

UNCLASSIFIED

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

EGYPT

AGRICULTURAL PRODUCTION AND CREDIT

263-0202

PROJECT PAPER SUPPLEMENT NO. 2

DATED SIGNED: 8/10/93

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UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add  
 C = Change  
 D = Delete

Amendment Number

DOCUMENT CODE

3

COUNTRY/ENTITY  
Egypt

3. PROJECT NUMBER

263-0202

4. BUREAU/OFFICE  
Europe and Near East

5. PROJECT TITLE (maximum 40 characters)

Agricultural Production & Credit

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY  
09 30 95

7. ESTIMATED DATE OF OBLIGATION

(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 86 B. Quarter 4 C. Final FY 95

8. COSTS (\$000 OR EQUIVALENT \$1 = )

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total	33,815	1,185	35,000	300,750	8,250	309,000
(Grant)	( 33,815 )	( 1,185 )	( 35,000 )	( 300,750 )	( 8,250 )	( 309,000 )
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S. 1.						
U.S. 2.						
Host Country		33,328	33,328		283,328	283,828
Other Donors)						
<b>TOTALS</b>	<b>33,815</b>	<b>34,513</b>	<b>68,328</b>	<b>300,750</b>	<b>291,578</b>	<b>592,828</b>

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESE	140	053		249,000		26,000		309,000	
(2)									
(3)									
(4)									
<b>TOTALS</b>									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

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

A. Code  
B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To assist the GOE in making needed policy changes to deregulate the agricultural sector. It will also extend to the maximum extent possible full banking services, market level interest rates, rapid and efficient loan approval and increased extension services to the farmer.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY  
0 6 9 5

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000  941  Local  Other (Specify)

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

This amendment will increase LOP to \$309 million. USAID/Cairo Controller concurs with the proposed methods of implementation and finance which remain unchanged.

17. APPROVED BY

Signature Christopher J. Crowley, A/DIR  
Title

Date Signed MM DD YY  
08 11 95

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY



CAIRO, EGYPT

July 19, 1993

**ACTION MEMORANDUM FOR THE ACTING MISSION DIRECTOR**

**FROM:** A/OD/PDS/PS: Beth Cypser   
**THRU:** A/AD/PDS: Jeff Malick   
**SUBJ:** Approval of Project Paper Supplement No. 02 -  
Agricultural Production and Credit Project, 263-0202.

**ISSUE:** Your signature is required to approve Project Paper Supplement No. 02 of the Agricultural Production and Credit Project which increases the planned Life of Project (LOP) budget level by \$26 million (i.e. from \$283 million to \$309 million).

**DISCUSSION:** The attached Project Paper Supplement for the Agricultural Production and Credit Project has been prepared by AGR/ACE in collaboration with PDS/PS for Mission Director review and approval. As this is not a substantive amendment as defined in Mission Order 3-30, an ExComm review process is not required. Project Team members and other concerned officers have reviewed the document and agree with the format, analysis, and presentation. There are no concerns or issues which need discussion or require resolution. The level of GOE contributions to APCP has been increased by LE 134.4 million to a revised total of LE 831.7 million which far exceeds the conditionality on PBDAC for local currency expenses to support PBDAC operational expenses in support of APCP and PBDAC divestiture.

**AUTHORITY:** Under paragraphs 3 and 13(g) of Delegation of Authority No. 653 as amended on August 29, 1991, the Acting Mission Director has the authority to amend project authorizations without dollar limitation if the amendment (a) does not present significant policy issues; (b) does not require the issuance of waivers which may only be approved by AID/W; and (c) does not result in total life of Project in excess of ten years.

**RECOMMENDATION:** That you sign the Project Paper Amendment Face sheet approving an LOP budget increase of \$26 million to the APC Project.

**Clearances:**

A/AD/AGR:JFoti (draft)  
A/AD/FM:NWijesooriya,   
AD/LEG:TCarter   
A/DDIR:DClark  8/10/93



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

July 20, 1993

MEMORANDUM

TO: Beth Cypser, A/OD/PDS/PS  
 FROM: *John Foti* John Foti, OD/AGR/ACE  
 SUBJECT: Agricultural Production and Credit Project (APCP)  
 263-0202 - Project Paper Supplement

The attached Project Paper Supplement has been prepared by AGR/ACE in collaboration with PDS/PS. Project Committee and Officers named below have reviewed the document and agree with the format, analysis and presentation.

	<u>Clearance</u>	<u>Date</u>
1. R. Ehrich, AGR/ACE	<u><i>RRE</i></u>	<u><i>7/20/93</i></u>
2. M. El-Shaarani, FM/FA	<u><i>[Signature]</i></u>	<u><i>07/20/93</i></u>
3. P. Sullivan, LEG	<u><i>PWS</i></u>	<u><i>7/20/93</i></u>
4. A. Kamel, AGR/ACE	<u><i>A. Kamel</i></u>	<u><i>7/20/93</i></u>
5. K. Kertson, PDS/P	<u><i>[Signature]</i></u>	<u><i>7/20/93</i></u>
6. A. Helmy, PDS/PS	<u><i>A. Helmy</i></u>	<u><i>7/20/93</i></u>
7. I. Lotfi, EAP	<u><i>Ingi Lotfi</i></u>	<u><i>7/20/93</i></u>
8. L. Pizarro, DIR/CS	<u><i>[Signature]</i></u>	<u><i>7/20/93</i></u>
9. F. Naguib, HRDC/ET	<u><i>for [Signature]</i></u> <u><i>El Naguib</i></u>	<u><i>7/20/93</i></u>

**AGRICULTURAL PRODUCTION AND CREDIT PROJECT  
263-0202  
PROJECT PAPER SUPPLEMENT**

**AGRICULTURAL PRODUCTION AND CREDIT PROJECT  
263-0202  
PROJECT PAPER SUPPLEMENT**

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SECOND AMENDMENT TO THE  
PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt      Name of Project: Agricultural Production and Credit Project

Number of Project: 263-0202

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, the Agricultural Production and Credit Project was authorized on September 29, 1986, and the authorization was amended on August 26, 1990. The authorization is hereby further amended as follows:

a. Paragraph 1 is amended by deleting "Two Hundred Eighty Three Million Dollars (\$283,000,000)" and substituting "Three Hundred Nine Million Dollars (\$309,000,000)" therefor.

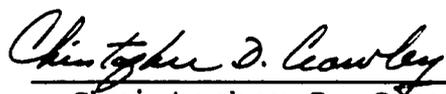
b. Paragraph 4 is amended in its entirety to read as follows:

"Source and Origin of Commodities, Nationality of Services

"A. Except as otherwise provided in subparagraph B, and except as A.I.D. may otherwise agree in writing, (i) commodities financed by A.I.D. under the project shall have their source and origin in the United States; (ii) the suppliers of commodities or services (other than ocean and air shipping) shall have the United States as their place of nationality; and (iii) ocean and air shipping financed by A.I.D. under the project shall be financed on flag vessels of the United States.

"B. The local procurement of commodities and services is authorized to the extent such procurement is permissible under Chapter 18 of Handbook 1B, as from time to time amended, without a waiver of source/origin or nationality."

2. The authorization cited above remains in force except as hereby amended.

  
\_\_\_\_\_  
Christopher D. Crowley  
Acting Director

9/10/93  
\_\_\_\_\_  
Date

**Clearances:**

A(AD)AGR, JFoti  
(A)AD/PDS, JMalick  
A(AD)/FM, NWijesooriya  
A(DD), DClark

*JFoti*  
\_\_\_\_\_  
*JMalick*  
\_\_\_\_\_  
*NWijesooriya*  
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*DClark*  
\_\_\_\_\_

*PS*  
DRAFTED:LEG:PSullivan:mf:(07/20/93):2PATH202

## GLOSSARY OF ABBREVIATIONS

<b>APAC</b>	Agricultural Policy Analysis Component of NARP
<b>APCP</b>	Agricultural Production and Credit Project
<b>APRP</b>	Agricultural Policy Reform Program
<b>AGR/ACE</b>	Office of Agricultural Credit and Economics, USAID/Cairo
<b>PBDAC</b>	The Principal Bank for Development and Agricultural Credit
<b>BDAC</b>	Regional (Governorate Level) Bank for Development and Agricultural Credit
<b>CDSS</b>	Country Development Strategy Statement
<b>COP</b>	Chief of Party
<b>CP</b>	Condition Precedent
<b>ELS</b>	Extra Long Staple
<b>LS</b>	Long Staple
<b>ESF</b>	Economic Support Fund
<b>HCC</b>	Host Country Contract
<b>FY</b>	Fiscal Year
<b>GOE</b>	Government of Egypt
<b>LC</b>	Local Currency
<b>LE</b>	Egyptian Pounds (US\$1 = LE3.30)
<b>LOP</b>	Life of Project
<b>PACD</b>	Project Assistance Completion Date
<b>MALR</b>	Ministry of Agriculture and Land Reclamation
<b>MOS</b>	Ministry of Supply
<b>MOE</b>	Ministry of Economy and Foreign Trade
<b>MOI</b>	Ministry of Industry
<b>NARP</b>	National Agricultural Research Project
<b>PIL</b>	Project Implementation Letter
<b>PPA</b>	Project Paper Amendment
<b>PBDAC</b>	The Principal Bank for Development and Agricultural Credit
<b>PP</b>	Project Paper
<b>PPS</b>	Project Paper Supplement
<b>SFPP</b>	Small Farmer Production Project
<b>TA</b>	Technical Assistance
<b>USAID</b>	United States Agency for International Development

**AGRICULTURAL PRODUCTION AND CREDIT**  
**PROJECT (APCP)**  
**PROJECT PAPER SUPPLEMENT**

**I. INTRODUCTION**

This Project Paper Supplement (**PPS**) calls for increased funding to support implementation of an enhanced program of agricultural sector reforms for the period 1992-94. The Project Paper Supplement also justifies financial resources to enable the Principal Bank for Development and Agricultural Credit (**PBDAC**) and the Ministry of Agriculture and Land Reclamation (**MALR**) to monitor and verify the reform progress and to study the impacts of the reform measures as well as set new reform benchmarks for both the Agricultural Production and Credit Project (**APCP**) and the proposed Agricultural Policy Reform Program (**APRP**).

Mission management guidance to focus the National Agricultural Research Project (**NARP**) and consolidate its activities, the mutual agreement with MALR to terminate the Agricultural Policy Analysis Component (**APAC**) on June 30, 1992, and the expansion of the reform agenda in areas of disappointing performance of the agricultural sector are the major factors resulting in the need for this Project Paper Supplement.

The Project Paper Supplement will justify an additional \$26 million in grant funds, \$25 million of which will be added to the policy reform component and \$1 million of which will support the institutional strengthening component of APCP for the purposes noted above. This raises the APCP authorized level of funding from \$283 million to \$309 million. Consequentially, the Government of Egypt (**GOE**) contribution will be increased from LE 697.3 million to LE 831.7 million, i.e., an additional LE 134.4 million.

**II. PURPOSE OF AMENDMENT**

This Project Paper Supplement builds on the progress being made under the current APCP authorized in 1986 and amended in 1990. The **project goal** is to increase agricultural productivity, agricultural investment and farm incomes in Egypt by supporting deregulation of the agricultural sector and introducing a market-based incentive system. The **project purpose** is to assist the GOE in making needed policy changes to deregulate the agricultural sector. It will also extend to the maximum extent possible full banking services, market level interest rates, rapid and efficient loan approval and

increased extension services to the farmers. At the end of the project, PBDAC is expected to have: (1) a stronger capital structure and capital management system, (2) effective management controls (budgeting, auditing and financial analysis of bank performance), (3) a responsive personnel management and training program, and (4) a modern management information/ accounting system. An increase in private sector participation in agricultural input supply and services will be an important component in this project. There is no change in the project goal/purpose resulting from this Project Paper Supplement.

The bulk of USAID funds (\$25 million of the \$26 million proposed for this amendment) will be for a dollar denominated performance payment to help the **GOE** accelerate policy reforms needed to move the agriculture sector toward a free market environment. The disbursement will be part of a larger planned transfer based on progress toward achievement of a series of benchmarks set forth in a separate Memorandum of Understanding (**MOU**). The remaining \$1 million will be used to finance policy reform monitoring, verification and impact studies. It was originally recommended under the **APCP** Project Paper Amendment (**PPA**) in August 1990 that the monitoring, verification and impact studies will be implemented under **NARP/APAC**. With the termination of **NARP/APAC** in June 1992, these studies will now be implemented under **APCP**.

The GOE contribution of LE 134.4 million will assist PBDAC by expanding its capital account and the dollar financed technical assistance will enhance PBDAC's operations and financial viability as a credit institution.

### **III. PROJECT MODIFICATIONS:**

The modifications described herein resulted from intensive mission review and subsequent comprehensive discussions and negotiations with the GOE officials. The **APCP** Project will manage the activities related to the policy reform monitoring, verification and impact studies. Moreover, there are some additional activities and policy studies, described below, needed to begin negotiations with the GOE to formulate the reform agenda proposed for the follow-on "Agricultural Policy Reform Program (**APRP**)".

The modifications also represent a broadening of the policy reform benchmarks planned for and/or negotiated under the current **APCP** Tranches No. 6 and 7. These broader policy reform agenda items conform with the Mission's new strategy of May 1992, the revised agricultural sector strategy and the statement made by the Administrator-Designate before the Senate in May 1993.

#### **IV. EXPANSION OF APCP ACTIVITIES:**

**A. The Scope of the Policy Reform Component of the APCP will be expanded.** More specifically, the policy reform framework will include additional reforms in the policy areas where successful progress has been achieved. It will also enhance areas of disappointing performance and will include new areas of reform, such as improvement in the financial viability of PBDAC. These enhanced reforms will be executed during the 1992-94 period, i.e., APCP policy Tranche No. 6 ( See Attachment No. 4.3, MOU Amendment No. 2) and an amended and modified Tranche No. 7. ( See Attachment No. 4.4, MOU Tranche 7 Benchmarks, Draft Amendment No.3).

Recent discussions between USAID and the Ministry of Agriculture officials indicate that the Government of Egypt is now more willing to commit itself to an aggressive and ambitious program of reform regarding cotton liberalization; enhancing PBDAC financial viability; elimination of bans on red meat, poultry and agricultural machinery imports; and elimination of government control on the cropping pattern (See attached MOU, Attachment No. 4.4, Draft Amendment No. 3). More specifically, the anticipated program of reform under Tranche No. 7 would include:

1. **Liberalization of Cotton.** The previous cotton benchmark under Tranche No. 5 called for raising the 1992 net procurement price for cotton to at least 66 percent of the international price. It aimed to provide improved incentives to cotton growers for producing a better yield and for growing cotton in preference to alternative field crops that have less economic value to the nation. However, due to the government reluctance to announce the procurement prices in a timely manner and the less than satisfactory procurement prices paid to farmers, the objectives of this benchmark were not met. Accordingly, joint discussions and the analysis of the cotton liberalization study led to an agreement to establish a comprehensive plan to liberalize the cotton production, trade and ginning. The text of the plan is included in the attached MOU, Amendment No. 2 (Attachment No. 4.3).
  
2. **Enhancing PBDAC Financial Viability.** Divestiture of PBDAC's input distribution activities has resulted in PBDAC losing a large part of its earnings (more than 40 percent of its profits), increasing staff redundancy, and having under-utilized warehouse space. In order to offset the negative impact of PBDAC divestiture and to improve PBDAC financial viability a set of reform measures have been discussed with PBDAC officials. They include:
  - Develop and initiate a phased plan to reduce staff redundancy in PBDAC and its affiliated BDAC's;

- Develop a plan to divest, rent or sell under- utilized storage facilities owned by PBDAC;
- Reduce PBDAC cost of finance by promoting deposits, improving credit policy, and increasing its efficiencies; and
- Developing new lending opportunities and improving management of the loan portfolio.

3. **Elimination of Bans on Red Meat, Poultry and Agricultural Machinery Imports.** Additional benchmarks have been discussed and negotiated with the GOE officials to eliminate the ban on red meat and poultry imports and for substituting a realistic import tariff to protect domestic livestock growers. USAID foresees that free market forces will reduce inefficiency in the livestock sector, improve productivity, and will induce producers to shift to other sectors that have more economic value to the economy.

The current monopoly of the public sector and military factories in manufacturing, distributing and trading agricultural machinery has acted, for the last decade, as a disincentive which virtually eliminated private sector involvement in this important subsector. Therefore, a benchmark has been negotiated to eliminate all restrictions on the importation, trade, marketing and manufacturing of agricultural machinery by the private sector.

4. **Elimination of Government Control on the Cropping Patterns.** There exist some technical, marketing, traditional, and social relationships which affect the farmers' choice of cropping pattern. In addition, government control and mandatory area planting quotas, fines and penalties imposed on farmers who do not follow the cropping pattern requirement, impede farmers' full freedom and decision on what to grow in order to maximize/optimize their net incomes. This has led to establishing a benchmark to eliminate all restrictions on the cropping pattern except for technical reasons (irrigation requirements, etc.). Consequentially, farmers will be allowed more flexibility to make their own decisions for cultivating their land with no fear of penalties or fines.

5. **Other and Possible Additional Policy Measures.** Based on the impact and other policy study results being implemented or planned for, of current policies, and the remaining less than satisfactory performing policy areas, the MALR and USAID may agree to include other elements of policy program for 1992-94. These policy elements and measures may include:

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elimination of all remaining subsidies on agricultural inputs (e.g., fertilizer, seed, pesticides, and credit subsidies), privatization of PBDAC (e.g., allowing private sector ownership of its shares, selling part of its assets including storage warehouses and village banks, and consolidating some of the BDAC's), liberalization/privatization of the cotton ginning subsector, liberalization of the agricultural seed and marketing sector and elimination of all government control on sugarcane (See attached MOU, Attachment Nos. 4.1, 4.2, 4.3 and 4.4).

**B.** The scope of the **Institutional Strengthening Component** of APCP will be expanded to carry out the policy reform monitoring, verification and impact studies which were originally planned for implementation under the terminated NARP/APAC. These activities include:

1. Adding an expatriate advisor for 24 person months to APCP financed Host Country Contract. The expatriate's major tasks are to monitor and verify the policy reform benchmarks under APCP.
2. Adding 24 person-months of short-term expatriate services to conduct a liberalization study for the cotton production, ginning and trade; and a cotton supply response study.
3. Financing policy impact studies and other studies needed as a baseline for the proposed "Agricultural Policy Reform Program". They include:
  - Assess the impact of market liberalization on rice production, processing and trade;
  - Assess the impact of fertilizer market liberalization on use by farmers and the role of the private sector;
  - Identify constraints to market performance in the livestock and feed sector, and assess the livestock sub-sector;
  - Develop a plan for the liberalization of the processing industries for wheat, corn and beans;
  - Analyze potential cotton supply response to changing prices; and

- Develop a plan for the liberalization of cotton production, trade and ginning.
4. Financing the local currency cost through a Project Implementation Letter (PIL) mechanism to support the data collection, analysis and reporting requirements for the policy reform monitoring, and verification surveys.

## **V. SUMMARY AND RECOMMENDATIONS:**

In summary, the APCP overall authorized funding level is increased by **\$26 million** to a new LOP funding level of **\$309 million**. The new budget level for the Institutional Strengthening Component is \$34 million and the new budget level for the Policy Reform Component is \$275 million. (See Attachment No. 2). This Project Paper Supplement will serve also to update and modify the logical framework, outputs and inputs.

On the basis of the Mission decision taken during the May 1992 Project Portfolio Review and intensive discussion with GOE officials, **it is recommended** that the Mission Director approve this Project Paper Supplement which:

1. Supports an expanded program of agricultural sector reforms during the period 1992 - 1994;
2. Incorporates certain policy monitoring and verification activities which were formerly implemented by the terminated NARP/APAC;
3. Modifies and updates the APCP logical framework, outputs and inputs; and
4. Increases the LOP funding level from \$283 million to \$309 million.

## **VI. Attachments:**

- Attachment 1:** Modified and updated logical framework, project purpose, objectives, outputs and inputs.
- Attachment 2:** Budget Status and revised Life of Project funding to complete the project by the PACD.
- Attachment 3:** Environmental Clearance.

**Attachment 4.1:** The APCP Policy Reform MOU.

**Attachment 4.2:** Amendment No. 1 to the APCP Policy Reform MOU.

**Attachment 4.3:** Amendment No. 2 to the APCP Policy Reform MOU.

**Attachment 4.4:** Draft of Policy Reform MOU Amendment No. 3.

Doc. PPS, Aly's Disk, Drafted By: AKamel,AGR/ACE

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**APCP LOGICAL FRAMEWORK  
No. 263-0202**

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>Goal:</u></p> <p>To increase agricultural investment, agricultural productivity, and farm incomes.</p>	<p><u>Measures of Goal Achievement:</u></p> <p>Ag. production of major crops has increased substantially. Per hectare production has increased with 3% average annual increase. Farm income has increased by 4% annually.</p>	<p>MOA production statistics by Crop Farmer surveys.</p>	<p><u>Assumptions for achieving goal targets:</u></p> <p>Policy changes are sufficient to provide the incentives farmers need to increase production. Ag. inputs not affected through this project (e.g. irrigation water) are adequate to allow for expanded production.</p>
<p><u>Project Purpose:</u></p> <p>Assist the GOE in making needed policy changes to deregulate the agricultural sector. It will also extend to the maximum extent possible full banking services, market level interest rates, rapid and efficient loan approval and increased extension services to the farmers.</p>	<p><u>End of Project Status:</u></p> <p>Farmers have easier access to adequate amounts of inputs, including credit, at market prices. Private dealers and cooperatives have increased their share of input supply operations by 66%, with PBDAC decreasing its operations accordingly. Farmers are using improved technologies disseminated by village teams. Value and share of loans to small farmers and entrepreneurs have increased by 25%. Farmers are using greater quantities of inputs in better combinations in response to market signals.</p>	<ul style="list-style-type: none"> <li>- Field trips to rural markets.</li> <li>- PBDAC loan records (monthly credit reports).</li> <li>- Semi-annual village/farmer surveys.</li> <li>- Policy Reform Verification studies/surveys.</li> <li>- Special studies to analyze trends in PBDAC and private sector participation in input distribution.</li> </ul>	<p><u>Assumptions for Achieving Purpose:</u></p> <p>Changes in PBDAC, along with incremental ag. reforms, are sufficient to bring about improved access to credit. Private sector dealers have adequate incentives and skills to expand their rural operations. Technologies provided by village bank teams and by private dealers are appropriate, and farmers accept them.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>Outputs:</u></p> <p>A. GOE Policy Reforms</p> <p>1) Prices liberalized for cotton.</p> <p>This benchmark has been rewritten to focus on liberalizing cotton production, ginning and trade (Tranches 6 &amp; 7).</p>	<p><u>Magnitude of Outputs:</u></p> <p>Net procurement price to 66% of international price by 1992. A free trade of cotton and its by-product, free imports and exports of cotton, reopening of Mina El Bassal Cotton Commodity market, and liberalization of the cotton gins are included as benchmarks in the MOU amendments No. 2 and 3. Intermediate targets are included as benchmarks in a separate Memo of Understanding between USAID and MOA..</p>	<p>Review and analysis of GOE progress on agreed-upon reforms by USAID and MOA staff for annual disbursement reviews.</p>	<p><u>Assumptions:</u></p> <p>A third amendment is being negotiated with MOA officials and will be signed in August 1993. (A separate Memorandum of Understanding has been signed on Sept. 24, 1990 between USAID and MOA with specific benchmarks. Two amendments to the MOU were signed on January 23, and September 24, 1992).</p>
<p>2) Delivery quotas for rice and restrictions on private marketing eliminated by 1992. Prohibitions and restrictions on possession, milling, transport, marketing and export of rice will be eliminated.</p>	<p>Benchmarks are included in MOU and its amendments. They reflect the freedom of Private sector producers and exporters to possess, mill, transport, market and export rice.</p>	<p>Information Sources:</p> <ul style="list-style-type: none"> <li>- GOE announcements &amp; decrees.</li> <li>- Field trips interviews.</li> <li>- GOE Tranches 5 &amp; 6 monitoring/verification reports.</li> <li>- Mission monitoring matrix.</li> </ul>	<p>Public support for the reforms will be adequate to allow the program to be implemented.</p>
<p>3) Budgetary and exchange rate subsidies removed from farm inputs and farm credit.</p>	<p>Benchmarks included in MOU:</p> <ul style="list-style-type: none"> <li>- Revision of ex-factory fertilizer prices to equal international or border prices,</li> <li>- Elimination of the preferential exchange rate applied to public sector imports of fertilizer,</li> <li>- Elimination of the combined budget subsidy for local and imported fertilizers,</li> <li>- The combined total of explicit and implicit subsidies on cotton pest control will be reduced/eliminated.</li> <li>- Elimination of all feed subsidies,</li> <li>- Interest subsidies will not exceed LE 100 million.</li> </ul>	<ul style="list-style-type: none"> <li>- GOE Tranches 5, 6 and 7 Monitoring/verification Reports.</li> <li>- Mission Monitoring Matrix.</li> </ul>	<p>Public support for the reforms will be adequate to allow the program to be implemented.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>4) Legal and competitive environment to expand private marketing of inputs, and public sector input distribution monopoly was eliminated.</p>	<p>Benchmarks included in MOU:</p> <ul style="list-style-type: none"> <li>- Public sector distribution of low-priced feed will be eliminated.</li> <li>- Wheat bran and cotton seed cake will be freely traded.</li> <li>- Private sector dealers will be permitted to trade and transport all farm inputs.</li> <li>- Adjustments of marketing margins and commissions of fertilizers between factory and retail points of sale to a full commercial basis.</li> <li>- All restrictions on the importation, trade, marketing and manufacturing of agricultural machinery by private sector will be eliminated.</li> <li>- Imports and marketing of corn by PBDAC will be eliminated.</li> </ul>	<ul style="list-style-type: none"> <li>- GOE Tranches 5, 6 and 7 Monitoring/verification Reports.</li> <li>- Mission Monitoring Matrix.</li> </ul>	<p>The GOE will do sufficient analysis to anticipate social problems that may result from the reforms, and will take actions to reduce adverse social consequences.</p>
<p>5) Implement liberalization and privatization reform measures in the agricultural seed processing and marketing sector.</p>	<ul style="list-style-type: none"> <li>- Adoption of new national seed legislation as reviewed by the National Seed Council (NSC) and as recommended by the 1991 National Seed Conference which establishes a seed policy formulation mechanism, seed quality standards, standards for certification and seed protection, general provision for seed trade, and a schedule of fees to cover the cost of the regulatory and support services provided by the Central Administration of Seeds (CAS).</li> <li>- Proceed with CAS reorganization and privatization of the MOA seed processing plants.</li> <li>- Completion of a phased plan to liberalize certified cotton seed production and processing.</li> </ul>	<ul style="list-style-type: none"> <li>- Tranches 6 &amp; 7 policy monitoring and verification reports.</li> <li>- Mission policy verification matrix.</li> </ul>	<p>The GOE will agree with the reform measures and will support the implementation of the phased plan.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><b>B. Strengthen PBDAC</b>  <b>1) Improved systems in governorates and village banks:</b></p> <p>a. To simplify borrowing procedures and reduce transaction time.</p> <p>b. To improve efficiency banking and credit operations.</p>	<p><u>Within 9 years:</u></p> <ul style="list-style-type: none"> <li>- Streamlined procedures in 14 governorate banks, 550 village banks. 550 local advisory groups.</li> <li>- Automation of 17 governorate banks and 150 branch/district banks.</li> <li>- Developing credit/borrowing manuals and simplified procedures.</li> <li>- APCP local advisory groups are developed in 550 village banks to apply the new improved technological packages for field crops, vegetables, fruits and livestock.</li> </ul>	<p>To be analyzed in on-going project monitoring and during scheduled evaluations; technical assistance team, progress reports, field trips reports and PBDAC/APCP monthly credit reports.</p>	<p>The inputs programmed are sufficient to bring about proposed procedural changes.</p>
<p>2) Development of local advisory groups in 550 village banks.</p>	<p>- APCP Local Advisory groups are developed in 550 village banks to apply the new improved technological packages for field crops, vegetables, fruits and livestock.</p>	<p>Project records.  Site visits to village banks.  Interviews with PBDAC and TA</p>	<ul style="list-style-type: none"> <li>- PBDAC has the will to revise drastically its mode of operation and to phase down input supply.</li> <li>- Coordinated efforts between PBDAC and ARC are taken place to apply the technological packages.</li> </ul>
<p>3) Training and fielding of village teams of extension workers, financial analysts and other specialists to disseminate new technologies to farmers</p>	<p>15,000 "team" members trained. Teams fielded in 550 villages and trained in the use of technological packages in consultation with ARC. In service training of more than 15,000 PBDAC employees and extension agents in financial analysis, accounting, MIS, management, credit and technological packages.</p>	<ul style="list-style-type: none"> <li>- Special study of sample of PBDAC village banks.</li> <li>- PBDAC input distribution.</li> <li>- PBDAC in-country quarterly training reports.</li> </ul>	<ul style="list-style-type: none"> <li>- The initial packages were developed by APCP in consultation with ARC and are now being developed jointly with ARC/NARP/TTC.</li> <li>- PBDAC is using its own earnings to finance the bulk of the in-country training activities.</li> </ul>
<p>4) Trained bank staff in business lending, loan evaluation, MIS, etc.</p>	<p>200 Bank staff trained off-shore in business evaluation, MIS, farm related business, management, etc..</p>	<ul style="list-style-type: none"> <li>- PBDAC quarterly training reports.</li> <li>- Technical assistance team reports.</li> <li>- Pre and post-training evaluation reports.</li> </ul>	<p>FT-800 funds are available to finance international travel.</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>5) Implementation of new bank policies to promote private business involvement in input supply and to phase down PBDAC's input distribution functions.</p>	<ul style="list-style-type: none"> <li>- New policies developed and instituted: Specific topics to be determined by T.A. team.</li> <li>- PBDAC divestiture of its input distribution activities while strengthening its banking operations.</li> <li>- PBDAC will limit its subsidized lending to fewer strategic crops and activities.</li> </ul>	<ul style="list-style-type: none"> <li>- Site visits to interview private input supply dealers.</li> <li>- Technical assistance team reports.</li> </ul>	<p>The GOE will agree to a lower percent of highly subsidized agricultural loans.</p>
<p>6) Increase in PBDAC's financial viability.</p>	<ul style="list-style-type: none"> <li>- lending rates increased</li> <li>- Retention of gross earnings from SFPP and APCP capitalization to increase its capital. PBDAC uses these earnings to finance APCP and PBDAC operating expenses.</li> <li>- Implementation of CBE Directive #318 requiring a new loan classification system which allows the writing-off of bad loans of over LE 100,000.</li> <li>- Reduction of accounts receivable with the Ministry of Finance.</li> <li>- PBDAC deposits increased.</li> <li>- The ratio of interbank borrowing, based on lending, decreased.</li> <li>- PBDAC's equity increased.</li> <li>- PBDAC has imposed a freeze on new hire and develop a Plan to reduce personnel during Tranche 6 and 7.</li> <li>- PBDAC allows private sector and cooperatives to rent PBDAC's warehouse on a tonnage basis. A plan to dispose newly constructed and old warehouse facilities to private sector.</li> <li>- Allow private sector ownership of PBDAC shares and fixed assets.</li> <li>- PBDAC, in consultation with the ARC, will continue to develop the technology packages for crops, fruits, vegetables and livestock.</li> </ul> <p>(See APCP MOU and its amendments)</p>	<ul style="list-style-type: none"> <li>- PBDAC financial reports.</li> <li>- PBDAC annual audited Balance Sheets.</li> </ul>	<p>The inputs programmed are sufficient to bring about proposed procedural changes.</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>7) Increased PBDAC capitalization, through either increased retained earnings or increased contribution from Ministry of Finance.</p>	<p>Capitalization increased to at least 8 percent of assets.</p>	<p>Annual audited balance sheets.</p>	<p>PBDAC will retain the earnings and will receive the local currency capitalization amount from MOF.</p>
<p><b>Inputs Provided by USAID:</b></p> <p>1) Technical Assistance: \$18.7 million and \$ 3.8 in LE equivalent.</p> <p>2) Training: \$1.4 million and \$2.6 million in LE equivalent.</p> <p>3) Commodities: \$4.85 million and \$850,000 in LE equivalent.</p> <p>4) Services: \$800,000 and \$1 million in LE equivalent.</p> <p>5) Performance Disbursements: \$275 million.</p> <p>6) PBDAC Capitalization funds: (provided by GOE)</p>	<p>Implementation Target (Type &amp; Quantity)</p> <p>1) TA support for up to 9 years for PBDAC management improvement in finance, credit, investment, MIS, accounting, personnel, privatization studies.</p> <p>2) In-country training for 15,000 PBDAC and NES employees. Overseas, short-term training for 200 middle-management employees.</p> <p>3) Computer, vehicles, office equipment for PBDAC, BDAC's and branch banks.</p> <p>4) Repair and maintenance contracts, evaluations, audits, etc. Extension agent incentive payments (HC contributions).</p> <p>5&amp;6) Annual performance disbursement levels to be determined based upon annual performance reviews will also determine adequacy of capitalization of PBDAC.</p>	<p>- Project progress reports - Project records. - Site visits to be analyzed in ongoing project monitoring and during evaluations.</p> <p>PBDAC capitalization Tracking mechanism by AGR/ACE and FM offices with PBDAC providing regular reports.</p> <p>PBDAC capitalization: tracking mechanism developed by AGR/ACE and FM Offices with PBDAC providing regular reports.</p>	<p>AID and GOE provide inputs in a timely fashion. Performance benchmarks are realistic and can be accomplished by the GOE as scheduled.</p> <p>Implementation schedule is realistic.</p> <p>GOE policies allow projected T.A. and training to occur.</p>

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**AGRICULTURAL PRODUCTION AND CREDIT PROJECT**  
**USAID NO. 263-0202**  
**SUMMARY REVISED LOP AUTHORIZATION BUDGET**  
**('000)**

CATEGORY	ORIGINAL LOP BUDGET				CHANGES			NEW LOP BUDGET				
	USAID		GOE LE		USAID		GOE LE	USAID		TOTAL	GOE LE	
	US\$	LE \$Eq.	CASH	IN-KIND	US\$	LE \$Eq.	CASH	US\$	LE \$Eq.		CASH	IN-KIND
1. TECHNICAL ASSISTANCE	18,000	3,800	1,032	1,238	700	0	0	18,700	3,800	22,500	1,032	1,238
2. TRAINING	1,400	2,600	4,000	1,420	0	0	0	1,400	2,600	4,000	4,000	1,420
3. COMMODITIES	4,850	850	0	3,251	0	0	0	4,850	850	5,700	0	3,251
4. SERVICES	500	1,000	2,600	3,794	300	0	0	800	1,000	1,800	2,600	3,794
5. INFLATION	0	0	1,150	1,746	0	0	0	0	0	0	1,150	1,746
6. CONTINGENCY	0	0	450	1,054	0	0	0	0	0	0	450	1,054
7. CAPITALIZATION/ DIVESTITURE	0	0	675,522	0	0	0	134,400 <sup>\1</sup>	0	0	0	809,922	0
8. PERFORMANE DISBURESEMENTS	250,000	0	0	0	25,000	0	0	275,000	0	275,000	0	0
<b>9. PROJECT TOTAL</b>	<b>274,750</b>	<b>8,250</b>	<b>684,754</b>	<b>12,503</b>	<b>26,000</b>	<b>0</b>	<b>134,400</b>	<b>300,750</b>	<b>8,250</b>	<b>309,000</b>	<b>819,154</b>	<b>12,503</b>

\1 This figure reflects LE 83.5 million equivalent to US\$ 25 million and estimated LE 50.9 million for devaluation.

**AGRICULTURAL PRODUCTION AND CREDIT PROJECT**  
**USAID NO. 263-0202**  
**SUMMARY REVISED LOP OBLIGATION BUDGET**  
**('000)**

CATEGORY	PREVIOUS PROJECT OBLIG'N		FY 1993 OBLIGATION		PLANNED FY 1993 OBLIG'N		NEW LOP BUDGET	
	USAID \$	GOE LE	USAID \$	GOE LE	USAID \$	GOE LE	USAID \$	GOE LE
1. TECHNICAL ASSISTANCE	21,800	2,270	700	0	0	0	22,500	2,270
2. TRAINING	4,000	5,420	0	0	0	0	4,000	5,420
3. COMMODITIES	5,700	3,251	0	0	0	0	5,700	3,251
4. SERVICES	1,500	6,394	300	0	0	0	1,800	6,394
5. INFLATION	0	2,896	0	0	0	0	0	2,896
6. CONTINGENCY	0	1,504	0	0	0	0	0	1,504
7. CAPITALIZATION/ DIVESTITURE	0	560,022	0	49,500	0	200,400	0	809,922
8. PERFORMANE DISBURESEMENTS	200,000	0	15,000	0	60,000	0	275,000	0
<b>9. PROJECT TOTAL</b>	<b>233,000</b>	<b>581,757</b>	<b>16,000</b>	<b>49,500</b>	<b>60,000</b>	<b>200,400</b>	<b>309,000</b>	<b>831,657</b>

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**AGRICULTURAL PRODUCTION AND CREDIT PROJECT  
USAID NO. 263-0202  
SUMMARY ESTIMATED LOP EXPEDITURES BUDGET  
(\$'000)**

CATEGORY	EXPENDITURES AS OF 6/30/93	ESTIMATED FOR GOE FY 1993/94	ESTIMATED FOR GOE FY 1994/95	EST. FOR 7-9/1995	ESTIMATED LOP EXPENDITURES
1. TECHNICAL ASSISTANCE	17,866	1,854	1,854	926	22,500
2. TRAINING	2,678	595	595	132	4,000
3. CCMMODITIES	3,444	1,015	1,015	226	5,700
4. SERVICES	888	411	411	90	1,800
5. PERFORMANE DISBURESEMENTS	150,000	65,000	60,000	0	275,000
<b>6. PROJECT TOTAL</b>	<b>174,876</b>	<b>68,875</b>	<b>63,875</b>	<b>1,374</b>	<b>309,000</b>

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

RECORD OF CATEGORICAL EXCLUSION FROM USAID ENVIRONMENTAL PROCEDURES

Project Location: Egypt

Project Title/ID: Agricultural Production and Credit Project Amendment No. 2 (263-0202)

Funding (Fiscal Year and Amount): Amendment - \$26 million LOP: FY86 - FY95 \$309 million

Prepared By:

Date:

Glenn Rutanen-Whaley, PDS/PS Mission Environmental Officer

7/26/93

Environmental Action Recommended: Categorical Exclusion as per 22 CFR 216.2(c)(2)(x) and (i)

Associate Mission Director's Concurrence:

Date:

John Foti, (A)AD/AGR

26 July 93

Decision of Environmental Coordinator, Bureau for the Near East:

Approved:

Date:

Clearances:

RRhoda, OD/PDS/ENV PSullivan, LEG JFoti, OD/AGR/ACE

RRR Date: 7/26/93 PWS Date: 7/26/93 JF Date: 7/26/93

**RECORD OF CATEGORICAL EXCLUSION  
FROM USAID ENVIRONMENTAL PROCEDURES**

1. Project Location: Egypt
2. Project Title/ID: Agricultural Production and Credit Project  
Amendment No. 2 (263-0202)
3. Funding (Fiscal Year and Amount): Amendment - \$26 million  
LOP: FY86-95 - \$309 million
4. Prepared By: Glenn Rutanen-Whaley Date: 7/26/93  
Glenn Rutanen-Whaley, PDS/PS  
Mission Environmental Officer
5. Action Recommended: Categorical Exclusion as per 22 CFR  
216.2(c)(2)(x) and (i)
6. Discussion of Major Environmental Relationships of Project

Background

This project amendment builds on the progress being made under the current APCP authorized in 1986 and amended in 1990. The project goal is to increase agricultural productivity, agricultural investment and farm incomes in Egypt by supporting deregulation of the agricultural sector and introducing a market-based incentive system. The project purpose is to assist the GOE in making needed policy changes to deregulate the agricultural sector. It will also extend to the maximum extent possible full banking services, market level interest rates, rapid and efficient loan approval and increased extension services to the farmers. An increase in private sector participation in agricultural input supply and services will be an important component in this project. There is no change in the project goal/purpose resulting from this project amendment.

The bulk of USAID funds (\$25 million of the \$26 million proposed for this amendment) will be for a dollar denominated performance payment under the project's Policy Reform Component to help the GOE accelerate policy reforms needed to move the agriculture sector toward a free market environment. When the grant funds are disbursed, the GOE will capitalize the Principal Bank for Development and Agricultural Credit with an equivalent amount of local currency. The disbursement will be part of a larger planned transfer based on progress toward achievement of a series of benchmarks set forth in a separate Memorandum of Understanding (MOU). The remaining \$1 million of the \$26 million will be used to finance policy reform monitoring, verification and impact studies under the project's Institutional Strengthening Component.

Discussion

The proposed action is entirely within two of the categories listed in paragraph (c)(1), "Categorical Exclusions," of Section 216.2, "Applicability of Procedures," of Title 22 CFR Part 216, "AID Environmental Procedures." Pursuant to 22 CFR 216.2(c)(3), the originator of the proposed project amendment has determined that the proposed action is fully within the following classes of actions:

For the additional \$25 million allocated to the Policy Reform Component:

Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution. [22 CFR 216.2(c)(2)(x)].

For the additional \$1 million allocated to the Institutional Strengthening Component:

Education, technical assistance, or training programs. [22 CFR 216.2(c)(2)(i)].

Pursuant to 22 CFR 216.2(c)(2), the proposed project amendment is categorically excluded from further environmental review. As per 22 CFR 216.2(c)(1), neither an initial environmental examination nor an environmental assessment is required for an action which is determined to fall within one or more of the categories listed at 22 CFR 216.2(c)(2).

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September 24, 1990

MEMORANDUM OF UNDERSTANDING FOR THE AGRICULTURAL PRODUCTION  
AND CREDIT PROJECT—POLICY REFORM COMPONENT, 1990-93

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PROVISIONAL LIST OF ANNEXES:

- A. Policy Plan for Cotton Pricing, Cotton Pest Control, and Marketing Objectives \*
- B. Policy Plan for Elimination of Fertilizer Subsidies and for Liberalized Fertilizer Marketing \*
- C. Policy Plan for Decontrol of the Livestock Feed Sector and Divestiture of PBDAC Import and Marketing Activities \*
- D. Preliminary PBDAC Plan for Divestiture of Input Supply Functions \*
- E. Preliminary MOA Plan to Give Greater Autonomy and Responsibility to Village Cooperatives \*
- F. Preliminary Plan and Benchmarks for the Seed Sector (June 27, 1990)

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\* To be completed by November 1990 and incorporated into the present Memorandum of Understanding.

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September 24, 1990

Memorandum of Understanding for the  
APC Policy Reform Component, 1990-93

Summary and Recommendation. To continue the program of economic policy reforms begun in 1986 for Egypt's agricultural sector, the Ministry of Agriculture (MOA) has developed a plan for further actions over the next several years. Section I below summarizes the major long term goals for the sector developed by the Government of Egypt (GOE) in 1986-87. Section II presents the main medium term targets that have now been set for the period covered by the present memorandum. The MOA and other concerned ministries will develop the specific policy measures that will be needed to achieve those medium term targets.

USAID agrees with the importance of the long term and medium term targets that the GOE has established and agrees to assist the Government toward those goals. In that connection, the Agricultural Production and Credit (APC) Project is currently being amended by USAID to increase the authorized level of funding by \$150 million for the Policy Reform Component. It is intended that those funds will be disbursed in tranches based on periodic assessment by USAID that the GOE is making satisfactory progress toward implementing its policy reform program. Section III describes a series of benchmarks against which the MOA and USAID will measure such progress.

We recommend that Sections II and III of the present memorandum be considered as the basis for the Policy Reform Component to be supported by the current amendment to the APC Project.

For the MOA: YHassan \_\_\_\_\_ OElKholei Osman A. El-Kholgi  
For PBDAC: AHEzzi AHEzzi MNoor MNoor KNasser KNasser  
For USAID: DClark \_\_\_\_\_ DDod \_\_\_\_\_

## I. Long Term Goals for Agricultural Sector Policy

The GOE continues its commitment to comprehensive reform of the agricultural sector through actions, as indicated in the previous 'Agreed Minutes' to the APC policy component of March 1987, to

- A. remove government farm price controls;
- B. remove government crop area controls, considering technical constraints of the cropping pattern;
- C. remove government crop procurement quotas;
- D. remove government constraints on private sector processing and marketing of farm products and inputs (including import/export);
- E. eliminate subsidies of farm inputs; and
- F. limit state ownership of land.

## II. Main Agreed Targets for the Medium Term

The Government of Egypt has determined that the next phase of its economic reform program for agriculture should emphasize increased cotton procurement prices, liberalization of rice marketing, elimination of farm input subsidies, and divestiture and liberalization of farm input supply activities that presently are managed mainly by the Principal Bank for Development and Agricultural Credit (PBDAC). During this period of change, the Government and the Ministry of Agriculture will also take necessary actions to protect and improve the longer-term financial strength of PBDAC as a sound credit institution.

Adjusted cotton prices and reduced government controls over rice. By the 1992 season, the Government of Egypt proposes to adjust the net procurement price for cotton to at least 66 percent of the international price and to eliminate the current requirement to deliver to the government 1.5 ton of rice per feddan. For cotton, the Higher Policy Committee has decided (November 1989) that the average procurement price paid will be adjusted to 66 percent of the international price by 1992.

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The intention of shifting the procurement price to this level is to provide improved incentives for the cotton farmer to produce a better yield and to grow cotton in preference to alternative field crops that have less economic value to the nation.

For rice, the Higher Policy Committee has determined that the Ministry of Supply delivery quota should be reduced to 1.0 ton in 1990 and should be eliminated by 1992. In addition, by 1992 the Ministry of Supply will remove its current prohibitions on the private sector concerning the possession, milling, and intergovernorate transport of rice.

Elimination of farm input subsidies. By the end of 1993, all budgetary and exchange rate subsidies are planned to be removed from nitrogen and phosphate fertilizers and from all other farm inputs—with the possible exception of subsidies for cotton pest control, farm credit and potassium sulfate. In addition, the Government plans to modify its current administrative pricing of fertilizer and of livestock feed ingredients—so that the ex-factory prices of these products will be more uniform among all buyers.

Government divestiture and liberalization of marketing for fertilizer, livestock feed, seed, and other inputs. In a series of steps through 1993, the Government intends to eliminate substantially all controls over private processing, intergovernorate transport, and wholesale and retail trade for these farm inputs. In general, all restrictions over private trade for commodities that are presently not subsidized will be eliminated at an early date, while restrictions over other individual inputs will be removed at the point when the budget and exchange rate subsidies for the affected commodity have been eliminated. In addition, PBDAC will adapt its marketing margins for seed and other individual inputs to reflect the normal commercial cost of such wholesale and retail trade, and thus, to permit and encourage trading by new dealers.

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On a parallel track, PBDAC will reduce substantially or eliminate its current retail and wholesale distribution activities for fertilizer, livestock feed, seed and machinery. By the end of the period covered by the present memorandum, it is anticipated that nonpublic sector distributors will be responsible for a substantial share of the distribution of fertilizer, seed, livestock feed, and machinery.

Financial strengthening for PBDAC as a credit institution.

PBDAC's capital and operating income will be supported and protected by the Government during the period covered by the present memorandum in order to correct current weaknesses in the capital structure and to overcome the temporary costs to the Bank from divestiture of its input trading activities. The targets for improvement in PBDAC's financial strength will be achieved through a combination of

- GOE capital contributions corresponding to the local currency equivalent of the dollar disbursements by USAID;
- retention by PBDAC of part of the gross interest earnings attributable to SFPP- and APC-related capital contributions; and
- measures by PBDAC to enhance its current net income from banking and credit operations and to reduce its residual operating costs related to the input supply operations that will have been discontinued.

Possible additional economic policy initiatives. On the basis of studies of current policies, controls, and economic distortions that affect adversely the performance of the agricultural sector, the MOA may propose inclusion of other elements into the agricultural sector policy reform program. By mutual agreement with USAID, those elements may be incorporated into an amended list of measures supported by the APC Economic Policy Component.

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### III. Benchmarks for Implementation of Economic Reforms

In light of the agreed medium-term objectives, USAID will periodically review and assess progress of the GOE's economic reforms in the agricultural sector since completion of the first phase of the APC policy component in 1989. Those assessments will focus primarily on the benchmarks of performance outlined below and will provide a basis for USAID to release resources during the period of the policy changes covered by the present memorandum.

#### A. Fourth Tranche Benchmarks

1. The cotton procurement price will be adjusted so as to eliminate at least one third of the difference between the price prevailing in 1989 and the medium term target (that is, two thirds of the international price).
2. The quota for mandatory delivery of rice to the government will be reduced to no more than 1.0 ton per feddan.
3. The retail prices of fertilizers handled by public sector distributors will be adjusted to reflect
  - revision of local ex-factory prices to their full costs of production\* or to prices based on market forces;
  - revision of the exchange rate applied to public sector imports of fertilizers;
  - adjustment of marketing margins and commissions between factory and retail points of sale to a full commercial basis.

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\* It is understood that ex-factory prices for fertilizer reserved for FBDAC are intended to be set on the basis of 'standard costs' of production and to be adjusted on at least an annual basis. However, implementation of that arrangement is contingent upon agreement between the Ministry of Industry and the World Bank concerning the definition and calculation of standard costs.

*W* *Y. Khan* *V. M. L.* *O. A.* *10/23*

The combined budget subsidy for local and imported fertilizers will not exceed the corresponding budget subsidy for FY 1988/89.

4. Prices and quantities of low-priced livestock feed will be adjusted so as to eliminate one third or more of preexisting, implicit subsidies for wheat bran and cottonseed cake.
5. Charges for cotton pest control will be adjusted to reflect changes in pesticide application practices and in the foreign exchange costs of cotton pesticides owing to revision of the foreign exchange rate (contingent on achievement of a cotton price that allows benchmark A.1 to be fulfilled).
6. The GOE will adjust policies, decrees, and laws on the marketing of unsubsidized inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector, using the following guidelines.
  - a. Private sector dealers will be permitted to trade and transport all farm inputs that are no longer subsidized.
  - b. For purposes of meeting farmers' quotas of fixed price fertilizer, local factories' annual distribution of fertilizer to PBDAC at fixed prices will not exceed the following amounts:
    - 4.2 million tons of nitrogen (15.5 percent nutrient content);
    - 1.0 million tons of phosphate (15 percent nutrient content).
  - c. To meet farmers' additional needs for fertilizer, private dealers, coops, or PBDAC will purchase fertilizers from local factories on equal terms and at prices based on market forces. Such fertilizer will be freely transported and will be resold on a nonsubsidized basis, free from price controls.

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d. The quantity of livestock feed mixes marketed through PBDAC or other public sector dealers will be reduced to a maximum of 80 percent of the quantity marketed by PBDAC in 1989.

e. Imports of corn by PBDAC will be reduced from a monthly target of 150,000 tons to a monthly target of 100,000 tons (or to a lesser amount, contingent on foreign exchange availability to the private sector).

f. Marketing by PBDAC of privately produced and processed seed will be reduced by raising the commission charged by PBDAC to 15 percent or more of the retail price. Marketing charges by PBDAC on seed supplied by public sector processors will also be reviewed for adjustment to a normal commercial level.

7. Subsidized farm credit for crop or animal production purposes will be restricted to a uniform maximum amount per feddan for each registered farmer. Interest rates on all other new agricultural loans (other than some loans for new activities which need promotion) will be moved to market levels. Total interest subsidies on all types of farm credit will not exceed the level of LE 105 million per year.

8. The MOA will develop a phased plan to withdraw from the affairs of cooperatives, except for selected regulatory and financial audit functions reserved for the public sector.

B. Fifth Tranche Benchmarks

1. The cotton procurement price will be adjusted so as to eliminate at least one half of the difference between the price prevailing in 1990 and the medium term target (that is, two-thirds of the international price).

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2. The quota for mandatory delivery of rice to the government will be reduced to no more than 0.5 ton per feddan. GOE restrictions on possession, milling, and intergovernorate transport of rice will be relaxed so as to promote more efficient processing and marketing of overquota rice by the private sector.
3. The retail prices of fertilizers handled by public sector distributors will be adjusted to reflect elimination of the preferential exchange rate applied to public sector imports of fertilizer. The combined budget subsidy for local and imported fertilizers will not exceed the corresponding budget subsidy for FY 1988/89.
4. Prices and quantities of low-priced livestock feed will be adjusted so as to eliminate one half or more of the remaining implicit subsidies for wheat bran and cottonseed cake.
5. Charges for cotton pest control will be adjusted so that the combined total of explicit and implicit public sector subsidies will be reduced to three fourths of the corresponding total pest control subsidy for FY 1988/89 (contingent on achievement of a cotton price that allows benchmark B.1 to be fulfilled).
6. The MOA will adjust policies, decrees, and laws on the marketing of unsubsidized farm inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector, using the following guidelines.
  - a. Private sector dealers will be permitted to trade and transport all farm inputs that are no longer subsidized.
  - b. For purposes of meeting farmers' quotas of fixed price fertilizer, local factories' annual distribution of fertilizer to PBDAC at fixed prices will not exceed the following amounts:

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- 4.0 million tons of nitrogen (15.5 percent nutrient content), plus a share of production of ammonium nitrate from new facilities to compensate for the decline from the previous year in PBDAC imports of nitrogen;

- 0.9 million tons of phosphate (15 percent nutrient content).

c. To meet farmers' additional needs for fertilizer, private dealers, coops, or PBDAC will purchase fertilizers from local factories on equal terms and at prices based on market forces. Such fertilizer will be freely transported and will be resold on a nonsubsidized basis, free from price controls.

d. The quantity of livestock feed mixes marketed through PBDAC and other public sector dealers will be reduced to a maximum of 60 percent of the quantity marketed during 1989.

e. Imports and marketing of corn by PBDAC will be reduced to a monthly target of 50,000 tons (or to a lesser amount, contingent on foreign exchange availability to the private sector).

f. Marketing charges by PBDAC on seed supplied by public sector processors, with the possible exception of cotton seed, will be adjusted to a full commercial basis for the summer 1991 and winter 1991/92 seasons in accordance with the findings, if available, from the review noted in Benchmark A.6.f.

7. The system for subsidized farm credit for crop production will be reviewed by PBDAC with the intention of concentrating the benefits on farmers who bear the burden of producing low-priced, government-controlled crops or who are undertaking new activities that need promotion. Interest subsidies on agricultural loans will not exceed the level of LE 105 million per year.

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8. The MDA will submit to the Higher Policy Committee a new law that would enable agricultural cooperatives to function as independent, private agribusinesses. The MDA will also have implemented its scheduled measures to withdraw from the affairs of cooperatives, except for selected regulatory and financial audit functions reserved for the public sector.

[ 9. Targets will be achieved for PBDAC capital, for its operating income, and for changes in its organization and staff, based on benchmarks to be established within one year of the present memorandum. (These targets will reflect plans for divestiture of input-handling facilities and other elements of the PBDAC strategic plan to be developed during 1990.)]

[ 10. Toward reforming the seed processing sector, additional benchmarks will be added to deal with issues raised in Annex F and in the National Seed Seminar, such as:

- institutionally separating seed development (regulation, certification, control, etc.) from seed production and processing activities;
- submitting new seed legislation to the Higher Policy Committee which would redefine the role of the public sector, provide increased incentives to the private sector, and allow divestiture of current seed processing facilities; and
- selling or closing a number of seed processing facilities.]

C. Sixth Tranche Benchmarks

1. The cotton procurement price will be adjusted to equal or exceed the medium term target (that is, two-thirds of the international price).

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2. The quota for mandatory delivery of rice to the government will be eliminated. All GOE prohibitions and restrictions on possession, milling, transport, and marketing of rice by the private sector will be eliminated.
3. By the end of 1992, the retail prices of fertilizers will be adjusted so as to eliminate all remaining subsidies on fertilizer (with the possible exception of subsidies for potassium sulfate).
4. Prices for all wheat bran and cottonseed cake will be raised to levels that fully reflect either border prices or local, free-market prices.
5. Charges for cotton pest control will be adjusted so that the combined total of explicit and implicit public sector subsidies will be reduced to one half of the corresponding total pest control subsidy for FY 1988/89 (contingent on achievement of a cotton price that allows benchmark C.1 to be fulfilled).
6. The MOA will adjust marketing policies for farm inputs so as to reduce the quantities of commercial farm inputs processed and marketed by the public sector, using the following guidelines.
  - a. Private sector dealers will be permitted to trade and transport all farm inputs that are no longer subsidized.
  - b. By the end of 1992, all fertilizer dealers (PBDAC, cooperatives, other private dealers) will have access on equal terms to imported and locally produced fertilizers. Local factories' annual distribution of fertilizer to PBDAC at fixed prices will not exceed the following amounts:
    - 3.8 million tons of nitrogen (15.5 percent nutrient content), plus a share of production of ammonium nitrate

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from new facilities to compensate for the cumulative decline in PBDAC imports of nitrogen;

- 0.8 million tons of phosphate (15 percent nutrient content).

c. By the end of 1992, public sector distribution of low-priced, 'unified' livestock feed will be discontinued.

d. Imports and marketing of corn by PBDAC will be eliminated.

7. Interest subsidies on agricultural loans will not exceed the level of LE 105 million per year.

[ 8. Targets will be achieved for PBDAC capital, for its operating income, and for changes in its organization and staff, based on benchmarks to be established. (Refer to the PBDAC strategic plans developed during 1990 and 1991.)]

[ 9. An additional benchmark will be included concerning seed legislation and the privatization of public sector seed facilities. (Refer to Annex F and further development of the seed sector plan.)]

#### IV. Monitoring the Implementation of Economic Reforms

##### A. Responsibilities of the MOA Monitoring Unit

The economic staff of the Ministry of Agriculture will conduct a series of surveys and studies to determine the rate of progress toward achieving the benchmarks and medium term targets described in Sections II and III, preceding. These surveys and studies will include

- a baseline assessment of initial conditions in the areas for which agreed medium term targets have been established;

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- a series of annual reports to present quantified estimates of progress toward achievement of the benchmarks set for the successive performance disbursements (tranches 4, 5, and 6);
- supplementary, interim reports concerning achievement of any specific benchmarks that might not have been fully achieved at the time of the previous annual report;
- specific separate studies required to revise or set benchmarks for tranches 5 and 6.

The monitoring unit responsible for these survey, analysis, and reporting activities will be the office of the Economic Advisor to the Minister of Agriculture. However, PBDAC will be independently responsible for preparing timely, parallel reports concerning its financial situation, its strategic plans, and the implementation of divestiture of its input marketing activities.

If available, preliminary results of the baseline study by the monitoring unit will be incorporated into annexes to the current memorandum that will present the MOA plans for reform of the cotton subsector, the fertilizer marketing system, and the livestock feed marketing system. Similarly, PBDAC will prepare baseline data that will be necessary to evaluate its subsequent financial performance and the progress toward divestiture of its commercial and input supply functions.

B. Consultations and Annual Reports

Prior to final issuance of each annual report, the MOA Policy Committee and USAID will meet to review all major economic policy developments since the last previous tranche and to discuss the

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methodology and preliminary new results developed by the monitoring unit for the forthcoming report.

It is expected that each annual report will contain

- estimates of prices, quantities, and market shares of the main input dealers, including the most recently completed crop season or accounting period (to allow evaluation of current benchmarks);
- a summary (for the period since the preceding annual report) of all major decrees, laws, or changes in regulatory policy that bear on the main medium-term targets identified in the present memorandum;
- in the case of the second and subsequent annual reports, revised estimates (based on more complete data or surveys) of the progress achieved during the earlier period(s) toward the medium term goals and previous benchmarks.

#### C. Methodology for Evaluating Benchmarks

Many of the agreed benchmarks for tranches 4, 5, and 6 involve the movement of local prices for major farm outputs and inputs toward the respective levels of economic prices for those products. In such cases, measurement of progress toward the benchmark objective requires for each product

- current measurement or estimation of the local price;
- current identification and estimation of the corresponding border price;
- application of an appropriate prevailing exchange rate to translate the border price into its local-currency equivalent;
- estimation of handling and processing costs from the border to the local point of sale (such as the farm gate).

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Local prices. In general, accurate and up-to-date measurements are available for local prices of farm inputs which are the subject of agreed benchmarks. A precise schedule of local cotton procurement prices is also generally available prior to harvest. However, accurate and current data are not readily available for certain local prices. Thus, the GOE will conduct special surveys to measure

- free or black market prices of livestock feed mixes, wheat bran, and, if available, cottonseed cake; and
- ex-factory prices of locally produced fertilizer sold to non public sector distributors.

In addition, to measure progress toward the medium term goal of improved incentives to grow cotton in preference to alternative field crops, it is planned that the MOA monitoring unit will make its best efforts

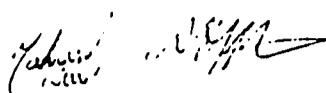
- to conduct farm budget surveys for cotton, berseem, maize, rice, and wheat in the main producing regions; and
- to collect and report more timely, survey-based information than is currently available on the prices and yields for the competing crops of berseem, maize, rice, and wheat.

Economic prices. In general, economic prices for farm inputs and outputs will be evaluated as contemporaneous border prices, adjusted for local handling and processing costs. However, the GOE proposes and USAID accepts that 'agreed target prices' may be used in lieu of economic prices for cotton prices and for locally-produced fertilizer.

For cotton, the agreed target price is considered as a moving average of the fob export price of the typical varieties and grades of cotton exported by Egypt. The moving average will be based upon dollar prices of lint exports to market economies over the previous five years, with an adjustment for processing costs and the current value of byproducts.

For tranche 4, consideration will be given to assessing progress toward the medium-term target for cotton prices through comparison of a





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Cabinet-approved and published schedule of procurement prices for the 1991 crop with the projected moving average of the fob export prices. Thus, published cotton procurement prices that, prospectively, would satisfy benchmark B.1 for tranche 5 would also, retrospectively, satisfy benchmark A.1 for tranche 4.

For ex-factory prices of locally produced fertilizers, it is anticipated that the agreed target prices may be based in part on estimates of 'standard costs' of production of the local factory, using an up-to-date (e.g., annual) assessment of variable costs and revaluation of company assets. The definition of standard costs in Egypt's fertilizer sector would be determined in consultations between the GOE and the World Bank. As an alternative to standard costs, the GOE and USAID will consider that agreed targets for ex-factory prices may be based on border prices for the same or similar fertilizers, with an appropriate discount to reflect conditions of bagging or product-quality that do not meet international standards. While the MOA will accept one or both of the above alternatives, it is possible that the Ministry of Industry may choose some different, 'full cost' basis for setting ex-factory prices. USAID considers that, for purposes of the current Memorandum of Understanding, such alternative 'full cost' pricing would be accepted as a 'nonsubsidized price' if the factory pricing and marketing scheme ensures that locally marketed fertilizer will be available on a non-rationed basis, and on equal terms, to all private and public sector dealers.

Appropriate exchange rate. Wherever comparisons of local with international prices are required, benchmarks will be evaluated on the basis of the prevailing market exchange rate of the Egyptian pound. For that purpose, USAID staff have suggested that the relevant international fob or cif price should be converted into LE on the basis of the main market exchange rate currently in use for general commercial imports of the private sector. MOA economic staff have suggested that it should be assumed that the commercial bank market exchange rate will have been

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agreed upon between the Government of Egypt and the International Monetary Fund and, if that is the case (as USAID would accept), the commercial bank rate would be considered the prevailing rate.

Regarding the evaluation of cotton prices, MOA and USAID have considered two different possibilities for selecting the exchange rates to assess the level of local cotton procurement prices. One possibility is that the moving average cotton export price would be translated at the exchange rate that prevails at the time of payment to the farmer for the newly procured cotton crop. A second possibility is that the moving average export price would be translated at the exchange rate prevailing on the date of announcement (prior to planting) of the new procurement price. USAID consider that the second approach, using the dates of announcement, might be appropriate—but only if some safeguard (as proposed below) existed against significant devaluations of the pound that would subsequently undermine the intended incentives to increase cultivation and improve crop management of cotton.

In light of the necessity to develop and maintain improved incentives for farmers to cultivate cotton, the MOA considers that the Government of Egypt should take all reasonable steps to ensure that the procurement price should be raised by 1992 to two thirds of the world price, as the Cabinet has determined and approved. If, after initial announcement of the procurement prices for each season, the planned progress toward that goal is threatened by unexpected devaluation of the currency, the MOA will initiate corrective action to adjust the cotton procurement price during the season and to restore a proper incentive to the cotton farmers.

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**First Amendment**  
**To**  
**Memorandum of Understanding**  
**Between**  
**The Ministry of Agriculture and Land Reclamation**  
**and the**  
**United States Agency for International Development**  
**for**  
**Agricultural Production and Credit Project**  
**Policy Reform Component**

FOR PBDAC: AEzzi *[Signature]*      MNoor *[Signature]*      KNasser *[Signature]*  
FOR MALR: HKhedr Hassan A. Khedr  
FOR USAID: DClark *[Signature]*      SSkogstad *[Signature]*

Dated: January 23, 1992

First Amendment, dated January 23, 1992, to the Memorandum of Understanding, (attached) dated September 24, 1990, between the Ministry of Agriculture and Land Reclamation (MALR) and the United States Agency for International Development (USAID) for Agricultural Production and Credit Project - Policy Reform Component.

Section 1. The Memorandum of Understanding is hereby amended as follows:

A. Sections III. B. 1, 2, 3, 9 and 10 are amended and restated in their entirety as follows:

1. The cotton procurement price will be adjusted so as to eliminate at least one half of the difference between the price prevailing in 1990 and the medium term target (that is, two thirds of the international price). In addition, announcements will be made before the 1992 cotton planting season to increase the procurement price to equal or exceed the medium-term target (that is two thirds of the international price of the cotton lint and all by-products). Also, announce by January 1, 1992 that a study will be completed by July 31, 1992, for the full liberalization of the cotton sector. The study will include a phased plan acceptable to both MALR and USAID, for the full liberalization of cotton production, marketing, ginning and trade (completion of this study to be verified in Tranche VI).

2. The quota for mandatory delivery of rice to the government will be reduced to no more than 0.5 ton per feddan. GOE restrictions on possession, milling, and intergovernorate transport of rice will be relaxed so as to promote efficient processing and marketing of over-quota rice by the private sector. In addition, private sector dealers will be permitted to export rice and to convert foreign exchange earnings at the prevailing free market exchange rate.

3. The retail prices of fertilizer handled by public sector distributors will be adjusted to reflect:

- revision of ex-factory prices so that the price of each type of fertilizer will be within 20 percent of the international or border prices with adjustments for quality;

- elimination of the preferential exchange rate applied to public sector imports of fertilizer;

- The combined budget subsidy for FY 91/92 for local and imported fertilizers will not exceed LE 62.2 m. (this subsidy was LE 183m. in FY 88/89 and LE 176 m. in FY 89/90 and LE 124 m. in FY 90/91); and

- continued adjustment of marketing margins and commissions between factory and retail points of sale to a full commercial basis.

9. PBDAC will adopt measures to improve its financial condition, including:

- implementation of the Central Bank of Egypt (CBE) Directive 318 dated May 15, 1991, and CBE Directive 321 dated Sept. 9, 1991, which call for the adoption of a loan classification system, classification of all loans over LE 100,000, and write-off of all such loans classified as unrecoverable;
- an annual reconciliation of accounts receivable with GOE and negotiate to either: 1) collect the balances due, 2) accrue interest on balances due, or 3) write-off the balances due;
- show progress over the previous year level by at least 15 percent (for options 1 and 3) in achieving more PBDAC self reliance on its own resources which will include: (1) increasing deposits, (2) maintaining the ratio of the inter-bank borrowing to the volume of lending (unless the inter-bank borrowing is the most efficient financing resource), and (3) increasing PBDAC equity (capital plus reserves).
- adoption of a global freeze on hiring of new employees, but which permits filling shortages in the banking operations, while compensating by making reductions elsewhere.
- allow the rental of warehouse space on a tonnage basis for the storage of fertilizer to private dealers or cooperatives.

10. The MALR will adopt a plan of reform for the agricultural seed processing and marketing sector by Feb. 29, 1992, including:

- the establishment of a new National Seed Council (NSC) and a private sector seed advisory committee as called for in the recommendations and described in supporting documentation of the 1991 National Seed Conference to give increased emphasis to the private sector;
- establishment of a new committee which will be authorized to hire consultants if needed to draft new national seed legislation as described in the recommendations of the 1991 National Seed Conference;

- establishment of a newly constituted autonomous Central Administration for Seed (CAS) to administer the national seed system as defined by the 1991 National Seed Conference;

- submit a plan to insure that CAS will not compete with the private sector, and transfer all CAS certified seed production processing facilities, including the relevant assets and personnel, to some other agency as a first step toward privatization; and

- prepare and obtain approval from MALR and USAID of a phased plan for the privatization of all seed processing facilities owned by the MALR over the next 3-4 years.

B. Section III. B. 8 is deleted pertaining to agricultural cooperatives.

C. Sections III. C.1, 2, 3, 8 and 9 are amended and restated in their entirety as follows:

1. The cotton procurement price will be adjusted to equal or exceed the medium term target (that is, two-thirds of the international price of the cotton lint and all by-products). In addition, verify that the plan prepared during 1992 to liberalize the production, marketing, ginning, and trade of cotton was completed and proceed with the implementation of this plan pursuant to the agreed upon timetable.

[A private/independent cotton commodity market will be permitted in which private sector dealers will be allowed to trade and gin cotton. In addition, beginning with the cotton crop to be planted in CY 1993, each cotton producer will be allowed to market his cotton to private sector dealers at prices agreed to by buyers and sellers].

[Further steps will be taken and initiated in order to allow private sector dealers to export and import cotton. In addition, announcements will be made for the cotton crop to be planted in CY 1993 that each cotton producer will be allowed to market his production to private sector dealers].

2. The quota for mandatory delivery of rice to the government will be eliminated. All GOE prohibitions and restrictions on possession, milling, transport, marketing and export of rice by the private sector will be eliminated.

3. By the end of 1992, the retail prices of fertilizer will be adjusted to reflect:

- revision of ex-factory prices so that the price of each type of fertilizer is within 12 percent of the international, or

border prices; with adjustments for quality;

- elimination of all remaining subsidies on fertilizer (with the possible exception of potassium sulfate); and
- continued adjustment of marketing margins and commissions between factory and retail points of sale to a full commercial basis.

8. PBDAC will adopt measures to improve its financial condition, including:

- use of the loan classification system called for by CBE to define and write-off all loans classified unrecoverable;
- an annual reconciliation of accounts receivable with GOE and negotiate to either: 1) collect the balances due, 2) accrue interest on balances due, or 3) write-off the balances due.
- show progress over the previous year level by at least 15 percent (for options 1 and 3) in achieving more PBDAC self reliance on its own resources which will include: (1) increasing deposits; (2) maintaining the ratio of the inter-bank borrowing to the volume of lending (unless the inter-bank borrowing is the most efficient financing resource); and (3) increasing PBDAC equity (capital plus reserves).
- [prepare a phased plan by Sept. 30, 1992 to eliminate redundancy of employees resulting from the divestiture of PBDAC input distribution activities, and show progress in executing the plan adopted to reduce redundancies of employee].
- [prepare a phased plan acceptable to both PBDAC and USAID to sell, rent or dispose of storage warehouses, except those justified for banking operations.]

9. The MALR will continue to implement reform measures in the agricultural seed processing and marketing sector including:

- adoption of new national seed legislation as reviewed by the NSC and as recommended by the 1991 National Seed Conference which establishes a seed policy formulation mechanism, seed quality standards, standards for certification and seed protection, general provisions for seed trade, and a schedule of fees to cover the cost of the regulatory and support services provided by CAS;
- show progress toward administration of the national seed system by the newly organized CAS,

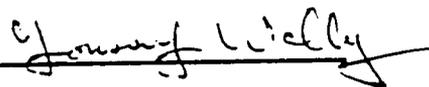
- proceed with privatization of the MALR seed processing plants according to the phased plan agreed upon in Tranche V.

- The following benchmark is included for the agricultural seed processing and marketing sector:  
[Completion of a phased plan by October 31, 1992 acceptable to both MALR and USAID to privatize certified cotton seed production and processing].

Section 2. Except as specifically amended or modified herein, the Memorandum of Understanding dated September 24, 1990 shall remain in full force and effect in accordance with all of its terms.

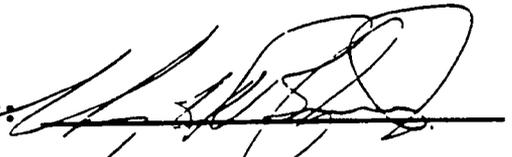
Section 3. This amendment shall enter into force when signed by both parties hereto.

In Witness Whereof, the Ministry of Agriculture and Land Reclamation and the United States Agency for International Development, each acting through its respective duly authorized representatives, have caused this amendment to be signed in their names and delivered as the day and year first above written.

By: 

Name: Dr. Youssef Wally

Title: Deputy Prime Minister and  
Minister of Agriculture and  
Land Reclamation

By: 

Name: Henry H. Bassford

Director, USAID/Egypt

SECOND AMENDMENT  
TO  
MEMORANDUM OF UNDERSTANDING  
BETWEEN  
THE MINISTRY OF AGRICULTURE AND LAND RECLAMATION  
AND THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
FOR  
AGRICULTURAL PRODUCTION AND CREDIT PROJECT  
POLICY REFORM COMPONENT

For PBDAC : AEZZI *[Signature]* MNOOR *[Signature]*  
For MALR : HKHEDR *Hassan A. Khayat*  
For USAID : DCLARK *[Signature]* PMULLIGAN *Paul F. Mulligan*

Dated: September 24, 1992

Second Amendment, dated September 24, 1992, to the Memorandum of Understanding, (attached) dated September 24, 1990, and its first amendment dated January 23, 1992 between the Ministry of Agriculture and Land Reclamation (MALR) and the United States Agency for International Development (USAID) for Agricultural Production and Credit Project - Policy Reform Component.

Section 1. The Memorandum of Understanding and its amendment are hereby amended as follows:

A. Sections III.C.1 thru 9 are amended and restated in their entirety, and Section III. C.10 is added as follows:

C. Sixth Tranche Benchmarks

1. The GOE agrees to proceed with establishing a free-market system for cotton production and marketing beginning with the cotton crop planted in CY 1993. The details of the plan to liberalize cotton production, marketing, ginning and exporting are attached as Annex A to this Amendment. The detailed liberalization plan forms an integral part of this Benchmark.

Actions to be taken, and the timing of those actions, are summarized as follows:

By the end of November 1992, announce by a Ministerial Decree a floor price for the 1993 crop to protect cotton dealers against extreme price decline, eliminate all compulsory delivery of cotton and price control, allow free and equal access to all markets by any private or public trader, allow public trading companies and cotton gins to compete among themselves and with private traders, and allow free marketing of cotton by-products.

Allow growers, beginning with the 1993 crop, full freedom to choose cotton production practices, except for area allocation and varieties that will be restricted to zones determined by the government. Pesticides use by private sector will be permitted and may only be restricted according to accepted technical norms.

By the end of March 1993, develop a comprehensive plan to liberalize cotton ginning over a 2-3 year period, and initiate actions conforming to the medium- and long-term recommendations contained in the annexed Plan (see sections III and IV of the attached Cotton Liberalization Implementation Plan).

By the end of March 1993, announce by a Ministerial Decree the re-opening of Mina El Bassal as a spot market with facilities available to all traders and brokers to handle the cotton crop planted in CY 1993.

2. The quota for mandatory delivery of rice to the government was eliminated ahead of schedule. All remaining GOE prohibitions and restrictions on possession, milling, transport, marketing and export of rice by the private sector will be eliminated. Private sector rice exporters will be free to export rice at prices set according to market forces. The rice export committee will carry out regulatory and quality control functions without restricting, by any means, the exportation of rice by the private sector.

3. By the end of CY 1992, the retail prices of fertilizer handled by public sector distributors will be adjusted to reflect:

- revision of ex-factory prices so that the price of each type of fertilizer is within 12 percent of the international, or border prices, with adjustments for quality. PBDAC will purchase fertilizer from local factories at competitive prices and terms with private dealers and cooperatives;

- elimination of all subsidies on newly purchased fertilizer as of July 1, 1992 (with the possible exception of potassium sulfate); and

- adjustment of marketing margins and commissions between factory and retail points of sale to a full commercial basis.

4. By the end of March 1993, wheat bran and cotton seed cake will be freely traded at prices set according to market forces.

5. By the end of March 1993, charges for cotton pest control, for the cotton crop to be planted in CY 1993, will be adjusted so that the combined total of explicit and implicit government subsidies will be announced and reduced by 25 percent of the 1992 level according to the liberalization plan of cotton in C.1 above.

6. The MALR will adjust marketing policies for farm inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector using the following guidelines:

- a. Private sector dealers will be permitted to trade and transport all farm inputs except cotton seed for planting.

- b. By the end of FY 1992/93, all fertilizer dealers (PBDAC, cooperatives, and other private dealers) will have access on competitive terms to imported and locally produced fertilizers. Local factories' annual sale fertilizer to PBDAC will not exceed the following amounts:

- 3.0 million tons of nitrogen (15.5 Percent nutrient content).

- 0.5 million tons of phosphate (15 percent nutrient content).

c. By the end of CY 1992, public sector distribution of low-priced, 'unified' livestock feed will be discontinued.

d. By the end of CY 1992, imports and marketing of corn by PBDAC will be eliminated.

7. The system for subsidized farm credit for crop production will be reviewed by PBDAC with the intention of concentrating the benefits on farmers who bear the burden of producing low-priced, government-controlled crops or who are undertaking new activities that need promotion. FY 1992/93 interest subsidies on agricultural loans will not exceed the level of LE 100 million per year.

8. PBDAC will adopt measures to improve its financial condition, including:

a. Prepare a phased implementation and financial plan acceptable to PBDAC and USAID by December 31, 1992 to substantially reduce redundancy of employees resulting from the divestiture of PBDAC input distribution activities. Upon the completion of the financial plan, initial steps will be taken no later than March 31, 1993 in executing the plan adopted to reduce redundancies of employee.

b. The private sector will be allowed to rent PBDAC storage facilities. In addition, by the end of March 1993, PBDAC will conduct a study and prepare a phased plan acceptable to both PBDAC and USAID to sell, rent or otherwise divest itself from the operation of storage warehouses, including the existing and the new planned facilities, except those justified for bank lending operations. Focus should be on facilities owned by PBDAC.

c. The following requirements will be implemented:

- use of the loan classification system called for by the Central Bank of Egypt (CBE) to define and write-off all loans classified unrecoverable.

- an annual reconciliation of accounts receivable with GOE and negotiate to either: 1) collect the balances due, 2) accrue interest on balances due, or 3) write-off the balances due.

9. The MALR will continue to implement reform measures in the agricultural seed processing and marketing sector including:

- show progress toward the ratification and the adoption of new national seed legislation as reviewed by the National Seed Council

(NSC) and as recommended by the 1991 National Seed Conference which establishes a seed policy formulation mechanism, seed quality standards, standards for certification and seed protection, general provisions for seed trade, and a schedule of fees to cover the cost of the regulatory and support services provided by the Central Administration of Seeds (CAS).

- proceed with CAS reorganization and privatization of the MALR seed processing plants according to the phased plan agreed upon in tranche V and show achievements of specific steps pursuant to the agreed upon timetable.

- The following benchmark is included for the cotton seed processing and marketing sector: completion of a phased plan by December 31, 1992 acceptable to both MALR and USAID to liberalize certified cotton seed production and processing.

10. All restrictions on the importation, trade, marketing and manufacturing of agricultural machinery by private sector will be eliminated.

B. Sections III. D.1 thru 9 are added as follows:

D. Seventh Tranche Benchmarks

1. [Verify that the plan prepared during 1992 to liberalize the production, marketing, ginning, and trade of cotton is being implemented and progress is in accordance with the agreed upon timetable].

2. By the end of CY 1993, the retail prices of fertilizer handled by public sector distributors will be adjusted to reflect:

- revision of ex-factory prices so that the price of each type of fertilizer equals to the international, or border prices; with adjustments for quality; and

- elimination of all remaining subsidies on fertilizer (with the possible exception of potassium sulfate).

3. All restrictions on cropping pattern, for cotton and all other crops, will be eliminated except for technical reasons (e.g., water requirements), and farmers will be allowed to make their own decisions for cultivating their land area.

4. By the end of March 1994, charges for cotton pest control, for the cotton crop to be planted in CY 1994, will be adjusted so that the combined total of explicit and implicit government subsidies

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will be announced and reduced by 50 percent of the 1992 level according to the liberalization plan of cotton in D.1 above.

5. The MALR will adjust marketing policies for farm inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector using the following guidelines:

a. Private sector dealers will be permitted to trade and transport all farm inputs except cotton seed for planting.

b. By the end of CY 1993, all fertilizer dealers (PBDAC, cooperatives, and other private dealers) will have access on competitive terms to imported and locally produced fertilizers.

6. FY 1993/94 interest subsidies on agricultural loans will not exceed the level of [LE 100] million per year.

7. PBDAC will adopt measures to improve its financial condition, including:

a. [Specific steps will be determined pursuant to the phased plan prepared in tranche VI to reduce redundancy of employees resulting from the divestiture of PBDAC input distribution activities, and more aggressive steps will be taken in executing the plan adopted to reduce redundancies of employee].

b. Private sector will be allowed to rent PBDAC storage facilities on a tonnage basis. [In addition, PBDAC will continue to implement its phased plan to sell, rent or divest its storage warehouses.]

8. The MALR will continue to implement reform measures in the agricultural seed processing and marketing sector including:

- continue progress toward the ratification and adoption of new national seed legislation as reviewed by the NSC and as recommended by the 1991 National Seed Conference which establishes a seed policy formulation mechanism, seed quality standards, standards for certification and seed protection, general provisions for seed trade, and a schedule of fees to cover the cost of the regulatory and support services provided by CAS;

- proceed with CAS reorganization and privatization of the MALR seed processing plants according to the phased plan agreed upon in tranche V and show achievements of specific steps pursuant to the agreed upon timetable.

- The following benchmark is included for the cotton seed

processing and marketing sector: continue to implement the plan which was completed in December 1992 to liberalize certified cotton seed production and processing.

9. [The ban on red meat and poultry imports will be eliminated, which could be replaced with an import tariff to protect domestic producers.]

Section 2. Except as specifically amended or modified herein, the Memorandum of Understanding dated September 24, 1990 shall remain in full force and effect in accordance with all of its terms.

Section 3. This amendment shall enter into force when signed by both parties hereto.

In Witness Whereof, the Ministry of Agriculture and Land Reclamation and the United States Agency for International Development, each acting through its respective duly authorized representatives, have caused this amendment to be signed in their names and delivered as the day and year first above written.

By : Youssef Wally  
Name : Dr. Youssef Wally  
Title: Deputy Prime Minister and  
Minister of Agriculture and  
Land Reclamation

By Henry H. Bassford  
Name : Henry H. Bassford  
Title: Director, USAID/Egypt

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**Annex A.      COTTON LIBERALIZATION IMPLEMENTATION PLAN:**

Conversion of the present government-controlled marketing system to a liberalized, competitive marketing system will require a transition period of two to three years. Among the recommendations for liberalizing the several segments of the cotton sector are some that will require immediate action to eliminate existing barriers, to make institutional changes, or create new organizations necessary for a liberalization program to move forward. Others relate to existing programs that must be modified to be compatible with a liberalized system but will be continued indefinitely. Still others provide for continuing programs in their present form during the transition period but eliminating them thereafter. However, even before a liberalization program is initiated, extensive planning and preparatory steps must be undertaken by a decision-making body representing key stakeholders in the process.

The GOE should therefore create a Ministerial committee, comprised of concerned ministers or their representatives, whose responsibility would be to see that detailed cotton liberalization plans are developed, to monitor implementation progress, and to assure that they are developed in a timely manner. Detailed plans would be developed under the direction of the above committee to initiate the liberalization program early in 1993.

**I.      Transition Programs:**

Programs to be continued only through the transitional period of 2 or 3 years, but then eliminated:

1.      Input distribution liberalization should be continued and subsidies eliminated.
2.      Beginning in 1993 a modified minimum cotton area planting requirement should be implemented until a competitive market is established. Modification involves introducing flexibility to allow farmers to grow less cotton if they want without imposing any fines.
3.      The GOE will establish a floor price for cotton lint at the beginning of each season to protect cotton dealers against price fluctuations. Floor prices should reflect varietal differences in world trade.
4.      Cooperative collection centers should be retained to permit continued operation of floor price program for seed cotton to support local prices. Local cooperatives might be re-oriented during the transition period to act as producers private marketing agents.

## II. Recommendations for Immediate Action:

Recommendations involving changes which should be implemented immediately after the liberalization program is initiated early in 1993 (or late 1992) so as to be effective at the beginning of the 1993/94 crop year, include:

1. Farmers will be allowed to sell their cotton on a free market basis to any trader, either private, public, or cooperatives, at prices determined according to market forces.
2. Free public trading companies to compete among themselves or with any private trader or trading firm.
3. Allow free and equal access to all markets of any private or public buyer able to establish financial responsibility through assured credit from a public or private bank. To assure that the requirement for financial responsibility is not used as a mechanism for restricting new traders from entering, it is recommended that PBDAC or any financial firm which will be financing some of the new buyers be made responsible for certifying financial responsibility.

Implementing this recommendation would mean that representatives of public trading companies, private individual buyers or marketing firms, cooperatives or mill buyers will be free to buy or sell seed cotton or lint in local, spot, domestic or export markets at market prices with equal access to ginning, storage or other facilities offering physical market services on a custom basis. Equal access of all buyers to all markets would also mean freedom of any cotton buyer to import cotton within any technical regulations.

4. Permit ginning companies to compete among themselves and set rates according to market demand.
5. Offer gins for sale or lease as soon as a liberalization policy and evaluation of individual gins can be completed.
6. Allow free marketing of cotton waste/scarto and commercial cotton seed for crushing.
7. Allow growers, starting with the beginning of the planting season in 1993, full freedom to choose without restraint production and management practices which they believe will maximize their benefits, except for varieties of cotton or other technical considerations, such as minimum pest control requirements.
8. Eliminate compulsory sale of seed cotton by growers to

representatives of trading companies and establish producers right to sell seed cotton or lint when, where and to whom they choose.

**III. Medium-term Recommendations:**

Recommendations that should be implemented as soon after initiation of the liberalization program as possible and continued indefinitely include:

1. Re-opening of Mina El Bassal as a spot market with facilities available to all traders or brokers. As soon as the spot market is established, organize a cotton trade association open to all traders and responsible for developing trading rules and regulations for operation of local, spot and export markets. Representatives of the GOE will provide regulatory oversight to assure that the rules and regulations of the spot market are respected and that collusion, cartels, and other means of violations for trading are prevented.
2. Organize a market news and information service as soon as possible, with the Mina el Bassal spot market responsible for collection and dissemination of spot national, international and village market prices, quality differentials, production, storage and marketing information, and other cotton-related information as may be demand desirable.

**IV. Long-term Recommendations:**

Programs recommended for modification and continuation on a permanent basis. Modification of these programs is not critical for the initiation or early development of the liberalization program. However, they are essential for long term successful development. Planning the modifications can start immediately.

1. The existing program of the Agricultural Research Center (ARC) should be continued with increased emphasis on improvement in quality and yield of existing varieties and development of new varieties. Provision should be made for joint development of this part of ARC program with the Agricultural Economics Institute to include analyses to determine the economic viability of the new varieties or new production practices to guide growers and policy makers.
2. High priority should be given to initiating research aimed at introducing new types of short-season cotton varieties, in as much as it may be a viable alternative in Egypt.

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3. The Extension Service should be continued and strengthened but re-oriented so that responsibilities are limited to extension of information relevant to producers.
4. Government supervision of the pest control program should be continued but price controls and subsidies on pest control materials eliminated gradually and producers and private contractors encouraged to carry out approved pest control measures.
5. The current one-variety production and ginning programs should be continued.
6. The Cotton Arbitration and Trading General Organization (CATGO)'s function of training classes and of providing quality information to growers and buyers should be continued.

**DRAFT**

**THIRD AMENDMENT  
TO  
MEMORANDUM OF UNDERSTANDING  
BETWEEN  
THE MINISTRY OF AGRICULTURE AND LAND RECLAMATION  
AND THE  
UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
FOR  
AGRICULTURAL PRODUCTION AND CREDIT PROJECT  
POLICY REFORM COMPONENT**

**DRAFT**

For PBDAC : HKHEDR \_\_\_\_\_ MNOOR \_\_\_\_\_

For MALR : SNASSAR \_\_\_\_\_

For USAID : DCLARK \_\_\_\_\_ PMULLIGAN \_\_\_\_\_

Dated: \_\_\_\_\_, 1993

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Third Amendment, dated \_\_\_\_\_, 1993, to the Memorandum of Understanding, (attached) dated **September 24, 1990**, its first amendment dated **January 23, 1992** and its second amendment dated **September 24, 1992** between the Ministry of Agriculture and Land Reclamation (**MALR**) and the United States Agency for International Development (**USAID**) for Agricultural Production and Credit Project - Policy Reform Component.

**Section 1.** The Memorandum of Understanding and its amendments are hereby amended as follows:

**A. Sections III.D.1 thru 9 are amended and restated in their entirety, and Sections D.10 and D.11 are added as follows:**

**D. Seventh Tranche Benchmarks**

1. Verify through a comprehensive market survey that the plan prepared during 1992 to liberalize the production, marketing, ginning, and trade of cotton beginning with the planting season in CY 1993 is being implemented and progress is in accordance with the agreed upon timetable, as follows:

a. Cotton producers are allowed to sell their cotton and by-products to any buyers without restrictions in transporting, ginning, and trading their cotton.

b. Cotton producers/dealers are allowed to register without restrictions as domestic dealers and exporters, to trade, export and import ginned/lint cotton.

c. Cotton producers/dealers are allowed to gin and retain their cotton and by-products (cotton commercial seeds and scarto) on a rental or a fee basis, on equal terms as other public enterprises.

d. Cotton growers have full freedom to grow cotton and choose production and pest control practices. No fines are imposed on those who elect not to grow cotton.

e. Mina El Bassal cotton spot market is reopened with its facilities available to all traders and brokers on equal terms.

f. The floor price for cotton cultivated in CY 1993 is fairly established reflecting border prices, and providing protection for the cotton growers; and set at a level allowing adequate participation by the private sector in cotton marketing, trade, ginning and processing.

g. Cotton prices controls, including export prices and prices to mills, and all allocation systems currently in use (i.e., lint allocation to spinning mills) are abolished.

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2. By the end of CY 1993, the comprehensive plan to liberalize/privatize the cotton ginning subsector is developed and actions are initiated conforming to the medium- and long-term recommendations contained in the annexed plan (see sections III and IV of the attached **Cotton Liberalization Implementation Plan**), as follows:

a. Ginning companies are allowed to compete among themselves and set rates according to market conditions.

b. Cotton gins are offered for sale or lease as soon as a liberalization policy and evaluation of individual gins is completed.

3. Other cotton market recommendations are implemented as follows:

a. A market news and information service is established, with the Mina El Bassal spot market responsible for collection and dissemination of spot, national, international and village market prices, quality differentials, production, storage and marketing information, and other cotton-related information as are deemed desirable.

b. By the end of March 1994, a study will be conducted to analyze the economic and technical feasibility of introducing new types of short-season cotton varieties.

c. By the end of CY 1993, government supervision of the pest control program is continued but price controls and subsidies on pest control materials are eliminated and private contractors are encouraged to carry out approved pest control measures. The combined total of explicit and implicit government subsidies is announced and reduced to zero.

4. By the end of CY 1993, ~~the retail prices of fertilizer handled by public sector distributors~~ will be adjusted to reflect:

- revision of ex-factory prices so that the price of each type of fertilizer will be within 5 percent of equals the international, or border prices; with adjustments for quality;

~~- fertilizer factories freedom to set their own ex-factory prices according to market forces;~~

- elimination of all remaining subsidies on fertilizer (~~with the possible exception of potassium sulfate~~).

- elimination of tariffs on imported fertilizer; and

- a study of the fertilizer production will be conducted and a plan will be established to liberalize/privatize the fertilizer production facilities by March 31, 1994.

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5. By the end of CY 1993, all restrictions on cropping pattern, for all crops, will be eliminated except for technical requirements (e.g., water distribution requirements for sugar cane and rice, varieties' allocation, phyto-sanitary requirements), and farmers will be allowed to make their own decisions for cultivating their land area. [By the end of May 1994, technical limitations will be precisely defined by a study(ies)].
  
6. The MALR will adjust marketing policies for farm inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector using the following guidelines:
  - a. Private sector dealers will be permitted to trade and transport all farm inputs except cotton seed for planting. Licensing procedures for private sector fertilizer dealers will be less restrictive.
  
  - b. By the end of CY 1993, all fertilizer dealers (PBDAC, cooperatives, and other private dealers) will have access on competitive terms to imported and locally produced fertilizers. During FY 1993/94, the total amount of fertilizer distributed by PBDAC will not exceed the amount distributed during FY 1992/93.
  
7. FY 1993/94 interest subsidies on agricultural loans will not exceed the level of LE 50 million. of [LE 100] million per year. That level will be specifically justified by an acceptable socio-economic study to be conducted before March 31, 1994.
  
8. PBDAC will adopt measures to improve its financial condition, including:
  - a. Specific steps will be determined pursuant to the phased plan prepared in tranche VI to reduce redundancy of employees resulting from the divestiture of PBDAC input distribution activities, and more aggressive steps will be taken in executing the plan adopted to reduce redundancies of employment, as follows:
    - Implement a reduction of at least 5,500 PBDAC employees during the period July 1, 1992 thru June 30, 1994, including normal attrition; voluntary retirement; reduction or elimination of secondments; reduction of contractual employees, and employees on leave-without-pay status.
  
    - By the end of CY 1993, implement a performance based incentive system which links the actual performance with a set of defined criteria (the criteria will be defined in the Monitoring Plan such as the real net profit achieved) at each governorate, branch and village bank level.
  
    - New hiring will be limited, on an exceptional basis, to shortage areas such as MIS, banking and accounting.

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b. Private sector are allowed to rent PBDAC storage facilities on a tonnage basis. In addition, PBDAC will continue to implement its phased plan to sell, rent, dispose or divest its storage warehouses. Initial steps will be taken to sell XXXXXXXX warehouses.

c. By the end of CY 1993, PBDAC will hire a team of experts to assist the bank to review its organization and management issues, and to develop the bank strategic vision statement and objectives.

d. PBDAC will adopt as a policy and develop a rational plan for increasing non-farm lending and promoting investment lending to private sector and individual farmers and groups of farmers.

e. PBDAC will eliminate its consignment distribution of agricultural machinery including pumps, jute bags, pest control, sprayers, pesticides, fertilizer and cultivation equipment.

f. By the end of CY 1993, PBDAC will have taken active measures to: (a) have an independent evaluation made of its functional and organizational structure and efficiency; (b) substantially increase its savings deposit base by at least 15 percent over FY 1992/93 level; (c) establish a cost and accrual accounting system; and (d) strengthen and improve its organization, management, and administration based on recommendations from the independent evaluation in (a) above.

## g. Privatization/Restructuring of PBDAC:

- Revision of Law 117/1976 to allow private sector individuals to own part of PBDAC shares after a valuation of assets is completed.

- PBDAC will be allowed to sell part of its assets (warehouse space, plots of open areas, unutilized village banks, etc.) to private individuals/institutions.

- PBDAC will sell the carry-over stocks of machinery, spare parts, jute bags, and other agricultural inputs and will be allowed to retain the sales' proceeds.

- Before the end of GOE FY 1993/94, PBDAC will implement a consolidation of its 18 BDAC's to 6-9 regional banks based on market share, geographical, economic, and financial factors. This will allow PBDAC to meet the Central Bank of Egypt (CBE) minimum capital requirement and to reduce its currently high transactions costs. The credit policy will reflect a broader rural based lending to farmers and private individuals.

9. The MALR will continue to implement reform measures in the agricultural seed processing and marketing sector including:

- continue progress toward the ratification and adoption of new national seed legislation

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as reviewed by the National Seed Council (NSC) and as recommended by the 1991 National Seed Conference which establishes a seed policy formulation mechanism, seed quality standards, standards for certification and seed protection, general provisions for seed trade, and a schedule of fees to cover the cost of the regulatory and support services provided by Central Administration for Seeds (CAS);

- proceed with CAS reorganization and privatization of the MALR seed processing plants according to the phased plan agreed upon in tranche V and show achievements of specific steps pursuant to the agreed upon timetable.

- implement the plan to be completed in ~~December 1992~~ August/September 1993 to liberalize certified cotton seed production and processing.

10. The ban on red meat and poultry imports will be eliminated and replaced with a variable import tariff to protect domestic producers against exporters' subsidies.

**Section 2.** Except as specifically amended or modified herein, the Memorandum of Understanding dated September 24, 1990 and its amendments shall remain in full force and effect in accordance with all of its terms.

**Section 3.** This amendment shall enter into force when signed by both parties hereto.

In Witness Whereof, the Ministry of Agriculture and Land Reclamation and the United States Agency for International Development, each acting through its respective duly authorized representatives, have caused this amendment to be signed in their names and delivered as the day and year first above written.

By : \_\_\_\_\_

**Name : Dr. Youssef A. Wally**  
**Title: Deputy Prime Minister and  
Minister of Agriculture and  
Land Reclamation**

By : \_\_\_\_\_

**Name : Henry H. Bassford**  
**Title: Director, USAID/Egypt**

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