

SOAL VILLAGE EGG LAYER PROJECT
Giza Governorate, Arab Republic of Egypt

LDF CASE STUDY

LOCAL DEVELOPMENT FUND (LDF)
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FOREWORD

The following case study is an example of one of the most successful projects financed by the Local Development Fund (LDF), which is administered by the Organization for Reconstruction and Development of the Egyptian Village (ORDEV).

The LDF makes loans for productive village projects to the Popular Councils in the 22 non-urban governorates in the Arab Republic of Egypt. The LDF is financed by the United States Agency for International Development (USAID), and has provided loans for over 400 projects in our villages since the first loans were made in March 1980.

The LDF loans play an important role in our villages. The projects they finance generate income, and this income is used to repay the loans. Once the loans have been repaid, the projects are self-generating. The profits remain in each village and become part of the village's Service and Development Fund, devoted to village improvements. Many beneficial community projects have been financed through these funds.

Over the past three years, LDF has provided financing for the following important projects in Egyptian villages: poultry raising; egg production; animal production; aquaculture; agriculture; agricultural equipment; food processing; transportation; and other small industries. LDF continuously accepts loan applications for village projects.

We are especially interested in lending for "joint venture" projects. These are projects in which village residents are involved as co-owners with the Local Units. We feel that these types of projects can have the most beneficial long-term impact on the economies of our villages. They foster the development of the entrepreneurial ability of our people, and ensure that the profits are distributed among the village households. In this way, they help to raise the standard of living in our villages.

Minister Mohamed Ahmed Labib
Chairman of ORDEV

CONTENTS

PREFACE	ii
CASE STUDY: SOAL VILLAGE LDF EGG LAYER PROJECT	1
Project Description	1
Loan Terms & Arrangements	4
Economic Benefits	5
Background	6
Soal Village	6
LDF Loan Activity in Soal	7
Problem Solving	9
Future Plans and Directions	10
Egg Layer Project	10
New Projects	11
GLOSSARY OF TERMS	13

PREFACE

This is one of several case studies written to document the workings of the Local Development Fund (LDF). It is directed both at potential borrowers and agencies supporting LDF, and will also be used as a training tool. Case studies are available in both Arabic and English.

The Local Development Fund (LDF) is a development-lending institution which makes income-producing project loans to the popularly-elected village councils in the 20 non-urban governorates of the Arab Republic of Egypt. It is a semi-autonomous institution under the aegis of the Organization for the Reconstruction and Development of the Egyptian Village (ORDEV).

The fund is capitalized with a grant from the Government of the United States of America through the Agency for International Development (AID). The LDF is governed by an Egyptian Board of Directors, and its loan operations are overseen by a Loan Committee. Technical assistance to the LDF has been provided since its inception by Checchi Company.

The LDF seeks to assist villages in the development of financial viability and administrative capability by making loans for productive projects which increase village revenues. Income generated by the projects repay the LDF loans. Profits become a part of each village's Service and Development Fund, which is devoted to village improvement.

LDF loans have provided financing for the following types of projects in Egyptian villages: poultry, including egg production; animal production; aquaculture, apiculture, agricultural equipment; food processing; transportation, and small scale industry. LDF continually accepts applications for these and other types of village projects.

These case studies represent examples of successful LDF-financed projects, particularly those in which private individuals are involved as co-owners with the village councils. The joint venture projects have potentially the most beneficial long-term impact on village economies. They ensure direct distribution of project profits among participating village households, and therefore raise the residents' standard of living. In addition, they foster development of existing entrepreneurial ability in Egyptian villages, thus strengthening the role of the private sector within the villages.

SOAL VILLAGE LDF EGG LAYER PROJECT

Project Description

The Soal Village Local Unit in Giza Governorate is engaged in a successful joint venture decentralized egg production project with village families. Villagers keep chickens in their homes in wire "batteries", groups of 20 cages which hold 80 birds, and manage daily egg production and marketing. The Local Unit is simultaneously operating a large scale egg production project, housed in a building next to its offices.

The joint venture project is financed with an LDF loan of LE 45,000, and popular participation by the village community of LE 26,800.

In order to participate in the egg production project, farmers are required to provide a well ventilated, clean building with sufficient natural and artificial light. Farmers agree to purchase batteries, birds, poultry feed and medication, to feed and care for the chickens, and to collect and market the eggs. The Local Unit provides regular veterinary services and monitoring.

Villagers are required to enter into a legal contract with the Local Unit. This sets forth the agreement

and the terms of repayment.

Chickens and batteries are purchased through the Local Unit. The Local Unit obtains the heavy wire batteries from two sources. The Egyptian Center for Marketing and Distribution supplies the Israeli-made batteries used by the households; and the Lima Company supplies the Italian-made cages used at the combined Local Unit project. Chickens, imported from Israel, are purchased from Hossny Zeineldein Company in Cairo. The Local Unit sells the batteries (LE 180 each) and chickens (LE5.40 each) to the villagers without taking a profit. They are sold on contract with 25 % down and payment over 15 months. There is a three month grace period at the beginning of the loan, during which no payments are required.

Feed is purchased by the farmers directly from a private company in El Saff, 20 kilometers from Soal. Villagers buy enough feed to last 15 days, and store the feed at the Local Unit until needed.

Since November 1982, one hundred batteries have been distributed among the 28 village households.

Work on the egg production project in the households is performed mainly by the women and children. Egg production by households averages 75- 81%. The high rate of

production is attributed to the close attention given to small groups of chickens in individual households. Householders sell their eggs within and outside the village at the local market price, currently P.T. 8 each.

The combined Local Unit project uses 44 batteries and a total of 2,815 laying hens in egg production. The Local Unit is raising an additional 3,680 100-day-old chickens to maturity in another 46 batteries. These chickens will also be used for egg production when they reach maturity.

The Local Unit employs five persons in the two chicken houses: two supervisors and three labourers. They are Local Unit employees, and receive government salaries of LE 35 - LE 50 per month. In addition, LE 200 per month is divided among them as incentive pay for working the longer hours (8am - 9 pm) required by the egg production project.

Egg production at the Local Unit project currently averages 78 %. The price of eggs sold by the Local Unit ranged from PT 5.5 to PT 7 each, slightly below market prices. Eggs are sold to government workers and village farmers.

Loan Terms and Arrangements

Village residents buy on credit, and are required to sign a contract in which they agree to the following terms:

- The villager must pay 25 % of the total cost of batteries and chickens at the beginning of the project.
- The Local Unit charges the resident 11% interest on the amount remaining. This 11 % interest represents the following costs:
 - 4 % interest on LDF Loan money for 15 months;
 - 7 % interest for administrative services by the Local Unit, for incentives for workers, and for veterinary services.

For example, if a village resident buys one battery and 80 chickens, the total amount due is LE 612 (LE 180 for a battery and LE 432 (80 x LE 5.4) for chickens. The resident pays LE 150 at the beginning, and the amount remaining is LE 462. The total interest at 11% is LE 50.82, bringing the balance remaining to LE 512.82. This is paid back beginning three months after the beginning of the loan period, in eleven monthly installments of LE 43 each, and one last installment of LE 39.82.

To facilitate monthly payments, the Local Unit requires each participant to open an account at the Village Bank. Participants issue checks dated to coincide with the payment due dates. Checks are kept at the Local Unit

and deposited at the beginning of each month into the Local Unit's account.

Economic Benefits

The project is very successful and villagers are satisfied with its results. The Local Unit estimates that village residents will begin to realize a profit by the end of the first year. They originally predicted a 65% production rate during the first year, and estimated the price of eggs at PT 6.5. Actual profits may be even greater than anticipated, since egg production currently ranges from 75-81 % per month, and eggs are sold at the current market price of PT 8.

The Local Unit has estimated the following annual ratios of return to individual farmers after one year:

- Net profit to sales: 31.7% (for every LE 1 of sales, PT 31.7 is profit.)
- Net profit to assets: 304% (for every LE 1 of assets, LE 3.04 of profit is realized).
- Net profit to total Investment: 76% (for every LE 1 of total investment, PT 76 of profit is realized.)

At the end of the first fifteen months, farmers will become independent of the Local Unit. They will own the batteries and chickens, and will have the option of continuing production. They can sell their chickens in the village at a price of LE 2 - 2.50 each, and

invest in new chickens for continued production.

In addition to the direct benefit to farmers, the project has enabled some people in the village to become middlemen. They buy eggs directly from the farmers and in turn sell them to surrounding villages in which there is a demand. In most cases, the middlemen make an agreement with the farmer to purchase his eggs during the year at a certain price. They pay the farmer an initial sum, usually LE 200, in order to guarantee a supply of eggs. In this way the farmer recoups his original investment early in the project.

Background

Soal Village

Soal village is in Giza Governorate, on the east side of the Nile sixty kilometers from Giza City. Soal is a mother village with a population of 40,000, and is surrounded by three satellite villages whose total population is 20,000.

The major economic activity in Soal is agriculture, with corn, eggplant, wheat, oranges, mangoes, grapes, dates, plums, and berseem (for cattle feed) among its

major crops. A second economic activity is small industry including 14 brick factories, as well as iron and metal-working shops. Other activities include auto and tractor repair and a number of small commercial establishments.

LDF Loan Activity in Soal

Soal Village has been active with LDF Loan projects since December, 1980, when it began its first egg layer project on the premises of the Local Unit. The amount of the first LDF Loan was LE 30,000, and local participation totalled LE 17,000 in value of land, buildings, and investment by the Local Unit.

In February of 1982, the Local Unit received an LDF Loan of 40,000 to expand the first egg layer project by adding 44 new batteries and 3,520 chickens. The chickens were bought 100 days old and are being raised to maturity by the Local Unit.

During the original LDF project, the Local Unit began an experiment to involve the public in egg production at the household level. The project was in conjunction with the Giza Company for Food Security. Twelve farmers were supplied with 50 batteries. Villagers bought the batteries and chickens from Giza Company, paying 25 %

down. The remainder was, in effect, a loan from the company. Villagers were required to sell 70 % of their egg production to Giza Company at 5.5 PT per egg, as a method of paying off the loan.

There were several drawbacks to this arrangement. First of all, the price of PT 5.5 was well below the market price, which was then PT 7.5. Farmers were not realizing a profit from the sale of their eggs. In some cases, farmers avoided selling eggs to the Giza Company by claiming that production was low. Giza Company thus had difficulty collecting payments on loans. Also, farmers did not feel that they were the controlling owners because they had to sell eggs at prices below the market. They felt that they were in effect employees of Giza Company.

Some of those who participated in this joint venture project, however, did improve their standard of living and were able to purchase new consumer goods which they previously could not afford. The potential benefits of this type of project were realized by the Local Unit, which decided to apply to LDF for a new loan to operate a similar project in the village. With the current scheme, which allows farmers to charge the market price for their eggs, loan payback is proceeding much more effectively.

The advantages of this joint venture project, as seen by the Local Unit, include the following:

- The project can be carried out by the family members and requires no outside labor;
- The use of batteries minimizes the cost of land and buildings due to decreased space needs;
- The efficiency of household chicken farming is increased, and the risk of disease to chickens is decreased by using the above-the-ground batteries;
- Frequent visits by the veterinarian increase villagers' knowledge of poultry raising;
- Farmers' incomes are directly raised;
- Chicken stocks in the village are gradually upgraded by using stronger and more productive imported birds.

Problem Solving

The main problem encountered in the layer operation has been that of chicken mortality. During the second phase of the combined Local Unit project, Newcastle disease was contracted by the flock, and a total of 20 % of the birds were lost. The Local Unit was reimbursed by the supplier for the loss. Once all the remaining birds were vaccinated, the problem was alleviated.

Another problem in the original project was that the partial debeaking of the chickens, which prevents layers from pecking each other in the cages, was not done properly and had to be repeated once the laying stage had begun. The result was a temporary drop in the rate of eggs laid per day. The new flock will be properly debeaked well in advance of the laying stage.

A third problem is that importation of 100-day-old chickens has been prohibited by the government, due to potential disease dangers. Therefore, newborn chickens must be imported and raised to maturity here. This can increase total food costs and alter production schedules. The Local Unit has begun to adjust its project planning to account for these changes.

Future Plans and Directions

Egg Layer Project

The Local Unit anticipates that as the farmers gain experience in egg production, they will gradually become independent of the Local Unit and take over its current role. One possibility is that farmers may organize into a cooperative for egg production. The cooperative would then take the responsibility for all aspects of egg production, including all purchasing,

vaccination of chickens, and project monitoring.

The cooperative would also stimulate the expansion of such projects into a greater number of village households, and could investigate the possibility of producing batteries and feed locally.

New Projects

Once the operation and administration of the egg layer project is in the hands of a village cooperative, the Local Council would devote time to developing complementary projects which would strengthen the local economic linkages. For example, the Local Unit is currently negotiating with a local farmer to build a house for 10,000 birds, where day-old chicks can be raised to maturity. The Local Unit plans to apply for an LDF Loan for assistance with this project.

Local production of project inputs would strengthen the local economy and stimulate further economic activity within Soal and in the surrounding area.

Joint venture projects such as the Soal project foster economic development by stimulating local village farmers to take an active and more complete role in their own food production. Such projects channel economic benefits directly to villagers, and can also stimulate other private

sector supporting activities which improve the village economy and raise the local standard of living.

LDF CASE STUDIES

GLOSSARY

LDF Local Development Fund, a development-lending institution created to make income-producing loans to elected village councils in Egypt for the operation of village projects. Profits generated by LDF-financed projects may be retained by the village. Funds for LDF were provided by USAID under Development Decentralization I (DDI), an AID project agreement signed May 29, 1978. LDF is administered by ORDEV.

ORDEV Organization for the Reconstruction and Development of the Egyptian Villages.

ORDEV was established in 1973 to implement the Egyptian government's program of economic and social development of rural villages. It is charged with collaboration with ministries, governorates, local governmental units and all agencies concerned with Egyptian villages.

USAID United States Agency for International Development.
US Government Agency which administers U.S. foreign aid. The LDF project is a key element of AID's program to assist the Government of Egypt in its decentralization effort.

Markaz Governmental administrative district located in secondary cities in each governorate, with jurisdiction over the surrounding villages.

Local Unit The governmental organization in each mother village which administers village programs. The Local Unit Executive Head is appointed and is the Chief administrative officer in the Local Unit.

Local Councils

Popular Council

The Local Governmental Body elected by the people in each Local Unit. The Council proposes LDF project ideas and reviews applications before submission to LDF. The Executive Head of the Local Unit acts as a consultant to the Popular Council.

Executive Council

The appointed Local Unit Village Council made up of representatives from ministries and other governmental organizations concerned with the Local Unit. The Executive Council reviews loan project application before submission to LDF. The Executive Head of the Local Unit is the Chairman of the Executive Council.

Village Bank Local branch of the district bank for Development of Agriculture Credit, which is under the auspices of the Principal Bank for Development and Agriculture (created in 1976).

Joint Venture In the LDF loan program, investment in a specific project by the Local Council (with LDF financing and Local Unit Resources) in conjunction with village residents.

Popular Participation Funds, either from Local Unit resources or contributed by village residents, to be used toward LDF-financed economic development projects in the village.

Incentives Payment to local Unit LDF project employees for work in addition to their normal work load, which may include longer hours of work, or work of greater difficulty.

LE Egyptian Pound

PI Egyptian piastre; 100 piastres equal one Egyptian Pound.