UNCLASSIFIED

INTERNATIONAL DEVELOPMENT COOPERATION AGENCY

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

Agricultural Production and Credit

263-0202

EGYPT

PROJECT PAPER

November 20, 1986

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: ______ — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: EGYPT

3. PROJECT NUMBER: 263-0202

4. BUREAU/OFFICE: ANE - USAID/Egypt — 03

5. PROJECT TITLE (maximum 40 characters): Agricultural Production and Credit

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09 DD 30 YY 93

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)
A. Initial FY 86 B. Quarter 4 C. Final FY 92

8. COSTS ($000 OR EQUIVALENT $1 = LE 1.35)

A. FUNDING SOURCE	FIRST FY 86 B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(33,801)	(1,185)	(35,000)	(117,500)	(5,500)	(123,00
(Loan)	( )	( )	( )	( )	( )	(
Other U.S. 1.						
Other U.S. 2.						
Host Country						
Other Donor(s)		LE42,000	$31,111		LE150,000	$111,11
TOTALS	33,815		$66,111			$235,1

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ESF	140	053				35,000		123,000	
(2)									
(3)									
(4)									
TOTALS						35,000		123,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 041 | 011

11. SECONDARY PURPOSE C

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code	BF	DEL	TNG				
B. Amount							

13. PROJECT PURPOSE (maximum 480 characters)

To provide farmers with new technology, improved financial services, and expanded access to input supply, so that they can take advantage of higher returns to investment in a deregulated agricultural sector.

14. SCHEDULED EVALUATIONS
Interim MM 08 YY 89 | MM YY | Final MM 06 YY 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES
[X] 000 [ ] 941 [X] Local [ ] Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a ______ page PP Amendment)

USAID/Egypt Controller concurs with the proposed methods of implementation and financing

10/5/86

William A. Miller, Controller

17. APPROVED BY
Signature
Title: Director, USAID/Cairo
Date Signed: NOV 20 1986 — MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY

AID 1330-4 (8-79)

Table of Contents

4

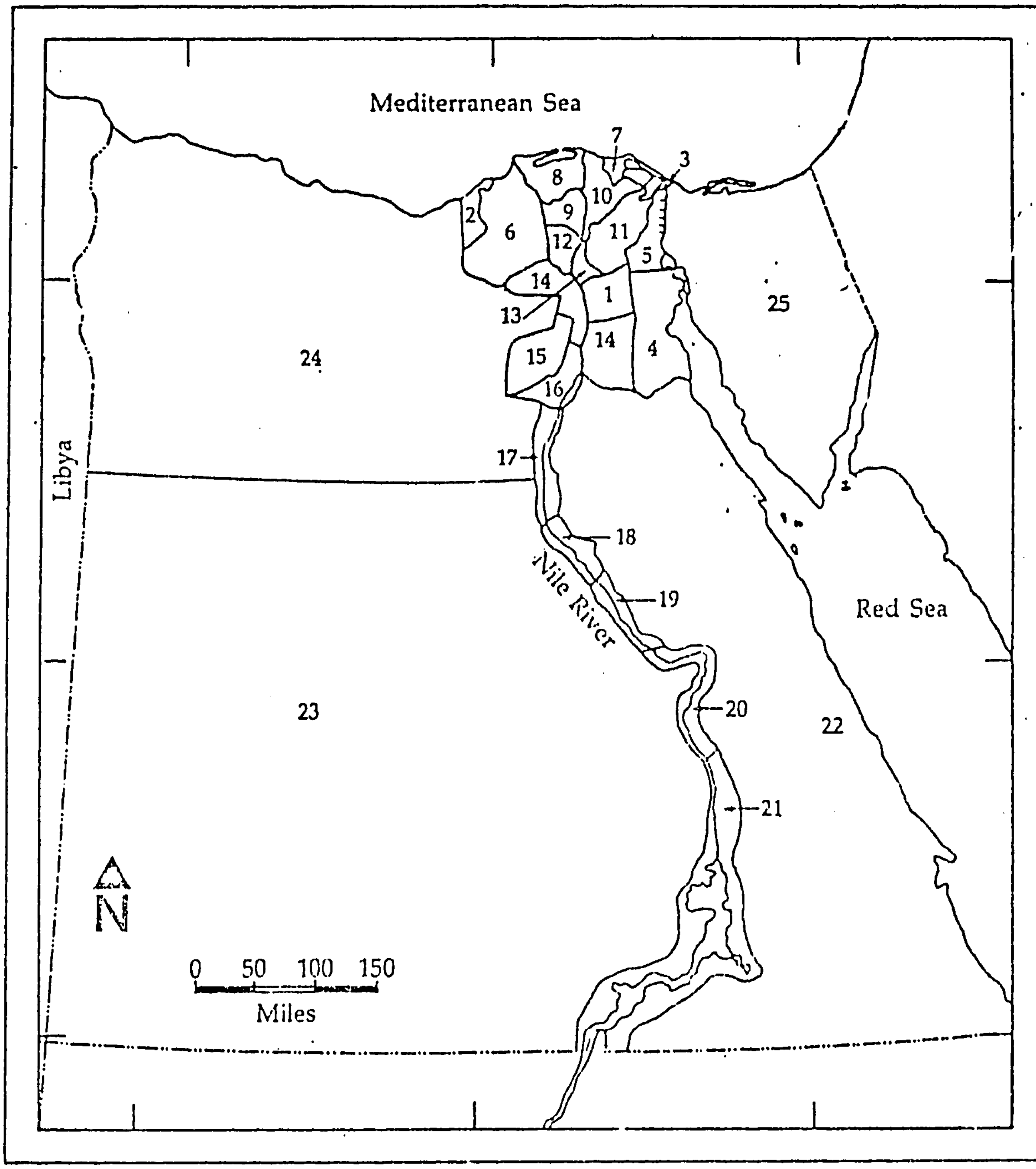
Glossary

APCP	-	The Agricultural Production and Credit Project (263-0202)
Bank	-	The Principal Bank for Development and Agricultural Credit (PBDAC)
BDAC	-	Regional (Governorate Level) Bank for Development and Agricultural Credit
CAMD	-	Center for Agriculture Management Development
EDP	-	Electronic Data Processing
EMCIP	-	Egyptian Major Cereals Improvement Project
ESF	-	Economic Support Fund
EWUP	-	Egyptian Water Use and Management Project
FSN		Foreign Service National (Employee)
FY		Fiscal Year
GDP		Gross Domestic Product
GOE		Government of Egypt
IMSP		Irrigation Management Systems Project
IRR		Internal Rate of Return
LE		Pounds Egyptian - US$1 = LE 1.35
MOA		Ministry of Agriculture
Mesqua		The final canal in a water delivery system just prior to farm or plot
NARP		National Agricultural Research Project
NES		National Extension Service
PBDAC		Principal Bank for Development and Agricultural Credit

5

PID	-	Project Identification Document
PP	-	Project Paper
PVO	-	Private Voluntary Organization
PSC	-	Personal Services Contract
RRT	-	Rice Research and Training Project
SFPP	-	Small Farmer Production Project
USAID	-	United States Agency for International Development (Cairo)

Map of the Arab Republic of Egypt



Boundary representation not necessarily authoritative.

Urban Governorates
1. Cairo
2. Alexandria
3. Port-Said
4. Suez

Lower Egypt
5. Ismailia
6. Behera
7. Damietta
8. Kafr-El-Sheikh
9. Gharbia
10. Dakahlia
11. Sharkia
12. Munufia
13. Kalyubia

Upper Egypt
14. Giza
15. Fayum
16. Beni-Suef
17. Menia
18. Asyut
19. Suhag
20. Qena
21. Aswan

Frontier Governorates
22. Red Sea
23. New Valley
24. Matruh
25. North and South Sinai

PROJECT PAPER

Agricultural Production and Credit Project
263-0202

I. SUMMARY AND RECOMMENDATIONS

A. Project Title

Agricultural Production and Credit Project

B. Project Number

263-0202

C. Source of Funds

Economic Support Fund

D. Total Project Amount

AID - $123 million, GOE - LE 150 million

Proposed AID FY 86 Obligation : $35 Million
Proposed AID FY 87-92 Obligation : $88 Million

Proposed GOE first year contribution : LE 42 Million
Proposed additional GOE contributions : LE 108 Million

E. Terms

To GOE: Entire amount as a grant

F. Grantee

Grant funds will be made available to the implementing agency, the Principal Bank for Development and Agricultural Credit (PBDAC), and to the Treasury of the Government of Egypt.

G. Coordinating Agencies

USAID/Cairo, the Ministry of Agriculture and Food Security.

H. Implementing Agencies

The Principal Bank for Development and Agricultural Credit, and the Ministry of Agriculture and Food Security.

I. Life of Project

Seven years: PACD September 30, 1993.

J. Project Goal

To increase agricultural investment, agricultural productivity, and farm incomes in Egypt by supporting deregulation of the agriculture sector and introduction of a market based incentive system.

K. Project Purpose

To provide farmers with new technology, improved financial services, and expanded access to input supply, so that they can take advantage of higher returns to investment in a deregulated agricultural sector.

L. Environmental Soundness of Project

The activities of this project in regard to A.I.D. environmental procedures qualify for a negative determination in compliance with the requirements of 22 CFR 216 (Section 216.3(b) of Reg. 16).

M. Project Summary

Historically, Egyptian farmers have been among the most productive in the world. Previously, they not only fed Egypt, but also provided surpluses for export. This began to change in the mid-1970's when annual growth in the agricultural sector leveled off at only two to three percent. This slow growth, accompanied by increased domestic consumption, resulted in increasing annual agricultural trade deficits which by 1985 had reached $3 billion. The share of agriculture in real GDP declined from 29 percent in 1974 to 17 percent in 1983 and production had shifted from crops in which Egypt has a comparative advantage toward crops with a lower economic return. In recent years, annual growth has been near zero.

The disappointing performance of the agriculture sector is primarily due to a policy environment which does not provide farmers with incentives for increasing economically productive investments. In addition, the government system dictates the area for key crops and availability of inputs. Farmgate and retail prices on many inputs and outputs are controlled and the end use of a major number of agricultural products, including the level of exports is mandated by the government.

a

During the last decade, USAID and the GOE have sought technical solutions to increase production. USAID/GOE projects have developed technology that permits a 50 percent production increase in cereals. The Small Farmer Production Project (SFPP) has also shown that a combination of new technology and credit can increase production and incomes of even small farmers. Horticultural and livestock production, which operates under less restrictive market conditions, has shown that Egyptian farmers will respond aggressively to an incentive based policy environment. However, government studies indicate the bulk of agricultural investments flow into economically unsound, but financially very profitable enterprises. Recognition of the severity and extent of these policy effects has convinced high level GOE officials that policy changes must now be made in tandem with technical progress and institutional development to achieve significant increases in production. USAID strategy is to support the GOE in their efforts to analyze the potential impact of the policy reforms and minimize the temporary hardships imposed by the shift to a more market-responsive sector.

While the GOE is developing its new agricultural structural reform program, the Agricultural Production and Credit Project (APCP) will begin to institutionalize systems developed under SFPP to transfer new technology and make credit accessible to small farmers and entrepreneurs providing farm related services. Funds ($23 million) will be used for technical assistance, training, and commodities.

The bulk of USAID project funds ($100 million) will be dollar denominated performance payments to assist the GOE to move agriculture towards a free market structure and will be transferred in tranches based on implementation of planned changes. One indication of performance will be the GOE making funds available to expand the capital base of the Principal Bank for Development and Agricultural Credit (PBDAC). The amount of performance funds released will be determined by the Bank's need for additional capital to meet the demand for credit which is expected to result from policy reforms. With this increased capital base, PBDAC can borrow LE from local banks to further expand funds available for farmers and businesses supporting agriculture.

Depending on actual demand for credit, deposit mobilization, and cost of borrowed funds, the Bank should be able to more than double the amount loaned. These funds will ensure that small farmers and entrepreneurs have financing available as input subsidies are removed and opportunities created by policy reform. As the government decreases its role as direct importer, distributor and investor, PBDAC will expand its clientele to help private companies develop as suppliers of inputs and services. This expanded credit activity and technical assistance to modernize banking activities in over 300 of the PBDAC's 750 village banks will reorient the Bank as primarily a financial institution and allow it to diminish its role in controlling input supply and marketing. This approach will support expansion in agricultural production as policy changes are implemented.

N. Summary Findings

The Project Review Committee has reviewed all aspects of the proposed Agricultural Production and Credit Project and finds that it is financially, economically, technically, and socially sound, and consistent with both the development objectives of the GOE and those of USAID/Cairo as set forth in USAID/Cairo's FY 1986 CDSS. The Project Review Committee has further determined that PBDAC is institutionally capable of administering the project as discussed in the Project Paper.

O. Recommendations:

That USAID/Cairo approve a Grant for $123 million to be funded in increments over a seven year period, beginning with $35 million in FY 86 for the Agricultural Production and Credit Project (263-0202); and

That the PACD be established at September 30, 1993.

II. BACKGROUND

Egypt was self-sufficient in agriculture for 5,000 years, and its normal crop surpluses were the basis of the great dynasties of antiquity. Early in the Twentieth Century, rapid population growth entered the equation, placing steadily increasing demands on the agriculture sector. The Green Revolution and other technological innovations have demonstrated that agricultural productivity can be increased dramatically. Egyptian farmers are known to be capable and productive when given adequate incentives. And yet the Egyptian agriculture sector is stagnant, with no real growth in recent years.

A. Problem Analysis

The existing policy environment of controlled crop prices and input distribution is inhibiting agricultural production in Egypt, resulting in a spiraling agricultural trade deficit. This policy regimen is implemented by existing institutions for agricultural credit, extension, and input distribution. The GOE has recognized the severity of the problem and indicated its intention to deregulate agricultural production. However, financial resources and technical assistance are required to make this difficult transition.

1. Sector Impact of Current Policies

The Egyptian agriculture sector was producing a balance of payments surplus only 15 years ago. However, beginning in 1970 the GOE increasingly tightened the regulation of agricultural production in order to provide cheap food to the urban sector. Crop prices were controlled and production quotas assigned. In order to persuade farmers to produce at low crop prices, it became necessary to provide credit and inputs such as fertilizer at subsidized prices. The government increased its control by becoming the sole distributor of these inputs. The impact of these regulatory mechanisms on the agriculture sector includes the following:

- Production is controlled through centrally planned land use and cropping patterns, rationing of fertilizer, chemicals, seed and machinery.

- Farm returns are influenced by regulating crop and input prices, and by dumping subsidized foodstuffs on the market.

12

Marketing is controlled by requiring farmers to sell certain crops to the Principal Bank for Development and Agricultural Credit (PBDAC) or government cooperatives often at below open market prices and by controlling exports of certain crops.

Input distribution is controlled through public sector monopolies and restrictions on private sector rates of return, including complicated regulations on trade.

Technology diffusion is limited by restricting farmers making credit purchases to "packages" of inputs which do not efficiently meet their needs.

Credit is restricted by regulating interest at rates unattractive to commercial lenders, by high collateral requirements, and by a limited portfolio of eligible investments.

Controlled crop prices and the centrally regulated input and procurement control system have resulted in a stagnating agricultural economy. Unreleased government statistics indicate a deterioration of agricultural production in real terms in the period 1980-1984. The problem has been magnified by Egypt's population growth rate of 2.9 percent per year, which requires equivalent increases in agricultural production just to keep up in per capita terms. Rural-urban migration further compounds the problem. The population of Cairo has doubled since the late 1960's, and other Egyptian cities have grown almost as rapidly, leading to spiraling demand for cheap subsidized food. These factors have pushed food self-sufficiency (domestic production divided by domestic consumption) into a steadily downward trend.

Maintaining subsidies in the centrally managed farm input supply system imposes a considerable strain on the GOE budget. Direct government subsidies to agricultural credit rose from LE 40 million in 1981 to LE 62 million in 1985. Input subsidies soared from LE 100 million in 1978 to LE 340 million in 1983, as allotments of fertilizer and other inputs were increased. Nevertheless, significant shortages in particular types of fertilizer began to appear in late 1985, and agricultural production declined.

2. Rural Regulatory Mechanisms

A variety of GOE and local government organizations are involved in the implementation of agricultural policy. One of the most important of these institutions is the Principal Bank for Development and Agricultural Credit (PBDAC). Another is the MOA's state cooperative system, often combined in rural offices with the National Extension Service (NES). In the past both PBDAC and the co-ops have been centrally involved in the regulation of agriculture. However, it has been démonstrated in pilot projects that PBDAC, with the assistance of extension agents from the NES, can be reoriented to help increase agricultural production.

a. PBDAC

The PBDAC is a holding company for 17 governorate banks which implement GOE policies in credit, input distribution, and marketing. Encompassing 750 village banks throughout these governorates, PBDAC exerts a very powerful influence on Egyptian agricultural production. Loans are provided for the credit purchase of PBDAC-supplied inputs, and cash loans are restricted to specified crops. Credit and production inputs are heavily subsidized, but limited availability generates shortages and requires rationing.

The Bank is heavily dependent on GOE subsidies, which compensate for the difference between GOE mandated low interest rates for short term loans of 3.5 to 6.5 percent and the maximum legal rate of 13 percent. In 1985, the gross margin on lending was a negative .75 percent without the subsidy and a positive 5.6 percent with a subsidy. Even with the subsidy, interest rates of 13 percent are insufficient to prevent some erosion of Bank capital due to inflation.

The PBDAC's input distribution function is designed for control rather than active merchandising. Heavily subsidized inputs such as fertilizer are rationed and provided at a fraction of their real cost. Annual plans for input supply are determined upon the Ministry of Agriculture's technical recommendations to achieve national production quotas, while maintaining discrete land use patterns. Actual input quantities are negotiated with other ministries and are subject to the availability and levels of funds for agricultural subsidies, foreign exchange, and state owned production. Even if the PBDAC wished to supply additional inputs, it does not possess the necessary foreign exchange. The Bank's monopoly on subsidized fertilizer and many other inputs combined with numerous other government regulations prevents the private sector from responding to farmer needs.

b. National Extension Service

The MOA's state cooperative system, often combined in rural offices with NES personnel, mirrors the policy environment. Regulatory and agricultural management activities overshadow efforts to transfer new technology. Extension agents have been associated with implementing mandated cropping patterns, quotas and regulations relating to agrarian reform laws, pest control, input delivery, machinery scheduling, and data collection. In March 1985, a Ministerial Decree specified extension's educational functions, and though progress has been substantial throughout the most productive regions, the increased emphasis on providing technological information is reportedly incomplete in some outlying districts. (See Annex 8: Referenced Documents.)

Most extension agents are untrained in appropriate farm technologies and have little contact with researchers and technical specialists. Furthermore, current GOE priorities for regulated crop production require only selected technological packages. Without policy changes, extension workers face the unenviable task of "selling" technology for mandated, low monetary return crops to farmers who are interested in high cash return investments in vegetables, fruits, and livestock.

B. Agricultural Sector Policy Dialogue

The GOE has been considering policy reform and assessing strategies for increasing agricultural production. AID has concluded that policy reform and deregulation are of pivotal importance, and there is considerable overlap in their respective positions.

1. GOE Policy Reform Program

The GOE has indicated its intention to restructure the economy and the policies which impact upon the agricultural sector, and to modify the operating procedures of the state organizations which implement those policies. The agricultural economy must be transformed from one emphasizing central planning and regulation into a system responsive to the economic signals generated by a free market system. The agricultural reform program presented to USAID and the IBRD by the GOE in June 1986 consists of nine measures:

Liberalize prices for all crops in three years, except cotton, sugar and rice;

Liberalize cotton, sugar and rice prices by 1998;

15

- Eliminate quota delivery (compulsory procurement at fixed prices) for all crops except cotton, sugar and rice by 1986 and on the remaining crops after 1995;

- Eliminate mandates on cropping patterns except for rice, sugar and cotton by 1989. Price and opportunity will determine farmers choice, which is likely to be for high valued crops with export possibilities;

- Limit state ownership of land to 4 percent, used for agricultural experiments and crop testing; all new land will be sold to the private sector;

- Liberalize import prices so that subsidies are eliminated;

- Eliminate input distribution monopolies of the public sector and include the private sector;

- Encourage young people to operate small modern farms;

- Promote applied research through contracts with research centers and institutions.

2. <u>USAID Policy Orientation</u>

USAID supports the GOE's reform strategy for agricultural development in Egypt. USAID considers pricing policy, explicit controls over agricultural production and quota deliveries to the GOE, and the lack of private sector involvement in providing services and inputs to farmers as major factors in the disappointing performance of the sector. USAID also believes agricultural policy reform must be implemented faster than the GOE has proposed. A model policy reform program is outlined in Annex 7E.

The following series of policy reform outputs reflect GOE/MOA and USAID concerns and are based upon a long series of descriptive studies and analyses undertaken by the GOE. Because USAID/GOE policy analyses and discussions are continuous, specific reform targets may change. The list below reflects USAID's current orientation. Within a three year time span, the GOE could implement, at a minimum, the following policy reforms:

Cotton procurement prices raised substantially to induce farmers to plant more cotton area and to plant earlier;

- Red meat prices reduced to induce farmers to plant less area in long-season berseem and to eliminate uneconomic feedlots;

- The marketing of maize, broadbeans, and all above-quota rice privatized to assure efficient, fair prices to the farmer;

- Input subsidies to fertilizer and farm credit eliminated to encourage private sector competition;

- Private sector exports of oranges and other high-value crops legalized and encouraged.

3. Policy Reform and the USAID Portfolio

USAID's policy orientation has brought about a decided shift in strategy toward support for policy dialogue with the GOE in support of policy changes. All of AID's resources allocated to the agricultural sector are used as forums for the policy dialogue. GOE policy changes can result in substantial additional AID resources being committed to the agricultural sector.

USAID has restructured its agricultural project portfolio to make larger commitments of resources possible. USAID's past agricultural portfolio consisted of several relatively small projects focusing on improved agricultural technology, and its dissemination to farmers. USAID's future portfolio will be concentrated on three subsector projects: the National Agricultural Research Project, the Irrigation Management Systems Project, and this Agricultural Production and Credit Project. The planned $200 million amendment to the Irrigation Management Systems Project, the $130 million National Agricultural Research Project recently signed, and this $123 million project will provide substantial resources in support of GOE efforts to reform the sector. These three areas of program concentration have additional capacity to productively use AID funds.

In addition to their use to support the policy dialogue, all three are highly complementary in the development of Egyptian Agriculture. New technology is essential for farmers to capitalize on improved irrigation systems. Credit is required to put new technology to use and for irrigation investments at the farm and mesqa level which are the responsibility of farmers. Improving the irrigation system to provide a more reliable supply of water to farmers will increase the productivity of existing technology as well as the new technology to be created.

In summary, USAID's strategy is to maintain strong support for GOE policy reforms and at the same time provide funding for key elements in their agricultural development strategy--the creation and dissemination of new agricultural technology; improvement of the River Nile irrigation distribution system; and a farmer responsive agricultural credit system.

C. Small Farm Production Project

The APCP is in many respects a follow-on project to the Small Farmer Production Project (SFPP), a very successful pilot effort to introduce new credit systems in 74 of the Bank's 750 village banks (see PES, Annex 8). Since 1979 USAID has invested over $45 million in SFPP, and agricultural production has increased considerably in project areas. However, the SFPP was not designed to deal with policy reform. It skirted major government policies, such as mandated cropping patterns and centrally determined crop quotas, winning farmer acceptance by concentrating on crops providing high monetary returns. SFPP did not improve the input distribution or marketing systems, either through the Bank or in the private sector. The project strategy of creating strong village linkages between credit, extension and research has not yet been widely copied. Modified credit systems have not been established throughout the PBDAC and the efficiency and financial viability of the Bank as a whole has not been strengthened. SFPP demonstrated that improved credit and technology will increase agricultural production. However, it is apparent that relaxation of controls on crop prices and input distribution could generate even greater increases. The APCP is designed not only to expand the SFPP systems from 3 to 11 governorates, but also to encourage deregulation of agricultural production.

D. Other Donors

Several multi-lateral donors, including the World Bank, African Development Bank, and the European Economic Community, have provided loans of $294 million to the MOA and PBDAC during the past six years. These loans have financed fruit and vegetable development, agro-industry development, fish farming, agricultural inputs and farm machinery. At this time, the World Bank is considering financing the Second Agricultural Development Project. This $139 million loan would support the GOE's program to promote increased agricultural productivity through the introduction of farm technology packages, including farm machinery services, in seven rice-growing governorates in the Nile Delta. Similar to other donor-funded projects, this project would provide only minimal technical assistance to PBDAC.

The APCP, while complementing other donors' efforts in the agriculture sector, will be the first to link policy reform with credit resources. Furthermore, the project will assist one of the key organizations responsible for implementing GOE agriculture sector policy. Strengthening the management capabilities of PBDAC will improve the implementation efforts in other development projects administered through PBDAC

III. PROJECT DESCRIPTION

A. Project Goal and Purpose

The goal of APCP is to increase agricultural investment, agricultural productivity, and farm incomes in Egypt. The purpose of the project is to provide farmers with new technology, improved financial services, and expanded access to input supply, so they can take advantage of higher returns to investment in a deregulated agricultural sector.

B. Project Description

APCP is designed to comprehensively address basic factors presently inhibiting agricultural production in Egypt. It supports policy reform by encouraging the GOE to expand agricultural credit during the transition to deregulation, when the removal of subsidies may cause some input prices to rise, increasing the credit requirements of small farmers. APCP is incrementally funded, with annual obligations conditional on GOE progress in policy reform and with disbursements made in response to GOE capitalization of the Principal Bank for Development of Agricultural Credit (PBDAC). The project also provides technical assistance for PBDAC, small farmers, and new private sector input distributors. The policy reform component interacts with the credit and technology elements so that the effects of all are greatly enhanced.

1. Policy Reform

The GOE has proposed a policy reform program involving liberalization of controls on crop and import prices, relaxation of crop production controls, and elimination of public sector input distribution monopolies (see list, section II.B.1.). USAID agrees with this program, but feels that its implementation could be accelerated. USAID considers these reforms vital for achieving the project goal and purpose.

2. Annual Review and Incremental Funding

The total USAID agriculture sector funding which is conditional on GOE policy reform is very substantial. APCP's $123 million in AID funding is linked to the policy dialogue with the GOE, along with $330 million in additional funds from other projects. The incremental obligation of these funds is conditional on GOE progress toward agreed policy reform targets, as well as the prior GOE capitalization of PBDAC. Further inducement is provided by World Bank and IMF interest in similar policy reforms.

A high level USAID/GOE committee will meet annually to develop targets for agriculture sector policy reform for the coming year and review program and policy reform progress during the previous year. This annual review process has been used successfully in the USAID water and wastewater sector portfolio for the past three years. Funding for monitoring activities is included in APCP's evaluation budget.

The basic content of a proposed GOE agricultural policy reform program has been discussed and generally agreed between the GOE and USAID, but it remains to specify and refine these concepts into agreed annual targets for policy reform. It is not possible to specify annual benchmarks for the life of the project with any certainty. Analysis of potential reforms and discussions between the MOA and USAID are continuous, so we expect that the reform targets for each new year will be specified in the context of changing conditions and the ongoing policy analysis. This is a major function of the annual performance reviews.

As a basis for the first year disbursements USAID believes the following benchmarks are appropriate. These are not final targets, being subject to negotiation between MOA and USAID. However, they represent USAID's policy analysis to date, and are indicative of the level of reforms which, along with capitalization of PBDAC, we believe must be made to reach LOP policy targets.

Price Increases for Key Crops

- Announcement in December 1986 (before planting decisions) of a 50 percent increase in cotton prices for 1987 crop.

- Raise prices to end users of cottonseed meal in October 1986 and cottonseed oil in October 1987 to reflect c.i.f. import value, calculated at the free market exchange rate.

Elimination of Controls on Meat Imports

- Eliminate government barriers to private sector imports of red meat by abolition by December 1986 of the requirement for approval of import licenses for red meat by the GOE.

Elimination of GOE Monopoly on Input Supply

- Pass new laws permitting free private sector marketing, import and inland transportation of all basic as well as

21

compound fertilizers; abolish the requirement for import licenses for fertilizer; all by Spring 1987.

Decrease Subsidies on Fertilizer

- Announce that during the 1986/87 crop year, prices for nitrogen fertilizer will be raised by 50 percent.

The long term matrix of target benchmarks will be developed from the proposed GOE policy reform program already listed in section II.B.1. These reforms are considered vital for attaining the project goal and purpose, and the project's incremental funding is designed to facilitate their implementation. However, the specification and timing of the reforms into agreed annual targets must be negotiated by USAID and the GOE in their annual review meetings.

3. Expansion of PBDAC Capitalization

Capitalization of PBDAC is inadequate to meet the present credit requirements of farmers. Loan disbursements must be rationed due to limited capital funds, and credit is available only for specified inputs and crops. Deregulation of the agricultural economy is expected to increase demand for credit. Higher crop prices will motivate farmers to expand the scope and intensity of planting. Removal of GOE subsidies on credit, fertilizer, and machinery will increase the cost of agricultural production.

The APCP will expand rural credit by supporting increased GOE capitalization of PBDAC of LE 135 million. Interest earned on loan activity will be retained by the Bank and added to the capital fund annually. The project will provide $100 million in performance payments to the GOE over the life of the project, with incremental disbursements contingent on increases in PBDAC capitalization. This requirement is in addition to those imposed by the policy reform discussed above. The disbursement process is described in greater detail in the Financial Plan (section V.).

The increased capitalization is intended to provide a base for redevelopment of the PBDAC in order to improve its financial viability. This will allow the Bank to borrow additional funds from commercial banks and meet increased demand for credit as investment opportunities are opened up by policy reform. Under this project, the GOE and USAID will assess the capital requirements of the Bank and begin a program for sufficient retention of earnings to assure adequate long term capitalization.

Except in SFPP project areas, PBDAC currently charges between 3.5 and 6.5 percent interest on its short-term small farmer loans and between 13 and 14 percent on business loans. The loan funds made available to PBDAC by the GOE under this project will be lent by the Bank at the highest legal rates: currently 13 percent for short term loans and 16 percent for business loans, with an additional 1 percent service charge on both types of loan. Even these higher rates are barely sufficient to keep inflation from eroding bank capital, but they remove most of the subsidy from interest rates and put loan activity on a more realistic commercial basis. It was demonstrated in SFPP that farmers will pay these rates when adequate incentives are provided. USAID will monitor PBDAC lending to assure that interest rates are increased and that funds are reaching project beneficiaries, small farmers, and businesses supporting agriculture.

By the end of the project PBDAC should have expanded its capitalization by at least LE 135 million. The additional funds, along with higher interest rates and the retention of earnings, will place the Bank on a firmer financial basis. It will have expanded lending to farmers and private sector businesses supporting agriculture, facilitating the transition to deregulation and contributing to the project goal of higher production and income.

4. Improvement of Credit and Extension Services

The PBDAC will be reoriented and improved to better serve small farmers and associated village enterprises. The SFPP has demonstrated that this can be accomplished by the application of technical assistance and training.

a. PBDAC Staff

The project will expand and upgrade the financial capabilities of PBDAC at its headquarters in Cairo, in district offices located in each governorate, and in 350 village banks in 11 of Egypt's 17 governorates. To accomplish this the project will provide a team of advisers to provide technical assistance to PBDAC. USAID and the Bank have identified financial management and analysis, credit and investment, personnel administration and training, and private enterprise expansion as areas for assistance. Management information systems will be developed to provide pertinent, timely information for decision-making, with improvement of the existing manual procedures at the village level, and computerized systems for each governorate. Developing the precise scope and content of the program will be an early priority of the technical assistance team, working in concert with PBDAC.

b. Village-Level Teams

The project will develop village-level outreach teams equipped to provide both financial and technical services to farm operators. These teams include a bank manager, a financial analyst, and an extension agent from the NES. Similar teams were developed under SFPP, and the necessary inter-agency cooperation and coordination of training efforts was satisfactorily arranged. PBDAC will train bank managers and financial analysts in all aspects of farm enterprise, including formulation and analysis of farm budgets, estimation of net worth, and financial analysis of agricultural investments. The teams will be trained and put in place as the PBDAC completes it organizational arrangements in each governorate.

The extension agents will be trained by the Ministry of Agriculture. It was previously noted that the MOA has already redefined the role of extension agents from crop regulation to technical assistance. However, these workers have meager knowledge of appropriate technology for farm production, and require considerable training. It was demonstrated in SFPP that they can be redirected and trained to provide useful technical support to farmers.

c. Technical Assistance and Training

Technical assistance will be provided by the project under a host country contract. The project budget includes $9.6 million and LE .72 million for this technical assistance. The RFTP for a long term technical assistance team will be developed early in the project by USAID and PBDAC with the assistance of a mobilization team secured by USAID under MBE (8-A) regulations. During the development of this RFTP the consultant will work with USAID and PBDAC to specify the exact composition of the technical assistance team and its detailed work plan. At present the suggested composition of the technical assistance team is as follows:

- Team Leader (credit planning, management, and banking)
- Credit Specialist
- Quality Control and Loan Classification Specialist

- MIS/Accounting Specialist
- Finance, Planning, and Budgeting Specialist
- Business Lending Specialist
- Marketing Systems Development Specialist
- Personnel/Training Specialist

Details on the suggested team and its technical qualifications are contained in section VI. It is anticipated that the team will be in place by June, 1988. It will remain for five years, providing 360 person months of technical assistance. In addition, the project provides for 45 months of short-term technical assistance, which includes the pre-mobilization team and specialized requirements of the technical assistance team.

The team will provide technical assistance directly to PBDAC for the design and installation of management and financial systems. It will participate in technical development of Bank staff by direct advisory support and by contributing technical curricula to PBDAC's training program.

The project budget includes $3.3 million and LE 4.06 million to support training of PBDAC staff and village-level teams. The PBDAC training program is adequate, with good management and an experienced staff. It has training facilities at headquarters and at many governorate and district offices. The Ministry of Agriculture also has a capable training staff and adequate facilities.

Preliminary plans call for training up to 9,500 PBDAC employees, but the final number of trainees and types of training await the management and training needs assessment which will be conducted early in the project by the mobilization team. Many training packages have already been developed by SFPP, and will be available where applicable to APCP's finalized training needs. The technical assistance team will assist in further development of training curricula, and participate in the training of trainers. The majority of training will involve short courses given in country. Overseas training will be primarily short courses for middle management. No long term overseas training is planned.

d. Required Equipment and Services

The design of a management information system for PBDAC is very preliminary at this point. It is necessary to develop a final design of the MIS before equipment can be specified and ordered. However, studies of PBDAC information requirements and capabilities indicate the contours of a system involving computerized information processing at the governorate and headquarters level and a streamlined manual system at the village level. The project budget includes $4 million for the acquisition and installation of 13 computers at PBDAC headquarters and the governorate offices. It is not feasible to plan for computerization at the village level until manual systems are improved and electric supply becomes more reliable. However, the project budget includes funding for several hundred calculators and other necessary office equipment and supplies for village banks.

The project requires mobility on the part of host county project officials, since it covers 350 villages in 11 governorates. Both PBDAC and MOA officials are required to travel frequently between headquarters and governorate or district offices, and district officials must cover the circuit of their villages in order to supervise project implementation and provide followup. The project provides 4 vehicles for each of the 11 governorate banks (2 for PBDAC, 2 for MOA), 6 for PBDAC headquarters, and two for MOA headquarters, for a total of 52 vehicles. The budget includes $800,000 for these vehicles and $75,000 for spare parts. The budget also provides dollar and LE funds for necessary services, which includes refurbishing of space for computer centers and classrooms, maintenance for computers, vehicles, and other commodities, as well as funds for project monitoring and evaluation. No construction is planned for this project.

5. Private Enterprise Support

The project will foster the emergence of private sector input distribution and service firms. The most important mechanism for this is policy reform, which is central to this project. The GOE will eliminate its monopoly on the marketing of inputs, liberalize import quotas on fertilizer, withdraw subsidies on inputs, and pass laws permitting free private sector marketing of fertilizer and other inputs. The PBDAC will voluntarily phase down its subsidized input distribution function in order to better focus its expertise on providing credit and technical assistance to emerging input supply firms. The project provides technical assistance for this new PBDAC role.

The technical assistance team will assist PBDAC to phase down its input distribution system and assist new firms to perform this vital function. The composition of this team may be changed after needs assessments are completed and operational

2b

plans are finalized, but at present it includes three members who will be involved in privatization efforts. The business lending specialist will work with local business councils to specify needed regulatory changes and identify opportunities for new business activities. The marketing systems development specialist will assist PBDAC input distribution facilities in winding down, and support emerging private sector suppliers in measuring demand, assessing feasibility, and establishing their business. The personnel/training specialist on the team will help PBDAC identify workers to be displaced from input supply positions, designate new PBDAC staff or village-level team positions, and arrange training. The team will monitor PBDAC progress in phasing down its input distribution function.

Project activities with PBDAC will be complemented by the existing Private Enterprise Credit Project, which works primarily through commercial banks. This project provides borrowers with foreign currency for investments and working capital requirements. The portfolio already includes a large number of agribusiness clients. As controls are liberalized and a free market environment is established in the sector, lending criteria under this project will be assessed to facilitate and increase the flow of resources and services available to the private sector serving agriculture.

6. End of Project Status

The project outputs include agricultural policy reform, the expansion of rural credit, and strengthening of rural credit institutions. Deregulation of the agriculture sector will allow a market-driven economy where farmers are free to repond to price incentives. The availability of credit will allow farmers to to deal with the higher costs of unsubsidized credit and production inputs. By the end of the project the following conditions will prevail:

- Farmers will have easier access to all inputs, including credit, at market prices.
- Private dealers will have increased their share of the input supply operations, with PBDAC decreasing its operations.
- Farmers will be using improved technologies disseminated by village teams and private sector input supply firms.
- The number and share of loans to small farmers will have increased.

21

Farmers will be using greater quantities of inputs in better combinations in response to market signals.

These conditions will allow farmers and subsidiary businesses to respond to price incentives with a more diversified array of inputs, contributing to the project goal of increasing agricultural investment, agricultural productivity, and farm incomes.

IV. PROJECT ANALYSIS

The Agricultural Production and Credit Project is designed to increase agricultural production through policy reform, the provision of support for the expansion of credit, and technical assistance to improve rural institutions. Extensive research efforts were devoted to assessing the feasibility of the project and the optimal design for achieving its objectives. The full reports of these analyses are presented in Annex 7. The following analysis is intended to focus the relevant findings of these studies on the feasibility of the project, and summarize their basic conclusions.

A. Project Analysis

The policy reforms which are a central component of APCP are intended to increase agricultural production by relaxing the pervasive controls which diminish farmers' incentives and inhibit their access to inputs and technology. The project uses incremental funding which is conditional on progress in policy reform to both provide incentive to the host government and ease the transition. This mechanism is described in detail in sections III and VI. USAID has been involved in similar incremental funding arrangements in its water and wastewater portfolio over the past three years, and has found it to be an effective approach to policy reform.

The project provides $100 million in performance payments in response to prior GOE expansion of rural credit. In concert with policy reforms, this is expected to considerably increase agricultural production. Economic analysis of the costs and benefits of the project yield an estimated internal rate of return of 39 percent in terms of value to the economy. Financial returns to the farm loan activities are very attractive. The Economic and Financial Analysis is summarized below and the full report is contained in Annex 7-B.

The project is designed to improve the financial capabilities of PBDAC. The Administrative and Technical Analysis assessed PBDAC in detail and concluded that it is the appropriate choice for implementing the production credit element. Experience with SFPP demonstrates that PBDAC can absorb technical assistance and training, successfully redirecting and improving its services. The Administrative and Technical Analysis is summarized below, and the full report is contained in Annex 7-A.

The National Extension Service will provide extension workers for the village level outreach teams, with the MOA providing training facilities. The SFPP demonstrated that extension workers can be trained to provide useful technical assistance to farm operators. The training program is described in Annex 7-G.

The Social Soundness Analysis of the project concluded that its benefits far outweigh its negative consequences. The analysis is summarized below, and the report appears in Annex 7-C. The project has been declared exempt from any requirement for environmental impact studies, since it does not include any activities directly affecting the environment.

The Foreign Assistance Act (FAA) Section 611(a) requires that no agreement or grant involving an obligation of over $100,000 of U.S. funds shall be made until financial and other plans necessary to carry out such assistance and a reasonably firm estimate of the cost to the U.S. of the assistance have been made. The financial plans necessary to carry out the assistance proposed in the above FY 1986 authorization, as well as estimates of the cost to the U.S., have been prepared and presented or described in this Agricultural Production and Credit Project Paper. USAID has reviewed these plans and found them reasonable and accurate, and certifies that the requirements of FAA 611(a) have been met. All specific interventions required for the implementation of the project have been identified and costed out, and a phased plan developed for incremental annual authorization within the confines of GOE progress in agricultural policy reform and available AID resources.

B. Summary of Economic and Financial Analysis

The purpose of the economic and financial analysis is to estimate the degree to which the project's benefits to the Egyptian economy as a whole exceed the costs, and the degree to which the financial (cash) benefits provide sufficient investment return to project participants. The dual nature of this project (policy reform and farm credit) however, suggests a separate analysis for each element. Of the two, the policy reform element presents the most difficulty in attempting to estimate costs and benefits both with and without the project. Although economic models for the sector and economy exist and could theoretically be utilized to estimate potential gains and losses nationwide, currently available data and technical expertise are not sufficient to the task.

Nevertheless, partial analyses by GOE, USAID and other donor organizations provide a wealth of studies which indicate that policy reforms are essential to induce the gains in agricultural production required to meet Egypt's needs. These analyses provide a partial measure of net benefit to the agricultural sector if the policy reforms were to drive the sector to an open, world market system immediately, to be sustained for a ten year period (not a likely event, since the magnitude of reforms will require several years to accomplish). (See Annex 8). The project provides for the acquisition of sufficient technical assistance to monitor and evaluate the economic impact of the reforms. As more reliable and complete data sets and elements of the economic model are generated and tested during the initial years of the project, policy reforms can be more precisely tailored to achieve the desired outcome.

An analysis of the credit element is more straightforward, and is based upon the methodologies developed to measure the costs and benefits of the Small Farmer Production Project. In terms of value to the economy, the project has a high internal rate of return (39 percent) and the financial returns to the farm loan activities range from 36 percent (machinery dealership) to 419 percent (maize production). The calculations for these estimates are shown in Annex 7-B. Farm enterprise budgets for a variety of crops were updated to reflect current 1986 prices and technical recommendations. The loan mix was projected to reflect actual SFPP experience and project goals for increased lending to non-crop/non-livestock purposes. Finally, current shadow prices were used to calculate economic costs and benefits.

C. Summary of Technical and Administrative Analysis

The primary GOE institution responsible for project administration is the Principal Bank for Agricultural Development and Credit. This Bank has a strong record of achievement. Its affiliate banks in each of Egypt's 17 agricultural governorates operate a total of 765 village banks and 4,307 agencies and provide Egypt's 3 million farmers with inputs and some credit. Unlike most agricultural credit institutions, the PBDAC has achieved a very strong record of loan collection since took over rural credit and input distribution from the cooperatives in 1977. The purpose of the project is to reorient the activities of the Bank towards an expanded credit clientele and reduce its dependence on subsidies and input distribution. The Bank's strong record in accomplishing its objectives and enthusiastic support of project concepts make it an appropriate organization to implement the Agricultural Production and Credit Project.

The Small Farmer Production project has been working with the Bank since 1980. Through SFPP, improved loan evaluation and technology transfer systems have been implemented on a pilot basis in 74 village banks in 3 governorates. The project has as of June 1986 extended more than LE 6 million in loans to almost 46,000 small farmers and rural agricultural businesses. The project has overcome the Bank's initial skepticism about lending to small farmers as a result of very high loan repayment rates. In 1984, the GOE made the decision to expand SFPP to 8 additional governorates. To support this effort, the 1985 Midterm Evaluation team recommended changes in team composition. Part of the team is now based at the PBDAC headquarters in Cairo and has been working closely with headquarters staff in the areas of training, MIS/Accounting, and business lending, credit and loan classification.

APCP will continue SFPP programs to increase small farmer access to credit and ensure the financial viability of the Bank. The project technical activities will expand SFPP systems to 350 village banks in eleven governorates. The project technical assistance team will work with PBDAC to improve management systems in the banking activities. Policy reform objectives will also be supported by expanding lending to businesses supporting agriculture to increase private sector participation in input distribution.

The Bank management has played a key role in developing APCP concepts and planning for their implementation. The Bank has taken the lead in developing the relationship between the National Extension Service, the the Veterinarian Service, Agricultural Research Center and university research personnel. The administrative requirements for the project, particularly reporting on use of funds, are well within its the capacity. With technical assistance, the Bank plans to develop additional programs that will improve its management capacity and reduce costs associated with current and planned programs.

The National Extension Service is already cooperating with PBDAC. Together they have already begun to implement SFPP systems in the project governorates and have even requested Bank cooperation in implementing their national program. The National Extension Service is coordinating with the Bank on every administrative level to provide planned technology transfer activities. The Director of the National Extension Service is a member of the PBDAC Steering Committee for SFPP expansion and has been personally involved in the governorate wide expansion in Assuit. Some project training will be carried out by the MOA Training Department, Center for Agricultural Management Development and other local organizations.

ق٧

D. Summary of Social Soundness Analysis

The analysis examines the project's compatibility with the sociocultural environment into which it will be introduced, the social consequences, benefit incidence and potential spread effects. The initial estimates of social impact are positive. The full social soundness analysis is found in Annex 7.

Where there is real and tangible movement on dismantling of pricing policies and crop controls, farmer receptivity to use of new technological inputs will increase resulting in an increased demand for credit. The flexibility brought about by changes in PBDAC operations will enable farmers to choose types and amounts of inputs and will add to farmer receptivity. However, the policy reform agenda is incremental, and farmers may initially be reluctant to change their production technology. GOE implementers must be prepared to continue policy and administrative reforms, even if the initial series does not result in an immediate production increase.

Even under the reformed policy and administrative structure, project benefits are not guaranteed to the poorest. Larger farmers will have greater access to credit, because they are better credit risks. To allow smaller farmers access to credit, the project will introduce the SFPP model in almost half of the village banks.

During the transition of input supply to the private sector, farmers in remote areas with initially excessive input transaction costs will have to be protected. Additional fracturing of the extension service should be minimized through project implementation mechanisms which help safeguard the integrity of the NES at least from the governorate down to the farm level.

The metamorphosis of the PBDAC into a more bank like institution appears feasible but should be accomplished with a regard for providing alternative employment opportunities and training.

The potential spread effect for this project has been made apparent by the pilot SFPP effort. Those elements which contributed most to this effect must be identified and incorporated into the new project. Information regarding the extent of private enterprise involvement in the agricultural sector is not readily available and would be useful to project staff in planning and measuring the impact of their private sector initiatives. The increased availability of rural agricultural credit is expected to impact favorably upon women, as will the improved efficiency of Bank operations (i.e. with training, data processing, etc.).

E. Environmental Considerations

The purpose of this project is to assist the PBDAC to improve financial services (institution building) while encouraging deregulation of agricultural production and trade through policy reform. The project will provide US dollars to cushion the effect of policy reforms as the GOE provides the required additional loan capital to the PBDAC system. Additional US dollar contributions will be provided for technical assistance, training, evaluation and minor amounts of commodities (vehicles, computer and office equipment). These do not include activities directly affecting the environment; therefore, an initial environmental examination is not required. (exception 22 CFR 216.2 (c) (2) (i) (x)).

V. FINANCIAL PLAN

The Agricultural Production and Credit Project will be jointly financed by AID and GOE. AID will provide a grant of $123 million, and the GOE will contribute LE 150 million over the seven year project life. The project consists of two basic elements. The capital component involves $100 million in USAID performance payments and LE 135 million in GOE capitalization of PBDAC. The funding arrangements and monitoring mechanisms are discussed below. The institution building component involves $23 million in USAID and LE 15 million in GOE funding. This component provides technical assistance, training, and equipment over a 7 year period to strengthen the institutional capacity of PBDAC. Cost estimates and financial plans are presented in section C below.

A. Funding Mechanisms

The GOE has developed a structural reform program which includes the framework of a more detailed plan for the agricultural sector identifying major policy changes to be implemented over the next three years. On an annual basis, the GOE and USAID will discuss the up-coming year's program and review the implementation and impact of the previous steps. The bulk of project funds ($100 million) will be dollar denominated performance payments to support the GOE's program to move agriculture towards a free market structure and will be transferred in tranches based upon implementation of agreed upon changes. One indication of performance will be the GOE making at a minimum the equivalent local currency available to capitalize the Principal Bank for Development and Agricultural Credit (PBDAC). Conversely, the amount of funds released by the GOE to capitalize the PBDAC will be determined by the Bank's need for additional capital and loan funds to assure a sound lending program and financial viability.

It appears that there will be enough demand for small farm loans to assure that funds provided by the increased GOE capitalization of PBDAC will be loaned at the highest allowable interest rates. A review of current SFPP experience indicates no difficulty in lending funds at the highest allowable interest rates for amounts no greater than $5,000 per loan. In 1985, 27,000 loans were made by the 38 SFPP village banks, which represents an increase of 34 percent over 1984. More than LE 19.5 million in loans was disbursed, at an average of LE 800 per loan.

Extrapolating these figures over the three year policy performance period and assuming only 80 of the project's 350

35

village banks are brought into the SFPP program (a very conservative estimate), the credit funds required to meet the expanded demand for loans of less than $5,000 would exceed LE 300 million, which is far in excess of the LE 135 million made available through the performance payment mechanism.

B. Monitoring Utilization of Egyptian Pounds Associated with the Performance Payments

Under APCP, one of the criteria for performance payments disbursements will be the provision of additional GOE owned capital to PBDAC at least equivalent to the amount of performance payments. This will be in the form of retained earnings or direct capitalization. Increased capitalization will allow PBDAC to expand lending to the agricultural sector, particularly small farmers and businesses supporting agriculture. Under APCP, the project will review pound lending made at the interest rates specified in the Grant Agreement (highest prevailing rates permitted by the central bank for each type of lending activity) to assess whether increased funds are being made available to small farmers and businesses and if subsidized lending programs are decreasing. At a minimum, future performance disbursements will be conditional upon a matching increase in the amount of funds being made available to small farmers and businesses at these higher rates.

The project will develop and install MIS/accounting systems in PBDAC headquarters and 350 village banks to classify and monitor loan activities by type of borrower. A similar loan classification system was used by SFPP, but it was only applied to project loans and thus provided little information about borrowers under the Bank's regular lending program. Under APCP, SFPP lending and classification procedures will be applied to the entire village bank portfolio, and MIS reports will provide a much more accurate profile of the Bank's clientele and lending activity to small farmers and rural businesses.

Concise classification and monitoring of loan activities will help to keep project funds focused on small farmers and private sector agri-businesses, and detect any diversion of non-project subsidized Bank funds to large farmers. Under SFPP, the project made a capital grant of almost $ 26.5 million which was used directly as loan funds. These were used in 1985 to make over 50 thousand loans to small farmers and rural entrepreneurs at non-subsidized interest rates of 10 to 14 percent. However, during the same period the lending at subsidized rates for poultry and livestock project expanded dramatically. In

1984/85 alone, LE 600 million was lent at an effective 8 percent interest rate to larger farmers. Under APCP, the project will look at the amount of capital funds provided to the Bank, the amount funds borrowed against that capital, and the uses and interest rates charged for those loan funds.

Under APCP, AID will receive several additional types of information on PBDAC's expansion of lending. Current PBDAC reporting systems provide information on purposes of loans, repayment rates, interest rate income and subsidies, and number of borrowers by farmsize. (See Tables attached to Annex 7-A, Administrative and Technical Analysis.) Also available are PBDAC credit limits by crop and by type of loan. This information will provide a baseline for estimating current lending to small farmers. In subsequent years, updated information can be used to evaluate change in amount and interest rate charges on loans to small farmers. For example, if seasonal crop loans expand by LE 300 million as fertilizer subsidies are phased out and 93 percent of PBDAC's 2.96 million borrowers are small farmers, then an estimated 2.75 million farmers received LE 279 million. Data on interest income and subsidies can also be used to estimate average interest charged for different types of loans and document trend in interest rates.

Early in the implementation process, these existing systems can be modified to provide better information to PBDAC management as well as AID. For example, a classification for business lending and interest income can be added. Loan regulations on collateral for other types of lending can be reviewed to see if the small farmers are eligible for these types of loans and which types of loans are made at project interest rates. Although PBDAC keeps data on loan volume by term and purpose, the Bank does not keep information by size of loan. Data from the PBDAC and governorate banks can be used to develop a partial profile of loans by size and term. This information will permit a better estimation of the number and size of farmers being served through PBDAC's medium term portfolio. This information will be very useful to PBDAC management in developing improved internal loan quality evaluation procedures and provide AID with important baseline information on PBDAC's clientele to assure AID that PBDAC is expanding lending at closer to market interest rates and that funds are reaching intended beneficiaries.

C. Cost Estimates and Financial Plan

Detailed budgets are included for project funds that will be disbursed according to traditional reimbursement mechanisms.

Table 1. Estimated Budget ($000) for Agricultural Production & Credit Project (263-0202), Egypt, 1986

	USAID			GOE		Project Total
	$	LE $ Equiv	Total $	$ Equiv (D) @ $1 = LE1.35 LE	$	USAID + GOE $ Equiv
	(A)	(B)	(A)+(B)	(C)	(D)	(A)+(B)+(D)
1. Technical Assistance						
Short Term	700	–	700	–	–	700
Long Term	7,200	–	7,200	–	--	7,200
Project Support	–	1,700	1,700	720	533	2,233
Subtotal	7,900	1,700	9,600	720	533	10,133
2. Training						
Non Local, Non Degree	800	–	800	–	–	800
Local	–	2,500	2,500	4,060	3,007	5,507
Subtotal	800	2,500	3,300	4,060	3,007	6,307
3. Commodities						
Computer, Preparation	3,000	1,000	4,000	–	–	4,000
Vehicles	800	–	800	1,700	1,259	2,059
Spare Parts	75	–	75	–	–	75
Office Equipment, Suppli	1,190	135	1,325	826	612	1,937
Subtotal	5,065	1,135	6,200	2,526	1,871	8,071
4. Services						
Maintenance	–	–	–	60	44	44
Refurbishing	–	–	–	230	170	170
Repair	–	–	–	2,604	1,929	1,929
Incentives	–	–	–	1,000	741	741
Evaluation and Audit	700	200	900	800	593	1,493
Subtotal	700	200	900	4,694	3,477	4,377
Project Subtotal	14,465	5,535	20,000	12,000	8,889	28,889
Inflation	–	–	1,000	2,040	1,511	2,511
Contingency	–	–	2,000	1,200	889	2,889
Project Total	–	–	23,000	15,240	11,289	34,289
6. Capitalization	–	–	–	135,000	100,000	100,000
7. Policy Performance	–	–	100,000	–	–	100,000
8. Grand Total	–	–	123,000	150,240	111,289	234,289

Table 2. Projected Expenditures and Obligations, USAID Funds ($'000), By Year, for Agricultural Production % Credit Project (263-202), Egypt, 1986

	Year 1		Year 2		Year 3		Year 4		Year 5		Total		Grand Total	Suggested Funding
	$	LE $ Equiv	$	LE $ Equiv	$	LE $ Equiv	$	LE $ Equiv	$	LE $ Equiv	$	LE $ Equiv.	$	$
1. Technical Assistance														
Short Term	135	–	135	–	135	–	135	–	135	–	675	–	675	700
Long Term	1,440	–	1,440	–	1,440	–	1,440	–	1,440	–	7,200	–	7,200	7,200
Project Support	–	304	–	304	–	304	–	304	–	304	–	1,520	1,520	1,700
Subtotal	1,575	304	1,575	304	1,575	304	1,575	304	1,575	304	7,875	1,520	9,395	9,600
2. Training														
Non-Local, Non Degree	172	–	172	–	127	–	127	–	127	–	725	–	725	800
Local	–	358	–	395	–	533	–	700	–	516	–	2,502	2,502	2,500
Subtotal	172	358	172	395	127	533	127	700	127	516	725	2,502	3,227	3,300
3. Commodities														
Computer, Preparation	750	250	750	250	750	250	550	200	200	50	3,000	1,000	4,000	4,000
Vehicles	780	–	–	–	–	–	–	–	–	–	780	–	780	800
Spare Parts	78	–	–	–	–	–	–	–	–	–	78	–	78	75
Office Equipment, Supp	400	43	150	30	180	–	200	60	260	–	1,190	133	1,323	1,325
Subtotal	2,008	293	900	280	930	250	750	260	460	50	5,048	1,133	6,181	6,200
4. Services														
Evaluation	150	75	75	25	150	25	75	25	225	75	675	225	900	900
Subtotal	150	75	73	25	150	25	75	25	225	75	675	225	900	900
Project Subtotal	3,905	1,030	2,722	1,004	2,782	1,112	2,527	1,289	2,387	945	14,323	5,380	19,703	20,000
Inflation (5%)	195	52	136	50	139	56	126	64	119	47	716	269	985	1,000
Contingency (10%)	412	103	272	100	273	111	253	130	239	95	1,454	539	1,993	2,000
PROJECT TOTAL	4,512	1,185	3,130	1,153	3,199	1,279	2,906	1,483	2,745	1,087	16,493	6,188	22,681	23,000
Combined Annual Total	5,697	–	3,118	–	4,478	–	4,390	–	3,832	–	21,514	–	–	23,000
Cummulative Total	–	–	8,815	–	13,293	–	17,682	–	21,514	–	21,514	–	–	23,000
5. Performance Payments	29,000	–	20,000	–	20,000	–	20,000	–	11,000	–	100,000	–	–	123,000

Table 3. Projected Expenditures, GOE Funds, (LE 000), by Year, for Agricultural Production and Credit Project (263-0202), Egypt, 1986

	Year 1 LE	Year 2 LE	Year 3 LE	Year 4 LE	Year 5 LE	Total LE	Suggested Funding LE
1. Technical Assistance	144	144	144	144	144	720	720
2. Training	358	355	479	945	1,933	4,070	4,060
3. Commodities							
Vehicles	345	345	345	345	345	1,725	1,700
Office Supplies	272	112	112	165	165	826	826
4. Services							
Maintenance	12	12	12	12	12	60	60
Refurbishing	130	50	50	–	–	230	230
Repair	854	350	350	525	525	2,604	2,604
Incentives	200	200	200	200	200	1,000	1,000
Evaluation	160	160	160	160	160	800	800
Project Subtotal	2,475	1,728	1,852	2,496	3,484	12,035	12,000
Inflation 17%	421	294	315	424	592	2,046	2,040
Contingency 10%	248	173	185	250	348	1,204	1,200
5. Project Total	3,143	2,195	2,352	3,170	4,425	15,284	15,240
Cummulative Total	–	5,338	7,690	10,860	15,284	15,284	
6. Capitalization	39,150	27,000	27,000	27,000	14,850	135,000	135,000

These budgets were developed with information from the USAID Controller's Office, SFPP project budgets and studies completed under SFPP. USAID funds will be used to pay for performance payments, technical assistance and project support, overseas training and a portion of local training costs, computers and site preparation, vehicles and spare parts, office equipment and supplies, and evaluation. GOE funds will be used for capitalization of the Bank, local technical assistance, a portion of local training, vehicle maintenance, locally purchased equipment and supplies, renovation of training facilities and village banks, and incentives. An inflation factor of 17 percent for GOE funds and 5 percent for US dollar funds was utilized. Anticipated appreciation of the dollar (12 percent) and allowance for US inflation (5 percent) offset the estimated GOE inflation rate. Local currency costs in the US dollar budget which will be converted to local currency are shown under training, technical assistance, computers, and office equipment and supplies.

D. Recurrent Cost Analysis

Recurrent costs of the project are minimal. The $100 million in performance payments and LE 135 million in capitalization are owned by the GOE, and generate no costs so long as they are properly invested. The $23 million technical assistance and training budget is heavily concentrated in non-recurring elements such as procurement and installation of computers, design of management information systems, and intensive training of staff. The most important recurring costs will be for continuous followup training, and maintenance of computer hardware and motor vehicles. These costs will be offset by the increased efficiency of loan disbursement and record keeping.

No additional personnel are to be added to GOE or local government organizations by the project. Many new positions will be created, particularly at the village bank level, but personnel will be recruited from those displaced by the PBDAC cutting back its input distribution function. PBDAC presently pays incentive bonuses to its staff and village bank teams, but the anticipated financial burden is inconsequential in relation to projected cost savings and new revenues retained. Loans under this project will be placed at rates considerably higher than the present subsidized rates. Since the profits on loan operations are to be retained by the PBDAC rather than forwarded to the Treasury, the minor increases in operating costs will be easily covered.

U\

VI. IMPLEMENTATION PLAN

On the policy level, the key project implementation process will be part of the the Mission overall policy dialogue and support to the GOE economic reform program. Disbursement of dollars made under this project to support this policy process are described below. On the technical side the project will be implemented by the PBDAC. The Bank will cooperate with others, i.e., the National Extension Service, private enterprises, and the MOA to ensure that the project meets its objectives. Implementation of the technical component is described in section B below. Within AID, the Agriculture Directorate will have senior responsibility for project management.

A. Policy Reform Management

As discussed in section III and V, incremental disbursement will be managed as part of the overall dialogue process. The performance disbursements made under this project will support that process. The annual review of policy reform and program performance will work as follows:

1. In Year 1, the MOA, USAID, and PBDAC will meet prior to disbursement of performance funds and decide:

   What steps will or have been taken which constitute implementation of agricultural reform for purposes of Year 1 funding. Specific bench marks or targets will be identified. In addition, they will agree on how much additional funding will be provided PBDAC to run its higher interest rate programs and how these funds will be monitored and reported.

   What policy benchmarks will trigger Year 2 funding. These will be assessed at the end of Year 1.

2. After agreement is reached on agricultural reform achievements above and GOE funds are made available to PBDAC, USAID and GOE will sign a payment agreement and USAID to transfer the dollars to the GOE as a performance payment.

3. Throughout the year, regular consultations will be held as part of the policy dialogue process with the MOA, PBDAC, the Ministry of Cabinet Affairs, the Ministry of Supply, and others to assess progress in agricultural reform. Technical assistance for evaluation of reforms are provided in the project budget under evaluation.

4. At the end Year 1, for the purpose of approving Year 2 funding the MOA, USAID, and PBDAC will meet and assess progress on mutually agreed benchmarks and review PBDAC reports on loans in support of the reform program (at higher interest rates), estimate demand for capitalization in Year 2, and specify benchmarks for Year 3 funding.

This then becomes an annual process.

B. Management of Technical Component

1. USAID Project Management Responsibilities

The Agricultural Credit and Economics Office (ACE) of the Directorate for Agricultural Resources (AGR) is responsible for project management. A USDH Agricultural Development or Economic Officer (Backstop 10) will be assigned as Project Officer and will be assisted by:

A Project Manager designated to oversee and monitor the PBDAC policy reforms associated with the project.

A Project Manager designated to administer all procurement matters requiring Mission clearance, for technical assistance, training, commodities, and services.

Additional Mission assistance will be provided as needed by the Offices and/or Divisions of Project Support, Finance, Legal, Contracting, Training and Programs (DPPE). A standing project committee may be consulted to provide additional implementation guidance.

Implementation will be in accordance with Mission Orders and all Handbook procedures. The Project Officer will be responsible for presenting financial and progress reports for review by the USAID Project Review and Executive Committees as scheduled.

Project evaluations will be implemented with AID direct contracts. Small business and minority firms (8-A) will be utilized to the maximum extent possible. Also, initial project activities prior to awarding the project host country contract may be awarded using section 8-A contracting procedures.

2. GOE Implementation Responsibilities

The agricultural credit element of the project will be implemented by the PBDAC. The Chairman of the PBDAC will be

43

the Project Director. Day to day activities will be managed by a GOE Project Manager who will report to the Chairman and have responsibility for coordination with the extension service, preparation of reports to PBDAC and AID, management of administrative support, and leadership of the total project team with the assistance of the contractor's Team Leader.

3. Contractor Responsibilities

All of the project activities not reserved for implementation by USAID or completed prior to arrival of the technical assistance contractor's team will be implemented through a single host country contract with a private firm, consortium, PVO or other organization experienced in the development of agricultural credit institutions.

The prime contractor's team will be composed of an eight person core group as follows:

a. Team Leader

This should be a senior person with extensive experience in credit planning, management and banking operations. The Team Leader will provide technical knowledge and leadership to the project and team. He will manage the team members, working with the appropriate PBDAC Managing Director and their staffs.

b. Personnel/Training Specialist

A manager experienced in running a large banking institution will be needed to assist the Bank in assessing actual personnel needs and developing personnel management plans. A strong background in training is also required. Experience under SFPP has shown that there are a number of local resources which can be effectively used to develop training programs.

c. Credit Specialist

At the district and governorate levels, improved loan evaluation and feasibility studies should lead to an improvement in repayment rates.

d. Quality Control and Loan Classification Specialist

Simplified quality control systems have been developed under SFPP, but the Bank will need to develop additional sophistication as the loan portfolio expands. This function is closely associated with auditing which also needs strengthening and reorganization.

e. Management Information (MIS) and Accounting Systems Specialist

This person should have the extensive technical expertise and strong management background necessary to coordinate the efforts of other team members, short term consultants and host country nationals. Local computer technicians are available and will be utilized to initially manage computer operations and train Bank employees. Training in the fundamentals of computer science is also available locally.

f. Finance, Planning and Budgeting Specialist

This person will address capital and finance management to maximize funds usage, assist in fiscal planning for lending to support the policy reform program, assessment of capital needs, and improved budgeting to provide benchmarks to monitor operating costs.

g. Business Lending Specialist

This specialist will help the Bank develop improved methods of loan appraisal, evaluation of loan performance, and banking services for businesses serving agriculture. This person will also work with local business councils to identify policy and regulatory changes needed to create an environment conducive to private enterprise.

h. Marketing Systems Development Specialist

This person will work with the Bank and private companies or associations to identify business and investment opportunities in distribution and marketing. Coordination with the research and extension agents may make possible the introduction and development of crops with export potential.

The team should have technical skills as well as broad management experience in their areas. Nearly 20 percent of the technical assistance budget is allotted to hire local experts. SFPP has successfully used local technical experts in training, computer science, and accounting. Expanded utilization of Egyptian consultants should broaden the impact of the core technical assistance team, facilitate communication and hasten design and implementation of programs. The team will be based in the PBDAC headquarters in Cairo.

4. Background and Strategy for Project Implementation

APCP is a follow-on project, and its implementation will be greatly facilitated by the existing systems and experiences of the predecessor SFPP, which has already developed viable systems in 3 governorates. The precise manner of implementing the project in its 11 governorates depends on arrival of the technical assistance team and finalization of detailed plans. Nevertheless, the experiences of SFPP provide some broad contours and directions for implementation of APCP.

a. Expansion of SFPP systems

SFPP now covers eighteen village banks in Sharkia and Kalubeya and has recently expanded governorate-wide in Assuit. SFPP originally received little support at the PBDAC and BDAC levels; in effect, the project team rather than Bank employees supervised village bank activities directly. The purpose of the Assuit expansion is to develop follow-up systems within MOA and the PBDAC to use as a model for other governorates. Careful evaluation will be needed to assess this effort, particularly in maintaining the quality of extension and credit systems.

Under SFPP, the technical assistance contractor worked in three governorates and increasingly with PBDAC's Cairo headquarters. In November 1984, the GOE issued a decree authorizing expansion of SFPP systems to an additional eight governorates. The technical assistance team assisted PBDAC in developing SFPP courses for these governorates. The introductory training courses have been used for over a year, but implementation has been slowed by the absence of SFPP follow-up procedures for the Bank's regular supervisory structure. During the SFPP governorate-wide expansion in Assuit, the project developed training courses for all levels of Bank personnel. Under this project, the GOE will continue to support expansion in all eleven governorates. First priority should be formation of a team in PBDAC to supervise institutionalization of the SFPP process in the governorates on a full time basis.

The Technical Assistance team will support this effort, but concentrate on development of additional, new programs. In each governorate, a cone of top and middle level employees is needed to supervise implementation at the district and village bank level. This will greatly facilitate more rapid expansion during the later stages of the project. The decision to expand governorate wide will depend on the degree of coordination achieved between the Bank and the MOA and required leadership commitment to implementing an intensive training program, to changing established ways of operating, to carrying out aggressive follow-up and supervision.

There are 321 village banks in the eleven governorátes included in APCP activities. Although the purpose of SFPP was to develop pilot systems, by the end of project SFPP will have been extended to 74 village banks. The groundwork for project activities in the eight additional governorates has been laid; thus it appears feasible to extend the program to approximately 350 banks during the next five years.

During the first 4 years of SFPP, technical assistance team members trained village bank personnel personally or during informal training sessions. Under this project, technical assistance team members will work with Bank officials to identify needs and solutions and begin to develop training programs at an early stage. Graduate level courses for middle and junior level managers in management, financial analysis and other areas will be used to give Bank personnel a better basis for understanding project activities.

b. <u>MIS/Accounting Systems</u>

The Management Information System has two aspects: types of information needed by top management, and speed. In many cases, even the manual systems that the Bank has are not set up to provide management with the types of information needed. As a first step, a profile of management information needs must be developed and priorities assigned. In those cases deemed critically important, changes in the accounting system will have to be designed even within the cumbersome manual system.

In the longer run, the accounting system will have to be redesigned to facilitate use of computers to provide timely information to management. An analysis of the Bank accounting system has been completed under a Canadian project preparatory to developing a computer proposal for the Bank; however, it did not include recommendations to improve and streamline Bank operations, only a proposal for computerization of the existing system. The job of redesigning the entire PBDAC accounting system is obviously an enormous undertaking, a project in and of itself. The Canadian three person team needed more than a year just to document the existing system. Under APCP, a few high priority areas will be targeted and short term teams brought in to get a design completed. These teams will work with the contracting MIS/Accounting specialist to ensure consistency and continuity.

41

A number of proposals have been made on the subject of computerization at the Bank. Using this data, SFPP consultants recommended that the best arrangement would be use of governorate level minicomputer centers. The condition of district and village banks combined with fluctuating power sources and the expense of such a system makes computerization below this level impractical. Streamlining the current system at the village bank level and bypassing the district bank manual system will be a considerable improvement and make feedback of analyzed data to the district and village level banks.

While the original SFPP project paper and amendment recognized the inefficiency of manual accounting systems, little progress was possible without the current broad, top management support. The Bank has now hired its own MIS/Accounting Specialist, to work with the technical assistance contractor to implement a pilot program in Kalubeya and PBDAC to process and analyze SFPP loan accounting systems. Training has begun and new accounting systems for loans developed. As soon as hardware is received, testing can begin.

c. Management Control

Improved, strengthened management control systems were a priority area identified by Bank management during the design process. Principal areas targeted are internal control and supervision, budgeting, auditing and financial analysis of Bank performance. During its governorate wide expansion in Assuit, the SFPP has been training Bank personnel in new methods of control and follow-up to ensure that new methods of loan evaluation are used correctly. Project personnel have also begun working with the Financial Analysis department of the Bank. Thus the SFPP team has only recently begun to address broader issues of Bank management, but expects to make significant progress during the remaining year of the project. Overlap between the technical assistance teams will be extremely important to provide continuity and avoid loss of momentum.

d. Personnel Management and Training

SFPP has been working intensively to develop training courses in project systems for all levels of Bank personnel. By the end of the project, these courses should have been well developed and tested. Bank and project personnel are now working on a detailed training plan to achieve the APCP project goal of expansion to 350 village banks in 11 governorates.

APCP's broader goals include development of an overall needs assessment and training program for the entire bank. This is a formidable task since the Bank employs more than 35,000 people in its Cairo headquarters, 17 governorates, and 6 branches. The project is best addressed on a sector and governorate level to incrementally meet the project objective. Bank management began a process of goal assessment and organizational development as part of the APCP design process. The Bank would like to continue this as soon as APCP funds are obligated. This process could greatly facilitate continuing work under SFPP and implementation of the new project and should be supported.

e. Business Lending and Development

Since work in this area began in Spring 1986, a surprising amount of progress has been made. The Bank is considering discontinuing its role as a machinery distributor. SFPP has supported an evaluation of the Bank's relationship with machinery distributor and is prepared to assist the Bank's clients in setting up their own machinery distribution systems that would provide demonstrations and after sales services to farmers. The Bank has requested proposals on improving large loan evaluation and quality control and is interested in developing better methods of working with business clients.

f. Linkages to Technology Transfer

The SFPP model provided a viable and effective means for linking technology transfer from a broad range of sources, including the National Extension Service, input suppliers and village banks. The project will work through the regular supervisory structures of the NES and other governmental agencies to provide training and follow-up at the village level. The MOA and PBDAC will cooperate to provide:

Village teams consisting of extension workers, financial analysts, and other specialists from the Ministries of Agriculture and Irrigation and the private sector to give farmers tested technology;

Linkages to researchers, public and private, and village bank teams to provide training and information;

49

- Technology packages adapted for local conditions;
- Training to teams in appropriate methods of working with farmers and new technical skills;
- Performance based incentives
- A mechanism for local farmers to participate in determining technological priorities.

In addition, the Bank will provide loans for the purchase of motorcycles and an allowance to cover the monthly costs of gasoline and maintenance. Incentive payments for GOE research personnel will be available from GOE source project funds from that project.

The above discussion highlights the continuity between SFPP and APCP. Careful assessment of the progress made under SFPP will be needed by the APCP technical assistance team in order to maintain momentum and overlap between the two teams should be an important priority. USAID has a major opportunity to achieve the project goal of deregulating agriculture at the level of the Bank if project management aggressively backs up the technical assistance team and continues to discuss how policy concerns can be operationalized in PBDAC.

C. Implementation Schedule

The following provides a preliminary action plan for the initiation of activities leading to the accomplishment of objectives in the areas of:

- Technology transfer and institutional development
- Rural financial services
- Policy reform management.

The plan gives major benchmarks for monitoring. The key benchmarks and schedules will be further refined and expanded for each of the broad activity areas outlined above. The review and modifications of the Implementation Plan and Schedule will occur three months after the long term Technical Assistance contractor is in country, and yearly thereafter.

The operational plan provides for contracting a small (2-4 person) pre-project mobilization team and sufficient administrative support to initiate project activities and carry out general studies and training in preparation for long term technical assistance. The interest is in maintaining the momentum and initiating necessary pre-project general activities i.e. developing scopes of work and organization and training needs assessment of key areas.

Initial general project actions are listed below in tabular form. A flow chart portrayal of implementation benchmarks is presented in Annex 7-H.

9/86	Project Paper Approved
	USAID Project Officer Assigned
	Grant Agreement Signed
10/86	Project Director and Support Staff Appointed by GOE/MOA/PBDAC; Initial PILs signed;
11/86	Initial CP's satisfied;
	Preparation of PIO/T for Mobilization Team (PPMT)
12/86	Selection of PPMT to Assist With Initial Project Activities
01/87	Arrival of Pre-Project Mobilization Team
	Preparation of Policy Reform Monitoring Plan
	Preparation of GOE Capital Fund Use Tracking Plan
	Assessment of PBDAC Capital Structure Begun
	PBDAC/NES Extension Linkage Completed
	Organizational and Training Needs Assessment Begun
6/87	Policy Reform Monitoring Plan Completed
	First Policy Reforms Evaluated
	Procurement Services Agent Contracted
	Bridging TA Contracted

5

	Organizational and Training Needs Assessment Completed
	RFTP Completed
	Project Monitoring and Evaluation Plan Completed
	Vehicles Ordered
1/88	RFP's Solicited for Project
	Monitoring and Evaluation Contracted
	Review of RFP's
	Selection of Contractor
	Preparation of Contract
3/88	TA Selected
	TA Contracted
	Vehicle Repair and Maintenance Contracts Awarded
	Receipt of Vehicles
	Second Policy Reforms Evaluated
	Team Leader Arrives
6/88	TA Team Arrives
	Implementation Plan Finalized
	Second Year Performance Objectives Finalized
10/88	Policy Reforms Evaluated
5/89	Policy Reforms Evaluated
10/90	Policy Reforms Evaluated
5/89	Project Evaluation Team Selected
	Policy Reforms Evaluated

SV

9/90	Project Evaluation Received (2 yr)
10/90	Policy Reforms Evaluated
5/91	Policy Reforms Evaluated
10/91	Policy Reforms Evaluated
5/92	Baseline Evaluation - Policy Impact
10/92	Project Evaluation (4 yrs)
5/93	Final Evaluation (6 1/2 yrs)
6/93	Project Audit
9/93	Project Closeout

D. Procurement Plan

Procurement of goods and services for the project will be divided into two stages. The first stage is a pre-project mobilization period during the initial 18-24 months following approval of the project agreement. The second stage consists of the subsequent 60 month period prior to PACD on September 30, 1993.

The following section outlines the procurement requirements for each component of the project by responding to the following questions:

- What to procure?
- How to procure?
- Justification for mode of procurement selected.
- Who will procure?
- From whom will the procurement be?
- When will the procurement take place?
- How much is the procurement value?

Each of these questions will be answered for each of the project elements, sequentially, below.

1. Item: Technical Assistance/Pre-project Mobilization Team

Consists of 18-24 months technical assistance of a pre-project mobilization team (PPMT) to prepare:

a. Background information to enable preparation of Scopes of work for long term TA;

b. Assistance in preparing technical proposals (RFTP's) for above;

c. Review and evaluation procedures for above;

d. Orientation plan and actual orientation for long-term TA;

e. An assessment of training needs, local and non-local, and an implementation schedule for same;

f. A commodities procurement plan, list and specifications for initial (2 years) project needs, U.S. and local shelf;

g. Above items (b & c) for short-term consultant technical assistance;

h. Above items (b & c) for local training contract;

i. Above item (f) for 52 project vehicles.

Mode:

a. AID Direct Contract, or

b. Host Country Contract (HCC).

Justification:

a. Mission preference for 8-a minority firm; procedure for contracting is more timely to ensure rapid project start-up; or

b. No 8-a firm may wish to contract for work which would constrain their opportunity to bid on larger TA contract, and

GOE may object to reasonableness of fee;

Agent:

a. USAID/IS/CS; AGR/ACE will write PIO/T; or

b. PBDAC;

- USAID will prepare SOW;
- PBDAC will write tender;
- AID will review and approve and issue CBD;
- PBDAC will receive, review and select from among most responsive offers;
- PBDAC will negotiate and award contract;
- AID will review and approve contract;
- AID will issue direct L-Coms.

Source:

a. Small Business Association; or

b. Any U.S. or PL 43 firm.

Date: Months after PROAG:

a. Two months; or

b. Six months.

Value:

a. 45 person months or $700,000;

b. Same as above.

2. Item: Technical Assistance/Long-Term/Bridging

Consists of 12 months technical assistance to bridge gap between SFPP and APC long-term TA arrival, to continue essential SFPP technical assistance between 7/87 (SFPP PACD) and 7/88 (eda for APC technical assistance).

Mode:

Host Country Contract (HCC);

Justification:

Technical assistance for SFPP is currently contracted through HCC mechanism with a US contractor. This SFPP contract would be amended to extend selected current TA contracts essential to smooth transition to new project.

Agent:

BDAC (See Item 1: Agent: 1b, above, but modified for predominant capability).

Source:

Current SFPP contractor.

Date:

Three to four months.

Value:

Up to 120 person months or $1,800,000.

3. Item: Technical Assistance/Short Term/Consultants:

Consists of 45 person months over a 7 year period to provide technical assistance for discrete tasks identified by project management, e.g. MIS work-up, or private sector expansion of input supply, etc.

Mode:

Host Country Contract (HCC) with entity or institute using a work-order or IQC type arrangement to access experts in broad range of specialties related to rural finance and credit systems;

Justification:

PBDAC is experienced in HCC contracting procedures;

Agent:

PBDAC (See Item 1: Agent: 1b, above);

Source:

Any U.S. supplier;

Date:

Four months;

Value:

$700,000.

4. Item: Technical Assistance/Long Term:

Consists of 360 person months of long-term TA, from month 21 through PACD (a 63 month period). Scopes of work to be developed by USAID with assistance from the Pre-Project Mobilization Team (see above, Item 1, and above, The Contract Team);

Mode:

Host Country Contract;

Justification:

Same as above;

Agent:

PBDAC (See Item 1:Agent: 1b, above);

Source:

Any U.S. supplier;

Date:

Should arrive in-country no later than 21st month (i.e. 7/88);

Value:

$,400,000.

57

5. Item:Technical Assistance/Project Support:

Consists of LE 1 million worth of project support personnel funds for administrative assistants, bilingual secretaries, messengers, drivers, etc.

Mode:

Host Country Contract;

Justification:

Same as above;

Agent:

PBDAC (see Item 1:Agent: 1b, above);

Source:

Any U.S. or PL 43 supplier;

Date:

In two phases:

a. To support Pre-Project Mobilization Team (PPMT) during initial 18-24 months;

b. To support long term TA team through PACD.

Value:

LE 1,000,000.

6. Item:Training/Non-Local/Non-Degree:

The scope of this training input will be developed by the PPMT (see Item 1a, above);

Mode:

a. AID Direct contract with 8a firm; or

b. Host Country Contract;

Justification:

a. Mission preference for 8a firm; ensures rapid project start-up and ability to access critical training in early stages; or

b. No 8a firm may choose to bid on contract or GOE may consider fee to be unreasonable;

Agent:

a. USAID/IS/CS; and AGR/ACE will write PIO/T with assistance from HRDC/T; or

b. PBDAC; see Item 1:Agent: lb, above;

Source:

a. Small Business Association; or

b. Any U.S. supplier.

Date:

a. 12 months; or

b. 16 months.

Value:

a. $800,000;

b. Same.

7. Item:Training/Local:

An assessment of training needs will be conducted by the PPMT (see above, Item la) during the first 12-18 months of the project. The scope of the effort and RFTP will be written by the team (based upon their assessment) along with other related procurement documents.

Mode:

Host Country Contract (HCC);

Justification:

PBDAC has experience contracting by this mode and will wish to closely monitor training;

Agent:

PBDAC; see Item 1: Agent: 1b, above;

Source:

Any U.S. or PL 43 supplier;

Date:

12 months;

Value:

$2,500,000

8. Item: Commodities/Computers:

Computer hardware, software and training for two PBDAC sites and 11 governorate banks will be procured, including LE 1,000,000 worth of site preparation calculated at LE 100,000 per site. The MIS computer system is estimated a. $200,000 each, a very preliminary estimate, but based on some consultancy work.

Mode:

Host Country Contract; this will be a part of the Technical Assistance Long Term Contract (see above, Item 4);

Justification:

The long term TA team should play a role in selection of the system most appropriate to their perception of the PBDAC's needs, and corresponding to their own background and experience; the equipment and software must be compatible with the TA best assessment of the host country rural conditions; also the PBDAC is an experienced HCC contractor.

60

Agent:

PBDAC through the Technical Assistance Long Term Contractor using procedure described above (see Item 1b), although the exact technical specifications may be prepared under a short term TA consultants contract;

Source:

Any U.S. or PL 43 supplier;

Date:

18 to 24 months;

Value:

$4,000,000

9. Item: Commodities/Office Equipment:

This procurement consists of several packages based upon the replacement of manual accounting practices in the village, district and governorate level banks within the PBDAC system; it is a phased procurement tied to expansion of the project throughout the 11 governorates; initial procurement specifications will be developed by the pre-project team (see Item 1, above) in such a way that subsequent purchases are simply repetitive. The total procurement consists of:

10 calculators valued at $250 each and additional office equipment or furnishings (valued at LE 1500) for each of 350 village banks;

15 calculators and office equipment/furnishings (as above) for each of 44 district level banks;

5 financial calculators valued at $100 each for every governorate level bank (11);

25 financial calculators for each of 8 offices within the PBDAC headquarters;

Other electronic equipment or essential office furnishings which may become apparent during the assessment and preparation of procurement specifications;

Mode:

Host Country Contract (HCC)

Justification:

PBDAC is experienced in HCC procedures;

Agent:

PBDAC will procure these items through a PSA;

Source:

Any U.S. or PL 43 supplier;

Date:

A phased procurement corresponding to expansion of project throughout 11 governorates; however, initial purchase within 18-24 months of Proag approval;

Value:

$1,325,000

10. Item:Commodities/Vehicles and Spare Parts:

Project design calls for a total of 52 vehicles distributed as follows: 6 for the PBDAC and 2 for the MOA headquarters, and 4 for each of the 11 governorates where the project will be implemented;

The four vehicles at the governorate level are to be allocated equally (2 x 2) between the PBDAC and MOA personnel. The vehicles cannot be sedans, but should be suitable for visiting villages and farmers fields throughout the rural areas. Ten percent of the vehicle purchase value will be ordered in spare parts, to be stored, inventoried, and distributed by the project administrative staff.

Mode:

AID Direct Contract through IQC with a PSA;

Justification:

The procedure has proven more effective and efficient than alternative modes for procuring vehicles for projects in this country;

Agent:

PSA contracted by USAID/IS/CS on PIO/T prepared by AGR/ACE based on specifications prepared by pre-project mobilization team (see Item 1a, above);

Source:

Any U.S. or PL 43 supplier;

Date:

18 to 24 months;

Value:

$875,000.

11. Item:Services/Evaluation:

Mid-term and final evaluations based upon base line data prepared during project start-up under separate funding (PPP/E Social Studies Project);

Mode:

AID Direct Contract;

Justification:

Mission preference for 8a minority firm and outside contractor for evaluation;

Agent:

USAID/IS/CS; the PIO/T will be prepared by AGR/ACE with assistance from PPP/E;

Source:

Small Business Association;

Date:

At approximately 27 and 80 months;

Value:

$350,000 for each evaluation;

11. Item:Services/Audit:

An audit is required for each project.

Mode:

AID Direct contract;

Justification:

Mission preference;

Agent:

USAID/RIG; based on PIO/T written by AGR/ACE with assistance from FM and IS/CS.

Source:

Open

Date:

At 80 months, or 3 months prior to termination of project;

Value:

$200,000

E. Methods of Implementation and Financing

Funds provided by the Agricultural Production and Credit Project will be used for performance payments for capitalization of PBDAC and for a Host Country Contract (HCC) between a U.S consultant firm or institution and PBDAC. The

64

performance payment and monitoring mechanisms are described in section V of this project paper. The HCC will be paid through use of a Mission-issued direct letter of commitment. PBDAC has demonstrated the capability to efficiently advertise, award, and monitor contracts and to adequately examine contractors' invoices in the process of providing performance certification.

F. Evaluation

Because this project is the "cornerstone" of USAID agriculture sector strategy, we propose a comprehensive evaluation plan which includes detailed coverage of policy reform benchmarks. The details of the plan, including the major evaluation questions and data collection methods, are presented in Annex 7F. The evaluation budget includes funds for short-term T.A. to help establish specific annual benchmarks and to determine timing of evaluation activities.

1. Evaluation Objectives

The project has dual objectives: supporting the GOE in reforming agriculture sector policies, and improving credit, extension and input supply services to farmers.

a. Policy reform objectives

At first, evaluation will emphasize verifying implementation of sector-wide reforms. Later, the focus will shift to emphasize impact on national agricultural production and productivity. Major questions may include:

- Does the agricultural reform plan address the key constraints to increased production ?
- Is implementation of reforms on schedule ?
- What has been the reforms' impact on farmers' access to inputs ?
  - on farmgate crop prices ?
  - on aggregate production ?
- Which reforms have stimulated production most effectively ?
- What has been their impact on rural incomes ?

65

b. Improved Farmer Services Objective

Evaluation will emphasize effectiveness of project inputs in strengthening PBDAC financial systems and in improving farmers' access to credit, inputs and technology.

Major questions may include:

- Has PBDAC implemented improved lending systems as planned ?
- Has the project led to improved technology transfer systems, and are they working effectively ?
- What steps is PBDAC taking to diminish its role in input distribution and to expand the private sector's role ?
- Have project activities strengthened PBDAC as a financial institution ?
- How has its loan portfolio changed ?
- Does PBDAC provide improved financial services and access to credit for farmers ?
  - For small farmers ?
  - For entrepreneurs ?
- Has the project led to expanded private sector input distribution and marketing ?

2. Data Collection

Data collection and analysis methods will include:

- Review of GOE announcements and decrees,
  MOA national agricultural statistics,
  PBDAC financial and input supply records,
  Project reports;
- Site visits and informal interviews, and;
- Special studies and surveys.

The Management Information System which the project will help PBDAC put into place will simplify the analyses of the Bank's financial and input statistics and loan portfolio.

6b

Special studies will assess the impact of policy reforms on farmers and the changes in private sector input distribution and marketing. These may include:

- Rapid reconnaissance surveys to verify how policy reforms are being implemented and influencing farmers.
- A survey to develop a baseline set of farmer profiles.
- Baseline and follow-up studies to observe expansion of private sector activities.
- Studies to assess various bank services in participating villages.

3. Data Analysis and Review

There are three mechanisms for reviewing this information:

a. Ongoing Policy Dialogue

USAID's dialogue with the GOE will provide a forum for discussion of important findings identified by project studies.

b. Annual Performance Reviews

During annual performance reviews, USAID and the GOE will assess progress on policy benchmarks and establish benchmarks for the next year.

c. Midterm and Final Evaluations

These evaluations will look primarily at project effectiveness in improving farmer services. They are tentatively planned for mid 1988 and for 1991.

4. Implementation

USAID, PBDAC, the MOA, and TA contract staff will jointly share data collection responsibilities, as described in Annex 7F. For surveys and special studies, AID will contract directly with a U.S. firm, possibly under an 8-A set-aside, working with an Egyptian social research firm. Mixed teams of AID and GOE staff and consultant experts will conduct the mid-term and final evaluations.

The evaluation budget includes funds for these external contracts, as well as for technical assistance to help the MOA analyze the impact of planned policy reform measures.

VII. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

A. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under the Grant or to the issuance by AID of any commitment documents under the Project Agreement, the Grantee shall, except as the Parties may otherwise agree in writing, furnish to AID in satisfactory form and substance:

1. a statement of the names and titles of the persons authorized to act as the representatives of the Grantee, together with a specimen signature of each person specified in such statement;

2. evidence of progress in the implementation by the Grantee of policy reforms in the agricultural sector*; and

3. evidence that increased capitalization of PBDAC, in an amount at least equal to the Egyptian pound equivalent of the first disbursement by AID, has taken place or will take place simultaneously with the first disbursement;

4. evidence that a monitoring and reporting system has been established to verify utilization of the PBDAC capitalization funds in accordance with the objectives of the project.

Notwithstanding the foregoing, technical assistance, training and commodities may be financed under the Grant prior to the satisfaction of the above conditions 2, 3, and 4.

*Note: During the negotiation of the Grant Agreement, both parties (AID and the GOE) concluded that the substance of these two CPs relating to policy reform (see also B.1 on next page) could more appropriately be included in the Agreement, not as a CP *per se*, but as part of an expanded definition of the Project, in Section 2.1, elaborated in a Project Implementation Letter.

B. Conditions Precedent to Additional Performance Disbursements

Prior to each additional disbursement, or to the issuance by AID of documentation pursuant to which any performance disbursement will be made, the Grantee shall, except as otherwise agreed in writing, furnish to AID in form and substance satisfactory to AID:

1. evidence of continued progress in the implementation by the Grantee of policy reforms in the agricultural sector*; and

2. evidence that increased capitalization of PBDAC, in an amount at least equal to the Egyptian pound equivalent to such additional performance disbursement, has taken place or will take place simultaneously with such performance disbursement.

B. Covenants

The Project Agreement contains, in addition to the standard general covenants and the standard evaluation covenant, covenants in substance as follows:

1. The Grantee shall submit for AID approval prior to implementation, issuance or execution, all plans, specifications, bid documents, solicitations of proposals and similar Project contract documents, including all modifications to these documents.

2. The Grantee will assess the capital requirements of the Bank and begin a program for sufficient retention of earnings to realize adequate long-term capitalization to support PBDAC's institutional and financial viability.

3. The Grantee shall make available, after the termination of the Project, sufficient resources, including the provision of funds, to support on a continuing basis, the lending, training, salaries and repair/maintenance activities which have been supported by the Project. As part of its preparation of its annual budget, the PBDAC and MOA shall meet with AID and discuss how the Project will provide for the operation and maintenance of all Project-funded equipment.

4. The GOE shall consult with the Ministry of Agriculture Commodity Procurement Committee to develop prudent commodity procurement planning and to prevent unnecessary duplication of commodities. At least four months prior to the need for specific commodities, the GOE shall furnish A.I.D. with a commodity procurement plan for such commodities. A commodity procurement plan for vehicles shall provide the amount, type and use of vehicles. The plan must certify that adequate maintenance and repair facilities are available and that the GOE has personnel to properly operate, maintain, support and control the vehicles.

5. The Grantee shall, except as the Parties may otherwise agree in writing, furnish to AID, in the form developed by AID and the MOA Commodity Procurement Committee through earlier AID-funded projects, proper tender documentation in a timely fashion.

7U

V Molldrem

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM TO THE DIRECTOR

FROM: AD/PPP, George Laudato

SUBJECT: Project Authorization - Agricultural Production and Credit 263-0202

BACKGROUND: On September 8, the Executive Committee reviewed the Project Paper for the subject project and agreed to approve the paper with certain revisions. These revisions are noted in the Molldrem Decision Memorandum dated September 15, 1986 and are being incorporated into the Project Paper. (See Tab A)

Other than those mentioned above, all issues have been resolved and there are no further issues pending.

RECOMMENDATION: That you sign the attached Project Authorization.

Approval ____________

Disapproval ____________

Date Sept 29, 1986

Clearance:

AD/FM, W. Miller

AD/AGR, W. Janssen

S/LEG: K. O'Donnell Noted. Legal issues were addressed by Acting SLA Williams during my absence on HL. KFM

DR/PS, F. Miller

71

PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Agricultural Production and Credit Project

Number of Project: 263-0202

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agricultural Production and Credit Project for the Arab Republic of Egypt (the "Cooperating Country") involving planned obligations of not to exceed One Hundred Twenty-Three Million Dollars ($123,000,000) in grant funds over a five (5) year period from the date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process to help in financing the foreign exchange and local currency costs for the Project. The planned life of the Project is seven (7) years from the date of initial obligation.

2. The Project will support the deregulation of the Egyptian agricultural system by providing performance disbursements based upon the implementation of policy changes in the agricultural sector. The performance disbursements also will be based on the need for additional capital for the Principal Bank for Development and Agricultural Credit ("PBDAC"). As a requirement for each performance disbursement, the Grantee will increase the capitalization of the PBDAC by at least an amount of Egyptian pounds equivalent to the performance disbursement. The Project will also finance technical assistance, training and commodities to assist the PBDAC.

3. The Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with AID Regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as AID may deem appropriate.

4. Source and Origin of Commodities, Nationality of Services

A. Commodities financed by AID under the Project shall have their source and origin in the Cooperating Country or in the United States, except as AID may otherwise agree in writing. Except for ocean shipping, the supplier of commodities or services shall have the Cooperating Country or the United States as their place of nationality, except as AID may otherwise agree in writing.

B. Ocean and air shipping financed by AID under the Project shall, except as AID may otherwise agree in writing, be financed only on flag vessels and carriers of the United States.

5. Conditions Precedent

The Project Agreement shall contain conditions precedent in substance as follows:

/\V

Prior to the first disbursement under the Grant or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

A. A statement of the name of the person holding or acting in the office of the Grantee as specified in the Grant Agreement and of any additional representatives, together with a specimen signature of each person specified in such statement;

B. Evidence of progress in the implementation by the Grantee of policy reforms in the agricultural sector; and

C. Evidence that increased capitalization of PBDAC, in an amount at least equal to the Egyptian pound equivalent of the first disbursement by A.I.D., has taken place or will take place simultaneously with the first disbursement;

D. Evidence that a monitoring and reporting system has been established to verify utilization of the PBDAC capitalization funds in accordance with the objectives of the Project.

Notwithstanding the foregoing, technical assistance, training, and commodities may be financed under the Grant prior to the satisfaction of the above paragraphs (B), (C) and (D).

6. Conditions Precedent to Additional Performance Disbursements
Prior to each additional performance disbursement, or to the issuance by A.I.D. of documentation pursuant to which any additional performance disbursement will be made, the Grantee shall, except as otherwise agreed in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.

A. Evidence of continued progress in the implementation by the Grantee of policy reforms in the agricultural sector; and

B. Evidence that increased capitalization of PBDAC, in an amount at least equal to the Egyptian pound equivalent to such additional performance disbursement, has taken place or will take place simultaneously with such performance disbursement.

7. Covenants
The Project Agreement shall contain, in addition to the standard general convenants and the standard evaluation covenant, covenants in substance as follows:

A. The Grantee shall submit for AID approval prior to implementation, issuance or execution, all plans, specifications, bid documents, solicitations of proposals and similar Project contract documents, including all modifications to these documents.

17

B. The Grantee will assess the capital requirements of the Bank and begin a program for sufficient retention of earnings to realize adequate long-term capitalization to support PBDAC's institutional and financial viability.

C. The Grantee shall make available, after the termination of the Project, sufficient resources, including the provision of funds, to support on a continuing basis, the lending, training, salaries and repair/maintenance activities which have been supported by the Project. As part of its preparation of its annual budget, the PBDAC and MOA shall meet with AID and discuss how the Project will provide for the operation and maintenance of all Project-funded equipment.

D. The GOE shall consult with the Ministry of Agriculture Commodity Procurement Committee to develop prudent commodity procurement planning and to prevent unnecessary duplication of commodities. At least four months prior to the need for specific commodities, the GOE shall furnish

A.I.D. with a commodity procurement plan for such commodities. A commodity procurement plan for vehicles shall provide the amount, type and use of vehicles. The plan must certify that adequate maintenanace and repair facilities are available and that the GOE has personnel to properly operate, maintain, support and control the vehicles.

E. The Grantee shall, except as the Parties may otherwise agree in writing, furnish to AID, in the form developed by A.I.D. and the MOA Commodity Procurement Committee through earlier AID-funded projects, proper tender documentation in a timely fashion.

Arthur Handly
Acting Director
USAID/Egypt

Oct 29, 1986
Date

Clearances:
AD/PPP:GLaudato(draft)
AD/AGR:WJanssen(draft)
FM:WMiller(draft)

LEG:MJWilliams:viv:9/16/86:PRAU0202:GA V

Agricultural Production and Credit Project
263-0202

ANNEXES

List of Contents

NARRATIVE SUMMARY

GOAL:	Measures of Goal Achievement:	Means of Verification:	Assumptions:
To increase agricultural investment, agricultural productivity, and farm incomes.	Ag. production major crops has increased substantially. Per hectare production has increased. Farm income has increased.	MOA production statistics by Crop and by government. Farmer surveys.	Policy changes are sufficient to provide the incentives farmers need to increase production. Ag. inputs not affected through this project (e.g. irrigation water) are adequate to allow for expanded production.

PURPOSE:	End of Project Status:	Means of Verification:	Assumptions:
To provide farmers with new technology, improved financial services, and expanded access to input supply, so that they can take advantage of higher returns to investment in a deregulated agricultural sector.	Farmers have easier access to all inputs, including credit, at market prices.	Farmer surveys Analyses of production data Field trips to rural markets.	Changes in PBDAC, along with incremental ag. reforms, are sufficient to bring about improved access to credit.
	Private dealers have increased their share of input supply operations, with PBDAC decreasing its operations accordingly	Special studies to analyze trends in PBDAC and private participation in input distribution.	Private dealers have adequate incentives and skills to expand their rural operations.
	Farmers are using improved technologies disseminated by village teams.	PBDAC loan records	Technologies provided by village bank teams and by private dealers are appropriate, and farmers accept them.
	Number and share of loans to small farmers and entreprenuers have increased.		
	Farmers are using greater quantities of inputs in better combinations in response to market signals.		

Annex 1

OUTPUTS:	Magntitude of Outputs:	Means of Verification:	Assumptions:
I. Outputs to strengthen PBDAC			
1) Improved systems in 350 vil.banks: a) to simplify borrowing procedures and reduce transaction time ›) To improve efficiency banking and credit operations.	Within 5 years: Streamlined procedures in 350 village banks. 350 local advisory groups. 9,500 "team" members trained. teams fielded in 350 villages.	To be analyzed in ongoing project monitoring and during scheduled evaluations: Technical assistance team progress reports	The inputs programmed are sufficient to bring about proposed procedural changes.
2) Development of local advisory groups in in 350 village banks.		Project records Site visits to village banks. Internews with PBDAC and TA staff.	PBDAC has the will to revise drastically its mode of operation and to phase down input supply.
3) Training and fielding of village teams of extension workers, financial analysts and other specialists to disseminate new technologies to farmers		Special study of sample of PBDAC village banks PBDAC input distribution	
4) Implementation of new bank policies to promote private business involvement in input supply and to phase down PBDAC's input distribution fuctions.	New policies developed and instituted: specific topics to be determined by T.A. team. Benchmarks to be determined.	Site visits to interview private input supply dealers.	The GOE will agree to a lower % of highly subsized agricultural loans.
5) Overall shift in PBDAC from crop loans.			
6) Increased percent of total PBDAC lending at highest legal rate, to increase the bank's financial viability.			
7) Trained bank staff in business lending loan evaluation.	Bank staff trained		
8) Increased PBDAC capititalization, through either increased retained earnings or increased contribution from Treasury.	Capitalization increased to at least the level of planned annual performance disbursements		

OUTPUTS:	Magnitude of Outputs:	Means of Verification:	Assumptions:
II. GOE Policy Reforms			
1) Prices liberalized for all crops except cotton, sugar, & rice by 1989. Liberalization prices for cotton, sugar and rice later	1st year incremental reform targets outlined in David Dodd's report (See section III.B.2.)	Review & Anaylsis of GOE progress on agreed-upon reforms by PPP/E, AGR/A and MOA staff, for annual disbursement reviews.	The GOE is serious about its ag. reform proposals.
2. Delivery Quotas eliminated for all crops exc. cotton, sugar & rice by 1986. On remaining crops after 1995.	Other years' targets to be agreed upon at annual performance reviews.	Information Sources: GOE annoucements & decrees Field trips Interviews Rapid reconnaissance surveys	USAID's total program, along with proposed resources of IBRD, result in sufficient influence to convice GOE to accelerate its agri-reform schedule.
3. Mandated cropping patterns eliminated exc. rice, sugar and cotton by 1989.			Public support for reforms will be adequate to allow the program to be implemented.
4. State ownership of ag. land limited to 4%.			
5. Import prices liberalized by eliminating subsidies.			The GOE will do sufficient analysis to anticipate social problems that may result from the reforms, and will take actions to reduce adverse social consequences.
6. Public sector imput distribution monopolies eliminated.			
7. Applied research strengthened.			

(The above is a summarized list of the key GOE agricultural reform proposals.)

INPUTS:	Implementation Target (Type & Quantity)	Means of Verification:	Assumptions
1) T.A. $9.6 million LE 0.72 million	1) 8 persons, 5 years, to PBDAC for: a) Expansion of SFPP model b) PBDAC management improvement in finance, credit, investment, MIS, accounting, personnel private enterprise expansion.	- Project progress reports - Project records - Site visits to be analyzed in ongoing project monitoring and during evaluations.	AID GOE can provide inputs in a timely fashion C.P.s are realistic and can be accomplished by the GOE as scheduled.
2) Training $3.3 million LE 4.06 mil.	2) In-country training for 9,500 PBDAC and NES employees Overseas, short-term training for middle-management		Implementation schedule is realistic GOE policies allow projected T.A. and training to occur.
3) Commodities $6.2 mil. LE 2.5 mil.	3) Computers, vehicles, office equipment for village banks		
4) Services $.8 million LE 4.9 mil.	4) Repair & maint. contracts Evaluations, audits T.A. for policy analysis Extension agent incentive payments (HC contribution)		
5) Performance Disbursemts. $100 million 6) PBDAC Capitalization funds LE 135 million	5 & 6) Annual performance disbursement levels to be determined based upon annual performance reviews will also determine adequacy of capitalization of PBDAC.	PBDAC capitalization: tracking mechanism to be developed by AGR/A and FM offices	

ን

ES UNCLASSIFIED STATE 236271/01

ACTION: AID-3 INFO: DCM ECON/5

VZCZCCR0306
PP RUEHEG
DE RUEHC #6271/01 2100026
ZNR UUUUU ZZH
P 290022Z JUL 86
FM SECSTATE WASHDC
TO AMEMBASSY CAIRO PRIORITY 1237
BT
UNCLAS SECTION 01 OF 02 STATE 236271

LOC: 29
29 JUL 86 0453
CN: 50315
CHRG: AID
DIST: AID

AIDAC

E.O. 124356: N/A
TAGS: N/A
SUBJECT: AGRICULTURAL PRODUCTION CREDIT (NO. 263-0202)

1. SUMMARY. ANPAC APPROVED SUBJECT PID ON JULY 15 SUBJECT T RESOLUTION IN PP OF ISSUES DESCRIBED BELOW RELATING TO: TYI OF DISBURSEMENTS TO POLICY CHANGES; INSTITUTIONAL STRENGTHE OF BANK; FINANCIAL VIABILITY OF BANK; INTEREST RATE LEVELS; PRIVATIZATION. ANPAC COMPLIMENTS MISSION ON UNUSUALLY READ AND CLEARLY PRESENTED PID. MISSION REPRESENTATIVES JANSSEN BOTH LAUDATOS CONTRIBUTED SUBSTANTIAL INPUT TO BOTH PRC AND ANPAC MEETINGS, THUS SPEEDING REVIEW PROGRESS.

2. FOLLOWING ISSUES WERE DISCUSSED AT ANPAC:

A. TYING OF DISBURSEMENTS TO POLICY CHANGES

AID/W REVIEW EMPHASIZED THAT THIS PROJECT WAS BEING UNDERTAA IN CONTEXT OF ONGOING DISCUSSIONS OF OVERALL ECONOMIC POLICY DIALOGUE WHERE AGRICULTURAL POLICY CHANGES FORM PART OF SEV PROGRAMS AND PROJECTS; HOWEVER, THIS PROJECT WAS DESIGNED TT OPERATIONALIZE THAT DIALOGUE WITHIN THE CONTEXT OF DAY-TO-D) AID PROJECT ACTIVITIES. THUS, UNLIKE OTHER, EARMARKED PROG AMOUNTS, SUCH AS PL-480, THIS PROJECT'S DISBURSEMENTS WILL LINKED TO THE GOE'S UNDERTAKING AGREED UPON AGRICULTURAL PO).

CHANGES AND IMPLEMENTING THEM WITHIN AN AGREED POLICY FRAMEWORK. IN THE ABSENCE OF AGREED POLICY CANGES, AID WOULD NOT DISBURSE DOLLARS. AMOUNT AND TIMING OF THE ESTIMATED DOLS 100 MILLION DISBURSEMENTS WOULD BE LINKED TO PBDAC'S NEED FOR SPECIAL LOAN FUNDS. THE ANPAC HAS SEVERAL QUESTIONS REGARDING HOW DISBURSEMENTS WILL BE TIED TO POLICY CHANGES AND FELT THIS ISSUE WILL REQUIRE ADDITIONAL ANALYSIS BEFORE FINALIZATION PARTICULARLY IN THE FOLLOWING AREAS:

(1) THE AGENDA FOR POLICY DIALOGUE AND CRITICAL PERFORMANCE INDICATORS/BENCHMARKS SHOULD BE REFINED IN THE PP, AND BALANCED BETWEEN MACRO-LEVEL AND SECTORAL (I.E. BANK-LEVEL) ISSUES IDENTIFIED AS CRITICAL TO THE PROJECT'S SUCCESS.

(2) BALANCING OF CONDITION PRECEDENT REQUIREMENT FOR PLAN AND SCHEDULE OF POLICY CHANGES FOR A FIVE YEAR PERIOD. IN THE DESIGN STAGE, USAID MAY FIND THE NEED TO DEVELOP A PLAN WHICH IS FLEXIBLE, ESPECIALY IN LATER YEARS. SOME POLICY CHANGES IN EARLY YEARS WILL AFFECT THE NEED FOR AND DIRECTION OF LATER POLICY CHANGES. THE TASK OF ASSESSING PRIORITIES AND IMPACTS OF SIGNIFICANT AGRICULTURAL POLICY CHANGES WILL BECOME A CONTINUOUS, TIME-CONSUMING EFFORT.

(3) MECHANICS OF ARRANGEMENT WILL REQUIRE CLOSE COORDINATION WITH GOE INCLUDING, FOR INSTANCE, ESTABLISHMENT OF SEPARATE ACCOUNTS FOR GOE PBDAC FUND TRANFERS AND NEED FOR CLEARLY DEFINED STARTING POINT FOR MEASURING GOE ADDITIONS TO PBDAC LOAN FUND;

(4) RESOLUTION OF POTENTIAL PROBLEM WHEREBY PBDAC NEEDS FOR SPECAIL LOAN FUND MIGHT INDICATE THE AMOUNT OF DOLLAR DISBURSEMENTS, REGARDLESS OF THE NATURE OF GOE POLICY CHANGES. AT WORST, THIS COULD RESULT IN EQUITY OF, SAY, A LARGE DOLLAR DISBURSEMENT BASED ON NEEDS OF PBDAC IN EXCHANGE FOR LIMITED POLICY REFORMS.

(5) G. LAUDATO MET WITH GC AFTER ANPAC MEETING TO DISCUSS ANPAC APPROVED APPROACH, WHICH WILL MAKE IRRELEVANT BALANCE OF PAYMENTS AND CASH TRANSFER JUSTIFICATIONS AND CHARACTERIZATIONS CONTAINED IN PID. THE PROPOSED AMOUNT AND TIMING OF ESTIMATED DOLS 100 MILLION DISBURSEMENTS WILL BE BASED ON PBDAC'S LOCAL CURRENCY CREDIT NEEDS, ALTHOUGH DISBURSEMENTS WILL BE CONDITIONED ON ESSENTIAL SCHEDULED SECTOR REFORMS. CASH TRANSFER CONCERN NOTED AT PAGE 21 OF THE PID WILL NOT ARISE UNDER ANPAC-APPROVED APPROACH. THIS APPROACH IS CONSISTENT WITH AID POLICY AS OUTLINED IN STATE 246904 DATED AUGUST 30, 1983 ENTITLED PROGRAM SECTOR ASSISTANCE GUIDANCE.

B. INSTITUTIONAL STRENGTHENING OF BANK

THE ANPAC WAS COGNIZANT OF THE BANK'S FUTURE NEED TO SHIFT TO EXCLUSIVE RELIANCE ON ITS BANKING BUSINESS (ASSUMING RELATED POLICY CHANGES), THE EFFECTIVENES OF ITS RECENTLY APPOINTED CHAIRMAN, AND ITS DESIRE FOR TECHNICAL ASSISTANCE TO STRENGTHEN THE BANK. THE ANPAC QUESTIONED WHETHER TARGET DATES COULD BE ESTABLISHED FOR SHIFTING OUT OF THE INPUT/OUTPUT SUPPLY LINE OF ITS BUSINESS, WHICH FURNISHES ABOUT ONE-HALF OF THE BANK'S PROFITS. THE GOE AND PBDAC WILL SET THEIR OWN PACE WHILE AID ASSISTS IN APPROPRIATE WAYS; HOWEVER, WE UNDERSTAND THE ISSUE WILL BE ON THE POLICY AGENDA FOR DISCUSSION. THE PP SHOULD REFLECT THESE DISCUSSIONS.

C. FINANCIAL VIABILITY AND INTEREST

THE ANPAC UNDERSTOOD THAT THE BANK IS PROFITABLE AND RETURNS SOME FUNDS TO THE GOE TREASURY AFTER ALLOWANCE FOR SUBSIDIES. THE ANPAC ALSO RECOGNIZED THAT THE BANK IS A RELIC OF OLD-FASHIONED AGRICULTURAL CREDIT INSTITUTIONS MARKED BY LOANS IN KIND NOT CASH, TIGHTLY SUPERVISED CREDIT, AND RIGID STATE CONTROL OF FARMERS INPUTS AND OUTPUTS. UNDER THESE CONDITIONS, THE ANPAC APPRECIATED THE MISSION REPRESENTATIVES POSITION THAT THE PROJECT'S PRIMARY PRIORITY IS TO SUPPORT SIGNIFICANT AGRICULTURAL POLICY CHANGES WITH A SECOND ORDER OF PRORITY BEING THE MOVEMENT OF PBDAC TOWARDS MARKET FORCES AND DIVESTITURE OF INPUT SUPPLY SEPVICES TO THE PRIVATE SECTOR. THIS ISSUE AND THE HEIRARCHY OF OBJECTIVES SHOULD BE ADEQUATELY DEFINED IN THE PP. IN ADDITION, OTHER ITEMS RELATING TO FINANCIAL VIABILITY WERE DISCUSSED:

(1) THE ANPAC FELT THAT THE PP SHOULD INCLUDE A FINANCIAL ANALYSIS TO DETERMINE THE EXTENT OF POTENTIAL DECAPITALIZATION OF GOE-PBDAC FUNDS MATCHING AID PROJECT DISBURSEMENTS AND TO EXAMINE STEPS TO MINIMIZE IT, INCLUDING TECHNICAL ASSISTANCE DURING PROJECT IMPLEMENTATION IF THE GOE SO DESIRES. THIS RECOMMENDATION RESULTED FROM THE ANPAC'S UNDERSTANDING THAT EGYPTIAN INTEREST RATES MAY BE LESS THAN INFLATION RATES, THEREBY RESULTING IN SOME DECAPITALIZATION. OTHER FACTORS INCLUDE LOAN REPAYMENTS (ESTIMATED AT 99 PERCENT) AND COSTS OF OPERATIONS/ADMINISTRATION.

(2) INTEREST RATES. THE ANPAC ACCEPTED FOR PREPARATION OF THE PP. THE COMPREHENSIVE ANALYSIS OF AND APPROACH TO THIS ISSUE AS PRESENTED IN PAGES IV-4 THROUGH IV-8 OF THE COPNSULTANT'S REPORT QUOTE ANALYSIS OF THE CREDIT AND INSTITUTIONAL ASPECTS OF THE AGRICULTURAL PRODUCTION CREDIT PROJECT ENDQUOTE.

(3) NEW COVENANT. THE ANPAC APPLAUDS THE PBDAC'S EFFORTS TO REORIENT ITS OPERATIONS MORE CLOSELY TO MARKET FORCES. THEREFORE, IT RECOMMENDS INCLUSION OF A NEW AND BROADLY DEFINED COVENANT IN THE PROAG TO SUPPORT INSTITUTIONAL AND FINANCIAL VIABILITY AND MOVEMENT TOWARDS MARKET FORCES. AS ONE KIND OF INDICATOR, FOR INSTANCE, THE GOE COULD PERMIT PBDAC TO RETAIN PROFITS, THEREBY IMPROVING FINANCIAL VIABILITY INSTEAD OF RETURNING THESE FUNDS TO THE TREASURY. THIS ISSUE BECOMES ESPECIALLY POIGNANT INASMUCH AS DISBURSEMENT OF AID FUNDS TRIGGERS THE RELEASE OF GOE FUNDS FOR PBDAC'S SPECIAL LOAN ACCOUNT. OTHER APPROPRIATE INDICATORS WILL BECOME APPARENT DURING PROJECT DESIGN.

E. PRIVATIZATION

ANPAC DISCUSSED WHETHER AID SHOULD SUPPORT AND STRENGTHEN PBDAC, A GOVERNMENT AGENCY. ALTHOUGH THE BANK IS GOVERNMENT OWNED, IT WILL BECOME MORE RESPONSIVE TO MARKET FORCES, A THRUST REINFORCED BY THE ENTIRE PROJECT WITH ITS EMPHASIS ON AGRICULTURAL POLICY REFORM. THE ANPAC DECIDED THAT ON BALANCE THE PROJECT SHOULD BE SUPPORTED BECAUSE THE PROJECT WORKS WITH THE PBDAC TO HELP RELIEVE SUBSIDIES AND CONTROLS AND TO ENCOURAGE SUNSTANTIAL PRIVATE SECTOR EXPANSION AS POLICY CHANGES ARE OBTAINED. ALSO, THE PBDAC IS THE ONLY BANK LENDING TO SMALL FARMERS IN ANY MEANINGFUL WAY AND PRIVATIZATION AT THIS TIME WOULD BE COMPLEX AND EXPENSIVE AND WOULD HAVE A HIGH CHANCE OF CAUSING MAJOR DISRUPTION OR FAILURE. THE MISSION HAS NOT PRECLUDED EVENTUAL PRIVATIZATION OF THE INSTITUTION PER SE BUT CONSIDERS ITS FIRST PRIORITY THE RELIEF OF CONTROLS, INCLUDING THE BANK'S DROPPING ITS AGRICULTURAL INPUT/OUTPUT SUPPLY LINE OF BUSINESS, IN THIS POLICY-ORIENTED PROJECT. AS THE BANK GETS OUT OF THE SUPPLY BUSINESS, THE PRIVATE SECTOR IS IS EXPECTED TO PICK THIS UP. CONSEQUENTLY, THE ANPAC RECOMMENDED THAT THE MISSION ADDRESS THIS ISSUE IN THE PP.

87

C. ANPAC BRIEFLY REVIEWED TWO DISCUSSION POINTS CONCERNING EXTENSION SERVICE AND EVALUATION. IN REGARD TO EXTENSION SERVICE, THE ANPAC DECIDED THAT THE MISSION SHOULD CLARIFY IN THE PP THE ROLE AND ANY AID SUPPORT FOR THE EXTENSION SERVICE BEARING IN MIND THE LIMITATION ON SUCH SUPPORT UNTIL AFTER THE SERVICE'S REGULATORY ROLE IS DROPPED. IN REGARD TO EVALUATION, ANE/DP/E OFFERED TO ASSIST IN IDENTIFYING CANDIDATES TO DESIGN THE DATA COLLECTION, MONITORING, AND EVALUATION PLAN IF DESIRED.

D. PID WAS APPROVED SUBJECT TO RESOLUTION OF THE ABOVE ISSUES. USAID HAS BEEN REDELEGATED AUTHORITY TO APPROVE PROJECT PAPER AND AUTHORIZE PROJECT. SHULTZ
BT
#6271

NNNN

Agricultural Production
and Credit
Project No. 263-0202

5C (2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. ENERAL CRITERIA FOR PROJECT

FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

The Congressional Committees will be notified in accordance with the Agency's congressional notification procedures.

2. FAA Sec. 611 (a) (1). Prior to obligation in excess of $500,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

(a) Yes.

(b) Yes.

3. FAA Sec. 611 (a) (2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

The People's Assembly should ratify the Grant Agreement in a timely manner. In the past, the Assembly has ratified all grant agreements in time to permit orderly accomplishment of the project.

4.	FAA Sec. 611 (b); FY 1986 Continuing Resolution Sec. 501. If for water or water-related land resource construck, has project met principles, standards, and procedures established pursant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)	N.A.
5.	FAA Sec. 611 (e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?	N.A.
6.	FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.	(a) No.
7.	FAA Sec. 601 (a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.	(a) Yes. (b) Yes. (c) No, not directly. (d) Yes. (e) Yes. (f) No.

8. <u>FAA Sec. 601 (b)</u>. Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs including use of private (trade channels and the services of U.S. private enterprises).

The project will foster the use of private trade channels.

9. <u>FAA Sec. 612 (b), 636 (h); FY 1986 Continuing Resolution Sec. 507</u>. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other currencies owned by the U.S. are utilized in lieu of dollars.

Egypt is not an excess currency country.

10. <u>FAA Sec. 612 (d)</u>. Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

11. <u>FAA Sec. 601 (e)</u>. Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.

12. <u>FY 1986 Continuing Resolution Sec. 522</u>. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

No substantial injury to U.S. producers is foreseen.

13. <u>FAA 118 (c) and (d)</u>. Does the project comply with the environmental procedures set forth in AID Regulation 16. — **Yes.**

Does the project or program take into consideration the problem of the destruction of tropical forests? — **N.A.**

14. <u>FAA 121 (d)</u>. If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? — **N.A.**

15. <u>FY 1986 Continuing Resolution Sec. 533</u>. Is disbursement of assistance conditioned solely on the basis of the policies of any multilateral institution. — **No.**

16. <u>ISDCA of 1985 Sec. 310</u>. For development assistance projects, how much of the funds will be available only for activities of economically and socially disadvantaged enterprises, historically black colleges and universities, and private and voluntary organizations which are controlled by individuals who are black Americans, Hispanic Americans, or Native Americans, or who are economically or socially disadvantaged (including women)? — **N.A.**

3. Economic Support Fund Project Criteria

a. FAA Sec. 531 (a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA? — Yes.

b. FAA Sec. 531 (c). Will assistance under this chapter be used for military, or paramilitary activities? — No.

c. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin America (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States? — No.

d. FAA Sec.609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — N.A.

59

STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes.

2. FAA Sec. 604 (a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? — Yes.

3. FAA Sec. 604 (d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — No.

4. FAA Sec. 604 (e); ISDCA of 1980 Sec. 705 (a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — N.A.

5. FAA Sec. 604 (g). Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance of these countries?

N.A.

6. FAA Sec. 603. Is the shipping excluded from compliance with requirement in section 901 (b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

The project will comply with 50/50 shipping requirements.

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes.

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will the U.S. carriers be used to the extent such service is available? — **Yes.**

9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — **Yes.**

B. Construction

1. FAA Sec. 601 (d). If capital (e.g., construction) project, will the U.S. engineering and professional services be used? — **N.A.**

2. FAA Sec. 610 (c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practical? — **N.A.**

3. FAA Sec. 620 (k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except — **N.A.**

C. Other Restrictions

1. FAA Sec. 122 (b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter? — N.A.

2. FAA Sec. 301 (d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N.A.

3. FAA Sec. 620 (h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes.

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104 (f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; — (1) Yes.
   (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; — (2) Yes.
   (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary — (3) Yes.

sterilizations as a means of family planning; (4) to lobby for abortion?

(4) Yes.

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated?

Yes.

c. FAA Sec. 620 (q). To compensate owners for expropriated nationalized property?

Yes.

d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics pro grams?

Yes.

e. FAA Sec. 662. For CIA activities?

Yes.

f. FAA Sec. 636 (i). For purchase, sale, long-term lease, exchange or guarantee of the sale of of motor vehicles manufactured outside U.S., unless a waiver is obtained?

Yes.

g. FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?

Yes.

h. FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues?

Yes.

i. FY 1986 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209 (d) (Transfer of FAA funds to multilateral organizations for lending)?

Yes.

j. FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology?

Yes.

k. FY 1986 Continuing Resolution, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

The project will not repress human rights.

l. FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes.

PP 263-0202

ANNEX 4

ARAB REPUBLIC OF EGYPT

MINISTRY OF PLANNING AND INTERNATIONAL COOPERATION

أقطاع التعاون مع الولايات المتحدة
رقم الصادر ١٥٨١ المرفقات
التاريخ ٢٤/٩ ملف
الرجا ذكر رقم الملف عند الرد

DEPARTMENT FOR ECONOMIC COOPERATION

WITH U.S.A

679 Sept. 24 , 1986

PPP

DD

Mr. Frank Kimball
Director
USAID / C

ACTION TO AGR DIR
ACTION TAKEN DATE 10/7
HAD INITIALS

Dear Mr. Kimball:

The Principal Bank for Development and Agricultural Credit (PBDAC) is presently in the process of a nation-wide expansion of the successful aspects of the Small Farmer Production Project (SFPP). SEPP has demonstrated that profitable investment opportunities do exist for small farmers, which they will readily take advantage of if credit and technical assistance are available. A nationwide expansion of the project will require funds for training, technical assistance, commodities and loan fund capital.

PBDAC and the MOA, in coordination with U.S. specialists, have been working to design an agricultural production and credit project to assist in the expansion and to increase the institutional capacity of the PBDAC and governorate and village banks in order to increase and upgrade services to farmers. The project will also assist the Government of Egypt to make needed reforms in the agricultural sector in such areas as the private sector in the marketing of inputs, procurement and price controls for most crops, and subsidies for agricultural inputs. The project is planned for a period of 5 years and would require funding of U.S. $ 120 million and an Egyptian contribution of approximately L.E. 120 million.

Rec'd
9/28/86

This project has the potential to substantially raise production and the incomes of small farmer. Given the urgent need to increase agricultural productivity, it is imprtant that we receive AID assistance to finance the proposed project activities.

Sincerely yours,

Ahmad AbdelSalam.

Ahmad Abdel Salam Zaki
Administrator.

Annex 5

611 (a) Determination

The project requires a total of $9,600,000 for technical assistance. Long term technical assistance to the PBDAC by resident advisors will provide 360 person months, estimated at a cost of $180,000 per year per person which includes salaries, benefits, allowances and overhead. Short term technical assistance to the bank will require 45 person months of consultants. The average monthly cost of short term technical assistance is estimated at $15,000. Technical assistance for the policy reform effort is expected to require no less than 70 person months and local project support is assured through project funding of at least 15 staff positions each year, including the critical first year of project start up.

Overseas, non-local training will be short term and will complement local training, for both PBDAC and MOA participants. At least 80 trainees can be funded at $10,000 during the life of project, or a larger number of participants for shorter, less costly training sessions.

Local training costs are based upon an initial assessment compiled by SFPP staff based upon actual costs and required levels of effort to achieve the project goal (i.e. 350 village banks into system plus vertical training within PBDAC). The local training costs are shared with the GOE, wherein the grant will provide for 100 percent of year 1, 75 percent of years 2 and 3, 50 percent of year 4 and the remainder in year 5, for a total of $2,500,000.

Equipment and supplies includes computer hardware, software, training and site preparation (purchased as a package) for the PBDAC and 11 Project Governorate Banks, for a total of $3,000,000 with $1,000,000 local expenditure for site preparatory, and for similar expenditures in the MOA policy analysis office. Four vehicles are provided for each of the 11 Governorate Banks (two for Bank, 2 for MOA), six for the PBDAC and two for the policy office, for a total of 52 vehicles at $15,000 a piece. Spare parts for same is estimated at approximately 10% value of vehicles.

Office equipment needs and estimated costs were based upon SFPP experience and the projected level of project effort, requiring mechanization of many current record keeping functions. Thus the estimate includes calculators, adding machines, supplies, etc. at a total costs of $1,325,000.

The project includes a performance payment of $100,000,000, the mechanism for which is described in the implementation section of the Project Paper (above).

PP 263-0202 ANNEX 6

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

September 1, 1986

MEMORANDUM

TO: AD/PPP

FROM: Kenneth Wiegand, AGR/ACE/OD(A) KW

SUBJ: Project 263-0202 - Agriculture Production and Credit
Project Document: Project Paper

1. The attached project paper has been prepared by AGR/ACE for review by the Executive Committee.

Project Committee and Officers named below have reviewed the document and agree with the format, analysis and presentation.

2. There are concerns related to the funding mechansims (See below)* which need discussion or resolution.

3. Project Committee:	Clearance	Date
AGR/ACE: S.Haynes	SH	9/3/86
AGR/ACE:K.Wiegand	KW	9/3/86
AGR/A:MGheith	[illegible]	9/3/86
PPP/E:P.Crowe	[illegible]	9/3/86
FM:H.Jamshed	[illegible]	9/3/86
LEG:M.Williams	[illegible]	9/3/86
IS:E.Baker	[illegible]	9/3/86
IS: J.Dzierwa	[illegible]	9/3/86
DR:D.Tinsler	* * * * * *	* * * * * * *
HRDC: F.Naguib	F. Naguib	9/8/86

Date of Committee Meeting (8/28/86) (Paper was circulated and written comments edited into new paper)

Mission Environmental Officer J. Starnes 9/8/86

Associate Director W. Janssen 9/3/86

4. An Executive Committee meeting could be scheduled for

9/8/86.
date

* The policy performance funding mechanism must be revised and approved by FM and LEG. Concern was also expressed by IS.

* Refused to approve.

ADMINISTRATIVE AND TECHNICAL ANALYSIS AGRICULTURAL PRODUCTION AND CREDIT PROJECT

Introduction

This analysis of the administrative capability of the Principal Bank for Agricultural Development is based on J. J. Deschamps report "Analysis of the Credit and Institutional Aspects of the Agricultural Production Credit Project", the 1985 SFPP Midterm Evaluation, the Bank's report on their design committees' work, other Bank provided data, as well as conversations with Bank personnel during the design process.

I. History and Overview

The Principal Bank for Development of Agricultural Credit (PBDAC) was created in 1977 as the successor to the Egyptian Organization for Agricultural and Cooperative Credit. This reorganization was necessitated by the failure of the cooperative societies to collect loans outstanding. Accumulated losses from 1963 till 1976 were LE 63.9 million. At that time, the main bank audited the cooperatives, but did not have the management authority over them. To correct this problem, the PBDAC took direct control of rural credit and fertilizer distribution services. Many cooperative employees joined the Bank to staff the village banks and agencies.

Since 1977, the collection rate on seasonal loans has risen from 79% in 1976 to nearly 99% in 1984 despite a 300% expansion in crop credit. Another area of rapid expansion has been investment loans which expanded from LE 12 million in 1976 to LE 385 million in 1984. The Bank also provided additional rural financial services by adding time and savings accounts which increased from almost LE 17 million in 1976 to LE 478 million in 1984.

Input distribution has been an important function of the Bank since its beginning in 1931 and is specifically mentioned in current Bank by-laws. The Bank's distribution activities were previously carried on in competition with the private sector. In 1962 a severe infestation threatened the cotton crop leading to a shortage of pesticides, price gouging, and adulteration of available quantities lead the government to take control of distribution through the cooperative system. Since the early 1970's, the Bank's monopoly on basic, highly subsidized locally produced fertilizers and the exchange rate differential on imports has practically eliminated private sector competition in distribution of this important input..

As a result of these combined activities, the Bank has become very profitable. Profits in 1984 were LE 106 million. Net of interest rate subsidies, the Bank returned LE 60.55 to the Treasury in 1984.

The PBDAC is the primary agricultural lender in Egypt. In 1984 over 70 percent of all agricultural lending is made by the Bank; the other 30 percent was made by commercial banks participating in the Food Security Loan program. The Bank's system of 765 village banks and 4,308 agencies brings credit and supplies inputs to practically all of Egypt's 3 million farmers.

II. USAID's Involvement with PBDAC: The Small Farmer Production Project

Begun in 1980, the goal of Small Farmer Production Project was very similar to that for the Agricultural Production and Credit Project: to increase small farmers' income by increasing access to three essential elements - credit, physical inputs, and modern technology. The project was to address the "full range of PBDAC problems", but focus directly on the village banks, its farm supply outlets and the levels of control immediately above the village - district and governorate banks.

During project implementation it became clear that the Bank's top management was very skeptical of the feasibility of lending to small farmers. Efforts of the PBDAC Managing Director to work directly with the PBDAC made little progress. Frustrated, the project team went around the hierarchy directly to the village banks. At that time, a new MOA project director with a strong background in agricultural economics joined SFPP and effectively built the extension component of the project. Technical Assistance teams comprised of a credit and a farm management specialist were based in each of the project's three governorates: Sharkia, Assuit and Kalubeya. These teams worked directly with a small follow-up team at the governorate bank and extension agents and bank personnel in villages. As the project progressed, GOE and Bank management were very impressed by the increase in farmer incomes and productivity as well as the high loan repayment rates achieved.

In 1985, the project was extended two years and the GOE announced plans to expand the project to 8 additional governorates.[1] To support this commitment, the 1985 Midterm Evaluation Team recommended changing the technical assistance team composition and basing it in Cairo. The project now has part of the team working in the PBDAC headquarters in Cairo. The team's primary focus continues to be development and testing of new systems in the three original governorates and assisting GOE project expansion. With top management interest, the team now has the opportunity to work on "broader problems" in accounting, loan evaluation, financial analysis and business lending. Thus the follow-on project has the opportunity and broad support necessary to expand and institutionalize SFPP systems, as well as work directly with PBDAC management to improve critical management operations.

----

1 These governorates are Giza, Fayoum, Beni Suef, Damietta, Dakhalia, Garbeya, Kafr el Shiek, and Menoufia.

III. Other Donor Support

Several multi-lateral donors, including the World Bank, African Development Bank, and the European Economic Community, have provided loans of $294 million to PBDAC during the last six years. These loans have financed fruit and vegetable development, agroindustries, fish farming, agricultural input storage facilities, and farm machinery. The majority of these projects have not provided long term technical assistance to PBDAC.

SFPP's focus on the lower echelon of the PBDAC system was intended to complement the PBDAC-World Bank Agricultural Credit Project. This project provided 66 work months of technical assistance to assist the PBDAC in evaluating and improving term lending, organization, policies and operations. Although the the Philippine technical assistance team (SGV) prepared a number of reports for top management as specified by their scope of work, their recommendations were not widely utilized. The most broadly implemented program was improved evaluation for farm machinery loans in Schag and Menufia.

Agreement between PBDAC and the World Bank has been reached on the Second Agricultural Development Project which will expand agricultural machinery stations to seven rice growing governorates in the Nile Delta. PBDAC will receive approximately $114 million dollars to finance private sector machinery importers. Unlike the previous project, only minimal technical assistance to PBDAC is planned.

The Canadian foreign assistance program (CETA) has financed development of a proposal for computerization; however, the owner of the technical assistance firm said that his scope of work was to present a proposal for computerization down to the village bank level and would not include recommendations on improving the management and accounting systems. Due to the conditions at the village and district banks, the cost of such a system, the lack of experienced Bank personnel in computer science and management, and the need for streamlining accounting practices, it is unclear how practical this report will be. CETA does not plan a follow on project to implement proposals developed. The team has succeeded in documenting the entire PBDAC accounting system and this will provide a good basis for redesign and streamlining of accounting systems requested by Bank management during the APCP design process.

Thus APCP complements the other donor resources. By strengthening Bank management systems, this project will indirectly improve utilization of other donor resources.

IV. Organization

The PBDAC is wholly owned by the GOE, but enjoys some financial and administrative autonomy. Its Board of Directors includes representatives from the Ministries of Agriculture, Finance, Economy, Supply, Local Government and Planning as well as from the Central Bank, the State Council, and Central Agricultural Cooperative Union. Also represented are three agricultural experts nominated by the Minister of Agriculture, eight heads of governorate banks, and PBDAC's two Deputy Chairmen.

The Board is responsible for setting the Bank's general as well as lending policies; however, actual autonomy is limited by the fact that the above key GOE ministries control the Board and the Minister of Agriculture appoints the PBDAC Chairman. Thus the Bank reflects and implements GOE policies in input supply, marketing and agricultural credit.

As shown in the organizational chart, the Chairman of the Board is assisted by two Deputy Chairmen: one for finance, administration and credit; the other for trading, production, storage and branches.

The PBDAC is essentially a holding company for 17 Banks for Development and Agricultural Credit (BDACs) which are independent legal bodies, financially accountable, individually capitalized and producing separate financial statements. Their organizational structure parallels that of the PBDAC. Like the PBDAC, their autonomy is limited and in effect they run their day-to-day operations within guidelines issued by PBDAC.

V. Management

The PBDAC management strength is demonstrated by the progress made since 1977 in improving repayment rates and overall profitability. Technical consultants from the US, Thailand, and Bangladesh contributing to the APCP design process have been consistently impressed by the Bank's achievements and the quality of top management.

The PBDAC system effectively reaches all agricultural areas in 17 governorates through 765 village banks and 4307 agencies. Practically every village has an agency where farmers obtain inputs and credit. This extensive system puts bank personnel close enough to the farmer to provide effective loan follow-up and collection, a frequent cause of failure of other agricultural credit institutions.[2] Despite its wholly owned GOE status, the Bank has resisted write-off and rescheduling of loans and maintained an active collection policy. Thus Bank profitability and loan repayment rates stand

----

[2] K.P. Padmanabhan, "Why Farmers Default on Loans", Ceres, The FAO Review No. 109 (January - February 1986): 28.

in sharp contrast to credit systems in other countries serving small farmers where loan defaults range from 50 to 90 percent of amount due.[3]

The primary weakness of the PBDAC system is a reflection of its strength. The major part of profits from the Bank are returned to the Treasury in the form of taxes and dividends for investment in other sectors. Thus PBDAC is part of a very effective system of indirect taxation that has resulted in stagnating agricultural production in Egypt. The PBDAC system has relied on its monopoly on subsidized inputs and marketing activities to bring farmers to the Bank and collect loans, and neglected improving the quality of its services. The Bank has consistently managed for short term profits and neglected training, investment in assets, and even purchase of supplies needed for efficient, quality operations. Examples are numerous. Currently, the PBDAC headquarters training budget is only LE 40,000. Bank facilities are often dilapidated. Fertilizers lie in the sun, unprotected from damaging ultraviolet radiation by even simple tarpulians. Village bank personnel buy their own pencils and shortages of appropriate forms are frequent. With its parochial emphasis on profits, PBDAC has not provided the quality services needed for dynamic agricultural production. These are the underlying issues that APCP will address at both the macro-economic and bank level.

PBDAC has a new Chairman with the broad management experience and in-depth knowledge of problems in the agricultural sector to appreciate the need for change at the Bank. The PBDAC management utilized the APCP design process to assess their goals and strategies and brought in their own management development specialist to facilitate this process. In addition, the Bank management organized committees to identify areas the project facilitate Bank development and expand services and utilized SFPP specialists as well as their own technical consultants. Their final report "Project for Agricultural Production and Credit" included positive suggestions for implementation of policy goals and project purposes. Their ideas are referred to throughout this analysis.

VI. Activities

A. Overview

PBDAC and its affiliates are credit and service organizations for farmers, providing seasonal and investment credit, subsidized inputs and performing crop marking services for the Ministry of Supply. The relative importance of Bank activities is shown below:

----

3 *Ibid.*, 26.

10

SOURCE OF REVENUE	GROSS REVENUE		NET PROFIT	
	1981	1984	1981	1984
Credit & Banking	52%	64%	53%	56%
Input Distribution	39%	29%	38%	37%
Marketing	9%	7%	9%	7%

The importance of credit as a source of revenue and percent of profits has been growing; however, credit revenues are closely related to input distribution. More than 27 percent of banking revenue came from in-kind, highly subsidized seasonal credit; together, crop and fertilizer distribution accounted for almost 42 percent of total revenues. All farmers qualify for seasonal credit, but only larger farmers generally qualify for investment loans which have strict collateral requirements.

B. Summary of Lending Activity and Policies

Between 1979 and 1985, the PBDAC system has dramatically increased lending from LE 211 million to LE 1,129 million. Although crop credit more than doubled during this period to LE 362 million, the largest expansion was in short and medium term credit for livestock and poultry activities. In 1979, this type of loan accounted for only 13 percent of the total portfolio; in 1985, almost 54 percent. Medium term loans increased from a mere LE 18 million in 1979 to LE 329 million in 1985. When one considers the Bank's collateral and lending policies, it is clear that the major part of this credit expansion benefitted larger farmers. Thus the need for expansion of SFPP systems that permit small and landless farmers to access credit is more urgent now than when the project was begun in 1980. (For more detailed breakdown of lending activities, see Table _: Summary of Loans by Term and Purpose.)

a. **Seasonal Loans.**

All farmers are eligible for short term seasonal loans which normally carry interest rates of 3.5 - 4 percent. Until recently the amount of credit was extremely modest, primarily for in-kind inputs based on preset formulae according to the crop and acreage. Terms depend on the type of crop and vary from 3 to 12 months. Thus the average farmer with several crops per year may receive a number of small separate loans. These procedures increase Bank administrative costs as well as transaction cost to the farm r.

Under SFPP, supplemental crop loans were introduced so that farmers could buy products and use techniques recommended by research. Loan analysis utilized basic credit factors as well as and farm budgets in assessing the farmers' ability to repay. A revolving line of credit concept was developed to provide farmers easy access to credit when needed and reduce costs associated with small, frequent loans. This system has been tested in Kalubeya, primarily for poultry loans; however, further testing and wider application of this approach will be made under APCP.

As a result of SFPP, the Bank has reassessed seasonal credit needs and surveyed different governorates to estimate actual production costs. This has lead to an increase in credit limits for cash crop loans, in many cases more than doubling funds available to farmers with which to meet production requirements. These additional crop loans will be made at the same interest rates as SFPP (i.e., 13 percent plus 1 percent service charge).

b. Investment Loans.

The Bank also provides medium and long term loans for farm improvements or for agribusiness ventures. Strict collateral requirements (land, buildings, and imported equipment) are still required for these loans. Borrowers generally provide at least 30-35% of the cost of the project; loans are generally limited to 80 percent of the value of land or two-thirds the value of buildings and machinery. At the village bank level, these loans are based on simple formulas; at the governorate and PBDAC level, feasibility studies made by consultants to the borrower are also required.

As a result few small farmers or small scale businesses can qualify for these loans. Expansion of SFPP type loan evaluation procedures will thus make a major change in the Bank's procedures and make credit more available to smaller borrowers. SFPP loan evaluation techniques have resulted in medium term loan repayments rates (98 - 97 percent), than the Bank has achieved in its investment loan portfolio (91 percent in 1985). This success has been a major factor in obtaining broad management support for the project and has lead the Bank to ask the SFPP technical assistance team to make recommendations for loan analysis for large and complex projects.

Begun in October 1980, the Food Security Program provided financing for meat and other protein related projects at subsidized interest rates and was responsible for the dramatic expansion of poultry and livestock loans. As a result lending for these projects reached LE 604 million, 54 percent of the total portfolio in 1985. In 1986, the decision to phase out feed subsidies was made. This coupled with a foreign exchange shortage and a decline in available feed has had a serious impact on poultry and livestock enterprises. Recent Bank repayment rates are not available to judge what effect this has had on the quality of their portfolio. Under SFPP, 80 percent of loans went to livestock enterprises; however, loan repayment rates have fallen in only one governorate.

The Food Security Program for 1987 has been reduced to LE 50 million and loans for livestock eliminated in realization of their uneconomic return.

C. Distribution and Marketing.

These activities accounted for one third of Bank revenues in 1985, down from 42 percent in 1981. Thus the relative importance of these activities to be Bank has been decreasing. The Bank's statements differ from those of trading organizations as the Bank earns commissions on quantities sold or handled for the Ministry of Supply. The current commission range from 45 percent for spare parts to LE .50 per ardeb for seeds. Commissions on fertilizers, pesticides and jute bags are all near 16 percent. In addition, the Bank receives a financial fee for pesticides stored more than one year and seeds held more than 4 months.

The input and marketing functions of the Bank are closely related to credit operations. On the one hand, sales of fertilizer and other inputs are reflected in loans. Farmers go directly to agencies to receive inputs which are debited as loans. The requirement that only farmers in good standing with the Bank can receive subsidized fertilizer is a powerful incentive to repay. The Bank's marketing activities also provide an opportunity for collection. The PBDAC management realizes the importance of strengthening loan monitoring functions as it expands cash loans, particularly for crops not marketed through the Bank. As these functions are improved, the importance of input distribution and marketing functions as a guarantee of loan repayment should decline.

Persistent questions have been raised about the willingness and capacity of the Bank to get out of input supply. The question presents both practical problems as well as fundamental questions. Approximately 10,000 of the Bank's personnel are directly involved in input distribution. These employees cannot be fired and may not have the skills required for banking activities. Banking functions are already overstaffed. Information is lacking about the extent of the small private input distribution system and the rate at which hit could expand. A major GOE concern is that farmers not be left without any locally available input supplies.

The Bank has suggested spinning off input distribution functions to a separate company with private participation. PBDAC believes cessation of above quota sales coupled with a decrease in subsidies to fertilizer, elimination of GOE fertilizer imports and unrestricted importation would allow development of private sector competitors. Thus the Bank is willing to consider relinquishing its role in distribution, but presupposes a continuing major role for the GOE in input distribution at this point.

VII. Operational Systems.

The operational and management control systems of PBDAC can best be described as basic. During the APCP design process Bank management identified the following areas for improvement to ensure future financial viability.

A. Planning and Budgeting

A yearly budget is prepared by PBDAC and the BDACs; however, estimates of lending are based on analysis of national plans and costs, on standard percentage increases above the previous year's actual costs. Therefore budgeted costs do not reflect actual requirements.

This system seriously limits use of budgets and forecasts as a planning and management tool. Village banks that have rapidly expanded loan volume in poultry and livestock may be unable to meet targets and may end up merely "pushing" loans. Budgeted lending does not reflect actual demand for credit at the village level; particularly, if credit were made more accessible to small farmers through SFPP loan evaluation methods. On the cost side, budgets may not reflect actual funds needed to repair and maintain banks. In an effort to meet targeted profits, discretionary expenditures such as purchases of supplies, training, and renovations may not be made. Thus Bank profitability may be attained by running down assets, physical and human. Proper budgeting entails not only cost control, but also monitoring expenditures to see that the necessary investments are made to make village banks efficient, well maintained facilities that farmers would want to utilize.

Planning and forecasting will be also be critical to the Bank's financial viability as agricultural reforms are implemented because of the associated impact on financial returns to different crops and projects.

B. Management Information Systems

The management information system of the PBDAC is a major area of weakness. Manual accounting systems are slow and inefficient. Compilation and checking of data consumes most employees time; analysis and feedback of data down the system is infrequent. The current system's limitations are also reflected in the fact that balance and income statements are prepared only once a year.

In 1986, SFPP designed a streamlined accounting system for its loans that will be applicable to the entire village bank and district loan portfolio under the new project. Modest, but expandable computer facilities are being installed at PBDAC and the Kalubeya governorate bank. Training of personnel has already begun and testing should begin soon after the hardware is received and installed. This basic system coupled with a system for processing deposit data will provide the basis of an improved accounting system in the governorates.

APCP will also examine selected areas (i.e., finance, auditing, etc.) at the Principal Bank to identify management information needs, design improved systems, and computerize them where feasible.

C. Finance Management

In general, PBDAC borrows from commercial banks and other sources for additional funds beyond what is available locally to governorate banks from deposits. As APCP will provide capital to PBDAC and a large increase in lending is projected over the life of the project, capital and finance management at PBDAC and the governorate bank level should be examined when the capital needs of the bank are assessed during implementation.

D. Loan Monitoring and Evaluation, Internal Control and Audit Functions

During the APCP design process, Bank management identified these areas as a priority for the next project. Work in these interrelated areas will strengthen internal control of credit operations with qualitative review to ensure that bank staff are using the new systems correctly and identify training needs. Improved monitoring and evaluation of the loan portfolio will permit improved analysis of bad debts and adequate reserves to protect financial viability as agricultural reforms are implemented.

E. Personnel

Personnel management management is an important area to be addressed if the Bank and APCP are to achieve project purposes. PBDAC has some 34,000 employees, many of whom were added during the 1977 reorganization. Data provided on the governorate banks showed that around 10 percent had university degrees, the majority had secondary education, and a quarter were illiterate. A quarter of employees with secondary or higher education had studied agriculture. Thus there are personnel available, but better systems of evaluation are needed to identify promising and talented people who could benefit from further training and development. Retraining of accounting and clerical personnel for related jobs will be needed as accounting systems are improved, and review and auditing functions strengthen. Currently bank staff have fairly high morale. Maintaining and building this esprit during a period of rapid change will be a formidable challenge.

The Bank has been more successful than many GOE organizations in attracting and keeping qualified personnel. Bank employees receive substantial incentives depending on their personal evaluations and local bank performance. As a result most employees receive incentives of 9 to 14 months salary. The Bank is not obligated to take recent university graduates, but in practice take some. Rather than waiting for graduates to be assigned, they recruit the most capable, hire them on a temporary basis, and request their assignment to bank. The SFPP technical assistance team has found that once management has committed itself to a program, staff are

VIII. Financial Condition and Profitability

A. Overall performance

The PBDAC is overall very profitable. Pretax income has increased from almost LE 80 million in 1980 to LE 113 million in 1985; however, this profitability was achieved as a result of GOE transfers to cover subsidized loans and high commissions on most trading and marketing functions. Last year's pretax return on assets was 7.4 percent and return on equity, a substantial 104.9 percent. This high return on equity is, of course, a consequence of the Bank's low capitalization. This profitability results in a net return to the GOE Treasury (LE 60.55 million in 1984).

B. Profitability of Activities

PBDAC data on revenues and expenses for each bank activity suggest that credit and banking operations are only profitable because of interest rate subsidies. In 1985, the spread on agricultural loans before subsidies was a negative .88 percent. On term loans, the spread was better: 4.38 percent. The recent improvement of the spread on both types of loans reflects a general trend away from subsidized interest rates. The gross margin on lending including subsidies was a profitable 5.6 percent. Ratios for trading activities and revenue/cost data provided by the Bank suggest that trading activities are even more profitable. Conversations and observation of Bank officials suggest this data overstates credit costs and understates trading costs as many credit personnel spend substantial amounts of time on input distribution.

C. Need for Capitalization

The design consultant's analysis of the Bank's financial condition concluded that PBDAC is highly leveraged using short term commercial borrowings. During the last three years, the Bank has steadily increased total reserves and capital from almost LE 62 million to LE 117 million, 90 percent; however, leverage ratios for the last five years ranged from 11.98 to 18.55, well above the normal 8 for this type of institution. The Bank's ability to meet current obligations (liquidity) is very tight and probably below the critical ratio of 1. Thus it appears that PBDAC's ability to expand lending further is very limited without increased capitalization.

D. Interest Rates

The current Bank management has a strong commitment to rationalize interest rates and move towards market rates as much as permitted by current Central Bank regulations. Although the Bank is reimbursed for the difference between subsidized rates and the maximum for agricultural lending (13 percent), these subsidies represent a substantial cost to the government.

Seasonal lending is currently the most subsidized area. The goal of these subsidies is to decrease the impact of low output prices paid to farmers on major crops, particularly cotton; however, recently many crop prices have been raised. Bank management realizes the benefit to farmers on short term seasonal loans is nominal (for example, LE 3.55 on a LE 75 six month crop loan), but the aggregate cost to the government is high (LE 62 million in 1985). As the pricing policies are adjusted, the Bank plans to reduce subsidies to seasonal crop loans. Supplemental crop loans to more adequately cover farmers' actual production costs will be made at the near market rates utilized by SFPP.

APCP projects a substantial expansion in lending to businesses supporting agriculture as the GOE decreases its role as a direct investor, distributor, and merchant. This will also facilitate rapid expansion of the private sector as opportunities are created during the policy reform process. These loans will be made at the prevailing rate for that type of loan.

Despite projected progress in this area, these interest rates are still below USAID estimations of inflation (17%). An analysis showing the projected devaluation of capital is attached as requested in the PID review. (See Tables _ to __)

112

Annex 7-B

Economic Analysis 1/

Summary--Based upon actual SFPP farm records, the following analysis demonstrates that farmers taking out loans under the project have realized substantial increases in farm income. In terms of the value to the economy as a whole, the project has a relatively high economic rate of return (39%), due primarily to the relatively large number of loans to farmers for investments which have low capital requirements but high returns.

A. Farm-Level Analysis

The SFPP program has assisted farmers in developing profitable financial enterprises on their farms. Unit activity budgets (budgets which apply to some particular investment activity) were prepared for a range of farm activities for which loans have been provided under the SFPP program. These budgets (Tables 7B.2-7B.11) were prepared in order to: (1) give an indication of the financial incentives for farmers to participate in the program; and (2) estimate the aggregate economic returns of the project (see next section). Primary data for these tables are based upon actual performance by farmers as recorded in the SFPP farm record books.

Internal rates of return (IRR) after financing were computed for each budget and presented in Table 7B.12. The IRR represents the earning power of the LE invested in each activity. The economic IRRs before financing were also computed in Table 7B.12, using "shadow" prices for inputs and outputs (excluding loan receipts and debt service, which are treated as transfer payments).

Data--The activity budgets in Tables 7B.2-7B.11 represent a common type of loan by activity area (crops, broilers, pullets, farm equipment and other). In actuality, the range of small farm non-crop activities financed under the project has been more diverse, including: cattle, sheep, pigeon and rabbit feeding; sheep and goat breeding; beekeeping; and purchase of diesel pumps, back-pack sprayers, generators, roto-tillers, and other small farm equipment.

1/ The analysis in this section follows the method and format described in J. Price Gittinger, Economic Analysis of Agricultural Projects, John Hopkins University Press, 2nd edition, 1982, and except for the indicated modifications, is identical to the analysis conducted for the SFPP Amendment in 1984.

The "other" category refers to construction of farm buildings, often a second-story addition to a broiler or pullet building or construction of a barn to house ruminant livestock.

Farm financial budgets presented in Tables 7B.2-7B.11 for wheat, lentils and broadbeans (winter season crops) and maize and tomatoes (summer season crops) represent only a portion of actual loan activities for crops. Additional loans are provided for: chickpeas, peas, onion, cabbage, cucumbers, potatoes and garlic; "block" farming (consolidation of fields) for wheat, berseem, beams and other vegetables; production of wheat and maize see; and, more recently, high-value fruit crops. Many of the technological "packages" for which crop loans are provided in the SFPP program (such as the wheat, maize, tomato and lentil packages) were developed under AID-funded extension/demonstration projects, such as Major Cereals Improvement and Agricultural Development Systems. Crop loan size ranges from LE 50 to 500 and is estimated to average LE 150 under this amendment, compared to an average of LE 70 offered by the PBDAC under its traditional program. "With" and "without" situations (which include labor costs) were presented in the crop budgets to capture the changes in net income from the adoption of new packages, due in part to availability of credit.

The budgets for broilers, pullets (young hens supplied to other layer operations, including family egg batteries), represent important small farmer enterprises 1/. Machinery dealers represent a potentially lucrative investment opportunity if policy reforms are effectively implemented.

Results of Economic Analysis--For crop loans, broilers, pullers small machinery and farm equipment, both financial and economic rates of return are quite high (Table 7B.12). (Financial prices for inputs and outputs of the activities are converted to their shadow equivalents according to the adjustment factors listed in Table 7B.13).

1/ The labor utilized in these activities is essentially family labor, primarily women. It was not possible to estimate a wage rate for this labor. There is, however, evidence which suggests that its opportunity cost is very low, in spite of increasing rural wage rates. (See: B. Hansen and S. Radwan, Employment Opportunities and Equity in a Changing Economy: Egypt in the 1980s, ILO, Geneva, 1982, pp. 6, 42-43 and 108). This would imply that the labor involved in the new activity does not seriously compete with other farm activities.

The "other" category refers to construction of farm buildings, often a second-story addition to a broiler or pullet building or construction of a barn to house ruminant livestock.

Farm financial budgets presented in Tables 7B.2-7B.11 for wheat, lentils and broadbeans (winter season crops) and maize and tomatoes (summer season crops) represent only a portion of actual loan activities for crops. Additional loans are provided for: chickpeas, peas, onion, cabbage, cucumbers, potatoes and garlic; "block" farming (consolidation of fields) for wheat, berseem, beans and other vegetables; production of wheat and maize see; and, more recently, high-value fruit crops. Many of the technological "packages" for which crop loans are provided in the SFPP program (such as the wheat, maize, tomato and lentil packages) were developed under AID-funded extension/demonstration projects, such as Major Cereals Improvement and Agricultural Development Systems. Crop loan size ranges from LE 50 to 500 and is estimated to average LE 150 under this amendment, compared to an average of LE 70 offered by the PBDAC under its traditional program. "With" and "without" situations (which include labor costs) were presented in the crop budgets to capture the changes in net income from the adoption of new packages, due in part to availability of credit.

The budgets for broilers, pullets (young hens supplied to other layer operations, including family egg batteries), represent important small farmer enterprises 1/. Machinery dealers represent a potentially lucrative investment opportunity if policy reforms are effectively implemented.

Results of Economic Analysis--For crop loans, broilers, pullets small machinery and farm equipment, both financial and economic rates of return are quite high (Table 7B.12). (Financial prices for inputs and outputs of the activities are converted to their shadow equivalents according to the adjustment factors listed in Table 7B.13).

1/ The labor utilized in these activities is essentially family labor, primarily women. It was not possible to estimate a wage rate for this labor. There is, however, evidence which suggests that its opportunity cost is very low, in spite of increasing rural wage rates. (See: B. Hansen and S. Radwan, Employment Opportunities and Equity in a Changing Economy: Egypt in the 1980s, ILO, Geneva, 1982, pp. 6, 42-43 and 108). This would imply that the labor involved in the new activity does not seriously compete with other farm activities.

Financial rates of return for broilers are high, due to the effects of GOE agricultural pricing policies. Feed and other subsidies to broiler and livestock producers, and limitations on imports and marketing of meat and poultry by the private sector, appear to constitute a policy effort on the part of the GOE to increase domestic production by providing producer subsidies.

For broilers and pullets, the low economic rates of return found here are consistent with a study 1/ funded under the AID Agricultural Development Systems Project. This study estimated that, given current technical performance, Egypt loses its comparative advantage in poultry meat production below a farm size of 250,000 broilers per year. Smaller producers who average 25,000/year, such as those under the project, have high financial rates of return to capital when inputs (chicks and feed) are priced at subsidized levels, but low to negative returns when inputs are priced at shadow, or international, levels. Profit margins of these small producers are just about equal to the extra amount they would have to pay were chicks and feed sold to them at unsubsidized prices. However, economic returns for broiler producers under the project are likely to be higher than small producers elsewhere in the country, because veterinary assistance (normally available only to larger farmers) is made available to them at cost. In view of the evidence of poor economic returns to broiler production, efforts will continue to be made to reduce the volume of project loan funds allocated to broiler loans.

3. Project Analysis

The aggregate economic analysis of the proposed project is limited to the examination of the relationship between the AID and GOE investment in the PBDAC credit program and policy reforms to the farmer benefit stream made possible by this investment.

Individual farm costs and benefits before financing were converted to economic values (Table 7B.13). Total economic costs and benefits by activity were then aggregated according to an assumed loan mix by dividing loanable funds by the size of loan for each activity. Loans are given to farmers over a five year period, which creates a stream of farm costs and benefits ending year 14.

1/ I. Soliman and A. Ibrahim, The Productive Efficiency of the Broiler Industry in Egypt, ADS Economic Working Paper No. 122, March, 1983

116

In terms of value to the economy as a whole, the project has a high average economic rate of return. The economic IRR is 39 percent (Table 7B.14) even when is charged entirely as a cost of lending. The high return is due primarily to the relatively large number of loans to farmers for investments in crops, and small farm equipment which have low capital requirements but high returns. The project IRR is thus very sensitive to variations in total farmer benefits and costs, but less sensitive to increases in project costs (administrative, etc.)

117

Table 1: Projected Number of Loans and Farmers, Project 263-202, Egypt, 1986 Annex 7-B

Assumptions	Crops	Broilers	Pullets	Equip	Dealers	Other	Total
Loan Mix (year 1)	0.40	0.14	0.14	0.10	0.16	0.06	1.00
Loan Mix (year 2)	0.42	0.08	0.08	0.18	0.18	0.06	1.00
Loan Mix (year 3)	0.45	0.05	0.05	0.19	0.20	0.06	1.00
Loan Mix (year 4)	0.45	0.04	0.04	0.20	0.20	0.07	1.00
Loan Mix (year 5)	0.45	0.04	0.04	0.20	0.20	0.07	1.00
Loanable Funds Factor (year 1)	1.50	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 2)	1.60	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 3)	1.70	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 4)	1.70	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 5)	1.70	1.00	1.00	1.00	1.00	1.00	
Repayment Factor	1.00	1.00	1.00	0.33	0.14	0.25	
Loan Size (LE)	150	3,000	6,000	1,150	103,000	10,000	
(1/87 - 12/87)							
Old Money (Year 1)	-	-	-	-	-	-	-
New money (year 1)	10,800,000	3,700,000	3,780,000	2,700,000	4,320,000	1,620,000	27,000,000
Old + New money (year 1)	10,900,000	3,780,000	3,780,000	2,700,000	4,320,000	1,620,000	27,000,000
Capital Fund (year 1)	10,800,000	3,780,000	3,700,000	2,700,000	4,320,000	1,620,000	27,000,000
Loanable Fund (year 1)	16,200,000	3,780,000	3,780,000	2,700,000	4,320,000	1,620,000	32,400,000
Number of Loans	108,000	252	210	2,348	42	162	111,014
Number of Farmers	72,000	252	210	2,348	42	162	75,014
(1/88 - 12/88)							
Old money (year 2)	10,800,000	3,780,000	3,700,000	891,000	617,143	405,000	20,273,143
New money (year 2)	11,340,000	2,160,000	2,160,000	4,860,000	4,860,000	1,620,000	27,000,000
Old + New money (year 2)	22,140,000	5,940,000	5,940,000	5,751,000	5,477,143	2,025,000	47,273,143
Capital Fund (year 2)	19,854,720	3,781,851	3,781,851	8,509,166	8,509,166	2,836,389	47,273,143
Loanable Fund (year 2)	31,767,552	3,781,051	3,781,851	8,509,166	8,509,166	2,836,389	59,105,975
Number of Loans	211,784	252	210	7,399	83	284	220,011
Number of Farmers	132,365	252	210	7,399	83	284	140,593
(1/89 - 12/89)							
Old money (year 3)	19,854,720	3,781,851	3,781,851	3,699,025	1,832,738	1,114,097	34,064,203
New money (year 3)	12,150,000	1,350,000	1,350,000	5,130,000	5,400,000	1,620,000	27,000,000
Old + New money (year 3)	32,004,720	5,131,851	5,131,851	8,829,025	7,232,738	2,734,097	61,064,203
Capital Fund (year 3)	27,478,927	2,442,571	2,442,571	12,212,857	12,212,857	4,274,500	61,064,203
Loanable Fund (year 3)	46,714,176	2,442,571	2,442,571	12,212,857	12,212,857	4,274,500	80,299,582
Number of Loans	311,428	163	136	10,620	119	427	322,892
Number of Farmers	183,193	163	136	10,620	119	427	194,657
(1/90 - 12/90)							
Old money (year 3)	27,478,927	2,442,571	2,442,571	7,729,267	3,577,432	2,102,722	45,853,491
New money (year 4)	12,150,000	1,000,000	1,080,000	5,400,000	5,400,000	1,890,000	27,000,000
Old + New money (year 4)	39,628,927	3,522,571	3,522,571	13,129,267	8,977,432	4,077,722	72,853,491
Capital Fund (year 4)	32,784,071	2,914,140	2,914,140	14,570,690	14,570,690	5,099,744	72,853,491
Loanable Fund (year 4)	55,732,921	2,914,140	2,914,140	14,570,690	14,570,690	5,099,744	95,802,341
Number of Loans	371,553	194	162	12,670	141	510	305,231
Number of Farmers	218,560	194	162	12,670	141	510	232,238
(1/91 - 12/91)							
Old money (year 4)	32,784,071	2,914,140	2,914,140	11,646,590	5,650,960	3,457,650	59,375,566
New money (year 5)	12,150,000	1,000,000	1,080,000	5,400,000	5,400,000	1,890,000	27,000,000
Old + New money (year 5)	44,934,071	3,994,140	3,994,140	17,046,590	11,050,960	5,347,658	86,375,566
Capital Fund (year 5)	38,869,005	3,455,023	3,455,023	17,275,113	17,275,113	6,046,290	86,375,566
Loanable Fund (year 5)	66,077,308	3,455,023	3,455,023	17,275,113	17,275,113	6,046,290	113,503,870
Number of Loans	440,515	230	192	15,022	168	605	456,732
Number of Farmers	259,127	230	192	15,022	168	605	275,343
Total Loans	1,443,280	1,092	910	48,059	552	1,900	1,495,060
Total Farmers	865,243	1,092	910	48,059	552	1,908	917,845

Number of New Farmers for Crop = Number of Loans divided by Loanable Funds Factor (since farmer takes out 2nd loan) with 90% same farmers taking out loans in subsequent years.
Number of farmers for Broilers and Pullets = Loanable funds divided by loan size multiplied by 5 & 3 respectively since farmers take out 5 broiler and 3 pullet loans per year. Number of farmers taking out Farm Equipment, Dealer, "Other" loans equal to number of loans.

Table 2 - Financial Analysis: Wheat, 1985, Project 263-202, Egypt

Item	Without Project	With Project
1. Receipts:		
Grain -Quota (166.7 LE/MT)	0.26 mt	0.3 mt
-Free Market (180 LE/MT)	1.32 mt	2.3 mt
Straw: Yield/fd	2.5 mt	3.0 mt
Price/mt	107.8 LE	107.8 LE
Gross value of Production (LE)	550.5	779.0
2. Expenses (LE):		
Tillage	24.5	27.0
Seed/planting	17.5	7.0
Irrigation	29.7	48.5
Weed Control	5.0	11.5
Pest Control	0.1	22.5
Fertilization	44.7	31.0
Harvest	132.4	57.0
Total (LE)	253.9	204.5
3. Farm Net Benefit (LE) before financing	296.6	574.5
4. Financing		
	248.9	
Loan Receipts (Short term)	-	100.0
Interest rate	-	13.00%
Debt Service		
Short term interest	-	6.50
Short term principal	-	100.0
Net financing	-	(6.5)
Net benefits after financing	296.6	568.0
Incremental	-	271.4

Source: Central Administration for Agricultural Economics, Ministry of Agriculture and Small Farmer Production Project.

Table 3 - Financial Analysis: Maize, 1985, Project 263-202, Egypt

Item	Without Project	With Project
1. Receipts:		
Grain - Quota (178.57 LE/MT)	0.2 mt	0.2 mt
- Free Market (250 LE/MT)	1.9 mt	2.6 mt
Straw: Yield/fd	1.8 mt	2.5 mt
Price/mt	12.0 LE	12.0 LE
Gross value of Production (LE)	529.8	715.7
2. Expenses (LE):		
Tillage	32.0	25.0
Seed/planting	15.5	40.0
Irrigation	37.2	66.5
Weed Control	37.9	7.4
Pest Control	0.8	41.5
Fertilization	61.3	69.2
Harvest	59.6	30.0
Total (LE	244.4	279.6
3. Farm Net Benefit (LE) before financing	285.4	436.2
4. Financing		
Loan Receipts (Short term)	-	140.0
Interest rate	-	13.00%
Debt Service		
Short term interest	-	9.1
Short term principal	-	140.0
Net financing	-	(9.1)
Net benefits after financing	285.4	427.1
Incremental		141.6
Rate of Return to Farm Resources Engaged		419.98%

Source: Central Administration for Agricultural Economics, Ministry of Agriculture and Small Farmer Prod and SFFP data.

Table 4 - Financial Analysis: Tomatoes, 1985, Project 263-202, Egypt

Item	Without Project	With Project
1. Receipts:		
Yield/fd	20.0	25.0
Price/mt	113.6 LE	113.6 LE
Gross financial value of production	2,271.8 LE	2,839.8 LE
2. Expenses (LE):		
Tillage	42.1	50.0
Seed/planting	58.4	147.0
Irrigation	44.9	109.0
Weed Control	57.4	-
Pest Control	81.9	139.3
Fertilization	127.9	217.5
Harvest	163.5	145.0
Total (LE)	576.1	807.8
3. Farm Net Benefit (LE) before financing	1,695.7	2,032.0
4. Financing		
Loan Receipts (Short term)	-	500.0
Interest rate	-	13.00%
Debt Service		
Short term interest	-	32.5
Short term principal	-	500.0
Net financing	-	(32.5)
Net benefits after financing	1,695.7	1,999.5
Incremental	-	303.8
Rate of Return to Farm Resources Engaged		214.99%

Source: Central Administration for Agricultural Economics, Ministry of Agriculture and Small Farmer Production Project.

Table 5 - Financial Analysis: Broad Beans, 1985, Project 263-202, Egypt

Item	Without Project	With Project
1. Receipts:		
Grain - Quota (277 LE/MT)	0.43 mt	0.40 mt
- Free Market (318.06 LE/MT)	0.63 mt	1.40 mt
Straw: Yield/fd	1.5 mt	1.75 mt
Price/mt	56.88 LE	56.88 LE
Gross value of Production (LE)	405.03	655.62
2. Expenses (LE):		
Tillage	31.94	39.00
Seed/planting	34.66	26.50
Irrigation	20.63	47.50
Weed Control	23.00	17.50
Pest Control	2.03	17.50
Fertilization	17.82	37.00
Harvest	80.97	45.33
		53.00
Total (LE)	211.05	265.83
3. Farm Net Benefit (LE) before financing	193.98	389.79
4. Financing		
Loan Receipts (Short term)	-	100.00
Interest rate	-	13.00%
Debt Service		
Short term interest	-	6.50
Short term principal	-	100.00
Net financing	-	(6.5
Net benefits after financing	193.98	383.29
Incremental	-	189.32
Rate of Return to Farm Resources Engaged		408.94

Source: Central Administration for Agricultural Economics, Ministry of Agriculture and Small Farmer Production Project

122

Annex 7-B

Table 6 - Financial Analysis: Lentils, 1985, Project 263-202, Egypt

Item	Without Project	With Project
1. Receipts:		
Crop - Quota (718.5 LE)	0.16 mt	0.16 m
- Free Market (731.13 LE)	0.52 mt	0.96 m
Straw: Yield/fd	1.02 mt	1.25 m
Price/mt	80 LE	80 L
Gross value of Production (LE)	576.35	916.84
2. Expenses (LE):		
Tillage	26.60	35.00
Seed/planting	54.67	48.00
Irrigation	18.09	90.00
Weed Control	26.75	20.00
Pest Control	-	18.00
Fertilization	20.70	25.93
Harvest	92.13	77.00
Total (LE)	238.94	313.93
3. Farm Net Benefit (LE) before financing	337.41	602.91
4. Financing		
Loan Receipts (Short term)	-	150.00
Interest rate	-	13.00%
Debt Service		
Short term interest	-	9.75
Short term principal	-	150.00
Net financing	-	(9.8)
Net benefits after financing	337.41	593.16
Incremental	-	255.76
Rate of Return to Farm Resources Engaged		401.81%

Source: Central Administration for Agricultuet al., 'Economic Analysis of Agriculture and Small Farmer Production Project.

Table 7 - Financial Analysis: Small Machinery Dealer, Project 263-202, Egypt, 1986

	1	2	3	4	5	6	7
A. Costs							
Investment	180,000	-	-	-	-	-	-
Salary & payroll expenses	36,800	36,800	36,800	36,800	36,800	36,800	36,800
Transportation & Delivery Expenses	7,200	7,200	7,200	7,200	7,200	7,200	7,200
Insurance	2,300	2,300	2,300	2,300	2,300	2,300	2,300
Rent	7,200	7,200	7,200	7,200	7,200	7,200	7,200
Depreciation	11,000	11,000	11,000	11,000	11,000	11,000	11,000
Utilities	7,200	7,200	7,200	7,200	7,200	7,200	7,200
Total	251,700	71,700	71,700	71,700	71,700	71,700	71,700
B. Benefits							
Sale of Tractors & Machinery	30,000	33,000	36,300	39,930	43,923	48,315	53,147
Sale of Other Machinery	39,000	42,900	47,190	51,909	57,100	62,810	69,091
Sale of Parts	36,000	39,600	43,560	47,916	52,708	57,978	63,776
Total	105,000	115,500	127,050	139,755	153,731	161,417	169,488
Net benefits before financing	(146,700)	43,800	55,350	68,055	82,031	89,717	97,788
C. Financing							
Loan Receipts							
Short term	65,000	-	-	-	-	-	-
Medium term	38,000	-	-	-	-	-	-
Debt Service							
Short term interest	8,450	0	0	0	0	0	0
Short term principal	65,000	0	0	0	0	0	0
Medium term interest	4,940	4,234	3,529	2,823	2,117	1,411	706
Medium term principal	5,429	5,429	5,429	5,429	5,429	5,429	5,429
Net Financing	19,181	(9,663)	(8,957)	(8,251)	(7,546)	(6,840)	(6,134)
Net Benefits After Financing	(127,519)	34,137	46,393	59,804	74,485	82,877	91,654

/1/ LE 65,000 for 12 months at 13% annual interest.
/2/ LE 38,000 for 7 years at 13% annual interest.

Source: SFPP farm management data.

Table 8 - Financial Analysis: Pullets, Project 263-202, Egypt, 1986

	1	2								
A. Costs										
Investment /1/	25,400	-	-	-	-	-	-	-	-	-
Equipment	2,194	-	-	2,194	-	-	2,194	-	-	731
Chicks (3 cycles of 3,000 ea. X LE 0.7)	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300	6,300
Transportation costs for birds & feed	300	300	300	300	300	300	300	300	300	300
Feed (market prices) /2/	9,620	9,620	9,620	9,620	9,620	9,620	9,620	9,620	9,620	9,620
Chick cartons	90	90	90	90	90	90	90	90	90	90
Veterinarian services	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500	1,500
Litter (straw bedding)	120	120	120	120	120	120	120	120	120	120
Water, fuel, electricity	460	460	460	460	460	460	460	460	460	460
Maintenance	240	240	240	240	240	240	240	240	240	240
Salaries /3/	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Other costs (cleaning materials, etc.)	300	300	300	300	300	300	300	300	300	300
Insurance	100	100	100	100	100	100	100	100	100	100
Total	48,824	21,230	21,230	23,424	21,230	21,230	23,424	21,230	21,230	21,961
B. Benefits										
Hens (7,680 X LE 3.5)	26,880	26,880	26,880	26,880	26,880	26,880	26,880	26,880	26,880	26,880
Pullets (360 X LE 2.5)	900	900	900	900	900	900	900	900	900	900
Manure (98 m3 X LE 5.0)	490	490	490	490	490	490	490	490	490	490
Residual value of investment	-	-	-	-	-	-	-	-	-	12,700
Total Benefits	28,270	28,270	28,270	28,270	28,270	28,270	28,270	28,270	28,270	40,970
Net benefits before financing	(20,554)	7,040	7,040	4,846	7,040	7,040	4,846	7,040	7,040	19,009
C. Financing										
Loan Receipts /4/	18,000	-	-	-	-	-	-	-	-	-
Debt Service										
Short term interest	2,340	-	-	-	-	-	-	-	-	-
Short term principal	18,000	-	-	-	-	-	-	-	-	-
Net financing	(2,340)	-	-	-	-	-	-	-	-	-
Net benefits after financing	(22,894)	7,040	7,040	4,846	7,040	7,040	4,846	7,040	7,040	19,009

/1/ Concrete structures valued at LE 25,400.
/2/ 17.55 MT starter @ LE 210/MT and 30.15 MT pullet @ LE 1 65/MT.
/3/ Includes 15% social security and 10% incentives.
/4/ LE 6,000 every 112 days at 13% annual interest.

Source: SFPP Farm Management Data.

Table 9- Financial Analysis: Broilers, Project 263-202, Egypt, 1986

	1	2	3	4	5	6	7	8	9	10
A. Costs										
Investment /1/	22,400	-	-	-	-	-	-	-	-	-
Equipment	4,190	-	-	4,190	-	-	4,190	-	-	1,397
Chicks (five cycles of 5,000 ea. X LE .90)	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500	22,500
Transportation for chicks & feed	470	470	470	470	470	470	470	470	470	470
Chick cartons	250	250	250	250	250	250	250	250	250	250
Feed (market prices) /2/	15,100	15,100	15,100	15,100	15,100	15,100	15,100	15,100	15,100	15,100
Veterinarian services	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250	1,250
Litter (straw bedding)	350	350	350	350	350	350	350	350	350	350
Water, fuel, electricity	400	400	400	400	400	400	400	400	400	400
Maintenance	400	400	400	400	400	400	400	400	400	400
Salaries /3/	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200	2,200
Other costs (cleaning materials, etc.)	300	300	300	300	300	300	300	300	300	300
Insurance	100	100	100	100	100	100	100	100	100	100
Total	69,910	43,320	43,320	47,510	43,320	43,320	47,510	43,320	43,320	44,717
B. Benefits										
Broilers (23,765 birds X 1.3 kg./ea. – X LE 1.80 kg.)	55,610	55,610	55,610	55,610	55,610	55,610	55,610	55,610	55,610	55,610
Manure (25 m3 X LE 5.0)	125	125	125	125	125	125	125	125	125	125
Residual value of investment	-	-	-	-	-	-	-	-	-	11,200
Total Benefits	55,735	55,735	55,735	55,735	55,735	55,735	55,735	55,735	55,735	66,935
Net benefits before financing	(14,175)	12,415	12,415	8,225	12,415	12,415	8,225	12,415	12,415	22,218
C. Financing										
Loan Receipts /4/	15,000	-	-	-	-	-	-	-	-	-
Debt Service										
Short term interest 13%	1,950	-	-	-	-	-	-	-	-	-
Short term principal	15,000	-	-	-	-	-	-	-	-	-
Net financing	(1,950)	-	-	-	-	-	-	-	-	-
Net benefits after financing	(16,125)	12,415	12,415	8,225	12,415	12,415	8,225	12,415	12,415	22,218

/1/ Concrete structures valued at LE 22,400.
/2/ 25 MT starter @ LE 300/MT and 40 MT finish @ LE 190/MT
/3/ Includes 15% social security and 10% incentives.
/4/ LE 3,000 every 50 days.
Source: SFPP Farm Management Data.

Table 10 - Financial Analysis: Farm Equipment (LE), Project 263-202, Egypt, 1986

	1	2	3	4	5
A. Costs					
Investment *	3,800	-	-	-	-
Spare parts	380	380	380	380	380
Maintenance	170	170	170	170	170
Lubricants	20	20	20	20	20
Fuel	55	55	55	55	55
Labor	110	110	110	110	110
Total	4,535	735	735	735	735
B. Benefits					
Wheat Harvest (140 f X LE 12) /2/	1,680	1,680	1,680	1,680	1,680
Cotton stalk mowing (120 f X LE 9)	1,080	1,080	1,080	1,080	1,080
Total	2,760	2,760	2,760	2,760	2,760
Net benefits before financing	(1,775)	2,025	2,025	2,025	2,025
C. Financing					
Loan Receipts					
Medium term /1/	1,150	-	-	-	-
Debt Service					
Medium term interest	150	100	50	-	-
Medium term principal	383	383	383	-	-
Net financing	618	(483)	(433)	-	-
Net benefit after financing	(1,158)	1,542	1,592	2,025	2,025

/1/ LE 1,150 for three years at 13% interest.
/2/ The cost of traditional method of harvesting is LE 41.70.
* Agostini Mower-Binder, tractor mounted PTO powered mowing and binding machine.
Source: SFPP farm management data; S. Shepley and Z. Wissa, Agricultural Mechanization Cost Model, AID Agricultural Mechanization Project, 1983.

Table 11 - Financial Analysis: Other (LE), Project 263-202, Egypt, 1986

	1	2	3	4	5	6	7	8	9	10
A. Costs										
Investment /1/	25,000	-	-	-	-	-	-	-	-	-
Equipment	5,190	-	-	4,190	-	-	4,190	-	-	1,397
Operating costs (same as broilers)	43,320	43,320	43,320	43,320	43,320	43,320	43,320	43,320	43,320	43,320
Total	73,510	43,320	43,320	47,510	43,320	43,320	47,510	43,320	43,320	44,717
B. Benefits										
(same as broilers)	55,735	55,735	55,735	55,735	55,735	55,735	55,735	55,735	55,735	66,935
Residual value of investment	-	-	-	-	-	-	-	-	-	10,000
Total	55,735	55,735	55,735	55,735	55,735	55,735	55,735	55,735	55,735	76,935
Net Benefits before financing	(17,775)	12,415	12,415	8,225	12,415	12,415	8,225	12,415	12,415	32,218
C. Financing										
Loan Receipts										
Medium Term /2/	10,000	-	-	-	-	-	-	-	-	-
Debt Service										
Medium term interest	1,300	975	650	325	-	-	-	-	-	-
Medium term principal	2,500	2,500	2,500	2,500	-	-	-	-	-	-
Net financing	6,200	(3,475)	(3,150)	(2,825)	-	-	-	-	-	-
Net benefits after financing	(11,575)	8,940	9,265	5,400	12,415	12,415	8,225	12,415	12,415	32,218

/1/ Second floor addition to broiler house. Concrete structures valued at LE 20,000

/2/ LE 10,000 for 4 years at 13% annual interest.

Technology Transfer - Institution Building

Time Schedule

9/86 11/86 1/87 6/87 1/88 6/88 1/89 6/89 1/90 6/90 1/91 6/91

Key Activities:

CP's satisfied, funds available for TA and training

1. CONTRACTING OF SHORT TERM PRE-PROJECT MOBILIZATION TEAM. (8-A CONTRACT)

-Develop Scope of Work (USAID/AGR)

-Sole Source Procurement/Contracting

-Mobilization

2. MOBILIZATION TEAM: TASK ORDER A

PREPARATION SCOPES OF WORK FOR LONG TERM TECH. ASSIST TEAM

(a) GOE Review/Approval; PIO/T Issuance

(b) RFTP prepared; CBD Notice

(c) Review/Evaluation of Proposals Technical Assist Team Selection

(d) Mobilization and Arriva

3. MOBILIZATION TEAM: TASK ORDER B

ORGANIZATION AND TRAINING ASSESSMENT

Annex 7H

Technology Transfer - Institution Building (cont.)

Time Schedule

9/86 11/86 1/87 6/87 1/88 6/88 1/89 6/89 1/90 6/90 1/91 6/91

Key Activities cont.:

Mobilization Team in place and operational.

Long Term TA Team Arrival

4. MOBILIZATION TEAM:
   TASK ORDER C

GENERAL TRAINING AND STAFFING: SHORT TERM OJT (ILLUSTRATIVE)

(1) MIS

(2) Financial Services Expansion Pilot Effort 1 Governorate

(3) Management

(4) Marketing

(5) Supply

(6) Extension

5. REVIEW AND ORIENTATION ON PRE-PROJECT MOBILIZATION TEAM ACTIVITIES

Mobilization team phase out

Technology Transfer - Institution Building (cont.)

Time Schedule

	9/86	11/86	1/87	6/87	1/88	6/88	1/89	6/89	1/90	6/90	1/91	6/91

Key Activities cont.:

(X) Long Term TA Team Arrival

6. TEAM ORGANIZATION AND DEPLOYMENT

X

7. PREPARATION OF LONG TERM IMPLEMENTATION PLAN AND SCHEDULE

a. Technology Transfer & Institutional Development

b. Rural Financial Services

c. Policy Reform Management

Activities and Schedules to be Developed

Rural Financial Services

Time Schedule

Key Activities:	9/86	11/86	1/87	6/87	1/88	6/88	1/89	6/89	1/90	6/90	1/91	6/91
						X Long Term TA Team Arrival						
1. Evaluation of SFPP Expansion Program.						—— X						
2. Assessment of Credit Needs.						—— X						
3. Assessment of Inst. Dev. & Training requirements.						—— X						
4. Related Policy Reform Assessment						—— X						
5. TA and Training Plan formulated.						—— Activities and schedules to be developed.						
6. Financial Services Policy Reform Measures instituted.						—— Continuing						

Policy Reform Management

Time Schedule

Key Activities:	9/86	11/86	1/87	6/87	1/88	6/88	1/89	6/89	1/90	6/90	1/91	6/91
					X Long term TA Team Arrival							
1. Policy Dialogue/Studies	- - -	- - -	- - -	- - -	Continuing	- - -	- - -	- - -				
2. Review/Analysis of Key Reform Areas and Agreement on Schedule for implementation	- - -	- - -	- - -	- - -	- - -	- - -	X Long term plan and schedule to be developed					
3. Monitoring Plan and Performance Agreement Developed			- - -	- - -	- - -	- - -	X					
4. Performance Evaluation							X		X		X	
5. Performance Payment							X		X		X	
Evaluation: Evaluation of Overall Program of TA, Financial Services and Policy Reforms.									X			

Table 12 - Financial and Economic Returns (Crops per Feddan), Project 263-202, Egypt, 1986

Crop	Incremental Net Financial Return	Incremental Net Economic Return
Wheat	NA 1/	NA 1/
Maize	419.98%	320.12%
Tomatoes	214.99%	151.80%
Broad Beans	408.94%	328.51%
Lentils	401.81%	435.12%
Broilers	72.36%	8.21%
Pullets	26.92%	8.35%
Equipment	136.12%	81.75%
Machinery Dealer	36.17%	33.20%
Other	78.27%	9.09%

1/ Incremental cost is negative.
Rate of return is the incremental benefit divided by the incremental cost.

134

Table 13 - Conversion Factors, Project 263-202, Egypt, 1986

Item	Conversion Factors	Item	Conversion Factors
Wheat	1.82	Baby Chicks /6/	1.14
Maize	1.22	Layer/pullet feed /7/	1.13
Broad beans	1.25	Starter/finish feed /7/	1.15
Lentils	1.15	Poultry Meat /8/	0.97
Tillage /1/	1.30	Transportation	1.60
Seeding/planting /2/	1.56	Electricity/fuel /9/	4.00
Weed Control /3/	1.55	Lubricants/fuel /9/	4.00
Pest Control /4/	1.83	Machinery	1.60
Fertilization /5/	1.83		

Unless other wise indicated, all data has been based upon: IBRD, Report No. 4136-EGY, 1983.

/1/ Based upon 50% machinery: .5 + .5 x 1.6
/2/ Based upon 75% seen materials: .25 + .75 x 1.75
/3/ Based upon 50% chemicals: .5 + .5 x 2.1
/4/ Based upon 75% chemicals: .25 + .75 x 2.1
/5/ Based upon 75% chemicals: .25 + .75 x 2.1
/6/ Source: Under secretariat for Agricultural Economica, MOA
/7/ Based upon 55% maize content for layer/pullet and 70% for starter/finish
/8/ Source: ADS: Economics Working Paper No. 122, 1983
/9/ USAID/DPPE/ECON estimate.

Table 14 - Agriculture Production and Credit program (economic analysis) 263-202, Egypt, 1986

Assumptions		Crops	Broilers	Pullets	Equip	Dealers	Other	Total
Loan Mix (year 1)		0.40	0.14	0.14	0.10	0.16	0.06	1.00
Loan Mix (year 2)		0.42	0.08	0.08	0.18	0.18	0.06	1.00
Loan Mix (year 3)		0.45	0.05	0.05	0.19	0.20	0.06	1.00
Loan Mix (year 4)		0.45	0.04	0.04	0.20	0.20	0.07	1.00
Loan Mix (year 5)		0.45	0.04	0.04	0.20	0.20	0.07	1.00
Loanable Funds Factor (year 1)		1.50	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 2)		1.60	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 3)		1.70	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 4)		1.70	1.00	1.00	1.00	1.00	1.00	
Loanable Funds Factor (year 5)		1.70	1.00	1.00	1.00	1.00	1.00	
Repayment Factor		1	1	1	0.33	0.14	0.25	
Loan Size (LE)		150	3,000	6,000	1,150	103,000	10,000	
Individual Farm Benefits								
Year 1		373	54,067	28,396	2,760	105,000	54,067	
Year 2		0	54,067	28,396	2,760	115,500	54,067	
Year 3		0	54,067	28,396	2,760	127,050	54,067	
Year 4		0	54,067	28,396	2,760	139,755	54,067	
Year 5		0	54,067	28,396	2,760	153,731	54,067	
Year 6		0	54,067	28,396	0	161,417	54,067	
Year 7		0	54,067	28,396	0	168,458	54,067	
Year 8		0	54,067	28,396	0	0	54,067	
Year 9		0	54,067	28,396	0	0	54,067	
Year 10		0	65,267	41,096	0	0	75,267	
Individual Farm Costs								
Year 1		117	76,807	52,517	4,760	251,700	80,407	
Year 2		0	50,217	24,923	960	71,700	50,217	
Year 3		0	50,217	24,923	960	71,700	50,217	
Year 4		0	54,407	27,117	960	71,700	54,407	
Year 5		0	50,217	24,923	960	71,700	50,217	
Year 6		0	50,217	24,923	0	71,700	50,217	
Year 7		0	54,407	27,117	0	71,700	54,407	
Year 8		0	50,217	24,923	0	0	50,217	
Year 9		0	50,217	24,923	0	0	50,217	
Year 10		0	51,614	25,654	0	0	51,614	
Total Capital (year 1)	27,000,000							
Total Capital (year 2)	27,000,000							
Total Capital (year 3)	27,000,000							
Total Capital (year 4)	27,000,000							
Total Capital (year 5)	27,000,000							

Loan mix=percentage volume of capital funds lent in each enterprise category.
Loanable funds factor=number of times a loan is made in one year.
Repayment factor=percentage of loan repayed by January 1st of the following year.
Old Money=capital fund of previous year muliplied by repayment factor
New money=Annual addition of new loan funds to project, computed by multiplying allual new money factor by total capital fund.
Capital fund=new money + old money.
Loanable funds=capital fund multiplied by loanable funds factor.
Number of loans=loanable funds divided by loan size (except for poultry = pullets loans, which are multiplied by 5 and 3, respectively, before dividing into loanable funds, since farmers take out 5 broiler and 3 pullets loans per year).
Total farm benefits=individual farm benefits multiplied by number of loans.
Total farm costs= individual farm costs multiplied by number of loans.

Table 14 (continued)

Year 1	Crops	Broilers	Pullets	Equip	Dealers	Other	Total
Old money (year 1)							
New money (year 1)	10,800,000	3,780,000	3,780,000	2,700,000	4,320,000	1,620,000	27,000,000
Old + New money (year 1)	10,800,000	3,780,000	3,780,000	2,700,000	4,320,000	1,620,000	27,000,000
Capital Fund (year 1)	10,800,000	3,780,000	3,780,000	2,700,000	4,320,000	1,620,000	27,000,000
Loanable Fund (year 1)	16,200,000	3,780,000	3,780,000	2,700,000	4,320,000	1,620,000	32,400,000
Number of Loans	108,000	252	210	2,348	42	162	111,014
Total Farm Benefits							
Year 1	40,241,548	13,624,833	5,963,160	6,480,000	4,403,883	8,758,821	79,472,245
Year 2	0	13,624,833	5,963,160	6,480,000	4,844,272	8,758,821	39,671,086
Year 3	0	13,624,833	5,963,160	6,480,000	5,328,699	8,758,821	40,155,513
Year 4	0	13,624,833	5,963,160	6,480,000	5,861,569	8,758,821	40,688,383
Year 5	0	13,624,833	5,963,160	6,480,000	6,447,726	8,758,821	41,274,540
Year 6	0	13,624,833	5,963,160	0	6,770,112	8,758,821	35,116,726
Year 7	0	13,624,833	5,963,160	0	7,108,618	8,758,821	35,455,432
Year 8	0	13,624,833	5,963,160	0	0	8,758,821	28,346,814
Year 9	0	13,624,833	5,963,160	0	0	8,758,821	28,346,814
Year 10	0	16,447,233	8,630,160	0	0	12,193,221	37,270,614
Total Farm Costs							
Year 1	12,619,813	19,355,364	11,028,496	11,175,652	10,556,738	13,025,934	77,761,997
Year 2	0	12,654,684	5,233,746	2,253,913	3,007,223	8,135,154	31,284,720
Year 3	0	12,654,684	5,233,746	2,253,913	3,007,223	8,135,154	31,284,720
Year 4	0	13,710,564	5,694,486	2,253,913	3,007,223	8,813,934	33,480,120
Year 5	0	12,654,684	5,233,746	2,253,913	3,007,223	8,135,154	31,284,720
Year 6	0	12,654,684	5,233,746	0	3,007,223	8,135,154	29,030,807
Year 7	0	13,710,564	5,694,486	0	3,007,223	8,813,934	31,226,207
Year 8	0	12,654,684	5,233,746	0	0	8,135,154	26,023,584
Year 9	0	12,654,684	5,233,746	0	0	8,135,154	26,023,584
Year 10	0	13,006,729	5,387,256	0	0	8,361,468	26,755,452

Year 2	Crops	Broilers	Pullets	Equip	Dealer	Other	Total
Old money (year 2)	10,800,000	3,780,000	3,780,000	891,000	617,143	405,000	20,273,143
New money (year 2)	11,340,000	2,160,000	2,160,000	4,860,000	4,860,000	1,620,000	27,000,000
Old + New money (year 2)	22,140,000	5,940,000	5,940,000	5,751,000	5,477,143	2,025,000	47,273,143
Capital Fund (year 2)	19,854,720	3,781,851	3,781,851	8,509,166	8,509,166	2,836,369	47,273,143
Loanable Fund (year 2)	31,767,552	3,781,851	3,781,851	8,509,166	8,509,166	2,836,369	59,185,975
Number of Loans	211,784	252	210	7,399	83	284	220,011
Total Farm Benefits							
Year 1	78,912,066	13,631,506	5,966,081	20,421,998	8,674,392	15,335,445	142,941,487
Year 2	0	13,631,506	5,966,081	20,421,998	9,541,831	15,335,445	64,896,861
Year 3	0	13,631,506	5,966,081	20,421,998	10,496,015	15,335,445	65,851,044
Year 4	0	13,631,506	5,966,081	20,421,998	11,545,616	15,335,445	66,900,645
Year 5	0	13,631,506	5,966,081	20,421,998	12,700,178	15,335,445	68,055,207
Year 6	0	13,631,506	5,966,081	0	13,335,187	15,335,445	48,268,218
Year 7	0	13,631,506	5,966,081	0	14,001,946	15,335,445	48,934,977
Year 8	0	13,631,506	5,966,081	0	0	15,335,445	34,933,031
Year 9	0	13,631,506	5,966,081	0	0	15,335,445	34,933,031
Year 10	0	16,455,289	8,634,387	0	0	21,348,568	46,438,244

Table 14 (continued)

Total Farm Costs							
Year 1	24,746,948	19,364,844	11,033,888	35,220,547	20,793,757	22,806,550	133,966,534
Year 2	0	12,660,882	5,236,309	7,103,304	5,923,371	14,243,492	45,167,358
Year 3	0	12,660,882	5,236,309	7,103,304	5,923,371	14,243,492	45,167,358
Year 4	0	13,717,279	5,697,275	7,103,304	5,923,371	15,431,939	47,873,168
Year 5	0	12,660,882	5,236,309	7,103,304	5,923,371	14,243,492	45,167,358
Year 6	0	12,660,882	5,236,309	0	5,923,371	14,243,492	38,064,055
Year 7	0	13,717,279	5,697,275	0	5,923,371	15,431,939	40,769,865
Year 8	0	12,660,882	5,236,309	0	0	14,243,492	32,140,684
Year 9	0	12,660,882	5,236,309	0	0	14,243,492	32,140,684
Year 10	0	13,013,099	5,389,895	0	0	14,639,736	33,042,729

Year 3	Crops	Broilers	Pullets	Equip	Dealer	Other	Total
Old money (year 3)	19,054,720	3,781,851	3,781,851	3,699,025	[illegible],832,739	1,114,097	34,064,283
New money (year 3)	12,150,000	1,350,000	1,350,000	5,130,000	5,400,000	1,620,000	27,000,000
Old + New money (year 3)	32,004,720	5,131,851	5,131,851	8,829,025	[illegible],232,738	2,734,097	61,064,283
Capital Fund (year 3)	27,478,927	2,442,571	2,442,571	12,212,857	12,212,857	4,274,500	61,064,283
Loanable Fund (year 3)	46,714,176	2,442,571	2,442,571	12,212,857	12,212,857	4,274,500	80,299,532
Number of Loans	311,428	163	136	10,620	119	427	3[illegible],892
Total Farm Benefits							
Year 1	116,040,170	8,804,134	3,853,292	29,310,856	29,844,427	23,110,851	210,963,730
Year 2	0	8,804,134	3,853,292	29,310,856	[illegible],501,571	23,110,851	73,590,704
Year 3	0	8,804,134	3,853,292	29,310,856	[illegible],501,571	23,110,851	73,590,704
Year 4	0	8,804,134	3,853,292	29,310,856	[illegible],501,571	23,110,851	73,590,704
Year 5	0	8,804,134	3,853,292	29,310,856	[illegible],501,571	23,110,851	73,590,704
Year 6	0	8,804,134	3,853,292	0	[illegible],501,571	23,110,851	41,269,843
Year 7	0	8,804,134	3,853,292	0	[illegible],501,571	23,110,851	44,269,849
Year 8	0	8,804,134	3,853,292	0	0	23,110,851	35,768,277
Year 9	0	8,804,134	3,853,292	0	0	23,110,851	35,768,277
Year 10	0	10,627,920	5,576,662	0	0	32,172,791	48,377,373
Total Farm Costs							
Year 1	36,390,381	12,507,105	7,126,419	50,550,606	[illegible],844,427	34,369,970	170,799,908
Year 2	0	8,177,240	3,381,957	10,195,080	[illegible],501,571	21,465,256	51,721,104
Year 3	0	8,177,240	3,381,957	10,195,080	[illegible],501,571	21,465,256	51,721,104
Year 4	0	8,859,532	3,679,679	10,195,080	[illegible],501,571	23,256,271	54,492,133
Year 5	0	8,177,240	3,381,957	10,195,080	[illegible],501,571	21,465,256	51,721,104
Year 6	0	8,177,240	3,381,957	0	[illegible],501,571	21,465,256	41,526,024
Year 7	0	8,859,532	3,679,679	0	[illegible],501,571	23,256,271	44,297,053
Year 8	0	8,177,240	3,381,957	0	0	21,465,256	33,024,453
Year 9	0	8,177,240	3,381,957	0	0	21,465,256	33,024,453
Year 10	0	8,404,725	3,481,153	0	0	22,062,403	33,948,281

Year 4	Crops	Broilers	Pullets	Equip	Dealer	Other	Total
Old money (year 3)	27,478,927	2,442,571	2,442,571	7,729,267	3,577,432	2,182,722	45,853,491
New money (year 4)	12,150,000	1,080,000	1,080,000	5,400,000	5,400,000	1,890,000	27,000,000
Old + New money (year 4)	39,628,927	3,522,571	3,522,571	13,129,267	8,977,432	4,072,722	72,853,491
Capital Fund (year 4)	32,784,071	2,914,140	2,914,140	14,570,698	14,570,698	5,099,744	72,853,491
Loanable Fund (year 4)	55,732,921	2,914,140	2,914,140	14,570,698	14,570,698	5,099,744	95,802,341
Number of Loans	371,553	194	162	12,670	141	510	385,231

Table 14 (continued)

Total Farm Benefits							
Year 1	138,443,148	10,503,880	4,597,217	34,969,676	14,853,624	27,572,684	230,940,229
Year 2	0	10,503,880	4,597,217	34,969,676	16,338,987	27,572,684	93,982,444
Year 3	0	10,503,880	4,597,217	34,969,676	17,972,895	27,572,684	95,616,342
Year 4	0	10,503,880	4,597,217	34,969,676	19,770,174	27,572,684	97,413,631
Year 5	0	10,503,880	4,597,217	34,969,676	21,747,191	27,572,684	99,390,648
Year 6	0	10,503,880	4,597,217	0	22,834,551	27,572,684	65,508,332
Year 7	0	10,503,880	4,597,217	0	23,976,279	27,572,684	66,650,060
Year 8	0	10,503,880	4,597,217	0	0	27,572,684	42,673,781
Year 9	0	10,503,880	4,597,217	0	0	27,572,684	42,673,781
Year 10	0	12,679,771	6,653,305	0	0	38,384,142	57,717,218
Total Farm Costs							
Year 1	43,415,990	14,921,755	8,502,261	60,310,020	35,606,260	41,005,515	203,761,801
Year 2	0	9,755,957	4,034,885	12,163,365	10,142,904	25,609,386	61,706,497
Year 3	0	9,755,957	4,034,885	12,163,365	10,142,904	25,609,386	61,706,497
Year 4	0	10,569,973	4,390,087	12,163,365	10,142,904	27,746,179	65,012,508
Year 5	0	9,755,957	4,034,885	12,163,365	10,142,904	25,609,386	61,706,497
Year 6	0	9,755,957	4,034,885	0	10,142,904	25,609,386	49,543,132
Year 7	0	10,569,973	4,390,087	0	10,142,904	27,746,179	52,849,142
Year 8	0	9,755,957	4,034,885	0	0	25,609,386	39,400,228
Year 9	0	9,755,957	4,034,885	0	0	25,609,386	39,400,228
Year 10	0	10,027,360	4,153,232	0	0	26,321,821	40,502,413

Year 5	Crops	Broilers	Pullets	Equip	Dealer	Other	Total
Old money (year 4)	32,784,071	2,914,140	2,914,140	11,646,598	5,658,960	3,457,658	59,375,566
New money (year 5)	12,150,000	1,080,000	1,080,000	5,400,000	5,400,000	1,890,000	27,000,000
Old + New money (year 5)	44,934,071	3,994,140	3,994,140	17,046,598	10,053,960	5,347,658	86,375,566
Capital Fund (year 5)	38,869,005	3,455,023	3,455,023	17,275,113	17,275,113	6,046,290	86,375,566
Loanable Fund (year 5)	66,077,308	3,455,023	3,455,023	17,275,113	17,275,113	6,046,290	113,583,870
Number of Loans	440,515	230	192	15,022	168	605	456,732
Total Farm Benefits							
Year 1	164,139,084	12,453,467	5,450,490	41,460,272	17,610,552	32,690,351	273,804,217
Year 2	0	12,453,467	5,450,490	41,460,272	19,371,608	32,690,351	111,426,183
Year 3	0	12,453,467	5,450,490	41,460,272	21,308,768	32,690,351	113,363,349
Year 4	0	12,453,467	5,450,490	41,460,272	23,439,645	32,690,351	115,494,226
Year 5	0	12,453,467	5,450,490	41,460,272	25,783,610	32,690,351	117,838,190
Year 6	0	12,453,467	5,450,490	0	27,072,790	32,690,351	77,667,099
Year 7	0	12,453,467	5,450,490	0	28,426,430	32,690,351	79,020,738
Year 8	0	12,453,467	5,450,490	0	0	32,690,351	50,594,309
Year 9	0	12,453,467	5,450,490	0	0	32,690,351	50,594,309
Year 10	0	15,033,217	7,868,201	0	0	45,508,485	68,429,904
Total Farm Costs							
Year 1	51,174,276	17,691,328	10,080,336	71,503,947	42,215,010	48,616,401	241,581,298
Year 2	0	11,566,725	4,783,786	14,420,964	12,025,491	30,362,653	73,159,619
Year 3	0	11,566,725	4,783,786	14,420,964	12,025,491	30,362,653	73,159,619
Year 4	0	12,531,828	5,204,915	14,420,964	12,025,491	32,896,048	77,079,246
Year 5	0	11,566,725	4,783,786	14,420,964	12,025,491	30,362,653	73,159,619
Year 6	0	11,566,725	4,783,786	0	12,025,491	30,362,653	58,738,655
Year 7	0	12,531,828	5,204,915	0	12,025,491	32,896,048	62,658,282
Year 8	0	11,566,725	4,783,786	0	0	30,362,653	46,713,163
Year 9	0	11,566,725	4,783,786	0	0	30,362,653	46,713,163

Table 14 (continued)

APC IRR

Year	Aid Tech Assist.	Training	Goe Support	Computers	Other Aid Costs	Total Farm Costs	Gross Project Costs	Total Farm Benefits	Net
1	2,262,600	715,163	19,938,939	1,012,500	35,422,191	77,761,987	137,113,379	79,472,245	(57,641,134)
2	2,262,600	764,775	18,989,519	1,350,000	32,624,112	165,251,254	221,242,261	182,612,573	(38,629,688)
3	2,262,600	890,325	19,147,253	1,350,000	32,908,199	247,240,987	303,799,364	316,016,104	12,216,739
4	2,262,600	1,116,450	19,965,768	1,012,500	32,814,373	334,130,383	391,302,074	411,060,359	19,758,285
5	2,262,600	867,038	21,220,464	337,500	32,206,941	434,166,768	491,061,330	549,542,549	58,481,220
6	0	0	9	0	0	263,556,415	263,556,424	383,795,367	120,238,943
7	0	0	0	0	0	259,183,493	259,183,493	368,081,333	108,897,840
8	0	0	0	0	0	247,105,216	247,105,216	336,436,513	89,331,297
9	0	0	0	0	0	225,164,072	225,164,072	290,896,216	65,732,144
10	0	0	0	0	0	203,508,386	203,508,386	252,239,081	48,780,695
11	0	0	0	0	0	168,125,693	168,125,693	203,901,061	35,775,368
12	0	0	0	0	0	120,061,673	120,061,673	141,645,463	21,583,790
13	0	0	0	0	0	87,215,576	87,215,576	108,311,526	21,095,950
14	0	0	0	0	0	48,019,920	48,019,920	68,429,904	20,409,983
TOTAL	11,313,000	4,353,750	99,261,952	5,062,500	165,975,816	2,880,491,844	3,118,438,942	3,624,060,392	505,621,450

IRR 39.30%

NPV of Benefits at 15%	1,580,129,973
NPV of Costs at 15%	1,440,153,263
Difference	139,976,710
B/C Ratio	1.097

Social Soundness Analysis

I. Introduction

This analysis discusses the compatibility of the project with the sociocultural environment into which it will be introduced; the likely social consequences and benefit incidence; and its potential spread effects.

The analysis was prepared principally from secondary source materials, namely, the Bremer, Deschamps, and Edwards pre-PID design reports, the Adams study of rural life in an Egyptian village, and interviews with SFPP and USAID project personnel.

II. Socio-cultural compatibility

Past government agricultural policies have resulted in a socio-cultural environment which limits farmer receptivity to adaption of new technologies which would increase agricultural production and reinforces attitudes of many government officials that farmers are unable to make the correct production decisions. By supporting the government in implementing agricultural policy reforms, this project intends to change the environment so that increased agricultural production and increased rural incomes can be achieved. However, this changed environment will not occur overnight. The policy changes will be implemented in a phased fashion. Therefore a major increase in farmer receptivity and participation in raising farm productivity may not be apparent in the initial phases of project implementation. It will be very important for MOA and PBDAC personnel to understand that these changes will be gradual, and to be willing to continue policy and administrative reforms, even in the absence of immediate farmer response to the initial changes.

A. Farmer receptivity to invest in new technologies

In absence of a more favorable pricing policy environment, farmer receptivity to invest in new technological inputs will not be very high. However, when there is real and tangible movement on dismantling of pricing policies and crop controls, and farmers gain confidence that these changes will be permanent, farmer receptivity to new technological inputs can be expected to increase, resulting in a demand for additional credit.

In addition to disincentives resulting from agricultural policies, there are two other important constraints to increasing and expanding farmer participation in increased production. These are pre-determined inputs and availability only of supervised, in-kind credit. In order to break out of the cycle of low productivity, the farmer needs to have more flexibility in the decision-making process of what he will grow. He needs access to cash credit to buy alternative and better products, and to buy larger amounts of inputs. He also needs access to an expanded input supply system.

One of the objectives of the project is to begin to institutionalize systems developed under the Small Farmer Production Project (SFPP) to make credit accessible to small farmers and rural entrepreneurs providing farm-related services and products. The Edwards Report points out several characteristsics of the SFPP that would not be desirable to replicate in a new credit intervention, which are virtually synonymous with the existing constraints just mentioned. Under the SFPP:

1. Farmers were required to take an entire package--no more and no less--in order to obtain credit (though in practice this was not strongly enforced).

2. Virtually the entire loan was made in-kind, not in cash.

3. The project itself provided all inputs--which were not available through any other source.

The Edwards report also set forth redirections needed by PBDAC, including:

1. Movement towards less supervision of credit.

2. More flexibility in recommended practices. One of the findings of the SFPP evaluation (which has also held true elsewhere) was that farmers are more likely to accept parts of a technology package at a time, rather than the entire package all at once.

3. Increased credit in cash rather than in-kind.

The project intends to incorporate all of these changes, which should greatly improve the chances of achieving farmer receptivity to technology adaptation to increase production.

B. Government attitudes towards farmer decision-making:

There are apparently lingering attitudes among many central government officials, including some from PBDAC, that left to themselves, farmers will not make the correct production decisions. A primary thrust of this project is to change institutional behavior, attitudes, and ways of doing business with farmers in order to increase their agricultural productivity. It will be important for project success to effect a change in attitudes among MOA and PBDAC personnel who mistrust farmers' ability to make appropriate production decisions. The experience of SFPP has demonstrated to PBDAC that even the poorest farmers who lack collateral will act responsibly in utilizing credit and repaying their loans if given the opportunity. However, more salesmanship is needed. The training provided in the project will be an important factor in eliminating this distrust of farmers.

II. Social Consequences and Beneficiary Incidence

A. Impact on the small farmer.

The economic analysis has made some projections as to the enormous benefits to Egypt's farmers that can be expected if the project is implemented successfully. These farmers are the primary direct beneficiaries of the project's policy interventions and related expansion of credit availability.

Freeing up the agricultural pricing structure and provision of credit alone do not guarantee, however, that the project benefits will reach the poorest farmers. Medium and large farmers have greater access to credit and inputs than small farmers, because they are able to provide collateral for their loans and are considered by the PBDAC to be better credit risks. In order to ensure that credit is available to the smaller farmers, the project will expand the SFPP window, which guarantees access to formal credit to farmers who are unable to provide collateral, from the approximately 50 village banks included in the original SFPP to 300 village banks.

Since the project intends to rely on the private sector for input supply and marketing, the question also arises as to how availability of research and extension services can be assured, especially to that group of poor farmers which traditionally has had the least access. It is envisioned that in the early stages of the project, technology packages will be delivered as they were under the SFPP, by village extension agents associated with the village banks. Under SFPP, however, this resulted in a fractioning of portions of the extension service from the national extension service. The project will try to reduce the fractioning impact by raising the supervision of extension agents to the district or governorate level, rather than at the village bank level.

As implementation progresses and activity of private sector input supply dealers increases, these entrepreneurs will be expected to take on much of the input marketing and distribution responsibility. It may be, however, that private dealers will be unwilling to market products in the more remote areas, because of the high costs of doing so. Consequently, farmers in these areas may lack access to inputs. Project managers should be alert to this possibility, and should be willing to make project revisions as needed to ensure that these groups are reached.

B. Impact on PBDAC

Clearly the project will result in more modern, streamlined, and efficient banking operations for PBDAC, and increased skill levels of its employees. However, the changes called for in this project will also affect the authority structure of the bank. It may affect internal staff levels, relationships to private sector companies, and many other aspects of the way the bank does business. The bottom line is the eventual metamorphosis of the PBDAC into a more bank-like institution as its non-bank functions move into the private sector.

It is important for the project to identify mutually-agreed-upon incremental changes to serve as benchmarks of progress towards a more private sector orientation, and specific details of what the changes will be and how they will be implemented. Although PBDAC is not the only institution involved in the change process, the institutional focus is on the bank. Project management should understand the limits of the bank's discretionary power and authority and the range of authority delegated to the bank by its principal Ministry administrators. Otherwise, there is a risk that implementation may get bogged down in confusion of conflicting authority channels. It may be useful for the T.A. contractor, as an initial implementation action, to undertake an organizational analysis of the PBDAC, to ensure that the actions the project requires of it are realistic and achievable.

An equally important institutional issue is the fate of the PBDAC employees who are currently involved in the input supply and procurement activities. It is not realistic to suppose that PBDAC will be able to eliminate these functions without great internal stress, unless the affected employees can be moved to other positions in the Bank or offered equally attractive employment in the private sector or other government agencies. It will be necessary early on in project life to examine who in PBDAC will be affected by the proposed changes, and how a smooth transition can be implemented.

C. Impact on the Private Sector

The Bremer report projects a very positive and favorable climate for private sector intervention in agricultural input supply, distribution and marketing. Bremer notes, however, that there remain widespread beliefs, particularly among central government officials, that private suppliers will not perform acceptably. To change these beliefs, it will be necessary to demonstrate that

1. Private suppliers operating in a competitive environment will not gouge the farmers;

2. A competitive market will do at least as good a job as PBDAC in getting the right inputs to the farmer on time and in good condition.

If this project demonstrates these two points, it will go a long way in changing traditional attitudes of fear towards private sector freedom.

Aside from the Bremer report, there has been done no indepth analysis of the rural private sector's ability to obtain credit needed to expand its input supply and marketing operations, or its ability to obtain access to the full range of inputs needed to adopt HYV technologies. During project implementation, project managers should determine if private suppliers' credit and technology needs are being met through existing channels, or if there is a need to initiate new activities to provide them--through this or other projects.

D. Impact on Women

The project will affect women at two levels: those employed within the PBDAC system, and those engaged in income-generating activities in agriculture. For those employed within PBDAC, the impact may be felt primarily in areas of improved skills training and overall improvements in working conditions due to the introduction of mechanized accounting systems. For those engaged in income-generating activities in agriculture, the impact will be felt, for example, in the improved delivery of inputs and extension services. In the long term, the impact will be felt in the introduction of more flexibility in decision-making concerning inputs and recommended uses.

Approximately 8.5 percent of the total PBDAC staff of 34,000 are women. A large number of these women work in village banks where they tend to occupy lower status jobs such as clerical positions. Among their responsibilities is maintenance of several thousand accounts entirely by hand. Under the institutional strengthening component of this project, help is to be provided in addressing the weaknesses of the management information system. This may lead to the upgrading of skills and positions of women employed in certain clerical positions.

\\4\\

Documentation from the SFPP evaluations indicate that many women who derive income from raising of livestock and poultry benefited from active participation in the SFPP credit program. Though decontrol of maize prices during the life of the ACPC will certainly affect the viability of medium-scale livestock operations, the small-scale operations involving farm women have not relied on subsidized feed heavily and are not expected to be adversely affected by this change.

Gaps in the data base of SFPP point out the need to put a more systematized and structured information gathering system into the APCP, to obtain more sensitive information on how women are affected by the project.

III. Spread effects

If implemented successfully, this project has the potential of having greater spread effects than any other project USAID has undertaken. If changes in pricing and control policies lead to revitalization of agricultural production, the government may be more willing to consider pricing policy changes in other sectors. Private sector activity in rural areas can be expected to expand greatly, not just because of the direct demands of farmers for inputs and technology, but also because increased rural incomes will lead to demand for a whole new range of services and products. The steady migration of population from rural to urban areas should decline if the rural areas can suddenly offer better employment and income opportunities than they have in the past.

Environmental Analysis

As indicated in the PID, an initial environmental examination (IEE) is not required (exception 22 CFR 216.2 (c) (2) (i)) and no serious environmental affect is foreseen. The $25 m. designated for project activities will be used in the area of institution-building and improving the PBDAC financial services capabilities.

The project is expected to have a small but positive impact on the rural environment. Land use patterns will not be altered as part of this activity. Improving storage facilities will result in reducing health hazards to the farming community.

In compliance with USAID/MOA policy towards implementing a comprehensive agricultural program rather than separate project activities, the use of fertilizers and pesticides will be guided by the technology developed under the NARP.

The NARP environmental concerns recognizes the importance of an integrated pest management and crop protection system that would substantially contribute to productivity increase and farmers' profitability under a free market environment.

USAID/EGYPT PRIVATIZATION PLAN
ANNEX L TO FY 88 ABS

A. BACKGROUND ON STATE INVOLVEMENT IN THE ECONOMY OF EGYPT

The genesis of Egypt's current economic structure was the philosophical shift in development policy accompanying the officers' coup d'etat in 1952. This change in government ended the post-colonial policies of laissez-faire and introduced the principle of direct state leadership and management of economic growth and distribution. Throughout the Nasser period (1952 to 1970), the Government of Egypt (GOE) established its almost total dominance of the economy through monopoly control of principal agricultural activities (input supply and procurement of major crops), nationalization of existing industries and massive public sector investment in new industries, infrastructure and services. In addition, the government introduced a system of subsidies and price controls on most commodities and many non-essential commodities.

A significant political coalition supported these GOE actions. It included the military; individuals and groups who were committed ideologically to socialism; proponents of state capitalism as an alternative to private monopolies and oligopolies; those who believed that private enterprise was incapable of organizing, financing and managing large scale industry; unemployed and underemployed workers who expected jobs from the public sector investment program; and urban middle and lower income groups who sought subsidies and price stability. The principal donors either did not object to the GOE's public sector strategy (the Arab states) or were very supportive (eastern bloc countries). There were few voices domestically or internationally who seriously questioned the GOE's program of state management of the economy.

The first meaningful modification of the Nasserist policies was the "Open Door" concept of President Sadat, announced in 1974. This policy, and the now famous Law 43 through which it was implemented, sought to attract foreign investment into joint ventures with Egyptians to augment the stretched resources of the GOE. Law 43 was to complement public investment, not replace it. Firms incorporated under Law 43 were supposed to receive a number of incentives (tax holidays, initial duty exemptions, currency repatriation rights, etc.) and were supposed to operate as private enterprises subject to world market conditions. Since the public sector continued to operate and expand its vast subsidized industrial holdings and services, investment under Law 43 was primarily attractive to those interested in exporting and those seeking to serve aspects of the domestic market not captured by the public sector. In 1978, legislation similar to Law 43 was passed for one hundred percent Egyptian owned firms (Law 159).

Throughout the late 70's and early 80's, investments under Laws 43 and 159 have occurred, but their cumulative effect still represents a relatively small portion of economic production and services. While the laws themselves are attractive to investors, the economic and bureaucratic climate in Egypt was (and remains) a significantly countervailing disincentive. There were too few areas of the domestic market which permitted an attractive return on private sector investment because of the dominance of the public sector and the structure of subsidies and price controls. For investors interested in exporting, the procedures associated with importing, exporting and foreign exchange transactions were complicated and costly. Also, very high land prices have made some investments not feasible. Finally, there was no assurance that a profitable Law 43 or 159 firm would not attract direct competition from future public sector investment. The lack of real investment opportunities has resulted in large holdings of foreign exchange by Egyptians abroad.

One consequence of this environment was to encourage private investors to seek the participation of the public sector in joint ventures organized under Laws 43 and 159. In this way, private investors sought to co-opt the public sector and eliminate the potential for direct competition. Furthermore, the private investors felt that their public sector partners were valuable (perhaps essential) in helping the new firm deal with the awesome complications of the political and bureaucratic environment of Egypt. For example, all large Law 43 banks are 51 percent or more owned by the public sector. The only "private sector" Law 43 cement company is 90 percent owned by the public sector. Law 43 firms with substantial public ownership produce shoes, seeds, clay bricks, eggs and milk, to mention a few.

The partial opening of the economy under Laws 43 and 159 and the sizable flows of foreign exchange from oil exports, worker remittances, Suez Canal revenues and donors permitted the GOE to sustain its public sector activities throughout the 1970's. Money losing industries were permitted to continue operating because they employed thousands of workers. The GOE also continued its finance of consumption subsidies for equity objectives and to maintain price stability. This occurred despite the rise in consumption from population growth and an increasing inability of domestic agriculture and manufacturing to meet domestic demand.

Small scale enterprises, including those in the informal economy, were also adversely affected by the GOE development strategy. The large, subsidized public firms which produced vast quantities of cheap, low quality consumer goods seriously reduced the markets of small enterprises and constrained their potential to expand. The GOE also subsidized imports of items which its factories did not produce, consequently further narrowing the market for small enterprises. The almost total public sector control of raw materials and processed inputs further impaired the activity of small enterprises. The availability of inputs was unreliable, because small enterprises were the residual market for these goods only after the input demands of the large public sector firms had been met. The quality of publicly supplied inputs was inadequate for the needs of small enterprises who catered to specialty markets not served by the large public firms. In comparison to the public sector and the relatively larger Law 43 and Law 159 firms, small enterprises have been kept at a distinct disadvantage in obtaining credit, importing raw materials and acquiring technology. Even the fundamental need for physical space to set up or expand operations has been hurt by rent control and zoning laws which have wildly distorted the real estate market throughout the country. Finally, few entrepreneurs in Egypt have forgotten the nationalization of the 1960's. Consequently, there has been a real reluctance among small enterprises to expand for fear of renewed nationalizations or intense GOE control through the application of the myriad of regulatory laws which are arbitrarily applied to informal private sector firms whose size makes them noticeable to the bureaucracy.

The first serious attempt to adjust the economy and reduce the rising subsidy burden on the government treasury came in 1977. Prices of a number of important items, including bread, were suddenly raised to reduce the subsidy bill. However, the years of subsidy and price stability had become too ingrained in popular expectations, and large scale uprisings quickly forced a reversal of the adjustment program.

As Egypt has moved into the mid 1980's, the cost of the inefficient public sector, subsidies and price controls has seriously depleted the country's resources. Public sector production, subsidies and price controls have also seriously impeded investment and growth, making the overall economy overwhelmingly dependent on debt and donor financed imports. Today, the country's financial difficulties have been compounded by the decline in oil prices, workers' remittances, and tourism and the leveling off of Suez Canal revenues and donor assistance. There is an increased level of debate within the country on the need for reforms, and a number of noteworthy events have occurred. Electricity, telephone service, gasoline, bread and other prices have been raised, although not sufficiently to cover production costs. In addition, changes to speed up the investment approval process have been introduced. But the changes thus far have been very slight, as the cautious government is extremely sensitive to the potential for criticism from the opposition and popular uprisings in the streets. There is a genuine fear that the real dichotomy in the society between the very poor and the middle class and rich will be exacerbated by a rise in the price of essential goods.

B. CURRENT GOE VIEWS AND THE ENVIRONMENT FOR PRIVATIZATION

The new Prime Minister and Cabinet appointed in September 1985 reflect a substantial commitment to rethink the policies which prevailed in the past. The Prime Minister and a few key ministers are trained economists who espoused economic changes prior to their appointment. Since September, considerable discussion has occurred within the government on the need and means for restructuring the economy to eliminate inefficiency and promote growth. The government has presented to the people its desire for economic reform, but its recent actions have not yet constituted significant initiatives.

There are two important problems impeding the introduction of a bold reform program. First, the GOE is sensitive to the great potential for a serious and widespread negative reaction against economic reform. In particular, it is nervous about reforms which reduce or eliminate subsidies that have kept prices of essential goods stable. Second, the public sector's network of ownership of enterprises and control of markets is an integrated system. It essentially conforms to a very complicated and fairly rigid input-output matrix heavily dependent on imports. It is not immediately apparent to the government which elements of the system are most amenable to change without introducing an uncontrollable chain reaction. The industrial and service base of the private sector is not sufficiently well developed to dampen potentially devastating periods of economic disequilibrium which would result if the government "reformed" the wrong elements first. In addition, there is a real fear that most of the important reforms will produce an uncontrollable inflation in the short run.

The principal reform themes pronounced by the government are as follows:

-- There must be a substantial improvement in the efficiency of the public sector.

-- Subsidies should be provided as monetary payments to people, not as fixed prices on commodities. The transfer payments eventually should be focused on the poor.

-- The private sector should be an important partner in future investment.

-- The consumption of luxuries should be curtailed with the savings invested in productive assets that save or earn foreign exchange.

-- The desert lands and the new cities are a substantial resource which should be used by the private sector for industrial expansion.

These themes are consistent with an intent to continue in the immediate future the government's ownership of industrial firms and service activities because the political coalition which originally supported public ownership and control remains essentially intact. Many Egyptians still don't trust the private sector to deliver the goods and services to the economy. While the reform themes are broad enough to permit elements of the government to consider privatization in limited areas, public discussion of privatization is extremely restricted. The following summarizes the situation by category of privatization.

1. <u>Divestiture of state owned industries:</u>

The GOE's announced policy has been and remains that it will not sell any public sector corporations owned by the national government. Furthermore, it will not close any of these public companies regardless of their economic viability. The very large companies are ingrained in public opinion as national treasures, symbolic of Egypt's independence and capacity to start up and operate world-class operations. (This view is held regardless of the viability of the firms.) GOE and popular opinion holds that to sell these firms is to sell the family jewels. Popular opinion also associates private ownership more with exploitation than with productivity. Furthermore, most of the public firms employ a substantial labor force which is satisfied with the benefits of public employment and fearful of their future in the private sector. The employee problem is especially acute for those firms which were established outside of the Cairo/Alexandria metropolitan areas because there may be no alternative private sector employment nearby.

The economic difficulties of the country, particularly with respect to foreign exchange, have left the GOE with little or no ability to expand and modernize public firms. Consequently, there is increased GOE interest and willingness to structure new public sector investment under Law 43 as a joint venture with private investors. Not only does a Law 43 firm elicit needed private capital; it also establishes private sector employment and pricing practices from the start of the new investment. In this way, the government can avoid its own restrictive laws. The GOE's intense desire for new investment for exports and employment generation, coupled with its increasing inability to be the principal financier, has resulted in Law 43 and 159 firms in which the GOE has taken a minority equity position and left the management to the private sector shareholders. Even in cases in which the GOE owns a majority interest, it has tried to allow the firms to act like private firms in terms of employment policies, price flexibility and the elimination of subsidized inputs. Notable exceptions, however, remain.

Some members of the government have informally stated that the government is willing to sell its shares in Law 43 and 159 firms to private individuals. However, such action has not occurred. In fact, when Chase Manhattan Bank made a recent bid to acquire an additional two percent of the shares of its joint venture bank with the GOE, the GOE insisted on retaining its 51 percent ownership. The efficiency and profitability of these partly government-owned Law 43 and 159 firms mitigates against their further divestment. The government believes its equity is secure. More importantly, the distributed profits of these firms are a valuable source of revenue for the government's treasury. Finally, as an owner, the government has a unique opportunity to know the firm's actual accounts so that tax levies and macroeconomic pricing policies (or exceptions to these policies) can be applied as necessary. It is interesting to note that in 1983 the government passed a law that permits the sale of publicly owned shares in Law 43 firms. However, guidance to implement this law has not yet been made available.

The government appears to be more willing to consider divestment of companies owned by sub-national units such as Governorates. These relatively smaller companies were developed by the local governments to be a source of revenue since local governments were unable to expand tax collection. However, the management capability of local government has been weak, and these firms are now an important drain on local resources.

The government's Capital Markets Authority (CMA) has taken on the task of analyzing the conditions of these local government companies and developing a plan for their divestment. Furthermore, the Prime Minister issued a decree in late June 1986 establising a high level committee to consider this issue among other local government topics. The CMA believes that these firms are small enough to be absorbed by the local private sector. Also, the CMA believes that a divestiture at the local government level would not attract national attention and the associated criticism from those who insist on public ownership. Given the potential popular reaction to a divestiture, even for a small firm owned by a local government, the CMA has been extremely reluctant to discuss its activity on this issue and is cautious about formulating any request for external assistance. Officials from the CMA, however, did attend the recent AID sponsored Privatization Conference, and they have expressed an interest in holding a follow-up workshop in Cairo to focus specifically on Egyptian problems. Non-Egyptian experts are expected to be invited.

2. <u>Contracting out management and services:</u>

The GOE has recently shown an interest in contracting with the private sector for services which it traditionally provided. The Ministry of Tourism has recently contracted with a private firm to clean the beaches at Alexandria. The Cairo Governorate has stated a desire to contract for trash collection and street cleaning rather than expand its municipal sanitation crew. The Governorate has signed several small street cleaning contracts for selected areas of the city as a pilot effort. For the collection of household trash, the Cairo Governorate has agreed to license private firms to collect trash on a fee-for-service basis.

There is considerable scope for further contracting of public services, particularly in the maintenance of water and sewer systems and roads. Local governments are willing to discuss this course of action, but currently their budget constraints limit their abilities to provide the expected level of services through contracts with private firms. (The current public provision of these services, while inadequate, allows local government to claim that they are fulfilling their obligations.) Should the collection of fees and taxes improve so that there are sufficient revenues to finance the level of maintenance required, these governments will likely begin to use private sector contractors.

It should be noted that the government is willing to obtain Egyptian and some expatriate technical assistance and consulting services for its large public sector firms. However, it is not prepared to contract out the full management of these firms to the private sector. The one exception to this is in the tourist industry, where contracts with recognized hoteliers such as Sheraton and Oberoi have been executed in order to link these government-owned facilities to the worldwide system of their hotels. Whilethere is no interest by the government to sell its tourist facilities, the Ministry of Tourism is very anxious to see the private sector carry out a large percentage of the future investments in this sector.

3. <u>The special problem of agriculture:</u>

The problem of privatization in the agriculture sector is at least as difficult and challenging for the GOE as privatization of industries. Like industry, agriculture is an integrated system of input monopoly and controlled output. Cropping patterns are mandated. Many agricultural products must be sold to the government at below market prices for inputs to public sector agro-industries or for resale through publicly controlled markets. The extensive and intense government involvement in agriculture has been and remains primarily aimed at supporting low urban food prices and controlling the countryside. As with public industries, however, the government is becoming increasingly aware of the imperative for major reform. The most important recent event was the issuance of Decrees 120 and 121 in January 1986 which transferred to the private sector the responsibility for importing a wide variety of agricultural commodities. However, implementation of these decrees has been hampered by the larger government effort to restrict imports. Private sector importers have been required to obtain import permits from government "Import Rationalization Committees", which seek to keep the LE/$ exchange rate stable by preventing the import of "unnecessary" imports.

The most significant effort to implement a reform within the context of these conflicting government policies involves the pricing and importation of corn. When the termination of the government import monopoly on corn was first announced in January, the controlled price was LE 63 per ton. The world price was LE 240 per ton. Private sector importers who bought dollars to meet the 150,000 ton monthly import requirement quickly pushed the LE/$ exchange rate up by ten percent. The Import Rationalization Committee promptly responded by impeding the issuance of import licenses to private sector corn importers. By June, the poultry producers were in a state of panic as remaining government corn supplies were depleted and the private sector had not obtained permission to import. The government then decided with the apparent support of the large poultry producers to establish a transitional program which will gradually raise the price of corn from LE 63 per ton to the market price. On June 23, the government announced a new controlled price of LE 120 per ton and stated that it would continue to import until the private sector was able to take over. While there are conflicting reports about the timing and size of the next price change, the government has stated its commitment to complete this privatization in the first half of CY 87. The government also has permitted the market price of poultry and eggs to reflect this import price increase except in government owned retail stores. In this case, the Ministry of Supply, which operates these stores, is required to finance the subsidy. USAID has been informed by the senior government officials involved in these events that, despite the initial problems, the freeing up of corn was intentionally chosen first because it is relatively less sensitive politically than other key imports such as wheat.

C. USAID'S PRIVATIZATION STRATEGY

USAID's privatization strategy is a developing aspect of our larger interest in assisting Egypt's private sector. Currently our private sector portfolio is aimed at improving the climate for private enterprise growth and facilitating specific productive private enterprise investments. As yet, the Mission has not developed a specific project to support the divestment of public sector companies. However, this issue, particularly the termination of certain GOE monopolies, is a principal theme in the overall Mission policy dialogue. The level and intensity of our policy dialogue with the GOE has increased considerably over the past year. It will continue to intensify in the immediate future as the economic distortions brought on by current GOE policies exacerbate the Government's public finance problems and erode the country's growth prospects.

Within our current portfolio, there are resources available to provide to the GOE initial technical assistance on divestment should such assistance be requested. We are also in the design stage of three projects (Kima Fertilizer, Agricultural Production Credit and Cost Recovery Systems for Health) which will explicitly seek to privatize activities which today are largely in the public sector. As we pursue our policy dialogue and privatization initiatives, we expect more opportunities will emerge for project and program resources to be focussed specifically for divestment.

Our specific privatization strategy will encompass the following main themes.

1. Support changes in macroeconomic policy which move the Egyptian economy toward a market basis.

2. Terminate the government monopoly in selected agricultural inputs and products.

3. Support full or substantial divestment of selected public enterprises.

4. Assist the government in its desire to divest firms owned by local government units.

5. Assist in privatizing, or at least contracting out to the private sector, selected "public services" such as trash collection and curative health services.

The detailed elements of these themes and the target dates for their achievement are described below. It should be noted, however, that this description is limited to the specific topic of divestment. It does not discuss all of our support to the private sector, much of which is not explicitly linked to reduction of public sector involvement. Should USAID succeed in improving the policy invironment for the private sector, we expect that our private sector program would gradually shift from its present portfolio emphasis of private enterprise credit to more explicit assistance for divestiture. If the GOE seriously implements a reform program along the lines of its public statements, the need for concessional assistance to the private sector will be eliminated.

1. Support changes in macroeconomic policy that move the Egyptian economy toward a market basis.

a. Short run objectives:

(1) Institute a system of fair tariffs which replaces the Import Rationalization Committees. These tariffs should tax the imports of public and private sector firms at the same rate. In addition, the exchange rate used to value the imports should be at least the bank incentive rate (approximately $ = LE 1.35). The target date for achievement of this objective is fourth quarter FY 86. This objective has been a key point in the Mission's overall policy dialogue throughout FY 86.

(2) Restructure the multiple exchange rate system toward a single, market determined rate. This objective will be achieved in phases. The first phase, targeted for completion in FY 87, will reduce the number of exchange rates to two -- the bank incentive rate, now at $1 = LE 1.35, and the "own" or market exchange rate now at $1 = LE 1.86. In addition, the "own" exchange rate will be given greater legal status and be operated through the commercial banking system. The target date for the single excahnge rate is FY 88.

b. Long run objectives:

In the long term, we will concentrate on the fiscal, monetary, balance of payments and debt management targets specified in our Action Plan. We will also seek movement in the price of essential commodities such that they eventually reflect the market conditions of supply and demand. Initial attention during the period covered by our next CDSS will focus on the prices of energy, money (interest), and agricultural inputs and products.

2. Terminate the government monopoly in selected agricultural inputs and products.

a. Short run objectives:

(1) Assist the government to divest its import monopoly on corn. The target date for achievement of this objective is June 1987. This objective will be met by assisting the government in financing its transitional program to privatize the importation and marketing of corn. Up to $40 million in FY 86 government CIP funds will be used to assist the Principal Bank for Development of Agricultural Cooperatives (PBDAC) in order to partially meet import needs as the private sector initiates its import activity. USAID anticipates that when the real market price is reached by June 1987, Egyptian farmers will respond by increasing domestic production of corn. It is possible that over a three to five year period, local corn production could be increased sufficiently to replace imports.

153

(2) Assist the government to decontrol the production and marketing of rice. This objective is targeted for late CY 87. Like corn, rice is less sensitive politically than wheat, cotton and sugar. Our support for freeing up rice will be a part of the overall policy dialogue and a specified objective in the Agricultural Production Credit project.

(3) Establish a legal free market in nitrogen fertilizer. This objective will be achieved in several phases. The first phase is to obtain GOE consent to allowing the domestic fertilizer factories to sell ten percent of their product to private buyers on a cash and carry basis. The price of this fertilizer would be determined by the market. Following this, the GOE would expand the share of fertilizer marketed through the private sector. The target for permitting the first ten percent to flow through the free market is FY 87. This objective is one of the main points of the overall policy dialogue and essential conditions within the Agricultural Production Credit project and the Kima Fertilizer project.

b. Long run objectives:

If corn, rice and at least ten percent of the nitrogen fertilizer are successfully shifted from the public sector monopoly to the private sector, our long run goals will be to shift more commodities to the private sector. The principal commodities will be wheat, cotton, sugar and the remaining public sector fertilizer sales. In addition, we will press for the removal of controlled cropping patterns and permission for private banks to branch into rural credit activities. This long run objective will be an underlining policy theme in the Agricultural Production Credit project. The project will help the GOE dismantle its monopoly now implemented through the Principal Bank for Development of Agricultural Cooperatives (PBDAC).

3. Support full or substantial divestment of selected public enterprises.

a. Short run objectives:

(1) USAID will continue to support the substantial shift of automobile production from the public sector to the private sector. This process started with the one hundred percent privately owned GME truck plant in October 1985. It has continued with the GOE approval of the General Misr Car Co. (GMCC). This large undertaking and the private sector feeder industries associated with it represent one of the most significant divestments of functions thus far carried out by the government. On the policy level, USAID has been a constant supporter of this privatization activity. On a financial level, we plan to use the PIE Fund to facilitate this significant investment. PIE Fund resources will be made available to the principal company--GMCC--as well as many of the new joint venture feeder companies.

136

(2) As a condition for support of the rehabilitation of the Kima fertilizer plant, USAID is seeking expanded private ownership of this facility. Currently the firm is structured as a joint stock company, but only four percent of the shares are privately held. In supporting this project, USAID is seeking a significant expansion of the private equity. We have discussed with the government several possible options in this regard including the possibility of transferring equity to Kima's employees under an Employee Stock Ownership Program (ESOP). The target for this objective is late FY 87.

b. Long run objectives.

USAID will continue to seek privatization opportunities as the GOE attitude towards this concept becomes more accepting.

4. Assist the government in its desire to divest firms owned by local government units.

a. Short run objectives:

In the short run, our expectations are limited to improving our dialogue with the GOE on this issue. There are considerable technical problems related to the valuation of assets and the form of divestment which limit the likelihood of specific divestments occurring within the next twelve months. However, we will seek to provide some types of advisory assistance to this effort through our Capital Markets project and our Local Development II project.

b. Long run objectives:

During the planning period covered by our upcoming CDSS, USAID plans to develop a program which will assist the GOE in restructuring the financial condition of these governorate firms so that they can be purchased by the private sector. The design of this effort depends on the success of our dialogue with the GOE on the divestment of governorate firms, and the GOE must seek a project role for AID.

5. Assist in privatizing, or contracting out to the private sector, public services.

a. Short run objectives:

(1) Support the development of a private sector solid waste management system for Cairo, financed entirely by fees for services and resale of recyclable materials. Our primary effort will be to modernize the operation of the traditional collectors of household trash -- the Zabaleen -- by facilitating their financing of motor vehicles for trash collection. The target date for starting this activity is December 1986. Funds for this activity will be obtained from existing resources in our local government projects or from reflows of our private sector credit activity.

(2) Reduce the level of the government's provision of curative health services by expanding the availability of private medical facilities. This activity is the subject of a new project to be obligated in FY 87. The project will specifically stimulate the establishment of private health centers outside of Cairo. The government's health facilities would then be able to reduce the provision of curative services and expand preventive care services.

b. Long run objectives:

In the long run, we will encourage the local government units to contract with the private sector for operation and maintenance of water and sewer systems, road repair and other community services.

132

1. Raise cotton procurement price substantially to induce farmers to plant more cotton area and to plant earlier.

Objective for end of period: Raise procurement price of cotton by 80 percent in real terms by 1989 in order to eliminate about one half of the current "cotton tax". (Procurement prices would rise from about 35% now -- after no increase in the 1986 procurement prices - to about 63% of the economic farmgate value, based on current world prices.)

Implementing measures:

-- Raise procurement prices for cotton by 50 percent for 1987 crop (announce December 1986, before planting decisions), by 40 percent in 1988, and by 40 percent in 1989. Budgetary cost -- about LE 450 million in 1987/88 for procurement of the 1987 crop.

-- Move cotton exchange rate from LE .70 to LE 1.35 per dollar effective with fall 1987 crop and unify (at 1.35 rate) the export and domestic sales price for each grade of cotton lint (announce before 1987/88 budget). Budgetary revenue inceases beginning 1987/88 -- LE 300 million from increased LE value of export sales; LE 375 million from increased value of domestic sales. Use part of the increased revenue from this exchange rate reform to finance end-user subsidies for cotton textiles or operating losses of the least efficient spinning or textile mills.

-- Raise prices of cottonseed meal (October 1986) and cottonseed oil (October 1987) to end users to reflect cif import value, calculated at the free market exchange rate. Budgetary gain -- LE 110 million in 1986/87 from higher cottonseed cake prices (up from LE 42 to at least LE 235 per ton).

2. Reduce red meat prices to induce farmers to plant less area in long-season beseem and to eliminate the uneconomic feedlots.

Objective for end of period: Free private sector imports of red meat in order to bring local prices of red meat (about 200% of world price currently) closer to international levels, and to induce some contraction of the very uneconomic red meat industry in Egypt. Note: Beef imports were restricted to 141,000 in 1985, down from 236,000 tons in 1984.

Implementing measures:

-- Eliminate government barriers to private sector imports of red meat by abolition of the requirement for approval of import licenses for red meat by the import rationalization committee (September 1986).

-- Eliminate all current subsidies for yellow maize and other animal feed products -- cotton seedcake, wheat bran, rice bran (to be completed by July 1988). Budgetary savings -- 1986/87: LE 175 million (maize), LE 110 million (cottonseed cake); 1987/88: LE 175 million (maize).

Project Paper 263-0202

Annex 7E (Continued)

159

3. Privatize the marketing of maize, broadbeans, and all above-quota rice to assure efficient, fair prices to the farmer.

Objective for end of period: Government would no longer require compulsory procurement (except for a reduced quota of rice), and the private sector would be free to import, export, process and conduct local trade in these three commodities. Any GASC procurement of local broadbeans and above-quota rice would be obtained by competitive tenders.

Implementing measures:

-- PBDAC will cease procurement of maize (1987) and GASC will reduce its imports according to a pre-announced schedule (e.g., announce GASC volume for first half of 1987 by October 1986).

-- MOA and MOS will announce elimination of maize procurement and reduction and simplification of the quota delivery requirement for rice (before the spring 1987 planting season).

-- Government will pass new legislation permitting the private sector to trade, mill, and market above-quota rice in Egypt and (at free market exchange rate) for export (spring 1987).

-- MOS will eliminate compulsory procurement for broadbeans, permit free private trade, and, as a temporary measure, offer voluntary procurement for 1988 (announce before fall 1987 planting season).

4. Eliminate input subsidies to fertilizer and farm credit and encourage private sector competition.

Objective for end of period: Fertilizer and credit subsidies for agriculture will be eliminated and the private sector fertilizer distributors will compete on an equal footing with PBDAC's operations.

Implementing measures:

-- Raise PBDAC price of subsidized fertilizer by equal annual amounts over three years so that fertilizer subsidies will be eliminated in the 1988/89 crop year. For 1986/87 crop year, prices for nitrogen fertilizer would be raised by 50%, phosphate by 100% (announce October 1986). Budgetary savings -- LE 130 million in 1986/87, additional LE 130 million savings each in 1987/88 and 1988/89

-- Pass new laws permitting free private sector marketing, inland transportation and imports of all basic as well as compound fertilizers; abolish the requirement for import licenses for fertilizer (October 1986).

-- Discontinue all subsidized medium-term food security loans (October 1987).

-- Raise rates on all PBDAC crop loans from 3.5 to 7 percent in October 1987, to 10 percent in October 1988, and to the maximum rate permitted by the Central Bank in 1989.

160

5. <u>Legalize and encourage private sector exports of oranges and other high-value crops</u>.

Objective for end of period: Private sector will be free to engage in procurement, inland transportation, and export of oranges, onions, garlic, potatoes, and groundnuts without any requirement for licensing or approval by the government companies and cooperatives that currently monopolies over these exports.

Implementing measures:

-- Pass new laws (and rescind cooperative marketing decree) to permit private sector procurement, inland transportation, and exports of oranges, onions, potatoes, garlic, and groundnuts (spring 1987).

-- Eliminate all government compulsory delivery requirements for groundnuts (1987 summer crop) and onions (1988 spring crop).

6

ILLUSTRATIVE EVALUATION PLAN

Given the importance of this project as the "cornerstone" of USAID agriculture sector strategy, it is appropriate to incorporate a fairly comprehensive evaluation plan. It is important to point out, however, that at the time of writing, a detailed schedule of policy reforms had not yet been completed by the GOE and the USAID Mission. This is, therefore, only a preliminary attempt to identify appropriate evaluation approaches. Once the project design and a specific plan and timetable for policy reform have been finalized, the Evaluation Plan should be revised to incorporate clear, objective benchmarks for policy reform objectives, and to provide more specific guidance regarding the scope and timing of evaluation activities.

A. Scope and Framework

The project can be viewed as having two separate but complementary objectives, i.e. the reform of agriculture sector policies and the improvement of credit, extension and input supply services to farmers. The evaluation plan reflects this bifurcated approach, and focuses on two different "levels" of the project:

1. <u>Policy Reforms:</u>

   The emphasis will initially be on verifying implementation of sector-wide policy reforms and assessing their effectiveness in creating the necessary preconditions for agriculture sector growth. Over the long-term, evaluation should assess the impact of these reforms on national agricultural production and productivity.

2. <u>Technical Project Activities:</u>

   The focus will be on the effectiveness of project inputs in strengthening PBDAC financial systems and in improving farmers' access to credit, inputs and technology.

B. Data Collection

Evaluation of this complex and important project will require collection of data from a variety of sources. The following summary of data collection approaches is based on a comprehensive framework for evaluation, including both implementation and impact level questions and appropriate methodological approaches, elaborated in Annex 7-G, attached.

1. GOE Announcements, Decrees etc.:

   Formal decrees, laws, announcements, etc. in the official press and government gazette will be an important source of monitoring implementation of the policy reform plan agreed on by the GOE and USAID. These will provide substantiation of GOE compliance with the agreed on policy reform agenda. USAID will monitor and analyze GOE announcements regarding the implementation of these reforms on an ongoing basis.

2. PBDAC Data:

   Data collected and analyzed on an ongoing basis through PBDAC management information systems (MIS), will be used to assess trends in PBDAC's overall loan portfolio and financial viability. PBDAC, with assistance from the project technical assistance contractor, will introduce an improved loan classification and information system early in the project. This system will be designed keeping project information needs in mind. Data compiled by PBDAC should include the number, type, size and purpose of loans, repayment rates, categories of loan recipients, etc.

   Analysis of PBDAC loan data will provide feedback on the extent to which the project is expanding lending to small farmers and private sector input suppliers. PBDAC will also establish indicators and collect data to measure qualitative improvements in the lending systems and extension services introduced in village banks. Finally, PBDAC input distribution statistics will provide an indication of PBDAC's declining role as major input supplier.

3. Project Records/Reports:

   Analysis of project records will primarily provide information to assess implementation progress, for example, the extent to which equipment procurement and training activities are proceeding smoothly and improved lending and extension systems have been implemented in village banks. All major parties to the implementation of the project - PBDAC, the TA contractor and USAID staff - will perform this kind of analysis and identify implementation bottlenecks as a part of routine project monitoring.

4. <u>Site Visits and Informal Interviews:</u>

These will be an important part of ongoing monitoring of both policy reforms and project activities.

At the policy level, in the course of regular field trips, USAID staff should informally interview local government officials, MOA and PBDAC staff, farmers, and input suppliers in rural areas, and visit local markets, to assess how effectively reforms are being implemented. Information obtained through these informal visits and interviews will be an important means of initial verification of actual implementation of reforms.

At the project level, site visits and informal interviews with PBDAC, village bank and TA personnel will provide feedback on PBDAC's utilization of technical assistance, commodity assistance and training, and on the implementation of improved loan procedures and extension approaches in village banks. PBDAC and USAID project management should both obtain this type of informal feedback on an ongoing basis.

5. <u>Special Evaluations:</u>

Special studies and surveys will be particularly important in assessing the impact of policy reforms on farmers and on expanding the role of the private sector in input distribution/marketing.

The specific list of special studies/surveys should be determined once the detailed design of the project has been completed and the policy reform agenda agreed upon. However, based on current understanding of the project design, a list of such studies at the "policy level" would include the following:

a. During the course of the project, rapid reconnaissance surveys will be used flexibly to verify that policy reforms announced at the national level are implemented and reaching farmers. These would supplement informal site visits and interviews, providing more systematic feedback on whether reforms are actually relaxing current constraints on farmers, and on short run effects on prices of agricultural inputs and outputs.

Timing of these studies will determined based on the implementation of actual reforms and the Mission's information needs regarding implementation of these reforms. Therefore, a flexible approach is essential.

b. A survey at the beginning of the project will develop a baseline set of "farmer profiles", documenting current access to credit, inputs and extension services, and major constraints to increasing production. The purpose of these profiles would be to improve understanding of factors influencing farmers' decisions and behavior. This will provide the baseline for follow-up surveys to identify the effects of reforms on farmers' access to various inputs and services, and on farmers' production and marketing decisions.

c. A baseline study will be conducted of the private sector's role in input distribution, and to the extent feasible, of the current magnitude of its involvement in this area. Towards the end of the project, a follow-up study should examine progress in privatizing input supply.

Baseline and follow-up studies/surveys will also be conducted in the areas served by village banks where improved financial and extension services and pilot activities to privatize input supply are to be introduced. These studies will include:

(1) A baseline and follow-up study to analyze the loan process in a sample of village banks and to assess improvements in that process resulting from improved lending systems introduced under the project. These studies would examine changes in the loan review process, processing time, collateral requirements, transaction costs, accounting, loan monitoring systems and controls, etc. The baseline study should document any significant changes between SFPP and new project areas.

(2) a baseline and follow-up survey of a sample of farmers to assess the extent to which improved financial systems introduced in village banks have increased access to credit and responsiveness to farmers' credit needs; and to assess the effectiveness of project extension interventions in improving diffusion of technology to farmers and in increasing production and yields.

(3) a study to assess the effectiveness of any pilot activities to privatize input supply, and specifically, to evaluate their effects on input availability, utilization and pricing.

(4) An evaluation of the governorate wide expansion of the SFDP program in Assiut to develop follow-up systems within the MOA and PBDAC for use as a model in other governorates. Particular attention should be paid to the maintenance of quality in the extension and credit systems.

6. MOA National Agricultural Statistics:

Tracking changes in production trends is likely to be a long-term effort extending beyond the time-frame of the immediate project. However, if major policy reforms are introduced relatively early in the project, it should be possible to measure at least short-term supply responses to these policy changes within a relatively short time-frame (one or two cropping seasons). One should, however, keep in mind that other, external factors - for example, prices in international commodity markets - are likely to have an important effect on domestic agricultural production.

National agricultural statistics compiled annually by the MOA will be analyzed by major crop, governorate, farm holding size, etc. to assess changes in agricultural production/productivity trends. Baseline data on recent trends should be compiled and analyzed at the beginning of the project. Data should be compiled annually thereafter, and analysis should focus on identifying supply responses to specific policy changes. Analysis of national-level data will be carried out by the MOA; ongoing efforts assisted by USAID through the Data Collection and Analysis project (263-0142) may also prove an important source of macro-level agricultural data. USAID will also monitor sectoral trends, with assistance from external consultants as appropriate.

Similar data will be analyzed for specific districts in which improved project financial and extension services and pilot input privatization efforts have been introduced, to assess the impact of these interventions. Analysis of data for specific project areas should be conducted by the PBDAC in conjunction with the MOA and the project technical assistance contractor.

C. Data Analysis and Review

There will be several mechanisms for reviewing and utilizing information collected through the above approaches:

1. Ongoing Policy Dialogue:

USAID is engaged in a high-level, continuing dialogue with the GOE, MOA and PBDAC regarding agricultural policy reforms. USAID will, as a part of its ongoing dialogue with the GOE, discuss important findings identified in the course of these studies regarding the implementation, effects and impacts of reforms, as well as solutions to problems identified through these studies.

2. Annual Performance Reviews:

USAID and high-level MOA and PBDAC officials, and representatives of other key Ministries involved in implementation of policy reforms (e.g. Finance and Supply), will hold annual reviews to measure progress against established performance criteria in the policy arena.

As each year's reform agenda is agreed on, USAID and the GOE will develop specific, objective criteria or "benchmarks" to measure its implementation. (USAID will obtain technical assistance from AID/W staff with prior experience in establishing similar policy reform monitoring plans in the first year of the project.) The annual reviews will provide a joint GOE/USAID forum to determine to what extent each year's criteria and benchmarks have been met, and whether disbursement of the next tranche of funds is justified by the preceding year's performance. These reviews could also provide a forum for agreeing on a reform agenda for the following year.

3. <u>Mid-term and final evaluations</u>:

If project implementation proceeds in a satisfactory manner, an early mid-term evaluation should be conducted in 1988. An end-of-project evaluation should be planned for 1991. The primary purpose of these evaluations will be to assess progress towards project-level objectives, i.e., strengthening PBDAC financial systems and improving credit, extension and input supply services to farmers. These evaluations will draw heavily on ongoing PBDAC data collection and analysis and special evaluation studies. A major emphasis of these evaluations will be the quality and utilization of technical assistance services. Ideally, these evaluations would be conducted by a "mixed" team including AID and GOE personnel and external consultants.

D. Implementation Arrangements

Certain monitoring and evaluation activities will be peformed by USAID, PBDAC, MOA and TA contract staff in the course of routine project implementation, without special arrangements or funding. For example, the technical assistance contractor and PBDAC will have responsibility for reviewing and improving PBDAC data collection and monitoring systems, and for modifying these systems as necessary to provide feedback on achievement of "project-level" objectives. However, the following activities will require special funding and implementation arrangements.

Surveys and special studies relating to both "policy" and "project" level activities will be conducted under an AID direct contract with an U.S. firm. This firm should have expertise in agricultural economics and rural finance, and experience in designing and managing research activities in developing countries, using a broad range of methodological approaches. This contract will be a "set-aside" for an "8-A" (Small Business Act) or minority-owned firm.

The U.S. evaluation contractor will need to work closely with a local research firm experienced in managing and implementing field data collection efforts. The evaluation contract will provide for a subcontract or joint venture arrangement with an appropriate local research institution. Evaluation of proposals from interested 8-A/minority firms should include an assessment of the local institutions with which these firms plan to collaborate.

The evaluation contractor will have responsibility for performing special studies and surveys relating to improvement of PBDAC financial services. Collaboration between the TA and evaluation contractors will be necessary for the successful execution of these studies.

Finally, the evaluation contract should have sufficient, built-in flexibility to meet changing information needs over the life of the project. (A "work-order" type approach is one possible way to provide both flexibility and continuity.)

The mid-term and final evaluations will be conducted by AID and GOE personnel and external consultants. These evaluation teams will comprise approximately three to four persons, including expertise in rural finance and agricultural credit, agricultural technology transfer, and privatization. Funds will be required for external consultants participating in these evaluations, whose services will be procured through AID/W IQCs or personal services contracts.

ILLUSTRATIVE EVALUATION FRAMEWORK AND QUESTIONS

I. POLICY REFORMS

A. Policy Implementation Questions	Means of Measurement	Who and When
1. Has a detailed plan for agricultural reform been completed? Does it address the key constraints to increasing agricultural production?	Review and Analysis of GOE agricultural policy reform package.	USAID PPP/E & AGR/A staff. Prior to first disbursement of credit funds.
2. Have appropriate organizational arrangements been established for implementing and monitoring reforms?	Analysis of institutional structures and procedural arrangements for reforms.	USAID PPP/E & AGR/A staff. Early in the project.
3. Is implementation of the reform plan on schedule? Is the GOE adequately meeting criteria established for disbursements?	Analysis of GOE announcements, decrees, prices etc. related to implementation of reform plan.	MOA, USAID PPP/E and AGR/A staff. Annual Performance Reviews.
4. Is implementation of reforms effective in freeing farmers from production and marketing controls? What evidence is there of progress in the following areas*? (a) decontrol of agricultural input prices (b) diversification of input supply sources (c) removal of input supply quotas (d) provision of unsupervised, cash credit (e) deregulation of cropping patterns and quotas (f) decontrol of farmgate prices (g) removal of restrictions on crop marketing (h) removal of restrictions on input imports (i) removal of restrictions on exports of agricultural products	Field trips to verify implementation of reforms at the governorate and local level, based on interviews of local government and MOA/PBDAC officials, input dealers, and farmers. Rapid reconnaissance-type surveys to assess how farmers and private sector input dealers are affected by implementation of reforms.	MOA, USAID/PPP/E and AGR/A staff. After specific reforms introduced. Annual Performance Reviews. Evaluation contractor. To be determined, based on final reform agenda.

* This listing should be modified to reflect the final list of reforms incorporated in the

B. Policy Impact Questions

Policy Impact Questions	Means of Measurement	Who and When
1. What has been the impact of policy reforms on farmers' access to inputs? To what extent have reforms contributed to an expanded private sector role in input distribution? Is the GOE facilitating this role? How have input imports and prices been affected by policy changes?	Farmer surveys to assess sources, prices and level of access to inputs, and, periodic special studies to analyze trends in PBDAC and private sector participation in input distribution; Analysis of balance of trade data on input imports and trends in input prices.	Baseline survey/ study at beginning of project. One or two studies later in the project after implementation of reforms. USAID/PPP/E and AGR/ACE staff, after reforms to deregulate input supply.
2. How have policy reforms affected farmgate prices for major crops? How are prices established? To what extent do prices provide adequate incentives to increase production?	Field trips to rural markets to document and to analyze farm pricing trends; MOA price data; farmer Surveys to assess adequacy of price incentives. price reforms.	MOA and USAID staff; evaluation contractor. After implementation of specific marketing reforms.
3. Have policy reforms contributed to an increase in aggregate agricultural production? How has production of the various major crops been affected by these reforms? Which reforms appear to have been most effective/ineffective in stimulating production? Are there any significant regional variations in the impact of reforms on production? o resulting changes in production patterns reflect the comparative advantage in Egyptian agriculture?	Analysis of MOA data to assess production trends by major crop and by governorate, as well as supply response to specific reforms. Cost benefit analysis for production of major crops following policy reforms.	MOA and USAID staff. Additional consultants as necessary. Existing MOA data as baseline. Annual analyses after implementation of reforms.

Policy Impact Questions (Contd.)	Means of Measurement	Who and When
4. How have agricultural productivity and yields been affected by policy changes? What variations, if any, are there in changes in productivity by region and size of farm holding? What are the major factors explaining these variations?	Analysis of MOA data on production and yields by major crop/governorate and farm size. Farmer surveys to supplement MOA data as needed.	MOA and USAID staff. Additional consultants as appropriate. Existing data as baseline. Annual analyses of MOA data.
5. What has been the impact of agricultural policy reforms on rural incomes? To what extent have changes in incomes varied by region, by size of land holding or by employment category? What are the major reasons for these variations?	Farmer Surveys; secondary analyses of survey data	Evaluation contractor; baseline and end-of-project.
6. What are the remaining constraints to increasing agricultural production? How can these best be addressed?	Secondary analysis of farmer survey and production data.	USAID and evaluation contrator; towards ends of project.

II. PROJECT INTERVENTIONS

A. Project Implementation Questions

1. Is the GOE providing local currency funds for the expansion of agricultural credit, equivalent to USAID cash disbursements? Are these funds being provided in a timely and adequate manner? If not, why not? Is demand for loans keeping up with expansion of the supply of credit?	PBDAC financial records. Interviews with PBDAC officials. Analysis of PBDAC loan data.	PB&DAC and AGR/ACE, after USAID disbursements. Mid-project evaluation team.
2. Is TA in place? Is TA expertise appropriate? Have GOE counterparts been identified? Is TA being utilized so it is able to impact on PBDAC's overall operations? How can TA effectiveness be improved?	Project records. Interviews with PBDAC and TA personnel.	PBDAC and AGR/ACE, Early in project. Mid-project evaluation team.

Referenced Documents

Bremer, Jennifer. "Privatization of Agricultural Input Supply Constraints and Opportunities for Reform." USAID/AGR, Cairo, 1986.

Deschamps, Jean Jacques. "Analysis of the Credit and Institutional Aspects of the Agricultural Production Credit Project." USAID/AGR, Cairo, 1986.

Edwards, Ralph J. "Technology Transfer Aspects for Design of the Agricultural Production Credit Project." USAID/AGR, Cairo, 1986.

Lieberson, Joseph M., et.al. "A Synthesis of AID Experience, Small-Farmer Credit, 1973-1985." AID/W, 1985.

Newberg, Richard, et.al. "Evaluation Report On the Small Farmer Production Project, AID Grant No. 263-0079." USAID/AGR, Cairo, 1985.

USAID. "Economic Trends Report: Egypt; December 1985." American Embassy, Cairo, 1985.

USAID. "Final Concept Paper - Agricultural Production Credit" - American Embassy, USAID/AGR/ACE, Cairo, 4/8/86.

USAID. PES "Project Evaluation Summary, Small Farmer Production Project",263-0079, American Embassy, USAID/AGR/ACE, Cairo, 10/85.

USAID. Project Identification Document (PID), Agricultural Production and Credit, 263-0202, American Embassy, USAID/AGR/ACE, Cairo, 6/86.

Project Implementation Questions (Contd.)	Means of Measurement	Who and When
3. Is commodity procurement on schedule? Is the technology procured (particularly in the case of computer equipment) appropriate to project objectives and to availability of operations/maintenance personnel? Are installation plans adequate? Are adequate numbers/types of personnel being trained in equipment utilization?	Project records. Informal site visits and interviews with PBDAC and TA personnel	PBDAC and AGR/ACE early in project. Mid-project evaluation team.
4. Are training activities on schedule? Are appropriate numbers, levels and types of PBDAC staff being trained?	Project records; informal interviews with TA personnel,	PBDAC and AGR/ACE staff, early in project. Mid-project evaluation team.
Is the training appropriate to project objectives? Are trainees able to apply the skills acquired on completion of training?	PBDAC trainers and trainees; training observation; follow-up study of trainees.	Evaluation contractor; towards end of project.
5. Has implementation of improved lending systems been implemented in the targeted number of village banks? If not, why not? Are interest rates charged economically and financially viable? Are loan procedures, processing time, collateral requirements, transaction costs and repayment rates satisfactory?	Project and PBDAC Records. Site visits, observation and informal interviews. Special study of sample of PDAC village banks.	PBDAC and AGR/ACE staff, Ongoing. Mid-project evaluation. Evaluation contractor, After new loan systems are implemented
6. How extensively has the project implemented improved technology transfer systems? Have extension teams been established in the targeted number of village banks? Are they functioning effectively? Does the approach adopted by bank extension teams provide adequate flexibility to farmers to adapt technological packages to their own needs?	Project records. Site visits and informal interviews.	PBDAC, TA and AGR/ACE staff, ongoing. Mid-project evaluation team.

Project Implementation Questions (Contd.)	Means of Measurement	Who and When
7. What steps are being taken by PBDAC to diminish its role in input distribution? To facilitate the expansion of the private sector in this area? Is PBDAC providing credit to private sector dealers?	PBDAC input distribution and loan records. Site visits and informal interviews with private sector dealers.	AGR/ACE staff. Annual analyses of PBDAC data.
B. Project Impact Questions		
1. To what extent has the project contributed to the development of PBDAC as a financial institution? Have project inputs been effectively utilized to strengthen the viability of PBDAC financial operations?	Analysis of PBDAC annual financial reports. Interviews with key PBDAC officials.	Mid-Project and final evaluation-teams.
2. Has the overall PBDAC loan portfolio changed as a result of the project? What has been the trend in the number, type, and duration of loans? In the crops and activities for which credit is used? Is credit provided in cash or kind? Supervised or unsupervised?	Analysis of PBDAC loan data from MIS system.	PBDAC and AGR/ACE staff, annually. Mid term and final evaluation teams.

Project Impact Questions (Contd.)	Means of Measurement	Who and When
3. To what extent has the project served to improve financial services and access to credit for farmers? Has the number and share of loans to small farmers and rural entrepreneurs increased as a result of the project? If so, what aspects of the project have contributed the most to expanding access to credit?	Analysis of PBDAC loan data; farmer surveys; secondary analysis of survey data.	PBDAC and AGR/ACE staff, annually; Evaluation contractor; baseline and end of project; mid-term and final evaluation teams.
4. To what extent have project activities contributed to the expansion of private sector input distribution and marketing? Is there any evidence of increased private sector activity in this area? If so, how has this affected the availability and price of inputs to farmers?	Analysis of PBDAC input distribution records; special studies of private dealers; farmer surveys.	PBDAC and AGR/ACE, annually. Baseline and end-of project studies and surveys by evaluation contractor.
5. How effective has the project been in diffusing new technologies to farmers? How extensively have improved extension systems have project technology transfer activities contributed to increased production/productivity?	Project MOA Records; Farmer surveys in project areas.	AGR/ACE and PBDAC, annually. Evaluation Contractor, baseline and end of project.

AGR

APCP TRAINING

Training under APCP will be administered by the PBDAC Training Department, which may also contract with private firms (i.e., IBM), educational centers (American University of Cairo), or managment training centers (CAMD). The Project will contract with the MOA Training Department for training of extension agents, veterinarians, and MOA district and governorate supervisors to ensure that courses developed are accessible to MOA departments not participating directly in the project. This approach will allow broad access to other organizations working in the training field as well as building additional expertise in course development and management.

1. PBDAC Training

a. The Need for Training at PBDAC.

The PBDAC system includes 34,000 employees. Many have been working at the Bank for 20 years or more, but most were added when the bank took over the cooperative-run input distribution system ten years ago. Most departments appear to be overstaffed and/or underutilized. While many are underemployed, others carry a full load and keep the organization functioning. Laborious manual accounting systems occupy many employees. At the village bank level, managers spend a lot of time checking employees' work. In some cases, a single document will go to the manager for his signature ten times. To increase bank efficiency at the village bank level, SFPP has developed and tested systems of loan analysis and approval, loan classification and quality control, and accounting procedures. As the program expands in the project area, extensive training will be needed to institutionalize and integrate these systems in the village banks. Additional training will be needed for governorate and district bank personnel who supervise village banks to ensure proper implementation of procedures and techniques.

APCP will also work in new areas i.e., personnel management as well as at different levels, i.e. modernizing and computerizing accounting in the governorates and Cairo. As more efficient procedures are introduced, employees will need to be trained in new systems and retrained to work in other areas. While new work will be created at the headquarters, governorate and district levels, most new positions will be created at the village bank, e.g., financial analysts. The Personnel, Planning and Training Departments will closely coordinate their efforts to train and reassign personnel.

SFPP has demonstrated the limitations of systems development and one-to-one training without a program to educate Bank personnel in modern banking systems and methods of financial analysis. For the long range development of PBDAC, bank officers will need introduction to modern management methods and employees will need additional education to complement practical training. This should increase the effectiveness of the technical assistance team and complement on the job training.

b. The PBDAC Training Department.

The Training Department at PBDAC is quite active in developing courses held in Cairo and governorate banks, as well as sending trainees to courses held by other organizations, in Egypt and overseas. In addition, the Training Department hosts short programs for overseas visitors, i.e. Yemen and programs for Egyptian university students. For the current 85/86 fiscal year, their budget for centrally funded programs is LE 39,000: LE 24,000 for training, teaching, and exam supervision and LE 15,000 for out-of-country training. In addition, each governorate has its own training budget. During the first half of the fiscal year 85/86, the Training Department held courses for 114 employees and 28 visiting non-Egyptians and conducted courses jointly with the governorates for 205 people. In addition, eight governorates had training programs for a total of 1,629 persons. Another 103 employees were sent to courses outside the Bank given by GOE management training organizations without charge.

The current department manager took over in Spring of 1984. At that time the department was barely functioning. Employees spent most of their time drinking tea, shopping in nearby downtown Cairo or even dressmaking. As part of a major reorganization, he introduced job descriptions, monthly evaluations, a training plan, and annual evalutation of training and needs. Training rooms exist in 10 governorates and the bank has 3 training centers. In most governorates, the Bank can also use facilities belonging to other organizations. SFPP provided funds a training room and equipment in PBDAC and three governorates. The Department has taken care of equipment provided and used it extensively.

The new Bank Chairman strongly supports training and has presented his views to the Governorate Bank chairmen on several occasions. The Training Department makes its annual training plan after meetings with senior governorate level officials; however, governorate chairmen vary widely in their commitment to training. The department manager reports that a few governorate chairmen view training as a waste of time and rarely spend funds budgeted. The number of governorates giving training courses has steadily increased since 1984, but work remains to be done in getting serious commitment to training in all governorates associated with APCP.

Courses offered address a wide range of Bank needs from orientation for new employees and village bank managers to pest control for storage workers, but an overall needs assessment both in terms of bank strategy and employee needs has not been developed. Current courses related to banking and management provide a general introduction to basic concepts, but do not form a coherent core curriculum needed for staff development. For example, standard procedures such as internal rate of return (IRR) are covered with case studies in an afternoon. APCP training can build on these introductory courses to develop in-depth knowledge related to work requirements and new systems. Under APCP, an organizational and management assessment of all levels of the PBDAC system should be made and programs designed to meet training needs.

The Training Department, SFPP and other contractors have had a number of difficulties ensuring that appropriate and capable candidates are selected for training. The PBDAC Department relies on branches, governorates and departments for selection of candidates, although they review recommendations. This review process has uncovered a number of problems. For example, English language applicants included employees who wanted to help their children with school work, but had no need for English in their jobs. Aware that supervisors often send underutilized personnel rather than the most capable, the training department sometimes carefully screens nominees. But in the case of their course for trainers, there was no assurance that the trainers would be released from their regular jobs when needed. SFPP has made a serious effort to get and train capable people for their financial analyst positions, but found that governorate administrators were very reluctant to release these people to work full time for the project. These examples illustrate the difficulty of selecting capable candidates who will be in a position to use what they have learned.

A thorough management and needs assesment of the PBDAC system should overcome a number of these problems. If management is seriously involved, they will become familiar with the process, communicate their needs to the training department more effectively and be more critical in their evaluation of training effectiveness. If training were viewed as really useful for improving the efficiency and skills of employees, supervisors would be more willing to release "key personnel". Having worked closely with training and project staff in developing training programs, managers would also be better able to choose appropriate personnel.

Training under APCP must utilize practical courses to develop management and technical skills as well as broader MBA type courses to create a core of well trained, knowledgeable professional employees. Middle management training should be concentrated on "key people", rather than the shotgun approach currently used. Courses should focus on those middle and junior managers who have demonstrated ability and will be moving up to positions of leadership in years to come.

The project will assist the Training Department in development of their own personnel through additional training both in Egypt and overseas. Long term training is not required as a number of organizations specialized in training already exist; however, the Training Department staff needs further training in order to work productively with these organizations. Although the Training Department has adopted some new techniques, courses designed by the department often rely on lectures. Training in APCP systems will require Bank officials to learn new systems and the underlying rational and to demonstrate their ability to analyze loan applications and follow the correct procedures before returning to their banks. Thus the traditional lecture/test system will be inadequate and a variety of teaching techniques must be used. Thus some short-term training overseas may be appropriate for Training Department personnel. Technical assistance will be provided to the Department to assist with development of an overall training plan and provide additional expertise in course management and development.

c. Concepts for APCP Training

(1) Top Management. The purpose of this training should be to:

a. improve management skills.

b. provide an overview of modern management systems and sufficient knowledge to work productively with the technical assistance team and mid-level professionals who have received in-depth training.

c. introduce new techniques and how they can improve bank efficiency.

Management training can be held both in country and in the U.S., depending upon language capability. A number of top managers have already participated general management training at the USAID/MOA Center for Agricultural Management Development at the Barrages and in a VIP observation tour of Agricultural Cooperative Development International (ACDI) US member banks. Training courses will utilize both local training resources and overseas training where necessary or appropriate. Examples of appropriate overseas training include Harvard's program for international managers, World Bank courses, short courses with the Asian Management Institute (the Philippines), and participant training courses that focus on the relationship of farm credit banks and agribusinesses.

(2) Middle Management. The purpose is to develop a core of professional managers with both expertise in systems developed under SFPP and APCP and in-depth knowledge about the theory behind these systems. U.S. long term training does not appear necessary since term training can be carried out in Egypt using the faculties of local universities on a part-time basis. Junior managers should be encouraged to get their MBAs. In addition, middle management will need thorough training in SFPP and newly developed APCP systems. U.S training might be appropriate for very promising middle managers.

(3) Other employees (Accountants, Financial Analysts, etc.) These people will need phased training depending on their specialties. Some easily identifiable areas are new loan processing procedures, accounting systems, information management systems, and computer software training. At the village bank level, joint training will be needed with extension agents and other members of the village bank team to ensure coordination and cooperation to make the project a sucess.

Training in SFPP systems will proceed fairly rapidly as SFPP personnel, USAID and the PBDAC work out how these should be integrated into the PBDAC system. If these can be incorporated in training plans currently being developed, training courses for governorate, district, and village bank staff can be used without extensive modification. PBDAC and SFPP have already begun training for the expansion of SFPP by PBDAC. Further testing and modification will be carried our during the next year as additional village banks are added in the PBDAC program and as SFPP expands governorate wide in Assuit. By June 1987, a number of training courses will be 'ready to go'.

The management and training needs assessment can be developed concurrently. In the course of training personnel to use SFPP systems at the governorate, district and village bank level, project and training department personnel can assess additional training needs of these line employees. Other members of the technical assistance team working in specialized areas, i.e. business loan analysis will work with management and training to develop programs for particular departments. Development of effective programs for several departments of the Bank should "sell" this type of program to managers.

2. MOA Training.

a. Relationship between Extension and Project Purpose

Increase in agricultural production is the major purpose of the project. Changes in the policy enviroment are expected to correct serious distortions in the economy and motivate both farmers and businessmen to invest in agriculture. In addition, farmers will need new technology to increase production to take full advantage of the policy changes. New technology creates a need for credit for investments such as land leveling, irrigation equipment and farm machinery. Increased production can also create opportunities in processing and marketing. Technical packages to increase production exist, but weaknesses in the extension system have slowed dissemination. Thus improved extension services play an important role in achieving project goals and creating a demand for credit.

b. Need for Training of MOA Personnel.

The primary group to be trained under APCP are extension workers and their supervisors who are critical for transfer of new technology to achieve higher production at the farm level. The need for training of extension workers has been a key recommendation in various reports starting with Recommendations for a Agricultural Extension Program in Egypt (1981), followed by Strategies for Accelerating Agricultural Development (1982) and most recently Increasing Egyptian Agricultural Production through Strengthened Research and Extension Programs (1984).

The extension service in Egypt has traditionally not played a purely educational role. Its primary function has been to provide non-extension services such as pest control, data collection, input delivery and machinery scheduling. In addition, regulatory functions regarding cropping patterns, quotas, and agrarian reform laws have taken a major part of employees' time. In March 1985, a Ministerial Decree separated the regulatory and educational functions. Because of decentralization at the governorate level, this Decree has not been uniformly implemented and some governorate level extension services continue to perform multiple functions.

As a result of this mixed role, most extension agents are technically out-of-date and used to relying on laws and regulations in dealing with farmers. SFPP has been successful in training extension workers to communicate effectively with farmers and to utilize technical crop packages provided by Subject Matter Specialists (SMS). Extension workers become familiar with new crop budgets, increased production, and improved rates of return to use in selling the package to farmers. In addition, extension workers are taught appropriate methods to encourage farmers to form block farms in order to use new technologies with maximum efficiency and the least cost. The training program for extension workers includes an orientation in methods as well as introduction to the crop package. To develop extension agents technical skills and provide feedback to the SMS, weekly or biweekly meetings are held to discuss problems encountered in the field. This approach combines for continuous improvement of extension workers' technical skills. Veterinarians have also been similarly trained in work methods as well as specialized areas, particularly poultry.

This program complements that of village bank offícals who learn basics of cash flow analysis and new credit criteria necessary for lending to small farmers. Working with information provided by extension workers about the new crop packages and expected increased income, village bank officials can better respond to the credit needs of farmers. Some training will also be carried out so that village bank, extension workers, the veterinarian and other relevant officals can work effectively together as a team. It is important to note that extension agents do not participate in the loan application procedure or the collection process.

SFPP has worked with different levels of the MOA in each governorate. Under APCP, the project will work with both governorate and district level staff to ensure local follow-up and management. This will necessitate training for personnel at those levels.

c. The MOA Training Department

The MOA Training Department is well equipped and has a well trained staff as a result of the World Bank Third Edcuation project. There are training centers in governorates and classroom facilities in all governorates. In addition, the central office has classrooms, an area for teaching equipment maintenance and repair, a language laboratory and library. Many staff members have received training aboard, principally in the US, Hungary and England. They are familiar with current techniques and are experienced in training trainers.

The MOA is the second largest GOE Ministry with 130,000 employees. The training department works with individual departments to develop training plans within its budget. In addition, departments with additional funds available may contract for special courses.

d. MOA Training under APCP

The purpose of training will assist in the development of a purely educational extension service within the MOA, particularly at the governorate, district and local levels.

(1) Top and Middle Management. The purpose of training at this level will be to
-educate management about a more appropriate role for extension agents and the necessary support systems, ie. subject matter specialists, follow-up personnel,
-inform managment about APCP program.
-improve management and supervisory skills as necessary.

(2) Extension Agents and Veterinarians.

The purpose of training will be to provide extension workers with
-new methods for working with farmers,
-technical information about new farming techniques.
-training in use of crop budgeting and farm plans.

(3) Subject Matter Specialists

The purpose of this training will be to

- increase the number of subject matter specialists using GOE technical experts.
-increase the areas of expertise covered by SMS's.

Subject matter specialists will improve their ability to

- train extension workers in technical crop packages and appropriate extension methods,
- utilize feedback from extension workers to modify and develop technical packages for local conditions.
- work with mass media personnel to develop educational programs for use by extension workers and in national mass media.

APCP: ILLUSTRATIVE TRAINING PLAN

Trainees	Year 1 # Trainees New	Year 1 # Trainees Old	Year 1 Days/Year	Year 1 Cost/Year	Year 2 # Trainees New	Year 2 # Trainees Old	Year 2 Days/Year	Year 2 Cost/Year	Year 3 # Trainees New	Year 3 # Trainees Old	Year 3 Days/Year	Year 3 Cost/Year	Year 4 # Trainees New	Year 4 # Trainees Old	Year 4 Days/Year	Year 4 Cost/Year	Year 5 # Trainees New	Year 5 # Trainees Old	Year 5 Days/Year	Year 5 Cost/Year	Total # Trainees	Total # Days	Cost/Day (4)	Total Cost	Suggested Funding
$ Cost																									
Overseas:																									
Business Observation Tour	10		15	45,000	10		15	45,000													20	300	$300	$90,000	
Top Management (1)	3		50	37,500	3		50	37,500	3		50	37,500	3		50	37,500	3		50	37,500	15	750	$250	$187,500	
Middle Management (2)	10		45	90,000	10		45	90,000	10		45	90,000	10		45	90,000	10		45	90,000	50	2,250	$200	$450,000	
$ Subtotal				$172,500				$172,500				$127,500				$127,500				$127,500	85	3,300		$727,500	$725,000
LE Cost																									
PBDAC:																									
Top Management (1)	45		12	24,300	45		12	24,300	45		12	24,300	45		12	24,300	45		12	24,300	45	2,400	45 LE	108,000	
Middle Management (2)																									
General Development	50	15	12	15,600	100	65	12	39,600	150	165	12	75,600	175	315	12	117,600	175	490	12	159,600	665	20,400	20 LE	408,000	
APCP Systems Training	50	15	12	15,600	100	65	12	39,600	150	165	12	75,600	175	315	12	117,600	175	490	12	159,600	665	20,400	20 LE	408,000	
MBA Type Courses	50		96	48,000	100		96	96,000	150		96	144,000	150		96	144,000	150		96	144,000	600	57,600	10 LE	576,000	
			2 hr/d				2 h				2 h				2 h				2 h						
Subtotal				79,200				175,200				295,200				379,200				463,200	1,930	98,400			
Village Banks/Year	50	72			50	122			50	172			75	222			75	297			372				
Village Bank (3)																									
Village Bank Managers	50	72	12	29,230	50	122	12	41,280	50	172	12	53,280	75	222	12	71,280	75	297	12	89,280	372				
Financial Analysts	300	72	12	89,250	300	372	12	161,280	300	672	12	233,280	300	972	12	305,280	300	1,272	12	377,280	1,572				
Accountants	100	72	12	41,280	100	172	12	65,280	100	272	12	89,280	150	372	12	125,280	150	522	12	161,280	672				
	450	216	12	159,640	450	666	12	257,340	450	1,115	12	375,840	525	1,566	12	501,840	525	2,091	12	627,840	2,616	96,660	20 LE	1,933,200	
LE Subtotal				263,340				467,340				695,340				905,340				1,115,349	4,591	197,460	LE	3,433,200	
MOA:																									
Top Management (4)	49		6	13,230	49		6	13,230	49		6	13,230	49		6	13,230	49		6	13,230	49	2,940	45	66,150	
Middle Management (5)	122	144	6 24	74,520	122	244	6 24	98,370	122	344	6 24	122,320	172	444	6 24	163,320	172	594	6 24	199,320	766	59,520	15 10	659,100	
Extension agents (6)	500	720	6 24	337,900	500	1,220	6 24	457,800	500	1,720	6 24	577,800	750	2,220	6 24	780,300	750	2,970	6 24	960,300	3,720	284,400	15 10	3,114,000	
Veterinarian (7)	50	50	6 24	28,500	50	50	6 24	28,500	50	50	6 24	28,500	75	75	6 24	42,750	75	75	6 24	42,750	372	14,400	15 10	171,000	
				454,350				592,350			78	742,350			76	999,600				1,215,600	4,907	361,260	LE	4,010,250	
Total # Trainees & Days																					9,498	558,720			
Total LE Cost				717,690				1,065,690				1,437,690				1,904,940				2,330,940			LE	7,443,450	7,445,000
# LE1 = $1.35				$531,622				$759,400				$1,064,956				$1,411,067				$1,726,622				$5,513,567	$5,515,000
Total Cost in $				$704,122				$951,900				$1,192,456				$1,538,567				$1,854,122				$6,241,167	$6,240,000
Inflation Adjustments:																									
Total $				$172,500				$172,500				$127,500				$127,500				$127,500				$727,500	$725,000
with 5% Inflation				$181,125				$181,125				$133,875				$133,875				$133,875				$763,875	$765,000
Total LE Cost				717,690				1,065,690				1,437,690				1,904,940				2,330,940			LE	7,443,450	
with 17% Inflation				839,697				1,246,857				1,682,097				2,228,780				2,727,200			LE	8,708,837	
# LE 1 = $1.35				$621,959				$923,538				$1,245,998				$1,650,948				$2,020,148				$6,450,990	$6,450,000

Diskette Name: PBDACIII, File Name: Training, Date: 04/21/86

APCP: ILLUSTRATIVE TRAINING PLAN

Trainees	Year 1 # Trainees New	Year 1 # Trainees Old	Year 1 Days/Year	Year 1 Cost/Year	Year 2 # Trainees New	Year 2 # Trainees Old	Year 2 Days/Year	Year 2 Cost/Year	Year 3 # Trainees New	Year 3 # Trainees Old	Year 3 Days/Year	Year 3 Cost/Year	Year 4 # Trainees New	Year 4 # Trainees Old	Year 4 Days/Year	Year 4 Cost/Year	Year 5 # Trainees New	Year 5 # Trainees Old	Year 5 Days/Year	Year 5 Cost/Year	Total # Trainees	Total # Days	Cost/Day (4)	Total Cost	Suggested Funding
$ Cost																									
Overseas:																									
Business Observation Tour	10		15	45,000	10		15	45,000													20	300	$300	$90,000	
Top Management (1)	3		50	37,500	3		50	37,500	3		50	37,500	3		50	37,500	3		50	37,500	15	750	$250	$187,500	
Middle Management (2)	10		45	90,000	10		45	90,000	10		45	90,000	10		45	90,000	10		45	90,000	50	2,250	$200	$450,000	
$ Subtotal				$172,500				$172,500				$127,500				$127,500				$127,500	85	3,300		$727,500	$725,000
LE Cost																									
PBDAC:																									
Top Management (1)	45		12	24,300	45		12	24,300	45		12	24,300	45		12	24,300	45		12	24,300	45	2,400	45 LE	108,000	
Middle Management (2)																									
General Development	50	15	12	15,600	100	65	12	39,600	150	165	12	75,600	175	315	12	117,600	175	490	12	159,600	665	20,400	20 LE	408,000	
APCP Systems Training	50	15	12	15,600	100	65	12	39,600	150	165	12	75,600	175	315	12	117,600	175	490	12	159,600	665	20,400	20 LE	408,000	
MBA Type Courses	50		96	48,000	100		96	96,000	150		96	144,000	150		96	144,000	150		96	144,000	600	57,600	10 LE	576,000	
			2 hr/d				2 h				2 h				2 h				2 h						
Subtotal				79,200				175,200				295,200				379,200				463,200	1,930	98,400			
Village Banks/Year	50	72			50	122			50	172			75	222			75	297			372				
Village Bank (3)																									
Village Bank Managers	50	72	12	29,230	50	122	12	41,280	50	172	12	53,280	75	222	12	71,280	75	297	12	89,280	372				
Financial Analysts	300	72	12	89,250	300	372	12	161,230	300	672	12	233,230	300	972	12	305,280	300	1,272	12	377,280	1,572				
Accountants	100	72	12	41,290	100	172	12	65,280	100	272	12	89,280	150	372	12	125,280	150	522	12	161,280	672				
	450	216	12	159,640	450	666	12	267,340	450	1,116	12	375,240	525	1,566	12	501,840	525	2,091	12	627,840	2,616	96,660	20 LE	1,933,200	
LE Subtotal				262,340				467,340				695,340				905,340				1,115,340	4,591	197,460	LE	3,433,200	
HDA:																									
Top Management (4)	49		6	13,230	49		6	13,230	49		6	13,230	49		6	13,230	49		6	13,230	49	2,940	45	66,150	
Middle Management (5)	122	144	6 24	74,320	122	244	6 24	98,320	122	344	6 24	122,320	172	444	6 24	163,320	172	594	6 24	199,320	766	59,520	15 10	659,190	
Extension agents (6)	500	720	6 24	337,900	500	1,220	6 24	457,200	500	1,720	6 24	577,800	750	2,220	6 24	780,300	750	2,970	6 24	960,300	3,720	284,400	15 10	3,114,000	
Veterinarian (7)	50	50	6 24	28,500	50	50	6 24	28,500	50	50	6 24	28,500	75	75	6 24	42,750	75	75	6 24	42,750	372	14,400	15 10	171,000	
				454,350				593,350																	
Total # Trainees & Days											78	742,350			78	999,600				1,215,600	4,907	361,260	LE	4,010,250	
Total LE Cost				717,690				1,063,690				1,437,690				1,904,940				2,330,940	9,498	558,720	LE	7,443,450	7,445,000
@ LE1 = $1.35				$531,622				$789,400				$1,064,956				$1,411,067				$1,726,622				$5,513,667	$5,515,000
Total Cost in $				$704,122				$961,900				$1,192,456				$1,538,567				$1,854,122				$6,241,167	$6,240,000
Inflation Adjustments:																									
Total $				$172,500				$172,500				$127,500				$127,500				$127,500				$727,500	$725,000
with 5% Inflation				$181,125				$181,125				$133,875				$133,875				$133,875				$763,875	$765,000
Total LE Cost				717,690				1,063,690				1,437,690				1,904,940				2,330,940			LE	7,443,450	
with 17% Inflation				839,697				1,244,257				1,682,097				2,228,790				2,727,200			LE	8,708,837	
@LE 1 = $1.35				$621,998				$921,598				$1,245,998				$1,650,949				$2,020,148				$6,450,990	$6,450,000

Diskette Name: PBDACIII, File Name: Training, Date: 04/21/86

APCP: ILLUSTRATIVE TRAINING PLAN

Total Inflation Adjusted Cost in $	$803,123	$1,104,723	$1,379,873	$1,784,823	$2,154,023	$7,214,865	$7,215,000

(1) Bank Top Management training would include both local and overseas management seminars, participant training and introduction to APCP systems.
Funds provided are sufficient for a mix of seminars and short term participant training trips.
Local course are for 2 managers for 17 governorates plus PBDAC managers.

(2) Bank Middle Management courses are for promising candidates to develop both specific areas of expertise as well as general management capability.
Local courses will be both in specific systems developed during APCP and in MBA level courses in specific areas.
This group will include Village Bank Managers and mid-level managers in Branch Banks, BDACS, and the PBDAC.

(3) Village Bank personnel included will be Managers, Financial Analysts (5/bank), and Accountants (2/bank).
Material covered will be systems developed for the Village Bank under APCP.
Training Budget allows funds for additional training (12 days/year) for Village Bank employees admitted the previous years.

(4) MOA Top Management training includes management training, planning seminars, etc.
This group includes NES, research institutions and top governorate extension/agriculture sector positions.
Based on 11 governorates (4 people each) plus 5 (PBDAC, NES, ARC)

(5) MOA middle management training is for district and governorate mid-level staff.
Based 11 Governorates (2 ea) and District level (2 Follow-up per VB)
Based on 6 full days per year plus 18 half days, total: 15

(6) Extension agents. Based on end of project status of an average of 10 per VB, 1/400 feddans.
This would allow them 1 day/100 feddans with and extra day for paper work, training, etc.

(7) Veterinarians. Based on 1 per Village Bank

(8) Costs include:
(a) Overseas: Tuition, per diem, and transportation.
(b) Local (except MBA type courses): Trainers, Material Preparation, Materials, Food & Snacks, Per Diem & Transportation Allowance
(c) MBA type courses were calculated for 2 semesters at LE 600 each with LE 100 for books and materials.
(d) MOA training for middle management, extension agents, and veterinarians is based on 6 days @ LE 15/day and 48 half days @ LE 10 ea.
Training courses for MOA middle management, extension agents, and veterinarians will be conducted in the governorates.

87