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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan and grant to the Arab Republic of Egypt for the**

### **Promotion of Rural Incomes through Market Enhancement Project**

#### **Note to Executive Board representatives**

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Executive Board — 104<sup>th</sup> Session  
Rome, 12-14 December 2011

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**For: Approval**

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## **Abbreviations and acronyms**

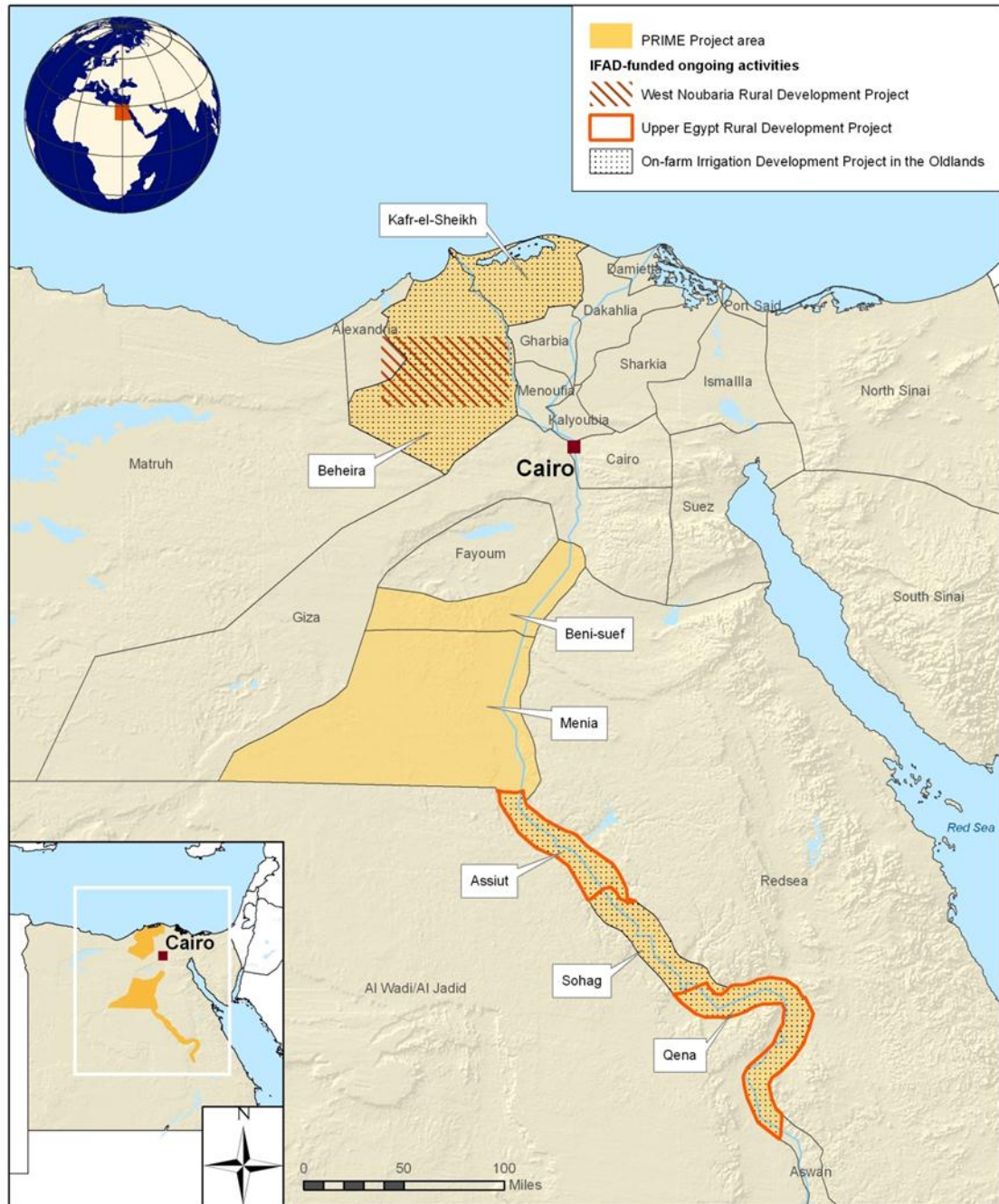
ARDF	Agricultural Research and Development Fund
GPCU	governorate project coordination unit
MFI	microfinance institution
NPCU	national project coordination unit
SFD	Social Fund for Development
SMEs	small- and medium-sized enterprises

# Map of the project area

## Arab Republic of Egypt

### Promotion of Rural Incomes through Market Enhancement - PRIME

Design report



6-12-2010



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

Map compiled by IFAD

## Arab Republic of Egypt

### Promotion of Rural Incomes through Market Enhancement Project

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Arab Republic of Egypt
<b>Executing agency:</b>	Ministry of Agriculture and Land Reclamation
<b>Total project cost:</b>	US\$108.22 million
<b>Amount of IFAD loan:</b>	SDR 44.14 million (equivalent to approximately US\$70.0 million)
<b>Amount of IFAD grant:</b>	SDR 0.63 million (equivalent to approximately US\$1.0 million)
<b>Terms of IFAD loan:</b>	20 years, including a grace period of 5 years, with an interest rate of one half of the reference interest rate per annum, as determined by the Fund semi-annually
<b>Cofinanciers:</b>	Agricultural Research and Development Fund (ARDF) Social Fund for Development (SFD)
<b>Amount of cofinancing:</b>	ARDF: US\$10.93 million SFD: US\$1.0 million
<b>Contribution of borrower:</b>	US\$7.55 million
<b>Contribution of beneficiaries:</b>	US\$17.74 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed financing to the Arab Republic of Egypt for the Promotion of Rural Incomes through Market Enhancement Project, as contained in paragraph 30.

## **Proposed loan and grant to the Arab Republic of Egypt for the Promotion of Rural Incomes through Market Enhancement Project**

### **I. Strategic context and rationale**

#### **A. Country and rural development and poverty context**

1. Despite impressive economic progress in recent years, Egypt has faced many challenges in maintaining sustainable economic growth and addressing economic, social and regional inequalities. Recent estimates indicate that 40 per cent of Egyptians or 33 million are poor. An estimated 19.6 per cent live in absolute poverty and 21 per cent are classed as near poor, for whom a small drop in income or increase in prices could mean falling back into poverty. The growing sense of unequal access to economic opportunities and a divide between the wealthy and the rest of the population was one of the factors that led to the recent national uprising. Egypt's economy took an immediate hit following the political upheaval of January 2011. The crucial tourism sector collapsed, and transport and exports were disrupted. Additional spending on wages, pensions, subsidies and a compensation fund is already committed, but revenue collection remains weak, which will put pressure on the Government's budget. Agricultural development is not only important to growth in national income, but also vital to progress in employment, food security and the reduction of poverty in Egypt. Within the agriculture sector, Egypt enjoys a significant comparative advantage in the production and export of high value horticultural and livestock products, herbs and medicinal plants.

#### **B. Rationale and alignment with government priorities and RB-COSOP**

2. The Government's present strategy of agricultural development (Sustainable Agricultural Development Strategy Towards 2030) is based on the premise that the development of efficient agriculture and export opportunities will boost agricultural production to levels that will bring poor smallholder farmers into the mainstream of economic activity and, in the process, will enhance food security and incomes and create employment opportunities for the rural sector, both on- and off-farm. The project is fully in line with the Government's strategy for poverty reduction and agricultural development. The smallholder farmer has limited access to new technology, finance and markets, especially export markets, thus losing significant income-earning opportunities. Evidence suggests that smallholders dealing with private-sector value chain operators (processors and/or exporters) can achieve substantial income gains through increases in their farmgate prices and reductions in production losses. The exporters and processors are interested in procuring high quality produce as efficiently and cost-effectively as possible. It suits the private sector to negotiate contracts with smallholder producers organized in associations rather than dealing with many fragmented smallholdings. Smallholders are interested in contract farming to secure a higher and fixed price, guaranteed market outlets and quality inputs. Smallholder farmers are hindered by weak organization capabilities, limited access to finance, poor market information, lack of proper marketing and managerial training, inadequate marketing infrastructure and weak linkages to the markets. The value chain approach will underpin all production

and marketing support activities to ensure win-win sustainable linkages for all market players.

## **II. Project description**

### **A. Project area and target group**

3. The project will be implemented in the seven governorates of Assiut, Beni Suef, Menia, Qena and Sohag in Upper Egypt and Beheira and Kafr-el-Sheikh in Lower Egypt. The selection of governorates is based on: (i) incidence of poverty; (ii) potential for production of horticultural crops, livestock, herbs and medicinal plants; (iii) agroecological variation that enables operators to capitalize on year-round production potential; and (iv) potential to capitalize on previous IFAD investments in irrigation and institutional development at the farm level. The project will benefit 50,000 poor rural households, including smallholder farmer households, rural women, unemployed young people and operators of small- and medium-sized enterprises (SMEs).

### **B. Project development objective**

4. The project will contribute to the reduction of rural poverty in the seven governorates of Lower and Upper Egypt, through improved production and profitability in high value crops and promotion of SMEs for better market linkages and employment creation.

### **C. Components/outcomes**

5. The project has three components: (i) marketing support; (ii) rural finance; and (iii) project management. The marketing support component has four subcomponents: (i) organizing and strengthening farmer groups/associations; (ii) market intelligence; (iii) value chain linkages; and (iv) market-oriented production. The rural finance component has three subcomponents: (i) market-based credit research and development; (ii) credit facility; and (iii) strengthening financial intermediaries.
6. The expected outcomes of the project include: (i) an increase in farmgate prices for smallholder farmers through better organization, negotiation, information and access to markets; (ii) a reduction in production losses through access to finance for the use of new technology, access to post-harvest, transport and processing facilities, and integration in the agriculture value chain; and (iii) an increase in assets and employment through enhanced opportunities for on- and off-farm rural employment.

## **III. Project implementation**

### **A. Approach**

7. The main thrusts of the approach used in project implementation are: (i) market-oriented production and marketing; (ii) a value chain strategy, where each participating partner within the chain is assigned a role and responsibilities consistent with its strengths, capacity, skills and experience; (iii) the decentralization of decision-making as close to the grass roots as possible to allow for effective participation of key stakeholders and their organizations in all related processes; and (iv) the inclusion of gender mainstreaming and women's empowerment as an integral part of all project activities.

### **B. Organizational framework**

8. A high-ranking interministerial project steering committee will be set up to handle overall policy decisions and provide guidance at the national level.
9. The Agricultural Research Center (ARC) of the Ministry of Agriculture and Land Reclamation will be the leading coordinating agency. A national project coordination unit (NPCU) will be established within ARC and will be responsible for implementing

the marketing support component and overseeing the implementation of the rural finance component. The Agricultural Research and Development Fund (ARDF), through its affiliated banks, will be responsible for the delivery of financial services and some microfinance services to SMEs. Part of the funds for the microfinance sector will be provided to the Social Fund for Development (SFD) for onlending through non-bank microfinance institutions (MFIs), NGOs, community development associations and similar entities. The division of the microfinance funds between ARDF and SFD will be based on performance and will be reflected in the subsidiary agreements with both institutions.

### **C. Planning, monitoring and evaluation, and learning and knowledge management**

10. A monitoring and evaluation (M&E) system will be established within the NPCU and each of the governorate project coordination units (GPCUs) to perform two overall key functions: progress monitoring and impact M&E. Assessment will be based on the indicators of the IFAD Results and Impact Management System (RIMS). Given that the project is also aimed at creating knowledge, it is essential that project information, experience and results be collected and disseminated on an ongoing basis both in country and at IFAD headquarters. The assignment of knowledge management and communication responsibilities to the M&E officer in the GPCU and the allocation of funds for communication and dissemination purposes will add value to the knowledge and learning output. Knowledge products will include thematic brochures on project implementation experience. Links will also be established with local farmers' forums and community-based organizations to enable the discussion and sharing of experiences as they emerge. In addition, each year the country programme officer will organize a national project implementation workshop, which will serve as a platform for the staff of IFAD-financed projects and other implementing partners to share experiences. The project will make substantial use of the Cairo-based and IFAD-supported KariaNet, the regional Knowledge Access in Rural Interconnected Areas Network, to learn from and share experience with other IFAD projects in the Near East and North Africa region and with its partners.

### **D. Financial management, procurement and governance**

11. The implementing partners will open three designated accounts (one each for the NPCU, ARDF and SFD) in United States dollars with a bank acceptable to IFAD. The three accounts will be managed by the NPCU, ARDF and SFD, as appropriate. The NPCU (and its affiliated GPCUs), ARDF and SFD will maintain independent project accounts in local currency for IFAD-financed activities and ensure that internationally acceptable accounting procedures are fully implemented. With regards to the line of credit, in order to facilitate timely payments to financial intermediaries and end users, disbursements will be made through direct payments to the designated accounts of ARDF and SFD.
12. Major disbursements will be subject to internal audit by the internal auditors of the Ministry of Agriculture and Land Reclamation, ARDF and SFD, as appropriate. Financial reports for the project will be subject to annual audits carried out by independent external auditors acceptable to IFAD.
13. The procurement of goods, works and services to be financed out of the proceeds of IFAD financing will be carried out in accordance with the IFAD Project Procurement Guidelines. The following planned measures are intended to enhance the governance aspects of the IFAD financing: (i) appropriate pre-review thresholds for procurement will be stipulated; (ii) producer organizations will participate in the procurement process; (iii) procurements will be carried out by the NPCU with technical representation of the implementing partners in each governorate; and (iv) procurement will be consistent with the duly approved annual workplan and



budget, which is to include a procurement plan for at least 18 months; and (v) direct supervision by IFAD will be in place.

## E. Supervision

14. The project will be directly supervised by IFAD. There will be at least one full supervision mission and one follow-up mission every year. One of the missions will be scheduled to coincide with an annual review workshop.

## IV. Project costs, financing, benefits

### A. Project costs

15. For the purpose of project costing, the Central Bank of Egypt's current estimates of local inflation (average of 8.5 per cent per year) have been used together with estimates issued by the Economist Intelligence Unit in June 2011. For foreign inflation, an average rate of 2.1 per cent per year has been used based on World Bank estimates. The exchange rate used is the rate prevailing during project appraisal, which was 5.7 Egyptian Pounds (EGP) to one United States dollar. A constant purchasing parity rate has been used to project exchange rates throughout the project duration. On this basis, the total project costs including physical and price contingencies are estimated at US\$108.22 million or EGP 655.53 million over the eight years of project implementation. The foreign exchange component totalling US\$1.69 million (EGP 12.29 million) represents 2 per cent of the total base costs. Physical and price contingencies account for about 2 per cent of total project costs. The investment costs amount to US\$101.3 million or EGP 577.8 million, representing 96 per cent of the total base costs. Recurrent costs amount to US\$4.7 million or EGP 26.8 million, representing 4 per cent of the total base costs.

### B. Project financing

16. The project will be financed by an IFAD loan of US\$70.0 million on intermediate terms and an IFAD grant of US\$1.0 million. The loan will entirely finance the credit facility. The Government of Egypt will finance US\$7.55 million to cover project management costs and all applicable taxes, duties and salaries. The ARDF will provide US\$10.93 million as its contribution in staff resources, technical assistance, staff and operating costs, and training of its partners. The SFD is expected to provide US\$1.0 million for staff and operating costs, and strengthening of its financial partners. The beneficiaries are expected to provide US\$17.74 million as down payment towards financing of investments in agriculture inputs, agroenterprises and development of off-farm enterprises.

Table  
Components by cofinanciers

	IFAD Loan		IFAD Grant		GOE		ARDF		SFD		Beneficiaries		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
<b>A. Marketing Support Component</b>																	
1. Strengthening/Formation of Farmers Mktng Groups/Assoc.	-	-	455	13.2	627	18.1	2 376	68.7	-	-	-	-	3 458	3.2	173	3 112	173
2. Market Intelligence	-	-	206	5.4	762	20.0	2 843	74.6	-	-	-	-	3 811	3.5	191	3 430	191
3. Value Chain Linkages	-	-	217	19.9	96	8.8	375	34.4	404	37.0	-	-	1 092	1.0	55	982	55
4. Marketing Oriented Production	-	-	70	1.5	502	10.9	4 053	87.6	-	-	-	-	4 626	4.3	231	4 163	231
<b>Subtotal Marketing Support Component</b>	-	-	948	7.3	1 987	15.3	9 648	74.3	404	3.1	-	-	12 987	12.0	649	11 688	649
<b>B. Rural Finance Component</b>																	
Market-based Credit Research & Development	-	-	-	-	45	5.0	584	64.8	272	30.2	-	-	901	0.8	45	811	45
Credit Facility	70 000	79.7	52	0.1	-	-	-	-	-	-	17 743	20.2	87 794	81.1	10	87 784	-
Strengthening Financial Institutions	-	-	-	-	0	-	387	96.1	16	3.9	-	-	403	0.4	20	382	-
<b>Subtotal Rural Finance Component</b>	70 000	78.6	52	0.1	45	0.1	971	1.1	288	0.3	17 743	19.9	89 098	82.3	76	88 977	45
<b>C. Project Management &amp; Coordination Unit</b>																	
National Project Coordination Unit	-	-	-	-	1 258	88.9	78	5.5	78	5.5	-	-	1 415	1.3	182	1 196	37
Governorate Project Coordination Units	-	-	-	-	4 261	90.2	230	4.9	230	4.9	-	-	4 721	4.4	778	3 772	171
<b>Subtotal Project Management &amp; Coordination Unit</b>	-	-	-	-	5 519	89.9	309	5.0	309	5.0	-	-	6 136	5.7	960	4 968	208
<b>Total PROJECT COSTS</b>	70 000	64.7	1 000	0.9	7 551	7.0	10 927	10.1	1 000	0.9	17 743	16.4	108 220	100.0	1 685	105 633	902

### **C. Summary benefit and economic analysis**

17. The project will benefit 50,000 poor rural households belonging to approximately 500 farmer groups or associations in the seven project governorates. The project will strengthen farmer groups and associations, which will be supported through capacity-building. In addition, the community development associations and MFIs will be provided with capacity-building to enable them to perform better as financial intermediaries to the project beneficiaries. It is expected that the rural finance component will provide microloans to 30,700 households. Small loans of an average of EGP 75,000 will be provided to 1,120 enterprises; medium-sized loans of an average of EGP 500,000 will be provided to around 175 enterprises. Women will constitute 30 per cent of the beneficiaries. The indirect beneficiaries of the project include the unemployed and underemployed in the project area, who are among the poorest sections of the population and often depend on casual labour as an important source of livelihood. It is expected that the project will generate directly about 1.7 million labour days per year.
18. The project financial analysis indicates that the household benefits after financing will increase in all farm models by between 36 and 109 per cent. The economic analysis shows that the project is likely to contribute to enhancing Egypt's welfare, as it has a positive economic net present value of EGP 436 million (net benefits discounted at 12 per cent).

### **D. Sustainability**

19. There are several ways in which the project is designed to enhance its sustainability. These include increasing the capacity of farmers' associations and enabling long-term contractual relationships with collectors, processors, exporters and similar operators. The results of activities such as these are expected to last beyond the project period, being based on the mutual benefit to be derived from the partnership between producer groups and the private sector. In addition, there are several aspects designed to make the provision of financial services sustainable. These include using existing channels for the delivery of financial services that are operationally sustainable; strengthening MFIs that are delivering services to the rural areas and smallholder farmers; leveraging commercial finance for the agriculture sector by enabling commercial banks to better assess agriculture risk and provide resources from their own funds to the sector; and allowing the financial institutions to charge market-based interest rates and sustain their operations beyond the project life. The funds for ARDF and SFD will be used as a dedicated revolving fund for the rural and agriculture sector at the end of the project.

### **E. Risk identification and mitigation**

20. The potential risks of the project and the mitigating measures envisaged include: (i) price volatility; the focus on farming as a business will assist farmers in reading price signals better and being more aware of market gluts and shortages to minimize the risk of price volatility; and (ii) exclusion of women; this risk is mitigated by dedicating 30 per cent of the budget for women participants and clearly specifying targets for women in each project component.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

21. The project design is fully in line with the IFAD Strategic Framework 2011–2015, the IFAD policies on targeting and on rural finance, and the IFAD environmental and social screening guidelines. The project will assist the target groups in viewing farming as a business and in accessing market opportunities through a value chain approach involving private sector players (exporters, processors, input suppliers, commercial banks) and producer/marketing associations. IFAD's targeting requirements are addressed by ensuring that women, unemployed young people and the landless are included among the poor rural people who are equipped with

the capacity to take advantage of the economic opportunities provided by the project. The project is designed to empower the rural poor, particularly women and young people, and assist them in building their individual assets, knowledge, skills, and collective organizations. It also supports producer organizations in developing the skills and knowledge they need to bargain effectively with private sector organizations.

22. With regards to rural finance policy, the project responds well to the six guiding principles outlined in the IFAD rural finance policy. At the micro level, the project works with retail rural finance institutions and beneficiaries; at the meso level, the focus is on financial infrastructure, such as second-tier institutions and technical service providers; at the macro level, the project is expected to contribute to enhancing the overall policy for microfinance and rural finance, which is in its infancy in Egypt but has gained more prominence recently.
23. The project is expected to have a direct, positive social and environmental impact as a result of its activities in organizing farmers; adopting efficient production practices; supporting the marketing of surplus farm produce and investing in marketing facilities that reduce waste and post-harvest losses; and assisting in diversifying employment opportunities in off-farm enterprises through access to finance, technical assistance and similar services. One of the most important investments of the project will be to focus on Global Agricultural Practice (GLOBALG.A.P.), which has emerged in the last decade as the most important private, voluntary standard in the horticulture subsector. The project is not likely to have any significant negative environmental impact and therefore is classified as category B in accordance with IFAD's environmental assessment procedures.

## **B. Alignment and harmonization**

24. As part of its responsibility for international cooperation and external debt management, the Ministry of Planning and International Cooperation maintains regular contacts with donor-supported programmes to bring greater coherence to development assistance operations and enhance their impact and effectiveness. IFAD will coordinate with donors through the Development Partners Group (DPG) established by donors in Egypt. The DPG coordinates thematic subgroups covering topics such as SMEs, health, gender and development, environment and energy, natural resources, food supply and the financial sector reform. These thematic subgroups provide a platform for donors to coordinate their activities and share information to ensure synergy and compliance with the Government's policies. The DPG has not been very active in the area of agriculture and IFAD will take the lead in ensuring the creation of a subgroup in the agriculture sector and supporting its participation in dialogue with other thematic subgroups.

## **C. Innovations and scaling up**

25. The project is innovative in the manner in which it approaches the provision of marketing linkages and rural financial services and in its plans to leverage commercial capital for investments in the rural and agriculture sectors. In seven governorates in Lower and Upper Egypt, the project will scale up the successful contractual farming initiatives promoted by the IFAD-financed West Nubaria Rural Development Project in Alexandria Governorate and the successful rural microfinance system promoted by the IFAD-financed Upper Egypt Rural Development Project in two governorates in Upper Egypt.

## **D. Policy engagement**

26. SMEs in Egypt face at least two policy-related problems limiting their access to credit: (i) cumbersome and bureaucratic procedures to register and apply for support; and (ii) lack of collateral to access finance. On the bureaucratic issue, there is a need to increase the coverage of the successful one-stop shops and business incubators promoted by the SFD that have recently been established. On

the collateral issue, a legal and regulatory system for moveable collateral that would facilitate lending to small firms is currently being prepared and will include the setting up of a collateral registry. IFAD alone cannot engage in policy dialogue with the Government. Joint efforts with other donors, such as the African Development Bank, the United States Agency for International Development and the World Bank, are crucial to pursuing such dialogue.

## **VI. Legal instruments and authority**

27. A project financing agreement between the Arab Republic of Egypt and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached as an annex.
28. The Arab Republic of Egypt is empowered under its laws to receive financing from IFAD.
29. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **VII. Recommendation**

30. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on intermediate terms to the Arab Republic of Egypt in an amount equivalent to forty-four million one hundred forty thousand special drawing rights (SDR 44,140,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Arab Republic of Egypt in an amount equivalent to six hundred thirty thousand special drawing rights (SDR 630,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein."

Kanayo F. Nwanze  
President

## **Negotiated financing agreement: " Promotion for Rural Incomes through Market Enhancement Project "**

(Negotiations concluded on 1 December 2011)

Loan Number: \_\_\_\_\_

Grant Number: \_\_\_\_\_

Project title: Promotion of Rural Incomes through Market Enhancement Project (the "Project")

The Arab Republic of Egypt (the "Borrower/Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

### **Section A**

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") constitute an integral part of this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan and a Grant to the Borrower/Recipient (the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

### **Section B**

1.
  - A. The amount of the Loan is SDR 44 140 000.
  - B. The amount of the Grant is SDR 630 000.
2. The Loan is granted on intermediate terms as defined in Section 5.01(c) of the General Conditions.
3. The Loan Service Payment Currency shall be the US Dollar.
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of principal and interest shall be payable on each 1 March and 1 September.
6. The Borrower/Recipient has designated its Ministry of Finance for the purpose of handling, on behalf of the Borrower/Recipient, debt service payments with respect to the Loan and in accordance with this Agreement.

7. There shall be three Project Accounts for the benefit of the National Project Coordination Unit (NPCU), the Agricultural Research and Development Fund (ARDF), and the Social Fund for Development (SFD) in banks proposed by the Borrower/Recipient and acceptable to the Fund.

8. The Borrower/Recipient shall provide counterpart financing for the Project in accordance with the AWPB in cash and in kind.

### **Section C**

1. The Lead Project Agency shall be the Ministry of Agriculture and Land Reclamation.

2. The following are designated as additional Project Parties: the Agricultural Research Centre (ARC), Agricultural Research and Development Fund (ARDF), and Social Fund for Development (SFD).

3. The Project Completion Date shall be the eighth anniversary of the date of entry into force of this Agreement, which, in accordance with Section 13.01 of the General Conditions, is the date when both the Fund and the Borrower/Recipient have signed it.

### **Section D**

The Loan shall be administered and the Project supervised by the Fund.

### **Section E**

1. The following is designated as additional general condition precedent to withdrawal: a Framework for Collaboration Agreement between the National Project Coordination Unit and the Project Parties shall have been finalized, in accordance with Schedule 1 paragraph 6 hereof.

2. The following is designated as a specific condition precedent to withdrawal under Category II (Credit Facility) for the financing of Component 2 (Rural Finance) of the Project: two separate Subsidiary Loan Agreements shall have been finalized between the Borrower/Recipient and SFD and ARDF in accordance with Schedule 1 paragraph 8 hereof.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President  
International Fund for Agriculture Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Recipient:

The Minister of Planning and  
International Cooperation  
8 Adly Street  
Cairo, Arab Republic of Egypt

This agreement, dated \_\_\_\_\_, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

ARAB REPUBLIC OF EGYPT

\_\_\_\_\_  
Authorised Representative

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Kanayo F. Nwanze

## **Schedule 1**

### *Project Description and Implementation Arrangements*

#### **I. Project Description**

1. Project goal and target group. The goal of the Project shall be to contribute to the reduction of rural poverty and to the increase in food security in Egypt. The development objective is to increase income and food security of the target group in the seven Governorates of Qena, Sohag, Assiut, Menia and Beni Sueif in Upper Egypt and Beheira and Kafr-el-Sheikh in Lower Egypt. The target group shall include smallholder farmers, landless labourers, women, unemployed youth, small and medium entrepreneurs.
2. Project objective. The objectives of the Project shall be the following: (i) increase in farm-gate prices for small-holder farmers through better organization, negotiation, information and access to markets (ii) reduction in production losses through access to finance for use of new technology, access to post-harvest, transport and processing facilities and integration in the agriculture value chain; and (iii) increase in assets and employment through enhanced opportunities for on and off-farm rural employment.
3. Project Components. The Project shall consist of three components: (a) Marketing Support Component; (b) Rural Finance Component; and (c) Project Management and Coordination Component.
  - (a) The *Marketing Support Component* shall have four sub-components (i) Organising and strengthening Farmer Groups/Associations; (ii) Market Intelligence; (iii) Value Chain Linkages; and (iv) Market-Oriented Production.
  - (b) The *Rural Finance Component* shall have three sub-components (i) Market Based Credit Research & Development; (ii) Credit Facility; and (iii) Strengthening Financial Intermediaries.

#### **II. Implementation Arrangements**

4. Lead Project Agency. The Ministry of Agriculture and Land Reclamation (MALR) shall be the Lead Project Agency and shall have overall responsibility for Project implementation.
5. Project Steering Committee. The Minister of Agriculture and Land Reclamation shall establish a high ranking inter-ministerial Project Steering Committee (PSC) for overall policy decisions and guidance at the national level. The PSC shall be chaired by the Minister of MALR or his representative, with members including, but not necessarily limited to, representatives of the Project area Governorates, the Ministry of Planning and International Cooperation (MOPIC), the Agricultural Research and Development Fund (ARDF), the Social Fund for Development (SFD) and representatives from the private sector. The PSC shall meet at least once quarterly, and on an ad hoc basis as and when necessary. It shall have the primary responsibility of guiding the Project implementation activities and in all matters of policy regarding the Project. Specifically, the PSC shall: (i) ensure that Project activities are in compliance with the Government's policies; (ii) approve the consolidated Project AWPB; (iii) oversee the section of the technical assistance for the marketing support component; (iv) oversee the effective coordination between the marketing support and rural finance components; (v) decide about innovative measures to use Project resources such as the establishment of a venture capital fund for equity investments in agro-industries; (vi) ensure that Project



interventions are coordinated with other development programmes and projects; and (vii) oversee and monitor the systematic implementation of the Project and recommend changes where necessary in coordination with IFAD.

6. National Project Coordination Unit (NPCU). The NPCU shall be headed by a National Project Coordinator (NPC) appointed by the Lead Project Agency and acceptable to IFAD. The NPCU shall report to the Minister of MALR and the Project Steering Committee. The NPC shall serve as the PSC secretary and the NPCU shall provide secretariat services to the PSC. The NPCU staff shall include at least: Project Manager, acceptable to IFAD, Marketing Advisor, Gender & Poverty Targeting Advisor, National Credit Coordinator, Financial Manager, M&E Officer, Accountant and support staff. The NPCU shall be responsible for coordination and liaison with implementing partners, overall project programming, preparation of AWPBs, financial management including disbursement, procurement, preparation for audits, etc. The NPCU shall recruit technical assistance providers and oversee and supervise their work. The NPCU shall be responsible for ensuring the systematic collection of baseline data, monitoring and evaluation, progress reporting and liaison with the Government and IFAD. The NPCU shall enter into a Framework for Collaboration Agreement with the Project Parties which shall be submitted to the Fund prior to its finalization for its no objection.

7. Governorate Project Coordination Unit (GPCU). At governorate level, seven Project Coordination Units shall be established and shall have the primary responsibility for preparation of Governorate-level AWPBs, selection of Project districts and villages, identification of farmer organizations and strengthening them, ensuring participation of women, working closely with technical assistance providers, coordination with ARDF and SFD and ensuring their participation in Project meetings and site visits, management of Project funds at the governorate level, monitoring and evaluation, etc. Each GPCU's staff shall include at least a Governorate Project Coordinator (GPC), who shall be a senior official, acceptable to IFAD, a Governorate Project Manager, acceptable to IFAD, an Agriculture Extension Officer for farmer organization, a Female Mobiliser, a Market Facilitation Officer, an M&E officer, a Governorate Credit Coordinator, an accountant and support staff.

8. Implementation. The National Project Coordination Unit at the National Level and the seven Governorate Project Coordination Units at the Governorate level shall coordinate the implementation of the Marketing Support Component and the following subcomponents of the Rural Finance Component: Market Based Credit Research & Development; and Strengthening of Financial Intermediaries. The ARDF of the Ministry of Agriculture and Land Reclamation and the SFD shall implement the Rural Finance Component. The ARDF and the SFD shall each be responsible for delivery of one-half of the funds for micro-loans (USD 42.0 million), small loans (USD 14.0 million) and medium-sized loans (USD 14.0 million). Both ARDF and SFD shall use their standard operational policies, practices and procedures, to be revised as when needed.

9. Project Implementation Manual (PIM). The NPCU shall prepare a draft Project Implementation Manual acceptable to the Fund and submit it for approval to the Lead Project Agency. When so approved, a copy of the PIM shall be provided by the Lead Project Agency to the Fund. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.

10. Mid-Term Review (MTR). A Mid-term Review shall be conducted at the end of Project Year four, to assess the progress, achievements, constraints and emerging impact and likely sustainability of the project and make recommendation and necessary adjustments for the remaining period of disbursement. The MTR shall be carried out jointly by the Lead Project Agency and IFAD.

**Schedule 2***Allocation Table*

1. *Allocation of Loan and Grant Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and Grant and the allocation of the amounts of the Loan and Grant to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	% of eligible expenditure to be financed
I. Studies, workshops and training		630 000	100% net of taxes and cofinanciers' contributions
II. Credit Facility	44 140 000		100% net of beneficiaries' contributions
TOTAL	44 140 000	630 000	

# Logical framework

Narrative Summary	Objectively Verifiable Indicators	Monitoring Mechanism & Information Sources	Assumptions/ Risks
<b>A. PROJECT GOAL</b>			
<ul style="list-style-type: none"> <li>- To contribute to the reduction of rural poverty in seven governorates of Lower and Upper Egypt.</li> <li>- (52% of the rural population of Egypt was estimated to be living below the poverty line).</li> </ul>	<ul style="list-style-type: none"> <li>- Percentage of households with improvement in household asset ownership in targeted Governorates; compare male and female headed (RIMS mandatory impact indicator: 3<sup>rd</sup> level);</li> <li>- Percentage of households with improved incomes; (RIMS 2<sup>nd</sup> level indicator);</li> <li>- Reduction in the prevalence of malnutrition for children under five (RIMS mandatory impact indicator: 3<sup>rd</sup> level).</li> </ul>	<ul style="list-style-type: none"> <li>- Household income, Expenditure and Consumption Surveys of Egypt;</li> <li>- Egypt Integrated Household Survey;</li> <li>- Egypt Poverty Assessments;</li> <li>- Nutritional Surveys of Egypt.</li> </ul>	<ul style="list-style-type: none"> <li>- Political stability;</li> <li>- Government continues its commitment to poverty reduction and transformation of the agriculture sector in Egypt.</li> </ul>
<b>B. PROJECT OBJECTIVE</b>			
<p>The <u>development objective</u> is improved production and profitability in horticulture, livestock and medicinal plants and herbs for 50,000 rural households, including small farmer households, women, unemployed youth and small and medium entrepreneurs.</p>	<ul style="list-style-type: none"> <li>- At least 75% of the targeted 50,000 HHs report increased incomes from better access to markets and financial services (RIMS 2<sup>nd</sup> level);</li> <li>- 40% increase in average HH incomes;</li> <li>- 20% reduction in production losses (RIMS 2<sup>nd</sup> level);</li> <li>- 40 to 80% % of the households adopt improved cropping patterns on 50% of their landholding;</li> <li>- 50% of the households reduce their cost of production through introduction of improved technologies, market linkages and better integration in value chains.</li> </ul>	<ul style="list-style-type: none"> <li>- Baseline and socio-economic surveys (gender-disaggregated);</li> <li>- Project RIMS annual reporting and impact surveys, PCR;</li> <li>- Project surveys at baseline, mid-term and Completion;</li> <li>- Annual surveys of HHs.</li> </ul>	<ul style="list-style-type: none"> <li>- Favourable government policies;</li> <li>- Prices are relatively stable.</li> </ul>
<b>COMPONENTS OUTCOMES AND OUTPUTS</b>			
<b>COMPONENT 1: MARKETING SUPPORT</b>			
<b>OUTCOME:</b>			
<p>Increased farmers' ability in obtaining better and more stabilised farmgate prices for their products.</p>	<ul style="list-style-type: none"> <li>- 20,000, farmers organized in 500 associations;</li> <li>- 6,000, farmers provided livestock training;</li> <li>- 10,000 farmers provided horticulture training;</li> <li>- 4000, farmers provided Global GAP training;</li> <li>- 2000 Certified under GlobalGap.</li> </ul>	<ul style="list-style-type: none"> <li>- Progress Reports;</li> <li>- Annual Reports;</li> <li>- M&amp;E Reports.</li> </ul>	<ul style="list-style-type: none"> <li>- Minimum disruption of the agriculture sector by incidence of disease or extreme weather events.</li> </ul>
<b>OUTPUTS:</b>			
<ul style="list-style-type: none"> <li>- 500, Farmer Organizations /Associations strengthened with a membership of 20,000 of whom 4600 are women;</li> <li>- 2000 members provided organization training of whom 300 are women;</li> <li>- Members from 500, organizations provided training in market intelligence, horticulture and livestock</li> </ul>	<ul style="list-style-type: none"> <li>- No. of smallholder farmers organized by gender;</li> <li>- No of members trained in organization development by gender;</li> <li>- No of farmers trained in improved production techniques;</li> <li>- No of farmers trained in market intelligence;</li> <li>- No of farmers audited for GlobalGAP;</li> <li>- No of farmers certified;</li> <li>- No of farmers linked to markets by gender.</li> </ul>	<ul style="list-style-type: none"> <li>- Progress Reports;</li> <li>- Annual Reports;</li> <li>- M&amp;E Reports;</li> <li>- TF/CF Reports;</li> <li>- RIMS survey.</li> </ul>	<ul style="list-style-type: none"> <li>- Farmers' organisations functions and roles recognised by authorities.</li> </ul>

Narrative Summary	Objectively Verifiable Indicators	Monitoring Mechanism & Information Sources	Assumptions/ Risks
production; – 4000 farmers qualified in Global Gap Audit and 1000 certified; – 5000 market linkages established for smallholder farmers from which 1000 are women.			
<b>COMPONENT 2: RURAL FINANCE</b>			
<b>OUTCOME 2.1:</b>			
Farmers' production losses reduced.	– Number of people accessing technical advisory services facilitated by project.	– Progress Reports; – Annual Reports; – M&E Reports; – RIMS survey.	– No deterioration in the existing markets for livestock and crops.
<b>OUTPUTS:</b>			
– About 30,000 clients of whom 40% accessed to more than one loan; – Repeat loans taken by 25% of about 1,123 clients for small enterprise development loan 2.1.3 Repeat loans taken by 10% of about 174 medium sized clients.	– Number of research-for-development extension/dissemination events attended by target HHs.	– Progress Reports; – Annual Report; – Case studies.	– Identified commercial banks and NBFIs interested in participating in the Project.
<b>OUTCOME 2.2:</b>			
-Increased access to rural finance by target groups along the selected value chains; -Increased assets and employment for target beneficiaries.	– Number of new jobs created by project SMEs and share of employment by women (RIMS 2) ; – % of assets increase for target beneficiaries ; – Portfolio at risk; outstanding balance of overdue loans (RIMS 2), – Number of intermediary financial institutions strengthened	– Evaluation Reports. – Progress Reports.	– Financially attractive investments available.
<b>OUTPUTS:</b>			
– About 6,000 women provided with loans for livestock production; – About 9000 unemployed youth provided with loans for off-farm activities of which 3,000 will be women.	– No of loans provided by gender; – Volume of loans provided by gender; – Loans by size; – Loans by enterprise.		– Free market rules maintained for crops and livestock.