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Midterm Evaluation
of the
USAID/Egypt Agricultural Production and Credit Project
(APCP - 263-0202)

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Presented to USAID/Egypt
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DATEX INC

MIDTERM EVALUATION

OF THE

AGRICULTURAL PRODUCTION AND CREDIT PROJECT
EGYPT (263-0202)

submitted by

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Prepared by:

Lehman B. Fletcher
Team Leader and Agricultural Economist

John D. Hyslop
Agricultural Economist

Arthur C. Buffington
Senior Banking Specialist

Mohamed Farid Khafagy, Farm Related Business Specialist, PBDAC

Tubba Ibrahim Tubba, Credit Specialist, PBDAC

Ali Kamel, Program Specialist, USAID/AGR/ACE

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The authors accept full responsibility for their interpretations and conclusions, some of which may not coincide with those of participants from the GOE, MALR, PBDAC and USAID. Our recommendations reflect our interpretations and best judgements.

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EXECUTIVE SUMMARY

The Midterm Evaluation of the Agricultural Production and Credit Project (APCP) was conducted by a six-member team during May 15-June 20, 1991. The team reviewed project documentation, interviewed participants and Government of Egypt (GOE) officials, and visited the Giza, Qalubeyia, and Dakahlia Governorates. An initial draft report was submitted on June 13. After receiving comments, the team revised the report and submitted a final draft on June 20 for further review. The final version of the report was prepared after receiving comments from USAID on the final draft.

The APCP consists of two major components: program assistance conditional on agricultural policy reform and project assistance to strengthen the Principal Bank for Development and Agricultural Credit (PBDAC). The complementary relationship between the two components is one of the most notable aspects of the APCP and one that is applicable to other assistance programs, sectors and countries.

The policy reforms are freeing farmers from area controls and output quotas, liberalizing prices, and reducing input and credit subsidies. The institutional strengthening component is designed to promote a new concept of agricultural credit in Egypt: unsubsidized cash lending to farmers using enterprise budgets which are based on improved technology packages. Increased lending is anticipated due to reductions in input subsidies, expanded use of inputs, and increased investments in private sector agribusiness industries.

The PBDAC has a key role in the entire project. It receives increases in its capitalization in amounts equivalent to the disbursements of program assistance. Since the latter take place in tranches based on completion of policy reform benchmarks, the PBDAC has strong incentives to advocate for the reforms within the GOE. It is also expected to reorient and expand its credit operations. The policy decision to encourage private sector input distribution means that the PBDAC must divest itself of activities that account for a major share of its earnings and employment.

Senior officials have a vision of they PBDAC as a "development bank specialized in agriculture, financing crop and livestock production, farm-related businesses, and projects for the development of agriculture." Within this broad vision of the PBDAC's future, the team found many unanswered questions: the PBDAC's legal mandate; its access to capital and its financial viability; GOE budget support for development activity; external control and supervision; and its internal policies, operations, and procedures. The team recommended that a study of these issues be undertaken as a high priority item in the workplan for technical assistance for institutional strengthening.

Once this study has been completed, the GOE should act promptly to provide a clear mandate for the PBDAC, the legal and financial charter under which it will operate, and its functional responsibilities as an intermediary between rural savers and borrowers and a development banking institution for the agribusiness system. Results of the study should be utilized in an expanded and intensified strategic planning process within the PBDAC. The Chief of Party/Senior Banking Specialist on the technical assistance team should assist the planning effort and help develop the needed planning capability within the PBDAC.

The new credit concept is based on a close working relationship between the PBDAC and Ministry of Agriculture and Land Reclamation (MALR) extension workers. Extension agents are trained in the technology packages and crop budgets, and these are transferred to farmers and form the basis for crop loans. Central features of the scheme involved the PBDAC selecting only the best agents to receive training and to work in the program. The PBDAC also paid these agents incentives, over and above their MALR salaries, to help ensure top on-the-job performance. The evaluation team has identified the payment of incentives as an important issue for the technology transfer program's continued effectiveness. It is an issue on which USAID must work with PBDAC and MALR to resolve.

The new credit concept has spread rapidly in the PBDAC. It has now been formally adopted PBDAC-wide and is in actual use in 14 governorates and 395 village banks. The PBDAC management has decided that the APCP designation can now be discontinued since the approach has been institutionalized, a decision the team endorses. Nevertheless, analysis is needed of the reasons why subsidized and in-kind lending continue to account for a large proportion of crop loans and establish a timetable for reducing it.

Accounting and the management information system (MIS) have made excellent progress in the PBDAC. A system has been developed, staff have been trained, and hardware and software have been installed in the PBDAC and as a pilot project in one governorate bank system. While manual reporting is still the basis overall for credit operations, continued technical assistance, training, and commodity support should be provided to expand the new MIS system to all governorates, districts and village banks as rapidly as possible.

Farm-related business lending is still small but has high potential. New and expanded private operations in input distribution and marketing should increase the need and opportunities for this type of lending. A program in all governorates should be started as quickly as possible, with technical assistance shifted to focus on providing credit for these enterprises. A quick-response capability to carry out feasibility studies will be need to support expanded lending for farm-related businesses.

The PBDAC has not yet created a satisfactory internal credit audit program. Such a function is needed and could help to address the issues of bad debts and required reserves.

Training has made raid progress. Training facilities have been improved and an extensive program of in-country and participant training initiated. A new training needs assessment should be undertaken based on a manpower planning approach. This assessment should begin with PBDAC's revised mandate and organizational structure, with information and skill levels specified for all job descriptions. Training to upgrade existing staff to satisfy these position requirements should then become the focus of the training program.

In keeping with PBDAC's development banking role, the proposed economic analysis unit should focus its attention on understanding the Egyptian agricultural economy, particularly farmers' complex production and marketing decision-making, on understanding the macroeconomic impacts of PBDAC's actions in the Egyptian credit markets, and finding new project opportunities for farmers and agribusiness firms. The unit should be kept small, with most of its studies carried out through agreements with economic research agencies in the MALR and the Egyptian universities.

USAID effectively guides and manages the institutional strengthening component. Progress indicators on the important institutionalization issues should be established and then used to identify constraints and jointly find solutions with the PBDAC top management and technical assistance team.

The first phase of the agricultural policy reforms under the APCP were carried out in three tranches during 1986-89. It involved deregulation of all crops except cotton, sugar and quota rice. It also included reductions in input and credit subsidies, initial steps to privatize input marketing, and less GOE control over processing, marketing and international trade.

A program for a second phase of reforms during 1990-93 was formulated and agreed upon in late 1990. This phase incorporated the same long-term goals as the first phase and targets that are extensions of reforms that began in the first phase. The team identified several strategic and tactical concerns with the benchmarks for the second phase. It suggested that less emphasis go to fixing specific prices and more to assessing overall progress toward the policy targets and allowing tradeoffs among the benchmarks. The team identified additional benchmarks that should be added to tranches 5 and 6. Looking to the future, the team recommended that more emphasis be given to promoting private sector agribusiness enterprises operating in open markets, with the GOE providing institutional and service support.

The team felt that clear, on-going institutional responsibilities for policy monitoring and verification and for impact evaluation are needed. These monitoring, verification and evaluation activities should be supported by local and U.S. technical assistance funded by USAID.

The policy reforms have been fully supported at the highest levels of the MALR, a necessary condition for their success. For continued success, program support should be provided to assist advocates within the GOE to overcome opposition to the reforms, strengthen private sector responses to the reforms, and help offset adjustment costs from the reforms that affect the institutions involved, the government budget, and low-income groups in the population. For a detailed listing of major conclusions and recommendations, please refer to section VI of the evaluation report.

MIDTERM EVALUATION

OF THE

AGRICULTURAL PRODUCTION AND CREDIT PROJECT

I. INTRODUCTION

The Midterm Evaluation of the Agricultural Production and Credit Project (APCP) is presented in this report. It was conducted by a six-member team (three U.S. and three Egyptian) during May 15 - June 20, 1991. The names and institutional affiliations of the team members are shown on the title page.

The APCP is a large and complex project. It has been the main USAID mechanism both for implementing performance-based program assistance conditional on agricultural policy reforms and for delivering project-type support for technical assistance, training, and commodity procurement designed to transform and strengthen the Principal Bank for Development and Agricultural Credit (PBDAC). Much of the institutional development assistance has been provided through a host-country contract between the Ministry of Agriculture and Land Reclamation (MALR) and Chemonics International.

In the course of its work, the Team reviewed many documents, held extensive interviews with project participants and Government of Egypt (GOE) officials, and visited the Giza, Qalubeya, and Dakahlia Governorates. We wish to express our gratitude to USAID, the PBDAC, and Chemonics for logistical support and especially for the open and collegial environment in which our work was conducted. We also thank all our informants for their full and frank discussion both of the project and the Egyptian socioeconomic and political reality in which it is embedded.

Our report is organized into four main sections. The first describes the evolution, implementation, and current status of the APCP. The second concentrates on the policy reform component of the project. The third focuses on the project's institutional strengthening component. The fourth looks at the socioeconomic impacts of the project both in terms of what is known about them now and what data and analysis will be needed in the future to quantify them more fully. In each of the evaluative sections, the considerable achievements of the project are identified along with our conclusions and recommendations for improving implementation and progress toward the project's purposes. A final section summarizes our findings and the recommendations made in the four main parts of the report.

II. PROJECT BACKGROUND AND HISTORY

A. Antecedents, Objectives, and Scope

The APCP was authorized in May 1986 with a project assistance completion date (PACD) of September 30, 1993 and a life of project (LOP) grant funding of $123 million. Its approved purpose was:

- 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.

This project purpose was chosen to operationalize APCP's higher goal "to increase agricultural investment, agricultural productivity, and farm incomes in Egypt."

The APCP was preceded by an eight-year pilot project aimed at increasing agricultural productivity through improved credit services and technology transfer mechanisms. The Small Farmer Production Project (SFPP) began in July 1979 with technical assistance activities at PBDAC's headquarters and at three of the 17 governorate banks (BDACs)

Past lending to the small farmers was a type of in-kind prescriptive lending rather than actual lending of money. It usually meant that the farmer received credit as an in-kind allotment of fertilizer, seeds, herbicide, etc., for each crop the farmer planted. This allotment approach left no alternatives for better management, application of new technology, and general enhancement of farm production and income. Extension personnel were often the executors of governmental decrees and crops quotas. This approach denied extension workers their technical role of communicating applicable technology as developed in Egypt's research centers.

The SFPP developed and tested unsubsidized lending to small farmers through village banks. This new lending was guided by credit officers, farm management specialists, and extension workers properly trained to help the farmer use the money for appropriate new technology and inputs. Eight years of work in three governorates resulted in enthusiastic endorsement of the concept by small farmers. Nearly 150,000 loans made under the pilot project showed clearly that increased productivity and income did result. The fact that ninety-nine percent of production credit granted under SFPP was repaid on schedule was further proof of the positive results of the approach.

During 1986, the Ministry of Agriculture endorsed the idea of expanding the pilot concept throughout BDAC operations in seventeen governorates and 750 village banks. Thus the pilot project ended -- to be potentially extended to all farmers of Egypt through the APCP.

The APCP has also pioneered a unique blend of performance-based program assistance with complementary project-type support. The policy reform component has provided program assistance disbursed in tranches conditional on GOE progress in agricultural policy reforms. This assistance has been tied to a GOE policy reform program involving liberalization of crop and import prices, termination of crop production controls, and elimination of input subsidies and public sector input distribution monopolies. The tranche disbursements have been paired with simultaneous and equivalent GOE transfers of Egyptian pounds to the PBDAC to increase its capitalization. This increased capital has been justified to meet anticipated growth in credit requirements of small farmers, due in part to policy decisions to reduce input subsidies and also in part to expanded use of inputs. Increased lending to private sector agribusiness enterprises (farm related businesses) has also been anticipated.

The institutional strengthening component of APCP has been totally directed to the PBDAC. It was designed to implement the policy decision to divest the PBDAC of its input distribution activities and reorient it as a public-sector credit institution serving farmers and agriculturally related village enterprises. The APCP has provided technical assistance, training, and commodities to support this transformation and strengthening of the PBDAC.

An amendment to the APCP, approved in August 1990, increased the LOP to $283 million and extended the PACD to September 30, 1995. The goal, purposes, and approach all remained unchanged in the project paper amendment (PPA). The accomplishments to date under the project's policy reform and institutional strengthening components are evaluated separately in the two following sections. This introductory section ends with comments and observations on the overall approach of the project.

B. The APCP's Approach to Assistance

If successfully implemented the extended APCP will have provided a total of $250 million in program assistance for policy performance and $33 million in project assistance by its 1995 PACD. While the performance-based program assistance clearly accounts for the bulk of the resources, policy reforms are included in the project purposes only by inference. Explicit reference to policy reforms designed to free producers from area and quota controls, provide appropriate output and input price signals to stimulate and guide production, and encourage private-sector investment and business operations in input supply and output marketing and processing industries, would have made the stated purposes of the APCP more consistent with the actual use of resources in the project. If political sensitivities made it imprudent to refer explicitly to policy reforms in the mid-1980s, that constraint should have been less binding by the time the PPA was prepared.*

The complementarity of the policy reform and institutional strengthening components is one of the most notable aspects of the APCP, and one that suggests a model for other performance-based, fast-disbursing assistance. The policy reforms will create more market-based prices for agricultural products and inputs and free farmers from area controls and output quotas. The project activities will enhance PBDAC as a supplier of credit to farmers and agribusiness enterprises, improve delivery of extension services, and encourage private sector input distribution and product marketing and processing. The total effect is expected both to create higher incentives for agricultural production and agribusiness activity and provide credit and technical support to encourage private sector responses to those improved incentives.

It is the synergistic relationship of the policy-based program assistance and project support activities that we believe makes this approach applicable to other sectors and other countries. Policy reforms can remove distortions and create economic incentives for private activity. But private sector responses may be constrained by an inadequate institutional framework and/or by a lack of support services that only the government can provide efficiently and equitably. The project activities should address those institutional and service deficiencies, but their success often simultaneously depends on improvements in the policy environment secured through the program assistance.

In regard to the APCP, the connection between the two components rests on the argument that limited access by Egyptian farmers to affordable capital delays, or even prevents, the adoption of new production technologies and the optimal use of purchased inputs. This, in turn, slows down growth in output and development of the agricultural sector[1]. The PBDAC's contribution is to overcome the rural credit constraint and thereby encourage producers' area and yield responses to the policy reforms.

The PBDAC plays a key -- virtually dominant -- role in the entire project. Since it receives internal grants in local currency, equivalent to the dollar tranche disbursements, it has strong incentives to become an advocate within the MALR and GOE for the agreed-upon policy reforms. Since a need to increase credit provided to producers and agribusiness enterprises is foreseen as a consequence of the policy reforms, the PBDAC is expected to expand its credit operations. Since it is now the monopoly supplier of fertilizer and other inputs in the villages, a shift to private input distribution means that the PBDAC must divest itself of activities that account for a major share of its earnings and employment. Finally, the

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[1]This point has become more muddled by the change in the project description in the fourth amendment to the ProAg for the APCP, which states the goal as:

> To support reforms in the agricultural sector and to strengthen market-based sector incentives, thus encouraging investment in agriculture and increasing overall productivity and farm income.

While this goal statement does explicitly recognize policy reforms, it elevates the reforms to the ultimate end of the APCP rather than recognizing them as essential means to that end. We believe a more appropriate change would be to restore the original project goal of higher investment, efficiency, growth, and income in agriculture and incorporate the policy reforms into the purposes of the project, which remain indefinite on this dominating component.

PBDAC is expected to transform its credit operations from subsidized in-kind lending to unsubsidized cash credit, and generally improve its internal organization and management. Both as beneficiary and policy player, the PBDAC management has exhibited prescient vision and exercised leadership in the policy reform process and the institution's central function as credit supplier to Egypt's farmers and village enterprises.

The tranche disbursements conditional on agreed policy reforms provided for in the APCP grant US dollars to the GOE to be used for balance of payments purposes. The project paper and amendment contain little analysis of the need for, and macroeconomic implications of, this support, although the Egyptian current account deficit and debt service burden are widely recognized.

The required simultaneous and equivalent internal transfers of Egyptian pounds to the PBDAC is an innovation of the APCP. The project documents refer frequently to the need for PBDAC to raise its capitalization and expand its lending, although the magnitudes are not quantified. Reference is also made to decreased revenues from the PBDAC's divestiture of input supply activities and costs associated with adjustments in its employment and physical facilities. The transfers raise government budget outlays and expand credit, which may conflict with budget deficit reduction and anti-inflationary monetary stabilization measures.[2]

In regard to the need for increased PBDAC lending as a result of farmers buying inputs at unsubsidized prices, the costs of those explicit and implicit subsidies, as well as financing for the inputs, are in fact now being supplied by the GOE. To this extent, what is needed is as much a financial reorganization in the GOE to convert input subsidies and in-kind credit to cash lending as a net expansion in overall budget outlays. A weak financial position due to nonperforming loans and subsidized lending at negative real interest rates may underlie the need for increased capital for PBDAC as much as higher lending requirements. These factors are affecting the PBDAC's lending capability but are not explored along with the need for expanded lending in the project documents.

Adjustment costs can be expected from the changes in mandate and scope of the PBDAC involving divestiture of its input distribution and consequent reductions in employment. Providing for such short-run adjustment costs is often a high-priority use for local currency resources released as a condition of program assistance (i.e., budget support). Although this use is contemplated in the project paper amendment (but not in the project paper) the pace

[2] The conflict became clear recently when the GOE established credit limitations on the banking sector, including the PBDAC. It is not surprising that a financial institution as large as the PBDAC would be subject to such limitations. While the PBDAC may argue for some relief, it also needs to examine its loan portfolio to determine if some of its lending might be left to the public and private commercial banks.

of divestiture in the PBDAC is not yet fast enough to justify this type of use for the program assistance. The restructuring of the PBDAC will need to be accelerated if a significant share of the program assistance remaining to be disbursed is to be utilized to compensate the GOE for some of these one-time adjustment costs.

It is our understanding that the internal GOE pound transfers to the PBDAC are made as a grant. While this procedure may be similar to the way the PBDAC has operated in the past, i.e., receiving free funds from the GOE and returning any operating surplus to the GOE, it is not clear to us that this is the best policy for all of the capital assistance to be provided by the APCP. Emphasis on non-subsidized lending also implies that the PBDAC should learn to base its commercial credit operation on the margin between the cost of money and interest rates on its loans. For this reason, the internal transfer of capital to PBDAC might possibly be better handled as issues of shares to the GOE that earn a fixed dividend set equal to the social opportunity costs of capital for the country, which would also be more consistent with GOE intentions to remove subsidies from the capital market.[3] Funds to support the PBDAC's developmental activities should be provided through regular GOE budget support.

Next, we call attention to the need to clarify what is to be the long-term future of PBDAC. Stipulating that divestiture of its input distribution will occur, which is already a fundamental policy change in the PBDAC's mandate, the team could still find only a few vague and somewhat cryptic comments about PBDAC as a bank becoming "independent" or "autonomous", or operating a "national rural credit system." The question of the PBDAC's future involves several considerations: If it is to be a development institution, it can't be operated purely as a self-financing bank. If it is to be a public sector bank, its autonomy and independence will be circumscribed. If it is to be the sole supplier of formal rural credit, then private lending and banking in the villages will be preempted. We have found less attention to this overriding question than we would have hoped. We believe it should receive immediate and sustained attention from the PBDAC's leadership, USAID, and the Chemonics technical assistance team. We will return repeatedly to this pivotal point in subsequent sections of the report. In particular, in Section IV, we further discuss the issue of PBDAC's future and recommend a study of the alternatives for the PBDAC, and the implications of those alternatives for its sources of capital and financial viability, that should have the highest priority in the workplan for the institutional strengthening component.

As a final comment on scope, we find that the APCP generally concentrates narrowly on agriculture, most often taken to mean on-farm production. Yet the policy reforms, the

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[3] The PBDAC's Board has passed resolution to issue shares to the government, cooperatives, employees, and the general public. This step is awaiting Ministry of Finance approval and has not yet been implemented. The PBDAC leadership feels the Finance Ministry will approve but only after the bank has adjusted its valuation of fixed assets to more realistically reflect current market values.

PBDAC's lending, and privatization of input supply and marketing, all affect the full set of activities that take place in the vertical channels linking input distribution, on-farm production, and output processing and marketing to final buyers. Taken together these activities represent a large share of the Egyptian economy, which might be described as the "agribusiness system". The APCP's ultimate concern with investment, production, growth, and income should extend not only to farms but also to business enterprises within these agribusiness industries. To better reflect both its policy focus and the importance of off-farm agribusiness activity, perhaps the initials APCP should now stand for "agribusiness policies and credit project".

III. THE POLICY REFORM COMPONENT OF THE APCP

Government involvement in agriculture has existed throughout the long history of Egypt. Only the form and extent of the interventions have varied in different historical periods and with different ideological orientations of the government in power. Understanding the evolution of government interventions in Egyptian agriculture is important for appreciating the need for, and potential achievements of, the policy reform component of the APCP. Government interventions result in outcomes and institutions that condition future policy options and intensify political pressures for or against policy changes.

The predominantly smallholder agriculture in Egypt has evolved complex and intensive cropping patterns. These patterns have changed substantially since the 1950s in part in response to the coming of continuous irrigation and in part due to government policies, which have included administered prices, crop quotas, and forced deliveries. Cotton and other area quotas and mandatory deliveries of rice, wheat, broad beans, lentils, groundnuts, sesame, and onions were applied but not uniformly enforced. Subsidized inputs allocated for controlled crops were often used on other more profitable crops or sold in the black market.

A. Agricultural Policy Reforms, 1986-89

In September 1986, an agreement under the APCP was signed that provided for disbursement of grant assistance conditional on implementation of agreed agricultural policy reforms. The long-term goals set for these reforms were:

- phase out government farm price controls,
- relax government crop area controls,
- remove government crop procurement quotas,
- liberalize government constraints on private sector processing and marketing of farm products and inputs,
- reduce subsidies on farm inputs and
- limit state ownership of land.

Specific actions in support of these long-term objectives were developed in a multi-year program tied to three tranche disbursements of program assistance. The need for these reforms to encourage Egyptian farmers to adjust their production patterns in line with the country's comparative advantage and adopt new technologies had been established in part by the result of extensive collaborative research under USAID's Agricultural Development Assistance Project (1980-83).

The reforms were fully supported by the Minister and senior officials of the MALR. A Ministerial Committee on the Policy Reforms was appointed by the Minister. It has operated very effectively as the Egyptian side of the policy dialogue with USAID. This high-level ministerial participation was necessary for the success of the reform program. It reflects an essential condition that must be present in all successful policy-based program assistance.

The first tranche of grant program assistance was disbursed in July, 1987. This disbursement was based on a series of ministerial decrees implementing limited reform measures and several ministerial memoranda to USAID stating an intent to effect further reforms.

Seventeen individual benchmarks were set for tranche 2. On the release of that second tranche in June 1988, price controls, area and production quotas, and marketing restrictions on wheat, broad beans, sesame, onions, lentils, and ground nuts had been eliminated; controls on private and public sector farm product processing and marketing firms had been removed; the cotton procurement price had been increased with a stated intent to move cotton prices toward world levels; the price of cottonseed cake had been increased; restrictions on importing and marketing of red meat had been reduced; restrictions on livestock feed imports had been removed; a schedule established in 1986 for gradually eliminating livestock feed subsidies was maintained; the 1986 reduction of subsidy levels on farm inputs, including credit, was maintained; and public ownership of newly reclaimed land was prohibited, with all such land reclaimed during 1985-87 allotted to private individuals and companies.

Taken together, the tranche 2 benchmarks required a complex set of specific policy actions and activities involving studies to be undertaken during the policy reform process. THE MALR submitted a Report to USAID to verify completion of those benchmarks (May 30, 1988) The responsibilities for carrying out the tranche verification activities and preparing the report on their completion was given to the MALR's Undersecretariat for Agricultural Economics and Statistics (U/AES). USAID staff economists evaluated the degree of completion, balancing deficiencies on some benchmarks with better-than required performance on others, and recommended approval of the tranche disbursement. The staff also recommended followup activities and studies to be included in the tranche 3 requirements. In fact, the USAID staff worked closely with the U/AES, other Egyptian participants, and U.S. consultants during the preparation of the tranche verification report and were intimately involved in decisions on methods for verification and interpretations of results.

The tranche 2 verification process was a learning experience for both sides. The U/AES demonstrated it could readily carry out field surveys but was less prepared to formulate satisfactory survey instruments and provide definitive interpretations of the results. It also lacked adequate technical capacity to plan and carry out the studies that were needed for tranche 3. USAID found that general specifications relating to economic prices and subsidy reductions could be applied in practice only after agreement on precise meanings of the terms and access to adequate price, cost, and expenditure data. The process proved exceedingly staff intensive both for USAID and the MALR.

The U/AES continued to have responsibility for the verification requirements for tranche 3. USAID provided technical assistance under its Agricultural Data Collection and Analysis Project to assist the U/AES in planning and executing the necessary surveys and studies. The execution of the surveys and studies was then assisted by local Egyptian and U.S. consultants now funded under USAID's new Agricultural Policy Analysis Component (APAC) of its National Agricultural Research Project (NARP). Technical assistance extended to the actual drafting of the MALR verification report for the tranche 3 benchmarks.

The actions reported included the completion of ten surveys to verify GOE reforms, studies to evaluate economic impacts of the reform, analysis of options for divestiture of PBDAC's input supply system, verification of reductions in subsidies on farm inputs and credit and analysis of impacts, and adjustment of cotton and other product prices to levels closer to shadow prices.

To meet one of the benchmarks, these findings and other studies were published and publicized through a conference organized by the MALR in June 1989. The conference was an important event in the reform process because it focused public attention on long-term economic policy reforms in agriculture, a politically sensitive topic especially in light of the impasse then existing between the GOE and the IMF/World Bank over policy conditionality for standby and structural adjustment lending. Compared to the normal confidentiality of GOE policy deliberations, the public nature of the data, analyses and discussions at the conference was unprecedented. The reforms that the MALR sponsored during 1987-89 as part of the APCP were exceptional compared to the unwillingness of the GOE to consider macroeconomic, trade, industrial, and consumer subsidy reforms in that same period.

Especially in tranche 3, which involved studies that began to look at impacts of the reforms as well as the need for further reforms, the process helped to strengthen the understanding by U/AES staff of such concepts as economic prices, implicit taxes and subsidies, incentives, and opportunity costs. This increased capacity promised a stronger technical foundation in the MALR for formulation and evaluation of future policy reforms.

Substantial progress was made during 1986-89 in relaxing government controls and moving domestic prices to border equivalent levels for most crops. However, additional -- and politically sensitive -- policy changes were still required to bring private incentives for resource use more into line with social objectives.

Cotton was clearly an important crop still burdened with depressed administered prices. Not only were private incentives to produce cotton inadequate but farmers were also inhibited from using the best production practices (e.g., planting dates, multiple pickings, etc.). Cotton price increases were not sufficient to fully restore the crops private profitability relative to alternative crops. Cotton became even less economic to produce as prices of competing crops rose to equal or exceed border price equivalents.

The wedge between the domestic farm gate cotton price and its export parity price is an implicit tax on producers but a source of foreign exchange and revenue for the government. Moreover, as a result of this policy, domestic cotton can be delivered to textile mills and cloth then sold to consumers at implicitly subsidized low prices without explicit budget outlays.

The political sensitivity of cotton pricing had thus become more transparent by the end of tranche 3. Raising farm gate prices to export parity would encourage production and exports, the latter especially if output response were concentrated in the premium ELS varieties. Producers would also have greater incentives to adopt yield-increasing technology and management practices. On the other hand, the price of cotton as a raw material for the textile industry would increase, unless explicit subsidies were introduced to maintain low prices of cotton cloth. In principle instruments can be designed to protect the poorer households (by targeted or means-tested subsides, e.g., cloth rationing or stamps) while permitting cotton cloth prices to rise overall. However, the number of ministries and authorities affected by cotton and cloth prices and the management difficulties of administering targeted subsidies greatly complicate decisions related to changing cotton procurement prices.

A second remaining problem area with producer incentives involved animal production. As long as domestic meat prices were above import parity levels, farmers had incentives to grow more animal feed and fodder and less of other crops with higher economic returns in domestic and export markets. The result was an economic loss in potential value of production from the strictly limited cultivable land base.

This discussion of further reforms raises concerns about the price of one crop relative to alternatives crops and to inputs, and crop prices relative to livestock and meat prices. Now that some of the more obvious distortions in commodity prices and restrictive controls had been removed, more systematic attention to intrasectoral product and input price relationships was needed. A system for timely monitoring of prices and analysis of implications of trends and changes in a "situation and outlook" context should have been given high priority. Some of this type of work was done for the tranche 3 reports.

Further attention should also have been given to the implications of a reformed and basically free-trade agriculture in relation to still-distorted national and world economies. If the exchange rate remained overvalued and industrial protection was maintained at high levels, then intersectoral terms of trade would continue to biased against agriculture, agricultural exports would be implicitly taxed, and competing food imports subsidized. Economic impacts of these macroeconomic and industrial policies on the agricultural sector may be less obvious than, for example, export taxes and crop quotas, but they can be just as damaging to agricultural incentives, incomes, and equity.

Similarly, international prices are themselves variable and influenced by policies of major industrial exporting countries. Egypt, for example, has been the recipient of large-scale export subsidies on grain and flour imports from the United States and the European Community. What prices for foodgrains best reflect the true social opportunity cost for the country, taking into account policy-makers' deep concern with long-term food security. Those prices may not be an average of past prices, contemporaneous prices, or even next year's expected prices on international markets. Moreover, full and instantaneous transmission of international price variability may destabilize domestic markets, force reductions in food import levels when world prices are high, and create greater food insecurity for poorer households. These "second-round" food policy issues suggest a search for cost-effective indirect policy measures that can be put in place along with linkage of domestic agricultural markets to international markets. The conversion of the fixed wheat price to a price-floor system is a good example, but this policy decision by the GOE apparently had neither the concurrence nor support of USAID to design a cost-effective approach.

B. The Second Phase of the Agricultural Policy Reforms, 1990-93

The first phase of agricultural policy reforms under the APCP dealt with the deregulation of all crops except cotton, sugar, and quota rice. It also focused on reducing input subsidies, including subsidized credit, and initiated steps to privatize the marketing of inputs. Finally, controls on private sector processing, marketing, and international trade were reduced.

A MOU for a second phase of performance-based policy reforms under the APCP was signed by the MALR and USAID in September 1990. The long-term goals were repeated verbatim from the earlier March 1987 agreement. The main agreed targets for the medium term were:

- adjusted cotton prices and reduced government controls over rice;
- elimination of input subsidies;
- government divestiture and liberalization of marketing for fertilizer, livestock feed, seed, and other inputs;
- financial strengthening for PBDAC as a credit institution; and
- possible additional economic policy initiatives.

As in the first phase, requirements were specified for disbursements in three tranches. In contrast to the first phase, the tranche requirements for the second phase are almost all specific, quantifiable actions. This shift is in line with the prescription quoted to us that "USAID pays for performance."

The overall policy context surrounding agricultural policy reforms improved significantly in 1990-91. The GOE took measures to liberalize macroeconomic policies, including making its currency convertible and freeing interest rates from controls. Prices of some subsidized goods were raised, and the state began reforming public sector companies and selling off some industrial assets. A sales tax was imposed and energy prices adjusted toward world levels. These steps have opened the way for negotiations, for an IMF standby agreement and a World Bank structural adjustment loan (SAL), expected to be concluded by mid-1991. Debt forgiveness by the United States and other donors has also improved Egypt's balance of payments position.

An overlap developed between the APCP policy reform component and the limited agricultural element of the proposed World Bank structural adjustment program. That proposal involved cotton price increases, elimination of fertilizer and pesticide subsidies, termination of rice delivery quotas, and liberalization of fertilizer marketing, which together form a major subset of the APCP medium-term goals.

We have several strategic and tactical concerns about the second phase of the policy reforms. The first strategic concern is the "hardening" of the benchmarks into specific quantitative actions, apparently based on the philosophy that "USAID is paying for performance." It is more appealing to us to approach the policy reforms as being in the best interests of Egypt. As such, the reforms are not so much "bought", since the GOE should want to do them anyway, as much as resources are provided to assist advocates of the reforms within the GOE to overcome opposition to them, strengthen the responses of the private sector to the reforms, and help offset short-run adjustment costs of the reforms that adversely affect the government budget and certain groups in the population.

Our second strategic concern is about the overlap of the agricultural element in the World Bank structural adjustment loan proposal with the APCP medium-term targets. While this demonstrates a high degree of donor consistency, it is not clear that the best use of the limited program assistance available in the second phase is to disperse it over benchmarks also included in the World Bank program. The impacts would likely be stronger, and certainly more clearly attributable to the APCP, if the tranche benchmarks concentrated on policy actions different from those in the SAL. If the World Bank program would succeed on its own with respect to given benchmarks, then the APCP resources could be directed to different policy issues, thereby accelerating overall reforms. While there may be some danger of donors moving on too many issues in an uncoordinated manner, a judicious selection of issues on which USAID's assistance will be concentrated is nonetheless needed.

A third and related strategic concern arises over the precedence given in the second phase to adjustments in the administratively fixed procurement price for cotton. Clearly a key policy issue for producer incentives, it is nevertheless one for which the PBDAC, which has been an effective advocate within the GOE and MALR for the tranche benchmarks, is less well-positioned institutionally to influence. Cotton price adjustments require interministerial resolution of conflicting interests, a process in which the MALR bears special responsibility for representing producers' interests in rational price incentives. The APCP should focus on that issue, thereby complementing the World Bank's concern with rationalizing the textile industry and vertical price relationships between cotton and textile products. The World Bank has an advantage in dealing with these vertical issues because of its intensive study of the Egyptian cotton industry and the multi-ministerial arena for its policy dialogue.

In reconsidering tranche benchmark priorities and tradeoffs, USAID should recognize that there are equally important incentive/resource allocation issues in the feed/livestock subsector, privatization issues in input marketing, and competition/regulation issues in processing, marketing, and international trade. The PBDAC is involved directly in all of these areas. We hold the view that USAID should have concentrated more of its efforts on these questions, arranging for intensive studies where the results were needed to establish appropriate tranche benchmarks and using its limited resources to encourage a broader set of policy reforms.

Our first tactical concern is related to the above strategic concern. From all accounts, the question of the cotton price adjustment has dominated the policy dialogue for the second phase. USAID apparently treated the tranche 4 benchmark for it as a necessary condition for the tranche disbursement. In fact, USAID reduced the amount allocated for tranche 4 when the GOE failed to meet the cotton price target for the 1991 cotton crop even before the tranche verification report was submitted. This action implies that some benchmarks are more important than others and must be met whether or not other benchmarks are exceeded. Yet, weights and tradeoffs for the set of benchmarks in any given tranche have never been made explicit.

An alternative approach, and closer to the one followed in the first phase, is to view the performance question as one of adequate progress overall toward the medium and long-term objectives of the reforms. We would have recommended that approach for tranche 4 and do recommend it for the remaining tranches 5 and 6. In the case of cotton, the GOE did make the important decision to correct the structure of prices across different cotton varieties. Also, although the MALR failed to win government support for an adjustment to the agreed-upon price level prior to planting, it reaffirmed its commitment to advocate procurement prices that gradually approach border price equivalents and exercise its best efforts to obtain supplemental price increases needed for the September/October 1991 harvest in order to reach the stated target.

Progress was also made in specifying clear and precise methods for comparing domestic procurement and international prices, which made the cotton pricing question much more transparent. Holding the GOE to a single specific quantified price target may make it easy to "pay for performance", or in the case at hand not pay -- but it does not reflect a deep appreciation of the complex political economy of agricultural pricing.

Our second tactical concern is about the medium-term target for adjusting the cotton price to 66 percent of its border-price equivalent. This target has been defended on the grounds of making cotton competitive with other crops (USAID) and as an optimal tax on a traded commodity in which Egypt has a degree of monopoly power (World Bank). These arguments risk turning the 66 percent into a ceiling rather than a temporary plateau level on the way to a higher value. If cotton is competitive at that relative price, why pay farmers more, especially when they receive huge subsidies on water? If part of the tax burden is shifted to foreign buyers, so much the better for Egypt.

Neither of these arguments is adequate. Calculation of net returns per feddan may be suggestive of incentives necessary for cotton to compete with other crops for resources but studies of producers' area and yield responses to input and output prices within optimal rotation systems are needed to show policy makers the consequences of their policy choices.[4] The history of mandatory area quotas for cotton invalidates econometric time series estimation of area and yield responses. The alternative is to use normative programming models first for typical farms, then for regions, and finally for the sector as a whole. Opportunities have been forgone in the policy dialogue to use results from such work on this key question as has been done in Egyptian universities and by foreign economists. Even more regrettably, little progress is being made in creating a capacity in the MALR to apply these analytical methods and interpret the results to inform policy decisions.

The optimal tax argument suffers from the comparative statics nature of the theoretical model. If the tax is in part shifted to foreign buyers, production in other countries can be encouraged. Moreover, buyers may be led to substitute other grades of cotton for the Egyptian ELS. To the extent that the tax falls on Egyptian producers, they have less incentive to demand and adopt yield-increasing, cost-reducing technology over time, which means Egypt may gradually lose both its markets and its comparative advantage in production. These dynamic demand and supply shifts may be more costly to Egypt in the long run than any short-term gains from an optimal tax.

The choice of a specific value for an administered price is a delicate and demanding decision. The usual approach by policy makers involves balancing many economic and sociopolitical considerations. That is why a first-best reform is almost always to liberalize pricing so that prices are set by market forces. If a government chooses to continue directly fixing prices for a commodity, then agreement should be reached on the basis on which the price will be set, and performance judged by best efforts to adhere to the agreement to the degree that overall circumstances permit.[5]

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[4] The cotton price benchmark might have been stated as a continuous improvement in the ratio of the cotton procurement price to a weighted average of fertilizer and pest control prices, thus tying together product and input pricing policies in a consistent framework.

[5] USAID staff also quoted the results of a sector model that was used in 1989 to analyze further deregulation of the sector. That model showed that a real price increase of 50 percent would be needed to get any positive output response for cotton. Unfortunately, that

Our final tactical concern is with the approaches to the fertilizer subsidy and privatization of distribution being followed in the second phase. Since the latter question is discussed more fully later in this section, we only comment here on the fertilizer price/subsidy issue and the role of the fertilizer factories in distribution. The approach to fertilizer pricing in the first phase was solidly based on border prices as the relevant economic prices for fertilizers, which are tradeable inputs. Indeed, the case for border pricing of fertilizer is just as strong as it is for the use of international prices for crops and livestock products. Yet the MOU for the second phase moves to a "standard cost" approach to ex-factory pricing, primarily it appears because the World Bank advocates this approach. We recommend returning to the international price standard.

The World Bank also apparently assumes that the fertilizer companies should become responsible for marketing and distribution of fertilizer. These factories are now, and seem likely to remain, state-owned enterprises, which makes them unlikely candidates for creating a competitive domestic fertilizer market. We explain below why we recommend that fertilizer marketing be privatized starting from the retail end and moving backward rather than starting from the factories and going forward to farmers.

1. Implementation of the second phase

The MOU provided for a set of six detailed implementation plans to be prepared oriented to the medium-term targets. Except for an inadequate plan for the seed industry, which was actually prepared prior to the signing of the MOU, these implementation plans have not been completed. They are needed, and in several cases should have involved considerable prior analytical work to better diagnose the existing situation and analyze the policy changes that are desirable and feasible.

Similar to the first phase, monitoring responsibilities were assigned to the MALR, and the Office of the Economic Advisor was designated to do the work. Technical assistance (TA) was provided to prepare a monitoring and verification program of work for tranche 4, which was to involve local and U.S. consultants working with the economics staff of the MALR. This program of work was never initiated. At a later time, the U/AES was directed to carry out the surveys and analyses and prepare the tranche verification report. These tasks were accomplished by the U/AES staff under much time pressure and with considerable involvement by the PBDAC management, but with only a minimal amount of TA (provided by the APCP).

The MOU provided for a baseline assessment of initial conditions in the policy areas for which medium-term targets were established. This assessment was not completed in the

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model was more illustrative than an adequate analytical tool. Its technology structure was limited and it was based on very poor data. It was never validated as a realistic representation of aggregate producers' responses to price and policy changes.

form of a separate study as envisioned in the MOU, although relatively satisfactory information for some of the benchmarks can be garnered from various sources. The assessment as described in the MOU should have been carried out.

Similar baseline data was specified for the PBDAC, which according to the MOU was "independently responsible for preparing timely, parallel reports concerning its financial situation, its strategic plans, and the implementation of divestiture for its input marketing activities." We are uncertain to what extent these requirements duplicate reporting under the institutional strengthening component. If the requirements are substantially the same, why was this provision included in the MOU? If more or different reporting is called for, was the requirement made clear to the PBDAC and satisfied in a timely way? We found no reports from the PBDAC prepared specifically to meet the MOU requirements.

Clear, continuing institutional responsibility for the monitoring and tranche verification activities is needed. Use of local consultants to assist the responsible unit in the MALR should again be encouraged and adequate U.S. technical assistance provided to assure technically sound data collection, analysis, and interpretation .

There was a distinct decline in the quality of economic understanding and analysis exhibited in the tranche 4 report. This was mainly a result of its preparation under severe time pressure. Rather than continuing the cumulative process of training U/AES analysts through collaborative work with Egyptian and U.S. consultants, the process regressed to a rapid _ad hoc_ response to the specific tranche benchmarks.

As a particular example, the tranche 3 reports contained very useful and revealing comparisons of domestic farm-gate prices to border-price equivalents, and also trends in ratios of product prices to input prices for major crops. Continuing to provide this monitoring information on a timely and systematic basis would give extremely valuable insights into comparative levels of production incentives for competing crops and livestock products.

In its arguments verifying the benchmark requirements, the tranche 4 report is also a fertile source of hypotheses about reforms that may be of higher priority than the agreed benchmarks. At many points, it describes continued GOE ownership or regulation of input distribution, processing, marketing, and international trade. A focus on encouraging private sector enterprises competing in open markets, with the GOE providing needed institutional and service support, is more fundamental to further reforming the agricultural policy regime than setting selected prices at specified levels.

2. Benchmarks for Tranches 5 and 6

We first recall our previous conclusions about the need to recognize tradeoffs among benchmarks, rather than giving absolute priority to the single cotton price benchmark, and to use border prices as the economic standard for evaluating fertilizer subsidies. Also, we have already recommended that the feed/livestock subsector, privatization, and competition/regulation in processing, marketing, and international trade industries be given more weight.

We further recommend that a benchmark be included in both tranches 5 and 6 that requires the MALR to carry out a study of the impacts of macroeconomic monetary and fiscal policies, exchange rate policies, consumer subsidies, and industrial ownership and trade protection policies on the agricultural sector and agribusiness system. Upon completion, the MALR would then hold an internal policy dialogue with other ministries and the Higher Policy Committee. Completion of the study and holding the internal policy dialogue would themselves constitute the tranche benchmark requirements. For several reason, possibly including the performance audit of the APCP that disparaged "mere studies," USAID and the MALR are failing to invest adequate time and effort in analytical work to better understand the future policy needs and option in the sector. The high priority tasks of diagnosing changing problems, evaluating impacts of current policies, and assessing consequences of policy alternatives should no longer be neglected.

As a final recommendation, we suggest a policy change to modify the preparation of the national cropping pattern each year by the MALR, which is done primarily to plan the acquisition and distribution of seed, fertilizer, and chemical inputs through the PBDAC. The current approach is a holdover from the previous policy regime. As long as it is carried out MALR field staff may continue to try to control farmers' production patterns. Probably even more important, this approach to central planning of input supply is neither feasible nor viable in a privatized, multi-channel system. The need there is for technical, price, and production data and information to permit producers and agribusiness enterprises to plan their operations, with adequate government regulation to protect participants from fraud. The MALR should shift its concern to the generation and public dissemination of the required data and information using an indicative planning approach.

3. Evaluation of the Impacts of the policy reforms

The first phase included commendable concern with the impacts of the policy changes. Especially for tranche 3, studies were required to determine, to the extent possible, effects and impacts. Also, the PPA makes the GOE responsible for evaluation, to the degree feasible, of the overall development impacts of the APCP. Our discussions with members of the Ministerial Committee on Policy Reforms revealed intense interest in having more definitive information on the impacts of the policy reforms. Such information as is now available is very partial and preliminary.

Specific plans to evaluate these impacts seems to have disappeared from the APCP. No explicit responsibility for such evaluation now exists in the MALR. While we are not in position to recommend the institutional responsibilities and source of funding for the impact evaluations, we do believe that the responsibilities should be clearly assigned and that USAID should provide the necessary funding and technical assistance. Furthermore, we recommend that a second policy conference be planned for the end of tranche 6 to provide a national and international forum to discuss the results of a truly remarkable reform of an agricultural policy regime and identify needs for further reforms.

C. Divestiture/Privatization of Input Distribution

As part of the agreed-upon policy reforms, the PBDAC is committed to divest its input supply functions. Since 1977, when PBDAC assumed the responsibility from the agricultural cooperatives for supplying farmers with production inputs, including prepared animal feeds, it has had a virtual monopoly in this market. This went hand-in-glove with its production credit monopoly -- in-kind, rather than cash, according to centrally dictated cropping patterns and input application specifications.

PBDAC has endorsed the concept of turning over its input marketing functions to the private sector and is actively working with the Chemonics technical assistance team in planning implementation of divestiture.

At least partly as a result of the policy reforms, the private sector is becoming more active in the marketing of some input lines. However, there does not yet seem to be a vigorous widespread private -- cooperative and for-profit -- farm input industry in Egypt. Some large Egyptian firms are selling farm machinery, specialty fertilizers, and chemicals. There are also some small, private sector retail input outlets in the villages, and recently some cooperatives were given authority by MALR to purchase inputs from PBDAC stores and fertilizer plants and distribute then to farmers. Eventually, all licensed private sector entities will be able to buy from the fertilizer plants.

Egypt has a substantial cooperative network, including twenty-two central multipurpose cooperatives, 128 district cooperatives, 4215 village cooperatives and 928 specialized cooperatives. MALR sources concerned with cooperatives reported that cooperatives in fourteen districts are now engaged in input distribution through 375 local societies. Twenty-eight districts are to be added shortly and the remaining 82 by the end of 1993. These data generally agree with those given us by the Chemonics team.

An informal private market, in which farmers with fertilizer in excess of needs could sell to those having need for more, has long been operating in rural Egypt. Despite this, the evaluation team's very limited observation of established cooperative and for-profit operations suggests that privatization and competition (the source of benefits from privatization) are still in their infancy. This observation is consistent with information in the tranche 4 verification report for Benchmarks 6 and 8, with the findings of the 1989 privatization study carried out by the Center for Privatization and with those of a 1990 assessment of cooperatives in Egypt by Agricultural Cooperatives International (ACDI). Based on its findings, the ACDI assessment team argued that, in regard to their business activities, cooperatives must be more aggressive and responsive in meeting customer (member) needs and in seizing the business opportunities now open to them. They also must become free from government interference and more related to the private sector.

MALR officials we interviewed agreed with this view, saying that cooperatives, to be successful, would have to clearly demonstrate their dedication to serving farmer-members and that they are free of government interference. These points are in general agreement with the measures covered in the 1990 MALR-USAID Memorandum of Understanding (MOU) for tranches 4-6 policy benchmarks. The MOU's Benchmark No. 8, Cooperative Marketing of Inputs, calls for change in Egypt's agricultural cooperative law to provide for:

1. Independent cooperatives with completely voluntary membership,

2. Cooperatives' staffs to be cooperative, not MALR, employees,

3. Freedom of cooperatives to undertake any commercial activity,

4. Redefining cooperatives' relationship with PBDAC and the BDACs,

5. Fixed terms of office of cooperative board members, and

6. Freedom of cooperatives from government control other than standard regulatory and financial audit functions.

It is assumed that the cooperatives involved in the privatization action will be only those organized and operating in accordance with the principles of the MOU for tranches 4-6 policy benchmarks.

The 1989 privatization study presented options for privatizing the distribution of PBDAC's major input lines. The recommended option, while varying as to timing among product lines, called for PBDAC to gradually withdraw from all phases of commercial activity for inputs and be replaced by private sector entities.

It is essentially this option to which APCP's technical assistance is directed. Technical assistance attention is being given to strategic and tactical divestiture plans, impact on PBDAC's finances and redundant employees, legal and organizational problems, fostering of competition and the role of cooperatives. These plans are still in process, and PBDAC approvals must still be obtained.

An important problem lies in the potential conflict between divestiture and PBDAC's need for revenues to replace those thereby lost and between divestiture and the interests of those employees adversely affected by the action. This problem suggests that may be some value in having an outside authority take the critical decisions regarding divestiture.

To the suggestion that divestiture decision authority be taken from PBDAC, Bank leadership argues that PBDAC's own interest in, and enthusiasm for, privatization exceeds that of other entities of MALR.

The firm intentions of PBDAC leadership notwithstanding, the evaluation team feels that the issue is important enough to consider constituting an independent outside authority to keep the process on schedule. For example, while on field trips the team was surprised to see several shounas with new construction nearing completion. This was unexpected for an institution about to rid itself of these assets.

Another important problem the evaluation team sees with the intended approach lies in its implied need for immediate private sector investment at all stages of the marketing chain starting at the factory/import level. The team would suggest modifications to the approach which, in our view, would hasten both the benefits to farmers of private sector competition and PBDAC's complete divestiture of its input supply operation.

We heard frequently that privatization can only occur after input subsidies are terminated. However, the problem is not input of subsidies per se but rather the way the subsidies are granted. Providing quota fertilizer and other inputs at subsidized prices for use on certain crops (e.g., cotton) while selling non-quota inputs at non-subsidized prices creates a dual pricing structure for the inputs. As long as the same product is sold at two different prices, incentives exist to obtain the input at the subsidized price and resell it at the higher non-subsidized price. A subsidy applied uniformly through the ex-factory/import price would not interfere with private distribution and market pricing of the input.

The consistency of pricing and private activity is very much influenced by spatial and temporal factors. A price that is not permitted to vary at different locations and periods of time suppresses incentives for private-sector distribution and storage operations. In contrast, market-determined prices will reflect these costs through their spatial and temporal variations. It is a practical impossibility to account fully for changing spatial and temporal costs in an administrative pricing system.

The evaluation team proposes the following recommendations:

1) While divestiture planning and implementation responsibility remain with PBDAC, an oversight body be set up within the MALR and responsible to the minister. The function of this group, which would include representatives of interested public and private sector organizations, would be to: (1) review and approve PBDAC's divesture plan and its timetable for implementation; and (2) strictly monitor PBDAC's implementation performance in meeting the timetable's benchmarks.

   Including private sector representatives, having an interest in prompt divestiture and the opening of the market to private enterprise, would enlist the private sector's explicit support for a prompt and successful divestiture.

2) PBDAC should immediately begin offering its inputs for sale at its shounas and mandoubiyas to all comers at unsubsidized prices. Credit for acquiring inventories would be provided by the BDACs. Quantity discounts would distinguish ultimate consumers from retail dealers and wholesalers. The team's observation, supported by the ACDI assessment, is that the retail level is the point at which most commercial vigor is present, and this recommendation would immediately begin fostering a competitive retail climate with support from existing inventories, credit facilities, and distribution infrastructure.

We do not suggest an immediate disposition of all PBDAC inventories and the cessation of distribution activity. The proposed arrangement could continue indefinitely, with PBDAC remaining as a wholesale entity, though this is not recommended either. Full divestiture should continue at the pace laid out in the strategic divestiture plan PBDAC is now preparing. PBDAC would phase out of this proposed role as private wholesale operations developed and cease it entirely upon completed divestiture.

Nor does the recommendation supplant the intended approach. It is essentially an intermediate step whose impact is to hasten implementation. Private retail operations are encouraged, and PBDAC remains as a supply safety net if necessary.

3) Steps should be taken in divestiture and privatization to foster real competition among all private sector participants -- for-profit businesses and cooperatives. It is only through vigorous competition that all farmers are served effectively. The tranche 4 verification report called for the transferring the input distribution function to the cooperatives. We feel it is important to point out that divestiture implementation favoring the cooperatives will reduce the scope for price, service, and product competition, and this will be detrimental to efficiency and farmers' interests.

Cooperatives will clearly be an essential element in the pattern of private enterprise serving Egyptian farmers. This will be particularly the case for the smallest farms in the more remote areas of Upper Egypt. The cooperatives should be freed from obligatory social service functions which reduce their competitiveness. At the same time, we feel it essential that cooperatives not be shown favoritism relative to for-profit agribusiness firms.

4) The team recommends that the strategic divestiture plan provide for an early disposition, through a competitive process, of the PBDAC's physical plant devoted to input distribution. Assets owned by cooperatives should be returned to them as part of the plan. This recommendation is consistent with the second recommendation in this subsection and is intended to reduce the investment in new plant that would be required if the private sector and PBDAC operate "in parallel" during the transition phase implied in the privatization study's recommended option.

IV. THE INSTITUTIONAL STRENGTHENING COMPONENT

The main objective of the institutional strengthening component of the APCP is "to improve financial services to rural clients of the Principal Bank for Development and Agricultural Credit." The extended APCP provides a total of $33 million for technical assistance, training, and commodity procurement to accomplish the strengthening of the PBDAC. This section begins with a brief description of the PBDAC as it existed when the project began and the changes it is experiencing. The need to clarify the PBDAC's future role, sources of capital and operating funds, and legal mandate, if the institutional strengthening process is to succeed, is then pointed out. The balance of this section is organized around the resources and major work elements of the institutional strengthening component. Achievements in each element are described along with our identification of further needs and recommendations for institutionalizing the project in the PBDAC.

A. Role, Mandate, and Future of the PBDAC

Formally a holding company for the governorate banks (BDACs), the PBDAC now operates under Public Law 117, dated 1976. Its Board of Directors and senior management are appointed by the Minister of Agriculture and Land Reclamation, who also must officially approve the decisions of the Board.

The governorate banks operate district and village banks, all under the control and direction of the PBDAC. Law 117 also transferred village stores belonging to the cooperative societies to the administrative control of the PBDAC. These stores are currently operated as agencies to distribute inputs to, and receive outputs from, farmer clients of the bank.

As the first major output of the contract with Chemonics International, a team undertook a baseline survey of the PBDAC. It showed that the PBDAC has direct contact with over three million Egyptian farmers. In addition to its seventeen BDACs and 155 district banks, the PBDAC operates a network of over 750 village banks. Each village bank has an average of five to seven mandoubiyas (agencies) in other villages for the distribution of agricultural inputs, giving the PBDAC a physical presence in some 4,000 villages. The PBDAC is believed to employ as many as 40,000 workers. It's scope and presence in rural Egypt, where almost nine out of ten farmers are within two km of one of its banks or agencies, is truly remarkable.

The PBDAC is rapidly institutionalizing the approach of providing unsubsidized credit to its farmer borrowers, reflecting their financial need and ability to repay based on cash flow. This approach is replacing the earlier system of subsidized in-kind lending based on governmentally dictated cropping patterns and input applications. The new approach also involves bringing credit, extension services, and research together into crop packages that offer borrowers higher yields and incomes.

This new credit concept has now been formally adopted PBDAC-wide and its use is spreading rapidly. Having begun as a pilot project in selected village banks in three governorates under the SFPP, the lending program has spread to 14 governorates and 395 village banks. The PBDAC leadership has recognized that it is time to drop the use of the "APC project" to identify this new style of lending and operations, a decision we heartily endorse.

PBDAC's total lending reached LE 3.6 billion in 1989-90. It distributed inputs valued at LE 1.7 billion, even at subsidized prices. It is rapidly increasing its lending to farm related businesses and expanding its role as receiver of rural savings.

Already implementing rapid changes, the PBDAC must continue to confront far-reaching modifications in its mandate, changing macroeconomic conditions and policy environment, and shifts in its relations to other institutions and private businesses in the agricultural sector. Some of the factors that are currently causing serious constraints and challenges include:

- macroeconomic policies, including credit restrictions, budget deficit reductions, and deregulation of interest rates, that are changing PBDAC's access to, and costs of, capital and loanable funds, as well as its lending capacity;

- a shift in the country's agricultural policy regime to less control and regulation of agricultural production and prices and reductions in subsidies on inputs and credit;

- a policy decision to divest the PBDAC of its input distribution system and

- implementation of the Technology Transfer Component of the National Agricultural Research Project with responsibility for training and support of extension workers who provide technical services to farmers.

The vision of the future of the PBDAC held by its present senior leadership is as "a development bank specialized in agriculture, financing crop and livestock production, farm-related business activities, and projects for the development of agriculture." Within this broad vision, many questions still persist about PBDAC's future role, legal authority, access to capital and financial viability, budget support for development activities, external control and supervision, and about its internal policies, operations, and procedures.

These questions need to be answered definitively so that the PBDAC's strategic planning, which is discussed in the following subsection, can proceed on the basis of sound assumptions. The impacts of the APCP on the PBDAC will also be enhanced by clarification of these issues. Therefore, we recommend that a study of these issues be undertaken as a high priority item in the workplan for the institutional strengthening component. Once the study has been completed, the GOE should act promptly to make a clear determination of the future role of the PBDAC: the legal, administrative, and financial mandates under which it will operate; and its functional responsibilities as a viable financial intermediary between rural savers and borrowers and a development banking institution for the agribusiness system.

B. Strategic Planning

The need to develop a strategic planning capacity in the PBDAC has been recognized in the baseline study and the annual workplans for the institutional strengthening component. This need is intensified in light of the questions about the PBDAC's future discussed in the previous subsection and elsewhere in this section.

Strategic planning activity has been initiated, with technical assistance from the economics and auditing specialists on the Chemonics team. It has included a five-day workshop in which a mission statement, strategic goals, and objectives were developed. To further the process, a coordinator and committee were appointed to work with the PBDAC sectors to develop detailed plans to achieve the goals and objectives. While existing draft plans are in Arabic, some of the ideas under consideration for reorganization and expansion were reviewed for us.

We commend the planning efforts undertaken so far and recommend an expanded and intensified strategic planning process. This might be facilitated by placing a full-time strategic planning specialist with necessary support staff in the chairman's office to activate a continuous planning effort to involve every sector in the PBDAC and all the BDACs. We believe this approach would institutionalize strategic planning where it belongs -- in the chief executive's office with direct connection to the Board of Directors.

We further recommend that the Chemonics Chief of Party, who is the Senior Banking Specialist on the TA team, provide technical assistance to develop the needed planning capability. Participant training should be arranged for the PBDAC planners and support staff. A strategic planning program that identifies the specific outputs to be produced by the PBDAC and the timetable for completing them should be prepared during the current project year.

C. Finance and Capital Management

1. Capital Development

In Section II we raised the issue of the GOE's transferring to PBDAC, as capital grants, the Egyptian pound equivalent to the U.S. dollar tranche disbursements. It was suggested that some means of PBDAC's recognizing the social cost of this capital may be more consistent, than is a grant, with the concept of removing subsidies from capital markets. Indeed, we should remind ourselves that PBDAC's annual payments to the Egyptian Treasury from its net income after taxes does represent a sort of ownership return on government-supplied capital.

Table 1 shows PBDAC's consolidated capital accounts and annual changes in the constituent items for fiscal years 1984/85-1989/90. The capital line item represents the GOE's original paid-in amounts plus whatever impact occasional revaluations of fixed assets have had on net worth. The PBDAC leadership acknowledges that the fixed assets are severely undervalued relative to today's market and current prices. We refer to this line item hereafter as paid-in capital.

As a percent of beginning-of-year paid-in capital, payments to GOE ranged from 58 to 79 percent over the period. As a percent of total capital items, including reserves and capital grants, the payments were more modest, declining from 39 percent in 1984/85 to 12 percent in 1989/90 as reserves and capital grants from external donors became larger and larger shares of total capital.

The first "rate of return" mentioned above undoubtedly overstates the "profitability" to the GOE of its investment in PBDAC. The value of the paid-in capital is generally maintained at the same nominal value as when it was first paid in, while the annual earnings tend to be self-adjusting to the inflation rate, which is commonly estimated to be in the range of 20 to 30 percent annually. Thus, if the paid-in capital were revalued in current Egyptian Pounds, the corresponding "rate of return" for 1989/90 would be far below the estimates shown in the table. It would be lower, even, than that shown as a percent of total capital items.

A measure of rate of return or profitability to the GOE which is based on payments to GOE plus taxes would, of course, be vastly greater in each year than the measure shown above. The rate of return measure based on payments to GOE was used because it is conceptually comparable to corporation dividends, from after-tax profits, paid on shares. As mentioned in Section II, issuing stock to raise capital has been approved by PBDAC's Board, but it has not yet been implemented.

Table 1 also shows the growth of total capital as a result of retained reserves. The amounts set aside annually as reserves (identified as retained reserves in the table) increased at the average annual rate of 16 percent over the period. Their contribution to the growth of total capital declined from 12 percent in 1984/85 to 6 percent in 1989/90, largely as a result of the larger share of total capital accounted for by capital grants. As a percent of beginning-of-the-year reserves, the annual amounts set aside have been close to 20 percent.

Table 1: PBDAC Consolidated Financial Statement: Changes in Capital Accounts.

Item	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
	(LE Millions)					
BEGINNING CAPITAL ITEMS						
Beginning Capital	50.6	50.6	55.7	61.9	61.9	62.3
Beginning Grants	0.0	0.0	0.0	0.0	89.8	234.4
Beginning Reserves (1)	48.2	60.4	74.3	87.4	103.6	125.2
Total Capital Items	98.8	111.0	130.0	149.3	255.3	421.9
ADDITIONS TO CAPITAL ITEMS						
Paid-in Capital	0.0	5.1	6.2	0.0	0.4	0.0
Changes in Grants:						
APCP	0.0	0.0	0.0	72.2	96.2	78.1
SFPP (2)	0.0	0.0	0.0	17.6	48.3	5.1
EC	0.0	0.0	0.0	0.0	0.1	0.0
Net Returns	113.3	126.4	143.7	168.4	189.7	251.1
Less: Taxes	(53.1)	(63.6)	(78.3)	(92.5)	(117.1)	(154.1)
Payments to GOE	(38.1)	(38.4)	(37.2)	(42.9)	(36.0)	(49.5)
To Others (3)	(9.9)	(10.5)	(15.1)	(16.8)	(15.0)	(20.5)
Retained Reserves (1)	12.2	13.9	13.1	16.2	21.6	27.0
ENDING CAPITAL ITEMS						
Ending Capital	50.6	55.7	61.9	61.9	62.3	62.3
Ending Grants	0.0	0.0	0.0	89.8	234.4	317.6
Ending Reserves (1)	60.4	74.3	87.4	103.6	125.2	152.2
Total Capital Items	111.0	130.0	149.3	255.3	421.9	532.1

PAYMENTS TO GOE AS A PERCENT OF:						
Total Capital Items	39	35	29	29	14	12
GOE Paid-in Capital	75	76	67	69	58	79
RETAINED RESERVES AS A PERCENT OF:						
Total Capital Items	12	13	10	11	8	6
Beginning Reserves	25	23	18	19	21	22

Note: Totals may not agree with original source data due to rounding.

(1) Includes general and legal reserves, reserves to buy government bonds, reserves for fixed asset price increases and other reserves.

(2) The SFPP grant was made to three BDACs which accounted for it as liabilities. In 1987/88 the BDACs began reclassifying the grant amounts as capital. This was completed the following year. Later amounts in this category represent earnings on the grant which were to be segregated from other Bank earnings according to the AID-GOE grant agreement. This provision applies to the APCP grant as well.

(3) Sport Committee and Nasser's Bank shares and employee profit sharing.

Source: Chemonics International Consulting Division. PBDAC & BDAC. Consolidated Financial Statements Presentation. Cairo. March 1991.

The first conclusion from this modest analysis is that the annual payments to GOE represent, at most, a very moderate real rate of return on the current value of its investments in PBDAC. The second conclusion is that, while PBDAC's annual retained reserves represent some retention of earnings, the rate of growth in reserves is somewhat below the inflation rate, and therefore does not prevent an erosion of capital.

The only similar analysis the evaluation team saw is that presented in the draft "Discussion Paper PBDAC's Future as an Independent Financial Institution". That paper analyzed PBDAC's performance during the 1980's using standard financial ratios calculated on data from the operating statements and balance sheets. It also projected some financial outcomes of policy changes -- mainly divestiture.

Analyses of PBDAC's financial data should be an on-going activity of the Bank's Finance and Budgeting Sector. Presenting the results of such analyses when requesting that capital transfers remain as grants or when requesting relief from annual payments to the Egyptian Treasury seems to us to be an open and useful mode of interaction with GOE fiscal and political authorities.

We recommend that PBDAC's Finance and Budgeting Sector, assisted by APCP technical assistance, carry out a study in which the Bank's profitability and financial strengths are analyzed according to standard accounting measures. The study should contribute to analysis and debate over PBDAC's future by presenting and discussing the financial outcomes of alternative assumptions about its future role and structure and about the effects of interest rate liberalization in the Egyptian economy.

2. Financial Management

The baseline study states that the mission and objectives for this element include:

- arrange financing to meet credit demands,
- monitoring savings and deposits, local overdraft facilities, and international accounts,
- preparing Central Bank reports,
  handling letters of credit and
- negotiation of foreign loans with lenders.

Major goals set for this sector were:

A. Long term:

1. Increasing individual deposits,
2. Budgeting as a management tool,

B. Short term:

3. Optimize cash requirements,
4. Borrowing from commercial banks,
5. Amounts due from government,
6. Borrowing from customers and
7. Borrowing from international market.

The importance of this work component has been strongly influenced by liberalization of interest rates with the Central Bank conditionally approving 12 percent as the minimum rate on time deposits, of three months and over. A second factor influenced this work when the Ministry of Finance was barred from borrowing from the Central Bank. This caused the Ministry of Finance to resort to the sale of treasury bills to commercial banks at rates that exceeded 18 percent.

The increased rates and other developments referred to in the prior paragraph have caused the work in this element to focus on PBDAC liquidity. A liquidity committee headed by a Vice Chairman and including sector heads from Finance, Banking, Accounting, and Credit was developed to deal with the management of liquidity. The committee decided to require uniform reporting based on:

1. General ledger trial balances from BDAC's,
2. Data on loans made and collections of loans and
3. Data on purchases and sales of inputs.

The uniform reporting approach will require development of new forms and more consistent reporting from BDAC's in all three areas. The Finance specialist intends to involve accounting, MIS, and Arabsoft and have the new system in place by July 1, 1991. Once this system is in operation it should reduce the required reporting requirements by the BDACs in addition to providing more consistent data.

We recommend that long term focus in this work element follow the outline of the Finance Management Specialist assignment, which is to help the PBDAC:

1. to develop a system to determine capital needs, sources and their servicing requirements,

2. to budget for and monitor operating costs and returns of various units and

3. assist in identification of management information and analysis related to the above.

We also recommend that while present finance and banking leadership is adequate that specific plans be developed for enhancing the leadership for the future.

We further recommend that backup management resources be developed for the sector. Such personnel must be carefully selected for their educational background in finance and banking. They should be given orientation to PBDAC and the changes the bank will be experiencing.

We believe that this sector should prepare to provide leadership in the control of lending and banking costs. This can be done in part through a cost and profit analysis of the BDAC's in relation to services provided. Similar analyses could be made in each PBDAC Sector.

The provision for losses 1989/90 was reported as LE 311.4 million. We could not determine how this figure was supported. We recommend that a review of non-performing loans be conducted. This would logically be carried out by the credit sector reviewing all non-performing loans which would include all loans in arrears, loans where partial payments have been made, and loan's extended or involving other servicing actions. The purpose of the review is to determine recommended actions on each loan but also to determine potential losses. The total losses estimated should then become the support for the provision for losses in the PBDAC's financial management.

D. Accounting

Accounting was established as a major bank system for development. Emphasis included a revised chart of accounts, a common set of forms, an accounting manual, and training courses to support the changes. The resulting accounting system was to be computerized with flexibility to meet PBDAC needs as its development takes place.

Work plans and progress reports have consistently shown good progress in achieving the planned improvements. The TA specialist (36 months) has had very good support and working relations with the PBDAC accounting sector and the BDACs.

The accounting work has provided an updated system which meets accounting standards of Egypt. It provides a uniform chart of accounts, procedures manual, and forms for use in the PBDAC and the BDAC's. A new Fisha card consolidating present multiple borrower cards has been developed and will be used throughout the PBDAC by July 1, 1991. This system should simplify future reporting to the Central Bank.

We recommend that development work continue in accounting to assist in simplifying uniform reporting to meet the needs of sectors throughout the PBDAC. Further work is also necessary in developing and refining uniform management reports of various bank functions in the PBDAC and the BDACs.

E. Management Information System (MIS)

The baseline study indicated that a number of analyses had been done on the needs and alternatives for an automated MIS in the PBDAC. It was also determined that the banks' information and reporting requirements were inconsistent and not uniformly meeting the needs of management levels from village banks to the PBDAC sectors, top management, and board. One of the immediate needs in MIS development was the redevelopment of accounting to provide a system which could be computerized and fully meet the PBDAC needs as well as GOE standards.

Chemonics technical assistance in MIS (36 months) and accounting (36 months) along with the Arabsoft local subcontractor, working together with the PBDAC MIS sector, have been able to develop appropriate plans for MIS development. The plans that have been developed include a pilot project in the Kalubyia governorate to test the uniform chart of accounts, procedures, forms and ability to meet the PBDAC general ledger requirements. The pilot program also tested the selected hardware, software, and supporting training.

The MIS has made excellent progress with accounting development, developing needed human resources, and appropriate selection of hardware and software to provide user friendly operations. Such operations include:

1. Payroll, which affect all employees,
2. Outside accounts of the PBDAC,
3. Tax paying section of the PBDAC,
4. Savings, current accounts, and accounts of employees and
5. Accounting General Ledger is running without supporting manual systems and daily balances are being run the day following. This promises more timely consolidated statements in the future.
6. Consolidated credit reporting is being used on project data with the intent of producing PBDAC wide consolidated credit reporting in the future.

Additional hardware has been ordered. Technical assistance and the MIS sector have in place proper plans for timely use of this equipment in the PBDAC and BDACs. Additional plans will be developed as delivery of the additional hardware continues.

We recommend that technical assistance for this element continue to support its expansion to all governorates. Assistance will also be required for simplifying reporting requirements from the BDACs and to assist in providing uniform management and supervisory reports at all levels of the BDACs and the PBDAC. Linkage of the MIS to the strategic planning program is needed to make sure that all needed information will be forthcoming.

F. Credit Management and Credit Operations

The baseline study acknowledged that the APCP credit concept had been expanded into 12 governorates and 30 districts. This lending system provides procedures whereby Egyptian technology through extension agents is made available to small farmers as they receive loans for their production plans. The system of using crop packages also assists loan officers in approving loan applications and setting-up repayment plans for the borrowers. The PBDAC has now successfully implemented the new lending concept in 14 BDAC's now serving 395 village banks. Plans call for expansion into all 17 BDAC's and 450 village banks, and ultimately to all village banks.

The baseline study also established the need for enhancement of credit processes through uniform policy and procedure manuals, forms, orientation, and training throughout PBDAC credit operations and the BDAC's, including the village banks. The baseline study referred to the fact that PBDAC's credit function is split among different sectors of the Bank. This fragmented approach reduces the effectiveness of management, development of uniform approaches, supervision, loan classification, uniform reporting, and management control.

Technical assistance in credit work has been provided by a Senior Bank Specialist (60 mos) an Agricultural Loan Specialist (36 mos), and a Farm Management Specialist (36 mos).

An overall picture of PBDAC lending for recent years is given in Table 2. Investment lending now accounts for two-thirds of total loans, although this proportion has diminished modestly since 1985-86 while total lending has doubled. This implies that crop lending has grown at a faster rate than investment lending since 1985-86.

Most investment lending is unsubsidized. In fact, in 1989-90, only six percent of investment lending was at subsidized rates.

In contrast, most crop lending is subsidized, although subsidized crop loans as a percent of total crop loans has been falling. The decrease in subsidized crop loans has been one of the benchmarks for the policy reforms. A projection for the future is needed to show how rapidly subsidized crop lending is projected to decline.

One surprise in Table 2 is the fact that cash crop loans have not increased as a percent of total crop loans since 1986-87. Since the move to cash lending is part of the APCP credit concept, the rapid spread of the concept in the BDACs, district banks, and village banks should have led to an increase in the proportion of cash lending. This question deserves prompt attention by the PBDAC management.

The credit sector is the cornerstone of the PBDAC service to borrowers. It must be well organized in terms of policy, procedure manuals, forms, training, credit followup and supervision, uniform reporting, and appropriate management reports for all levels of operations from the village banks to the BDACs and the PBDAC. A uniform organization of credit operations is needed so that they can be institutionalized and applied effectively and uniformly throughout all governorates.

We recommend that:

1. The PBDAC should manage all borrower credit programs through one sector in the bank (including Farm-Related Business).

2. All credit programs should be provided to all BDACs and village banks through policy and procedure manuals, uniform forms for each lending program, appropriate training courses, and uniform credit reporting.

3. The Economics Unit of the PBDAC should carry out an analysis of the prospects for unsubsidized and cash lending, setting realistic targets for them as proportions of total lending.

Table 2 : Subsidized and Unsubsidized Crop and Investment Loans

Item	Fiscal Year 1985-86	1986-87	1987-88	1988-89	1989-90
	(LE Millions)				
Investment Loans					
Unsubsidized	852.8	1,459.2	1,288.8	1,864.8	2,184.1
Subsidized	308.4	193.1	159.2	152.6	150.8
Total	1,161.2	1,652.3	1,448.0	2,017.4	2,334.9
Unsubsidized Loans as Pct. of Total	73	88	89	92	94
Crop Loans					
Unsubsidized	n.a.	136.6	196.9	227.3	352.1
Subsidized	n.a.	469.6	545.1	748.2	878.9
Total	476.8	606.2	742.0	975.5	1,231.0
Unsubsidized loans as pct. of total crop loans	n.a.	23	27	23	29
Crop Loans					
Cash	217.4	306.4	379.9	481.1	616.5
In-kind	259.4	299.7	362.1	494.4	614.5
Total	476.8	606.1	742.0	975.5	1,231.0
Cash Loans as pct. of total crop loans	n.a.	51	51	49	50

Investment Loans as Pct. of all Loans	71	73	66	67	65

n.a. = Not available.

Source: PBDAC

G. Farm Related Business Lending (FRB)

The baseline study identified farm-related business lending as a contractual task rather than an explicit banking sub-system. Since the baseline study, FRB has been designated as a pilot project in two governorates. We support FRB lending as an important activity for PBDAC as Law No.117 states that the bank is charged with a development role.

The baseline study proposed that PBDAC's objectives under FRB should include:

- provide financial and some technical services to FRBs,
- assist in creation of FRBs and
- foster linkages between FRBs and their client farmers.

Farm related business lending represents a substantial potential source of new lending for PBDAC. These loans will primarily be made to individual businesses or cooperatives serving farmers. The pilot effort in two governorates has been aimed at various types of farmer services related to land development. These have included land leveling, drainage (tiling), soil amelioration, irrigation, and custom mechanical services. Other types of businesses for which lending is possible include production harvesting and handling, marketing, storage, and processing. Creation of private sector input distribution and marketing enterprises should increase the need and opportunities for FRB lending by the PBDAC.

It would appear that feasibility studies will be necessary to support farm related business lending to determine the economic soundness of businesses and to establish lending limits. This will be especially true for specialized businesses designed to enhance the value of farmers production through marketing, storage, or processing activities. No provision for this capacity within the PBDAC has been made. The PBDAC's new Economics Unit can undertake general studies and surveys of investment opportunities in agribusiness industries, but it will not have the staff and technical expertise to do the required quick response feasibility analyses.

Based on the work plans and progress reports of the APCP, we recommend that:

1. The FRB program should be institutionalized through lending manuals, policies and procedures, forms, training activities, and selection of a PBDAC manager. The latter should function as a part of the Credit Sector.

2. A FRB manager should be selected and trained for each governorate.

3. FRB loan officers should be selected and trained to function in each BDAC under the FRB manager.

4. **Emphasis in U.S. and local technical assistance should be shifted from promotion of particular machines and processes to a focus on providing credit to FRBs themselves.**

5. **A cadre of staff in the PBDAC FRB program should be trained in the conduct of feasibility studies, using additional contracted technical experts as required.**

H. Internal Audit Sector

The baseline study stated that "Management's usual internal control objective is to ensure, as far as practical, the orderly and efficient conduct of the enterprise's business."

To conduct its credit operations in an orderly and efficient manner the PBDAC should:

- Discharge its statutory responsibilities; i.e., carry out its policy role of studying and serving agriculture's needs.
- Make sure it is profitable and that it minimizes costs.
- Prevent and detect fraud and error.
- Safeguard assets.
- Make sure accounting records are reliable.
- Prepare timely and reliable financial information.

Improved and strengthened management control systems were a priority area identified by bank management during the project design process. Principal areas targeted were: internal control and supervision, budgeting, auditing, and financial analysis performance.

Our review showed that PBDAC's present Audit and Control is limited to accounting data and serves as a verification of the computational and record-keeping accuracy. In short, it does not perform a professional and independent internal credit audit function.

Technical assistance in this area (36 mos.) has been provided by an Audit and Control specialist. The specialist has provided work plans (see AWP II and AWP III) with deliverables of:

- Internal Audit Infrastructure discussion paper, dated August 1989,
- Audit procedure handbook and manual, dated June 1990,

- Auditing and monitoring framework, dated February 1991,
- Procedures for evaluating internal controls and audit steps at the village bank, dated February 1991,
- Management controls or monitoring, dated May 1991 and
- Giza Governorate pilot audit prepared by Giza CRU staff and the audit specialist, dated January 1991.

The PBDAC has been provided with appropriate support and justification to permit a decision to be made on an independent internal audit program. We recommend that the internal audit and credit audit function be developed as an independent sector. This new sector should be institutionalized as a permanent part of the PBDAC. Since one does not now exist, we recommend the Sector be established by selecting experienced and capable audit professionals to organize, prepare, and implement a specific concept as approved by the board chairman. Middle level managers and auditors should be carefully selected to match their job descriptions. Similar personnel will need to be selected for the BDACs. Obviously, training must be provided for the PBDAC audit system. We recommended that the new sector do the development work first, then develop operations over time, recruiting additional staff as necessary for the expanding work. We were advised that there are local professional auditing and accounting firms that could assist with the organization and implementation of the audit sector. The present accounting specialist could also provide technical assistance.

I. Project Resources

1. Budgeting and Financial Reporting

In relation to the $33 million authorized by the PPA for this component, the financial status as of March 31, 1991 was as follows (in $1,000):

Description	Obligation	Disbursement	Accrual	Pipeline
Tech. Asst.	19,098	9,918	650	8,530
Training	3,752	1,617	80	2,055
Commodities	4,400	1,953	400	2,047
Support Services	750	113	244	392
Total	28,000	13,602	1,375	13,024

Commodities purchased include:

- Computers: 4 mini's and 46 PCs,
- Equipment for governorate training centers and
- Furniture for training centers of the BDACs and the PBDAC

Adequate funds are available for this component. Project budgeting and financial reporting appear to be excellent. We were not made aware of any particular problem in the financial management of the component and procurement of commodities.

2. Technical Assistance

The PP provided the following technical assistance:

Long term expatriate	432 mos
Short term expatriate	96 mos
Home office	30 mos
Long-term local professional	444 mos
Short-term local professional	60 mos
Program support staff	1,560 mos

Additional TA under the PPA includes:

Long term expatriate	270 person months
Short term expatriate	39 person months
Home office	17 person months
Long term local professional	219 person months
Short term local professional	18 person months
Sub contracts (arabsoft)	45 person months
Total	1295 person months

It is appropriate that future technical assistance to be provided will continue the major areas of PBDAC development in to fully institutionalize them by end of project. This is essential because real progress has already been made. The priority areas include:

- Banking development,
- Credit management and institutionalization of lending operations,
- Accounting development and application,
- MIS development and application and
- Training.

The team feels that the proposed Agricultural Loan Specialist is probably at too low a level of experience and expertise. We would therefore recommend that a senior Banking Credit Manager be considered to supply the development leadership required.

We also recommend that an experienced high level management specialist be recruited to assist the credit sector in developing and institutionalizing farm related business lending. The latter is a very important new lending concept which must be soundly developed with appropriate lending policies, procedures, and training.

The new Chief of Party has established good working relationships with the PBDAC management, USAID, and the technical assistance team. We understand the Chemonics home office is providing adequate support in procurement, training, and recruitment.

Project support is very adequate and effectively managed. This includes office facilities, typing, word-processing, translations, publications, supplies, and cars and drivers. It would be more effective and economical if all project activities were located in the PBDAC building. Also where possible, technical assistance specialists should be officed adjacent to their PBDAC counterparts in the operating sectors.

The Chemonics team has developed an effective editing support operation, project library, and a public relations-publication effort. We recommend that the APCP newsletter be published in Arabic and be modified to support the PBDAC overall rather than for project recognition.

The PBDAC officers and counterparts are generally supportive of the technical assistance that has been provided. We suggest that the PBDAC counterparts should take more initiative in preparing workplans rather than having the initiative come from the project specialists.

J. Training, Personnel Management, and Manpower Development

Technical Assistance in Training has been very effective by effectively working with PBDAC staff and leadership in developing an extensive training program. As of March 31, 1991, $1,617 thousand had been disbursed for training. The budget provides $2,055 thousand for future training through the PACD, including both in-country and participant training.

The APCP summary for 1990-1991 includes 40 different programs, 39 sessions, and 8905 attendees. The program included:

8 development programs
10 technical work shops
22 courses

The APCP participant training program for October 1990 - September 1991 provided for 103 participants with an estimated budget of $309,250. A review of participant training plans, procedures, controls and follow-up meet the guidelines of USAID handbook 10 and Mission Order 10-1.

We recommend that particular attention be devoted to developing a new training needs assessment to fully address the development PBDAC will experience in the future: The original training assessment did not have a manpower development focus. Positions in the revised organizational structure should be specified in terms of skill and knowledge requirements. Present staff should be evaluated in terms of their qualifications relative to the position requirements. Training should be designed to upgrade knowledge and skill levels of existing staff as necessary.

We also recommend that a careful evaluation be made of PBDAC training staff leadership, leadership resources and facilities. It would appear that training could be a part of the Personnel or Human Resources Sector. The training leadership could be raised in level and permitted to more readily relate to sectors, departments, and the BDACs in training development. This is a work area that merits a considerable support by PBDAC officials and technical assistance to address the development of effective human resource policies and procedures.

We also recommend that whenever training specialists can be brought in-country to provide specific training in Arabic, it be done in lieu of off-shore training. That not to say that off-shore training should not be selected where it is the most appropriate alternative.

PBDAC urgently needs personnel management work which would assess PBDAC's present manpower strength and weaknesses. This will permit PBDAC management to develop backup for top and middle management based on planned training, delegation, and assigned responsibilities to provide performance and experience.

A modern effective personnel management plan must be developed with inputs from PBDAC's top management. The plan should be directed at providing policies and procedures that will:

1. Provide a manpower evaluation sector by sector.

2. Provide proper placement of personnel and/or transfer based on experience and capabilities.

3. Require matching of person to job description in hiring - with competitive hiring practices.

4. Provide that all training be carefully supported by job and personnel needs assessment.

5. Permit delegation of hiring and firing to heads of sectors and along with responsibility for effective manpower management performance. Top management of PBDAC should be provided opportunity to review actions and results in every sector and BDAC.

6. Determine which sectors or BDAC's have over-staffing or staffing deficiencies so that plans can be developed and approved for resolving these problems over time.

7. Provide for regular employee/supervisor performance reviews.

8. Make available counselling to persons who may not be able to continue in their position due to manpower constraints, lack of skills, or other factors.

K. USAID Project Management

USAID guidance and management of the institutional strengthening component is very satisfactory. Cordial and close working relations exist among the technical assistance team, the PBDAC leadership, and the USAID managers. Regular weekly meetings provide for timely exchange of information, identification of problems, and effective problem resolution. Project files are complete and regularly updated. The USAID Project Officer and Program Specialist are very familiar with the objectives and strategy of the component and thoroughly conversant with its implementation. USAID staff, however, should give more attention to indicators of progress on the important institutionalization issues. They could then serve as catalysts for identifying constraints and jointly seeking solutions with the PBDAC management and the technical assistance team.

V. SOCIO-ECONOMIC IMPACTS OF THE PROJECT

A. On-farm Project Impacts

The major expected impact of the project is it effect on farm productivity. Changes in cropping patterns, crop yields, and farm incomes are expected to arise from both components of the project: policy changes and credit plus technical assistance. Of the two sources, we would expect the effects of the former to be both more intensive and more wide-spread, though likely appearing more slowly, as a result of prices moving toward free market levels and the removal of planting restrictions and area quotas that give freer rein to farmers' independent management decisions.

1. Policy Impacts

Hard evidence thus far of significant on-farm policy impacts is sparse, although recent increases in wheat and rice areas and yields are being attributed to the policy reforms. As discussed in Section III, papers prepared for the June 1989 Policy Conference and the tranche 3 benchmark verifications drew on farmers' responses to questionnaires and to economic reasoning to argue the expected direction of impact. Other evidence is negative: According to official data, cotton area declined an average of 35 thousand feddans annually between 1970 and 1989. One paper presented at the policy conference argued that, when the trend component of cotton area planted is removed, year-to-year variations in area planted are positively associated with the previous year's price. Over time, area and production impacts of policy changes should show up in the national agricultural statistics. Improvement in sampling procedures for seasonal production estimates, as is proposed under the NAR project, will improve data timeliness and reliability. Estimating impacts in the short time frames required for the benchmark verifications will continue to require the surveys of the kind done for tranche 3. Oddly, no requirement for similar impact analysis is specified in the Memorandum of Understanding covering tranches 4-6.

2. Technology Transfer Impacts

The effect of technology transfer activities under the APCP technical assistance component arises primarily from the project's efforts, begun under the Small Farm Production Project (SFPP), to foster an effective relationship between extension and the credit program. Briefly, in those governorates in which the project was active, project staff worked with MALR extension specialists and scientists at the Agricultural Research Center to develop up-to-date crop production technology packages, prepare crop budgets based on national prices, and train extension agents in the technology of the crop packages. Winter and summer crops were treated separately.

Most of the agents trained were MALR employees, though some were from the Ministry of Irrigation and Water Resources. The program did not reach all the villages in any one governorate until several years into the project's life. Some of the governorates now in the project are still not fully covered.

The program had several interesting features:

a. During the seasonal training, extension agents were given practical experience in farm budgeting by revising the prepared budgets from their own knowledge of prices in the areas in which they worked.

b. Following training, subject matter specialists made field visits, generally two per month, to consult with and give assistance to the agents.

c. Cash incentives were paid by PBDAC to extension agents based on evaluation for effective performance in the field.

d. Not all MALR extension agents participated in the program. PBDAC selected the agents it wanted to work with. A ratio of about one agent for each 500 feddans was standard.

APCP staff argue that the program was a success because of the integration of hands-on training, effective technology, follow-up technical assistance and the incentives. Indeed, this argument is supported by the results of farm surveys taken during the course of the SFPP. (See below.)

Since November 1990, responsibility for developing crop packages and working with the extension agents has been turned over entirely to the National Agricultural Research project (NARP) and sited in its Technology Transfer Component in MALR's Agricultural Research Center (ARC).

This transfer was a matter of concern to some of the APCP staff. It was feared that some of the carefully developed procedures on which the program counted for success would be lost. Though there were some start-up delays, crop manuals, including budgets, have been prepared, training sessions for the 1990-91 winter and 1991 summer seasons were held, and subject matter specialists are making their twice-monthly visits.

Two important differences remain. First, the number of extension agents has increased to raise the ratio to 1 agent for each 200 feddans, and second, incentive payments to extension workers have been suspended, except in three governorates.

While the close integration of the technology transfer and credit functions is vitally important to the success of the project, only the issue of incentive payments operationally concerns APCP. The NARP-APCP Memorandum of Understanding, which formally transferred development responsibility for the technology transfer element from APCP to NARP, called for PBDAC's continued payment of the incentives. PBDAC has declined to do so, and the Memorandum remains unsigned. ARC contends that all extension agents should receive incentives, or at least be eligible for them. PBDAC is reluctant because it cannot select the agents it wants on the program, and because the payment of incentives to all agents would be too expensive. This concern is compounded by the apparent doubling of the number of extension personnel in the field. It will grow as the APCP concept is expanded throughout the country.

The larger issue of whether or not PBDAC should be supplementing the salaries of employees of another government agency to induce them to do their jobs is also troubling. Merit pay schemes, involving cash awards that are based on performance and paid from the employing organization's own resources, are part of most well-functioning personnel systems. But this does not seem to apply to the Egyptian civil service.

If, as seems likely, the incentive payments were a necessary element of the APCP approach to technology transfer, there seems to be no solution other than finding a way to pay them from MALR funds. It may be, however, that non-monetary incentives can be found to partially substitute for the payments and maintain the high quality technology transfer program. The team regards this to be an urgent matter for APCP, NARP, and USAID.

B. PBDAC's Information Requirements

1. Measuring Technology Transfer Impacts

a. Crop Production

In its farm surveys, the SFP project developed a workable system for estimating the impact of its technology transfer activities. Samples of farmers, evenly divided between those served by the project and those not so served, were interviewed for information on crops, areas planted, inputs used, costs incurred, yields, and financial returns.

In each of two years during which the sampling was through a probability selection, 1984/85 and 1985/86, farmers in the project had higher crop yields and higher net returns than those not in the project. Generally though, project farms did not significantly incur higher costs. The investigators argued that this was because much of the production on project farms achieved economies of size for some operations by blocking land of different farmers together. Blocking was less used on non-project farms. Thus, though project farms undoubtedly used more fertilizer, pesticides, and improved seed than did non-project farms, these higher costs were offset by the savings from common seedbed preparation.

No further farm surveys were taken until 1989 when a summer season and a winter season survey were carried out. Only the summer season survey sampled project and non-project farms separately so that yield and returns comparisons could be made. The comparisons are summarized in Table 3.

Here, the results were mixed. Maize and rice yields were significantly (statistically) higher for project farmers than for those not in the project. Non-project farmers had significantly higher eggplant yields than did project farmers. Tomato yields were not significantly different between the two groups.

Differences in the use of inputs were also mixed. Project farmers tended to use more fertilizer and pesticides than did non-project farmers. But differences were statistically significant for only some items, and in some cases, non-project farmers used significantly (statistically) more of the input item than did project farmers.

The reasons for these mixed results may have been due to the small sample size which did not yield useful comparative data for many vegetables, by governorate, and the fact that project and non-project respondents were in different geographic areas within the governorate. Thus differences due to the project may well have been confounded by differences due to the environment. It may also be the case that project impacts are lessening, though such a conclusion can only be speculative.

The sample for 1989-90 winter season survey does not appear to have been chosen to separate project and non-project farmers. No such comparisons can be made from the results.

Table 3: Summer Season Survey: Yields and Input Use for Rice, Maize, Eggplant and Tomatoes

Item	Daqahliya Governorate In APCP	Daqahliya Governorate Not in	Qalubiya Governorate In APCP	Qalubiya Governorate Not in	Beni Suef Governorate In APCP	Beni Suef Governorate Not in
		RICE				
YIELD, tons	3.18	2.74 **	not sampled		not sampled	
INPUT USE:						
Manure (load)	9.26	82.40				
Seed (cola)	6.79	2.59				
Phosphate (sacks)	2.59	2.67				
Nitrogen (sacks)	6.52	6.63				
Foliar (kg)	0.18	0.18				
Pesticides (LE)	14.43	10.73				
Animal use (LE)	39.04	56.29				
Machine use (LE)	249.75	266.53				
Family labor (LE)	70.02	123.34				
Hired Labor (LE)	206.10	188.33				
Total Input Cost	680.82	747.61				
			MAIZE			
YIELD, ardab	14.88	13.23 *	16.88	15.40 *	14.75	12.19 **
INPUT USE:						
Manure (load)	120.30	256.00	192.10	197.00	198.50	200.90
Seed (cola)	2.15	2.40	1.93	2.35	1.77	1.69
Phosphate (sacks)	3.13	1.26 *	1.46	0.96	0.99	1.46*
Nitrogen (sacks)	13.07	11.77	14.37	12.70**	12.94	14.70**
Foliar (kg)	0.55	0.15	0.20	0.05	0.02	0.17
Pesticides (LE)	24.55	3.01 *	15.01	11.42	1.85	2.72
Animal use (LE)	21.10	40.28	46.87	56.92	39.36	43.99
Machine use (LE)	151.94	80.96	76.12	92.99	100.90	112.58

Family Labor, LE	67.92	141.42	191.66	167.84	132.65	128.97
Hired Labor (LE)	158.86	110.87	135.96	127.36	185.41	194.68
Total Input Cost	537.80	510.73	597.40	622.57	585.47	609.49
EGGPLANT						
YIELD, tons	not sampled		12.00	18.40 *	not sampled	
INPUT USE:						
Phosphate (sacks)			3.10	2.80		
Nitrogen (sacks)			13.20	15.14		
Pesticides (LE)			37.90	32.19		

Item	Daqahliya Governorate		Qalubiya Governorate		Beni Suef Governorate	
	In APCP	Not in	In APCP	Not in	In APCP	Not in
TOMATOES						
YIELD, tons	not sampled		17.86	16.36	not sampled	
INPUT USE:						
Phosphate (sacks)			9.28	9.51		
Nitrogen (sacks)			15.77	16.25		
Pesticides (LE)			71.10	100.82		

Note: Tests of significance made only for yields and fertilizer and pesticide use.
* = Significant at 95 percent probability.
** = Significant at 99 percent probability.

Source: Chemonics International Consulting Division. An Economic and Statistical Analysis of the 1989 Summer Season Survey (Draft). May 1990.

Clearly, there needs to be, semi-annually through the remaining life of the project and less frequently thereafter, carefully conducted farm-level surveys designed to capture yield, input use, and financial return differences due to the project. Care must be taken to minimize the possible effect of differences among farmers apart from effects of the project. That is, farmers who are otherwise more skilled and more innovative may have selected themselves into the project, and it is this effect that the survey process must guard against.

b. On-farm Investments

The evaluation team has not seen explicit data on changes in on-farm investments resulting from the project. The report of the 1989 summer season survey attempts to project investment credit demand by (1) tabulating farmers responses to questions dealing with perceptions of need and (2) by arguing, from farm cost data, the need for cost-reducing investments. The draft report for the 1989-90 winter season survey reports farmers' experience in requesting investment credit and tabulates stated purposes of investment loans received and farmers' perceptions as to needs for additional investment credit. None of this directly measures on-farm investments or, without additional data and analysis, provides guidance as to the areas of potential demand for investment credit.

The data are too aggregated to permit the conclusion that on-farm investments have increased because of the project. Indeed, investment loans, while accounting for more than half of PBDAC's total lending, declined as a fraction of the total from 71 percent in 1986-87 to 65 percent in 1989-90 (Table 2). Interestingly, unsubsidized investment loans, already 73 percent of total investment loans in 1985-86, increased to 94 percent by 1989-90. In contrast, the percentage of unsubsidized crop loans varied, without really increasing, between 23 and 29 percent of all crop loans over the period.

Clearly, however, farm-level information on farmers' investments is important to on-going Bank operations, as well as to the project's monitoring requirements. Accurate information can be obtained only through surveys.

2. Developing an Information Capability

Apart from the information generated in the Management Information System, PBDAC has information requirements regarding the Egyptian agricultural economy and the clientele the Bank serves. Further, PBDAC is a major player in Egypt's aggregate economy. With a virtual monopoly in the nation's large agricultural credit market, its own borrowing and lending actions clearly have monetary impacts that should be understood.

The Baseline Study called for the Bank to establish a capacity for collecting and analyzing financial and economic information on the results of its clients' production activities. It also recommended that APCP fund semi-annual surveys of crop production, yields and farmers' plans for input use in the upcoming season.

APCP's Banking Economist has proposed, and PBDAC has approved in concept, establishing an economic analysis unit which would:

a. Analyze macroeconomic trends.

b. Analyze agricultural policies and trends in the agricultural economy.

c. Do market research to develop marketing strategies regarding new clients, credit products, pricing, etc.

d. Prepare benefit-cost analyses of projects and proposed areas of lending.

e. Assist in formulating Bank price policy regarding interest rates and service fees in terms of market response and impact on the Bank's portfolio.

f. Carry out surveys to estimate farmers' demand for credit.

g. Carry out cost-of-production and productivity surveys as a basis for adjusting credit policy.

h. Collect crop and livestock technical recommendations, prepare enterprise budgets to promote new agricultural technology.

The unit is proposed to be established in the office of the PBDAC Chairman, Vice Chairman or Sector Head, depending on how critical its functions are seen to be to Bank operations.

Proposals for the unit's staffing are not precisely specified. Mentioned are expertise in agricultural economics, statistics, and banking. The head of the unit is proposed to be an agricultural economist with wide experience in agricultural finance and credit.

The Banking Economist has so far trained a number of PBDAC and BDAC employees as field enumerators in order to give the unit an in-house capability for farm surveys. These persons hold regular positions at the BDAC, district or village banks and would be assigned to survey work as needed.

3. Recommendations

PBDAC's information requirements depend in part on whether it sees its future as a commercial bank or as a development bank. In addition, information requirements in the context of the APC project differ from those over the long run of the Bank's operations.

Dealing with the latter point first, large-scale semi-annual crop surveys are probably necessary during the life of the project to provide the kind of impact data on yields, costs and returns required for project monitoring. That frequency is probably too great for the Bank's own information needs.

1) The team recommends that the seasonal crop surveys be carried out regularly through the remaining life of the project. The surveys should be designed to capture project-nonproject differences in credit and input use, crop yields and net returns, as were those carried out during the SFP project, at least for major crops. Data on recent and planned investments should be gathered in the survey. Survey methods should refer back to the crop technical packages and budgets in order that these can be explicitly verified by survey results.

While we recognize that the project's on-farm impact goes far beyond single-crop costs and returns, the major purpose of the monitoring activity can be served expeditiously and at moderate cost with this simpler concept. Once the project terminates, these crop package verification surveys can be done less frequently, say every three to five years. On-farm research should then more and more emphasize the complex economics of resource use in a multiple cropping rotations context.

The Banking Economist's proposal for the economic analysis unit appears to assume PBDAC's long-run future is as a commercial bank. This is suggested by the recommendations for marketing analysis and pricing policy, i.e., devising profit-making strategies for banking operations.

Though PBDAC will continue to have commercial banking functions for which revenues must cover costs, the Chairman has indicated to the team that PBDAC will have a development banking role, and Bank costs will be covered by interest spread earnings. Our recommendations for the economic analysis unit assume that PBDAC will take on some of the role of a development bank. It will at least refrain from using the monopoly powers it has in agricultural credit in classical profit maximizing behavior.

2) While the team endorses most of the list of analytical activities proposed by the Banking Economist, we recommend that they be directed toward:

a. Understanding the Egyptian agricultural economy. This implies rather classical agricultural economic analyses of production economics, demand analysis, marketing, and farm finance. Particularly important is understanding farmers' decision processes for resource use.

b. Understanding PBDAC's role as a major player in the credit and monetary markets in order that it use its monopoly powers judiciously regarding interest rates and service charges and in order to support monetary stability.

c. Studies of new project opportunities for farmers and agribusiness firms. A quasi-development bank should be seeking new products, new processes and new market outlets for its clients. It should not be competing for the existing clientele of other credit institutions. There should be some willingness to take carefully considered risks in undertaking these projects. The benefit-cost analysis capability proposed by the Banking Economist is appropriate for this activity. And the marketing research could be redirected toward this end.

An important question is that of the extent to which PBDAC will develop an in-house capability for surveys and economic analysis. The proposals of the Banking Economist are not explicit except in regard to having trained enumerators. Opportunities would seem to exist for exploiting the expertise available in other institutions.

3) The team recommends that PBDAC avoid developing a major in-house capability for hands-on data gathering and processing:

a. Survey work, particularly, should be done on contract. PBDAC's trained enumerators could participate as quality control staff. Survey design and interviewing are specialized skills that cannot be effectively applied on a part-time basis.

b. Much of the research activity should be carried out through contracts, cooperative agreements or grants with Egyptian universities or the MALR Agricultural Economics Research Institute. These institutions have staffs of trained economists and technicians.

With these resources available "for hire as needed", a large full-time staff, and related equipment, at PBDAC does not seem cost-effective.

4) As a corollary to the above, the full-time permanent professional staff of the economic analysis unit should be limited to a small number of economists and agricultural economists. These should be generalists in the field, but insofar as they specialize, at least one should be in production economics and farm finance and another in agricultural marketing and price analysis. Their role would be to commission research and studies by outside institutions, interpret results for PBDAC management and serve as policy advisors to the officers and Board of Directors. A technical and clerical support staff is implied.

A senior macroeconomist should have a part-time position with the Bank. This could be done through a joint appointment arrangement with one of the universities. This professional's role would be to advise PBDAC leadership on the macroeconomic consequences of credit operations. Studies and analyses of money market issues would also be done through contracts.

For this unit an operating budget of, say, LE300,000 annually would provide a modest, but significant, level of survey and analysis activity.

C. Impacts on Women

The 1989 baseline study reported on surveys in four villages of Qalubiya Governorate covering women as Bank clients for credit and banking services and as Bank employees. In the surveyed villages, women accounted for one out of five Bank borrowers and one out of four depositors.

Women were 17 percent of Bank staff in the surveyed villages, generally holding low level positions, and none of them were on the Village Bank's APC project committee.

The only regularly collected and reported data on women's participation in the project that the evaluation team has seen are limited to loan numbers by gender. These data apply only to project BDACs and are not system-wide. Thus, of the 184,863 total within-project loans made in the 1989/90 fiscal year, 67,403 (36 percent) were to women. Loan volume, by gender is not reported.

Recently PBDAC has begun to pay more explicit attention to women as Bank clients and Bank employees. A committee, headed by the Head of the Planning and Organization Sector,a woman, and including the BDAC Chairman from Qalubiya Governorate, has been charged with developing and monitoring activities for women, both clients and employees. A BDAC level committee has also been formed in the Qalubiya Bank.

One of the PBDAC committee members recently attended a course, held in Cyprus on improved lending for rural women. The recommendations from that course form the basis for a similar course, being organized by the Bank for its own staff. The first offering, in 1991, will be for women employees. Subsequent offerings will be for both women and men employees.

Data on the gender composition of the BDACs' staffs, tabulated by the committee, showed that, in 1989/90, there were 32,180 total employees of which 3,377 (11 percent) were women. Women held 17 positions at the level of Director, General Manager, or above.

A pilot project has recently been started in two village banks of the Qalubiya BDAC to provide more detail on women borrowers. For the two villages, data have been tabulated on the numbers of male and female clients, and for the female clients, their numbers, volume of lending, and repayment record, by loan purpose. These data are summarized in table 4 below.

Table 4: Summary Data on Pilot Project for Women BDAC Clients.

VILLAGE	Client Numbers: Male	Client Numbers: Female	For Female Borrowers: Number of Loans	For Female Borrowers: Loan Volume (LE)	For Female Borrowers: Repayment Rate (pct.)
Deir (1)	1,200	445	110	108,983	100
Asmied (2)	2,583	430	26	14,200	100

(1) Reported loan purposes were in poultry, calf fattening, veal calves, milk processing, apiculture and sewing machine purchases.

(2) The reported loan purpose for all loans was vegetable marketing.

Expanding the monitoring of women client activities throughout the system, along with the training now beginning, should increase the Bank's interest in, and ability to, better serve its female clients. However, the efforts must be internalized by PBDAC and BDAC top management. The evaluation team was surprised to learn that no written report to top management of the employee study or of the pilot project has been made or is planned. We urge that this be done expeditiously as an important step in making womens' roles as Bank employees and clients a concern of top management.

VI. SUMMARY OF MAIN FINDINGS AND MAJOR RECOMMENDATIONS

Our main findings and major recommendations are summarized below. They are organized in response to the four key concerns listed in the scope of work for the evaluation. Within each section we give some indication of the priority we attach to our major recommendations through the order in which they are listed.

A. How adequate and effective is the APCP organizational and management structure in supporting implementation to achieve project goal and purpose and produce outputs by PACD?

1. Main Findings:

- Project workplans, budgets, and management are effective in providing technical assistance, support services, and commodities.
- Progress has been made in developing management data through improvements in accounting. However, the majority of governorates must still report using a manual system. They also face multiple and uncoordinated requests from different PBDAC sectors.
- Sector heads, BDAC chairmen and other top personnel are being effectively used in development efforts. This is particularly true in lending expansion and accounting and MIS development. However, for some reason it is not being uniformly applied to all development work, i.e., farm related business, audit, and personnel management.
- The PBDAC has a large personnel complement which, some say, numbers 40,000 or more. It is apparent that some personnel are not being used productively and some will become redundant with the divestiture of input distribution.
- Strategic planning in PBDAC has begun but is still in its infancy. Nevertheless it is a good example of the Bank's efforts to strengthen its management decision-making.
- While a large number of management-level personnel are now regularly involved in PBDAC strengthening work through the project, it is still true that too many decisions are being made at the very top.

2. Major Recommendations:

- A fully coordinated reporting system should be developed in order to minimize duplication of requests for reports. This coordinated system of essential reporting must be developed by Accounting and MIS in consultation with the important users. Only the essential management reports should be specified, recognizing that there is still a manual reporting system.

- Strategic planning should be developed as a continuous process, through the application of a strategic planning program in every sector and BDAC. The Chemonics Chief of Party/Senior Banking Specialist should provide technical assistance to formulate and implement the strategic planning program.

- A manpower planning program should be developed and applied throughout every PBDAC sector, BDAC, district, and village bank. This concept will produce positive results in quantifying human resources and provide better alternatives in managing them.

B. Has the technical assistance contractor effectively designed and implemented Credit Development, Banking Systems, Training, and Program Support Services to enhance PBDAC's institutional capacity?

1. Main Findings:

- Good progress has been made in the design and development of Credit and the Banking Systems of Accounting and MIS. However, these all need further development in order to be uniformly applied in all governorates and institutionalized for PBDAC's future.

- The pilot FRB lending has been narrowly applied to land development projects, and banking procedures are narrowly focused on these activities.

- The PBDAC training and technical assistance has been very effective in improving training facilities and implementing in-country and participant training activities. Training continues to have a high priority and must increasingly be done with the PBDAC's own resources.

- Program support services, and home office support, has been adequate and effective for the technical assistance team. The emphasis now should be to institutionalize as many of these as possible to support the PBDAC rather than the project.

2. Major Recommendations:

- **Carry out a new training needs assessment that starts with the new organization of the ABDAC, job descriptions specifying knowledge and skill requirements, and an evaluation of incumbents in each position to determine training needs.**

- **Establish a PBDAC-wide lending program for agribusiness enterprises in input distribution and product processing and marketing, including a feasibility study capability.**

- **Develop a plan that identifies which program support services will be institutionalized in the PBDAC and a timetable for its implementation.**

C. What preliminary impacts has the project had on farmers and on PBDAC's institutional capacity and financial viability?

1. Main Findings:

- Policy changes are the major source of project impacts on farmers, though their effects appear only over time. Tranche 3 benchmark verification reports used surveys of farmers perceptions and economic logic to argue positive policy impacts. No such impact analysis was done for tranche 4 verifications.

- Technology transfer, linked to credit, is the other source of project impact on farmers. Responsibility for developing this linkage has been transferred to the National Agricultural Research Program (NARP). The transfer has, so far, been generally successful, though the payment of performance incentives to extension workers remains an important issue.

- The most recent crop verification surveys (Summer 1989 and Winter 1989-90) show mixed results in terms of differences in crop yields, input use, and financial returns between project and non-project farmers. There are as yet no survey data showing increased on-farm investments due to the project.

- APCP is assisting PBDAC in establishing an economic analysis unit. As now proposed, the unit would both help PBDAC policy makers understand better understand the Egyptian agricultural economy and help PBDAC management devise profitable lending strategies.

- APCP is tracking and reporting data on the number of women borrowers. PBDAC has recently established a committee to develop and report on activities for women as clients and employees. The committee is assembling data on women employees and the positions they hold. A pilot project to track lending to women clients has begun in Qalubiya Governorate. Training for Bank employees on improved lending for rural women is getting underway.

- The GOE's rate of return to PBDAC's paid-in capital, though large in nominal terms, is very modest when compared with current market values for fixed assets.

- PBDAC's retained reserves are not growing fast enough to prevent an inflationary erosion of capital.

- Liberalized interest rates are forcing PBDAC to be more alert to changes in capital markets if it is to maintain its financial viability.

- The consolidated balance sheet's provision for losses, at LE 311.4 million, seems very conservative, given the PBDAC's bad debt experience.

2. Major Recommendations:

- A study of the alternatives for the PBDAC, and the implications of those alternatives for its sources of capital and financial viability, should have the highest priority in the APCP workplan. Technical assistance should focus on systems development for analyzing capital needs, sources, and servicing requirements.

- USAID should work with NARP and PBDAC authorities to resolve the issue of incentives for extension workers. The team recommends that the resolution be either in the form of monetary payments from MALR resources or in the form of non-monetary incentives.

- APCP should carry out, each crop season through the life of the project, precisely focused crop technology verification surveys comparing project and non-project farmers in input and credit use, crop yields and financial returns. Once the project terminates, PBDAC should continue the surveys at a reduced frequency of once every three to five years.

- The proposed PBDAC economic analysis unit should emphasize: (1) understanding the Egyptian agricultural economy: markets, finance and farmers' resource allocation decisions; (2) understanding PBDAC's role as a major actor in the Egypt's financial markets; and (3) identifying and analyzing new project opportunities for farmers and agribusinesses. PBDAC should recruit a small, highly proficient economic analysis staff covering agricultural economics and macro-economics. Consider part-time expertise with joint appointments at universities with the bulk of the economic analysis unit's investigations done through sponsored studies by universities and MALR units.

Recent attention to women as clients and employees should become institutionalized PBDAC programs. T/.e data still has been assembled on female Bank clients and employees should be analyzed, and a report of findings and recommendations issued for management's review.

D. Are there aspects of the design and operation of the policy reform compon' ;t that could be modified to improve their effectiveness?

1. Main Findings:

- The policy reforms have been fully supported by the Minister and senior officials of the MALR, an essential condition for successful policy-based program assistance.

- The APCP pioneered a unique blend of performance-based program assistance with complementary project-type support, creating a synergistic relationship applicable to other programs, sectors, and countries.

- Impressive progress was made in tranches 1-3 during 1986-89 to remove or reduce government controls on production and marketing and move domestic prices to border equivalents, except for cotton, quota rice, and sugar cane.

- The policy reforms and early assessments of their impacts were publicly discussed at an unprecedented conference held by the MALR in June 1989.

- The Memorandum of Understanding for tranches 4-6 concentrated excessively on fixing cotton and other selected prices at specified target levels in contrast to emphasizing reforms to encourage private sector enterprises competing in open input and product markets, with the GOE providing cost effective institutional and service support and an economically rational policy environment.

- The MALR and the PBDAC are committed to privatizing input supply activities but actual progress has been slow and is concentrating on conversion of village input distribution from the PBDAC to the cooperatives.

2. Major Recommendations:

- USAID and the MALR should revise the statement of purposes of the APCP to explicitly recognize the promotion of policy reforms that will free farm producers from area and quota controls; liberalize agricultural markets to provide appropriate incentives and price signals to encourage and guide production; create private sector input supply industries; and stimulate private investment and expanded business operations in open input supply, output marketing and processing, and international trade agribusiness industries.

- USAID should agree with the GOE that the objectives of the program assistance are to assist advocates within the GOE to overcome opposition to the policy reforms, help stimulate private-sector responses to the reforms, and cushion some of the adjustment costs of the reforms on the government budget and affected institutions and groups in the population.

- USAID and the MALR should include a benchmark for tranches 5 and 6 that requires the MALR to carry out a study of the impacts of macroeconomic, trade, and exchange rate policies on the agribusiness system and hold an internal policy dialogue with other ministries and the Higher Policy Committee.

- USAID and the MALR should include a benchmark in tranches 5 and 6 to modify the preparation of the annual national cropping plan by the MALR in favor of an indicative planning approach to providing information for private planning and decision-making.

- The MALR should develop detailed plans for evaluating the economic impacts of the policy reforms that involve explicit institutional responsibility within the MALR and required technical assistance and funding to establish necessary methodologies and data collection.

- USAID should request that the MALR organize and hold a second policy conference at the end of tranche 6 to discuss the results of the reforms and needs for further reforms.

- The MALR should create a ministerial authority reporting directly to the Minister to approve privatization plans and strictly enforce implementation timetables.

- The PBDAC should offer to sell inputs to any registered buyer, using quantity discounts to distinguish farmer-buyers from dealers and providing equal access to all buyers, cooperative and for-profit enterprises.

- The PBDAC should provide for early disposition, through a competitive process, of that portion of its physical facilities used for input distribution.

- USAID should encourage and assist the GOE to formulate and implement economically sound and cost/effective policies and programs to lower producers' price risks, insulate domestic markets from excessive instability and distortions in international markets, and achieve national food security objectives.

- USAID and the MALR should approach tranche verification requirements by assessing overall progress toward the medium-term objectives of the reforms, using agreed upon weights and accepting reasonable tradeoffs among the set of benchmarks for any given tranche.

ANNEX 1

SCOPE OF WORK

63

AGRICULTURAL PRODUCTION AND CREDIT
(263-0202)
MIDTERM EVALUATION SCOPE OF WORK

The contractor shall be responsible for providing an evaluation of subject USAID project. The contractor shall provide all resources except for an economist and a USAID project officer, both of whom shall be furnished by USAID, and a project specialist who shall be provided by the Principal Bank for Development and Agricultural Credit (PBDAC).

A. ACTIVITY TO BE EVALUATED

Project: Agricultural Production and Credit Project (263-0202)
Institutional Strengthening Element
Policy Reform Element

PACD: 9/30/1995

Primary Contractor: Chemonics

Period to be Evaluated: Project authorization - April 1991

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.

The objective of the institutional strengthening element is to improve financial services to the rural clients of the Principal Bank for Development and Agricultural Credit (PBDAC).

The objective of the policy reform element is to assist the Government of Egypt in deregulating the Agricultural Sector, specifically to promote the deregulation of crop production and marketing, to promote the phase-out of farm input subsidies, and to promote the privatization of marketing of farm inputs and crops.

B. PURPOSE OF THE EVALUATION

The APCP midterm evaluation is in accordance with Article 5.1 of the project grant agreement which requires that an evaluation program be established to identify problem areas or constraints to attainment of project objectives.

The primary purpose of this midterm evaluation is to review implementation progress made in the institutional strengthening element of APCP since project authorization to determine whether any redirection is required to assure expected project impacts. In addition, the team will review the design, implementation, and socioeconomic impact of the policy reform element, and documents the applicability of this performance based disbursement model to other sectors in Egypt or to other AID-assisted countries.

This evaluation will be used by PBDAC, GOE entities involved in project implementation, USAID staff, and technical assistance contractors to improve project implementation and by USAID project management to document and quantity project impacts to date. The evaluation will be completed before June 1991 so that the findings and recommendations are available to PBDAC managament for use in their annual planning exercise.

The evaluation will draw upon site visits, interviews, and analysis of information collected by existing project monitoring, evaluation and survey systems.

C. BACKGROUND

The Agricultural Production and Credit Project (APCP) is an important element in USAID's support to macroeconomic reform in Egypt. The project was begun in FY 1986 as an amplification and follow-on to the successful Small Farmer Production Project (SFPP). The project seeks to increase agricultural productivity, agricultural investment and farm incomes, in part, by assisting the GOE to remove distortions and controls in the agricultural policy environments which do not provide farmers with incentives to increase production and productivity commensurate with continued growth in domestic demand. A recent project amendment has increased life of project funding to $283 million and has extended the PACD to 9/30/95.

The objective of the APCP is to supplement credit system reform by assisting the Ministry of Agriculture (MOA) with design of a broad program of policy reform throughout the agricultural sector. The project has two main elements The policy reform element and the institutional strengthening of PBDAC element. The policy reform element of the APCP, which targets major government policies such as mandated cropping patterns and quotas, subsidies on farm inputs, and state management of the marketing of agricultural inputs, is expected to transfer $250 million to the GOE for implementation of policy reforms and changes by the 1995 PACD. $100 million has already been disbursed in three separate tranches: 1987 ($33 million); 1988 ($40 million); 1989 ($27 million). The remaining $150 million will be disbursed in tranches upon achievement of benchmarks relating to cotton procurement prices, elimination of delivery quotas for rice, elimination of input subsidies, and privatization of farm input supply activities.

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At the same time, the institutional strengthening element of the project will provide $33 million by the 1995 PACD to assist in PBDAC's evolution from an input supplier/distributor to a more independent credit institution with the capacity to provide credit services to rural clients. Because reduction of government subsidies is expected to increase the costs of production and the demand for credit, the APCP is designed to expand PBDAC's capital base so that it can better provide essential credit to farmers and farm related businesses during the policy transition period. A host country contract was operationalized between PBDAC and Chemonics International in late 1988 to assist the Bank in strengthening its management capabilities, internal operating systems, human resources training capabilities, and its capacity to design and manage the divestiture of input supply operations. In the first year of operations a comprehensive baseline study was completed which described the status of each PBDAC subsystem, identified farmer concerns and needs, measured existing levels of farm production and income, and assessed women's participation. Subsequent efforts have focussed on implementing the recommendations developed in the baseline study. As of the third annual workplan dated June 1990, institutional strengthening technical assistance was organized under four main headings: Credit development, Banking systems, Training, and Program Support.

After three full years of operations, project implementation is generally agreed to be excellent. Agricultural policy reforms has equalled or exceeded agreed project goals in most areas, and the MOA's initiative has overtaken the original project design. The Ministry of Agriculture continues to demonstrate its commitment to liberalizing the agriculture sector but is understandably cautious about proceeding with divestiture and privatization of farm input supply functions at a pace that would threaten market disruption and produce adverse political repercussions. A recent project paper amendment provides for local currency funds to alleviate potential adverse effects from reform measure, a resident divestiture specialist, and a series of divestiture studies.

D. STATEMENT OF WORK

The contractor shall address the following key concerns:

1) <u>How adequate and effective is the APCP organizational and management structure in supporting implementation to achieve project goal and purpose and produce outputs by PACD?</u>

Are the planning, programming and budget processes adequate to insure that consultants, equipment and participants are being properly and effectively utilized? Are the projec't monitoring and information systems producing sufficiently quantitative, accurate, relevant, and timely data to satisfy the information needs of Bank Management, TA contractors, and USAID project management regarding baning functions, financial reporting, implementation progress and

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project impact. Are sector heads and BDAC chairmen being effectively utilized by the PBDAC project director's office? Is the Chemonics team and the Chemonics home office providing adequate intellectual leadership and implementation support? Are the development resources, project management assistance, and guidance provided by USAID appropriate and sufficient? Is the budgetary support for the project adequate and timely? Is PBDAC/BDAC staffing adequate (are sufficient counterpart and local staff in place?) Is the PBDAC policy and decision-making process being strengthened? Are linkages being developed to senior decision makers? Has coordination and integration between APCP and other USAID projects and other donors who have responsibility for developing technology packages, extension services, and institutional strengthening of banking functions been productive and timely?

The team shall:

1. Determine whether the overall management, organization, focus and implementation progress to date is appropriate, coordinated, and functioning to achieve project objective by PACD.

2. Make specific recommendations for improvements, if and where warranted.

2) Has the technical assistance contractor effectively designed and implemented Credit Development, Banking Systems, Training, and program Support Services to enhance PBDAC's institutional capacity?

What steps can be taken to build upon and institutionalize the successes of the farm related business pilots? Has the strategic planning process been successful to date? What are the prospects for instituting a formalized strategic planning process within the Bank by PACD?

The team shall:

1. Review specific project activities, comparing actual progress to workplan goals to determine whether: implementation progress is satisfactory; PBDAC is being strengthened as a direct result of the activity; The professional training (in-service and participant) is timely and relevant; needs and constraints of beneficiary groups, including women, are being adequately addressed; the implementation process is resulting in institutionalization of improved systems and procedures throughout PBDAC sectors and BDACs; participation by Bank staff is sufficient to insure that systems will be sustained after project completion,

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2. Examine the APCP training plan to determine that it is clearly based on institutional needs, and that it satisfies the requirements of Handbook 10 and Mission Order 10-1.

3. Make specific recommendations for improvement, if and where warranted.

4. Assess extent to which gender issues and recommendations identified in the baseline study have been addressed.

3) <u>What preliminary impacts has the project had on farmers and on PBDAC's institutional capacity and financial viability?</u>

Are there indications that agricultural investment has increased as a result of the project? Has there been an overall increase in agricultural productivity and farm incomes as a result of the project? what progress has been made toward improving banking procedures in 450 village banks? Have transaction times been reduced, borrowing procedures simplified? Have the number and LE value of unsubsidized crop loans increased since the beginning of the project? Are there indications that increased demand for unsubsidized credit is tied to rising input prices? Is PBDAC improving its financial vialibility as measured by standard indicators for credit institutions? what percent of PBDAC lending is at the highest legal rate?

By how much has PBDAC's capitalization increased? How much of the increase is attributable to annual performance disbursements over the LOP, increased contributions from the Treasury, increased retained earnings? Have the efficiency and the cost of banking and credit operations been improved? what progress has been made toward developing and implementing policies to increase private business involvement in input supply and decrease PBDAC's input distribution functions? What difficulties and constraints to such policy change have been encountered and how might they be remedied?

The Team shall:

1. To the extent possible using data generated by project monitoring and reporting systems describe, in as quantitative terms as possible, the project's preliminary impacts on farmers and on PBDAC's institutional capacity and financial viability.

2. Assess the likelihood that desired impacts will be achieved by PACD. Make specific recommendations for enhancing impact, where warranted.

3. Based on the foregoing analysis, make recommendations for improving the usefulness of impact data collected by project monitoring systems.

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4. Determine that data being collected is sufficiently gender disagregated to permit identification of contribution and economic impacts on women.

4. <u>Are three aspects of the design and operation of the policy reform element which could be modified to improve their effectiveness?</u>

Lias conditionality of disbursement provided a sufficient incentive for policy reform? Are there wa'rs performance might be improved? Has the process of identifying policy objectives and benchmarks and verifying progress been satisfactory? Have past negotiations and project monitoring resulted in adequate initial commitment and/or follow-up action by the key decision makers? Has the mix of resources devoted to monitoring already agreed-upon actions and designing future reforms been appropriate? Would it be advisable for the ministry to take a stronger and more leading role in the preliminary analysis and design of future policy reforms? If so, would technical assistance be required for the ministry to participate more fully at this stage? Have the expected nature and distribution of socioeconomic, political, and institutional impacts of proposed reforms been adequately analyzed and have the results of these analytical studies been used effectively to promote policy changes? Is this policy reform model likely to be adaptable for use in other sectors in Egypt or other AID-assisted countries?

The team shall:

1. Review and analyze the design, operation and impacts of the policy reform element and, if warranted make recommendations for modification;

2. Make recommendations regarding the applicability of this performance-based disbursement model, or adaptations of it, to other sectors in Egypt or to other AID-assisted countries.

E. TEAM COMPOSITION

The evaluation shall be conducted by a five person team which will include:

1) Senior Banking Specialist

Either the Banking Specialist or the Agricultural Economist (described below) shall be designated team leader with full responsibility for developing, in conjunction with other team members, roles and responsibilities, initial work plan, draft final report, briefings for key parties, and for integrating their responses into the final report for reproduction, as described in section I following. The team leader shall be of sufficient stature to elicit frank and open discussions

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with senior administrators and GOE officials.

The senior Banking Specialist shall have experience with agricultural development banks in developing countries. Either the banking specialist alone or in combination with the other team members shall have sufficiently brad knowledge or standard banking operations and procedures to permit a careful and informed consideration of the full range of issues and institutional strengthening activities pertaining to this project. These include, but shall not be limited to, credit development, audit, MIS development, accounting and financial policies and procedures, capital and risk management, human resource development, divestiture.

2) Agriculture Economist/Agribusiness Specialist

This team member shall have overseas experience in the implementation and analysis of agricultural projects designed to enhance farmer productivity and incomes, and shall be well pursued in issues such as technology transfer, extension, development of farm related business, and other which are of relevance to this project.

3) AID/W Economist

This team member, furnished by AID/W, shall have a strong academic background and. shall be experienced in the development and operation of conditional disbursement policy reform programs and in the economic analysis of their impacts.

4&5) One Arabic speaking representative from USAID's Office of Agricultural Credit and Economics and one from the PBDAC office who have participated in the day to day implementation of the project and understand current project progress and issues. The main task of these participants, who shall work under the direct supervision of the team leader, will be drafting appropriate sections of the final report, and to ensure that the team is getting the proper exposure to data, information and staff.

F. METHODS AND PROCEDURES

1. The team shall base their findings, conclusions, and recommendations on data, documents, and other information provided by the TA contractor, USAID project officer, USAID economics office, and PBDAC as well as site visits and interviews. Documents consulted should include, but not be limited to, the project paper, the 1990 project paper amendment, 1988 baseline study, the project's annual workplans and quarterly reports, PBDAC records, planning

documents, balance sheets and financial statements, biannual farmer surveys, USAID and MOA analyses in support of proposed policy reforms, the IG Program Audit report, relevant Memoranda of Understanding, and past implementation and project-related reforms, and other documentation as requested and as deemed relevant.

2. The evaluation team shall review project documentation with particular attention paid to the 1988 baseline study which will serve as a reference point for assessing implementation progress. The team shall consolidate, summarize and analyze data collected by the project's ongoing monitoring and survey systems.

3. The evaluation team shall interview appropriate USAID, PBDAC, Chemonics, MALR, and MOA staff.

4. The team shall conduct site visits to several nearby governorates.

5. The team shall prepare an evaluation report providing findings, conclusions and recommendations responsible to the questions in the Statement of Work above, based on the analysis of information obtained through tasks 1 through 3 above.

G. REPORTING REQUIREMENTS

All reports shall be submitted to the USAID project officer.

1. The contractor shall hold regular meetings, frequency of which will be agreed to by all parties, to brief PBDAC and USAID staff on evaluation progress. Final debriefing(s) shall be held for USAID, PBDAC, Chemonics senior management after acceptance of the final draft.

2. On or before the fifth working day,t he contractor shall submit a workplan which describes roles and responsibilities of each team member and includes a detailed outline and suggested table of contents for the evaluation report.

3. The contractor shall submit a draft report by the end of the fifth working week. The draft findings shall be reviewed and discussed with key PBDAC, USAID and Chemonics field staff and comments provided to the contractor within 10 working days. The final report for reproduction, to be delivered by the end of the sixth week, shall include changes or revisions requested by USAID and PBDAC staff. The contractor shall provide 25 copies of the final report.

4. The format for the report should be as follows:

Executive Summary Not to exceed three single-spaced pages. This should be provide in English.

Listing of the Major Conclusions and Recommendations
This section should briefly summarize the most important conclusions and recommendations in the evaluation.

Main Report

The report should respond directly to the key questions in the Statement of work and should not exceed 30 double spaced typed pages.

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ANNEX 2

WORKPLAN FOR THE EVALUATION

Annex 2

AGRICULTURAL PRODUCTION AND CREDIT PROJECT

WORKPLAN FOR THE MID-TERM EVALUATION

Outline and Team Responsibilities

The evaluation report contains an introduction and five major sections:

II	Project Background, Description and Status	LF
III	Policy Reform Component	LF
IV	Institutional Strengthening Component	AB
V	Socioeconomic Impacts of the Project	JH
VI	Summary of Recommendations	

Section annexes II, III, IV and V are the main evaluative portions of the report, containing findings and recommendations. The major recommendations are summarized in Section VI.

An executive summary of the entire evaluation report will be prepared.

The evaluation is a team effort and the report will not be merely a compendium of individual reports. Nonetheless, individual team members have primary responsibility for the analyses contained in major sections. Thus, the Economist and Team Leader (L. Fletcher) has primary leadership for section III, the policy reform component. The Agricultural Economics/Agribusiness Specialist (J. Hyslop) is primarily responsible for the analysis of section V, the overall socioEconomic impacts of the project. The banking specialist (A. Buffington) will lead the preparation of section IV, the institutional strengthening component.

Evaluation Implementation

Planned implementation of the valuation is through interview, document review and project site visit. A section-by-section outline of documents to be consulted and interviews to be conducted follows below. These are tentative in that the team will follow other promising opportunities that may arise, and it will have to be selective of the full lists of possible documents and persons to contact.

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II. PROJECT BACKGROUND, DESCRIPTION AND STATUS

A. Documents

	Title	Primary Interest	Responsible for obtaining
1.	Project Paper and Project Paper Amendment	Team	-
2.	Baseline Study	Team	-
3.	Memoranda of Agreement on Policy Reform	Team	LF
4.	Project Agreement and Amendments	Team	LF

B. Interviews/Site Visits

1. USAID
2. PBDAC Officials
3. Technical Assistance (TA) team
4. Ministry of Agriculture and Land Reclamation (MALR) Officials

III. POLICY REFORM COMPONENT

A. Documents

	Title	Primary Interest	Responsible for obtaining
1.	Memoranda of Agreement on Policy Reform	LH - JH	LH
2.	Tranche Benchmarks	LH - JH	LH
3.	Tranche Reports	LH - JH	LH
4.	Analyses and other documentation by MALR to verify tranche benchmarks and impacts of policy reform.	LH - JH	LH

5.	USAID analyses of tranche reports	LH - JH	LH
6.	IBRD and IMF documents on structural adjustment lending and condionality	LH - JH	LH

B. Interview/Site Visits

	Title	Primary Interest	Responsible for obtaining
1.	USAID	LF, JH	-
2.	PBDAC Officials	LF, JH	-
3.	Ministerial Committee on Policy Reform	LF, JH	-
4.	Minister Yussef Wally	LF, JH, AB	-
5.	Representative of the Ministries Economy Finance Planning International Cooperation	LF, JH, AB	-
6.	Governor Ahmad Goueli	LF	
7.	Undersecretary Hassan Khedr	LH, JH, AB	-
8.	IBRD, IMF representative	LH, JH	-

IV. INSTITUTIONAL STRENGTHENING COMPONENT

A. Documents

	Title	Primary Interest	Responsible for obtaining
1.	Chemonics Contract	AB,JH,LF	AB,JH
2.	Proposal for contract, amendment	AB,JH,LF	AB,JH
3.	Annual workplans	AB,JH	AB,JH
4.	Quaterly and Annual Contractor reports	AB,JH	AB,JH

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5.	PBDAC Financial Documents - Successive statements of condition - Supporting financial reports * Earnings * Inventory reports * Etc.	AB	AB,JH
6.	Project monitoring and survey reports - Biannual (semiannual?) farmer surveys	AB,JH	AB,JH
7.	Divestiture Study	AB,JH	AB,JH
8.	Baseline Study	AB,JH	-
9.	PBDAC Organigram	AB,JH	AB,JH
10.	Browse in Chemonics Library	AB,JH,LF	

B. Interviews/Site Visits

	Title	Primary Interest	Responsible for obtaining
1.	USAID	AB	-
2.	PBDAC	AB	-
3.	Chemonics Team	AB	-
4.	Central Bank - Fuad Osman	AB	-
5.	Minister of ALR	AB	-

	Title	Primary Interest	Responsible for obtaining
6.	Ministry of Finance	AB	-
7.	Union of Banks (Commercial Banks)	AB	-
8.	Chamber of Commerce	AB	-
9.	Cooperative Society	AB	-

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10.	Field visits: BDAC staff, extension personnel, farmers at Governorate, Markers and Village levels	AB,JH	-
11.	NARP project	AB,JH	-
12.	Training staff (PBDAC and project)	AB,JH	-

V. SOCIOECONOMIC IMPACTS OF THE PROJECT

A. Documents

	Title	Primary Interest	Responsible for obtaining
1.	Baseline Study	JH	-
2.	Project Monitoring and Survey Reports	JH	JH
3.	NARP - Policy analysis - Farm management studies - Statistical bulletins	JH,LF	JH
4.	Policy reform impact analyses (See item 4 under IIA)	JH,LF	LF
5.	Documents from small scale lending project	JH	JH
6.	Browse in Chemonics	JH,LF	

B. Interviews/Site Visits

	Title	Primary Interest	Responsible for obtaining
1.	T. Wetsel	JH	-
2.	Dr. Siddik	JH,LF	-
3.	Mr. Krenz	JH	-
4.	Under Secretary Hussan Khedr	JH	-
5.	USAID Staff - Mr. Ehrich	JH,LF	-

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	- Mr. Schroeder		
6.	NARP - Extension: Dr. Nassib - AERI: Dr. Monsour	JH	-
7.	Field Visit BDAC Staff, extension Staff, farmers at Governorate, Markus and village levels	JH	-
8.	WID person	JH	-
9.	Other donor project staff	JH	-

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DRAFT CALENDAR

DATES	EVENTS
June 20	Final draft to USAID and the PBDAC
June 12	Draft Report to USAID and the PBDAC
June 7 - June 11	Writing and team review of draft report
May 31 - June 6	Field trip (minimum four days, Saturday - Sunday or Monday)
	Interviews, and document review
May 24 - May 30	NLT May 29: Plans and reservations for field trip
	Interviews and document review
May 17 - May 23	Administrative issues - Secretary - Office equipment: Word Processor printer, access to copies - Supplies - Office setup - Vehicle (Dedicated mini-van)
	Present Workplan
	Interviews and document review
Weekly - Wedenesday at 3:00 p.m.	Briefing on evaluation progress for USAID, PBDAC, and Chemonics.

ANNEX 3

PEOPLE CONSULTED DURING THE EVALUATION

Annex 3

CONTACTS AND INTERVIEWS

DURING THE

AGRICULTURAL PRODUCTION AND CREDIT PROJECT

MIDTERM EVALUATION

I. CAIRO

A. USAID

1. George A. Wachtenheim, Deputy Director/USAID-Egypt
2. John Foti, Director, Office of Agricultural Credit and Economics
3. Rollo Ehrich, Agricultural Economist, Office of Agricultural
4. Ali Kamel, Agricultural Economist, Office of Agricultural Credit and Economics
5. Mohamed Omran, Agricultural Economist, Office of Agricultural Credit and Economics
6. Kenneth Lyvers, Director, Office of Agriculture
7. David H. A. Schroder, Agricultural Economist, Office of Agricultural Credit and Economics
8. Youssef R. Abd El Khalick, Project Officer, Office of Agriculture
9. Aziza M. Helmy, Program Specialist, Office of Project Support
10. K. Hilliard, PDS/P
11. R. Parks, PDS/E
12. P. Sullivan, LEG
13. H, Pangan, FM/FA
14. F. Naguib, HRDC/ET
15. M. Marzouk, CMT/TI
16. D. Clark, AD/AGR

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17. L. Pizzaro, DIR/CS

18. Sam Skogstad, AD/EAS

19. David Dod, EAS

20. Jeff Goode, EAS

B. MINISTRY OF AGRICULTURE AND LAND RECLAMATION (MALR)

1. Dr. Mohamed Mansour, Director, Agricultural Economics Research Institute (AERI)

2. Dr. M. M. F. Sharaf, Specialist Consultant, Former Director, AERI - (Retired)

3. Dr. Mostafa Bedier, Sampling Research Section, AERI

4. Dr. Assama Omar El Bilassi, Head Rural Development Division, AERI

5. Dr. Emam Mahmoud El Gamassy, Assistant Professor and Director, Sampling Research Section AERI

6. Dr. Hassan Khedr, Undersecretary for Agricultural Economics and Statistics (UAES).

7. Mr. Mohamed Said, Director for Agricultural Statistics, UAES.

8. Mr. Mahmoud Nazif, Director for Agricultural Census, UAES.

9. Dr. Mostafa Abdel Ghany, Director for Agricultural Economics, UAES.

C. PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL (PBDAC)

1. Mr. Adel Ezzi, Chairman
2. Mr. Mahmoud Noor, Deputy Chairman
3. Mr. Kamal Nasser, Chief, Credit Sector
4. Mme. Zeinab Salem, Chief, Planning Sector
5. Mr. Mohamed Farid Khafagy, Farm Related Business Specialist
6. Mr. Toba'a Ibrahim Toba'a, Manager, Credit Follow-up
7. Mr. A.H. El Maraghy, Head MIS Sector
8. Mahmoud Dabbour, Head of Inspection and Control
9. Mahmoud Gahrib, Credit FU
10. Madam's Ibtisam Kabeel and Ahloom
11. Abouseid, Credit F.U. and Reports
12. Showi Habieb, Head of Accounting Sector
13. Owerdah Fouad, Accounting Manager
14. Abdel Rezik, General Manager Accounting

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15. Mohamed Hamid, General Manager Finance
16. Qeda Younis, Director Training Department
17. Mohamed Hamid Hassenun - Head of FU Sector
18. Mohamed Sobohis, Head of Commercial Affairs, Production and Storage
19. Ewad II Hashab, General Manager Commercial Affairs
20. Abdel Assam Assam, Head of Finance Sector
21. Everett Hassouna, Manager Finance

D. CHEMONICS APCP TEAM

1. William A. Ellis, Chief of Party
2. Dr. Hussam Rashwan, President, Arabic Software Engineering
3. Samir Sultan, Training Specialist
4. Mohamed Ayoub, Banking Development Specialist
5. Mohamed A. Youssef, Finance, Capital Specialist
6. Alan Glenn, Accounting Advisor
7. Dr. Zakarian El Haddad, Farm Mechanization Specialist
8. Jeannette Szoradi, Editor and Documentation Specialist
9. Dr. Ibrahim Siddik, Agricultural Economist
10. Thomas Wetsel, Farm Management Specialist
11. John Poirier, Monitoring and Audit Specialist

E. OTHER

1. Hamdy Farag, General Manager, Wadi El Nil Company
2. Dr. M. H. Belal, Consultant, Wadi El Nil Company
3. Sami El Gohary, General manager, Wadi El Nil Company
4. Younis Abd-El-Halim, Chemist-Technical Consultant, Wadi El Nil Company.
5. Hassan A. Khidr, Vice Chairman, General Organization for Rice Mills and Rice Marketing
6. Dr. M. M. F. Sharaf, Senior Researcher (UMA) AERI

II. BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT (BDAC)

A. Giza Governorate

Farouk M. Ibrahim, Chairman
Kamal Abdel Azziz, Credit Manager
Said Abdel Wahab, General Manager, APC project
Mona Ahmed Maher, Director of Public Relations

B. Kerdassa

Bank Official, Manager Kerdassa District Branch, BDAC
Bank Official, Manager Kerdassa Village Bank

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C. El Mansuriya

Manager, Imbaba District Branch, BDAC
Aboud Abdel Salem, Manager Village Bank
Farmer
Extension Worker

QALYUBIYA GOVERNORATE

Mr. W. Saddoui, Chairman, BDAC
Vice Chairman, BDAC
Mr. Kamal Abd Hamid, Credit and MIS Manager BDAC
Yehia Zaki El-Magharpi, Farm Management Director, BADAC
Training Officer, BDAC
Manager, Tukh Branch, BDAC
Manager, Tersa Village Bank
Extension Agent, MALR
Merchant, Village of Kfar Jamal

DAQAHLIYA GOVERNORATE

Mr. Abasit, Chairman, BDAC
Abdel Malek El-Asharif, Director of Development, BDAC
Abdel Malek Saleh, Manager, Mainsoura Branch, BDAC
Ibrahim Nabih, Manager, Mansoura Branch, Saondoue Cooperative
Ahmad, Mustaf, Accountant, Mansoura Branch, Saondoue Cooperative
Abdel Wahab Said, Manager, Tanah Village Bank
Farmer-client, Tanah Village bank
Farmer-client, Tanah Village bank
Mohamed Azadd, Manager, Menet El-Nasr Village bank
Gharib, Wheat and Rice Miller, Village of Baramon
Farm Machinery dealer, Talha
Mohamed Hassan, Potato Merchant, Village of Batra

MINISTRY OF AGRICULTURE AND LAND RECLAMATION (Go to place in outline)

Dr. Osman El-Kholi, Advisor to the Minister of Agriculture and Land Reclamation

Dr. Yahea Hassa, Governor, Minufiya Governorate and Chairman, Ministerial Committee on Agricultural Policy Reform.

COOPERATIVE FACILITIES

Shamir Shatta, Chairman

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ANNEX 4

DOCUMENTS CONSULTED

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DOCUMENTS CONSULTED DURING EVALUATION

1) The Agricultural Production and Credit Project Paper.

2) The 1990 Project Paper Amendment.

3) The 1988 baseline study.

4) The project's annual workplans and quarterly reports.

5) PBDAC records, planning documents balance sheets and financial statements.

6) Biannual farmer surveys.

7) Memoranda of Agreement on Policy Reform.

8) USAID analyses of tranche reports.

9) Analyses and other documentation by MALR to verify tranche benchmarks and impacts of policy reform.

10) Chemonics Contract.

11) Project monitoring and survey reports.

12) Divestiture Study.

13) PBDAC Organigram.

14) NARP - Policy Analyses, Farm management studies, statistical bulletins.

15) Documents from small scale lending project.