CAIRO-NAIROBI WORK RELATED OBSERVATION TOUR
Credit, Inputs and Agribusiness Projects
Involving Small Farmers and Small Business
in Egypt and Kenya
10 February - 18 February 1990

TRIP REPORT

EXECUTIVE SUMMARY

COMMERCIAL AGRICULTURE PRODUCTION AND MARKETING PROJECT
Chemonics International Consulting Division in cooperation with
The Swaziland Ministries of:
Agriculture and Cooperatives
Commerce, Industry and Tourism
Education
Finance
and the United States Agency for International Development.

Mbabane, Swaziland

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EXECUTIVE SUMMARY

Eight members from the CAPM team participated in a work related observation tour to Cairo and Nairobi from 10 through 18 February 1996. The group included staff of the Ministry of Agriculture and Cooperatives, Ministry of Commerce, Industry and Tourism, SIDC and Swazi Bank. The objective of the trip was to learn from successful credit and input supply programmes for small farmers in Egypt and agribusiness, credit and equity financing programmes for small agribusiness enterprises in Kenya. This is a summary of the report which was drafted by the participants immediately following the last visit in Nairobi.

In Egypt, the group visited an integrated multinational seed producer (Pioneer Hi-bred International), the team conducting the Agricultural Production and Credit Project (APCP), the Principal Bank for Development and Agricultural Credit (PDAC) and a new private fertilizer mixing plant (Kamel).

In Kenya, the group studied several new programmes for financing small businesses: Rural Enterprise Program, Business Advisory Services Unit of the Kenya Commercial Bank, Kenya Equity Management (KEM), Assistance to Business Creation (ABC), and Industrial Promotion Services (IPS). The group also visited two agribusiness enterprises in the vicinity of Nairobi, an exporter of exotic fresh fruit and vegetables, Sunripe (1976) Ltd, and a fruit canner, Del Monte Pineapple.

EGYPT-PIONEER SEED

Pioneer has become one the leaders in agribusiness since it started operations in 1926 with the distribution and development of maize seed. Pioneer now produces other seeds, notably sorghum, millet, sunflower, sorghum-Sudan grass cross, lucerne, and clover.

The company develops new varieties and identifies appropriate seed for a particular market by selecting new seed material and conducting trials at 60 research stations strategically located in six continents including one in Zimbabwe. An agreement with Zimbabwe will enable Zimbabwe Cooperative to use Pioneer information and technology to produce and distribute Pioneer seed within Zimbabwe. Agreements have been established or are pending in other African countries including Lesotho and Botswana.

The facilities near Cairo included a research station and a seed production plant with capacity of 10,000 mt/year. The plant occupies 10 acres and cost about US$5 million. It is a joint venture with equity divided Pioneer 70 percent, Egyptian Government 24.5 percent and management 4.5 percent.

Good farmers who meet the stipulated conditions can join the seed production scheme. Pioneer provides parent seed, technical services, and transport of the harvested seed for the contract growers.

The Swaziland Seed Multiplication Project (SMP) currently produces 800 metric tons of hybrid maize seed on approximately 250
hectares of land and this is about 70 percent of national demand. Pioneer Hi-bred International has requested fields on Swazi Nation Land to conduct trials on maize seed varieties. If found suitable this could be a good opportunity to involve more Swazi farmers in a possible future joint venture.

EGYPT - CREDIT AND INPUT SUPPLY

The Principal Bank for Development and Agricultural Credit (PDAC) operates a comprehensive system providing credit and inputs for small farmers. The bank has branches in 17 of the 26 governorates (provinces), 150 district banks and 750 village banks. Each village bank has a number of agencies with warehouses for inputs which are directly in touch with farmers.

The Agricultural Production and Credit Project (APCP) offers a credit line especially for small farmers. Each farmer cultivates about one acre. APCP is administered through the PDAC bank system. The project established a freer, more open credit policy and provides small farmers easier access to information related to credit, farm management and agricultural technology. The project introduced lending to individuals which is increasingly based on the ability to repay and less on collateral.

The approach has changed the function and role of extension agents in the areas serving the 80,000 farmers now in project areas. Each is given an area of about 1,000 acres, supervision is more intensive and the agent receives incentives from a bank branch for exceptionally high rates of loan recovery.

The combination of individually specified crop production packages and close supervision of farmers by extension agents were said to be the major factors in the success of the APCP. The results have been substantially increased production, higher farmer income, high rates of loan recovery and good bank-farmer relationships. The high rates of repayment were said to be related to good relationships between Bank and clients (trust), the right of unhappy clients to see the information in the files and appeal bank decisions, good staff training, staff incentives and the requirement of old loans to be paid in full before new credit is granted.

There are provisions in the Egyptian credit and input supply programmes that may have applicability in Swaziland. However, agriculture in Egypt has features that favor the high degree of success achieved in its credit programs. There are few weather risks mainly because of irrigation; at least 2 crops per year can be grown. The Government provides minimum price guarantees and the bank has virtually a monopoly on input supply. Land is level. Fields are contiguous. Because of the difference in topography between Egypt and Swaziland, several modifications in agricultural programs seen in Egypt, and proposed for Swaziland would have to be made. For example, the topography and the scatter of the homesteads in Swaziland would not permit each extension agent to work intensively with as many farmers as in Egypt where it is possible to walk between the fields in his territory.
FERTILIZER MIXING PLANT — EGYPT —

The group visited a fertilizer mixing plant in the Mansoura area, the first of its kind in Egypt. Production now is for the PBDAC. The actual distribution to the farmer takes place at the agency level and this site is no farther than 5 km from any farmer. The farmers have been issued credit in kind by the credit bank. The company sees sales to farmers through the private sector in the future.

Fertilizer for most small holders in Egypt is pre-mixed in a limited number of formulas at the main fertilizer plants, shipped to the cropping areas and applied without being formulated specifically for the crops in the area — rice, cotton, bananas, citrus and vegetables. The new private plant mixes fertilizer suitable for each crop. Such a fertilizer mixing plant might well have application in Swaziland.

RURAL ENTERPRISE PROGRAM (Nairobi)

The rural enterprise program which began in 1984, is directed toward the small scale informal business sector known as Jua Kali, literally, people who work under the sun. It is run by a Kenyan Board of Directors. The program makes direct loans and serves as an intermediary between international funding sources and NGOs. The program provides a combination of grants and revolving funds. It is primarily for off-farm activities and includes vertical linkages with agriculture, such as sesame oil expelling on a small scale.

The program deals with existing, not new, businesses. Loans are for people who do not have access to commercial credit. Grants are made for research and innovation. Loans may be made directly to registered community-based groups such as business associations, savings and credit societies or cooperatives. Loans average about US $1,000 and are made at market rates (15.5 percent). The problems for the clientele were said to be lack of collateral and access, and inability to repay.

BUSINESS ADVISORY SERVICES UNIT, KENYA COMMERCIAL BANK (KCB)

The KCB administers a special line of credit for the Jua Kali sector. The interest rates are the same as the commercial rates. The commercial bank prefers property as collateral. Under the special program, the bank will accept chattel mortgages on machines, for example. The loans in Kenyan shillings vary from the equivalent of US$250 to US$3,000. The average is about US$850. The program is vastly oversubscribed because politicians widely advertise its availability.

Very few participants have had any previous loan experience. The Bank requires the applicants to complete a "workbook" as a basis for making a loan application. Loan application assistance is provided by the bank staff. After the loan application is received a bank officer interviews the applicant. Applicants must demonstrate they have the necessary skills for the business and may not use the proceeds to of the loan to repay existing debts. The NGOs perform the training under this special loan program.
Other funds in this special loan program are loaned through Barclays and Standard Bank (we did not visit). These banks use NGOs for handling the local distribution of their lines of credit because they do not have branches throughout the country as does the KCB. NGOs were said to be cost effective and evaluated risks better than the government. Clients are apt to view loans as grants if the money is lent directly by the government. The KCB utilizes its loan officers to promote a credit line which is not being utilized. In the case of the special informal sector credit lines, the KCB has 7 officers to "market" the loans.

**SUNRIPE (1976) LTD**

The activities of Sunripe are packing and shipping of fresh horticultural products such as the sliced haricot green beans (French beans), mangoes, avocados, passion fruit and apple bananas (fingerlings). Sales are made to France, Federal Republic of Germany, the Netherlands and the UK. Shipments are sent by air. Green beans, for example, are generally harvested and packed in one day and arrive Europe the following day. Air cargo space costs about US$1.00/kg which is comparable to the cost from Jan Smuts.

The Suripe in Kenya was started in 1976. The export project is a joint venture with a French company which manages the marketing function from Europe. Most of the investment in the company is from private sources, but the export project was assisted by the African Project Development Facility in Nairobi. Sunripe employs 13 women and 3 men. Equipment was reported to cost US$500,000.

Sunripe is supplied by 300-600 small farmers from within a 150 mile radius of the facility. Sunripe farms some of the land it owns, but this does not serve as a significant source of supply. Production units are as small as .2 hectare. The company's main supplier is a 200 member women's cooperative. Total tonnage used by Sunripe is 2,000 mt annually. With normal yields this quantity requires 500 hectares. Field service is handled by Sunripe.

Prices paid to the farmers are set by the company on the basis of current market supply and demand. Payment is made monthly, but farmers may collect 50 percent of the payment after two weeks. The prices are not contracted in advance. Farmers would not honor a set contract price because there is competition from other buyers who sometimes offer higher prices.

The company maintains close contact with the farmers in order to keep them as regular suppliers.

It is suggested that this is a type of operation applicable to Swaziland.

**KENYA EQUITY MANAGEMENT (KEM)**

KEM is a privately owned venture capital company prepared to take equity positions in promising new or expanding businesses. The owners of KEM are Equity Financial (A merchant bank subsidiary of a Hong Kong
bank), Integrated Resources Group - a consulting firm based in Washington DC, 2 Kenyan insurance companies, 1 Kenyan consulting company and 1 office supply company (Kenya). KEM provides management assistance to clients, but does not take part in day to day operations.

Since venture capital investment is very risky, the risk is distributed through a variety of arrangements with partners. The idea of venture capital company is new in Kenya so it has been difficult to recruit partners. KEM takes positions from a minimum of 12.5 percent (for tax reasons) to 49 percent in its client companies. The minimum target rate of return on equity expected is 25 percent exclusive of potential capital gains. Lack of an active market for equity in Kenya is a serious problem for realizing capital gains. KEM manages a USAID loan facility available at 18 percent interest, but with fees, the effective rate is about 20 percent.

The KEM type of venture capital operation is suited to financing medium to larger sized businesses. It would not be applicable for the financing of very small scale agribusiness enterprises in Swaziland. However, it would be an alternative to investment by parastatals or existing multinational companies for financing larger new or expanding agribusinesses such as food processing and marketing.

ABC PROJECT

The "Assistance to Business Creation" project was started in November 1988. Its main objective is the creation of employment in small enterprises in the rural non-farm and the urban informal sector. It will provide both financial and technical assistance and has begun with five non-governmental organizations (NGOs) with experience in creating income generating small businesses. The financial support component will be extended by the banks following their own normal lending procedures. ABC is negotiating with commercial banks and other financing institutions to enter into agreements of loan guarantee schemes to encourage banks to extend loans to the informal sector and accept part of the risk. The loans will be provided at the prevailing market rates, 15.5 percent annual rate, and a guarantee fee of 2 percent will be added. So far, the project has attracted participating bank, the National Bank of Kenya. The average loan is between US $500 and US $3,000.

Technical assistance provided includes training in entrepreneurship and business awareness development, project implementation or business start-up. It includes promotion of the idea of running a small business enterprise, screening for selection of the business idea and the prospective small entrepreneur. Following successful negotiations and receipt of the loan, an entrepreneur receives loan counselling.

INDUSTRIAL PROMOTION SERVICES (IPS)

Industrial Promotion Services is a company established by the Agha Khan Fund to support and reinforce national efforts to promote private sector activity, essentially in the industrial and commercial fields. Involvement is mainly through equity. The minimum and maximum equity participation in a project is 12.5 percent and 40 percent respectively.
IPS places priority on projects that have significant developmental potential. IPS is usually approached to appraise a project or it may itself initiate a project or seek other promoters interested in doing so. Appraising a project begins with an initial market survey followed by a full feasibility study. IPS's role does not stop with the mobilization of finance or the establishment of the project. IPS continues to provide supervision, co-ordination and control services. This is done through the introduction of management information systems, management review and board evaluations. IPS is involved in 16 projects in Kenya.

**DEL MONTE PINEAPPLE**

The Del Monte pineapple plant in Kenya is a unit of the largest pineapple producer in the world. It produces pineapple slices, tidbits, crushed and 65 percent concentrate, which is shipped in containers.

The Kenya turnover is 200,000 mt of pineapple annually. All is grown on company leased land of 4,700 hectares. Yield is very high due to dense plant population and very high farm technology production practices including irrigation. Only about 50 percent of the moisture requirements come from rainfall. The processing facility operates 24 hours daily about 250 days annually at a rate near to 30 mt/hr. Technology was modern with unit operations which are somewhat out of date, but clean and efficient.

Del Monte has tried marketing fresh pineapple from Kenya in Europe but did not consider the trials successful. The plant did not have an outgrower programme. It was reported that the local fresh market price is usually so much higher than what Del Monte could pay that small holder outgrowers would not be a reliable source to depend upon for processing. Also part of the original agreement between Del Monte and the Government, at the time of land lease, was that Del Monte would be fully responsible for its own production and supply of raw material.

Therefore, the Del Monte Operation in Kenya is not a model for Swaziland with regards to small farmer production. But it did illustrate the large impact of a plant of this size on employment and opportunities for local participation in management. Total direct employment is 6,000 persons, 3,500 field staff and 2,500 cannery workers. All managers and supervisors seen were Kenyan.
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I. INTRODUCTION

A. OBJECTIVE

The objective of the trip was to provide an opportunity for senior GOS officials and others involved with the CAPM Project to examine first hand, several successful agricultural projects in Egypt and Kenya with objectives directly relating to CAPM activities. These included credit and input supply for stimulating production and increasing income by small farmers, and generation of equity capital and loan financing to stimulate the growth of small businesses.

B. PARTICIPANTS

Mr. James Bunnell - CAPM Agribusiness Specialist (MCIT);
Mr. Absolam Dlamini - Ministry of Agriculture and Cooperatives;
Ms. P. P. Dlamini - Ministry of Commerce, Industry and Tourism;
Mr. S. Hlope - Ministry of Agriculture and Cooperatives;
Mr. B.S.M Khumalo, Swaziland Industrial Development Company;
Ms. Phumzile Mdladla, Ministry of Agriculture and Co-operatives;
Mr. Mphaya Simelane, Small Farmer Credit Program, Swaziland;
Development and Savings Bank, and
Mr. Robert E. Olson, CAPM Marketing Specialist (MOAC).

C. ACKNOWLEDGEMENTS

Dan Lowery (Team Leader APCP, Egypt) and Lisa Block, (Marketing Assistant, Kenya) of Chemonics International Consulting Division arranged hotel accommodations, local transport and set up the schedules for the interviews and the team visits in Cairo and Nairobi. Mr. Lowery or others from the APCP project accompanied the group on all visits in Egypt. Ms Block took part in all the activities in Nairobi. This assistance was vital in facilitating accomplishing of all of the scheduled activities within the limited time available. Ken Swanberg of the Washington Office of the Agency for International Development supported the trip by arranging for airfare for the tour members who are employees of the Government of Swaziland. USAID/Maputo obtained Egyptian visas for the group.

D. REPORT PREPARATION

The task of drafting this report was divided among the members of the team. One or two members prepared the draft for each visit during the trip. The drafts were prepared on Saturday 17 February following a discussion held on Friday, 16 February 1990, after the conclusion of the last scheduled visit.
II. VISITS IN EGYPT

A. PIONEER SEED COMPANY

On Monday the 12th February, the CAPM team visited the Pioneer Regional Office for the Middle East and Africa in Cairo and was briefed on the operations of the Pioneer Seed Company.

1. World Wide Activities

Pioneer Seed is one of the leading forces in the agribusiness world today. Pioneer Seed Company started operations in 1926 with the distribution and development of maize seed. The company's headquarters is based in Des Moines Iowa, USA. In Egypt, the company is called MISR Pioneer (MISR is the Arabic name for Egypt) and is a subsidiary of Pioneer Hi-Bred International.

Pioneer Hi-bred International has diversified its activities and is now involved in research on other types of seed crops. There are 60 research stations strategically located on six continents. Pioneer produces appropriate seed for a particular market and develops strategies for its distribution. All research results are maintained in a computer data bank. The company is engaged in plant breeding, genetic engineering and microbial transplants. Pioneer concentrates its research in countries located around and between the latitudes of 25 degrees North and South of the equator.

There is a regional station in Zimbabwe and Pioneer Hi-bred International has signed a memorandum of understanding with the Government of Zimbabwe. The station is involved in developing a streak virus resistant maize hybrid. The agreement with Zimbabwe will enable Zimbabwe Cooperative to use Pioneer information and technology and to distribute Pioneer seed within Zimbabwe, but seed distribution outside Zimbabwe will continue to be administered by Pioneer High-bred International. There is another station involved in similar activities to Zimbabwe's located on the Ivory Coast. A joint venture agreement has been signed with the Government of Cameroon. Negotiations are in progress for similar joint ventures between Pioneer and the Governments of Lesotho and Botswana.

The regional office in Cairo has three branches:

1. The Research branch for on-station breeding, selection and on-farm testing of seed varieties;
2. POC Commercial Branch for producing hybrid seed and transferring seed to farmers;
3. Regional office for management and administration.

The sales organization is divided into 7 regions: Canada and the USA, Western Europe, South America, Asia, Middle East and Africa, Turkey and the Soviet Union.

Pioneer's activities have expanded from one crop to five over the years and the company is still profiting. In addition to corn (maize),
the international company is now involved in sorghum, millet, sunflower and sorghum-Sudan grass. The latter is a forage crop which can be harvested several times a year.

2. Pioneer's Regional Office in Egypt

The objectives of the MISR Pioneer Company in Egypt are:

a. To breed high yielding hybrids with resistance or tolerance to late wilt;

b. To develop seed production facilities and advanced technology to benefit the seed producer and the farmers;

c. To develop efficient marketing channels throughout the country;

d. To diversify Pioneer activities.

The activities of the Cairo Office can be summarized by the following flow diagram:

**PIioneer OPERATIONS IN EGYPT**

- **OBJECTIVES**
  - RESEARCH
  - ADMINISTRATION
  - PRODUCTION
  - MARKETING

- **INFORMATION**
  - ACTION OPERATIONS SURVEY

- **EVALUATION**
  - STRATEGY
    - Short Term
    - Medium Term
    - Long Term
Pioneer sales representatives in Egypt sell more than just seed corn. They can supply customers with quality seed including sorghum, sunflower, alfalfa, Egyptian clover and pear millet.

In the last ten (10) years, advances in the seed corn programme have resulted in doubling the original hybrids yield performance and pest resistance. The average yield per hectare of maize in Egypt is between 10 and 12 tons compared to the worldwide average of 7 to 8 tons per hectare. The high yield figure for Egypt is attributed to the ideal growing conditions on the Nile Delta where the Government has assisted farmers to establish viable irrigation infrastructures. High yielding seed varieties have resulted in an increase in the local production of seed, a reduction in imports and a definite movement toward self-sufficiency in maize.

Four maize hybrids have been released and there are 60 hybrids available world wide. The hybrid Karnak was released in 1984 and has been followed by Fattah, Tablah and Ammun.

3. Research

After the introductory meeting in the Cairo Regional Office the group visited the Kaha Research Station north of Cairo.

The introduction and testing of several Pioneer brand hybrids of maize started about fifteen years ago and in 1980, the Kaha Research station was established to develop late wilt tolerant hybrids.

Growing from a staff of two at foundation time, the research station employs more than 90 persons, including a parent seed production division. As corn is the staple food crop in Egypt, more research efforts are being put into research on the yield qualities of the maize cob for the types of flint, semident and dent maize. The station has become the main Pioneer centre for white hybrid corn breeding in the world as it is capable of producing three crops in one year. Testing of the maize seed before release and commercial distribution is accomplished in conjunction with the farmers in 16 different arable locations of Egypt. In 1985, the research station was reorganized as a joint venture under the name MISR Pioneer Seed Co. SAE, with 70 percent participation by Pioneer and 30 percent by Egyptian investors.

Research is conducted on sorghum for sorghum-Sudan cross grass species for livestock feeding. Twenty percent of the research work focuses on the sorghum crop. Research work is also being conducted on millet. Research on sunflowers is aimed at increasing the edible oil content from 42 percent to about 64 percent, the maximum possible. A potato seed has been developed and may be used as an alternative to using potato tubers. Many varieties of soybeans are in the final testing stages.

Pioneer Hi-bred International distributes vegetable seeds and the Egypt office is currently investigating how to produce high yielding vegetable seed varieties with the desirable qualities of resistance to pests and diseases and early maturity.
4. The Meet Bera Seed Plant

Finally, in the afternoon of 12th February, the observation mission visited the Meet Bera Seed Drying and Conditioning plant associated with the MISR Pioneer Seed Company SAE. The plant is located 55 km outside of Cairo. It is the first modern Pioneer seed plant in the Middle East and Africa. It occupies 10 feddans of land and cost approximately US $5,000,000 to build. Operating at full capacity, it is capable of conditioning 10,000 MT of seed per year.

The seed conditioning plant is a joint venture between Pioneer Hi-bred International, equity of 70 percent, the Egyptian Government, 24.5 percent, and the managers who own the remaining 4.5 percent shareholdings. The plant was inaugurated by President Hosnia Mubarak in October, 1989.

Farmers who meet stipulated conditions are contacted and given lessons on how to grow seed. They can then join the seed production scheme to supply seed to the seed plant.

Male and female seed should be properly matched and every seed harvested from the female is hybrid seed. Seed treatment must be standard for the different seeds grown. The moisture content of the seed delivered to the plant is very important and should be between 12 and 18 percent.

There should be no other seed varieties within a distance of 200 metres from the field producing seed for the plant. The average farm family holding is between 1 and 2 feddans and many farms are contiguous. For these reasons, it is difficult for the small Egyptian farmer to participate in the scheme. Outside of the research station, the scheme is patronized by cooperative and private farmers who qualify to contract for seed growing.

MISR Pioneer Co. offers the following incentives to seed growers in Egypt:

a. Free parent seed to the private contractors;

b. Free technical services packages to the growers;

c. Free transport for the collection of seed harvested by farmers in the scheme.

The costs per feddan for farmers in the seed growing scheme are 280 Egyptian Pounds and the returns are 800 to 1200 Egyptian Pounds. Some costs (especially fertilizer) are subsidised and most of the subsidy is paid in-kind by the Government.

5. Implications for the CAPM Project

The Swaziland Seed Multiplication Project (SMP) currently produces 800 metric tons of hybrid maize seed on approximately 250 hectares of land and this satisfies about 70 percent of national demand. The national seed requirements can be fulfilled by either increasing the yield from the present 3.2 tons/ha, or by increasing the area under maize seed cultivation and training more seed growers. Pioneer Hi-bred International has requested fields on Swazi Nation Land to
conduct trials on maize seed varieties. If found suitable, this could be a good opportunity to involve more Swazi farmers in a possible future joint venture.

Swaziland has the potential to export maize hybrid seed to its neighbours and can negotiate for a franchise with Pioneer Hi-bred International.

On-going production of bean seed, cowpeas and sorghum would be increased if more farmers could participate in the seed growing schemes. The research work currently being done under the Cropping Systems Research and Extension Training Project, funded by USAID, would benefit from the technical co-operation with an international seed company such as Pioneer Hi-bred International. Some work can also be initiated by assembling information on market potentials for indigenous vegetable seed varieties.

B. PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT (PDAC)

1. Introductory Session

On Sunday, 11th February 1990, the CAPM observation mission met with the Chemonics Chief of Party in Cairo and had an introductory session with the Vice-Chairman of the PDBAC. This was followed by a meeting on the 13th with the Chairman of the Dakahlinga Bank for the Development of Agricultural Credit (Governate Level) and field visits to district and village banks which looked at their involvement with small farmers.

On a national level, the Swaziland team met the staff of the Small Holder Credit and Production Project and local bank (Village Bank) at an agency level (Mandoubiya). At the agency level, the mission also visited the PBDAC inputs store. Due to time constraints, the mission did not visit the farms operating under the credit program or their marketing facilities.

PDAC is governed by a Board of Directors consisting of the Chairman, two Vice Chairmen Under Secretaries of State for the Ministry of Agriculture, Finance, Economy Supply Local Government and Planning appointed by the Ministers, a representative of the Central Bank of Egypt, a legal consultant of the State Council and a Chairman of the Central Agricultural Cooperative Union.

2. Agricultural Credit Delivery System

The Agricultural credit system is embodied in the Principal Bank for Development and Agricultural Credit (PDAC). It comprises the district banks, village banks and agencies (Mandoubiya) with warehouses for inputs.

There are 26 governates (provinces) in Egypt. Seventeen governates have banks which are branches of the PDAC. There are 150 district banks and 750 village banks. Each village bank has a number of agencies which communicate directly with farmers. The PDAC system has a total of 35,000 employees.
The Small Farmer Production Project is financed by a grant of US$49 million from USAID along with funds provided by the Government of Egypt. The project operates within the PDAC bank system. The Bank's vision is to increase food production and farmer income by:

a. establishing a freer, more open credit policy;

b. providing small farmers easier access to information related to credit, farm management and agricultural technology;

c. eliminating government restrictions on agriculture; and,

d. assuming lending administration which was previously conducted by cooperatives.

The project first introduced lending to individuals. As a result of this, the village banks were forced to abolish the prescribed lending formats dictated by the Government of Egypt (which restricted farmers to buy inputs in packages that did not necessarily increase production) and lend increasingly on the basis of the farmers' ability to repay. The project also introduced unsecured loans for farmers, including landless village residents, for purchase of needed income generating new technologies, e.g. yield increasing hybrid seeds, recommended herbicides, fertilizers, etc.

Coupled with lending, the project changed the function and role of extension agents, i.e. extension agents were each given areas of 1,000 acres as demonstration plots to show farmers methods to increase yields per acre. As a result, the relationship between extension agents and farmers changed from that of a directive nature to more of a helping nature. "Block farms" were established. Block farms are sets of plots belonging to many farmers on which the same crops are grown. This set-up facilitates extensive use of project-developed packages including improved seed varieties, pesticides, herbicides, fertilizers and farm technology. The scheme is supervised by an extension agent who receives some incentives from a BDAC branch for exceptionally high rate of loan recovery.

3. Meeting with Chairman of Dakahliya BDAC

The team travelled for two and one half hours from Cairo to Dakahliya BDAC to meet up the Chairman and his staff waiting. Due to the number of site visits and travel involved; the discussions were brief and concise. The Chairman could not speak English; however, there was a competent interpreter present who facilitated the communication.

The Board of Directors at BDAC consists of the chairman, 2 ranking employees at the Bank, 4 elected employees and 2 members appointed from outside the Bank. One is a representative of the governate nominated by the governor. The other is an undersecretary of State in the Ministry of Agriculture appointed by the Minister of Agriculture.
4. Impact

The combination of individual credit approved crop packages, and close supervision of farmers by extension agents were seen to be major factors in the success of the small farmer production project.

The results have been substantially increased production, higher farmer income, a loan recovery rate of over 98%, and good bank-farmer relationships.

The project has been so successful that now the Bank, in conjunction with the Ministry of Agriculture, has begun training programs for more people to coincide with the next phase of the project.

5. Next Phase

In the future, the Bank seeks to gradually involve cooperatives to take over the village warehouses of inputs with a view to regaining the power of providing credit to farmers. Participants will be trained to follow the present system of lending. Extension agents will be expected to continue in their role of helping farmers and being rewarded accordingly.

6. Brief Summary of Dakahliya

This Bank conducts business with 4,500 clients who farm on an area of about 620,000 acres. Crops which are grown include cotton, rice, vegetables, citrus fruits and livestock. Livestock farms include a poultry factory and cold storage. In 1989, annual bank lending totalled 400 million Egyptian pounds. There are 12 district branches, 70 village branches and 450 Mandoubiya agencies.

The 70 branches are responsible for all banking operations. In 1989, total branch savings capacity was 125 million Egyptian pounds. For farmers cultivating about an acre each and borrowing an average of 300 Egyptian pounds, short term loans amounted to 105 million pounds. The repayment rate was 99.6 percent. The rate was 98.7 percent for medium term loans up to 5 years. Long term loans over 5 years to 15 years totalled 55 million pounds and the repayment rate was slightly less.

A high rate of repayment has been recorded since 1977, which is said to be related to:

a. a good relationship built on trust between bank and client;

b. client access to information contained in their banking files;

c. strict lending policy of loan repayment prior to granting of new loan;

d. incentive motivated extension agents;

e. training of project staff; and,
f. adoption of yield increasing technology by farmers

7. Other comments about Egyptian small holder farmers and implications for CAPM

a. Climate

The topography of Egypt is mainly desert with few weather related production risks such as hail storms, drought, diseases etc. The climate allows farmers to grow at least 2 crops per year.

b. Irrigation

Crops are grown under irrigation; a technology which goes back many centuries. Without water for irrigation, there is no crop. Irrigation virtually guarantees a good yield provided approved combinations of inputs are coupled with good management.

c. Marketing

Before producing, farmers are assured a minimum price by the Government of Egypt which buys their output as a last resort. Farmers are free to sell their products to any buyer who offers a higher price.

d. Supply of Inputs

The Bank owns input stores. It sells all inputs to farmers. Farmers who take out credit, receive inputs in-kind and if necessary, partly in cash. The Bank ensures that its clients buy recommended packages and the packages reach the farmers on time.

e. Supervision

Credit to farmers is supervised by extension agents. Egypt is flat and travelling, for extension workers, is not hampered by extreme terrain. For example, farms are arranged in blocks and fields are not fragmented. The bank has an incentive scheme whereby extension agents are paid according to their performance. Extension workers whose performance does not meet the required standards are discontinued from working with the Bank. An extension agent has a fixed area to supervise, up to but not more than 1,000 acres. Each farmer on average cultivates about one acre. Farming is labor intensive and people work hard to maximize profit.

f. Summary

The Egyptian scheme is a comprehensive program subsidised by the Government to increase the production of small farmers through the provision of agricultural loans. The lending risk is comparatively low due to stable climate and irrigation infrastructure. PBDAC operates a virtual monopoly with farmers having almost no alternative source of non-farm income except to remain on the land where no alternative sources of inputs are available.
The situation is different in Swaziland where almost the reverse is true. There is high risk in applying inputs. CCU is not allowed to import fertilizer and is forced to buy from local dealers at higher prices. These high input costs are transferred to the small farmers. To alleviate this situation, CAPM can undertake a study to assess the possibility of bulk purchase and delivery of inputs to reduce the costs to farmers.

C. FERTILIZER MIXING PLANT IN EGYPT

In the Mansoura area, which was the first implementation area of the new PBAC credit programme, new methods are now being introduced. Private sector involvement is being tested in the sectors of land improvement and fertilizer production and distributions.

On the afternoon of 13 February, the CAPM mission visited a fertilizer plant operated by a private company in the city of Mansoura, Egypt. Fertilizer is produced on behalf of the Principal Bank of Development and Agricultural Credit which acts as a distributor of agricultural chemicals, fertilizer and other inputs. The actual distribution takes place at the agency level and the distribution center is situated no farther than 5 km from any farmer. The company envisions sales to farmers through the private sector in the future.

Fertilizer for small holders in Egypt is pre-mixed in a limited number of formulas at the main fertilizer plants, shipped to the cropping areas and applied without being formulated specifically for the crops in the area. A wider range of crops are produced in the Mansoura area than in other regions, therefore, there is a greater need for specific formulas. Crops include rice, cotton, bananas, citrus and vegetables.

The private company, KAMEL Fertilizers, is in the process of becoming established and licensed to mix and distribute fertilizer. The KAMEL Co. does business on a cash basis. Farmers have been issued credit in-kind by the credit bank.

The fertilizer company mixing plant is located in a village area. The chemicals, N, P, K are shipped in 50 kg plastic sacks, carried to the mixer, opened and dumped by hand for blending in a batch mixer to a pre-set percentage and resacked for distribution. Nine different fertilizer mixes are prepared depending on the intended crop.

This method of percentage-mix is lower than the cost of an imported product, provides some local employment and prepares a specific product for a specific need. A further cost reduction would be to convey the individual chemical components to the factory in bulk rather than by sacks.

This private and local formulation to produce specifically needed fertilizers might well have application in Swaziland.
III. VISITS IN KENYA

A. RURAL ENTERPRISE PROGRAM (Nairobi)

The group visited the offices of the Rural Enterprises Program on 15th February 1990. They interviewed Dr. Richard Yoder, Mr. Justice Omollo (USAID/Kenya) and Alek Dondo, Research Officer for the program.

1. Program Objective

The program began in 1984 and is administered by a Kenyan Board of Directors. The credit program is directed to Jua Kali (literally people who work under the sun) or informal business sector. The program makes direct loans and serves as an intermediary between "big" donors and NGOs. There are a large number of NGOs in Kenya, nearly 1,000 in total, with more than 500 in health alone.

During the first part of the program, 70 percent were grants and 30 percent revolving funds. The program is primarily for off-farm activities, not seasonal inputs, such as fertilizer or seed. However, it may include vertical linkages with agriculture such as sesame oil expelling, on a small scale.

2. Experience to Date

Repayment rates have increased from 40 percent to 80-90 percent, which is said to be due to better than commercial bank to customer performance.

The Rural Enterprise Program was developed to assist farmers who do not have access to commercial credit. Direct loans may be made to community based groups who must registered. These may be business associations, savings and credit societies or cooperatives.

Farm operating loans are provided by the Agricultural Financial Institution under the Ministry of Agriculture (AFC). Qualification limits include: above standard risk, insufficient collateral, and loan size; small loans are not profitable. NGOs are less stringent than a commercial bank.

The steps for applying for a loan through the R.E.P are as follows:

a. loan appraisal;

b. visit to the group;

c. staff analysis and (approval/denial) and recommendation;

d. project review committee; and,

e. quarterly visits.

To date, 20 loans have been approved. The process has taken about 3 months, but the project staff expect to reduce the processing time
in the future. The main obstacle is that the Project Review Committee only meets once each month and all preparatory loan documentation must be timed to coincide with committee meeting dates.

NGOs lend at market rates, currently 15.5 percent. The rates are fixed by the Government of Kenya. Eliminating rate control has been mentioned as a possibility in the near future.

The problems for the clientele were said to be security and access, not ability to repay.

Loans average 20,000 shillings. (about US$1,000). The program takes no equity positions.

The NGOs include a number of church-related organizations.

The bulk of the loans are associated with trading activities, but also include artisans such as tailors and service enterprises.

The program deals with existing, not new, businesses.

Research shows that to create 1 job 25,000 Kenya shillings was needed in manufacturing, 8,000 in trade and 60,000 in services.

The USAID program in Kenya is about $100 million. This is divided among policy, credit and management in the private sector programs.

B. BUSINESS ADVISORY SERVICES UNIT, KENYA COMMERCIAL BANK (KCB)

The team met with Mr. Chege of the KCB regarding the lending scheme to the Jua Kali sector. Two loan officers, Mrs. Daw and Mr. Odeng, were also present. The interest rates are the same as the commercial rates. The commercial bank prefers property as collateral, under the special program chattel mortgages on machines, for example. The range in loans is from 5,000 to 60,000 shillings. The average is 17,000 shillings. The program is vastly oversubscribed because politicians widely advertised its availability.

Very few participants have had any previous loan experience. The Bank requires the applicants to fill a "workbook" as a basis for completing a loan application. Loan application assistance is provided by the bank staff. After the loan application is received a bank officer interviews the applicant. Applicants must demonstrate they have the necessary skills for the business and may not use the proceeds to of the loan to repay existing debts. The NGOs perform the training under this special loan program.

Other funds in the special loan program are loaned through Barclays and Standard Bank (we did not visit) but they only use NGOs for handling the distribution of their lines of credit as they do not have branches throughout the country as does the KCB.

NGOs were said to be cost effective and able to evaluate risks better than the government. They know the clients they recommend and clients are apt to view loans as grants if the money is lent directly by the government.
The KCB utilizes its loan officers to promote a credit line which is not being utilized. In the case of the special informal sector credit lines, the unit of the KCB has 7 officers to "market" the loans.

C. SUNRIPE (1976) LTD

The Company was started in 1976 and is a privately owned limited company of the Shah family.

The new company facilities are located in the Nairobi Industrial Park. The project is a joint venture between the Shah family and a French company which manages the marketing function from Europe. The project was assisted by the African Project Development Facility, Nairobi, which in turn is funded by the UNDP, USAID, ADB and the IFC. This group offers advisors, feasibility and financing contacts to private African entrepreneurs in preparation of viable projects.

The activities of Sunripe are the packing and shipping of fresh horticultural products such as sliced haricot green beans (French beans), mangoes, avocados, passion fruit and apple bananas (fingerlings). Sales are made to France, Federal Republic of Germany, the Netherlands and the UK. Shipments are sent by air. To keep costs to a minimum, use is made of available air cargo space rather than contracting with a regular air cargo service. There are problems, at times, with getting cargo space, but produce can be kept in cold storage until space becomes available. Generally the beans are harvested, packed, shipped and reach Europe the following day. The packing facility is near the airport. Air cargo space averages about US$1.00/kg, similar to the cost from Jan Smuts. Sunripe is supplied by 300-600 small farmers within a 150 mile radius of the facility. Production units are as small as .2 hectare. The main supplier is a 200 member women's cooperative. Total tonnage used by Sunripe is 2,000 mt annually. With normal yields, this quantity requires 500 hectares.

Field service is handled by SUNRIPE. This includes production arrangements, selecting seed varieties and timing of operations. Harvesting and transportation is also handled by SUNRIPE which has 7 radio equipped trucks and 15 field agents responsible for scheduling.

All farmers are known to the company which tries to keep close contact in order to maintain them as regular suppliers. Records are maintained as to quality, quantity, payments, etc. The company is computerized.

Prices paid to the farmers are set by the company based on current market supply and demand. Payment is made monthly, but farmers may collect 50 percent of the payment after two weeks. The prices are not contracted. There are a number of buyers and sellers and often farmers sell at a higher price when they can and are do not honor a set contract.

Sunripe also owns some land and farms some other produce, but this does not serve as an important source of supply.
The processing facilities are new and modern. The facility was clean. Staff composition was 13 women and 3 men.

Equipment consists of fruit washing, waxing and grading machinery and packing tables. A green bean (vegetable) washing and grading and packing line, shrink wrap sealer, draining and packing line and cold storage facilities for about 25 mt. The equipment costs were reported to be US$500,000. Hard currency requirements for the equipment (French made) was provided by EEC credits to the Government of Kenya. Fruit is washed, waxed, hand sorted for size and quality and hand packed into 5 kg fibre cartons. Fruit is individually stamped with a SUNRIPE label.

Green beans are shipped in three styles; ungraded in 5 kg boxes; size graded and snipped ends in 1/2 kg shrink wrapped plastic trays; and unsnipped 1/2 kg shrink wrapped plastic trays. All green beans are washed in chlorinated water, rinsed in fresh water, packed and put into cold storage.

D. KENYA EQUITY MANAGEMENT (KEM)

The team met with Mr. Bruce Bouchard of the KEM on Thursday 15 February. KEM is a privately owned venture capital company prepared to take equity positions in promising new or expanding businesses. It provides management assistance to clients, but does not involve itself with the management of day to day operations.

The owners of KEM are Equity Financial (A merchant bank subsidiary of a Hong Kong bank), Integrated Resources Group - a consulting firm based in Washington DC, 2 Kenyan insurance companies, 1 Kenyan consulting company and 1 office supply company (Kenya).

The implication is that venture capital is very risky. Therefore, any assumed risk is spread widely. However, the idea of venture capital company is new in Kenya so it was difficult to recruit partners.

KEM takes positions from a minimum of 12.5 percent (for tax reasons) to 49 percent in its client companies. The more closely held the client firm, the higher KEM's share.

KEM may take preference shares or convertible debt instead of equity. The target rate of return Kem expects is 25 percent minimum annually exclusive of capital gains, if any.

KEM manages a USAID loan facility available at 18 percent interest, but with fees, the effective rate is about 20 percent. Lack of an active market for equity is a serious problem for realizing capital gains.
E. ABC PROJECT

The assistance to this business creation project is funded by the Netherlands Government and implemented by the International Labour Organization in collaboration with the Investment Promotion Center (IPC) of the Ministry of Finance of the Government of Kenya. The project was begun in November 1988, and its main objective is the creation of employment for small enterprises in the rural non-farm and the urban informal sector.

This project will provide both financial and technical assistance and will start with five non-governmental organizations (NGOs) who have had experience in income generating or small business creation activities.

The financial support component will be extended by the banks following their own normal lending procedures. To encourage banks to extend loans to the NGOs or the informal sector, ABC is negotiating with commercial banks and other financing institutions to enter into agreements of loan guarantee schemes.

Depending on the area of coverage by the bank, the project will provide funds to act as a guarantee fund. The ratio of the guarantee fund to the loan to be extended by the bank would be 1:2, i.e. for every 1 kshg deposited as a guarantee 2 kshg will be extended as a loan. The interest earned by the fund which is currently 10.5 percent will be shared equally between the bank and the ABC. The loans will be provided at the prevailing market rates which is 15.5 percent and a guarantee fee of 2 percent will be charged, bringing the interest rate to 17.5 percent. The risk of bad debts is shared equally between the two parties. So far, the project has attracted one bank, the National Bank of Kenya. Average loan is between kshg 10,000 to kshg 60,000 (equivalent to US$500 to US$3,000).

Technical assistance, on the other hand, includes training in entrepreneurship and business awareness development, project implementation or business start-up. It includes promotion of the idea of running a small business enterprise, screening for selection of the business idea and the prospective small entrepreneur. Following successful negotiations and receipt of loan, an entrepreneur receives loan counselling.

F. INDUSTRIAL PROMOTION SERVICES (IPS)

Industrial Promotion Services is a company which was established by the Agha Khan Fund for Economic Development (AKFED) an international institution committed to the support of economic development in the Third World. The main objective is to support and reinforce national efforts to promote private sector activity, essentially in the industrial and commercial fields. Involvement is mainly through equity or similar instruments. The minimum and maximum equity participation in a project is 12.5 percent and 40 percent respectively.

IPS places priority on projects that have significant developmental potential. IPS is usually approached to appraise a project or it may itself initiate a project or seek other promoters.
interested in doing so. Appraising a project begins with an initial market survey followed by a full feasibility study. IPS's role does not stop with the mobilization of finance or the establishment of the project. IPS continues to provide supervision, co-ordination and control services. This is done through the introduction of management information systems, management review and board procedures. In Kenya, IPS is involved in 16 projects.

G. DEL MONTE PINEAPPLE

A tour was made of the Del Monte Pineapple Cannery located at Thika. Del Monte is a California-based canning company, the largest pineapple producer in the world. Del Monte has pineapple operations in Hawaii, the Philippines and Kenya.

The Kenya turnover is 200,000 mt of pineapple annually. All are grown on company-leased land of 4,700 hectares. Yield is very high due to dense plant population and very high farm technology and production practices, including irrigation. Only about 50 percent of the moisture requirements come from rainfall.

The processing facility operates about 250 days a year at a rate near to 30 mt/hr. The factory operates on a 24-hour basis.

The cannery facilities were typically "Del Monte", spotlessly clean and efficient. Technology was modern with unit operations which are somewhat out of date rather than continuous flow. Products produced are pineapple slices, tidbits, crushed and 65 percent concentrate. All finished products are containerized when shipped.

Del Monte has tried fresh pineapple marketing in Europe and trials were not considered successful. The unsuccessful aspects were "personal" rather than technical and management did not believe it worthwhile to resolve them.

The plant did not have an outgrower programme. It was reported that the local fresh market price is usually so much higher than what Del Monte could pay that small holder outgrowers would not be a reliable source to depend upon for processing. Also part of the original agreement between Del Monte and the Government at the time of land lease was that Del Monte would be fully responsible for its own production and supply of raw material.

The Del Monte Operation in Kenya is not a model for Swaziland with regard to small farmer production. Primarily, it has employment implications which are substantial in a plant of this size. Total direct employment is 6,000 consisting of 3,500 field staff and 2,500 in the cannery. The aggregate employment impact would be greater than this because of the multiplier effect. The 6,000 figure counts only the people directly employed in the Del Monte operation. Foreign currency earnings are also a factor.
IV. PERSONS INTERVIEWED

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Robert Shakotko  Investment Officer  Africa Project Development Facility, Kenya

E.G. Shoreibah  Farm Related Business Specialist  APCP  Cairo, Egypt

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Adel M. Zaki
Regional Financial Analyst
Middle East and Africa
SCHEDULE

Sunday - Feb 11

12:00  Arrive Cairo

13:00  Lunch with Chief of Party, APCP

15:30  APCP/Chemonics

Principal Bank for Development and
Agricultural Credit
Vice Chairman, Noor

Monday - Feb 12

08:30  Pioneer Regional Office, Nasr City

09:30  Mr. Hari R. Shukla
Regional Operations Director
Middle East and Africa

10:30  Tea Break

11:00  Depart for Field to Visit Crop Research
Station at Kaha: Dr. Naril Khamis
Research Station Manager

12:00  Pioneer Parent Seed Production Field
Mr. Ahmed Kamel
Parent Seed Production Manager

14:00  Visit Meet Bera Seed Conditioning Facility
MISR Pioneer Seed Company S.A.E.
Lunch at Seed Plant

15:00  Presentation by Hari R. Shukla

15:45  Tour Seed Plant
Mr. Ahmed El Nomani, Seed Plant Manager

17:00  Depart for Cairo

Tuesday - Feb 13

07:00  Leave Cairo for Field Trip

09:00  Meet Chairman of Dakahliya BDAC

10:00  Visit BDAC Inputs Store

11:00  Visit Seed Grading Station
12:00 Visit Smaron Village Bank and Agency (Mandoubiya)
13:00 Visit Private Sector Fertilizer Plant
14:00 Lunch with Bank Officials at El Ward Club
15:00 Return to Cairo

Wednesday - Feb 14
05:50 Depart for Nairobi
11:30 Arrive Nairobi

Thursday - Feb 15
09:00 Joint meeting
Justice Omollo, USAID Kenya
and Richard Yoder
Rural Enterprise Program
ICDC House

11:00 Meet Mr. Chege
Business Advisory Services Unit
Kenya Commercial Bank
Kencom House
Lunch

14:30 Sunripe (1976) Limited
Fruit and Vegetable Export Company
Tour Plant

21:30 Dinner with Robert Shakotko and Jane Uhlman
Investment Officers
Africa Project Development Facility
Red Bull Restaurant

Friday Feb - 16
09:00 Meet Mr. Joshua Ogola of Kua Jul Program
and Miss Ferrera of ABC Project
Ole Villa on Ole Odume Road

11:00 Mr. Poonwala
Investment Promotion Service (IPS)
IPS Building
14:30

Tour Del Monte Pineapple Processing Plant at Thika

Saturday - Feb 17
09:00

Prepare draft report

Sunday - Feb 18
09:30

Depart for Swaziland