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A PLAN FOR DIVESTING THE
PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT
(PBDAC)

FROM HANDLING AND DISTRIBUTING
AGRICULTURAL PRODUCTION INPUTS

REVISED SCOPE OF WORK

BY

FILE COPY

Wilmot Averill

CENTER FOR PRIVATIZATION
2000 Pennsylvania Avenue NW - Washington, D.C. 20006

Project No. 61

February 1988

Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
USAID MISSION CAIRO, EGYPT

CENTER FOR PRIVATIZATION

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Taxation

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ERRATUM

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**Section C and D were reversed in
the text without indication in
the table of contents**

Pageinating: **Annex A starts as page 50,
should read: 38 and continuing**

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Glossary of Abbreviations

APCP	Agricultural Production and Credit Project
ASAP	Agricultural Sector Adjustment Program
BDAĀ	Governorate Bank(s) for Development and Agricultural Credit
ERS	Economic Research Service - USDA
ESF	Economic Support Fund
ESOP	Employee Stock Option Plan
GDP	Gross Domestic Product
GOE	Government of Egypt
GASC	General Authority for Supply and Commodities
IBRD	World Bank
LE	Pounds Egyptian
MALR	Ministry of Agriculture & Land Reclamation
MOInd	Ministry of Industry and Minerals
NARP	National Agricultural Research Project
NES	National Extension Service
OICD	Office of International Cooperation & Development-USDA
PBDAC	Principal Bank for Development & Agricultural Credit
SOE	State Owned Enterprise
UNDP	United Nations Development Programs
USDA	United States Department of Agriculture

Executive Summary

This Scope of Work outlines in detail the work and tasks required for a special study team to review, assess and prepare at least two principal strategies for divesting the Principal Bank for Development and Agricultural Credit from its responsibilities for procuring, handling and distributing agricultural inputs.

The Ministry of Agriculture and Land Reclamation, and the Bank have decided policy changes which state that the agricultural inputs distribution system will be divested from the Bank and privatized. The Scope of Work suggests that multi-channels for distribution be developed. The study will produce a complete in-depth review and inventory of the Bank's present inputs marketing functions, responsibilities, staffing, physical infrastructure, financing and budgetary requirements for these functions. Options for divestiture and privatization will be studied in the context of reaching the government's desired goals and at the same time minimizing major social, political, financial and legal problems which might result from such changes.

Special attention is directed to comprehensive data collection and objective analyses to assure that the plan is feasible, defensible, and implementable. A commodity approach covering at least five principal categories is suggested. This approach should provide the government with more specific details and options from which it can decide the best means and methods for divestiture. Because fertilizers are of particular importance, due to their volume and value factors, a special indepth review will be undertaken.

Important issues raised in the development of the Scope of Work along with guidelines for the Study Team are included. Some of the more critical issues highlighted for special attention by the Study Team are: (a) that the farmers needs, attitudes and interests are of paramount importance; (b) that Bank employees affected by the change will be given highest priority attention and assured fair and equitable treatment; and (c) the private sector's interest in and capability to market the agricultural inputs are fully appraised and evaluated. A full and comprehensive review of legal or other administrative constraints is also included in the detailed SOW.

The study is planned to be carried out as a joint Egyptian-American task force, to start in mid-May 1988 and be completed by mid October 1988. To aid in the government's evaluation and consideration of policies and plans, the Scope of Work strongly recommends that selected government officials make observation and fact finding visits to several other countries. These might be countries such as Turkey, Pakistan, Bangladesh, Indonesia, or others. Those to be named have had or are now implementing programs of agricultural inputs changes similar to that which Egypt is contemplating.

Suggested Outline for the

FINAL STUDY TEAM REPORT

I. INTRODUCTION

1. Purpose & Scope
2. Executive Summary
3. Study Methodology

II. FINDINGS

1. Divestiture Concepts Considered by Commodity
2. Divestiture Concepts Recommended by Commodity.

III. DISCUSSION & ANALYSIS

1. Issues reviewed - (legal included)
2. Issues resolved - (legal included)
3. Special issues commodity specific
4. Issues not resolved/action recommended

IV. DETAILS ON RECOMMENDED PLANS

1. Outline Implementation Plans
2. Preparatory Steps
3. Time Frame/Other

V. WORK PRODUCTS/ANNEXES/EXHIBITS
CHARTS/TABLES/COST FINANCIAL DATA

SCOPE OF WORK

I. INTRODUCTION

A. Purpose

This scope of work sets forth what is required to be done by a special study team which will be responsible to review, analyze, prepare recommendations, and outline at least two plans for divesting PBDAC of its agricultural production inputs procurement, handling, and distribution functions.

B. Goals

The report must outline the specific policies, goals and tasks recommended for the GOE to take which will divest PBDAC from its inputs supply and marketing functions. This should cover policies, procedures, legal issues, administrative means, and financial issues. This study must help the GOE to decide a PBDAC divestiture strategy. The recommendations must emphasize an increased and major role for the private sector. This should be directed to establish a multi-channel and competitive marketing system. To the maximum extent possible divestiture implementation should be addressed on a commodity by a commodity approach. Specific actions and detailed plans should be summarized along with the important legal or policy reform measures required for the implementation.

C. GOE Policy Changes

On March 11, 1987, Deputy Prime Minister and Minister of Agriculture and Land Reclamation (MALR), His Excellency,

Dr. Youssef Wally in a letter to the U.S.A.I.D. Mission Director/Egypt, set forth several agriculture policy reform goals. Two of these relate to the proposed PBDAC inputs divestiture.

1. Remove government constraints on private sector processing and marketing of farm products and inputs (including import/export); and
2. Eliminate subsidies of farm inputs.

The Minister advised that these goals were long term and indicated that there would be continuing controls affecting selected crops principally rice, cotton, and sugar cane during the shorter time frame of the Agriculture Production Credit Project (APC), #263-0202.

D. APC Project Benchmarks

In the APC Project Agreement certain action benchmarks were specified which when taken would trigger project funding disbursements in three tranches. There is one benchmark for each of the three respective tranches that relate to this Scope of Work.

1. The MALR will outline in a memorandum to USAID its intention to privatize the farm input distribution system of PBDAC, while expanding the Bank's financial services. (This latter calling for expansion of financial services is not within this Scope of Work.)
2. An analysis of PBDAC farm input supply divestiture will be undertaken. (This is the purpose and authorization for this Scope of Work and the subsequent study).

3. The study analysis for the divestiture of PBDAC's farm input supply systems will be completed and published. (The study to be done after approval of a Scope of Work. Publication after study completion and its approval).

E. Follow-up Actions

In a later letter dated May 22, 1987, Dr. Wally enclosed a memorandum to USAID titled No. II, which provided additional policy information relating to the PBDAC divestiture.

1. "There exists no official government constraints on the importation of livestock feed and feed ingredients (except cottonseed)
2. "The Principal Bank for Development and Agricultural Credit (PBDAC) will not increase the nominal value (as of March 22, 1987) of farm input subsidies (including credit), nor will these subsidies be increased by any other entity.

F. Study Objectives

1. Assess and evaluate the present PBDAC agricultural input marketing functions and that of the private sector. This assessment should emphasize capability and interest of the private sector to assume full responsibility for marketing agricultural inputs in

2. The Study Team will recommend at least two alternative detailed plans to divest PBDAC from its inputs distribution. The recommendations must include a detailed appraisal for privatization by major commodity category.
3. Carefully and comprehensively identify in relation to the options offered by each plan, their relative advantages and disadvantages in relation to their economic, social, and financial impact.
4. Present study findings in draft/review form to the PBDAC and USAID, and be prepared to discuss and support findings of the study and the recommendations in the divestiture plans.
5. Following draft/review discussions, prepare the report in final form. This must incorporate at least two recommended plans and the suggestions made by the GOE and USAID. The two divestiture concepts will include brief outline plans for the project's implementation including a time frame for initiating and carrying out the plan. Recommendations for any technical assistance thought needed to assist PBDAC to implement the divestiture will also be included.

II. STUDY GUIDELINES, ISSUES, AND TASKS

A. General Guidelines

1. It is of critical importance that the Study Team, in its considerations, treat the impact and effect of recommended changes on the farmers as a most important and highest priority concern. The new system must serve the farmers not the farmers the system.

2. There are also two other very important concerns with respect to changes directly impacting on PBDAC.
 - a. the question of what happens to the personnel affected and how best anticipated displacement problems might be handled, and
 - b. what might be done about the financial impact considering loss of revenue, disposition or transfer of facilities, equipment, etc.
3. The Study Team must identify and present the expected economic benefits from privatization. These should include such factors as benefits to farmers, savings to the GOE, economic opportunities for entrepreneurs, employment generation, etc.
4. It is important that the supporting data, analyses and recommendations be complete, accurate and convincing. The GOE must have full confidence that the plans recommended can be implemented easily, effectively and in concert with its laws, policies, regulations and program goals. In simple terms, a good plan for privatization which convinces.
5. Any plan for divestiture might during its transition or early implementation period, result in disruption in the supply or flow of agricultural inputs to farmers. Because of this possibility a back-up emergency plan such as security or buffer stocks under government control should be considered. This might be coupled with a price stabilization concept, e.g. floor/ceiling structure.

6. There are many other points of importance which must be included in the study. Some of the most obvious are:
 - a. Determine what dealer/marketing organization(s) would be required to make fertilizers available to farmers timely and within a practical distance in all village centers.
 - b. Specific guidance and suggestions on best means for the Government to gain farmer trust in and acceptance of the proposed new input distribution system;
 - c. It is assumed that the Egyptian private sector is interested in, willing, and capable to handle agricultural inputs marketing in the country. The Study Team should, in broad based and in depth discussions with private sector representatives, report on their views, suggestions, ideas and felt concerns;
 - d. From study information and pragmatic opinions assess at what point the Egyptian private sector under competitive market forces can and will provide an adequate and steady supply of inputs as and when needed. (NOTE: Most fertilizer ordering, procurement, warehousing, and sales are presently handled by PBDAC based on MALR annual crop allocation and input allotments. Also, under the commodity by commodity approach any serious limitation in potential for profitable operations should be considered).

- e. Assess any adverse impact which might arise and affect PEDAC employees displaced by divestiture. These must be eliminated wherever possible or at least minimized. Suggested means for PBDAC or GOE to address this problem must be included in the study recommendations.
- f. Identify what financial incentives and investment opportunities will attract the private sector to enter the marketing of agricultural inputs. Will they need credit, warehouse facilities, assurances of no unfair competition by the Government, etc? Discuss best means to handle this.
- g. Identify any other possible problems which might result from privatization considering as above, both private sector businessmen and farmers, and suggest means for handling these.
- h. The study should estimate and report the GOE (PBDAC) potential budgetary savings as accurately as possible. If inputs distribution is privatized the present financial burdens of the GOE for procured farm input subsidies, transportation, facilities, payroll, etc., should be substantially reduced.

B. Commodity Approach

The study will provide an analysis for divestiture for each of the major commodities. This may be satisfied by grouping them in five categories, e.g., fertilizers, pesticides, animal feeds, seeds, and agricultural

machinery. This will permit the GOE and USAID to consider more thoroughly the sub-options within any over-all divestiture plan. For example some categories might be divested earlier in the process than others. Fertilizers are the most important of the farm inputs when you consider bulk, monetary value, transport logistics, storage, seasonal delivery requirements, and similar considerations.

One of the factors frequently used as an argument against private sector involvement is that of location economics. It is not highly profitable and sometimes unprofitable to distribute fertilizers in areas which are sparsely cultivated by a few small farmers. This location economic problem is much greater for example in fertilizers than it is in farm machinery. The uniqueness factor affecting different categories of inputs is one of the reasons why the commodity approach is useful and being suggested. It will give the GOE and USAID officials a more comprehensive picture and understanding of the inter-related problems of divestiture for the different input commodities under variable policies and schemes.

C. Issues and Divestiture Options

There are several basic concepts and issues relating to divestiture and privatization which the Study Team must analyze and cover in its final report. These are:

1. When full/partial privatization is achieved, at what price and how will the annual production (fertilizer in particular) of agricultural inputs and importation needs be determined? (Presently the MALR and other government institutions including PBDAC have

this responsibility based on centrally planned crop and area controls - See A., 5.d above.).

a. When (at what point in time) should this be entrusted to market forces?

b. How and when should this be shifted in terms of any proposed, "phase-out" GOE and "phase-in" private sector, plans?

2. What primary strategy should PBDAC take to permit a smooth transition to a competitive and market responsive inputs distribution system?

a. gradual withdrawal from market control;

b offering quotas of total input products to any and all interested private businesses, cooperatives or their wholesalers and retailers;

c. publication of fixed dates for elimination of specific subsidy, price and quota controls in concert with actions in (b) above; or

d. should entry of the private sector be at the import/wholesale procurement level, at the village retail level or other points?

3. When the private sector is permitted to enter the presently controlled inputs market system, will they need special financing? If so, how much; from where; and under what terms?

4. If the GOE continues to subsidize distribute/market agricultural inputs, the following problems need addressing.

- a. If the government does not eliminate input subsidies across the board, how will this affect the involvement of the private sector in the distribution and marketing of agricultural inputs?
- b. Could or should the inputs the private sector handle be ones the GOE will continue to subsidize? If so how best could this be done?
- c. MALR has indicated that rice, cotton, and sugar will continue to be controlled and subsidized for an as yet to be determined future period. As divestiture occurs and more private inputs distribution takes place, will it be affected by a two price system if the GOE continues to subsidize parallel to the free market? What signals will this give to farmers who get and will not get subsidies? How can they be expected to respond?
- d. What changes in the current policy environment are necessary to allow the private sector to compete effectively with PBDAC. A necessary condition for effective privatization. In particular what legal changes are necessary to ascertain that the private sector can operate while the current controls on cotton, sugarcane and rice may make it necessary to maintain some subsidies on the inputs used for producing these crops.
- e. What is the composition of inputs required for the major crops in the typical farm budget and how will the typical farm budget be affected by the policy changes necessary to allow effective private sector participation in marketing?

5. How to form an Employee Stock Option Plan must be explained in the Study Report. If this mechanism is suitable to the goals sought by the recommended strategy the to be affected PBDAC employees attitudes should be determined, and options explored with respect to their interests. This is of particular importance if they are not to remain with PBDAC.

6. The role farmers' organizations might play in inputs marketing is to be examined. If they could take a major role and need experienced employees, could PBDAC assist the placement of their input distribution employees into new position opportunities with these farmers organizations? Would the GOE assist by provision of incentives for such changes? This might include providing full salary for 1st year after transfer and reducing this in increments for the following 3, 4 or 5 years?

7. Numerous other or related options, issues and concerns about effects of different scenarios for PBDAC divestiture are covered in detail in the Jennifer Bremer studies, and the Gaylord Walker study. See Annex B.

By reference to them in this scope of work, the study team must consider those divestiture issues and options and treat them in the study report as a part of this scope of work. These options and plans are too detailed with their supporting analyses to include herein.

The issues listed herein, combined with the referenced reports are probably not fully comprehensive. The

study team will, in its research and review, identify others. These, where team members believe them pertinent and important, should be included and treated as those listed herein.

E. Study Approach

1. The referenced studies in Annex B are all important to this study. The Study Team should not try to cover ground, competently ploughed by others. What the team must do first is to:

- a. review, update, and synthesize information in the previously completed reports;
- b. research and review other pertinent resource materials particularly within the GOE institutions;
- c. following this, determine what information needs updating or verification, or what new information needs to be collected; and how best to accomplish these steps.

2. A detailed study work plan should be developed during the first three weeks of the team's arrival and discussed with PBDAC and the U/AES for approval.

F. Other Specific Tasks

1. PBDAC - Organizations/functions/personnel

- a. Prepare a functional organization chart or set of charts for the PBDAC GROUP in which the organizational units carrying out input distribution activities are specifically identified within the overall structure.

- b. Prepare functional statements (principal responsibilities and duties) for each of the identified major divisions or departments reporting directly to the Chairman, and for at least the next one or two lower hierarchical levels. Include all units where persons having the title of general manager are in charge.

- c. From PBDAC GROUP annual budgets, financial reports - payrolls, etc., determine the approximate total number of permanent employees who are exclusively or principally involved (more than 50% of time) in and are responsible for inputs distribution functions.

- d. Breakout this information from the estimated total starting with PBDAC headquarters staff down to include the BDACs, District Banks and Village Banks. (It is assumed, but must be verified, that all shora, covered warehouse, and mandoubia employees, guards, transporters and laborers are 100% inputs distribution personnel). Note: Mandoubia employees do provide bank services by collecting loans.

- e. Estimate average total annual cost for personnel services of the employees reported above at the several levels - PBDAC, BDAC's, District Banks, Village Banks, and the lower levels, shonas and mandoubias.

- f. Determine whether there are any significant numbers employed on a special basis, i.e.; seasonally or as day laborers for peak work periods, receiving and stacking purchased commodities at shonas, or moving inputs commodities to mandoubias, etc.

2. PBDAC's Infrastructure for Handling and Transportation

- a. Prepare an inventory of all major physical assets land and buildings owned by the PBDAC GROUP which are principally used for the storage and distribution of agricultural inputs (open storage shonas), covered storage (warehouses), and agencies (mandoubias). (See the SFPP - Storage and Transportation Component Study of Agricultural Inputs by Mohammed El Maazaway).

- b. Ascertain PBDAC's estimated value of those that PBDAC owns. If facilities are rented, report annual rental costs. For all facilities report storage capacities and their physical locations. This might best be done in conjunction with a spot map or set of maps.

- c. Prepare a flow chart showing from point of acquisition to farm gate the distribution (physical flow) of PBDAC's marketing system, for (1) fertilizers; (2) animal feed commodities; (3) pesticides; (4) machinery including spare parts; and (5) seeds and other purchased commodity inputs.

- d. Describe how and by whom in PBDAC the inputs movements are activated from acquisition to point of farm gate possession. Also report on the transport means used at the different levels, approximate costs for transport and whether transporters are private persons or government companies.

e. (During the field visits made in connection with this SOW preparation, large quantities of broken sacks of fertilizers and severe insect infestation of sacked maize was observed).

Include technical comments on means to improve this situation in the study report. Fertilizer is sacked in single side plastic bags and maize is in jute sacks.

3. PBDAC's Special Services/Revenues

a. PBDAC is reported to provide fumigation service. It should be determined whether this is a service provided for others, for which charges are made, or whether it is to protect PBDAC's own stored grains, etc. Fumigation service is not an agricultural input, per se. Most certainly it is not a bank function. This and any other such services PBDAC is carrying out which are not banking or inputs distribution should be reviewed and commented on in relation to the divestiture policy and plans recommended.

b. PBDAC earns commissions for handling and distributing input commodities, e.g. commissions from sales of machinery dealers' equipment, pesticides, bicycles, etc. How should this be handled along with any other special service revenues which PBDAC may not be entitled to upon its divestiture?

4. PBDAC's Financial Loss/Gains from Inputs Functions

Prepare a cost analysis of PBDAC's inputs distribution functions. This should include a consolidated profit and loss statement covering the past five years of PBDAC operations. Use actual cost and revenue figures wherever possible and responsible estimates for others. At a minimum the report must cover total gross sales, cost to cover purchases, administrative operations (personnel - rent - electricity - depreciation, etc.) transportation and storage costs, taxes, interest, estimated losses, etc.

5. Legal and Policy Constraints to Divestiture

Collect, review, and assess all interagency agreements relevant laws and other regulatory documentation from GOE agencies and ministries involved, related to the divestiture program and flag problem areas of policy, law and practice which need modification, before divestiture of PBDAC from its current responsibilities can be implemented. (See Section IV, Study Team arrangements, B, 7., Legal Advisor)

6. Commodities Inputs Program (CIP)

a. Could the USAID (CIP) Commodity Import Program help to expand the private sector role in inputs distribution?

b. Review and analyze USAID's current private sector CIP, and comment on it with respect to supporting and accelerating private sector

involvement in agricultural inputs supply and distribution in Egypt.

c. Flag in the current private sector agreement any impediments or constraints to the use of the program by agribusinessmen, cooperatives, and others who serve the agricultural producers but who are not end users.

d. Make recommendations accordingly.

7. Implications of Private Sector Take-over

a. Conduct, after review of all current relevant materials and data a privatization assessment. The indicators would include; (a) degree of entrepreneurial, managerial and technical skills available in Egypt's private sector to take over agricultural inputs distribution; (b) expected benefits and/or drawbacks to an open market distribution system; (c) effect on and attitudes of farmers; (d) effect on and attitude of private businessmen; (e) needed changes to law or regulations and policies of government agencies involved; (f) and financial resources, foreign and domestic, needed.

b. The SPAAC (see Annex A) report discusses farmers' attitudes and concerns regarding PBDAC as a supplier and the private sector as supplier. This should be fully reviewed in the context of

any strategy recommended. What does the GOE need to do to gain farmer support for whatever policy and program it finally decides to follow?

c. It has been strongly recommended by other study groups that farmer organizations in place and operating should be encouraged to take an aggressive role in the distribution and marketing of agricultural inputs. How can this best be done?

8. Private Inputs Dealers and Credit

a. Make a survey of categories or types of private dealers/suppliers of agricultural inputs at the local villages and at the intermediate sized centers of trade including the major cities.

b. Make a survey of categories or types of private manufacturers of agricultural inputs at the local villages and at the intermediate sized centers of trade including the major cities. Report the findings.

c. Make inquiries among several of the local commercial banks, which have branches outside the cities of Alexandria and Cairo, as to what lending they do for agribusinesses, agri-industry or for agricultural producers/growers. Report the findings.

9. Special Section for Fertilizers

As indicated above fertilizers by far are the most important of the procured inputs in terms of

monetary value, volume and problems of transport and handling. The objectives of the tasks in this section are to provide more specific information on fertilizers because of their importance. The supportive technical information collected for this section should be included as an annex to the Study Team Report. However, substantive findings and recommendations for privatizing and marketing of fertilizers must be included in the main body of the report. Freely using pertinent data from existing sources to prevent wasteful duplication and generating new information only to the extent necessary;

a. Prepare an overview of Egypt's fertilizer sector:

- 1) importance of the agriculture economy;
- 2) importance of fertilizer in crop production; and
- 3) importance of fertilizer in national economy

b. Review the adequacy of fertilizer types in country.

- 1) Review the relevant fertilizers in common use and suggest, with back-up, what other fertilizers would be beneficial to have available to meet farmers requests and or requirements.

- 2) Identify those products which are agronomically and economically most suitable considering market demand.

- 3) Identify additional fertilizer which could

be produced in country and those desirable which must be imported.

c. Estimate fertilizer demand:

1) Gather and analyze statistical data on fertilizer imports, production, sales, and crop hectarage to estimate actual fertilizer consumption by nutrient, product, and geographic regions for the past five years in Egypt.

2) Forecast the fertilizer demand by nutrient product, and by principal crops and geographic regions for the next 5 years (1988-92). Crop census data and fertilizer demand projections from other sources, should be collected, reviewed and analyzed.

3) Discuss and present the method of forecasting.

d. Determine the actual real cost of the fertilizers used in the present subsidized program and relate these to world market price for similar products and the farm gate prices charged to Egyptian farmers.

e. Fertilizer marketing and distribution: 1) Review and update fertilizer costs of products as determined in prior studies to the farmers in 3 delta and 3 upper Egypt governorates according to:

- 1) C.I.F. the mandoubias;
- 2) port charges (if imported);

- 3) warehousing costs - shonas; and
- 4) transportation costs from factory/port to mandoubias.
- 5) material losses - breakages - handling - unaccountable, etc.
- 6) other costs - identify & estimate.

f) Estimate the total cost by product and nutrient, identify excessive cost, and recommend cost reduction procedures.

g) Evaluate present PBDAC fertilizer marketing and distribution system. Identify any special problems and recommend procedures to overcome these.

h) Review and evaluate current storage and warehousing requirements.

i) Evaluate present transportation channels used.

10. Other Country Programs and Visit

Review other developing countries' programs where agricultural inputs distribution, marketing, production is or has been deregulated. Where such programs are considered good examples related to Egypt's divestiture planning, identify them as potential places for a team of GOE officials and private sector influentials to visit for orientation and observation. This was done during SOW preparation. See Executive Summary.

11. Visit to the United States

Prepare a proposed itinerary for a visit to the

United States for the same team or type of team to include two states and Washington, D.C. The tour should include visits to one or two large cooperative inputs distribution and supply operations, industry visits to agriculture chemical manufacturers and fertilizer plants which both produce and market their products as well as some large wholesale distributors of grain feeds, feed supplements, etc., and two agricultural machinery and equipment manufacturing/ marketing organizations. At beginning or end of visit, privatization subject briefings should be scheduled at the Center for Privatization in Washington D.C. and at USAID Washington.

III. STUDY TEAM ARRANGEMENTS

A. Contracting Options

Due to the short time frame in which this study must be started, there are two options for contracting the work which would be most expeditious.

- a. Use an IQC, or
- b. A buy-in to the Center for Privatization.

In either of these options the fielding of the study team can be accelerated to accommodate a team to commence the study sometime in mid May 1988. The study should not start during the Holy month of Ramadan which will occur from mid-April until mid-May.

If open competition through advertised bids is chosen, the RFP issuance, evaluation of proposals, selection and award of contract would require no less than 3 months. This would put the fielding of the team into July 1988 or later.

B. Composition of Team

Egyptians and expatriates will work in counterpart relations in the following positions. Team Leader, Organization and Management Specialist, Financial Analyst/Cost Accountant, Production Economist, Fertilizer Economist, Agri-inputs Marketing Specialist. The Legal Advisor and Sociologist will be Egyptians with no expatriate counterparts. An Egyptian secretary for staff support will also be employed or a secretarial services firm will be contracted to provide this along with other necessary administrative support services.

The following sections' through 9 cover the general qualifications and brief of principal tasks for each of the study team members.

1. Team Leader

a. Qualifications

A person who has previous experience working in developing countries planning, managing, and evaluating agricultural policies and programs. Preferred that this person has previous responsibility for team leadership performing a sector analysis, preparation of project papers, and/or in depth appraisals/evaluation of agricultural programs or projects, etc. Should have demonstrated ability to organize and supervise others, and work in situations where short time targets must be, and are, met on time. Specific experience in agricultural development, credit, farm products marketing, inputs supply and distribution, are highly desirable.

b. Brief of Principal Tasks

1. Coordinate and supervise Study Team
 2. Prepare study implementation work plan
 3. Review data needs and their availability
 4. Assess, evaluate and recommend policies
 5. Assist other team members in their tasks
 6. Present and defend study findings and recommendations
 7. Prepare final Study Team Report.
- c. For more specific details on tasks refer to Section II, A-1,2a,3,4,5d&g, B, D-1,3,3a, D-7,8, E-1,2.

2. Organization and Management Specialist

a. Qualifications

A person with professional experience and educational background in public administration, organization and management systems, position classification and wage and salary studies, and management information systems. Should have related operating experience in two or more responsible management positions. Must have had consultant experience in one or more of the management and administrative disciplines in one or more developing countries.

b. Brief of Principal Tasks

1. Prepare functional organization charts for PBDAC Group.

2. Prepare functional statements for its major divisions.
 3. Determine numbers of personnel assigned to units principally responsible for inputs distribution.
 4. Estimate annual personnel services cost for the PBDAC inputs distribution functions.
 5. Assist in finalizing and editing final report.
 6. Perform such other assignments necessary to satisfactorily completing the project study.
- c. For more specific details on tasks refer to Section II, A-2a,3,5d&h, D-1a&c,7,8, E-1&2.

3. Financial Analyst/Cost Accountant

a. Qualifications

A professionally qualified and experienced senior financial analyst who has broad experience as the Chief Financial Officer of a large public agency, industry or business. Should have experience and be fully acquainted with the analysis of financial reports, (accounting, cost analyses, budgets and the preparation of profit and loss statements, balance sheets, and similar financial planning and control documents. Previous experience as a financial consultant in one or more developing countries is desired.

b. Brief of Principal Tasks

1. Prepare a cost analysis of PBDAC's input functions.
2. Prepare a (5 year) consolidated profit and loss statement.
3. Determine what financial effect divestiture will have on PBDAC.

4. Prepare inventory of all PBDAC physical assets.
5. Ascertain value of all PBDAC physical assets.
6. Identify PBDAC's non-banking revenue sources.
7. Perform such other assignments necessary to satisfy completion of the project study.

c. Specific Tasks

For more details on specific tasks refer to Section II, A-2b,3,5c,f,&h, D-1,3a,b,4b,c,5a,b,7,8, E-1,2.

4. Agri-Inputs Marketing Specialist

a. Qualifications

A person who has education and specialized hands on experience in the procurement, manufacture, distribution and marketing of agricultural input commodities. Should have experience in a large organization, national industry or large cooperative such as Farmland, Land O'Lakes Cenex, etc., and be fully knowledgeable with transport, supply, warehousing, wholesale and retail sales marketing network. Preferably experience in more than one input lines, i.e. fertilizers, seeds, animal feeds, machinery, etc. Consulting experience in one or more developing countries is highly desirable.

b. Brief of Principal Tasks

1. Conduct, after review of all current relevant materials and data, and if necessary, a privatization materials assessment.
2. Inventory of categories of private inputs supplies and dealers operating in rural areas and cities of Egypt.

3. Prepare a flow chart of PBDAC's agri-inputs acquisition and distribution system.
4. Describe how and by whom PBDAC's inputs actions are activated, transport means used, etc.
5. Review USAID CIP program regarding support and usefulness for privatizing agri-inputs activities in Egypt.
6. Perform such other assignments necessary to satisfactorily completing the project study.

c. For more specific details on tasks refer to Section II, A-3,5b,c,f,g, D-1b,2,a,b,3,a,b,4a,b,d,7,8, E-1,2.

5. Agricultural Economist/Production

a. Qualifications

A person with both the educational background and professional experience to analyze agricultural economic factors of farm production which enhance productivity; to prepare rate of return on investment analyses, evaluate crops or other produce options relative to market potential and interrelative pricing and cost of production factors. Should have considerable experience in collection and use of economic and related data for preparation of agricultural economic policy recommendations and recommendations investment priority particularly in developing countries.

b. Brief of Principal Tasks:

1. Prepare analysis of the effect of input subsidies combined with product quota and flow prices presently in use in Egypt.

2. Prepare review of importance of Egypt's agriculture economy.

3. Importance of fertilizers in natural economy.

4. Estimate economics of fertilizer use.

5. Prepare benefit to cost ratio tables for fertilizer use on principal crops at officially recommended rates.

6. Estimate grower profit per feddan for crops using current prices and world market prices.

7. Estimate total cost by product/nutrient and identify excessive cost and/or lower cost compared to world market prices.

8. Work closely with Fertilizer Specialist/Agronomy to prepare Special Information on Fertilizer Annex.

c. For more specific details of tasks refer to Section II A-1,1,5a,b,c,5f,g, D-1,b,2,a,b,3,a,b,4a,b,c,d,e,6,7, E1,2, all special fertilizer section.

6. Fertilizer Specialist.

a. Qualifications

A highly specialized and technical expert on types, use, manufactured costs, and economic and plant nutrient value of fertilizers recommended for and/or in use in Egypt. Must have had experience in research, analysis and evaluation of fertilizer procurement, manufacture

and use to support agricultural production goals in developing countries. Egypt experience is highly desired. Required appropriate educational background and related consulting experience in foreign countries to accomplish this appraisal.

b. Brief of Principal Taks:

In cooperation with Agricultural Economist/Production:

1. Prepare overview of Egypt's fertilizer sector.
2. Identify products most economic and agronomically useful for Egypt.
3. Estimate fertilizer demand for next 5 years.
4. Prepare farmer benefit/cost ratios on principal crops.
5. Appraise current fertilizer policy in Egypt.
6. Determine real cost of fertilizers in Egypt to world market prices.
7. Provide other assistance as necessary to overall study team efforts.

c. For more specific details in tasks refer to Section II, D-2,4c, E-1,2, and all special fertilizer section.

7. Legal Advisor

a. Qualifications

A licensed Egyptian attorney with experience in

administrative and corporate law. The legal advisor should have experience in one or more GOE ministries drafting regulations, preparing opinions on jurisdictional problems, researching legal authorizations, labor problems, employee grievances and similar areas of conflict which might arise from major governmental reorganization, or through establishing new jurisdictions, means for disposal of GOE property, stock option plans, etc.

Legal Considerations

A comprehensive review must be made of the provisions of laws, ministerial decrees, administrative regulations, in-force contractual arrangements, and similar documents which do or might prohibit, constrain or otherwise inhibit the implementation of the proposed agricultural inputs privatization/divestiture plans for PBDAC.

One case in point refers to PBDAC's basic law which mandates that PBDAC shall distribute agricultural inputs. The legal/regulatory review must cover cases both explicit and implicit including those areas where different interpretations or ambiguity arise. These should be reported along with proposed actions, reform legislation suggestions, where absolutely necessary, and/or other recommendations which would remove or modify positive constraints to the divestiture/privatization.

The review might include tax conditions if applicable, the handling/use of hazardous chemicals, existing contractual obligations, administrative procedures,

potential legal actions by individuals or institutions. In the cases reviewed, the legal consultant/expert must review and comment substantively on any/all options or plans with respect to the legal or other regulatory constraints or barriers and suggest solutions to these problems.

b. Brief of Principal Tasks

The legal advisor will not have specific tasks but will provide counsel and guidance as policy and options are reviewed. He will collect necessary supporting documentation, laws, regulations, etc., pertinent to the study purpose and in those cases necessary prepare briefs of his legal opinions based on his research and practice in Egypt.

c. For additional details on assignment refer to section II, D-4d,5,a,b, E-1,2.E-5.

8. Sociologist

a. Qualifications

An Egyptian sociologist or discipline related social scientist, with graduate level professional and educational training and experience. Should have had several years of experience in socio-economic surveys, attitudes and cultural impact assessments, means to gain community acceptance of new ideas and different systems. The sociologist must have had experience in survey and methods design, development of social data collection questionnaires or other instruments and to organize, assess and interpret and present data on socio-economic, cultural and political impact and attitudes.

Brief of Principal Tasks

1. Review current materials and study data related to privatization in Egypt and plan, design and conduct any necessary further field research for the specific needs of this study.
 2. Prepare comments on attitudes, customs and identify appraise on potential social effects which might result from proposed action plans.
 3. Review special interest group attitudes such as farmers, private businessmen, cooperative institution and PBDAC employees.
 4. Perform such other assignments necessary to satisfactorily complete the project study.
- c. For more specific details refer to Section II, A-5,a,6, D-4,6, E1,2.

9. Secretary

a. Qualifications

A senior level totally bi-lingual Arabic-English secretary who has experience with full competence in use of a word processor, preferable a Wang System but not absolutely necessary. Must have a speed level of at least 40 words per minute and a high level of accuracy at that speed. Must be able to work under tight time targets and also be able to handle appointments, make field trips arrangements, and possess good telephone and reception skills.

b. Brief of Principal Tasks:

1. Type from written rough drafts into word processor disks.
2. Handle telephone calls and office receptionist jobs.
3. Make appointments and local travel arrangements for Study Team Members.
4. Provide other administrative/secretarial support services as necessary.

c. Time Frame

5 month total period, 24.7 p.m. for expatriates, 32.5 for Egyptian professionals and 5 for the secretary)

It is expected, if contracting arrangements are through an IQC or the CFP that the expatriate team members could be in Egypt as early as 15 May 1988 1/. To be most practical the date for the Team Leader's arrival should be for May 15, 1988. The following calendar of for study actions covers the expected major events up through final report submission.

1. Approve SOW USAID/MOA March 15, 1988
2. Approve PIO/T USAID March 25, 1988
3. Telegram AID/W USAID March 30, 1988

1/ Due to the Holy Month of Ramadan, expected to commence in mid-April and end in mid-May, it is recommended that the study team not report to Cairo until after the Eid holidays in May.

4. AID/W advise the CFP/IQC April 2, 1988
5. CFP/IQC marshall Study Team
6. CFP/IQC nominate contractor/team April 15, 1988
7. AID/W review-comment send USAID April 20, 1988
8. USAID review with MOE, concur or telegram comments AID/W April 30, 1988
9. CFP/IQC Will activate team upon final approval given by Mission/MOE within 10 days following official approval
10. Team Leader Arrives May 15, 1988

D. Illustrative Study Work Plan/Time Frame

Week one/two orientation USAID/PBDAC Cairo review data/reports/meet with for Egyptian Study Team members and secretary, set up word processor, work space, etc. and start preparation work plan.

Week three/four - determine data needed, finalize work plan, review individual assignments start field research, visits, data verification, survey instrument design (if needed) etc.

Week four/five - continue data collection need, finalize outline for final report, continue field visits, interviews, analysis of data and initiate some drafting of report information.

Week six/seven - review status of work, related work plan targets - flag and adjust for slippage, problems, coordinate with PBDAC, USAID and Monitoring and Evaluation Manager.

Week eight/nine - continue intensive analysis, finalize data and organize it into draft chapters. Check whether flagged problems (in weeks six & seven) are resolved or being resolved. Report to PBDAC, and USAID.

Week ten/eleven - prepare drafts of chapters and turn in draft chapters to editing coordinator and team leader for review. (At this point team as a whole will discuss and come to two or three policy choices and options for divestiture)

Week twelve/thirteen - all chapters prepared in final draft.

Week fourteen/fifteen - editing and coordination. Of all final draft materials Team Leaders and O & M advisers to finalize report into a review draft.

Week sixteen/seventeen - PBDAC, USAID and Monitoring and Evaluation Manager to review, comment and return to Team Leaders. Corrections then made suggestions incorporated in report. Assigned technical team members start to depart from project.

Week eighteen/nineteen Final draft typed for submission to policy officials, (PBDAC, MOA, USAID) for comments, changes, questions, etc. Team Leaders to respond and justify findings and recommendations.

Week twenty - final report completed, and sent to (PBDAC, MOA & USAID), with letter of transmittal and a brief executive summary.

Week twenty one - Expatriate Team Leader departs.

Study Team for PBDAC Agriculture Inputs Divestiture
Time Frame Consultant Matrix U.S. and Egyptian

		<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>W E E K S</u>			<u>13</u>	<u>14</u>	<u>15</u>	<u>16</u>	<u>17</u>	<u>18</u>	<u>19</u>	<u>20</u>	<u>21</u>
Team Leader	*	_____																				
O&M Advisor/Editor	*	_____																				
Analyst	*	_____																				
AGR Bus. Adviser	*	_____																				
AGR Economist		_____																				
Fertilizer Economists		_____																				
Sociologist	E	_____																				
Legal Advisor	E	_____																				
Secretary <u>1/</u>	E	_____																				

Approximate Total P.M.

U.S. Professional 24
 Eg. " 32
 Eg. Staff Support 5

- * Expected to have Egyptian counterpart professionals seconded to study team from (PBDAC/other) as co-member professional to work with expatriate advisors.
- E Egyptian team members - no expatriates

Illustrative Budget

Item	Unit	Total Days	Total Basic	Diff + 20% Day	Total (\$)
A. Salaries					
1. Expatriates					
a. Team Leader	260	126 days	\$32,760	4,368	37,128
b. O&M Advisor	250	114 "	28,500	3,600	32,100
c. Financial Analyst	240	96 "	23,040	2,592	25,632
d. Agri-business Adv.	240	96 "	23,040	2,592	25,632
e. Agr. Economist	240	96 "	23,040	2,592	25,632
f. Fertilizer Specialist	240	96 "	23,040	2,592	25,632
g. Subtotal			153,420	18,336	171,756
2. Egyptian					
a. Team Leader	75	126 days	-	-	9,450
b. O&M Advisor	75	114 "	-	-	8,550
c. Financial Analyst	75	96 "	-	-	7,200
d. Agr. Bus. Specialist	75	96 "	-	-	7,200
e. Agr. Economist	75	96 "	-	-	7,200
f. Sociologist	75	96 "	-	-	7,200
g. Legal Advisor	75	114 "	-	-	8,550
f. Secretary	50	126 "	-	-	6,300
g. Sub-total (A. 1&2)					61,650
B. Benefits	30%	(A.1.g)			51,527
C. Overhead 100%	100%	(A.1.g)			171,756
D. Transportation/Per Diem					
a. International Travel	\$2500	6 RT			15,000
b. Local Travel	\$ 300	5 months			1,500
c. International per diem	\$ 120	12 days			1,440
d. Expat in Egypt	\$ 98	540 days			52,920
Reduced after 90 days	\$73.50	84 days			6,174
e. GOE Officials travel	\$1500	6 RT			9,000
f. International per diem	120	15 days X6			10,800
g. Visas, transfers, etc.					200
h. Sub-total (D)					97,234
E. Defense Based Insurance	2.57/100	A.1.g			4413
F. Support Equipment/Supplies					5000
G. Office Space Rental,	\$ 800	5 months			4000
H. Macintosh Apple W.P.					24,000
I. Translation/report, reproduction, workshop, etc.					2,500
J. Contingencies					1,500
K. Total					595,336

Annex A

Economic & Social Background

A. Land, People and Agriculture'

Egypt has the largest population and the second largest economy in the Middle East, after Saudi Arabia. Its 50 million people are clustered in the Nile Delta and valley and their numbers are growing by well over one million per year or by 2.8 percent. An increasing proportion of the population, now 45 percent, live in cities, the largest of which are Cairo and Alexandria. The dynamic sectors of the economy have been petroleum, which grew from 3% to 11% of GDP; and to some extent the distribution and service sectors, which grew from 43% of GDP in 1974 to 45% in 1985. Agriculture has been growing slowly and fell from 30% to 19% of GDP over the same time period.

Egypt's population has benefitted from a comprehensive social welfare system created after the 1952 revolution. Following effective land distribution and widespread business nationalization soon after independence, the Government instituted a set of policies designed to provide minimum living standards for all its population. For the most part these remain in effect today. These policies included rigid rent controls, subsidized food distribution, free education, guaranteed employment of university graduates and the provision of a wide range of public services at low cost. Although these policies have contributed to the severe economic distortions now plaguing the economy, they did succeed in raising the living standards of the lowest income groups. Although poverty remains a problem, there is little indigence, under-nutrition or homelessness in Egypt. (IBRD) papers.

B. Interrelated Agriculture Problems

1. Crop prices and inputs distribution control.

Egypt's policy of controlled crop prices and input distribution has been singled out by numerous consultants and donor agencies, to be responsible for seriously inhibiting agricultural production and investment in Egypt. Technology diffusion is limited where farmers are restricted to making credit purchases of "packages" of inputs which do not efficiently meet their needs nor maximize production potential.

Unpublished government statistics indicate a deterioration of agricultural production in real terms during the period 1980-1984. Egypt's population growth rate of 2.9 percent per year requires equivalent increases in agricultural production just to keep up in per capita terms. In 1986, over 4 million MT of wheat; about 1.5 million MT of wheat flour; and 2 million MT of corn were imported. In addition over 400,000 MT each of soymeal and vegetable oil plus 850,000 MT of sugar, 83,000 MT of frozen fish and 65,000 MT of chicken were also imported.

Maintaining subsidies in the centrally managed farm input supply system imposes a considerable strain on the GOE budget. Input subsidies soared from LE 100 million in 1978 to LE 340 million in 1983; as allotments of fertilizer and other inputs were increased. Egypt's domestic production of fertilizer is currently about 2700 million MTs and its imports for 1984/5 were 480,000 MT increasing in 1985/86 to 579,000 MTs. In terms of cost of the procured agricultural inputs subsidies, fertilizers dominate all others.

2. Interest Rate Regulation

Credit is further restricted by regulating interest at rates unattractive to commercial lenders, by high collateral requirements, and by limiting the portfolio of eligible investments. There are in addition other related restrictions on private sector rate of return and trade.

3. Rural-Urban Migration

Rural-urban migration has further compounded the problem in the demand for more low cost, subsidized food. These factors have pushed food self-sufficiency (domestic production divided by domestic consumption) into a steadily downward trend.

4. Rural Regulatory Mechanisms

A variety of GOE and local government organizations are involved in implementing agricultural control programs in Egypt. One of the most important of these institutions is the Principal Bank for Development and Agricultural Credit (PBDAC). Another is the MOA's state cooperative system, often combined in rural offices with the National Extension Service (NES). In the past PBDAC and the co-ops have been centrally involved in the regulation of agriculture.

In addition there are numerous others involved in deciding policy, determining means, directing, controlling and actually operating agricultural production facilities. This constitutes an extremely bureaucratic and layered institutional framework. While it is not a primary responsibility of the study to sort all this out, it must be described sufficiently so anticipated problems are flagged in relation to the recommended plans for PBDAC inputs distribution divestiture. Some of the important agencies and institutes, other than PBDAC itself are:

Ministry of Agriculture,
Ministry of Transport,
Ministry of Industry.
Agricultural Research Center,
General Authority for Agrarian Reform,
Egyptian Agricultural Authority
General Authority for Agricultural Production,
Cattle Insurance Fund,
General Company for Poultry Production,
General Authority for Agricultural
Stabilization,
National Extension Service Farmer Organizations.

The Study Team will in all probability find others which need to be considered in terms of finalizing its report. The author was not able, in the time allotted, to investigate all the players nor to sort out details of all the functions even within the PBDAC Group itself. This must be done by the Study Team.

C. PBDAC - Role and Functions

1. General

The Principal Bank for Development and Agricultural Credit (PBDAC) has a long history dating back to 1931, the time of the creation of the Agricultural Credit Bank of Egypt.

This bank was replaced in 1964 by the Egyptian General Organization for Agricultural and Cooperative Credit (EGOACC) at the national level and one Agricultural Credit and Cooperative Bank (ACCB) in each of the 17 governorates.

With the enactment of Law No. 117 in 1976, the PBDAC was established as successor to the EGOACC, and the Banks for Development and Agricultural Credit (BDACs) replacing the ACCBs. The PBDAC is together with the affiliated 17 BDACs and their subordinate units an extensive network (group) of about 5,000 combined district banks, village banks, warehouse centers, farmer service outlets, etc. It is effectively, for small farmers, the only source of institutional credit for agriculture in the country. The Government owns all the capital in PBDAC as well as that of the BDACs. PBDAC is the umbrella organization for the regional, in principle semi-autonomous, BDACs. This is actually a highly centralized organization with nearly all decision making powers concentrated at the PBDAC headquarters. Other general agricultural policy matters belong to the sphere of the Ministry of Agriculture.

2. Organization

The Board of Directors of the PBDAC, its highest organ, has 23 members. They include, besides the chairman and two deputies, representatives of GOE ministries, and eight heads of affiliated banks. Apart from the customary powers to control and manage its business, the Board exercises supervision over the BDACs. The Chairman of the Board is assisted by two Deputy Chairmen, who are responsible respectively for:

- (a) administration, credit and finance; and
- (b) production, branches and storage.

The Deputy Chairmen are fulltime employees who are assisted by five Directors-General. The Board of Directors, strengthened by representatives of State Auditing Organizations and Ministries of Finance and Planning, form the General Assembly which meets annually.

PBDAC is divided into five sectors: Commercial and Production Sector; Financial and Administrative Sector; Planning Sector; Credit Sector; and Investment and Banking Sector. In addition, there is in PBDAC the Head Office (administrative functions) serving the Chairman. In practice the PBDAC Chairman is also its chief executive officer. The PBDAC staff in Cairo is reported to be over 3000 employees.

3. Field Organization

PBDAC has six headquarter branches in principal agricultural areas. However, most of the field work is carried out by the 17 semi-autonomous BDACs and their 142 branches each of which has a staff of about 40. At the village level, BDACs have about 4,248 "agencies" also called mandoubias with a staff of 3-5 employees each. In the higher villages there are a total of 750 "village banks", each with a staff of about 10-15 employees. For physical handling and distribution of the agricultural inputs, the BDACs also have open warehouse facilities called shonas (uncovered) as well as covered warehouses or storage buildings. The total number of field level staff is estimated to be over 26,000. The BDACs supervise the village banks, shonas and agencies in their respective governorates.

4. BDAC Functions

Although fully owned by PBDAC, the BDACs are independent legal bodies. Each of them is registered separately, has its own-by-laws, and considered semi-autonomous and separate from PBDAC. They are also financially accountable organizations, with their own balance sheets, income and expenditure accounts, audits, and accounting staff. The financial transactions of BDACs with PBDAC are operated through an overdraft type of "current account."

In general, BDACs run their operations under their

own management without day-to-day supervision by PBDAC, but they do so in accordance with the directives and guidelines issued by PBDAC. They can make loan decisions up to LE 250,000 without referring them to PBDAC management. Most credit to small farmers is "in kind" and sales of crops have up till now been tightly controlled. However recently the GOE has announced the removability of all procurement quotas on all crops except rice, cotton and sugarcane.

5. Operations and Policies

According to law, PBDAC is to undertake the central planning of agricultural credit and cooperative financing at the national level; following up their programs; and the supervision of the application of the Government's policies. A prominent feature of PBDAC operations is that it is not only a bank but is responsible for making available all subsidized and many other production inputs either through importation or from local production, or as may be consigned by private companies.

From the regional to village level, BDACs in the governorates, their branches, the village banks and the agencies fulfill the objectives of the PBDAC. BDACs are entitled to: (a) lend to agricultural cooperative societies for the purpose of carrying out all their productive objectives and also to lend to other institutions active in agricultural development, or to establish or participate in them; (b) lend to farmers including members of the agricultural cooperative societies; (c) perform banking operations which serve cooperative societies and their members; (d) serve the purposes of farmers' crop sales or other disposal in a manner ensuring the public interests and (e) create and promote saving awareness for local

As required by law, PBDAC and its member banks deal with several activities supporting agriculture. They appear to handle as many or more non-banking than banking activities. The former includes the sale of fertilizer, seed and grains, jute bags, feed and oilcakes, insecticides, machinery, spare parts, and procurement of some, quota and non-quota controlled, farm produce. In these operations they are dealing both with cooperatives, individuals and other GOE agencies.

D. Government and Private Sector Roles

All the information presented herein describing the economic and agricultural setting in Egypt and most of the substantive comments on divestiture rationale, strategy and issues are based on prior studies. The Parks, et. al., report "Guidelines for Agricultural Mechanization in Egypt", recommended policy guidelines which are very pertinent so are repeated here.

The model recommended for agricultural (development)^{1/} in Egypt is based on a policy of private sector exclusively in selected functions. According to this policy the private sector is strengthened and supported by means of traditional government functions--research, training and extension, and provision of incentives. Agricultural credit is also acceptable as a government function in Egypt because there is no expectation of private sector replacement of the government bank.

^{1/}Substituted for mechanization

The recommended functions of the private and government sectors are indicated below by function:

<u>Government Sector</u>	<u>Private Sector</u>
Macro and Sector Policies	Sales
Research	Service
Training and Extension	Rental
Credit	Manufacturing
Private Sector Support	

Justification for movement toward private sector dominance in selected functions is based on two precepts:

- Privatization is consistent with the macroeconomic guidelines in that it economizes on public administration cost.
- Government performance in agricultural (input)2/ sales, service, rental and manufacturing has not been efficient.

Justification also depends upon two critical assumptions:

- The private sector does not lack entrepreneurial willingness and ability to achieve the quantity and quality of support needed in sales, service, rental and manufacturing of agricultural (inputs).2/

- International development agencies are willing to provide no less support under the recommended structure than in the current one.3/

Although the magnitudes of past economic losses and potential savings from future reform will probably never be known, the case for reform is convincing and urgent given Egypt's serious economic condition.

The Study Team should carefully consider the policy suggested above in relation to its final recommendations and divestiture plan concepts.

2/Substituted for machinery

3/Major donors, IBRD and USAID, have and continue to indicate full support of this policy and strongly endorse privatization in all recent studies.

Annex B

Reference Documents

Antholt, C. and Wennergren, B. "Fertilizer Marketing in Bangladesh: Toward Privatization USAID/Dhaka 1983.

Describes the gradual shift in the distribution of fertilizer in Bangladesh from the public to the private sector. Important reference based on actual experience and lessons learned.

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

A short but succinct paper which discusses and describes the existing input distribution system in Egypt, constraints to and expanded role for the private sector, alternatives for divesting PBDAC from farm inputs distribution, specifically of nitrogenous fertilizer. Recommended program options for privatization, and related issues.

Bremer, Jennifer, et al. "Demand for Nitrogenous Fertilizer in Upper Egypt and Potential Supply of Marketing Services" Abt Associates/Robert Nathan, and USAID/Cairo 1987.

An analysis of the market for nitrogenous fertilizer in Upper Egypt and private sector involvement in its distribution. The study contains a lot of information and data which while considered reliable are in part

disclaimed or otherwise qualified within the report. The report is important as it offers system description and data tables. Position on whether privatization should or should not be implemented is somewhat confusing. It is an important document to the PBDAC farm inputs divestiture Study, and should be reviewed carefully. Chapters IV, V and VI are most pertinent to the divestiture study as they comprehensively cover privatization of fertilizer distribution and offer several analyzed scenarios for multi-channel distribution options all directed to liberalizing government control.

Bremer, Jennifer, "Current Status of (Agricultural) Mechanization in Egypt, IBRD, 1983.

This report reviews current status of agricultural mechanization in Egypt, identifies dealers and sub-dealers, problems and economic effect on farming. It covers both private sector and public sector roles. Excellent coverage of attitudes and interests expressed by private sector players.

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

A recent comprehensive description of PBDAC organization, its functions and responsibilities with special emphasis on credit and financial aspects of the Small Farm Production Project (SFPP) in relation to the now conceived APC. Includes a summary of rural financial markets and is an excellent reference for the inputs divestiture study.

IBRD - "Second Agricultural Development Project - Annex 6
Banking and Financing of Agriculture in Egypt." CIRCA 1983-1984

This is an excellent assessment and analysis of institutional structure, historical growth and changes in the various banking and credit institutions back to the early 1960s. It covers all the banks to a degree but is very comprehensive in its description and analysis of PBDAC and its predecessor institutions. For PBDAC it fully describes organization, authority, programs and of particular interest - its inputs distribution activities. A most important reference and should be read by all study team members.

Kaldas, Sherif. "Fertilizer Situation in Egypt." USAID/Cairo DPPE/PAAD, 1985

An internal USAID/Cairo Paper which reviews other studies and evaluates potential demand and supply for nitrogen fertilizers in Egypt re expanding domestic production.

Loza, Sarah, et al. "Socioeconomic Research on the Private Market for Fertilizers in Upper Egypt - Final Report, Social Planning, Analysis, and Administration Consultants (SPAAC) and USAID Cairo, 1987.

A study based on specially designed field surveys and other research. Provides information on several issues on the demand side, supply side, and dynamics of the marketing of fertilizer. Tables and narratives from interviews and questionnaires provide detailed micro data concerning social, economic, and community aspects of the free market of nitrogenous fertilizer.

Maazaway, Mohammed "Small Farmer Production Project Storage and Transportation Component Study of Agricultural Inputs to Agricultural Production - Parts I and II, May 1984.

An excellent description and inventory of the physical facilities and means of PBDAC's procurement, transport, storage and distribution of agricultural inputs to producing farmers. The study is comprehensive and detailed covering almost all aspects of the subject including transported quantities, rates, storage capacity, losses, problems, financing, PBDAC commissions, etc. This should be read thoroughly by all members of the Study Team. A photo stat copy is in the USAID Mission central library and a copy of the original work is with the Team Leader of ACDI for the SFDC Project, Mr. Arthur Buffington.

Newberg, Richard. "Fertilizer Subsector Assessment - Egypt." M.A.S.I., and AID/SOD/DC, 1979.

An early comprehensive report and assessment of agricultural production covering cultivated areas, crops produced, credit, size of farms, extension and research and in depth analysis of crop and fertilizer prices, fertilizer supply and demand and data gap with suggestions for additional studies.

Newberg, Richard, et.al. "Evaluation Report on the Small Farm Production Credit Project and USAID/Cairo 1985.

This second evaluation report for the Small Farm Production Project (263-0079) is a very comprehensive analysis of the implementation of the project from its start-up August 1980 until May 1985. Two evaluations were made in 1983 and this was built upon those. Considerable useful data in narrative and table form covering the total project activity, i.e., lending, production methods,

inputs, and farmer benefits. PBDAC's input operations, rates of return, costs of inputs and products are included. A very useful and comprehensive report for the study team.

Parks, L.P. et.al. "Policy Guidelines for Agricultural Mechanization in Egypt", Winrock International/USAID-Cairo, 1986.

A good comprehensive analysis of the entire agricultural mechanization scene in Egypt. Provides overview of agricultural policy and economy; supply resources for agriculture with implications for economics of mechanization, privatization and mechanization, governmental sector involvement and policy recommendations.

Walker, Gaylord, et. al.. "Report-Assessment of the Agricultural Inputs Supply System and Policies in Egypt." M.A.S.I. and USAID/Cairo 1980.

An early assessment of Egypt's basic policies and programs affecting access to inputs, farmers use of inputs and need for improvements in the system and recommendations for policy and program changes supported by readily apparent expert opinion and referenced existing data. An excellent treatment of the agricultural inputs system in Appendix.

USAID/Cairo, "Agricultural Production and Credit Project (263-0202) Paper - Egypt. 1986

A comprehensive analysis of agricultural sector policies and project description to initiate policy changes. A must for all team members to review. A critically important resource document for the inputs divestiture study.

Von Spiegel, W. et.al. "Pakistan: Privatization of Fertilizer Marketing - A Discussion Paper, 1982.

A brief discussion paper of factors relating to private marketing of fertilizer in Pakistan. A good reference particularly if CIP is to be used.

York, E.T. et.al. "Strategies for Accelerating Agricultural Development - A Report of the Presidential Mission to review agricultural development in Egypt." MOA, and USAID, Cairo in cooperation with IADS, USDA, 1982.

An important and informative assessment containing specific recommendations and strategies - Presents clear description of agencies, and responsibilities. Should be reviewed by study team members.

Special References:

GOE letter setting policy reforms and benchmark actions. 11 March 1987. Policy reforms and benchmark actions proposed. Maybe referred to in USAID's agriculture office in Cairo.

OSE, Ivan, et. al. "Principal Bank for Development and Agricultural Credit - Recommended Machinery Distribution Policy and Implementative Plan", June 1987.

An internal SFCD/ACDI report describing a plan to strengthen and improve the distribution and servicing of agricultural machinery. Recommends establishing an effective agribusiness credit window in the BDACs to serve private dealers. This is to shift the marketing of machinery to the private dealers along with responsibility for servicing such equipment. An important paper and concept to the inputs divestiture concept.

IBRD/PBDAC "Proposed Auditing Reorganization Plan" Sycip Gorres & Velayo (SGV) Consulting Team, August, 1983

A comprehensive and detailed description of the functions and operations of auditing in PBDAC and its affiliated banks with recommendations for improving both its financial and management auditing organization, functions and staff capabilities. It is an operating manual in detail for implementing the recommended changes.

NADIM, Asaad, "The Role of the Village Bank in the Rural Community".

This is a personalized social observational and interview type of study which covers socio-economic characteristics in two selected villages and based on random sampling in those village reports covers on farmer attitudes,

demographic data, farm tools and animals used and kept on the farm. It also covers attitudinal information of farmers with respect to bank loans, savings, sources of agricultural inputs, jobs off farm, productive technology, etc. This is a very good background for rural credit and attitudes of Egyptian farmers concerning technology, production, borrowing, etc.

There are other source and reference material not reviewed in detail at time of SOW preparation which may be useful to the Study Team. This may be referred to in the USAID Cairo/AGR reference library (9th floor) or the Mission's central library (10th floor) and at counterpart cooperating agencies of the GOE. The Egyptian members of the study team should review pertinent Arabic documents for which there are no English language translations. This applies particularly to legal and administrative regulatory sources.

Finally the AID/W Center for Development Information and Evaluation (CDIE) has a large computerized data bank. If requested, CDIE can provide a large volume of references appropriate for this study.

Annex C

SOW Resource Persons

Contacts by author during SOW preparation

<u>Name</u>	<u>Organization</u>
Alter Dean, (AID/W Project Coord.)	ANE/TR/AGR, Washington, D.C.
Amin, Saneya	AGR/ACE - USAID/Cairo
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Foote, Richard	AGR Statistics - MALR - Cairo
Gohare, Sami (Chairman)	Wadi El Nil Co.
Haynes, Stephen	AGR/ACE - USAID/Cairo
Hoover, Robert	Center for Privatization, Wash.
	PAS - McLean, Va.
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Khedr, Hassan (Undersecretary MALR)	Minstry of Agriculture, Cairo
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Levintow, David	Center for Privatization, Wash.
Lintner, Stephen	AID/W Environment Office
Loza, Sara	SPAAC - Cairo
Lofgren, Hans	APCP Historian/PHd Thesis
Mazzie, Bruce	IS/FI - USAID/Cairo
Moza, Hussein (Chief Agri-Chemicals)	PBDAC - Cairo
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Richardson, Robert	IS/CMT - USAID/Cairo
Rahim, Hassan (Mgr. Input)	BDAC - Giza
Schroder, David (Project Officer)	AGR/ACE - USAID/Cairo
Tubba, Ibrahim	PBDAC - Cairo
Woods, John	Illinois University

Field Visits

BDAC Giza
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Mietrahina Mandobia, Giza
Helwan Warehouse, Helwan, Giza
Wadi El Nil Offices, Cairo

Possible Expatriate Study Team Resource Persons

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Parish, Dennis

Shiraca, Jack
Bremer, Jennifer
Fitch, David
Newberg, Robert
Kapusta, Edward
Paarish, Dennis
Jordan, John
Deschamps, Jean Jacques

Annex D

Brief Bio-Data
Wilmot Averill
December 1987

Mr. Averill is a senior management consultant of Public Administration Service. He is also a former Associate Director of Agriculture, USAID/Viet Nam, where he had full responsibility for policy development and implementation of agricultural programs. One part of the program was directed at putting the distribution of fertilizers and other agricultural inputs into the private sector and establishing over 70 private rural banks. Mr. Averill also held similar responsibilities in the Philippines prior to his Viet Nam assignment. In the Philippines, his responsibilities were much broader and included the responsibility for general private sector development and enhancement. He has had considerable and varied experience in development banking, mortgage banking, agricultural credit, land reform and management of agriculture production programs.

He has also headed consultant teams for improving public administration and management in several countries including Africa, the Middle East, Far East and Latin America. A recent long-term assignment was Team Leader for a comprehensive re-organization and management improvement study for the Emirate of Abu Dhabi.