager, Assiut Regional Office
Mr Amgad Mohamed Selin, Small Enterprises Unit Officer
Mr Ossama Ahmed Ali, Microfinance Officer
Mr Eid Ragab, Internal Audit Officer

Other institutions
Horticulture Export Improvement Association (HEIA): Ms Iman Kamel, Executive Director