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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROJECT PAPER

Egypt (263-0202)
Agricultural Production & Credit

1990

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: A (A = Add, C = Change, D = Delete) — Amendment Number: 4 — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: Egypt

3. PROJECT NUMBER: 263-0202

4. BUREAU/OFFICE: 03

5. PROJECT TITLE (maximum 40 characters): Agricultural Production & Credit

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM DD YY — 09 30 95

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 86 — B. Quarter 4 — C. Final FY 85

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

A. FUNDING SOURCE		FIRST FY B. FX	C. L/C	D. Total	LIFE OF PROJECT E. FX	F. L/C	G. Total
AID Appropriated Total		33,815	1,815	35,000	274,414	8,586	283,000
(Grant)		(33,815)	(1,815)	(35,000)	(274,414)	(8,586)	(283,000)
(Loan)		( )	( )	( )	( )	( )	( )
Other U.S.	1.						
	2.		33,328	33,328		258,328	258,328
Host Country							
Other Donor(s)							
TOTALS		33,815	34,513	68,328	274,414	266,914	541,328

9. SCHEDULE OF AID FUNDING ($000)

A. APPRO-PRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	2. Loan	D. OBLIGATIONS TO DATE 1. Grant	2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	2. Loan	F. LIFE OF PROJECT 1. Grant	2. Loan
(1) ESF	140	053		123,000		160,000		283,000	
(2)									
(3)									
(4)									
TOTALS				123,000		160,000		283,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 041 | 011

11. SECONDARY PURPOSE CODE

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

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To provide farmers with new technology, improved financial services, and expanded access to input supply so that they can take advantage of higher return to investment in a deregulated agricultural sector.

14. SCHEDULED EVALUATIONS: Interim MM YY 07 91 | MM YY | Final MM YY 06 95

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [x] 000 [x] 941 [ ] Local [x] Other (Specify)

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

This amendment will increase LOP to $283 million and extend the PACD to 9/30/95. USAID/Cairo Controller concurs with the proposed methods of implementation and financing.

Nimalka Wijesooriya A/AD/FM

17. APPROVED BY — Signature — Title: A Director, USAID/Cairo — Date Signed MM DD YY

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION — MM DD YY

AID 1330-4 (8-79)

Agricultural Production and Credit
Project Paper Amendment No. 1

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Glossary of Abbreviations

APA	Agricultural Policy Analysis Component of NARP
AGR/ACE	Office of Agricultural Credit and Economics, USAID/Cairo
APCP	The Agricultural Production and Credit Project (263-0202)
Bank	The Principal Bank for Development & Agricultural Credit
BDAC	Regional (Governorate Level) Bank for Development and Agricultural Credit
CDSS	Country Development Strategy Statement
CAMD	Center for Agriculture Management Development
COP	Chief of Party
CP	Condition Precedent
ELS	Extra Long Staple
ESF	Economic Support Fund
FY	Fiscal Year
GOE	Government of Egypt
LE	Pounds Egyptian (US$1 = LE 2.60)
LOP	Life of Project
LS	Long Staple
MIS	Management Information System
MOA	Ministry of Agriculture and Land Reclamation
MOS	Ministry of Supply
MOU	Memorandum of Understanding
NARP	National Agricultural Research Project
PACD	Project Assistance Completion Date
PBDAC	Principal Bank for Development and Agricultural Credit
PC	Personal Computer
PP	Project Paper
PPA	Project Paper Amendment
RFQ	Request for Quotation
SFPP	Small Farmer Production Project
TA	Technical Assistance
USAID	United States Agency for International Development
WID	Women in Development

Agricultural Production and Credit Project

263-0202

EXECUTIVE SUMMARY

Introduction: The proposed project amendment would authorize an additional $160 million in grant funds and extend to 9/30/95 the PACD for the Agricultural Production and Credit Project (APCP). The amendment would increase the LOP total to $283 million and extend the project from seven to nine years.

Purpose of Amendment: This amendment builds on the progress being made under the current APCP authorized in 1986. The goal was, and continues to be, to increase agricultural productivity, agricultural investment and farm incomes in Egypt by supporting deregulation of the agricultural sector and introducing a market-based incentive system. The purpose continues to be to provide farmers with new technology, improved financial services, and expanded access to input supply, so that they can take advantage of higher returns to investment in a deregulated agricultural sector. The project has two basic elements: (1) policy reform and (2) institutional strengthening of the Principal Bank for Development and Agricultural Credit (PBDAC).

Areas of disappointing performance of the agricultural sector have, in large part, been due to a policy environment which has not provided farmers with incentives for investment. In addition, the government system continues to dictate acreage for key crops and control the availability of inputs. Farmgate and retail price controls and other regulatory restrictions continue over processing and marketing of many inputs and outputs for key crops.

During the past few years, the Ministry of Agriculture has implemented a program of liberalization of the Agricultural Sector. Major accomplishments during the period 1986-89 included the cancellation of low price government procurement of many crops, elimination of the subsidy (previously about $150 million per year) for imported corn, and an initial reduction in subsidies for fertilizer and other farm inputs.

The bulk of USAID funds ($150 million of the $160 million proposed for this amendment) will be for dollar denominated performance payments to help the Government of Egypt (GOE) accelerate policy reforms needed to move agriculture toward a free market environment. The disbursements will be transferred in tranches based on progress toward achievement of a series of benchmarks set forth in a separate Memorandum of Understanding (MOU). After satisfactory progress has been made toward these agreed-upon targets and evidence that GOE host-country contribution has been made to expand the capital base of PBDAC, USAID will disburse dollar performance payments. The amount of individual performance payments will be determined primarily by the significance of the reforms implemented by the GOE.

The amended project will assist PBDAC through expansion of its capital account and through technical assistance, training and commodities that will enhance PBDAC's function as a credit institution. The GOE will inject capital into PBDAC in amounts at least equal to the amounts of the respective performance payments by USAID. The capital injection is expected to help PBDAC address the financial impacts from divesting its input-supply operations, and to ensure adequate availability of agricultural credit as policy changes are implemented. USAID will provide $10 million of additional financing for technical assistance, training, and commodities--in order to modernize banking activities in over 450 of the PBDAC's 750 village banks, to reorient the Bank to function primarily as a credit institution, and to facilitate a smooth transfer of most of PBDAC's input supply and marketing operations to private dealers and cooperatives.

Cost Estimates: The following is a summary of the amendment cost estimates for USAID and GOE inputs in $000 and LE 000:

Table I
PROJECT AMENDMENT

CATEGORY	USAID			GOE		
	$	LE $Equiv	TOTAL $	CASH LE	IN-KIND LE	TOTAL LE
1. Tech. Assistance	2,764	336	3,100	700	850	1,550
2. Training	1,100	1,900	3,000	1,000	350	1,350
3. Commodities	2,400	100	2,500		700	700
4. Services	300		300	900	800	1,700
Subtotal	**6,564**	**2,336**	**8,900**	**2,600**	**2,700**	**5,300**
Inflation				400	450	850
Contingency	1,100		1,100		300	300
5. Institutional	**7,664**	**2,336**	**10,000**	**3,000**	**3,450**	**6,450**
6. Capitalization				390,000		390,000
7. Performance Dis.	150,000		150,000			
8. GRAND TOTAL			**160,000**			**396,450**

The approximate schedule of tranches for the $150 million in performance disbursements is:

Fourth tranche (end 1990) -	$20 million
Fifth tranche (end 1991)-	$65 million
Sixth tranche (end 1992) -	$65 million

The $10 million for activities related to institutional strengthening of PBDAC will also be provided early in the period of the project amendment.

<u>Procurement</u>: An amendment to the existing TA Contract is proposed to (1) add a resident divestiture specialist, provide up to 10 additional short to medium term studies and increase the number of TA person months, (2) add off-shore training opportunities, (3) finance additional commodities and (4) extend the length of the contract two additional years through September 1995.

A source/origin waiver will be required for the procurement of certain equipment and supplies. This is included in Annex 8 of the PP Amendment.

<u>Initial Environmental Examination</u>: An IEE recommending a categorical exclusion for the Amendment was approved by AID/W on May 25, 1990. (See Annex 5).

<u>Recommendation</u>: That USAID/Cairo approve this project amendment which:

(1) supports an expanded program of agricultural sector reforms during the period 1990-1992; provides additional financial resources to improve PBDAC's capability to provide banking/financial services to farmers; and increases the number of governorate banks (BDACs) served by the Project from the current 12 to 14 and the number of village banks from 350 to 450.

(2) increases the LOP funding level from $123 million to $283 million; and

(3) extends the PACD by two years to September 30, 1995.

PROJECT PAPER AMENDMENT

I. PROJECT BACKGROUND AND RATIONALE

A. Overview of the APC Project

As late as 1960, Egypt was essentially self-sufficient agriculturally; however, over the last two decades, agricultural production has failed to keep pace with the country's growth in population, income, and consumption. Some increase in dependency on agricultural imports is anticipated in view of Egypt's large population and limited water resources. With more appropriate economic policies, the net value of Egypt's current agricultural production could be increased by one-third to one-half. Such an increase in agricultural production can be realized by increasing productivity on existing cultivated lands and, to a lesser extent, by expansion to new lands.

The Agricultural Production and Credit Project (APCP) was developed with the goal of increasing agricultural productivity, agricultural investment, and farm incomes in Egypt by supporting deregulation of the agricultural sector and introducing a market-based incentive system. The project focuses on the Principal Bank for Development and Agricultural Credit (PBDAC). APCP is assisting the Ministry of Agriculture (MOA) in changing the function of PBDAC from that of input distributor to a more efficient credit institution.

The PBDAC is a holding company for 17 governorate banks, or BDACs, which implement GOE policies in credit, input distribution, and marketing. Encompassing 750 village banks throughout the country, PBDAC exerts a powerful influence on Egyptian agricultural production. In-kind loans are provided for the purchase of PBDAC-supplied inputs, and cash loans are available for specified crops. Credit and production inputs are subsidized but are rationed through a system of quotas. PBDAC is dependent on GOE contributions to expand its capitalization in order to keep pace with normal growth of its loan activity.

The PBDAC's input distribution function is designed for control rather than active merchandising. Subsidized inputs such as fertilizer are rationed and provided at less than their real cost to farmers who pay for the inputs by taking loans from PBDAC at interest rates which are also subsidized. Annual plans for input supply are determined using Ministry of Agriculture (MOA) technical recommendations to achieve MOA set national production quotas. Actual input quantities are generally negotiated with other ministries and are subject to the availability and level of agricultural subsidies, foreign exchange, and state owned production. The Bank's monopolies on subsidized fertilizer and many other inputs combined with numerous other government regulations prevent the private sector from responding to farmer needs.

As stated in the original Project Paper, the APCP is, in large part, a follow-on project to the Small Farmer Production Project (SFPP), a very successful pilot effort which introduced new credit systems in 74 of the 750 village banks. The objective of APCP is to supplement credit system reform by assisting the MOA with design of a broader program of policy reform throughout the agricultural sector. The APCP targets major government policies such as mandated cropping patterns and quotas, subsidies on farm inputs, and state management of the marketing of agricultural inputs. Disbursements for the policy component of the APCP during 1987-1989, linked to GOE implementation of related policy reform, have improved the capital position of PBDAC and resulted in additional credit resources available to farmers. Simultaneously, the project has assisted key units within the PBDAC by strengthening management capabilities, internal operating systems, human resources training capabilities, and PBDAC's capacity to design and manage the divestiture of input supply operations.

B. AID Strategies

The AID policy paper on Food and Agricultural Development emphasizes that countries should develop human resources and institutional capabilities as well as strive for agricultural policies that reflect market forces. USAID's strategy for achieving these goals has most recently been described in the 1989 CDSS Update. With Egypt's great potential for increasing agricultural productivity, one area of Mission interest has been that of eliminating policy constraints that inhibit progress toward that objective.

The Program Objectives and Indicators approved by USAID in March 1990 describe specific approaches for working toward that goal, which apply equally to the agriculture sector.

The first objective is to "decontrol and deregulate the economic environment to promote rational decisions by producers, consumers and investors." This will be sought through a program to reduce subsidies and controls on key agricultural prices and increase the private sector contribution to domestic production. Specific targets for achieving this objective for rice and all major farm inputs have been identified for the next few years, and are addressed as part of the present project. Specific benchmarks will also be agreed upon in a separate Memorandum of Understanding between the GOE and USAID.

A second Mission Objective is to "transfer functions and enterprises from the public sector to the private sector to promote economic growth and productivity." Specific targets within the agriculture sector include significant increases in the private sector share of agricultural input marketing functions and rice processing and marketing.

The project also conforms to the Mission's preference for large, policy-based, performance-oriented projects.

C. GOE Strategies

The MOA continues to demonstrate its commitment to restructure and liberalize the agricultural sector. It is moving away from central planning and regulations to a system more responsive to the economic signals generated by a free market system. The private sector is now increasingly seen as a competent and trusted partner whose initiatives and efforts can make major contributions to the agricultural sector's economic development. However, the MOA is also cautious about proceeding with divestiture and privatization of farm input supply functions at a pace that would threaten market disruption and produce adverse political repercussions. Thus, for example, the MOA did not accept recommendations of the April 1989 divestiture study team to reduce at an early stage the volume of fertilizer sold to farmers at subsidized prices. An alternative plan for more gradual fertilizer divestiture has been developed by PBDAC and is now being implemented.

The Bank's efforts are being supported by a technical assistance team of banking specialists working under a long-term contract. The goal is to make lending activities more efficient so as to reduce costs and make credit available on a timely basis. The need for improvement in the financial performance of PBDAC's commercial credit operations is urgent in view of the prospective loss of income from PBDAC's input supply operation. With expanded efforts to mobilize domestic rural savings, increased retention of earnings, and improved information and controls over non-performing loans, PBDAC will be moving toward a self-sustaining financial position. This effort is recognizably long-term, but it is essential if private producers are to have credit on a continuing basis.

D. Project Amendment Rationale and Focus

1. Present Project

The present project is divided into two major components. The first is a policy reform component, which consists of $100 million transferred in three installments to the GOE in support of agreed changes in agricultural policies, and the second is a capacity building component, which provides twenty-three million dollars for technical assistance, training, and commodities. Life-of-Project funding was originally estimated at $229.6 million, comprised of an AID grant of $123 million, a GOE contribution equivalent to $102.7 million in local currency to capitalize the PBDAC, and an in-kind contribution equivalent to $3.9 million. Incremental funding began in September 1986 with an initial obligation of $35 million followed by three amendments culminating in the project being fully funded by

March 30, 1989. The Project Assistance Completion Date (PACD) at present is September 30, 1993. After approximately three full years of operations, project implementation has been excellent and to some degree ahead of schedule. As of the end of Calendar Year 1989, all but $600,000 remains uncommitted and over $108 million has been disbursed, leaving a pipeline of less than $15 million. Dollar disbursements for agreed to agricultural policy reforms have taken place on schedule. Agricultural policy reforms have equaled or exceeded agreed project goals in most areas, and the Ministry of Agriculture's initiatives have overtaken the original project design. Policy reform and capacity building have worked hand in glove to encourage the desired redirection of PBDAC. The GOE has increased PBDAC's loanable funds so that small farmers and entrepreneurs have financing available as input subsidies are removed and opportunities are created by policy reform. As the GOE decreases its role as direct importer, distributor and investor, PBDAC is able to expand its clientele to help private companies develop as suppliers of inputs and services.

Through PBDAC, the GOE is trying to modernize Egypt's rural credit banking system and make it more efficient. MOA capitalization of PBDAC is increasing and the Bank's lending activities are being shifted from subsidized to market-rate (i.e. unsubsidized) credit. These expanded market-rate credits are intended not only for farmers but also for farm-related private industries which service agriculture or process its production. GOE and USAID officials recognized the importance of strengthening and supporting the continuation of the policy reform dialogue. In March 1989 USAID developed a Concept Paper articulating the need for an expanded project. The Concept Paper proposed the APCP be amended to (1) adjust the overall project budget to accommodate a new phase of the policy reform program and (2) expand the institutional strengthening component of the project to include an additional two new governorate BDACs and 100 additional village banks. The USAID Executive Committee reviewed and approved the Concept Paper's proposed modifications. As part of USAID's continuing dialogue with AID/W on reforms in the agricultural sector, the Concept Paper was discussed in AID/W during Program Week April 1989 (see Annex 2) and was the subject of a cable (Cairo 12603) in May 1989.

2. Proposed Amendment

The proposed project amendment calls for increased funding to support implementation of a program of agricultural sector reforms during 1990-92, which have been set as targets by senior officials within the Ministry of Agriculture and other GOE ministeries. The amendment also provides financial resources to enable PBDAC to increase the number of governorate banks (BDACs) served by the institutional strengthening component of the project from the current 12 to 14, and the number of village banks from 350 to 450. Lastly, funds will be provided for the study/analysis of emerging problems associated with PBDAC divestiture plans. The amendment will extend the project's PACD by two years, through September 1995 to enable completion of the activities planned under the institutional strengthening component.

Project outputs would remain essentially unchanged as a result of this amendment. They include agricultural policy reform, the expansion of rural credit, and strengthening of rural credit institutions. Deregulation of the agriculture sector will allow a market-driven economy where farmers are free to respond to price incentives. The availability of credit will allow farmers to cope with the higher costs of unsubsidized credit and production inputs. By the end of the project, the following conditions are anticipated:

- The fiscal burden of budgetary and indirect subsidies for fertilizer, livestock feed, and certain other farm inputs will have been reduced or eliminated.

- Farmers will have easier access to all inputs, including credit, at market prices. As a result, farmers will be using better combinations of inputs in response to market signals.

- Private dealers and cooperatives will have increased their share of the input supply market, with PBDAC commensurately decreasing its share.

- Farmer incentives for production of major crops (especially cotton and rice) will have been moved into better alignment with world market conditions, thus encouraging farmers to voluntarily adjust their cropping patterns in line with the country's international comparative advantage.

- Controls over private processing and marketing of rice will have been eliminated.

- Farmers will be using improved technologies disseminated by village teams and private sector input supply firms.

- The number and share of unsubsidized loans to small farmers will have increased.

These conditions will allow farmers and farm-related businesses to respond to price incentives with a more diversified array of inputs, contributing to the project goal of increasing agricultural investment, agricultural productivity, and farm incomes.

II. PROJECT AMENDMENT DESCRIPTION

A. Project Goal and Purpose

The goal of this project is to increase agricultural productivity, agricultural investment, and farm income in Egypt by supporting deregulation of the agricultural sector and introduction of a market-based incentive system. The project's purpose is to provide farmers with new technology, improved financial services, and expanded access to input supply, so that they can take advantage of higher returns to investment in a deregulated agricultural sector. There is no change in the project goal/purpose resulting from this amendment.

B. Project Amendment Components

The project has two components:

1. Policy Reform

a. Background. In June 1986, the Ministry of Agriculture prepared a general plan and schedule for liberalization of the agricultural sector. After approval of that plan by the Cabinet, USAID assisted the Ministry of Agriculture with its work on a series of more detailed policies and targets for the 1986-89 period. A $100 million component for policy reform was included in the APC Project Agreement of September 1986. In March 1987, the MOA and USAID concluded negotiation of a specific set of policy reform targets which would serve as benchmarks. These benchmarks then formed the basis for a periodic (annual) measurement and review of the reform progress by the MOA and USAID.

The major accomplishments during 1986-1989 included the cancellation of mandatory low-priced government procurement of ten crops, elimination of the subsidies (previously about $150 million per year) for imported corn, and initial reductions in subsidies for fertilizer and other farm inputs. After mutual agreement that satisfactory progress had been made toward the agreed upon targets, USAID disbursed $100 million in three tranches--in July 1987, July 1988, and November 1989.

b. Agricultural Sector Goals for the 1990-92 Period. Recent discussions with Ministry of Agriculture officials indicate that the Government of Egypt is now willing to commit itself to an ambitious program of reform regarding cotton procurement prices, elimination of delivery quotas for rice, elimination of input subsidies, and privatization of farm input supply activities. The MOA also is expected by USAID to develop and implement a plan to safeguard and improve the financial strength of PBDAC during the period to help overcome the adverse effects on PBDAC's financial position from the divestiture of its input supply activities.

(i) Liberalization of Government Controls Over Cotton and Rice. By the 1992 season, the Government of Egypt proposes to raise the net procurement price for cotton to at least 66 percent of the international price and to eliminate the current requirement to deliver to the Government 1.5 tons of rice per feddan. For cotton, the farm procurement price has been less than half of its export value in recent years, and cotton production has declined steadily. The intention of shifting the cotton price to a sharply higher level is to provide improved incentives to cotton farmers for producing a better yield and growing cotton in preference to alternative field crops that have less economic value to the nation. USAID foresees that strong incentives for voluntary cultivation will create an environment in which the GOE will subsequently decide to set farmers free from the current forced cultivation of cotton according to the government set cropping pattern.

For rice, the Ministry of Supply's delivery quota is planned to be reduced to 1.0 ton in 1990, 0.5 ton in 1991, and to zero in 1992. In addition, by 1991 most current restrictions on private possession, milling, and inter-governorate transport of rice will be removed.

(ii) Elimination of Farm Input Subsidies. By the end of 1993, all GOE budgetary and exchange rate subsidies are planned to be removed from fertilizer and livestock feed. In addition, the Government plans to modify or eliminate its current administrative pricing of fertilizer and livestock feed ingredients. Ex-factory prices of these products will be more uniform among all customers and will better reflect international or free-market conditions. For purposes of the Memorandum of Understanding (see page 9 following), USAID intends that price-adjustment actions for farm inputs will be phased so that approximately one-third of the total burden of explicit and implicit subsidies will be eliminated each year.

(iii) Government Divestiture and Liberalization of Marketing for Fertilizer, Livestock Feed, Seed and Other Inputs. By 1993, the Government intends to substantially eliminate all controls over private processing, inter-governorate transport, and wholesale and retail trade for these farm inputs. In general, all restrictions on private trade in commodities that are presently not subsidized will be eliminated at an early date, while restrictions covering other specific inputs will be removed when budget and exchange rate subsidies for the specific commodity have been eliminated. In addition, PBDAC will adapt its marketing margins for seed and other inputs to reflect the normal commercial cost of wholesale and retail trade, and thus, to permit and encourage trading by new dealers.

On a parallel track, PBDAC will substantially reduce or eliminate its current retail and wholesale distribution activities for fertilizer, poultry and livestock feed, seed and machinery. By 1993, it is anticipated that private dealers and cooperatives will manage most of the retail distribution of seed and poultry and livestock feed that is now handled by PBDAC and will account for a substantial share of fertilizer distribution.

(iv) Financial Strengthening for PBDAC as a Credit Institution. Minimum targets will be set for PBDAC's capital (e.g., the capital/asset ratio) and operating income (e.g., return on assets, non-interest operating expenses) for 1990/91 and for subsequent years, in order to correct current weaknesses in the capital structure and to overcome the temporary costs to the Bank resulting from divestiture of its input trading activities. It is anticipated that these financial targets will be achieved through a combination of:

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

(v) Possible Additional Policy Measures. On the basis of studies of current policies, controls and economic distortions that adversely affect the performance of the agricultural sector, the MOA and USAID may agree on other elements of the GOE policy program for 1990-92, and such elements may be incorporated into an amended list of measures supported by the APC project amendment. Such amendments might, for example, deal with: privatization of other commercial enterprises of the Ministry of Agriculture, relaxation of barriers to meat and poultry imports, or reform of policies related to land reclamation.

As required, for financial strengthening of PBDAC ([iv] above) and additional pricing measures ([v] above) appropriate quantified targets and benchmarks will be agreed for tranches 5 and 6 and incorporated into the Memorandum of Understanding.

c. Financial Impact on PBDAC. While the measures toward financial strengthening noted in Section b (iv) above may be expected to place PBDAC's credit operations on a sound financial footing, the input divestiture reforms noted in Section b

(iii) may have a strong adverse impact on the profitability of PBDAC's input-supply operations. The consolidated operating income of PBDAC may deteriorate as a result of the economic reform program. In particular, a very rapid and successful divestiture by PBDAC of its input sales activities would be likely to leave PBDAC with a very large number (possibly up to 16,000) of idle or redundant employees. Such an adverse financial consequence of reform upon PBDAC was not foreseen at the outset of the APC Project in 1986 but was highlighted as a major conclusion of the project-financed divestiture study prepared for PBDAC in April 1989. (See Privatization of Input Supply Activities of PBDAC; also see Section V.A, following.)

To facilitate a rapid pace of liberalization and privatization for farm input-supply activities in Egypt, USAID and the GOE propose that the amendment to the Project Agreement provide for local currency injections to alleviate the adverse financial impacts on PBDAC from those reform measures. The additional capital provided PBDAC makes it more likely that PBDAC management will cooperate and assist with a rapid and vigorous implementation of the GOE program to liberalize and privatize the distribution of farm inputs.

d. Benchmarks. The policy component of the present project amendment will be elaborated in a Memorandum of Understanding (MOU) concerning the policy reform program that has been approved by the GOE and USAID. That MOU will describe the goals for the 1990-92 period--goals which are expected to be substantially the same as described in Section b above. The MOU will include a set of 'benchmarks' that define specific policy actions or quantified indicators of progress toward the medium-term goals that are planned to be completed at each annual review.

In light of the difficulties during 1987-89 relating to cooperation from other ministries, USAID staff has analyzed the degree of cooperation from other ministries that may be necessary in order to achieve the goals described in Sections b(i) through b(iv), above. As a result of that analysis, USAID and MOA staff have consulted recently with responsible Ministry of Supply (MOS) officials concerning the agreed targets for rice quotas and for the pricing of livestock feed ingredients (wheat bran); they intend to conduct follow-up consultations with the MOS on those issues after the MOU has been completed. Similarly, MOA and USAID officials have been discussing targets for ex-factory prices of local fertilizers with responsible Ministry of Industry and World Bank officials. Regarding PBDAC's financial position, the Ministry of Finance and Central Bank have cooperated in observing past project covenants and, as needed, are expected to again offer their cooperation in the future.

The Central Bank's policies for the official exchange rate and for the management of the commercial bank exchange market have been identified as potential obstacles to the MOA's willingness to progress in a timely way toward the agreed subsidy-elimination and input-privatization goals. The required changes in exchange-market policies are expected as a result of independent GOE negotiations with the IMF and World Bank.

The MOA will assume central responsibility for achieving inter-ministerial agreement for accomplishment of the cotton-price objectives; USAID will evaluate the related cotton-price benchmarks on the basis of the overall GOE performance in this area. Indeed, as with the rice marketing, input subsidy and privatization reform objectives, the MOA understands that the basis for the economic policy component is not the "best-efforts" of the MOA but rather the overall progress by the GOE toward the sector objectives described in the MOU.

e. Performance-Based Disbursements. Joint USAID-GOE reviews of policy performance in comparison to the agreed benchmarks will be conducted on an annual basis. Given the availability of data on matters such as crop prices, input prices and the financial condition of PBDAC, these reviews are likely to be conducted during the late fall of each year, beginning in 1990. On the basis of these reviews, USAID will determine whether the GOE is making appropriate progress in fulfilling the specific benchmarks and toward achieving reform targets agreed in the Memorandum of Understanding. If a positive determination is made and if other project conditions and covenants are being satisfactorily observed, USAID would then authorize immediate disbursement of the relevant tranche. The size of each planned disbursement may be adjusted to reflect the magnitude of GOE reform efforts and of the sector's progress toward the agreed medium-term goals. Similarly, USAID may decide to advance or defer the timing of release of the three planned tranches if the Government of Egypt accelerates or delays its implementation of the policy reform program described in the MOU. Individual performance-based disbursements will, however, not exceed the dollar equivalent of Egyptian pounds provided by the GOE for capitalization of PBDAC.

The dollar disbursements will be placed in a separate, non-commingled, interest bearing account and will be used for any of the following purposes:

(a) financing the importation of U.S. goods and services; (b) servicing debt owed to or guaranteed by the U.S. Government; or (c) other purposes as agreed by the GOE and USAID. AID has determined there shall be no order of preference for the use of the dollars provided to the GOE as performance disbursements under this Project, so long as the dollars are used for the purposes stated above. This determination is based on the same USAID policy considerations articulated on pages 12-13 of the Program Assistance

Approval Document for the FY 1989 Cash Transfer No. 263-K-617.

Interest earned on this account will be used for the same purposes as the principal.

To the extent that any local currency is generated from the use of dollars held in the Dollar separate account (e.g., from the importation of equipment or commodities), these amounts will be deposited in a separate account. It is envisioned that these funds would be programmed along with other local currency generated from AID programs (e.g., CIP and cash transfer) and held in the Special Account established under the 1980 Memorandum of Understanding regarding Special Account. Local currency will not be generated from the use of dollars for debt servicing for the reasons set forth in the PAAD for the FY 1989 Cash Transfer No. 263-K-617.

2. Institutional Strengthening

a. Background.

The original design of this component remains valid and unchanged. However, the magnitude of the activities initiated under the institutional strengthening component has been found to be too limiting in scope and budget to adequately address the needs of the PBDAC and meet the objectives of the project. In retrospect, these activities did not take into consideration the speed and efficiency with which PBDAC would implement the lessons learned in the SFPP, the diverse nature nor the amount of technical assistance required, and the implications of divestiture activities on PBDAC's staff, banking operations, operating income and profits.

AID and GOE resources will be used to expand the number of targeted governorate and village banks, provide necessary technical assistance, training, procure commodities needed for expansion and assist PBDAC through this continuing transition period by studying the implications of divestiture. AID resources will be in the form of technical assistance, training and commodities. GOE resources will be primarily salaries, office facilities and necessary refurbishing of additional computer sites, and for operations and maintenance.

b. Progress to Date/Additional Resources Required

(i) Technical Assistance: A host country contract between PBDAC and Chemonics International was negotiated and operationalized in September 1988. Eleven (11) long term plus a number of short term experts and local professionals have been providing PBDAC with assistance to carry out automation of bank operations, improve banking activities, and formulate training, farm management and farm related business improvements. An amendment to the Chemonics contract, which will allow PBDAC the option to extend long term contract personnel through the end of the project, and add additional long and short term staff as required through the extended PACD, is proposed as part of this PP amendment. A series of approximately 10 divestiture/privatization related studies of short to medium duration will be carried out during the remaining life-of-project. These studies will focus on inputs to be divested (pesticides, machinery, fertilizer, feeds, seeds, jute bags); impact of divestiture on PBDAC's personnel; and bank policy changes, such as loan fees and interest rates required to achieve PBDAC's financial goals. Table II notes the required TA for this PPA. These changes will result in an increase of the TA budget from $17.498 million to $20.598 million over the LOP.

(ii) Training: The PBDAC Training Department, in cooperation with the long term technical assistance experts, carried out a comprehensive needs assessment of PBDAC training requirements. This assessment focused on transitional training required to move PBDAC from largely an input distribution agency to a lending institution focusing on agricultural business and production lending.

The Needs Assessment pointed out the need for Management Information Systems (MIS) training, intensive management training for upper and middle level personnel plus other types of technical training which were not specifically addressed in the original PP. The Needs Assessment calls for training for virtually all PBDAC staff as well as off-shore short term technical/observation training for 200 individuals. Training will be available to a broad range of staff within the PBDAC ranging from Sector Heads to village bank cashiers. The current FY 90 training plan identifies the number, type, duration, estimated cost and location of all in-service training. Moreover, the Training Plan calls for sub-contracting with local training institutions to assist the PBDAC Training Department in carrying out training. The MOA's Center for Agricultural Management Development (CAMD) has been providing training of trainers, and management skills training since the beginning of this project. No degree training is planned. In addition to the in-country training plan, there is an annual off-shore training plan which is administered by the TA contractor. The current training budget for this component is $2.352 million. The expansion of training activities will raise the total life-of-project training element to $5.352 million.

(iii) Commodities: Commodity procurement/justification plans have been completed for all major procurements. They include plans for vehicles, computers, and training equipment. Plans for vehicles and computers have been approved by the GOE and USAID. Vehicle procurement, in fact, has been completed and vehicles were distributed to implementing entities in late 1989. A Request for Quotations (RFQ) for minicomputers has been advertised, proposals received and evaluated and a contract issued. The first of two deliveries was received in May 1990. At the request of PBDAC, USAID has agreed to expand the purchase of automation equipment to include additional mini and microcomputers so as to provide the PBDAC with a unified, compatible system. More specifically, USAID will provide funds to purchase three additional minicomputers for governorate banks and up to 150 PC microcomputers for the branch markaz (district) banks (with the understanding that PBDAC defer for at least two years its plan to procure a main frame computer for its headquarters, microfiche for record storage and the use of minicomputers instead of PC's at the markaz level). Prerequisites for markaz level PCs will be adequately refurbished space to house each computer (at GOE expense) and a complete plan to bring on stream each computer, including necessary operator training. This expanded purchase is estimated to cost $1.6 million. The procurement/justification plan for training and miscellaneous equipment has been prepared but not yet transmitted to USAID for approval. This procurement is expected to begin in the summer of 1990.

Table II

AGRICULTURAL PRODUCTION & CREDIT PROJECT No. 263-0202

PP AMENDMENT No. 1

TA NEEDS ASSESSMENT

POSITION	No.per. months	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7
LONG TERM EXPATRIATE								
Sen. Bank Specialist/COP	60 (24)							
MIS Specialist- Tomerlin	36 (24)							
Acct.Specialist- Glen	36 (0)							
Fin./Cap.management- Dil	24 (0)							
Ag. Loan Spec.- Mulder	36 (-12)							
Farm Rel.Bus.- Shoreibah	24 (12)							
Mon./Audit Spec.- Poirier	36 (12)							
Farm mgt.Spec.- Wetsel	36 (0)							
Admin. Spec.- McVey	60 (0)							
Edit/Doc. Spec.- Davis	60 (12)							
Training Spec.- Khalifa	24 (36)							
Ag.Econ/Divest. Spec.	* (48)							
total	432(156)							
SHORT TERM EXPATRIATE								
Banking/ Training/ Credit/ Commodity	96 (42)							
HOME OFFICE								
General	30 (18)							
LONG TERM EGYPTIAN PROF.								
Sen.Bank Spec.- M.Ayoub	60 (24)							
Sen.Bank Spec.-	60 ( )							
Local Trainer- S.Sultan	60 (24)							
Local Trainer-	60 (24)							
Bank Economist- Dr. Seddik	24 (48)							
Accountant- Moufid	60 (24)							
Translator- MR	60 (24)							
Translator- GL	60 (12)							
total	444(180)							
SHORT TERM EGYPTIAN PROF.								
Business related	60 (12)							
PROGRAM SUPPORT STAFF								
Admin. (4)	240(24)							
Secretaries (7)	420(72)							
Clerks. (3)	180(24)							
Drivers. (12)	720(144)							
total	1560(264)							

Under the current project, \$2.6 million is obligated to support commodity procurement. Virtually all these funds have been committed and/or expended. In order to accommodate the additional requirements, the amendment will increase this element to \$5.1 million over the LOP.

(iv) Services: With the completion of site refurbishment for 15 minicomputer and 11 training sites at the governorates and PBDAC headquarters, no new "Services" element money is anticipated for this purpose. A relatively small amount of resources will be needed to continue to support training-related banking/extension brochures, related travel, evaluations, etc. and \$300,000 is planned to support two major project evaluations. Approximately \$550,000 in resources will be sufficient for services, bringing this element of the project budget to \$850,000 over the LOP.

(v) Inflation/Contingency: Approximately \$1.1 million is budgeted in the amendment to cover future contingency and inflation costs.

C. Summary of Component Budget

The total USAID contribution for the Institutional Strengthening Component is estimated to be \$10 million. Major AID inputs will finance the following: (1) technical assistance totalling \$2.14 million for approximately 220 person months of long term advisors and short term experts plus \$750,000 for technical studies (\$75,000 per study); (2) 61,000 in-service training opportunities and off-shore short term technical/observational training for 200 persons for a total training cost of \$3 million; (3) procurement of additional commodities such as automation/office equipment, including mini/micro computers, calculators, typewriters and various types of training equipment, estimated to cost \$2.5 million; and (4) evaluations and related service activities which are expected to cost \$300,000.

The GOE contribution for this component will total approximately LE 6.45 million in budget support and in-kind contributions.

III. COST ESTIMATES AND FINANCIAL PLAN

A. Original Project Budget

Since the initiation of the Agricultural Production and Credit Project in September 1986, AID has provided grant funds totalling \$123 million while the GOE has contributed LE 250 million. The project consists of two basic elements; a capital (policy reform) component which involved \$100 million in USAID performance payments, and LE 235 million in GOE capitalization of PBDAC. The funding arrangements were based on dollar denominated performance payments to support the GOE's program to move the agricultural sector toward a free market structure. These were disbursed in tranches based upon implementation of agreed upon policy reform or changes (benchmarks). Three separate tranches have now been disbursed: 1987 (\$33 million), 1988 (\$40 million), and 1989 (\$27 million). As each tranche was made the GOE capitalized PBDAC with an equivalent amount of local currency at the highest prevailing exchange rate. The institutional strengthening component involves \$23 million and LE 15 million in GOE funding. These financial resources are being used to provide technical assistance, training and equipment.

B. Amendment Cost Estimates:

The total cost of this project over the nine year LOP is estimated at \$541 million. AID will provide grant funds totalling \$283 million. The GOE contribution will be not less than \$250 million equivalent in LE for capitalization of PBDAC and approximately LE 21.7 million in in-kind and budgetary support for institutional strengthening. Table III.1. "Projected Expenditures and Obligations by Fiscal Year," presents planned obligations in relation to disbursement of funds by fiscal year over the life-of-project. Table III.2 "Estimated PP Amendment and Life-of-Project Budget" shows life-of-project costs in foreign exchange and local currency by AID and GOE. Projected expenditures by input: Technical Assistance (Table III.3), Training (Table III.4), and Commodities (Table III.5), are also provided. Cost coefficients are indicated in the appropriate tables and are derived from historical cost data to the maximum extent possible. AID funds will be used to pay for performance payments, technical assistance and project support, off-shore and in-service training, computers and related equipment, training equipment and office equipment. GOE funds will be used for capitalization of PBDAC, some local support costs associated with training, vehicle and equipment maintenance, travel and per diem, refurbishing of computer sites in 150 branch banks, incentives, etc. USAID is budgeting \$1.1 million to cover contingency and the GOE has budgeted LE 1.2 million for inflation.

C. Host Country Contribution

1. Capitalization - Local currency contributions provided by the GOE for the policy reform component will be used to capitalize PBDAC. One of the criteria for performance payment disbursements will be the increased capitalization of PBDAC by GOE thereby strengthening PBDAC financial position. Capitalization represents the ownership of the Bank's assets and is reflected in the Owner's Equity (Capital and Reserves) section of PBDAC's balance sheet. The increase in capitalization shall be recorded as a debit entry to the Bank's cash account with a corresponding credit entry to the capital account. A certification from the Bank's management that the capitalization transaction has been recorded in the accounting records and that the increase in capitalization shall be reflected in the Bank's periodic financial statements, shall be submitted to USAID prior to USAID's performance payment disbursement.

2. Recurrent Cost - Recurrent costs associated with this amendment are minimal. The capital funds provided as counterpart contributions (approximately LE 390 million during 1990-92) are expected to provide PBDAC with the cash needed to carry out its functions. The $10 million in technical assistance, procurement and training is concentrated in non-recurring elements such as design and installation of computers and computer software and intensive staff training. The most important recurring costs will be for continual follow-up training and maintenance of computer hardware and motor vehicles. These costs will be financed out of PBDAC's normal operating income from loan activities. No additional personnel are to be hired for the MOA or the Bank as a result of this amendment. It is expected that any new positions created as a result of this project will be filled by recruiting from within. Considerable displacement of PBDAC staff may result as PBDAC cuts back its input distribution function, thus reducing recurrent costs for salaries.

3. Sustainability - It is anticipated that loans by PBDAC will increasingly be offered at unsubsidized rates, and that an increased share of the revenue on such loan operations may be retained by PBDAC (rather than returned to the Treasury) for recapitalization and to cover operating expenses. If revenues cannot be retained due to the inability to change currently existing GOE regulations, PBDAC's growth will be hampered. After the funding of transitional costs from discontinued input supply operations, these factors should be sufficient for PBDAC to sustain operations after the conclusion of the project period.

Table III.1

AGRICULTURAL PRODUCTION & CREDIT PROJECT No. 263-0202

PP AMENDMENT No. 1

PROJECTED EXPENDITURES AND OBLIGATIONS BY FISCAL YEAR ($000)

CATEGORY	THRU FY 89		FY90		FY91		FY92		FY93		FY94		FY95		PP Amend. Total		Grand Total	
	$	LE Eq.	$	LE Eq.	$	LE Eq.	$	LE Eq.	$	LE Eq.	$	LE Eq.	$	LE Eq.	$	LE Eq.	$	LE Eq.
TECHNICAL ASSIS.																		
LONG TERM	-	-	-	-	300	-	480	-	480	-	480	-	180	-	1,920	-	-	-
SHORT TERM	-	-	-	-	150	-	140	-	140	-	210	-	204	-	844	-	-	-
PROGRAM SUPPORT	-	-	-	-	-	-	-	-	-	-	-	180	-	156	-	336	-	-
SUBTOTAL	13,600	3,898	-	-	450	-	620	-	620	-	690	180	384	156	2,764	336	16,364	3,898
TOTAL $	17,498	-	-	-	450	-	620	-	620	-	870	-	540	-	3,100		20,598	
TRAINING																		
OFF-SHORE	-	-	100	-	200	-	200	-	200	-	200	-	200	-	1,100	-	-	-
IN-COUNTRY	-	-	-	-	-	300	-	400	-	400	-	400	-	400	-	1,900	-	-
SUBTOTAL	600	1,752	100	-	200	300	200	400	200	400	200	400	200	400	1,100	1,900	1,700	3,652
TOTAL $	2,352	-	100	-	500	-	600	-	600	-	600	-	600	-	3,000		5,352	
COMMODITIES																		
TRAINING EQUIPMENT	-	-	150	-	200	-	-	-	-	-	-	-	-	-	350	-	-	-
COMPUTERS	-	-	-	-	300	-	550	-	550	-	550	-	-	-	1,950	-	-	-
SPARE PARTS	-	-	100	-	-	-	-	-	-	-	-	-	-	-	100	-	-	-
OFFICE RELATED	-	-	-	100	-	-	-	-	-	-	-	-	-	-	-	100	-	-
SUBTOTAL	2,250	350	250	100	500	-	550	-	550	-	550	-	-	-	2,400	100	4,650	450
TOTAL $	2,600	-	350	-	500	-	550	-	550		550	-	-	-	2,500	-	5,100	
SERVICES																		
EVALUATION	-	-	-	-	150	-	-	-	-	-	-	-	150	-	300	-	-	-
SUBTOTAL	300	250	-	-	150	-	-	-	-	-	-	-	150	-	300	-	600	250
TOTAL $	550	-	-	-	150	-	-	-	-	-	-	-	150	-	300	-	850	
CONTINGENCY	-	-	-	-	200	-	200	-	200	-	250	-	250	-	1,100	-	1,100	-
TOTAL $	23,000		450		1,800		1,970		1,970		2,270		1,540		10,000		33,000	
PERFORMANCE DIS.	100,000		20,000		70,000		80,000								150,000		250,000	
GRAND TOTAL	123,000														160,000		283,000	
OBLIGATION SCHED.	123,000		25,000		75,000		60,000								160,000		283,000	

Table III.2

AGRICULTURAL PRODUCTION & CREDIT PROJECT No. 263-0202

PP AMENDMENT No. 1

ESTIMATED PP AMENDMENT and LIFE-OF-PROJECT BUDGET.

Category	Commitments thru FY 89						Project Paper Amendment						New Life of Project					
	USAID			GOE			USAID			GOE			USAID			GOE		
	$	LE $ Equiv.	Total $	Cash LE	In-Kind LE	Total LE	$	LE $ Equiv.	Total $	Cash LE	In-Kind LE	Total LE	$	LE $ Equiv.	Total $	Cash LE	In-Kind LE	Total LE
1. Tech.Assistance	13,600	3,898	17,498	332	388	720	2,764	336	3,100	700	850	1,550	16,364	4,234	20,598	1,032	1,238	2,270
2. Training	600	1,752	2,352	3,000	1,070	4,070	1,100	1,900	3,000	1,000	350	1,350	1,700	3,652	5,352	4,000	1,420	5,420
3. Commodities	2,250	350	2,600		2,551	2,551	2,400	100	2,500		700	700	4,650	450	5,100		3,251	3,251
4. Services	300	250	550	1,700	2,994	4,694	300		300	900	800	1,700	600	250	850	2,600	3,794	6,394
Subtotal	16,750	6,250	23,000	5,032	7,003	12,035	6,564	2,336	8,900	2,600	2,700	5,300	23,314	8,586	31,900	7,632	9,703	17,335
Inflation				750	1,296	2,046				400	450	850				1,150	1,746	2,896
Contingency				450	754	1,204	1,100		1,100		300	300	1,100		1,100	450	1,054	1,504
5. Project Total	16,750	6,250	23,000	6,232	9,053	15,285	7,664	2,336	10,000	3,000	3,450	6,450	24,414	8,586	33,000	9,232	12,503	21,735
6. Capitalization				234,022		234,022				390,000		390,000				624,022		624,022
7. Performance Dis.	100,000		100,000				150,000		150,000				250,000		250,000			
8. Grand Total			123,000			249,307			160,000			396,450			283,000			645,757

IV. IMPLEMENTATION PLAN

A. Project Management

1. General

This Project Paper Amendment is an expansion and continuation of the APC Project Paper authorized in September 1986. Its implementation will follow existing systems and experience to date in the original 12 governorates. It will begin with pre-implementation seminars for the managers of the new governorate banks, branches and village banks to be added to the project. These seminars will be directed at project orientation to include project background, goals and purposes, activities, etc. Availability of project resources will begin immediately after authorization. These resources will include the distribution of vehicles, refurbishment of computer and training space, and training opportunities. Official integration of the new governorates, branches and village banks will begin with the preparation of the FY 1991 Annual Implementation and Financial Plan. This plan will be prepared 1990 and hopefully approved for implementation by the beginning of the new GOE FY in July 1990.

The Principal Bank for Development and Agricultural Credit will continue to be the overall GOE coordinator of the project both in terms of the institutional strengthening and agricultural policy reform components. Responsibilities for establishing, implementing and monitoring medium term policy goals and tranche benchmarks are the responsibility of PBDAC which will coordinate with others, i.e., the MOA Policy Committee, the Economic Advisor to the Minister of Agriculture, the Undersecretary for Agricultural Economics and Statistics, the Director of the Agricultural Economics Research Institute. As needed the MOA will enlist the support of other interested GOE ministries to ensure that policy reform objectives are being met. Moreover, PBDAC, through its Chairman (the Project Director), Executive Directors of the APC Project, the Economic Advisor to the Minister of Agriculture and Sector Heads will implement and monitor the policy reform and institutional strengthening activities of the project. The Chairman of PBDAC has ultimate management responsibility for the project. Within USAID, the Office of Agricultural Credit and Economics (AGR/ACE) will be responsible for project management. Changes in implementation noted in this section represent only slight changes in the implementation arrangements noted in the original PP.

2. Policy Reform Component

The agricultural policy reform component of the project will be under the overall leadership of the PBDAC Chairman, the Project Director. Together with the MOA Policy Committee appointed by the Minister of Agriculture, the PBDAC chairman or his designee will have responsibility for: (1) formulating a general plan and schedule for liberalization of the agricultural sector and a plan for PBDAC input divestiture; (2) obtaining necessary concurrences and approvals within the Cabinet, Ministry of Agriculture and other related ministries; and (3) assuring GOE implementation of the policies needed to meet the medium term policy goals and tranche benchmarks agreed to in the MOU.

PBDAC and the Economic Advisor to the Ministry of Agriculture (Agricultural Policy Analysis Component Director under NARP) will have responsibility to monitor and implement agreed to agricultural reforms.

The Agricultural Policy Analysis (APA) Component of NARP has budgetary/staff resources planned to carry out surveys needed to collect essential information for reform verification/policy planning. In carrying out these activities, the APA Component Director will utilize these resources. The APA Component Director will be responsible to prepare annual reports associated with tranche disbursements.

3. Institutional Strengthening Component

The institutional strengthening component of the project will be under the leadership of the PBDAC Chairman, the Project Director. The responsibility for day to-day execution of the project will be managed by the two Executive Managers of the project who will report directly to the Chairman and who will have responsibility for coordinating with NARP project management vis-a-vis extension service participation, execution of annual implementation and financial plans, preparation of project related reports for PBDAC and USAID, management of administrative support and leadership of the total project team with the assistance of the contractor's team leader. Much of the management of the technical areas of institutional strengthening will be the responsibility of the prime contractor, Chemonics, which currently has eleven (11) long term consultants in place. Their responsibilities are as follows:

a. Team Leader - The Chief of Party is a senior banker with extensive experience in credit planning, management and banking operations overseas. He is an Arabic speaker. The team leader provides broad range technical assistance and leadership to the project and TA Team. He manages the Team, works closely with appropriate PBDAC leaders and their staffs and USAID.

b. Human Resources/Training Specialist - The Training Specialist is an Arabic speaker and has a strong training background. She has worked closely in the PBDAC's Training Department in assessing actual personnel needs and developing and implementing annual training plans for both in service and off-shore training.

c. Agricultural Loan Specialist - This specialist is assisting the Bank in improving its efficiency and the effectiveness of credit operations. His work focuses on (1) improving credit operations by bettering the village banks' environment, and reviewing credit manuals and revolving lines of credit; (2) improving loan classification procedures, and credit follow-up policies and procedures; (3) improving credit reporting; (4) providing credit training support; and (5) addressing remedial loan servicing.

d. MIS/Computer Specialist - This person is providing assistance from design through implementation of automated information systems that meet PBDAC and BDAC reporting, processing and management requirements; (2) coordinating computer development that meets the specific APCP goal of automating the banks' accounting systems, and (3) establishing capabilities within PBDAC to support data processing and information management.

e. Accounting Specialist - This specialist is assisting PBDAC to improve its accountancy and reporting systems, and increase its efficiency in banking and credit operations by providing assistance in measuring financial performance and conditions.

f. Financial/Capital Management Specialist - This specialist is working to achieve an integrated and system-driven management and monitoring structure of foreign and domestic liabilities, and to enhance the Bank's capital structure.

g. Farm Related Business Specialist - This person is working to establish a procedure through pilot projects for the study and implementation of farm-related business projects, as well as develop the management skills of selected Bank's staff.

h. Planning/Audit Specialist - This person is assisting PBDAC in improving management controls, especially in the area of auditing. A comprehensive internal audit funding system is being developed based on internationally recognized standards.

i. <u>Specialized Financial Services Specialist</u> - This person is working to improve the effectiveness and efficiency of extension services provided to Bank clients by: (1) improving coordination between the Extension Service and the Bank, (2) improving the contents of current technical packages, (3) adding new technical packages in areas where the Bank is exposed or where there are new lending opportunities, and (4) ensuring validity of technical packages by instituting verification surveys.

j. <u>An Edit/Documentation Specialist and an Administration Specialist</u>, provide support to the technical members of the team by supplying administrative, editing, translation, production, travel arrangements and other services.

One new discipline, an Agricultural Economist/Divestiture Specialist, is required for the remaining years of the project to assist the PBDAC implement a plan to divest itself of its input activities. This person will work closely with the Bank, private companies, public and private associations and cooperatives and USAID to identify privatization opportunities for the Bank's input distribution activities. Moreover, this person will work closely with the GOE, local business leaders and others to identify policies and regulatory changes needed to create an environment conducive to privatization of PBDAC's input responsibilities.

B. <u>Procurement Plan</u>

The TA Contractor (Chemonics) has been providing long and short term technical assistance, procurement and training services under a host country contract which was competitively procured following AID procedures. An amendment to the Chemonics Contract is proposed as part of the PP Amendment to (1) add a long term expatriate Ag. Economist/Divestiture Specialist; (2) execute up to ten short to medium term studies related to divestiture of PBDAC's input distribution system; (3) increase the number of man months of short term expatriate and home office support, and (4) increase the number and amount of long term Egyptian professionals, and program support staff. In addition to the technical assistance, contract training will have to be enhanced to accommodate increasing the number of off-shore observational/technical training opportunities to 200 as well as to allowing for the procurement of computers, training equipment and for a limited amount of office equipment.

In order to permit this implementation action, the following waiver has been approved:

<u>Source/Origin Waiver</u> - A Geographic Code Waiver (from 000 to 935) permits the procurement of compatible audio-visual equipment, spare parts and

supplies for training related purposes which are not manufactured in the U.S.

A waiver for the above procurement is contained in Annex 8.

C. Implementation Schedule

The execution of this amendment to the Project Paper is expected to be signed in August 1990. The following represents the key implementation activities to be carried out through the life-of-project.

Activity	Date
- Grant Agreement Amendment Signed	August 1990
- TA Contract Amended	August 1990
- FY 1991 Implementation/Financial Plan Prepared and Approved	August 1990
- MOU Signed	August 1990
- Initial Annual Report by MOA Presented Re Implementation of Reforms	Oct. 1990
- Tranche 4 Benchmarks Evaluated by USAID, CP's satisfied	Nov. 1990
- Tranche 4 Disbursement	Nov. 1990
- Ag. Economist/Divestiture Specialist Arrives	May 1991
- FY 1992 Implementation/Financial Plan Prepared and Approved.	June 1991
- Mid-term Project Evaluation (focuses on project objectives/ institutional strengthening)	June/July 1991
- Annual Report Presented by MOA Re Implementation of Reforms Related to Tranche 5	Oct. 1991
- Tranche 5 Benchmarks Evaluated, CP's satisfied	Nov. 1991
- Tranche 5 Disbursement	Nov. 1991
- FY 1993 Implementation/Financial Plan Prepared and Approved	June 1992
- Annual Report by MOA Re Tranche 6	Oct. 1992
- Tranche 6 Benchmarks Evaluated	Nov. 1992
- Tranche 6 Disbursement	Nov. 1992
- FY 1994 Implementation/Financial Plan Prepared and Approved	June 1993
- Project Evaluation (7 years) (focus on policy and project impact)	July 1993
- FY 1995 Implementation/Financial Plan Prepared and Approved	June 1994
- Final Evaluation	June 1995
- Project Closeout	Sept. 1995

D. Methods of Financing

The methods of financing to be used are listed below. A direct letter of commitment is and will be used to finance TA, procurement and training services. Local currency payments for PBDAC's operating costs under the project will be made through PILs. Reimbursements will be processed on a monthly basis upon PBDAC's submission of actual expenditure reports. Refurbishing of training and computer sites at governorate banks will be financed by direct reimbursement. No advances will be provided for this purpose.

Activity	Implementing Method	Financing Method	Approx. Cost ($000)	Contract Method	Imp. Agenc
Technical Assistance					
Contract Amendment	HCC	Direct L/C	3,100	HC	PBDAC
Training					
Off-shore	HCC	Direct L/C	1,000	HC	PBDAC
In-service	PIL	Reimbursement	2,000	HC	PBDAC
Commodities					
PSA	HCC	Direct L/C	2,400	HC	PBDAC
Local Procurement	PIL	Direct payment/ Reimbursement	100	HC	PBDAC
Services					
Evaluation/Audit	AID Direct	Direct Payment	300	AID	AID
Contingencies					
As required			1,100		
		Total	10,000		

PBDAC has and continues to successfully implement AID projects. However, Agency policy requires that regular assessments be done (not less than annually) on the implementing Agency's contracting and accounting. Accordingly, a complete assessment of PBDAC's capabilities has been scheduled for 1990.

E. Monitoring/Evaluation

The monitoring and evaluation strategy for this amendment will be discussed in terms of the monitoring process which will then culminate in a final formal evaluation of the project. The two different aspects of the project, policy reform and institutional strengthening, will be discussed separately.

1. Monitoring

Policy Reform: The procedure for evaluating progress in policy reform under the APC Project has proven to be successful and will be continued under this project amendment. As explained in the Policy Reform Component Implementation section, the agricultural policy reform agenda is formulated in negotiations between USAID and the MOA. Specific benchmarks, or targets, are negotiated and revised each year, if necessary, within the agreed-upon broad policy outlines. To determine if these targets have been met prior to disbursement of performance payments, the MOA will use traditional evaluation methods such as questionnaires and surveys, assessment of PBDAC records. USAID in turn will determine whether the GOE is making adequate progress in fulfilling specific benchmarks and in achieving reform targets agreed in the MOU (See Performance based Disbursements, pp 10-11).

Institutional Strengthening: The ongoing monitoring of APCP annual implementation plans has been successful and will be continued under the amendment. A baseline survey was conducted by the technical assistance (TA) contractor shortly after their arrival. This survey provides a baseline wherein the institutional strengthening progress can be measured. The following information is systematically tracked and compiled in regular reports submitted to USAID:

- analysis of PBDAC's financial statements which monitor use of policy-based disbursements and provide a measure of PBDAC's evolution from an input supplier/distributor to a more independent credit institution.

- PBDAC's crop loan data by crop season, balance sheets and income statements.

In addition to the above, farmer surveys are conducted biannually. These are rapid reconnaissance type surveys conducted immediately after the harvest which measure the impact of the project on farmers' use of new technologies, access to credit, crop yield and income. The TA contractor is responsible for all of the above information, and this information plan is complemented by the contractor's quarterly reports. Quarterly progress reports, which are based on annual work plans, include detailed implementation progress (e.g., actual/planned), financial data and also highlight issues and problems to be addressed during the following period.

To ensure sustainability of the monitoring system, the farmer surveys will be institutionalized within an Economic and Statistical Unit being established in PBDAC to continue these and other relevant monitoring surveys. The TA team has helped PBDAC develop a new Management Information System (MIS) to produce more accurate statements and reports. A critical feature of the new system is that it is more discriminating, focusing on reports which are directly related to the credit functions of PBDAC. The Accounting Specialist on the TA team has worked closely with the MIS expert to ensure accurate and timely monthly financial statements, rather than statements issued only once a year.

Additional resources have been allocated under the APCP Amendment to continue information gathering and monitoring activities.

2. Evaluation

An evaluation program is currently being implemented by USAID, PBDAC, and the TA contractor (Chemonics) consistent with Grant Agreement Article 5.1 - Project Evaluation. This covenant requires an interim and final evaluation that includes:

(a) evaluation of progress toward attainment of the objectives of the project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the project.

These requirements are largely met through the monitoring and survey instruments described above and through the formal evaluations currently scheduled.

Formal evaluations of APCP will look at both the policy reform component and the institutional strengthening component of the project. As envisioned in the original and amended project, evaluation teams will conduct both an interim and final evaluation. Such teams will include personnel from USAID and the GOE as well as outside consultants.

Interim Evaluation: A mid-term or interim evaluation will be conducted in the Spring of 1991; this represents a change in the timing for this evaluation from what was originally contemplated in the Project Paper. The new date will allow collection of sufficient data for comparison and evaluation of real progress toward the project's goals. Of critical importance has been finalization of the baseline survey well ahead of the interim evaluation and establishment of information gathering and monitoring systems.'

The purpose of the interim evaluation is to identify where changes are needed to improve the implementation and assure the expected impact of the project. Though the focus of the interim evaluation will be on implementation progress, where possible, the team may also focus on indicators of project impact. To some extent, the interim evaluation will serve to consolidate and summarize much of the data collected in ongoing monitoring and survey tasks and draw some preliminary conclusions from that information. The interim evaluation will also look at the effectiveness of the technical assistance contractor in providing and implementing contract services to the PBDAC and the effects on PBDAC's institutional capacity. The interim evaluation will draw heavily on the baseline study and serve as an update; a suggested matrix of questions to serve as the framework of this evaluation is provided in Annex 9a.

Final Evaluation - The final evaluation will gauge the project's ultimate success in meeting its goal of increasing agricultural productivity, agricultural investment, and farm income. Besides focusing on End-of-Project Status and Goal Achievement indicators as outlined in the logframe, the final evaluation should draw from this experience with a sector approach to formulate lessons learned that can be broadly applied. A suggested matrix of evaluation questions and means of measuring the success of the project is provided in Annex 9b.

The final evaluation will take place early in the final year of the project.

Evaluation Financing - Both the interim and the final evaluation of APCP will be implemented with an AID direct contract. Small business and minority 8(a) firms will be utilized as much as possible. Provisions have been made in the project budget to finance the two major evaluations noted above. Moreover, policy analysis studies, etc. will be financed under the National Agricultural Research Project, Agricultural Policy Analysis Component.

3. Audits/Assessments - Audits and assessments in compliance with AID requirements shall be periodically performed. Such services shall be contracted for with an independent CPA firm.

V. SUMMARY OF PROJECT AMENDMENT ANALYSES

A. Summary of Financial Analysis

GOE-audited financial statements for FY 1987/88 and FY 1988/89 indicate that PBDAC is generating reasonable net income from its current operations. Profits before taxes or addition to reserves were LE 168 million and LE 190 million, representing a gross return on assets of 4.0 and 3.7 percent, respectively. However, analyses by project contractors during 1988 and 1989 have identified a number of weaknesses in PBDAC's financial structure, financial policies and the systems for accounting and reporting (Major findings from these analyses are reviewed in Annex 7.B.). The weaknesses in accounting and reporting make it difficult to assess whether PBDAC is in satisfactory financial condition according to the normal standards used by bank financial analysts in the United States or Europe.

Assuming that PBDAC is currently in a satisfactory financial condition, it appears that its condition will tend to deteriorate over the next few years as a result of economic policy reforms that will be reducing its role in farm input distribution. In particular, the April 1989 privatization study estimated that if PBDAC's non-banking (input distribution) activities were all phased out linearly over five years, at the end of the fifth year, that could lead to an annual loss of LE 106.9 million in earnings based on financial results of 1987-88. The study's assumption was that privatization of PBDAC's input supply and associated overhead activities would potentially affect employees in an estimated 16,500 authorized positions. With full privatization, these employees will become surplus to the needs of input distribution except where PBDAC employees may find employment in private sector input supply firms. PBDAC is being encouraged to adopt no-hire and early retirement policies for staff likely to be surplus. The effects of such measures can only be estimated, and it is possible that no more than one third of the 16,500 would be separated through attrition and induced separations while a small number may be absorbed into the organization's banking activities.

During the first year of the period covered by the project amendment, PBDAC will prepare and USAID will review a strategic plan to cope with, and subsequently to eliminate, the transitional costs for PBDAC from its discontinued input supply operations. As indicated in the previous discussion of the financial impact of policy on PBDAC (page 8 above) substantial local currency funds will be transferred to PBDAC by the GOE in conjunction with performance payments by USAID. These local currency contributions will help PBDAC absorb the costs related to discontinued operations.

B. Summary of Technical Analysis

This analysis is a supplement to the administrative and technical analysis prepared as part of the original PP. More specifically, it updates the "Operational Systems" Section found on page 9-11, Annex 7A, which deals with "Management Information Systems" and "Personnel."

1. Management Information Systems

As noted in the original PP analysis, the Management Information System in PBDAC was and continues to be a major area of weakness. Manual accounting systems are slow and inefficient. Compilation and checking of data consumes most employee time; and analysis and feedback of data throughout the system is infrequent. The current system's limitations are also reflected in the fact that balance and income statements are prepared only once a year.

Under the prior SFPP, a streamlined accounting system for its loan program was designed which was applicable throughout the entire village and district bank system and would be implemented as part of the APC Project. A modest, expandable computer/automation system is currently being tested at the PBDAC headquarters and Qalubiya Governorate bank. Training of PBDAC and Qalubiya personnel has been, in large part, completed and sizing of the equipment is underway. This basic system will handle the following accounting applications: general ledger, credit/loan reporting, credit/loan processing, savings passbook, and payroll and will be the basis of an improved MIS for the entire bank. Most of the above is discussed in more detail below.

APCP has moved rapidly over the past year in formalizing an automation plan. The plan included a "Computer Procurement Plan" which has been approved by USAID. The plan calls for the procurement of minicomputers for 14 APCP governorates and the MIS Sector of the PBDAC for the purpose of automating the Bank's accounting systems. Also included are 60 micro-computers to be utilized throughout the same governorates and in PBDAC offices in Cairo for purposes of office automation, financial analysis, and management reporting.

Separate implementation strategies are being finalized through pilot projects (Qalubiya and PBDAC headquarters). Four personal computers have been purchased and installed at the PBDAC in addition to standardizing those in place (obtained from the SFPP Project). Training of a "PC Support" section within the Data Processing Department of the MIS Sector has been completed. Training courses (and trainers) are being prepared to conduct in-house training as the additional 56 PCs arrive and are distributed. It is planned to have a centralized "User Help Desk" at the PBDAC and a small inventory of spare micros for coordinating and controlling software support and maintenance issues. The spare micros will allow malfunctioning units to be replaced and returned to authorized service locations for maintenance/repair without disrupting banking operations.

The minicomputer configurations being procured first are for the implementation of accounting system pilot programs. One will be in the MIS Sector of the PBDAC for systems development, training, and processing of banking applications (loans, general ledger, deposits, and payroll). The second will be in the Qalubiya governorate offices for testing, training and processing. A super micro, one of the 56 PCs noted above, is being utilized at a branch bank in Toukh as a pilot data entry point for village bank processing of loans, deposits, and general ledger. After fine tuning this application will allow for better sizing and workflow analysis prior to finalizing a full detailed implementation plan. In the design phase of development, a preferred strategy was identified by the bank which takes automation down to the branch bank level.

There are 152 branch banks offices in the governorates covered by the PBDAC. The original "Computer Procurement Plan", did not incorporate hardware requirements to include automation in these branches or the three governorate banks which are not under the currently covered APCP. Sufficient resources are being budgeted in the PPA for this purpose. An amended computer procurement plan is envisioned in late 1990 to accomodate the additional computer requirements.

Additional Requirements to be Financed Under the PPA

The infrastructure, including training, to support data processing hardware and software is being formalized as banking applications are developed and implemented. The technical and banking skills of the MIS staff are limited. Standardization is key to the success of bank staff in maintaining implementation timetables, procedures, training, new software development, and the ongoing levels of support required for the MIS hardware and software.

If different equipment and operating systems are utilized due to constraints in funding, the overall effectiveness of systems developed for the Bank under APCP will be hampered and overhead costs increased. The biggest impact that automation can make will only be realized after all governorates are converted and data is captured in timely and controlled processes. Without fully implementing a complete operational process, the Bank will have to continue coping with multiple processing flows which affect productivity, accuracy, and timeliness of reporting.

In order for results from the APCP development of automated accounting systems to be fully realized, minicomputer configurations will be added to the procurement plan for Ismailia, Aswan, and Qena Governorates. This will provide for uniform operating environments and procedures in all governorates as well as facilitate telecommunications requirements between the governorates and PBDAC in Cairo. The Bank can also maintain a standard level of maintenance support from a single vendor for all of Egypt.

The supermicro/minicomputer configuration as it is utilized in the pilot for data entry and processing at the branch (markaz) level is to be added to the APCP procurement plan for all 152 branch locations in Egypt. This will facilitate fully converting and automating the Bank's accounting and management reporting systems. It also provides for uniform operating environments and procedures through the village bank level. Even though the bulk of data to be processed is at village banks, an analysis of requirements, the physical condition of premises (for computer installation), and costs have convinced Bank management not to place data processing hardware in village banks. A branch bank manages a number of village banks (8 to 10) and can facilitate automated reporting and processing functions through better utilization of hardware with its currently adequate staff and facilities.

By including the three remaining governorates and automating 152 branches with uniform hardware and software to support village bank processing, MIS will be in place long after the APCP with fully functional and maintainable operations and a more mature infrastructure able to deal effectively with market, management and technological change.

2. Personnel

Personnel management and training are critical areas to be addressed if the PBDAC and APCP are to achieve project purposes. It is estimated that PBDAC supported by its expansive network of governorate, branch, and village banks in 17 governorates has some 37,000 employees, many of whom were added during the 1976 reorganization. A review of superficial data suggests that around 10 percent are college/university graduates, the majority have secondary degrees and a quarter are illiterate. More data is currently being collected for analysis. Moreover, PBDAC has recently completed a training needs assessment currently being used by PBDAC and Chemonics as the basis for the APCP training plan.

The APCP Training Needs Assessment is summarized in the following seven paragraphs: (Copies of the Training Needs Assessment and Project Baseline Study are available in AGR/ACE.)

The APCP Training Needs Assessment serves as a base document defining the extensive training requirements of some 12,000 Bank employees who will be directly affected by the institutional strengthening component of APCP during the life-of-project. The changes in Bank structure, systems, controls, policy, and procedures required under APCP will over time necessitate training of all relevant personnel throughout the entire network for the Bank to reach optimal efficiency. The Training Needs Assessment for this reason assumes that APCP training activity must extend to all 17 governorates, and a maximum of 120 branches and 500 village banks over the life-of-project contingent on USAID agreement to fund this scope of activity.

Each employee will need to understand the changes, to adopt a positive attitude to support the institutional strengthening, and most critically to acquire new technical skills. Management training will be a core requirement particularly as much of the upper and middle management of the Bank will be retiring within the next two to five years. A comprehensive management skills and banking program is required to both assure a smooth transition of leadership and strengthen the managerial capabilities of the future leaders.

The Training Needs Assessment covers the requirements of PBDAC and governorate bank employees as noted, as well as the requirements of some 5,000 supporting extension staff who collaborate with village bank lending activities and are employed by the MOA. Development of the assessment was a cooperative effort between the APCP technical specialists and the PBDAC designated counterparts. The assessment was conducted over a six-month period beginning April 1989. Needs were identified through the following process: (1) assessment of the skills and knowledge which should exist within the Bank to achieve APCP objectives, (2) assessment of the existing organizational structure, employee functions, and skill/knowledge levels of PBDAC and throughout the governorate banks, and (3) identification of all training needs through analysis of the gaps between (1) and (2) above.

The Training Needs Assessment includes two Data Annexes which quantify the requirements for both in-country training and participant (overseas) training. The assessment further details the existing resource capabilities of the supporting PBDAC and MALR training departments which, with specific staff development and resource expansion, are felt to be adequate. A detailed description is provided for each of the following 12 technical areas: credit and lending; farm related business; finance and capital management; accounting; auditing; planning, budgeting, and reporting; management; MIS and data processing; trainer skills; training; administration; and special financial services. The last area includes the majority of the extension staff training requirements.

The majority of the training requirements, over 99 percent, are in-country. The in-country training strategy as detailed in the Needs Assessment document focuses on (1) quality curriculum design and development including modern training methods, (2) trainer development of technically qualified Bank staff, (3) standard uniform application of training subject matter by all trainers, (4) utilization of local training institutes for highly technical courses, and (5) consideration for the training needs of women.

The assessment results show that some 309,911 participants will need to attend over 70 different types of training courses and workshops in-country beginning July 1989 through the anticipated end-of project in September 1995. Of this total number of training participants or "attendees," over 67,546 are bank employees. The remaining 242,365 attendees are extension staff requiring primarily seasonal technical package training to support the Bank's credit development and improve agricultural production. The assessment results show the need for 1,238,884 person/days of which over 548,237 are for bank employees. Training is primarily held in the governorates on a non-residential basis. The assessment results support the present development of adequate training facilities in each governorate under APCP.

Participant training is recommended based on clearly defined training objectives only when suitable in-country training is unavailable. Observational tours to third country sites and the U.S. where relevant applicable models exist, which will assist the bank in implementing required changes, are recommended. Participants are selected based on potential future contributions to the project and are evaluated upon their return. The assessment results show the need for 1,011 participant training opportunities over the life-of-project. The APCP executive managers have prioritized the requirements across technical areas to some 200 opportunities to assure proper management within LOP.

C. Women in Development

Legislation directs USAID to "seek to ensure that Mission projects and programs are designed so that the percentage of women participants will be demonstrably increased." The ANE Bureau's similarly outlined requirements both reinforce and amplify this Congressional mandate by holding Missions responsible for "ensuring that gender issues are reviewed systematically in all programming and project documents."

The Mission's WID strategy is focusing on agriculture, industry, education, and health as primary target areas as a response to these requirements. Both APCP and NARP are targeted WID projects within the agricultural sector.

Last year, APCP conducted two small surveys to try to determine the female participation rate in some of the PBDAC village banks. While the surveys vary greatly with regard to the number of women borrowers, the studies did arrive at several important findings:

For example, only a small fraction of women has access to credit. The lack of land registration and lack of information about PBDAC opportunities, as well as the lack of women on village bank committees which make loan decisions, were reported as some of the main obstacles for access to credit for women. It was also noted that the majority of potential women borrowers are illiterate and older, that women take out relatively small loans (less than LE 1,000), and use the loans for agricultural inputs, especially milk production and livestock.

Several recommendations to enlist more women as borrowers from, and depositors in, village banks were the outcome of these studies as well as the APCP target of the WID strategy. Some of the recommendations which have already taken place include:

- Encourage PBDAC headquarters to develop strategies to increase credit opportunities for women, the Bank appointed the Special Assistant to the PBDAC Chairman to serve as WID Coordinator, promoting women issues within the central and village banks.

- A training package, which includes WID sensitivity, opportunities for women to lend and as source of potential depositors, have been developed for the semi-annual training of village bank managers.

- A gender analysis of women in the PBDAC headquarters has been developed. This analysis will be used to identify training needs for upward mobility and leadership potential for women.

VI. CONDITIONS, COVENANTS AND NEGOTIATING STATUS

A. Conditions Precedent to Performance Disbursement

The following conditions precedent to performance disbursement are proposed for addition to the Project Agreement:

(1) the requirement precedent set forth in Section 4.1 shall have been met;

(2) The Grantee shall be determined by AID to be making satisfactory progress towards the implementation of a comprehenisve program of agricultural reforms;

(3) the Grantee shall be in compliance with all of the terms, conditions and covenants of the Grant Agreement;

(4) the Grantee shall have furnished, in form and substance satisfactory to AID, evidence that an amount of Egyptian pounds equivalent to the amount of the next performance disbursement has been deposited by the Grantee as a capital contribution to PBDAC;

(5) the Grantee shall have furnished, in form and substance satisfactory to AID, a designation of the interest-bearing bank account to which Grant proceeds of performance disbursements made pursuant to Section 7.5 are to be deposited, together with the Grantee's and the bank's certification that such bank account is established and will be maintained in the manner required by the Grant Agreement; and

(6) the Grantee shall have furnished, in form and substance satisfactory to AID, a statement of the means by which funds deposited to the bank account designated pursuant to Section 4.2 (e) will be withdrawn.

B. Covenants

The following four covenants are proposed for addition to the Project Agreement:

(1) Retention of Earnings by PBDAC. The Grantee shall not share in PBDAC's gross earnings for any fiscal period which result from contributions made to PBDAC by the Grantee under this Project and under the Small Farmer Production Project.

(2) Financing of PBDAC's Operating Expenses. At least one-third of the earnings referred to in (1), above, shall be used by PBDAC to finance its operating expenses and administrative costs.

(3) Monitoring and Reporting. A monitoring and reporting system will be established by PBDAC to produce information and reports in form and substance satisfactory to AID.

(4) Agreed Uses for Performance Disbursement Grant Proceeds. Grant proceeds of performance disbursements will be used for any or all of the following:

(a) to purchase equipment or commodities of US source and origin;

(b) to repay debts of the Grantee, either owed to or guaranteed by the United States of America; and/or

(c) such other uses as agreed to, in writing, by the Parties;

provided, however, that Grant proceeds of performance disbursements may not be used to import equipment or commodities, or to service debt related to equipment or commodities, for use by military or police organizations.

(5) Accounting for Performance Disbursement Grant Proceeds. The Grant proceeds of performance disbursements will be deposited to an interest-bearing bank account established by the Grantee solely for the receipt of the proceeds of such performance disbursements by AID, together with any interest earned on funds so deposited. Such proceeds may not be co-mingled with other funds from whatever source. Any interest earned on this account will be treated as though it were principal.

(6) Replenishment of Grant Proceeds. The Grantee agrees to redeposit to the bank account US Dollars equal to the amount of any Grant proceeds used for purposes prohibited or not permitted under Section 5.8, and to treat such deposited amounts as though they were principal.

(7) Local Currency Account.

(a) The Grantee will establish a separate, non-commingled Local Currency Account in the Central Bank and will deposit into such account Egyptian pounds of the Grantee as a result of the sale or importation of equipment or commodities financed with performance disbursements.

(b) The Grantee shall make such deposits to the Local Currency Account at the highest rate of exchange prevailing and declared for foreign exchange currency by the GOE.

(c) Funds deposited to the Local Currency Account pursuant to the foregoing shall be used for such purposes as shall be agreed to by AID and the GOE.

(d) Any unencumbered balances of funds which remain in the Local Currency Account upon termination of the project shall be used for such purposes as may then be agreed to between the Grantee and AID.

(e) The Grantee will maintain documents, in accordance with generally accepted accounting principles, in support of expenditures from the Local Currency Account. Such documents will be available for review by AID for a period of three years following the last deposit to the Local Currency Account.

(f) Local Currency Account funds, if any, not used in accordance with the foregoing will be replenished by the Grantee from its own resources.

Covenants B (1) and B (2) were requested by PBDAC in order to limit the GOE's right to receive transfers from PBDAC and in order to establish PBDAC's right to expend a certain level of funds for operating expenses and administrative costs. GOE practice is to require that earnings be remitted to the Central Bank. However, PBDAC believes including covenants B (1) and B (2) in the Project Grant Agreement will result in the GOE allowing PBDAC to retain these earnings, despite the normal practice. USAID believes that limitation of the GOE's right to receive transfers from PBDAC and authority for PBDAC to expend a certain level of funds for operating and administrative expenses would be helpful to PBDAC. The wording of the covenants is intended to facilitate the establishment of the foregoing rights by PBDAC and does not imply that capital contributions under the two projects or the earnings therefrom are maintained in segregated accounts. PBDAC has informed us that it currently maintains records on these earnings and their use, and will continue to do so under the Amendment. USAID's monitorship of the retention and application of these earnings will be satisfied by receipt of periodic reports from PBDAC regarding these matters.

C. Negotiating Status

As described in Section II.B.1. supra, disbursements for the Policy Reform component of the project will be linked to satisfactory performance of benchmarks and targets described in further detail and/or quantified in a separate Memorandum of Understanding, and agreed by the GOE and USAID. It is anticipated that negotiations on the MOU will be completed in August 1990. The initial review of performance for Tranche 4 (the initial tranche under this amendment) is anticipated in November - December 1990.

Life of Project:
From FY 86 to FY 95
Total US Funding: 283 million
Date Prepared: 3/90

Project Title & Number: Agricultural Production Credit Project Amendment

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATIONS	MEANS OF VERIFICATIONS	IMPORTANT ASSUMPTIONS
Goal:	Measures of Goal Achievement:		Assumptions for achieving goal targets:
To increase agricultural investment, agricultural productivity, and farm incomes.	Ag. production major crops has increased substantially. Per hectare production has increased. Farm income has increased.	MOA production statistics by Crop Farmer surveys.	Policy changes are sufficient to provide the incentives farmers need to increase production. Ag. inputs not affected through this project (e.g. irrigation water) are adequate to allow for expanded production.
Project Purpose:	End of Project Status:		Assumptions for achieving purpose:
To provide farmers with new technology, improved financial services, and expanded access to input supply, so that they can take advantage of higher returns to investment in a deregulated agricultural sector.	Farmers have easier access to adequate amounts of inputs, including credit, at market prices. Private dealers and cooperatives have increased their share of input supply operations, with PBDAC decreasing its operations accordingly.	Farmer surveys. Analyses of production data. Field Trips to rural markets. Special studies to analyze trends in PBDAC and private participation in input distribution.	Changes in PBDAC, along with incremental ag. reforms, are sufficient to bring about improved access to credit. Private dealers have adequate incentives and skills to expand their rural operations.

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATIONS	MEANS OF VERIFICATIONS	IMPORTANT ASSUMPTIONS
Project Purpose:	End of Project Status: Farmers are using improved technologies disseminated by village teams. Value and share of loans to small farmers and entreprenuers have increased. Farmers are using greater quantities of inputs in better combinations in response to market signals.	PBDAC loan records	Assumptions for achieving purpose: Technologies provided by village bank teams and by private dealers are appropriate, and farmers accept them.
Outputs: A. GOE Policy Reforms 1) Prices liberalized for cotton. 2) Delivery quotas for rice	Magnitude of Outputs: Net procurement price to 66% of international price by 1992. Intermediate targets to be included as benchmarks in a separate Memo of Understanding between USAID and MOA. Benchmarks to be included in	Means of Verification: Review & Analysis of GOE progress on agreed-upon reforms by USAID and MOA staff for annual disbursement reviews Information Sources: GOE announcements & decrees Field trips	Assumptions: A separate MOU with specific benchmarks is signed. USAID's total program, along with proposed resources of IBRD, result in sufficient influence

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATIONS	MEANS OF VERIFICATIONS	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:	Means of Verification:	Assumptions:
and restrictions on private marketing eliminated by 1992.	MOU.	Interviews	to help convince GOE to schedule. Public support for reforms will be adequate to allow the program to be implemented.
3) Budgetary and exchange rate subsidies removed from farm inputs and farm credit.	Benchmarks to be included in MOU.		
4) Legal and competitive environment to expand private marketing of inputs.	Benchmarks to be included in MOU.		The GOE will do sufficient analysis to anticipate social problems that may result from the reforms, and will take actions to reduce adverse social consequences.
5) Public sector input distribution monopolies eliminated.	Benchmarks to be included in MOU.		
(The above is a summarized list of the key GOE agricultural reform proposals.)			
B. Strengthen PBDAC			
1) Improved systems in governorates and vil. banks: a) to simplify borrowing procedures and reduce transaction time. b) To improve efficiency banking and credit operations.	Within 9 years: Streamlined procedures in 14 governorate banks, 450 village banks. 450 local advisory groups.	To be analyzed in ongoing project monitoring and during scheduled evaluations: Technical assistance team progress reports	The inputs programmed are sufficient to bring about proposed procedural changes.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATIONS	MEANS OF VERIFICATIONS	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:	Means of Verification:	Assumptions:
2) Development of local advisory groups in 450 village banks.		Project records Site visits to village banks. Interviews with PBDAC and TA	PBDAC has the will to revise drastically its mode of operation and to phase down input supply.
3) Training and fielding of village teams of extension workers, financial analysts and other specialists to disseminate new technologies to farmers.	10,000 "team" members trained. Teams fielded in 450 villages.	Special study of sample of PBDAC village banks PBDAC input distribution	
4) Trained bank staff in business lending, loan evaluation, MIS, etc.	Bank staff trained		
5) Implementation of new bank policies to promote private business involvement in input supply and to phase down PBDAC's input distribution functions.	New policies developed and instituted: specific topics to be determined by T.A. team. Benchmarks to be determined.	Site visits to interview private input supply dealers.	The GOE will agree to a lower % of highly subsized agricultural loans.
6) Increase in PBDAC's financial viability.	- lending rates increased - increased capital/asset ratio - decrease in ratio of non-interest operating expense to assets. - retention of gross earnings from project contributions		

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATIONS	MEANS OF VERIFICATIONS	IMPORTANT ASSUMPTIONS
Outputs:	Magnitude of Outputs:	Means of Verification:	Assumptions:
7) Increased PBDAC capitalization, through either increased retained earnings or increased contribution from Ministry of Finance.	Capitalization increased to at least 8 percent of assets.	Annual audited balance sheet.	
Inputs Provided by USAID:	Implementation Target (Type & Quantity):		Assumptions for providing inputs:
1) Technical Assistance: $16.4 million and $4.2 in LE equivalent	1) TA support for up to 9 years for PBDAC management improvement in finance, credit, investment, MIS, accounting, personnel, privatization studies.	- Project progress reports - Project records - Site visits to be analyzed in ongoing project monitoring and during evaluations.	AID and GOE provide inputs in a timely fashion. Performance benchmarks are realistic and can be accomplished by the GOE as scheduled.
2) Training: $1.7 million and $3.7 million in LE equivalent.	2) In-country training for 15,000 PBDAC and NES employees Overseas, short-term training for middle-management.		Implementation schedule is realistic. GOE policies allow projected T.A. and training to occur.
3) Commodities: $4.6 million and $450,000 in LE equivalent.	3) Computers, vehicles, office equipment for PBDAC, BDAC's and village banks.		

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATIONS	MEANS OF VERIFICATIONS	IMPORTANT ASSUMPTIONS
Inputs Provided by **USAID:**	Implementation Target (Type & Quantity):		Assumptions for providing inputs:
4) Services: $600,000 and $250,000 in LE equivalent.	4) Repair & maint. contracts, evaluations, audits etc., Extension agent incentive payments (HC contributions). (HC contributions)		
5) Performance Disbursements: $250 million	5&6) Annual performance disbursement levels to be determined based upon annual performance reviews will also determine adequacy of capitalization of PBDAC.		
6) PBDAC Capitalization funds: (Provided by GOE)		PBDAC capitalization: tracking mechanism developed by AGR/ACE and FM offices with PBDAC providing regular reports.	

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Annex 3

ARAB REPUBLIC OF EGYPT

MINISTRY OF INTERNATIONAL COOPERATION

DEPARTMENT FOR ECONOMIC COOPERATION

WITH U. S. A

Sept.,5,1990

Mr. Charles F. Weden
Acting Director
USAID/Cairo

Dear Mr. Weden

This is to request A.I.D. life of project funding of $283 million for the Agricultural Production and Credit Project (263-0202). Of this amount, $25 million are proposed for obligation in FY 90.

The Government of Egypt contribution over the life of the project totals LE 645.757 million.

This project continues to provide farmers with new technology, improved financial services and expanded access to input supply, so that they can take advantage of higher returns to investment in a deregulated agricultural sector.

Sincerely yours,

Dr. Hassan Selim
Administrator.

UNITED STATES GOVERNMENT

memorandum

DATE: April 9, 1989

REPLY TO ATTN OF: OD/PDS/PS, Frank Miller

SUBJECT: Agricultural Production and Credit Project, No. 263-0202
Executive Review of Concept Paper

TO: Members of the Executive Committee (See Distribution)

The Executive Committee met on April 6, 1989 to review the subject concept paper. The concept was approved and the project committee was instructed to address the following concerns in the development of the project paper amendment.

1. Financial Reporting: The Mission needs to insure that we receive accurate and adequate financial reports from PBDAC on a timely basis. With the recent arrival of the TA team, PBDAC should be able to provide AID with financial reports on a regular basis.

2. PBDAC's long-term financial soundness and viability must be addressed in the PPA as a long-term goal. Steps to change the structure of PBDAC will be designed to contribute to this goal.

3. As one of the conditions for USAID performance payments, the GOE is currently disbursing a corresponding amount of funds to PBDAC on a grant basis. USAID would like to see PBDAC graduate to paying a rate of interest on such funds that reflects the marginal cost to PBDAC of interbank funds.

4. Gender issues will be taken into consideration on both the policy and institutional strengthening components of the PPA.

5. The policy agenda will be highlighted in the PPA design; different policy alternatives will be discussed and the optimal choice clearly justified.

6. The concept paper will be revised to emphasize policy issues more clearly.

Clearance:
OD/AGR/ACE, JFoti ________

BEST AVAILABLE COPY

Distribution:

DIR:MBrown
DD:CWeden
AD/AGR:EStains
AD/DR:PThorn
AD/FM:WMiller
AD/HRDC:WGelabert

AD/IS:GHuger
AD/LEG:KO'Donnell
AD/PDS:VMolldrem
PDS/E:PO'Farrell
PDS/E:DDod
A/OD/PDS:DLeaty

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FAA Section 611(a) Requirements

Section 611(a) of the Foreign Assistance Act requires that no agreement or grant which constitutes an obligation of over $100,000 of US funds shall be made "if such agreement or grant requires substantive technical or financial planning" until (1) "engineering, financial, and other plans necessary to carry out such assistance, and a reasonably firm estimate of the cost" to the US Government have been completed and (2) any necessary "legislative action within the recipient country" has occurred or can be expected to occur with a timely manner.

The considerations of adequacy of planning required by Section 611 (a) have been met. The technical and financial analyses presented in the Amended Project Paper have disaggregated and investigated the costs associated with project activities to be financed with AID resources. PBDAC and the MOA, more specifically their technical staffs, have proven to be fully competent to negotiate, award, implement and monitor contract and project activity performance.

No further legislative action on the part of the GOE is required for Project implementation. Ministerial degrees necessary to undertake planning and imnlementation of agricultural policy reforms are pretty much in place. Some additional degrees are likely and will be associated with agreed to tranche benchmarks. However, no formal legislation is anticipated.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE BUREAU ENVIRONMENTAL OFFICER

Date : March 19, 1990.

FROM : Ken LuePhang, Mission Environmental Officer, USAID/Cairo

SUBJECT : Agricultural Production and Credit Project (APCP)
Project No. 263-0202.
Concurrence in the Initial Environmental Examination (IEE)

ISSUE:

Your concurrence is requested for a "Categorical Exclusion" IEE for a project amendment adding $160 million of financial resources to the subject project.

BACKGROUND:

The APCP was authorized and approved on September 30, 1986. The goal of the project was to increase farm incomes, agricultural investment, and agricultural productivity in Egypt by supporting deregulation of the agricultural sector and introduction of a market based incentive system.

The APCP was designed to encourage and accelerate the movement toward agricultural policy reform. Reform benchmarks were negotiated with the GOE in 1986 and a timetable set up at the project's inception. USAID transfers dollar denominated performance payments to the GOE in tranches based on implementation of the planned changes.

Project implementation has been as planned. The GOE has reduced public sector controls over crop production, marketing, and processing. Farm input subsidies are being phased out. Performance disbursements have taken place on schedule. Now, the Ministry of Agriculture (MOA) and USAID need to develop an additional two to three year strategy for further sector policy reforms. This project amendment will continue, expand, and strengthen project activities which were introduced in the Project Paper. As the government decreases its role as direct importer, distributor, and investor, the APCP, through the Principal Bank For Development and Agricultural Credit (PBDAC), will expand its clientele to help private companies develop as suppliers of inputs and services to farmers and farm related services.

The original project had a "Negative Determination," and thus an environmental assessment was not required.

DISCUSSION:

Like the original project, the amended project will have no direct environmental impact. The proposed activities, again, are essentially banking, and the technical assistance provided is geared towards institutional building and improving the PBDAC financial services capabilities. Land use patterns will not be altered as part of this activity. Improving storage facilities will result in reducing health hazards to the farming community.

Such a project is clearly qualified under S216.2(c)(2)(x), Applicability of Procedures, Categorical Exclusions: "The following classes of action are not subject to the procedures set forth in S216.3 (Procedures -- Preparation of the IEE) except to the extent provided herein: Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution;..."

In compliance with USAID/MOA policy towards implementing a comprehensive agricultural program rather than separate project activities, the use of fertilizers and pesticides will be guided by the technology developed by the Agricultural Research Center (ARC). The ARC environmental concerns emphasize the importance of an integrated pest management and crop protection system that would substantially contribute to productivity increase and farmer's profitability under a free market environment.

AUTHORITY:

Under USAID Environmental Procedures, 22 CFR part 216.3(a)(2)(i), you may signify your concurrence with the determination by the officer in the originating office.

RECOMMENDATION:

That you concur with the IEE "Categorical Exclusion" by signing below and on the attached face sheet, which will be used as an Annex to the amended Project Paper. Please return the original copies of the signed documents for our files.

CONCUR: M. Kux
Molly Kux, ANEE/PD/ENV

NOT CONCUR: ____________________

DATE: 5-23-90

INITIAL ENVIRONMENTAL EXAMINATION

Project Location	:	Egypt
Project Title and Number	:	Agriculture Production and Credit Amended Project No. 263-0202
Funding	:	A.I.D.: FY 1990 US $ 30 million
	:	FY 1991 US $ 65 million
	:	FY 1992 US $ 65 million
		LOP (amended) US $160 million
		Total LOP (including amendment) US $283 million
		GOE : LOP LE 387.45 million
Life of Project	:	PACD Extends by two years to September 30, 1995
IEE Prepared by	:	Signature John A Foti John Foti AGR/ACE USAID Project Officer
		Date March 19, 1990
Environmental Action Recommended	:	Categorical Exclusion
Mission Environmental Officer's concurrence	:	Signature Kenneth P LuePhang Kenneth P. LuePhang
		Date March 19, 1990
Associate Mission Director's Concurrence	:	Signature William H. Smith For Paul Thorn, AD/DR
		Date
Decision of Environmental Officer, Bureau for Asia and the Near East	:	Concur M. Kux Molly Kux, ANEE/PD/ENV
		Not Concur
		Date 5-25-90

INITIAL ENVIRONMENTAL EXAMINATION

Agricultural Production and Credit Project (APCP)
Project No. 263-0202.

I. Examination of Nature, Scope, and Magnitude of Environmental Impacts

Description of Project
The APCP was developed to assist the Egyptian Ministry of Agriculture (MOA), through the Principle Bank for Development and Agricultural Credit (PBDAC) in changing the function of PBDAC from that of input distributor to a genuine credit institution.

Background
The APCP was authorized and approved on September 30, 1986. The goal of the project was to increase farm incomes, agricultural investment, and agricultural productivity in Egypt by supporting deregulation of the agricultural sector and introduction of a market based incentive system.

The APCP was designed to encourage and accelerate the movement toward agricultural policy reform. Reform benchmarks were negotiated with the GOE in 1986 and a timetable set up at the project's inception. USAID transfers dollar denominated performance payments to the GOE in tranches based on implementation of the planned changes.

Project implementation has been as planned. The GOE has reduced public sector controls over crop production, marketing, and processing. Farm input subsidies are being phased out. Performance disbursements have taken place on schedule. Now, the MOA and USAID need to develop an additional two to three year strategy for further sector policy reforms. This project amendment will continue, expand, and strengthen project activities which were introduced in the Project Paper. As the government decreases its role as direct importer, distributor, and investor, the APCP, through the PBDAC, will expand its clientele to help private companies develop as suppliers of inputs and services to farmers and farm related services.

The original project had a "Negative Determination," and thus an environmental assessment was not required.

Identification and Evaluation of Environmental Impacts
The project fits the Categorical Exclusion as described under USAID Environmental Procedures S216.2(c)(2)(x), Applicability of Procedures: "The following classes of action are not subject to the procedures set forth in S216.3 (Procedures -- Preparation of the IEE) except to the extent provided herein: Support for intermediate credit institutions when the objective is to assist in the capitalization of the institution or part thereof and when such support does not involve reservation of the right to review and approve individual loans made by the institution;..."

II. Recommendation for Environmental Action

Recommendation for Threshold Decision
Based on the above findings, I recommend that you concur that the project fits the Categorical Exclusion as described under USAID Environmental Procedures S216.2(c)(2)(x), Applicability of Procedures.

Annex 6

UNITED STATES GOVERNMENT

memorandum

DATE: April 24, 1990

REPLY TO ATTN OF: AGR/ACE, John Foti

SUBJECT: Agricultural Production and Credit Project, 263-0202
Project Document: Project Paper Amendment

TO: OD/PDS/PS, Frank Miller

1. The attached project document has been prepared by AGR/ACE for review by the Executive Committee. The Project Committee approved the subject document in a review meeting on April 19, 1990

The Project Committee and officers named below have reviewed the document and find the format, analysis and presentation consistent with Mission requirements.

2.

Project Committee	Clearance	Date
John Foti, AGR/ACE		2 May 1990
Mary June, PDS/PS	for	5/23/90
David Dod, PDS/E		5/2/90
Todd Amani, PDS/E		[illegible]
Vicki Moore, LEG		5/25/90
Herme Pangan, FM/FA		5/24/90
Vicki Kunkle, PDS/P		5/2/90
Ken LuePhang, DR/ENG		5/29/90
Edwin Stains, AD/AGR		28 May 90

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114

Moreover, after passing through the rise in cotton price to local mills, improved industrial efficiency is expected to be induced, especially when local mills start using more imported, cheap cotton. To the extent that they continue to use the expensive LS and ELS varieties of Egyptian cotton, the local mills will also find it necessary to use them exclusively for producing fine, high-count yarns.

Input prices and marketing. On the input side, freer input prices (which should be coupled with freeing crop prices) means higher cost to farmers. On the other hand, the GOE budget will benefit from lower financial subsidies allocated to agricultural inputs. The GOE plans to completely phase out agricultural input subsidies by 1992/93. On the national level, the elimination of input subsidies should lead to more efficient use of resources, e.g. lower consumption of fertilizers and livestock feed. By removing existing GOE monopolies and quotas for fertilizer, livestock feed, and seed, the APC-supported reform program will open new market channels that should greatly improve the quality (feed, seed) and end-use patterns (fertilizer, feed) for those inputs.

As for fertilizer production, reform of current distorted ex-factory prices will induce more rationalization of incentives for future investment in Egypt's fertilizer industry (e.g., to produce more nitrogen and less phosphate; to enhance product quality to meet standards set by competing distributors).

Effects on incomes of farmers and consumers. For farmers, the net impact of the planned policy measures for 1990-1992 is expected to be positive. At current levels of production and input use, the net positive impact of price and subsidy reforms would be approximately LE 350 million (see following table). In fact, the full effect on farm income is expected to be much stronger as a result of farmers' shifts toward higher valued crops and toward more efficient use of inputs.

Farm Budget Impact	Estimated Farmgate Price Pre-Reform (in 1989 prices)	Post Reform	Quantity Produced (1989)	Effect on Farm Income (LE mill)
Increased Crop Prices:				
Cotton Prices, ELS	LE 205	LE 380	1.7*	300
LS		LE 320	4.7*	540
Rice prices	LE 388	LE 530	2.5*	355
Subtotal				1,195

* Assuming a normal yield.

Farm Budget Impact	Estimated Farmgate Price Pre-Reform (in 1989 prices)	Post Reform	Quantity Bought (1989)	Effect on Income Farm (LE mill)
Increased Charges or Reduced Subsidies for:				
Fertilizers				470**
Pest Control	LE 20/fed	LE 140/fed	1.0 mil fed	120
Livestock feed	LE 205/ton	LE 350/ton	1.35 mmt	200
Farm Credit				45
Seed				10
Subtotal				845
NET IMPACT ON FARM INCOME (price effects only)				350

For consumers, the total impact of freer crop prices may be negative as a result of eliminating the production level subsidies for cotton yarn, milled rice, and cotton seed oil. As an offset, if the GOE decides to reduce current barriers to imports of poultry and red meat, consumers could expect lower prices for poultry, red meat and possibly dairy products. In 1989, the local price of beef, for instance, was estimated at about 200 percent of its economic price. (It should be noted that, for purposes of this project amendment, the relaxation of meat import barriers is not now projected to be one of the reforms for 1990-92.)

For the Government of Egypt, the net effect on the consolidated budget position of the government is expected to be strongly positive. The reduction of the high, current effective tax rate on raw cotton exports will be largely or fully offset by the projected tripling in the volume of GOE cotton exports. The higher costs of locally produced lint used by domestic cotton spinning mills will be largely passed on to customers. Meanwhile, as shown above, the direct and indirect burden of subsidies on farm inputs is projected to fall by about LE 845 million (in 1989 prices).

Summary of reform impact. From the above, one can conclude that liberalization of the agricultural sector will have a net positive impact on the society as a whole since resources should be allocated more efficiently under free market prices, where market forces will have a major role in determining the equilibrium quantity of production and imports (i.e. total quantity supplied). The cropping pattern will be shifted toward higher value crops (cotton, rice). The contemplated elimination of most input subsidies by 1992/93 will also rationalize farmers' use of farm inputs.

** Fertilizer subsidy consists of a budget subsidy of LE 183 million, an estimated exchange rate subsidy of LE 145 million, and an estimated price distortion related to controlled ex-factory prices of approximately LE 140 million.

FINANCIAL STATUS OF PBDAC

A. Focus of Financial Analysis. The purpose of this analysis is to provide a status report on PBDAC's financial condition based on the financial statements prepared by the Bank and on the progress reports provided by the project technical consultants. We do not have, at this time, sufficient knowledge of PBDAC's accounting and financial policies and practices to enable us to make a full assessment of the Bank's financial performance and financial strength. The project technical consultants, in accordance with their contract scope of work, have provided us some insight into PBDAC's financial accounting and reporting practices. The consultants' concerns relative to accounting and finance are included in section C of this report. USAID will consider requiring complete presentation by PBDAC, as a deliverable under the Memorandum of Understanding, of all the accounting principles used in its operations. Only after we have determined and assessed all the relevant accounting principles and practices applied by the Bank, can we identify areas where remedial measures may be needed to enable the Bank to improve its capital and organizational structure, and enhance its position towards becoming an independently viable financial institution. Also, at an early stage in the period covered by this amendment, USAID will require PBDAC to complete a strategic financial plan that will indicate specific remedies that can and will be taken toward that end during the period of the project.

B. Background. In accordance with the APC project grant agreement signed in September 1986, USAID has provided funds amounting to $100 million to support the GOE agricultural sector reform program. The GOE in turn has made capital contributions amounting to LE 234 million, corresponding to the local currency equivalent of the USAID performance disbursements.

PBDAC comprises an integrated system for the supply of production inputs for producers, of credit for agricultural producers, processors, and marketers, and of general banking services throughout the nation. This system consists of the Principal Bank, Governorate Banks, District and Village Banks, and Agencies. The latter exists primarily to supply inputs purchased by users on the basis of loans extended through the PBDAC credit system.

PBDAC's crop loan and input supply operations resemble more a public sector institution than a commercial bank. Engaged in the sale and distribution of agricultural production inputs (e.g. fertilizer, pesticides), the Bank functions as an extension of the Ministry of Agriculture. The distribution of production inputs and, in certain cases, the acceptance of crops in lieu of cash payment are considered credit extension and credit collection. At the direction of the GOE, PBDAC's operations are often conducted on a subsidized basis. The Bank provides subsidized production inputs. The farmer pays for only a part of the input costs, the remaining portion is paid to PBDAC by the GOE through budgetary allocations. In addition, the GOE, through the MOA, determines the in-kind (inputs) and cash requirements of the farmer for each crop. PBDAC provides the farmer with the loan package of inputs and cash. The farmer repays the loan at a highly subsidized interest rate established by the GOE. The subsidy or the difference between market interest rates and the lower-than-market rates that the Bank charges its borrowers is paid back to PBDAC by the GOE.

The CBE sets applicable ceilings to PBDAC's interest rates, that is, deposit and lending rates. It establishes preferential low interest rates on overdraft accounts that the Bank maintains with four public banks. These overdraft accounts form the single largest funding source for PBDAC: LE 1.4 billion or 30% of the total liabilities as of June 30, 1989. The CBE also sets low artificial foreign exchange rates on imported fertilizers and pesticides that the Bank sells as an agent for the MALR.

Overall, PBDAC's ties with the government have benefitted the Bank as indicated by its increased earnings over the years but have tended to inhibit the Bank from operating on an independent, commercially viable basis.

C. Issues Relating to PBDAC's Financial Condition and Practices. Following is a discussion of certain accounting and financial issues that impact on the Bank's condition as a credit institution. This discussion is based on PBDAC's financial statements prepared by the Bank, and on the progress reports provided by the project consultants. The consultants have identified a number of weaknesses in PBDAC's financial structure, policies, and procedures.

1) Profitability. PBDAC's financial statements showed that the Bank's gross revenues from banking and non-banking operations had increased by 80% from LE

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392.4 million in 1986 to LE 705.3 million in 1989. Banking revenues, which were derived from banking operations, subsidy interest, investment and agricultural loans, represented a 64% share of PBDAC's 1989 gross revenues. Non-banking revenues, which were derived mostly from trading in inputs, represented a 36% share. However, the operating profit (gross revenues minus attributed operating expenses) derived from banking operations represented only a 52% share of PBDAC's 1989 total operating profit; whereas, operating profit derived from non-banking operations represented a 48% share. This indicated that the non-banking activities were more profitable for the Bank than its banking activities.

The rate of return on assets (ROA), which is determined by dividing "income" by total assets serves as an index in evaluating the relative standing of an entity in the industry. PBDAC's 1989 rate of return was 1.1% on total assets and which is about average for a U.S. commercial bank. The Bank's ROA is better than the average rate for GOE-owned commercial banks. It appears, therefore, that the Bank is earning a satisfactory rate of return. However, it should be noted that an entity's ROA depends on numerous factors including the nature of competition and of financial accounting and reporting.

Profitability may not be a very meaningful measure of the Bank's performance because of the absence of competition in certain activities. Trade in fertilizers, for example, is an exclusive monopoly of the government. About 58% of PBDAC's 1989 non-banking operating profit was derived from fertilizer activities. The government has also a virtual monopoly in some, if not all, aspects of importation, domestic production, storage, feed, seed, pesticides, and jute bags. About 17.3% of PBDAC's 1989 non-banking operating profit was derived from these input activities. In the case of agricultural credit, PBDAC is the principal source of agricultural credit and practically the only source of seasonal credit to small farmers. Revenues derived from agricultural loans represented a 39.3% share of the Bank's 1989 total banking operating profit.

Moreover, the amount of net income reported by PBDAC in any given period can be affected by the accounting principles and practices followed. Net income may be over or understated depending on the accounting treatment of certain items, such as subsidies and provisions for loan losses. As mentioned earlier in this report, at this stage, we do not know all the accounting principles being applied by the Bank. Accordingly, we can not fully assess PBDAC's financial performance.

2) Capital Structure. PBDAC is legally required to return most of its annual earnings as commercial profit tax and dividends to the MOF on behalf of the GOE as owner of PBDAC. The commercial profit tax taken by GOE is a flat 40% but it is levied on a larger base including certain items besides the net income, resulting in a higher effective tax rate. In 1988, between tax and dividends, GOE received 80% of PBDAC's net income. This results in very small and declining retained earnings to increase the Bank's capital.

Disregarding the allocation of capital funds from the APC project, the yearly increase in equity, or the growth rate due to retention of earnings, is too low and lags well behind the rate of inflation. Disregarding the APCP funds, the ratio of total equity to total asset declined from 4.5% in 1987 to 3.8% in 1989. The most direct means to remedy the slow growth would be to allow the Bank to retain its profits. However, according to PBDAC management, a change in the legal requirement would require a change in legislation. No change in the legislation is being contemplated at this time. An alternative, indirect means of generating internal additions to PBDAC's equity is through retention of earnings attributable to the APC project-related capital contributions. The retention of a part of the gross earnings derived from APC capital contributions should be specified in the Amendment to the Project Agreement.

3) Foreign Exchange Position. The Bank's foreign exchange position cannot be accurately measured because of the use of multiple exchange rates and the cumbersome accounting system within PBDAC. The importation of inputs such as fertilizers and pesticides is financed by PBDAC through letters of credit (L/Cs) for government entities. When the L/Cs become due, the CBE makes the foreign currency payment to the correspondent bank on behalf of PBDAC. PBDAC accounts for these transactions in LE at an artificial official exchange rate (formerly LE 0.707 per U.S. dollar, now LE 1.11 per U.S. dollar). When the CBE fails to make the payment upon the L/C's maturity, the correspondent bank

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debits the PBDAC account. This usually results in an overdraft position. PBDAC apparently recalculates the liability at the exchange rate of LE 2.250 and pays to the correspondent bank overdraft interest at the GOE-administered rate of approximately 8% annually.

PBDAC, with the assistance of its long-term consultant' and in coordination with CBE, needs to review its foreign exchange operations, determine its foreign exchange exposure, and develop and implement a more accurate and realistic accounting and reporting system.

4) Loan Loss Provisions. PBDAC's estimate of its potential losses from a possible failure to collect the full amount of its loans receivable was LE 156.9 million for FY 1989. The ratio of this estimate (provision for loan losses) to total loans receivable has increased from 3.37% in FY 1986 to 5.8% in FY 1989. Although this ratio is high compared to the average ratio for a U.S. commercial bank and is considered adequate by PBDAC management, the project technical consultants are concerned that the estimate maybe low in light of observed credit problems.

A good way to determine the adequacy of the provision for loan losses is to make an analysis of loans receivable by age group and probability of collection. There exists a significant correlation between the length of time an account is past due and its collectibility. Unfortunately, the Bank does not "age" its loans receivable; that is, the Bank does not classify the loans according to whether the amounts are not yet due, or past due by varying lengths of time. A loan classification system would facilitate the early identification of potentially bad loans and the appropriate management remedial action. Presently, the quality of the Bank's loan portfolio is uncertain due to the lack of a loan classification system. And the lack of a strong buffer against loan losses could adversely affect the Bank's equity base.

5) Outstanding Receivables From Government Entities. As of 06/30/89, the Bank's balance sheet showed nearly LE 5 billion in total assets. A third of these assets represented receivables from government entities. These were basically subsidies owed to the Bank by the MOF and other GOE entities for farm credit inputs, and for foreign currency balances due from the CBE. Accounts receivable from government entities increased by 166% from LE 515.6 million in 1986 to LE 1,369 million in 1989. This rapid growth, which was due

mainly to the delays encountered by the Bank in recovering subsidies from MOF, had a negative effect on the Bank's resources. Although interest is earned on some of the outstanding amounts, these resources could have been made available to the Bank to pay its accounts payable to suppliers, expand its farmer loans, and improve its banking relationship with its correspondent banks. A positive development during FY 1990 is that the MOF made substantial payments to PBDAC to reduce PBDAC's outstanding receivables from GOE entities.

6) Accounting and Financial Reporting Systems. According to the project consultants, the Bank's accounting and financial reporting systems have some serious weaknesses that hamper management evaluation and decision-making on resources and investments. The existing accounting system is incomplete, cumbersome, and incapable of producing data in a timely manner. It does not allow the Bank to conduct the type of cash, capital, and liquidity management that commercial banks are normally expected to conduct.

PBDAC's accounting manuals are incomplete. Accounting guidance for PBDAC and BDAC field financial operations is provided by formal circulars issued by various PBDAC departments. This guidance is not always adhered to because the circulars are not easily accessible in the field. PBDAC does not require its units to provide financial information in a concise and standardized form. There is poor internal and bank-to-bank communication of information. Some accounting forms and reports are seldom used, others partially completed, and still others are obsolete. The format of reports summarizing accounting information varied considerably at the village bank and branch levels.

The purpose of financial reporting is to provide essential financial data concerning the Bank to managers, creditors, investors, donors, the government, and the public. The accuracy and reliability of such financial reporting in turn depends on the accuracy and reliability of the accounts from which the data is taken. PBDAC's accounting and financial reporting systems need to be upgraded. More sophisticated internal accounting and control techniques must be adopted to monitor bank performance. One basic goal is to have PBDAC's financial statements present the Bank's financial position in a format that can be easily understood, not just in the domestic but in the international banking environment as well.

PBDAC management has been very receptive to the consultants' recommendations relative to upgrading the Bank's accounting, financial reporting, and internal control systems. The consultants are developing the accounting procedures manual. The automated general ledger pilot is scheduled to be implemented in PBDAC and in one governorate bank and branch by June 1990.

D. Concluding Observations. PBDAC has had net earnings after taxes of over LE 50 million during the last four years, assets of over LE 5 billion, and an annual loan portfolio of over LE 2.7 billion. These are no small achievements for an agricultural development bank in a developing country. However, the Bank is facing a serious challenge in trying to become a credible development bank. The major constraints relate to PBDAC's ties with the GOE---the Bank as a dependency of the MALR, the control exerted by the MOF and the CBE, and the requirement that the Bank return most of its earnings to the GOE. While most of these controls have somewhat ensured PBDAC'S continued profitability, they have also narrowly restricted the activities of PBDAC and have put a strain on the Bank's ability to effectively and efficiently function as an autonomous credit institution. Overcoming these constraints is a long-term goal and will result only if changes occur in government policies and through the coordinated action by various GOE ministries. The other contraint; that is, the weaknesses in accounting and financial policies and procedures, is within the control of the Bank and can be addressed and overcome during the period of the APC project, with the assistance of the project consultants.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

April 10, 1990

Waiver No.
Waiver of Source & Origin

ACTION MEMORANDUM FOR THE ASSOCIATE DIRECTOR, AGR

FROM: John A. Foti, AGR/ACE

SUBJ: Agriculture Production Credit Project (263-0202)
PBDAC/Chemonics Contract
Waiver of Source, Origin and Nationality

ACTION REQUESTED:

Approval of a waiver of source and origin requirements to allow the Chemonics International to purchase, on behalf of PBDAC, training visual aide equipment (11 VCR's, a Video Camera and 11 TV's) in the U.S. is requested. The probable source is Japan, a Code 935 Country, and the estimated cost will not exceed $20,000.

BACKGROUND:

The Agriculture Production and Credit Project provides funding through a host country contract for the procurement of commodities required to support project operations and activities. The TA Contract requires that the contractor, Chemonics, procure all equipment and materials in accordance with AID Handbook 11, Chapter 3.

Handbook 11, Chapter 3, Section 2.6.1 requires that all commodities financed by AID must meet tests of "source", "origin" and "componentry". However, Section 2.6.1.3 states that the source/origin/componentry requirements may be waived if the following criterion is met "the commodity is not available from the countries or areas included in the authorized geographic code".

Discussion:

The PBDAC Training Equipment Procurement Plan calls for the purchase of visual aide training equipment consistent with similar equipment purchased under the Small Farmer Production Project No. 263-0079 for three pilot governorates. The equipment included multi-system TV's and VCR's. The contractor has identified the needed systems as being available from geographic codes other then Egypt and the U.S.

The probable origin is Japan. The value of the proposed system is $1,500 per unit (11 systems, one each for 11 governorates are required as well as a video camera for the Training Department, PBDAC). It is the opinion of the Project Officer that this waiver should be granted to the contractor on the grounds that this necessary equipment is not available from US or Egyptian origin. Finally, we propose, if the waiver is approved, that it be included in the contract amendment, which is yet to be signed, in order to minimize or avoid delays in project implementation related to training requiring this equipment.

Certification:

Approval of this waiver requires your certification that "Exclusion of procurement from free World Countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program." In the opinion of the Project Officer, the circumstances fully justify your making this certification. In summary, the equipment is critically needed for (timely) implementation of important project activities.

Authority:

Mission Order 5-4, dated February 8, 1990, delegates authority to approve waivers of source, origin and nationality up to $500,000 to the cognizant Associate Director; this purchase is not expected to exceed $20,000.

Recommendation:

It is recommended that you waive the source/origin requirements by authorizing the Contractor, Chemonics International, to purchase the needed visual aide training equipment, valued at approximately $20,000 from Japan, a Code 935 country. Moreover, by this approval you make the certification quoted above.

Approved: Edwin A. [signature]

Disapproved: ______

Date: 22 April 90

Clearances:

PDS:WLibby (draft)
PDS:MJune (draft)
LEG:VMoore VM

Drafter: AGR:JFoti:4/1/90

AGR:JFoti, Doc. Waiver, Foti's Disk

SUGGESTED FRAMEWORK FOR INTERIM EVALUATION

Questions related to Project Impact (Goal and Purpose Level Achievement)

QUESTIONS	MEANS OF MEASUREMENT
Are there indications that agricultural investment has increased as a result of Project?	PBDAC balance sheet and financial statements.
What impact does the project appear to be having on agricultural productivity and farm incomes?	Biannual (seasonal) farmer surveys
Is there evidence that farmers have easier access to inputs and credit at market prices than they did at the beginning of the Project?	Biannual (seasonal) farmer surveys sheet which explains loans by category (PBDAC). Financial statements, with particular attention to interest income.
Are there indications that farmers are using improved technologies disseminated by village extension teams?	Biannual (seasonal) farmer surveys
Have the number and share of loans to small farmers and enterpreneurs increased?	PBDAC regular reports to USAID
Are there indications that farmers are using greater quantities of inputs in better combinations in response to market signals?	Biannual (seasonal) farmer surveys
Has PBDAC begun to reduce its involvement in input supply and allow private dealers to increase their share of input supply operations? Has a plan been developed for reducing redundant labor currently involved in imput supply and divesting of input supply operations? Are there ways the project could provide greater assistance or incentive for these changes?	PBDAC records and planning documents; interviews

Questions related to Project Implementation and Output Level Achievement

Is the conditionality of disbursement providing a substantial incentive for policy reform? Are there ways project incentives might be improved other than increasing the value of disbursements?	Interviews and analysis of past experience
As the process of identifying policy objectives and benchmarks, and subsequently verifying progress, been satisfactory? Are there ways it might be improved?	Interviews and analysis of past experience
What is the status of efforts to introduce improved systems in 450 village banks to a) simplify borrowing procedures and reduce transaction time and b) improve efficiency of banking and credit operations? What problems and constraints have been encountered and how might they be resolved?	TA team training reports interviews, site visits
What is the status of developing local advisory groups developed in 450 village banks? Are there steps that could be taken to improve progress in this area?	TA team's quarterly reports interviews, and site visits
To what extent are village teams of extension workers, financial analysts, and other specialists being developed and actively working to disseminate new technologies to farmers? What can be done to improve progress in this area?	Extension training reports Extension quarterly reports Interviews and field visits
Have new bank policies been developed and implemented which would result in: a) increased private business involvement in input supply; and b) phasing down of PBDAC's input distribution functions?	TA team's annual workplans, quarterly and reports wherever business lending shows up, interviews and field visits
What difficulties and constraints to such policy change have been encountered and how might they be remedied?	

What progress has been made in improving training for bank staff a) in loan processing and ongoing PBDAC activities and b) in business lending loan evaluation?	Training reports, interviews and field visits
Is PBDAC developing improved capability to indentify and agribusiness loan opportunities and market such loans?	Interviews and analysis of agribusiness lending
Has loan processing and transaction time and cost improved as a result of the project?	Comparison with baseline data
Has there been an increase in both the number and LE amount of unsubsidized crop loans as input prices were rising?	PBDAC financial statement PBDAC sheet of loans by category
To what degree has PBDAC lending approached the highest legal rate?	PBDAC financial statement PBDAC sheet of loans by type
By how much has PBDAC's capitalization increased? How much of this has been as a result of a) annual performance disbursements over the LOP; b) increased contributions from Treasury; and c) increased retained earnings?	PBDAC financial statements
Are various PBDAC operations ata ll levels collecting and receiving the information and data they need to carry out their functions most efficiently and effectively? What progress has been made in improving PBDAC's MIS and accounting systems?	PBDAC records, interviews and field visits
Is PBDAC adeqequately monitoring and classifying loans and taking appropriate steps to deal with delinquency?	PBDAC records
Does PBDAC have in place effective strategic planning and budgeting processes?	PBDAC planning documents and interviews
Is PBDAC improving its financial viability as measured by standard indicators for credit institutions?	Balance sheets Income/Expense sheets

SUGGESTED FRAMEWORK FOR FINAL EVALUATION

QUESTIONS	MEANS OF MEASUREMENT
To what extent has agricultural investment increased over the life of Project (LOP)?	PBDAC balance sheet and financial statements.
To what extent have agricultural productivity and farm incomes increased over the Life of Project?	Biannual (seasonal) farmer surveys
Do farmers have easier access to inputs and credit at market prices than they did at the beginning of the Project?	Biannual (seasonal) farmer surveys sheet which explains loans by category (PBDAC). Financial statements, with particular attention to interest income.
Are farmers using improved technologies disseminated by village extension teams?	Biannual (seasonal) farmer surveys
Have the number and share of loans to small farmers and enterpreneurs increased over the LOP?	PBDAC regular reports to USAID
Are farmers using greater quantities of inputs in better combinations in response to market signals?	Biannual (seasonal) farmer surveys
Have improved systems been implemented in 450 village banks to: a) simplify borrowing procedures and reduce transaction time; and b) improve efficiency of banking and credit operations	Interim evaluation; TA team training reports
Were local advisory groups developed in 450 village banks?	Interim evaluation TA team's quarterly reports
Were village teams of extension workers, financial analysts, and other specialists developed and implemented to disseminate new technologies to farmers?	Extension training reports Extension quarterly reports Interim evaluation
Did implementation of new bank policies result in: a) increase in private business involvement in input supply; and b) phasing down of PBDAC's input distribution functions?	TA team's annual workplans, quarterly and reports wherever business lending shows up.

Has PBDAC reduced its input supply operations in favor of private sector suppliers?	PBDAC records
Was there an increase in both the number and LE amount of unsubsidized crop loans as input prices were rising?	PBDAC financial statement PBDAC sheet of loans by category
Has the percentage of PBDAC lending at the highest legal rate increased over the LOP?	PBDAC financial statement PBDAC sheet of loans by type
Have bank staff been trained in business lending loan evaluation?	Training reports
By how much has PBDAC's capitalization increased over the LOP? How much of this has been as a result of: a) annual performance disbursements over the LOP; b) increased contributions from Treasury; and c) increased retained earnings?	PBDAC financial statements

LESSONS LEARNED

What aspects of this project were particularly important in bringing policy change in the agricultural sector? What lessons might there be for other sectoral programs?	Evaluation team interviews and analysis
What difficulties were encountered in encouraging sector reforms? What was learned from those difficulties or problems. What should other sector programs work to avoid?	Evaluation team interviews and analysis
In hindsight, what would those most intimately involved in the project have done differently? What were the key elements of the project's successs and failures? Can such information be generalized for other similar programs?	Evaluation team interviews and analysis
What follow-on activities, if any, should the Mission and GOE should focus on to consolidate project gains and/or move forward to address additional needs?	Evaluation team interviews and analysis

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

Draft

FIRST AMENDMENT
TO
PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Agricultural Production and Credit Project

Number of Project: 263-0202

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, the Agricultural Production and Credit Project for the Arab Republic of Egypt (the "Cooperating Country") was authorized on September 29, 1986. Such authorization is hereby amended as follows:

a. Paragraph 1 is deleted in its entirety and the following is substituted therefor:

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agricultural Production and Credit Project (the "Project") for the Arab Republic of Egypt (the "Cooperating Country"), involving planned obligations of not to exceed Two Hundred Eighty Three Million Dollars ($283,000,000) in grant funds over a nine (9) year period from the date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing the foreign exchange and local currency costs for the Project. The planned life of the Project is nine (9) years from the date of initial obligation.

b. Paragraph 2 is amended by deleting the third sentence thereof, which reads "As a requirement for each performance disbursement, the Grantee will increase the capitalization of the PBDAC by at least an amount of Egyptian pounds equivalent to the performance disbursement."

c. Paragraph 5 is deleted in its entirety.

d. Paragraph 6 is deleted in its entirety.

e. Paragraph 7 is deleted in its entirety.

2. Except as noted above, the authorization, dated September 29, 1986, remains in full force and effect.

Marshall D. Brown
Director

Date

Annex 11

August 27, 1990

DRAFT

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

PROVISIONAL LIST OF ANNEXES:

A. Policy Plan for Cotton Pricing, Cotton Pest Control, and Marketing Objectives *

B. Policy Plan for Elimination of Fertilizer Subsidies and for Liberalized Fertilizer Marketing *

C. Policy Plan for Decontrol of the Livestock Feed Sector and Divestiture of PBDAC Import and Marketing Activities *

D. Preliminary PBDAC Plan for Divestiture of Input Supply Functions *

E. Preliminary MOA Plan to Give Greater Autonomy and Responsibility to Village Cooperatives *

F. Preliminary Plan and Benchmarks for the Seed Sector (June 27, 1990).

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

August 27, 1990

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

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

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

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

For the MOA: YHassan________	OElKholei________	
For PBDAC: AHEzzi__________	MNoor________	KNasser________
For USAID: DClark __________	DDod ________	

I. <u>Long Term Goals for Agricultural Sector Policy</u>

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

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

II. <u>Main Agreed Targets for the Medium Term</u>

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

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

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

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

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

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

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

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

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

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

III. Benchmarks for Implementation of Economic Reforms

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

A. Fourth Tranche Benchmarks

1. The cotton procurement price will be adjusted so as to eliminate at least one third of the difference between the price prevailing in 1989 and the medium term target (that is, two thirds of the international price).

2. The quota for mandatory delivery of rice to the government will be reduced to no more than 1.0 ton per feddan.

3. The retail prices of fertilizers handled by public sector distributors will be adjusted to reflect
   - revision of local ex-factory prices to their full costs of production* or to prices based on market forces;
   - revision of the exchange rate applied to public sector imports of fertilizers;
   - adjustment of marketing margins and commissions between factory and retail points of sale to a full commercial basis.

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

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

4. Prices and quantities of low-priced livestock feed will be adjusted so as to eliminate one third or more of preexisting, implicit subsidies for wheat bran and cottonseed cake.

5. Charges for cotton pest control will be adjusted to reflect changes in pesticide application practices and in the foreign exchange costs of cotton pesticides owing to revision of the foreign exchange rate (contingent on achievement of a cotton price that allows benchmark A.1 to be fulfilled).

6. The GOE will adjust policies, decrees, and laws on the marketing of unsubsidized inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector, using the following guidelines.

a. Private sector dealers will be permitted to trade and transport all farm inputs that are no longer subsidized.

b. For purposes of meeting farmers' quotas of fixed-price fertilizer, the annual volume of PBDAC and other public sector purchases of fertilizer products from local factories will not exceed the following amounts:
- 4.2 million tons of nitrogen (15.5 percent nutrient content);
- 1.0 million tons of phosphate (15 percent nutrient content).

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

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

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

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

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

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

B. <u>Fifth Tranche Benchmarks</u>

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

2. The quota for mandatory delivery of rice to the government will be reduced to no more than 0.5 ton per feddan. GOE restrictions on possession, milling, and intergovernorate transport of rice will be relaxed so as to promote more efficient processing and marketing of overquota rice by the private sector.

3. The retail prices of fertilizers handled by public sector distributors will be adjusted to reflect elimination of the preferential exchange rate applied to public sector imports of fertilizer. The combined budget subsidy for local and imported fertilizers will not exceed the corresponding budget subsidy for FY 1988/89.

4. Prices and quantities of low-priced livestock feed will be adjusted so as to eliminate one half or more of the remaining implicit subsidies for wheat bran and cottonseed cake.

5. Charges for cotton pest control will be adjusted so that the combined total of explicit and implicit public sector subsidies will be reduced to three fourths of the corresponding total pest control subsidy for FY 1988/89 (contingent on achievement of a cotton price that allows benchmark B.1 to be fulfilled).

6. The MOA will adjust policies, decrees, and laws on the marketing of unsubsidized farm inputs so as to reduce the quantities of commercial farm inputs marketed by the public sector using the following guidelines.

   a. Private sector dealers will be permitted to trade and transport all farm inputs that are no longer subsidized.

b. For purposes of meeting farmers' quotas of fixed-price fertilizers, the annual volume of PBDAC and other public sector purchases of fertilizer products from local factories will not exceed the following amounts:

- 4.0 million tons of nitrogen (15.5 percent nutrient content), plus a share of production of ammonium nitrate from new facilities to compensate for the decline from the previous year in PBDAC imports of nitrogen;
- 0.9 million tons of phosphate (15 percent nutrient content).

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

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

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

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

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

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

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

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

- institutionally separating seed development (regulation, certification, control, etc.) from seed production and processing activities;

- submitting new seed legislation to the Higher Policy Committee which would redefine the role of the public sector, provide increased incentives to the private sector, and allow divestiture of current seed processing facilities; and

- selling or closing a number of seed processing facilities.]

C. <u>Sixth Tranche Benchmarks</u>

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

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

3. By the end of 1992, the retail prices of fertilizers will be adjusted so as to eliminate all remaining subsidies on fertilizer (with the possible exception of subsidies for potassium sulfate).

4. Prices for all wheat bran and cottonseed cake will be raised to levels that fully reflect either border prices or local, free-market prices.

5. Charges for cotton pest control will be adjusted so that the combined total of explicit and implicit public sector subsidies will be reduced to one half of the corresponding total pest control subsidy for FY 1988/89 (contingent on achievement of a cotton price that allows benchmark C.1 to be fulfilled).

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

a. Private sector dealers will be permitted to trade and transport all farm inputs that are no longer subsidized.

b. By the end of 1992, all fertilizer dealers (PBDAC, cooperatives, other private dealers) will have access on equal terms to imported and locally produced fertilizers. Retail quotas of nitrogen and phosphate fertilizer available to individual farmers through PBDAC or the cooperatives at controlled prices will be discontinued. The annual volume of PBDAC and coop purchases of fertilizer products from local factories at controlled prices will not exceed the following amounts:

- 3.8 million tons of nitrogen (15.5 percent nutrient content), plus a share of production of ammonium nitrate from new facilities to compensate for the cumulative decline in PBDAC imports of nitrogen;
- 0.8 million tons of phosphate (15 percent nutrient content).

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

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

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

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

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

IV. Monitoring the Implementation of Economic Reforms

A. Responsibilities of the MOA Monitoring Unit

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

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

- a series of annual reports to present quantified estimates of progress toward achievement of the benchmarks set for the successive performance disbursements (tranches 4, 5, and 6);

- supplementary, interim reports concerning achievement of any specific benchmarks that might not have been fully achieved at the time of the previous annual report;

- specific separate studies required to revise or set benchmarks for tranches 5 and 6.

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

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

B. Consultations and Annual Reports

Prior to final issuance of each annual report, the MOA Policy Committee and USAID will meet to review all major economic policy developments since the last previous tranche and to discuss the methodology and preliminary new results developed by the monitoring unit for the forthcoming report.

It is expected that each annual report will contain

- estimates of prices, quantities, and market shares of the main input dealers, including the most recently completed crop season or accounting period (to allow evaluation of current benchmarks);

- a summary (for the period since the preceding annual report) of all major decrees, laws, or changes in regulatory policy that bear on the main medium-term targets identified in the present memorandum;

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- in the case of the second and subsequent annual reports, revised estimates (based on more complete data or surveys) of the progress achieved during the earlier period(s) toward the medium term goals and previous benchmarks.

C. Methodology for Evaluating Benchmarks

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

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

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

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

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

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

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

For cotton, the agreed target price is considered as a moving average of the fob export price of the typical varieties and grades of cotton exported by Egypt. The moving average will be based upon dollar prices

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of lint exports to market economies over the previous five years, with an adjustment for processing costs and the current value of byproducts.

For tranche 4, consideration will be given to assessing progress toward the medium-term target for cotton prices through comparison of a Cabinet-approved and published schedule of procurement prices for the 1991 crop with the projected moving average of the fob export prices. Thus, published cotton procurement prices that, prospectively, would satisfy benchmark B.1 for tranche 5 would also, retrospectively, satisfy benchmark A.1 for tranche 4.

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

Appropriate exchange rate. Wherever comparisons of local with international prices are required, benchmarks will be evaluated on the basis of the prevailing market exchange rate of the Egyptian pound. For that purpose, USAID staff have suggested that the relevant international fob or cif price should be converted into LE on the basis of the main market exchange rate currently in use for general commercial imports of the private sector. MOA economic staff have suggested that it should be assumed that the commercial bank market exchange rate will have been agreed upon between the Government of Egypt and the International Monetary Fund and, if that is the case (as USAID would accept), the commercial bank rate would be considered the prevailing rate.

Regarding the evaluation of cotton prices, MOA and USAID have considered two different possibilities for selecting the exchange rates to assess the level of local cotton procurement prices. One possibility is that the moving average cotton export price would be translated at the exchange rate that prevails at the time of payment to the farmer for the newly procured cotton crop. A second possibility is that the moving average export price would be translated at the exchange rate prevailing on the date of announcement (prior to planting) of the new procurement price. USAID consider that the second approach, using the dates of

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announcement, might be appropriate--but only if some safeguard (as proposed below) existed against significant devaluations of the pound that would subsequently undermine the intended incentives to increase cultivation and improve crop management of cotton.

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

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

FIRST AMENDMENT
TO
PROJECT AUTHORIZATION

Name of Country: Arab Republic of Egypt

Name of Project: Agricultural Production and Credit Project

Number of Project: 263-0202

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, the Agricultural Production and Credit Project for the Arab Republic of Egypt (the "Cooperating Country") was authorized on September 29, 1986. Such authorization is hereby amended as follows:

a. Paragraph 1 is deleted in its entirety and the following is substituted therefor:

1. Pursuant to Section 532 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agricultural Production and Credit Project (the "Project") for the Arab Republic of Egypt (the "Cooperating Country"), involving planned obligations of not to exceed Two Hundred Eighty Three Million Dollars ($283,000,000) in grant funds over a nine (9) year period from the date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing the foreign exchange and local currency costs for the Project. The planned life of the Project is nine (9) years from the date of initial obligation.

b. Paragraph 2 is amended by deleting the third sentence thereof, which reads "As a requirement for each performance disbursement, the Grantee will increase the capitalization of the PBDAC by at least an amount of Egyptian pounds equivalent to the performance disbursement."

c. Paragraph 5 is deleted in its entirety.

d. Paragraph 6 is deleted in its entirety.

e. Paragraph 7 is deleted in its entirety.

2. Except as noted above, the authorization, dated September 29, 1986, remains in full force and effect.

Charles F. Weden
Acting Director

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Date

Clearances:
OD/AGR/A, JFoti
AD/AGR, EStains
A/AD/PDS, FMiller
PDS/PS, MJune
FM/FA, HPangan

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