PD-AAU-558
ISN= 47806



# MANAGEMENT AND INFORMATION REQUIREMENTS FOR THE POLICY REFORM COMPONENT OF THE AGRICULTURAL PRODUCTION CREDIT PROJECT

December, 1986

prepared for USAID/Cairo by

Chris Hermann
PPC/CDIE

Center for Development Information and Evaluation
Bureau for Program and Policy Coordination
Agency for International Development

# EXECUTIVE SUMMARY

This report concerns the management and information requirements for implementing the policy reform program supported by the Agricultural Production Credit Project (APCP) as requested by AGR/ACE of USAID/Cairo. It does not address the technical assistance component for the Principal Bank for Development and Agricultural Credit (PBDAC).

As of December 1986, the GOE and AID must finalize the set of policy reforms that will be enacted during APCP. Based on a preliminary list of reform measures, conditions for disbursement of program funds are presented (Table 1). To expedite disbursement, the conditions for the first tranche largely require official communication between the GOE and AID announcing the enactment of reforms, commitment to future reform measures and expression of interest in developing action plans for resolving major policy constraints. Verification of enactment is the key condition for subsequent tranches. Based on the organization and implementation of other policy reform programs supported by AID, the following recommendations are made regarding the program:

1) Conditions for disbursement should be agreed upon as part of the negotiations to finalize the reform package.

2) The conditions for disbursement should be actions taken by the GOE to enact and maintain reforms, not achievement of theoretically predicted improvements in the sector.

3) Disbursement should be contingent upon complying with the agreed upon conditions or satisfactory progress toward achieving those objectives.

4) Disbursement should be contingent upon progress toward the entire set of conditions attached to each tranche; funds should not be disaggregated and disbursed on a condition by condition basis.

5) Implementation of the program might require continued re-negotiation of conditions that the GOE cannot meet for acceptable reasons; this may require postponement of certain conditions to the next tranche, re-statement of the conditions for problematic reforms, and further commitment by the GOE to the re-negotiated set of conditions.

Verification of reform enactment is the major information requirement for implementation of the program. A system of highly focused, crop-specific surveys coordinated with the agricultural calendar, GOE customs and licensing data, and periodic rapid reconnaissance surveys to check on continued enactment is recommended. Data collection would be carried out through both the MOA and private research firms. However, the overall responsibility for providing valid information on the enactment of reforms rests with the GOE. The Agricultural Economics Undersecretariat (AUE) of the MOA should conduct the verification surveys for reforms affecting specific crops as part of its responsibility for collecting agricultural data. Private sector firms should be used to verify enactment of reforms affecting agribusinesses. Use of private sector firms for rapid reconnaissance surveys will serve as a cross-check to MOA survey results.

Re-analysis of data collected for monitoring program implementation (which includes data collected specifically for evaluation purposes) augmented by special studies of issues which arise during the course of the project, (e.g., constraints to enactment of reforms, unexpected negative effects, etc.) will serve as the basis for program evaluation. Three major types of evaluative activities are recommended for APCP: a) on-going evaluation by program management, b) interim evaluation through the Joint Review Meetings, and c) an external evaluation.

The issue of establishing the effects of the reforms on macro-economic and sectoral conditions, at the farm level, on agribusinesses and on consumers would provide useful evaluative information if it can be done. However, this type of research is too complicated to serve as the basis of APCP reforms.

Alternatively, it is strongly recommended that AID supports the development of an agricultural policy analysis capacity in the MOA. A minimum of two long-term advisors - a senior policy analyst and an agricultural information specialist - would be needed. AID should present this as an option to the GOE as a form of technical assistance during the implementation of the APCP reform program. The GOE should decide on whether this is an acceptable approach and where to locate this function. It is recommended that AID supports developing a policy analysis capability in the MOA/EAU. Preliminary discussions indicate strong support for this by the head of MOA/AEU (Dr. Hassan Khedr).

## 1. Disbursement Conditions for the Policy Component of the Agricultural Production Credit Project (APCP)

### 1.1. Synopsis of the Performance Disbursement Design

The key design elements that must be completed prior to implementation of a policy reform programs can be summarized as follows:

a. identify and negotiate a set of reform measures acceptable to the host country and AID which will produce significant economic improvements:

b. tranche program funds and determine a corresponding set of conditions which represent enacting toward reform measures (i.e., setting benchmarks which define adequate performance and compliance necessary for disbursement);

c. reach agreement on the legal use of program funds provided through the performance disbursement mechanisms (ranging from a straight cash transfer to projectizing funds) and host country counterpart funds;

d. establish a program management system involving the host country, AID and technical advisors as needed for program implementation (this should include arrangements for financial accounting to assure program funds are used for agreed upon purposes, budgeting for commodity procurement, training, short-term technical assistance, etc.);

e. to support program management, develop a monitoring system to verify the enactment of reforms as agreed upon by the host country and AID, and to evaluate the short-term or intermediate effects of reforms as they are made; and

f. establish an Annual Joint Program Review procedure to: (1) assess progress toward disbursement conditions based on monitoring data and other information pertaining to compliance, (2) evaluate the adequacy of program management, (3) re-negotiate conditions for the next tranche (if necessary), and (4) reach a decision on the release of funds.

g. clarify and reach agreement with the host country on the various institutional arrangements necessary for implementation - e.g., the host country agencies involved with the reforms, the limits of authority of the lead implementing agency, necessary intra- and inter-ministrial coordination, compliance with host country and AID procedures and regulations.

The implementation process can be summarized as the host country enacting the reforms measures either in one or more steps during the course of the program. Funds are disbursed when the conditions/benchmarks for each tranche are met, or when conditions are only partially met, but progress is considered sufficient. Non-compliance with conditions, in principle, delays disbursement until the host country takes action necessary for compliance or when the conditions are eliminated or re-negotiated. Monitoring the enactment of reforms and evaluating their short-term effects is integral to sound program management. It should be recognized that the entire process requires a considerable investment in analysis and negotiation from design through implementation and program completion.

## 1.2 Current Status of APCP Reform Package

As of mid-December 1986, the GOE and USAID/Cairo are working towards finalizing the set of reforms to be supported through the policy component of APCP, as well as the other key design issues cited above (some have been completed, such as agreement on the use of program funds).

A master list of reform measures in the agricultural sector and description of their potential impact on the national economy and agricultural sector have been developed (Brandon 1986). To facilitate the planning and negotiation process, AID has supported economic analysis of possible reforms in the sector (Dod 1986; Shepley 1986). However, full agreement on the entire set of reforms has not been reached and further negotiation between the GOE and AID must occur before the policy program can start.

## 1.3 Disbursement Conditions for APCP

As part of upcoming negotiations, agreement should be reached on the conditions for disbursement associated with each reform measure. Obviously, these conditions depend on the final package of reforms accepted by the GOE and AID. It is likely that a number of the reforms on the Brandon list will not be included in the APCP package, such as those outside of the three year time frame of APCP. For various reasons, other reforms will also be deleted from the first phase of APCP. However, policy changes not included in APCP should be viewed as future actions possibly supported in follow-on programs, so that they continue to be part of the GOE's on-going agricultural reform agenda, or eliminated. Even though final package of reforms has not been established, a tentative list of conditions can be developed for those reforms which appear to be within the proposed time frame of APCP.

(see Table 1)

(The conditions are grouped by tranche in Annex A to clarify the overall organization of the program).

## Table 1
## DISBURSEMENT CONDITIONS*

1. PRICE AND MARKET LIBERALIZATION FOR MAIZE, BROADBEANS, WHEAT, LENTILS AND ABOVE-QUOTA RICE

A1. Price liberalization of maize, broadbeans, above-quota rice and wheat.

T1. Public announcement and a memorandum from the GOE to AID explaining liberalization reforms and their enactment for maize, broadbeans and wheat.

T2. Farmer survey verifies enactment of reforms for maize, broadbeans and wheat.

T3. Farmer survey verifies continued enactment reform for broadbeans, maize and wheat.

A2. Removal of crop mix controls for maize, broadbeans and wheat.

T1. Public announcement and memorandum from GOE to AID concerning removal of controls and enactment. Memorandum requesting AID's assistance with a major assessment of the constraints imposed by irrigation infrastructure on lifting requirements on cotton, sugar and rice production.

T2. Farmer survey verifies elimination of controls. Assessment of cotton, rice and sugar mandated production is underway.

T3. Farmer survey verifies continuation. Recommendations concerning cotton, sugar and rice production available.

A3. End of Procurement Quotas on maize, broadbeans and lentils.

T1. Public announcement and memorandum from the GOE to AID stipulating the elimination of procurement quotas on these crops.

T2. Farmer survey verifies elimination of quotas.

T3. Farmer survey verifies continued elimination.

A4. Active participation of the private sector in the marketing of maize, broadbeans, wheat and above-quota rice.

T1. Memorandum to AID from the GOE making commitment to remove impediments to greater participation by private sector with special attention to transport limits and export of rice.

* Alphabetic and numeric codes follow the master list presented in Carter Brandon's Report (1986). T1, T2 and T3 refers to the three tranches proposed for APCP.

T2. Assessment by GOE of current restrictions and proposed remedial action.

T3. Enactment of reforms to address transport limits and rice export restrictions.

A5. Promotion of private sector milling of above-quota rice.

T1. Legalization of small mill operations for above-quota rice, public announcement of the reform, and memorandum from the GOE to AID noting actions taken.

T2. Market survey verifies expanded private sector role continued mass communication of reform, and actions planned for lifting inter-governorate transportation restrictions.

T3. Market survey verifies continued or expanded private sector marketing activity - e.g., increased number of businesses, increased volume of trade by private sector firms.

A6. Private sector participation in exporting oranges and high value crops.

T1. GOE memorandum to AID states commitment to a) resolve current impediments to expanded private sector role, b) initiate discussions among MOA. MOE and MOT to develop plan for eliminating monopoly and other preferential treatment for public sector organizations (e.g., El Nil, El Wadi), and c) examine restrictions on private sector trade with cooperatives. GOE will establish an inter-ministerial committee for this purpose with a scheduled agenda of issues to be addressed.

T2. Implement reform measures resulting from b) and c) above.

T3. Export marketing data establish that role of private sector dealers has expanded in these areas.

B. <u>PRICE AND MARKET LIBERALIZATION FOR COTTON AND RED MEAT</u>

B1. Raise cotton prices in real terms by at least 80% during APC.

T1. Memorandum from the MOA to the Cabinet (copy to AID) concerning cotton price increase in 1987 from 91.5 LE/kintar to 1.16. Memorandum from the MOA to AID expressing commitment to a further increase in 1988, and to raise exchange rate for cotton in 1988.

T2. Market survey verifies that price increase has occurred. Assess difference between domestic and international cotton prices to estimate need for further price increases. Raise cotton exchange rate to 1.35 LE (or prevailing official exchange rate).

T3. Market survey verifies continued cotton price increase.

B2. Liberalize prices and markets for cotton seed by-products - i.e., cottonseed cake and oil.

T1. Memorandum from GOE to AID expressing commitment to develop plan for increasing prices for cotton seed by-products.

T2. GOE presents plan to AID which stipulates forthcoming price increases.

T3. Price increases enacted to bring domestic prices in line with cif import prices.

B3. Liberalization of import restrictions on meat.

T1. Memorandum from GOE to AID expressing commitment to supporting increased meat imports by the public or private sector, removing constraints to increased imports as they are identified, and provision of import licensing and customs data on meat imports.

T2. Provision of import licensing and customs data on meat imports. If increases have not occured, GOE will identify constraints and act to resolve the problem, explained in a memorandum to AID.

T3. Provision of import licensing and customs data on meat imports. If increases have not occurred, GOE will assess constraints and act to resolve the problem, explained in a memorandum to AID.

B4. Liberalization of import restrictions on livestock feed.

T1. Announcement of yellow maize price increase in 1987 from 120 to 180.

T2. Market survey verifies price increases; price of yellow maize increased from 180 to 280.

T3. Data on animal feed marketing showing volume of public and private sector transactions provided by GOE.

(C. Price and market liberalization reforms for sugar and under quota rice are outside of APC's time frame).

D. LIBERALIZATION OF INPUT PRICES AND MARKETS

D1. Decrease subsidies for all inputs to achieve parity with world market prices.

T1. Memorandum from the GOE to AID expressing interest in decreasing input subsidies and requesting AID funding for a major IFDC-type study of the fertilizer use and marginal impact (to quantify volumes, demand and price structure).

T2. Proposed study underway.

T3. Proposed study completed and provides recommendations for future reform actions.

D2. Expanded participation of the private sector in the distribution of subsidized and non-subsidized inputs.

T1. Memorandum from the GOE to AID concerning the development of a plan for PBDAC divestment, elimination of public sector input supply monopolies, and encouragement of private sector participation; provision of PBDAC operational data showing input supply as portion of total profits for the past three years.

T2. Enactment of divestment plan, provide data on PBDAC operations and total input supply, eliminate transport restrictions on inputs, and/or allow private sector to lease PBDAC warehouses.

T3. Provision of data on PBDAC operations and on total input supply, survey of private sector distributors concerning their operations and verify removal of transport restrictions, and records on leasing of PBDAC warehouses.

E. OTHER

E1. Limitation of state ownership of land to 4%.

T1. Memorandum from the GOE to AID concerning reduction of state land ownership to 4% and provide data showing current percentage of land under state ownership.

T2. Provide data showing state ownership has been reduced from initial level.

T3. Provide data showing state ownership has reached 4%.

E2. Increase interest rates for agricultural loans.

T1. Memorandum from the GOE to AID specifying schedule for increasing PBDAC lending rates and data disaggregating its loan portfolio by interest rate and by category of borrower.

T2. Increase the percentage of PBDAC's agricultural loans made at 13% or prevailing commercial rates verified by loan portfolio analysis.

T3. Increase the percentage of PBDAC's agricultural loans made at 13% or prevailing commercial rates verified by loan portfolio analysis.

On-going policy reform programs supported by AID in other countries suggest several points the GOE and AID should consider pertaining to the content and implementation of the APCP program. For all three tranches, the conditions for disbursement consist of GOE actions in implementing reforms - e.g., memoranda, public announcement, data verifying enactment, etc. Achievement of theoretically projected economic effects and improvements are not conditions for disbursement. In other words, the GOE must comply with the agreed upon conditions, but it does not have to prove that the economic theory guiding AID's policy perspective is accurate or effective. Reforms might be fully enacted and the anticipated improvements may not result for any number of reasons. Alternatively, some reforms might even worsen certain conditions or adversely affect specific parts of the sector, groups of producers or consumers overall as a result of unpredicted consequences. Ineffectiveness or adverse effects are certainly important issues for program management. However, for disbursement, the GOE is only required to abide by the conditions of the program as initially stated or subsequently re-negotiated.

The first tranche conditions consist primarily of memoranda and other forms of official communication from the GOE to AID acknowledging the enactment of a policy reform, expressing a commitment to re-formulate existing policies, or issuing a public announcement (e.g., decrees) of a new policy. For example, in regard to price and market liberalization of maize, broadbeans, wheat and lentils, the GOE has already provided written assurance to AID that actions have been or will be taken.

Though conditions of this sort might appear somewhat lame or weak, this is probably the most that can realistically be expected given the pressure to release the first disbursement in the near-term. "Paper actions" as conditions for the first tranche might facilitate reaching agreement on the content of the program. Equally important, these conditions should expedite the first disbursement to meet immediate GOE and AID program requirements. To further hasten the initial disbursement, a substantial part of the first tranche (e.g., $15-20 million) could be released when agreement is reached on the final version of the reform package and associated conditions acknowledged in writing by the GOE to AID. The remainder of the first tranche ($15-20 million) would be distributed on meeting the stipulated conditions.

Verifying the enactment of reform measures constitutes the bulk of second and tranche conditions. Section 2 - Information Requirements - discusses the types of data needed for verification of enactment and monitoring the short-term effects of the program.

Several reforms involve an assessment of constraints impeding immediate enactment to formulate actionable recommendations for subsequent reform programs. This strategy serves two purposes: a) it leads to policy reforms the consequences of which are better understood and more acceptable to the GOE (i.e., it provides additional assurance that a reform will not produce unmanageable negative effects), and b) it keeps the more difficult reform measures on the GOE's policy agenda.

For example, the removal of crop controls on cotton, sugar and rice may, in theory, be highly desirable. But at the present time, the constraints imposed by irrigation and infrastructure usage precludes immediate enactment. The conditions for this reform, therefore, consist of the GOE supporting a thorough investigation of the problem, particularly the changes required in the management practices of farmers and the Ministry of Irrigation, to identify a way to remove controls on these crops which is not disruptive. Similarly, decreasing input subsidies, especially on fertilizer, needs further analysis of use and marginal impact to quantify volumes, demand and price structure before much progress can be expected from the GOE in this area. Rather than eliminate the reform from the package, APCP offers a mechanism for carrying out the necessary research to develop realistic and sound reforms.

Concerning the strategy for implementing the reform package, disbursement should be conditional on meeting or at least making adequate progress toward the entire set of conditions associated with the tranche. This contrasts with disaggregating the tranche by assigning a dollar amount to each reform and disbursing that amount according to progress on the individual reform. The disaggregated approach may assure a disbursement of at least part of the total tranche, but it also undercuts AID's leverage in promoting the more difficult reform measures. That is, the GOE could simply implement the easier reform measures, receive the associated dollar amount even though it is less than the total program budget, and ignore those reforms which they might prefer not to make. Alternatively, when disbursement is made on an integrated basis - i.e., the entire tranche tied to the complete set of reforms and conditions - AID is in the position of delaying or withholding funds until progress is made or an acceptable solution is reached. This is an important point: recent reviews of AID's policy efforts have identified the willingness to exercise control over disbursement as a key factor in successful programs (footnote 1).

The listing of conditions for each of the tranches might create the impression of a fixed program for implementation which is misleading. The initial set of conditions cited in Table 1 should be considered as only indicative. A cycle of: initial design/implementation/assessment and re-negotiation/further implementation is very likely. Predicting how fast changes can be made, especially when certain key decision makers resist the reform, is often equivalent to reading the future by gazing into a crystal ball. Just as with standard development projects, mid-course changes and even re-design should be expected. Certain conditions will have to be modified, postponed to the next tranche or perhaps eliminated. The Annual Joint Review Meetings supported by the program's information system provide the mechanism for assessing progress to date, formalizing the re-negotiation of conditions where current benchmarks have not been reached. In short, disbursement will mostly likely have to be made on the basis of actual progress and continued GOE commitment to the next set of conditions.

The timing of GOE actions will laso be an important consideration in implementing the program. Most of the reforms must be coordinated with the agricultural calendar. They have to be enacted sufficiently in advance of the activity they are intended to affect so that farmers and agri-businesses can respond accordingly. For example, lifting production quotas on broadbeans after they have been planted is clearly not going to produce any effect until the next season.

For some of the reforms, such as those affecting PBDAC operations, the decree and its enactment at the governorate and/or village level might be sufficient to communicate the new policy. However, a number of reforms which must be communicated to farmers and agri-business owners might require a media campaign of newspaper and radio announcements. For example, changes in crop prices would have to be known on a broad scale to have an immediate and significant influence on the production decisions of farmers in the year the reform is made. Similarly, exporters of agricultural products, mill operators, and input supply dealers should be informed of policy changes affecting their businesses. A mass communication campaign in the key agricultural production areas might also be necessary for the reform measures to be uniformly enacted. In short, the acceptability of a media campaign to the GOE should be explored during the final negotiation process of APCP for those reforms requiring such action.

One final recommendation is that the current list of reforms be shortened in the negotiation process. In comparison to other policy reform programs AID current supports, the list of reforms proposed for APCP is long and complicated. Other programs focus on a few key reforms and are implemented through a lead ministry. APCP currently proposes thirteen reforms (eliminating those outside of the three year program period) and involves a number of different ministries and agencies. The view that because APCP funding is larger than other programs and, therefore, should involve more reforms is very questionable. The funding level of APCP is an artifact of the current U.S. assistance program to Egypt. There is no intrinsic connection between the specific reforms and there "program worth". In short, the current list of reforms resembles an agenda for the rest of this decade and the next, rather than a realistic package for one program.

The list might be shortened by phasing the reform package on some logical basis. For example, price increases to producers should precede reductions in subsidies which increase input costs. Similarly, establishing priorities among the reforms on the basis of economic importance would identify those reforms which could be shifted to a follow-on to APCP. For example, the current APCP program might consist of two or three key reforms, such as increases in the cotton price, increases in red meat imports and reducing the rice procurement quota. These major issues could be augmented by the reforms the GOE claimed have already been made (e.g., those cited in the Wali - Kimball letter). By shortening the program in this way, agreement on the package might be easier to obtain in the short-term to expedite the start-up of APCP.

2. Information Requirements

This section concerns the information requirements for monitoring the implementation of the policy component of APCP and evaluating the performance of the program. Obviously, the specific data requirements for monitoring and evaluation depend on which reforms are finally accepted by the GOE and AID. However, the general types of data needed and how to obtain it can be identified at this point and refined later when the exact content of the reform package is finalized. Monitoring the enactment of reforms to verify that new policies are indeed in place focuses on changes in PBDAC operations, at the farm level and on the participation of agri-businesses in the agricultural sector. Evaluation of the effects of the reforms will also focus on these three main categories plus economic changes within the sector APCP reforms possibly facilitated which would occur within the short time frame of the reform program.

## 2.1 Monitoring and Verification of Reform Enactment

SECTION SUMMARY

Information about the degree to which policy reforms have been enacted will be critical for program implementation. Therefore, the monitoring system for the policy component of APCP must concentrate on verifying that the policies announced by the GOE have been fully enacted in the key agricultural governorates. The verification issue is of such importance to the implementation of APCP's policy component that the availability of data for this purpose must be assured - verification requirements must have priority over other APCP information needs. The data sources for meeting APCP's information requirements are a) a series of highly focused surveys tied to the specific reforms to be enacted and b) GOE operational data (e.g., PBDAC records, customs data). The Agricultural Economics Undersecretariat of the MOA (MOA/AEU) should have responsibility for collecting or obtaining from the appropriate GOE agency these data for APCP management and the Joint Review Committee.

### 2.1.1 Agricultural Surveys

Monitoring data cited in the conditions for disbursement are limited to a few key items which must be collected in accordance with the local agricultural calendar. These reforms include:

a. increases in the farmgate prices for maize, broadbeans and wheat;

b. elimination of crop mix controls for maize, broadbeans and wheat;

c. elimination of procurement quotas on maize, broadbeans and lentils; and

d. increases in the prices of cottonseed by-products - cottonseed cake and oil.

A series of highly focused surveys to verify the extent to which reforms have been enacted will be required. At the very minimum, these crop-specific surveys will have to be conducted at least once a year to provide sufficient verification information. Existing MOA/AEU agricultural production and marketing data should provide an initial estimate of conditions prior to enactment of the reform measures for comparative purposes.

The need for farmgate price and procurement quota data requires that the surveys be conducted during or shortly after the harvest season. Retrospective data on the lifting of production quotas can be collected at the same time. Therefore, five such surveys will have to be conducted:

maize - October/November
broadbeans - March/April
wheat - May/June
lentils - March/April
cotton - September/October

The surveys should be conducted by the MOA/AEU as part of its responsibility for collecting agricultural data. To the extent possible, these surveys should be integrated into on-going data collection activities, and utilize MOA/AEU's system of field enumerators. The sample frame used by MOA/AEU for surveys to estimate annual crop production, for example, might be used to draw the sample for the monitoring surveys. (An agricultural statistician should develop the sample design; if the MOA lacks this person, then a short-term consultant could design the surveys for each crop within a month). Data processing will be relatively simple and well within the capabilities of a micro-computer (e.g., 640k RAM with a 30 megabyte hard disk installed with the micro version of SAS).

A high degree of precision in the data is unnecessary - the primary need is to have a reliable estimate of the extent of enactment (e.g., the reform has been enacted in 80-90% of the governorates versus 50-60%) in those areas which are most important for the specific reform measure (e.g., major maize producing governorates for reforms affecting maize prices, etc.) Therefore, the survey methodology will have to meet only minimally acceptable statistical standards.

The surveys should be limited to the major producing governorates for each of the crops affected by APCP reforms (e.g., five crops based on the reforms cited in Table 1). A fairly small sample based on a standard design should be sufficient, such as a stratified cluster sample where villages (e.g., stratified by size) are randomly selected and then farmers within the village randomly selected for interviewing. The same sample of farmers should be used each year.

The exact content of the surveys should be developed once the reform package is determined in conjunction with the sample design. The questionnaire should be as short as possible - e.g., no more than one page of items. Include questions specifically about enactment of the reform measures and about major changes farmers have made in response to them, such as expanding cotton production in response to price increases. Questions pertaining to responses to the reforms will provide data for later evaluations.

The main reason for recommending this approach is that the geographic coverage necessary for verifying the extent of enactment imposes major organizational and staffing requirements. The MOA/AEU should be able to deal with these requirements better than a local survey research firm. (However, if MOA/AEU performs poorly, APCP management should consider turning to a local contractor as an alternative). This approach utilizes the capability developed during the past six years of the Data Collection and Analysis Project and places the responsibility for such work where it logically belongs - with the GOE. Additional costs imposed by the surveys - e.g., short-term assistance, micro-computers - could be covered by APCP.

At the expense of belaboring an obvious point, what is being recommended is a rapid survey approach which provides timely information for program management about the verification question. The temptation to expand these surveys, or to conduct them on a more frequent basis (i.e., monthly, bi-monthly) to support various purposes other than the monitoring enactment (verification) and the limited evaluation needs of APCP should be avoided. AID's experience with multi-round sample surveys and elaborate questionnaires is overwhelmingly negative. The development landscape is littered with monitoring and evaluation systems, and more recently, management information systems, which never affected one important decision during the life the project they were intended to support because data collection became an end in itself. The lesson to draw from this experience is clear: keep it simple, keep it manageable and keep it within the capabilities of the MOA/AEU.

### 2.1.2 Agri-business Surveys

An approach comparable to that recommended for crop-related reforms should be followed to verify reforms affecting private sector participation in the agricultural system. The monitoring objective for these reforms is to determine that restrictions on agri-businesses limiting their participation in the sector are removed during the implementation of APCP. Based on the list of reforms cited in Table 1, surveys for reform verification should include:

a. dealers in maize, broadbeans, wheat and above-quota rice;

b. private mill operators;

c. exporters of oranges and other high value crops;

d. meat importers; and

e. agricultural input suppliers.

Again, the specific surveys required will be determined by the content of the reform package. A sample of businesses affected by the policy change could be selected. Alternatively, if there is a relatively small number of certain categories of businesses involved, they could all be included in the survey. The principal focus of the surveys should be on verification of reform enactment and secondarily on evaluation issues. Key questions to include concern the removal of restrictions, response to the new policy, reasons for not responding, and additional policies which need to be addressed. These questionnaires should also be kept as short as possible.

Seasonality in business operations should also be taken into account in the timing the surveys. For example, a survey to verify removal of restrictions on private sector export of oranges will have to be conducted after the orange harvest season.

Contracting with private research firms to conduct these surveys is preferable to working through a GOE agency. The large scale geographic coverage required for the agricultural surveys is not a major issue for the agri-business surveys. Consequently, these surveys should be well within the capabilities of a local research firm. Costs would be covered by APCP if private firms are used. However, the MOA/AEU should have responsibility for obtaining and providing this data for the Joint Program Reviews to centralize the program information system.

2.1.3 PBDAC Operational Data

A number of the reforms currently proposed for APCP require changes in PBDAC operations, such as removing crop controls and reducing procurement quotas. The annual operational records of PBDAC, therefore, provide an additional source of verification data and a cross-check on the farmer/crop surveys. Summary statistics on the operations of PBDAC are stipulated as a condition for disbursement (D2 on Table 1), and data pertaining to PBDAC's loan portfolio are also required to verify increases in agricultural lending rates (E2 - T2 and T3). These data as well as statistics on the major PBDAC operations should be provided by PBDAC to the MOA/AEU for submission to program managers and the Joint Review Committee.

### 2.1.4 GOE Customs, Imports and Licensing Data

Customs and licensing data provide an additional means of verifying enactment of reforms affecting imports, exports and removal of restrictions on private sector participation, as well as a cross-check on the agri-business surveys. Data on public and private sector meat imports, for example, will be very important to the process and are required as a condition for disbursement. Similarly, reforms designed to encourage greater private sector activity in an area where the business must obtain a license can be verified from GOE records. Here too MOA/AEU should be responsible for obtaining these data. Decisions about precisely which data to obtain should be made after the reform package is finalized.

### 2.1.5 Rapid Reconnaissance for Interim Monitoring

In the interim periods between Joint Program Reviews and while monitoring/verification data are being collected and processed, rapid reconnaissance activities (i.e., quick, low cost surveys not necessarily statistically representative of the study population) should be conducted to estimate on-going progress toward enacting reform measures and meeting disbursement conditions. Several of these activities designed around key reform measures should be undertaken annually to provide timely data to GOE and AID program managers. For example, rapid surveys of twenty-five farmers in the three or four major producing governorates for crops affected by the reform package could be carried out corresponding to the agricultural calendar (much like mini-versions of the surveys proposed for MOA/AEU). Interviews with a limited number of agri-business owners and operators (major importers and exporters, small mill operators) should also be conducted. Private research firms should be contracted to carry out rapid reconnaissance work. At the very least, this information could help direct efforts to problem areas to expand the extent of enactment and meet the conditions for disbursement. Equally important, a series of rapid reconnaissance surveys throughout the life of the program will provide a cross-check to MOA and GOE monitoring data.

## 2.2 Evaluation of Program Performance

SECTION SUMMARY:

Data collected for monitoring and verification, data from the MOA and other GOE agencies, and special studies provide a basis for evaluating the performance of the APCP's policy reform component. Four different types of evaluation should be conducted: a) on-going evaluation as part of GOE and AID management of the program; b) interim evaluation as part of the Joint Review process; c) results from continuing policy analysis; and d) an external evaluation if there is to be a follow-on program to APCP.

The approach recommended in this section orients APCP evaluation to the needs of program management rather than to a rigorous demonstration of the causal effects of the reform package. Estimating the sectoral and macro-economic effects of APCP reforms is certainly important, but this should not be the central focus of the evaluation system. It is questionable whether the three year life of the program provides enough time for the effects of the reforms to become significant and apparent. The data collection requirements for isolating the effects of the reforms from other confounding factors raises additional questions about the practicality of conducting this work through the evaluation system of APCP. The effects of the reform package should be dealt with through an on-going program of policy analysis established in the MOA/AEU and supported by AID. (It should be added that the Undersecretary for Agricultural Economics is very interested and supportive of establishing such a program.) In short, the problem of assessing the broad economic effects of the reforms should be treated as a special research activity, the results of which could provide useful evaluative information. But the evaluation system of APCP should not be dependent on this activity nor premised upon the availability of its results.

### 2.2.1 Evaluation Questions

The Evaluation Plan contained in Annex 7-F of the APCP Project Paper provides a thorough set of questions concerning implementation progress and the short-term results of reform enactment. These questions provide a useful guide for program managers, the Joint Reviews and an external evaluation (if one is conducted). To develop a scope of work for an external evaluation, these questions would simply have to be adapted to the content of the final reform package and implementation status as of the time of the evaluation.

### 2.2.2 Data Sources for APCP Evaluation

The monitoring and verification surveys described in section 2.1 should provide useful information for APCP evaluations. In addition to questions pertaining to the enactment of reforms, questions about the response to the new policy should also be included. Once the reform package is finalized, the content of these questionnaires should be developed for both monitoring and evaluation purposes.

A second major source of information for evaluations should be the survey work carried out by the MOA/AEU which AID has supported through the Data Collection and Analysis Project and will continue to support through the National Agricultural Research Project, and perhaps through other projects as well. Some modifications or additions to the AEU's on-going activities could provide the types of data needed for APCP and for policy studies at little additional cost and without exceeding AEU's current capabilities. For example, AEU conducts a monthly farm income survey in a limited number of areas of the country. Perhaps by conducting the survey less frequently (e.g., bi-monthly), the coverage of the survey could be expanded. AEU also makes annual crop production estimates based on survey data which might also be coordinated with AEU's data collection activities. In short, once the reform package is finalized, a short-term technical advisor should assist the MOA and AID staff review AEU and other relevant GOE data collection activities to determine how APCP information needs can be met through or coordinated with these existing activities.

A third source of information could come from special studies to investigate key questions pertaining to the immediate effects of reforms at the farm level, on the operations of agri-businesses and on consumers. These studies would be conducted only if comparable information were not available from other sources, or if more detailed data were needed to investigate problems or issues arising from program implementation (e.g., escalating consumer prices resulting from a farmgate price increases, a decline in the use of inputs, etc.)

For example, a special study might be conducted to examine changes at the farm level in crop mix, area under production, input, etc, which might be associated with the reform package. Similarly, a study of agri-business could be conducted to determine whether reforms have affected their operations - e.g., expanded volume of operations, increased number of employees, physical plant expansion, etc. - or alternatively, why changes have not occured - e.g., lack of trust in the GOE's commitment to the new policies, other policies which counteract the reforms, etc. This type of study should be contracted through local research firms assisted by substantive or methodological specialists if necessary.

### 2.2.3 Continuing Agricultural Policy Analysis

Assessing the sectoral and macro-economic effects of the APCP reform package seems fundamental to evaluating the program. Certainly, to the extent that this analysis could be done within the time frame of APCP, the findings would be useful for APCP's evaluation and for the planning of future agricultural reform programs. However, demonstrating the effects of APCP reforms will, in practice, be far more difficult than it might initially appear. Consider the following issues:

1) There is a basic methodological problem with separating out the effects of APCP reforms from other factors that might also contribute to an observed change (e.g., increased cotton prices leading to increased farm household income). Alternatively, exogenous factors might diminish or counteract APCP reforms, masking or suppressing their effects. Other macro-level policy changes may indeed be far more influential than the sector-focused APCP reforms, in effect overriding what the program is trying to accomplish. The data required to statistically control for these other factors to estimate the relative contribution of APCP reforms could be substantial if the analysis is to be done well. Planning for this type of research activity would have to start immediately to establish the time series data set needed for the analysis. This is rather difficult in light of the fact that the reform package has yet to be established. It should be added that even if minimum data requirements were met, it still might not be possible to draw firm conclusions about the actual effects of the reforms.

2) There is question of whether partial enactment of a reform (e.g., enacted in only half of the key producing governates) is adequate to produce significant effects, or whether a reform must be uniformly enacted to produce sectoral or macro-economic changes. This probably depends in part on the specific reform, but it is an issue.

3) Assuming that reforms are uniformly enacted, there is a question of the response by farmers and business operators to the new policies. Recent analysis shows that farmers are responsive to cotton price increases - that area planted in cotton increased after price increases were made. Whether they will be equally responsive to other types of reforms remains to be seen - the conservatism and risk aversion of small farmers is well documented in development literature. Similarly, reforms directed toward increasing private sector participation assumes optimistically that agri-business owners have sufficient confidence in the GOE's commitment to the reforms as well as other factors affecting their response.

4) The three year time frame of APCP posses an issue in that this might not be enough time for the effects of the reforms to become significant and measurable. Moreover, if implementation of reforms begins to fall behind schedule (highly likely) and specific actions are delayed or postponed, the time factor becomes an even more critical problem in regard to establishing the effects of the reforms.

5) The system (using the term loosely) of official GOE policies is of such byzantine complexity that few, if any, fully understand. Even if the APCP reforms are fully and expeditiously enacted, other policies left unchanged may thwart achieving the reform objectives. This also makes predicting what will happen when a policy is changed all the more difficult. The GOE decision making process governing the maze of agricultural policy further complicates this situation.

6) There is an assumption that official government policy reflects actual practices. In reality, official policies might only partially corresponds to actual procedures, practices, conditions, etc. The disjuncture between formal (policy) and informal (actual practices) systems may not be a very heartening prospect at the time of initiating a major policy reform program. Nonetheless, this poses a serious problem for establishing the effects of policy reform.

In short, building APCP's evaluation system on demonstrating the effects of the reform program is impractical. The risks with such an approach are simply too great.

Certainly policy analysis is possible and even important, despite the complexity of conducting such work in Egypt. The primary problem is the inadequacy of a project evaluation system as a vehicle for conducting the type of research needed to begin to assess the effects of reform measures. What is needed is a program of on-going agricultural policy analysis based in the MOA/AEU, assisted by short- and long-term technical advisors, and supported by AID. In that context, the investigation of APCP reforms would provide an initial agenda for a policy analysis unit. If this unit were able to deal with the issues cited above to produce reasonably credible analyses, this would certainly contribute to APCP evaluations. The establishment of a policy analysis unit in the MOA is discussed further in Section 3 - Management Requirements.

### 2.2.4 On-going Evaluation by Program Management

The role of managers in policy reform programs is very much one of a facilitator and intermediary. This requires conducting frequent, though informal assessments of the current status of reform enactment and the effects of the reforms based on what information becomes available. To a greater extent than in a standard project, program managers can concentrate on the actions and results of implementation because they are only secondarily (if at all) responsible for typical project outputs - e.g., commodities, physical construction, etc. In short, the day-to-day management of a policy reform program (if done well) should involve on-going evaluation by host country and AID managers. This type of evaluation should be periodically summarized and retained in a program file for use in later evaluation exercises.

### 2.2.5 Interim Evaluation: Joint Review Meetings

Among the other functions of the Joint Review Committee, their meetings serve as an annual interim evaluation of the program. The various data collection and analyses conducted for APCP, particularly the monitoring and verification data, should be scheduled so that they provide information for the Joint Reviews.

Additional information for the Joint Reviews should be internal GOE and AID assessments of national and international factors which have changed or are influencing the enactment of reform measures. These contextual factors may have either positive or negative implications for the program. At the very least, the information generated for the Joint Reviews should give the GOE and AID a common data base of their assessment of compliance with program conditions, decisions concerning disbursement and the need to modify the program.

### 2.2.6 External Evaluation

The decision to conduct an external evaluation should be dependent on the plans for a follow-on reform program to APCP or if there are important lessons to learned from the design and implementation of APCP useful to the GOE and AID.

## 3. Management Support for the Reform Program

The APCP Project Paper contains a cursory summary of the implementation process for the policy reform component. Discussions of management requirements concern the project component (technical assistance to PBDAC). The implication is that the agreement reached between the GOE and AID on the reform program will then be implemented by the GOE and monitored by an AID Project OFficer and others involved with continuing policy dialogue with the GOE.

In comparison to other AID supported policy reform programs, the management plans for APCP policy component are stark. Since the final reform package must still be finalized, it is worth reconsidering the utility of offering as an option to the GOE additional management support and assistance for the policy reform component. In particular, long-term technical advisors, in addition to short-term specialists, could assist the MOA during APCP to develop a policy analysis capability it now lacks.

An institution building objective of this sort would be advantageous to the implementation of APCP. Other policy reform programs have provided to be more staff intensive than expected. On-going programs supported by AID include an advisory team and much like advisors in standard institution building projects. The advisors serve two key functions.

First, they assist with the implementation of program, in some cases serving as a liaison for their client in discussions with other government agencies involved with the program. This can be valuable in keeping the program on track where there is considerable tension between ministries involved with the reform measures. Implementation support can also include assistance with establishing and carrying out program monitoring and evaluation activities. Second, they can keep the policy dialogue process going by helping the host country prepare policy position papers and counter-proposals in response to donor agency recommendations. This includes assisting the implementing agency develop a credible presentation of progress made toward policy objectives, the enactment of reforms and factors impeding more rapid implementation - essentially making a case for compliance and disbursement. Third, they assist with policy studies, contribute to developing an agenda for analysis, and train local analysts to develop a capacity for policy analysis work.

In the case of APCP, two advisors are needed at the very minimum to assist the GOE with implementation of the program and to begin to develop an agricultural policy analysis capability. A senior advisor with considerable experience with the economics and politics of policy reform and policy analysis is needed. This person would have to be well respected by GOE officials and knowledgeable about the policy environment in Egypt. Technical skills would be of secondary importance to acceptance by the GOE and an understanding of how policy decisions are made in Egypt. This person would assist in the implementation process in whatever capacity the GOE requested, and contribute to developing the policy analysis function.

The second person would be an agricultural information specialist responsible for providing assistance with the design and implementation of monitoring surveys, supporting policy analysis work, and training GOE counterparts in analytic techniques and microcomputer software applications. In this case, substantive and analytic skills, and previous experience with agricultural policy analysis would be of higher priority that technical computer skills.

If successful, the technical assistance offered through APCP would add an element to the policy dialogue process which is currently lacking - a capacity for the GOE to assess the economics of proposed reforms rather than depend on the analyses presented by AID and other donors. Perhaps if the work is done in-house, the GOE might be more receptive to it. Moreover, a policy analysis unit would provide a focus for discussions between AID and GOE technicians. It appears that this lack of a viable policy analysis operation has been a problem in the planning of APCP's program.

The location of the technical advisors should be a GOE decision; however, the logical place would be attached to the Agricultural Economics Unit of the MOA. MOA/AEU has the responsibility for agricultural data collection and has been assisted by the Data Collection and Analysis Project. What continues to be lacking is an analytic capability to make use of the data. Obviously, the two functions - data collection and analysis - should go together, where analytic needs guide data collection activities. Locating the policy analysis outside of MOA/AEU most likely would complicate this relationship with bureaucratic issues.

Clearly, the MOA/AEU is not the place where decisions are made about agricultural policies, but that is not the purpose. Rather, the primary objectives of the policy analysis unit would be a) to provide information for decision makers in the MOA and in other parts of the GOE, b) establish an on-going program of agricultural policy analysis, and c) orient MOA/AEU towards becoming an information center for the MOA. An obvious advantage to developing this function in the AEU is that this unit should also have responsibility for the data collection and analysis required for APCP monitoring and verification. As discussed in section 2.2.3 - Continuing Policy Analysis - the results of this work would have utility for APCP evaluations. In short, a policy analysis capability in the AEU would complement the unit's current responsibilities and functions as well as those recommended in this report.

It is worth repeating that meeting the management requirements of APCP and establishing a policy analysis capability should be a GOE decision. This is something that the GOE should not feel is being forced on them by AID, but rather something to assist them to implement the APCP reform package. Initial discussions with the head of MOA/AEU, Dr. Hassan Kheder, indicate considerable interest in managing the information requirements for APCP's policy component and in developing a policy analysis capacity in the AEU. AID should continue these discussions with the GOE as part of the final negotiations of the APCP policy program.

FOOTNOTES

1. See Alice Morton and Richard Newberg, "Negotiating and Programming Food AID: A Review of Successes", prepared for Bureau for Food for Peace and Voluntary Assistance, Agency for International Development, May 1986; and "U.S. Use of Conditions to Achieve Economic Reforms", United States General Accounting Office, report no. GAO/NSIAD-86-157, August 1986.

## Annex A

## DISBURSEMENT CONDITIONS*

Conditions for Tranche 1

A1. Public announcement and a memorandum from the GOE to AID explaining liberalization reforms and their enactment for maize, broadbeans and wheat.

A2. Public announcement and memorandum from GOE to AID concerning removal of controls and enactment. Memorandum requesting AID's assistance with a major assessment of the constraints imposed by irrigation infrastructure on lifting requirements on cotton, sugar and rice production.

A3. Public announcement and memorandum from the GOE to AID stipulating the elimination of procurement quotas on maize, broadbeans, and lentils.

A4. Memorandum to AID from the GOE making commitment to remove impediments to greater participation by private sector with special attention to transport limits and export for rice.

A5. Legalization of small mill operations for above-quota rice, public announcement of the reform, and memorandum from the GOE to AID noting actions taken.

A6. GOE memorandum to AID states commitment to a) resolve current impediments to expanded private sector role, b) initiate discussions among MOA. MOE and MOT to develop plan for eliminating monopoly and other preferential treatment for public sector organizations (e.g., El Nil, El Wadi), and c) examine restrictions on private sector trade with cooperatives. GOE will establish an inter-ministerial committee for this purpose with a scheduled agenda of issues to be addressed.

B1. Memorandum from the MOA to the Cabinet (copy to AID) concerning cotton price increase in 1987 from 91.5 LE/kintar to 1.16. Memorandum from the MOA to AID expressing commitment to a further increase in 1988, and to raise exchange rate for cotton in 1988.

B2. Memorandum from GOE to AID expressing commitment to develop plan for increasing prices for cotton seed by-products.

B3. Memorandum from GOE to AID expressing commitment to supporting increased meat imports by the public or private sector, removing constraints to increased imports as they are identified, and provision of import licensing and customs data on meat imports.

---

* Alphabetic and numeric codes follow the master list of APCP reforms presented in Carter Brandon's report (1986).

B4. Announcement of yellow maize price increase in 1987 from 120 to 180.

D1. Memorandum from the GOE to AID expressing interest in decreasing input subsidies and requesting AID funding for a major IFDC-type study of the fertilizer use and marginal impact (to quantify volumes, demand and price structure).

D2. Memorandum from the GOE to AID concerning the development of a plan for PBDAC divestment, elimination of public sector input supply monopolies, and encouragement of private sector participation; provision of PBDAC operational data showing input supply as portion of total profits for the past three years.

E1. Memorandum from the GOE to AID concerning reduction of state land ownership to 4% and provide data showing current percentage of land under state ownership.

E2. Memorandum from the GOE to AID specifying schedule for increasing PBDAC lending rates and data disaggregating its loan portfolio by interest rate and by category of borrower.

Conditions for Tranche 2

A1. Farmer survey verifies enactment of reforms for maize, broadbeans and wheat.

A2. Farmer survey verifies elimination of controls. Assessment of cotton, rice and sugar mandated production is underway.

A3. Farmer survey verifies elimination of quotas on maize, broadbeans and lentils.

A4. Assessment by GOE of current restrictions and proposed remedial action on maize, broadbeans, wheat and above-quota rice.

A5. Market survey verifies expanded private sector role (in the rice market) continued mass communication of reform, actions planned for lifting inter-governorate transportation restrictions.

A6. Implement reform measures resulting from inter-ministerial committee discussions concerning expanded private sector participation in exporting organges and other high value crops.

B1. Market survey verifies that price increase has occurred. Assess difference between domestic and international cotton prices to estimate need for further price increases. Raise cotton exchange rate to 1.35 LE (or prevailing official exchange rate).

B2. GOE presents plan to AID which stipulates forthcoming price increases for cottonseed cake and oil.

B3. Provision of import licensing and customs data on meat imports. If increases have not occured, GOE will identify constraints and act to resolve the problem, explained in a memorandum to AID.

B4. Announcement of yellow maize price increase from 180 to 280. Market survey verifies price increases.

D1. Proposed fertilizer study underway.

D2. Enactment of divestment plan, provide data on PBDAC operations and total input supply, eliminate transport restrictions on inputs, and/or allow private sector to lease PBDAC warehouses.

D3. Provide data showing state ownership has been reduced from initial level.

E1. Provide data showing state land ownerhsip has been reduced from the initial level.

E2. Increase the percentage of PBDAC's agricultural loans made at 13% or prevailing commercial rates verified by loan portfolio analysis.

Conditions for Tranche 3

A1. Farmer survey verifies continued enactment of price reform for broadbeans, maize and wheat.

A2. Farmer survey verifies continued. Elimination of crop controls on maize, broadbeans and wheat. Recommendations concerning cotton, sugar and rice production available.

A3. Farmers survey verifies continued elimination of procurement quotas on maize, broadbeans and lentils.

A4. Enactment of reforms to address transport limits and rice export restrictions.

A5. Market survey verifies continued or expanded private sector above-quota rice milling and marketing activity - e.g., increased number of businesses, increased volume of trade by private sector firms.

A6. Export marketing data establish that the role of private sector dealers in oranges and high value crops has expanded

B1. Market survey verifies continued cotton price increase.

B2. Price increases enacted for cottonseed cake and oil to bring domestic prices in line with cif import prices.

B3. Provision of import licensing and customs data on meat imports. If increases have not occurred, GOE will assess constraints and act to resolve the problem, explained in a memorandum to AID.