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President's report

Proposed loan and grant to the Arab Republic of Egypt for the Promoting Resilience in Desert Environments (PRIDE) Project

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For: Approval

Contents

Abbreviations and acronyms	ii
Map of the project area	iii
Financing summary	iv
Recommendation for approval	1
I. Strategic context and rationale	1
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and RB-COSOP	2
II. PRIDE description	2
A. Project area and target group	2
B. PRIDE development objectives	3
C. Components/outcomes	3
III. PRIDE implementation	3
A. Approach	3
B. Organizational framework	4
C. Planning, monitoring and evaluation, and learning and knowledge management	4
D. Financial management, procurement and governance	4
E. Supervision	5
IV. Project costs, financing, and benefits	5
A. Project costs	5
B. Project financing	6
C. Summary benefit and economic analysis	7
D. Sustainability	7
E. Risk identification and mitigation	7
V. Corporate considerations	7
A. Compliance with IFAD policies	7
B. Alignment and harmonization	8
C. Innovations and scaling up	8
D. Policy engagement	8
VI. Legal instruments and authority	8
VII. Recommendation	9

Appendices

- I. Negotiated financing agreement
- II. Logical framework

Abbreviations and acronyms

CAPMAS	Central Agency for Public Mobilization and Statistics
COSOP	country strategic opportunities programme
DRC	Desert Research Centre
ECDC	Egyptian Countryside Development Company
M&E	monitoring and evaluation
MALR	Ministry of Agriculture and Land Reclamation
PMU	project management unit
PRIDE	Promoting Resilience in Desert Environments
RIMS	Results and Impact Management System

Map of the project area

Arab Republic of Egypt

Promoting Resilience in Desert Environments (PRIDE)

President's report



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 | 17-10-2017

Arab Republic of Egypt

Promoting Resilience in Desert Environments (PRIDE) Project

Financing summary

Initiating institution:	IFAD
Borrower:	Ministry of Investment and International Cooperation
Executing agency:	Ministry of Agriculture and Land Reclamation
Total project cost:	US\$81.59 million
Amount of IFAD loan:	EUR 53.2 million (equivalent to approximately US\$61.87 million)
Amount of IFAD grant:	EUR 860,000 (equivalent to approximately US\$1 million)
Terms of IFAD loan:	Ordinary terms: Maturity period of 15 years, including a grace period of 3 years, with an interest rate per annum equal to 100% of the IFAD reference interest rate
Contribution of borrower:	US\$13.96 million
Contribution of beneficiaries:	US\$4.77 million
Appraising institution:	IFAD
Cooperating institution:	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 Promoting Resilience in Desert Environments Project, as contained in paragraph 41.

Proposed loan and grant to the Arab Republic of Egypt for the Promoting Resilience in Desert Environments (PRIDE) Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Egypt is a lower-middle-income country with an estimated per capita GDP of US\$2,724 in 2016. The country has the largest population of any Arab country and has the second largest economy in the Arab world. Since 2011, Egypt has experienced the political upheaval and societal unrest that has spread across the region. Economic growth in the past three decades has been moderate, uneven and insufficient to reduce poverty or absorb the rapidly growing labour supply. Unemployment remains high, particularly for women and youth.¹
2. According to the Central Agency for Public Mobilization and Statistics (CAPMAS), Egypt's poverty rate² increased during 2012/2013, reaching 26.3 per cent compared with 25.2 per cent in 2010/2011, and nearly 25 per cent of the population lives just above the poverty line. Another 11.9 per cent of Egypt's population lives in extreme multidimensional poverty.³
3. Agriculture is a key sector in the Egyptian economy, providing livelihoods for 55 per cent of the population and directly employing 23 per cent of the labour force.⁴ Although the sector's contribution to GDP has fallen over time, it still accounts for approximately 13 per cent of GDP and 20 per cent of total exports and foreign exchange earnings. Agriculture-related industries such as processing, marketing and input supplies account for an additional 20 per cent of GDP. The total cultivated area is 7.2 million feddans,⁵ representing only 3 per cent of the country's total land area. To meet Egypt's food requirements, the Government has prioritized the reclamation of new land for agriculture.
4. An arid country, Egypt's sensitivity to climate change is severe: it has little or no rainfall except in a narrow band along the northern coast. Annual average rainfall ranges from 60-190 mm along the Mediterranean coast to 25-60 mm in the Nile Delta and less than 25 mm in Upper Egypt and its adjacent areas. Scarcity of water is a key constraint to agricultural growth. Analysts estimate that the expected rise in temperature may lead to a 20 per cent decrease in productivity for some major crops by 2050.
5. Despite significant progress in reducing infant and child mortality in the past decades, high levels of child malnutrition still persist across the country. Egypt is one of the 20 countries in the world with the highest number of children suffering

¹ See <https://tradingeconomics.com/egypt/gdp-per-capita>.

² The extreme poverty limit is 3,570 Egyptian pounds (EGP) (US\$518) per person per year – approximately EGP 312 per month per person or EGP 10 (approximately US\$1.50) per day per person.

³ World Food Programme, *The Status of Poverty and Food Security in Egypt: Analysis and Policy Recommendations*, (Rome: 2013).

⁴ Food and Agriculture Organization of the United Nations (FAO) statistics, 2014.

⁵ 1 feddan = 0.42 hectares.

from chronic malnutrition.⁶ Child nutrition has deteriorated even at times when Egypt experienced rapid economic growth.

6. Egypt ranks low on international indicators of gender equity. It had a Global Gender Gap Index score of 0.614 and a rank of 132 out of 144 countries in 2016.⁷ Although indicators related to women have improved over the years, large disparities remain between men and women in literacy, education, labour participation, unemployment rates, wages and political participation.
- B. Rationale and alignment with government priorities and RB-COSOP**
7. The rationale for the Promoting Resilience in Desert Environments (PRIDE) Project stems from the Government's Sustainable Development Strategy: Egypt Vision 2030, which is designed to make Egypt's economy more dynamic and increase its capacity to reduce poverty, create productive employment opportunities and maintain social and political stability. This vision recognizes the need to increase public and private investments in the poorest governorates. The Governorate of Matrouh, among the poorest (as per CAPMAS estimates) and most vulnerable to climate change, has been singled out for IFAD support. PRIDE is also aligned with the Government's 1.5 Million Feddan Project – a cornerstone of Government policy aimed at increasing Egypt's farmlands. The project will benefit from IFAD's previous experience working with smallholders and settling communities on the new lands.
 8. PRIDE is fully aligned with the IFAD Strategic Framework 2016-2025 and the Mainstreaming Nutrition-Sensitive Agriculture at IFAD: Action Plan 2016-2018. Strengthening nutrition (a key thematic focus area under strategic objective 1) and strengthening climate resilience (strategic objective 3) are prominent features of the project. The design of PRIDE is also closely aligned with the strategic objectives of the country strategic opportunities programme (COSOP) for Egypt.

II. PRIDE description

A. Project area and target group

9. Project area: PRIDE will be implemented in Matrouh Governorate. Project interventions target coastal areas, the Siwa Oasis and the irrigated areas in Al Alamein.⁸
10. Target group: The target group is the entire population of Matrouh Governorate, which is estimated at approximately 450,000 people or 60,000 households.⁹ Beneficiaries have been mapped and PRIDE is expected to directly benefit approximately 36,000 households or 216,000 individuals. Of Matrouh's population, 37.9 per cent live in the lowest wealth quintile as per the Egypt Demographic and Health Survey 2014. Matrouh has the highest rate of illiteracy among women in Egypt (43.9 per cent), which impacts household nutrition. A clear gender-specific and nutrition-focused project component has been developed to address this target group.
11. In coastal areas, PRIDE will work with 43 sub-tribes. All project interventions will be planned and implemented with participatory community-owned approaches. The main sources of income in coastal areas are derived from livestock, figs and olives. In the Siwa Oasis, the project will implement a comprehensive study of drainage, irrigation and usage networks, the results of which can be scaled up in oasis

⁶ United Nations Children's Fund (UNICEF) fact sheet, November 2016.

⁷ World Economic Forum: <http://reports.weforum.org/global-gender-gap-report-2016/rankings>.

⁸ This includes the new lands in El Moghra and other adjacent areas: the addition of adjacent areas is at the request of the Government of Egypt during negotiations.

⁹ CAPMAS Statistical Yearbook, September 2015, Ref No: 71-01111-2015.

ecosystems across the country. In the irrigated areas of Al Alamein, the project will work with 252 groups of youth and smallholders.

B. PRIDE development objectives

12. The project's development goal is to reduce poverty and enhance food and nutrition security in rural areas through remunerative, sustainable and resilient livelihoods. Its development objectives are to: (i) build poor rural households' resilience to the harsh climate conditions in Matrouh Governorate by improving their productive capacities; (ii) assist communities in enhancing the productive potential of newly reclaimed lands; and (iii) assist women and children from poor households in improving their nutrition and socio-economic status. The attainment of these objectives is central to Egypt's ability to meeting the Sustainable Development Goals (SDGs).
13. The project is expected to: (i) increase the number of people experiencing economic mobility, with changes in income, consumption and food diversity, and improved quality of diets; (ii) increase the number of people with greater resilience; and (iii) increase the number of people benefiting from agriculture and non-agricultural products.

C. Components/outcomes

14. The project's development objectives will be achieved through the following components:

Component 1: Climate-resilient livelihoods.

This component consists of four subcomponents; (i) water for agriculture and watershed management; (ii) enhancing connectivity; (iii) livestock and rangeland development; and (iv) crop production.

Component 2: Integrated nutrition-sensitive investments.

This component consists of three subcomponents: (i) water for health; (ii) nutrition enhancement and education; and (iii) social infrastructure.

15. Both components have been designed to address the two key vulnerabilities in the region: vulnerability to climate change and undernutrition. Component 1 will: deliver climate-resilient infrastructure, including 500 reservoirs for irrigation; develop wadis¹⁰ (covering approximately 1,900 feddans) to enable the construction or rehabilitation of approximately 250 km of rural roads; develop on-farm water management infrastructure (across 4,284 plots); provide crop and horticulture training; and develop rangelands. Component 2 will deliver integrated nutrition and livelihood packages in the same communities, including approximately 4,000 pigeon towers (a key source of livelihoods and nutrition in the region), homestead plants for approximately 1,000 households, income-generating activities for 400 households, 18 schools and eight health units along with nutrition awareness, literacy classes and sanitation facilities.
16. Resources will be divided between the rain-fed areas of Matrouh Governorate and the irrigated areas of Al Alamein. Initial resources have been earmarked in the budget based on projected needs. Investments in Siwa Oasis will focus on the drainage study, investments in social infrastructure, livelihood packages for women and dissemination of tested technologies.

III. PRIDE implementation

A. Approach

17. The approach builds on and responds to the 2017 country strategy and programme evaluation of the Egypt portfolio by the Independent Office of Evaluation of IFAD, which recommended a stronger central project management unit (PMU). It also

¹⁰ A *wadi* is a small valley that is dry except in the rainy season.

integrates lessons learned from previous interventions in the region funded by the World Bank and the Italian cooperation agency.

B. Organizational framework

18. PRIDE will be implemented through a two-tiered institutional structure at the central and governorate levels. At the central level, the Ministry of Investment and International Cooperation will represent the Government (“the borrower”) and the Ministry of Agriculture and Land Reclamation (MALR) will be the main implementing agency. A central PMU will be established in Cairo within MALR. The central PMU will coordinate activities in the irrigated areas in Al Alamein in collaboration with national partners. In the Governorate of Matrouh, the Desert Research Centre (DRC) will be the executing agency for the rain-fed areas. The proposed institutional arrangement aims to lessen the layers of approval required, streamlining decision-making and facilitating efficient project implementation.

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

19. A project monitoring and evaluation (M&E) system and processes will be established in line with IFAD procedures and with support from IFAD. The logical framework provides indicators for implementation along with corresponding means of verification.
20. The DRC already has a well-functioning M&E system at the output level, with clear quantitative measurement of project outputs. All activities and infrastructure developed through previous interventions have been mapped in the DRC geographic information system (including dikes and wadis constructed under the previous World Bank-financed Matruh Resource Management Project). These existing experiences will be built upon during project startup and implementation, extending the M&E system to cover the entire project. The PMU (especially the M&E officer) will engage in networks and forums to improve information flow among actors. This will enable learning and dissemination of innovations and best practices. Whenever feasible, the PMU will ensure dissemination of best practices to other rural development projects in Egypt, policy makers and other development partners. All activities related to international knowledge exchange will be aligned with IFAD’s Approach to South-South and Triangular Cooperation (SSTC) (approved by the Executive Board in December 2016). These include:
- (i) SSTC objective 1: Share relevant rural development solutions and knowledge, and promote investments among developing countries.
 - (ii) SSTC objective 2: Establish and support partnerships and other forms of collaboration for improved rural livelihoods.
21. The project will package and disseminate information to stakeholders in the appropriate formats (e.g. brochures, studies, articles, newsletter and via the internet). The project steering committee will be responsible for identifying policy lessons and ensuring that they are communicated appropriately. Innovations and best practices at the village level will be documented in order to replicate and scale up project impacts. Innovative farmers and livestock owners will become mentors for other farmers in order to accelerate the scaling up and replication of their innovations.
- ## D. Financial management, procurement and governance
22. To determine project-specific control risks, a financial management risk assessment of the proposed project and its financial management arrangements was conducted as part of the project design mission. This assessment included MALR and DRC.

23. The project's control risk was rated as high and residual risk as medium after the implementation of the mitigation measures. The identified risks will be mitigated through: (i) creation of a central PMU at MALR staffed with qualified fiduciary professionals; (ii) support to DRC's finance team with a part-time qualified financial management consultant; (iii) installation of a reliable multi-location accounting software system within the PMU and DRC; (iv) strong budget monitoring and control; and (v) a detailed project implementation manual.
24. Flow of funds. At the central level, the project will have two designated accounts – one for the loan and another one for the grant – and two operating accounts in local currency. The funds will flow from each designated account to its respective operating account. At DRC, two sub-operating accounts will be opened to receive funds from the operating account every six months in advance on the basis of the approved annual workplan and budget.
25. Audit. A reputable independent audit firm will carry out the annual project external audit following international auditing standards. The terms of reference for the audit will be cleared by IFAD on an annual basis. In addition, a risk-based internal audit will be carried out by a qualified internal auditor or firm midway through project implementation to evaluate: the effectiveness of internal controls, risk management and governance; the reliability and integrity of financial information; and the project's compliance with the financing agreement and applicable rules and regulations.
26. IFAD's Project Procurement Guidelines (2010) specify that national procurement systems will be used under the condition that these systems are assessed as satisfactory or better. The project will adopt Egypt's Public Procurement Law 89/1998 to the extent that it is consistent with the IFAD Procurement Guidelines. The national system will be used for all procurements except for those above the threshold for international competitive bidding, which will be undertaken according to World Bank guidelines.

E. Supervision

27. The project will be directly supervised by IFAD. The country programme manager and in-country team will provide ongoing implementation support. A core team from headquarters will visit the project area on an annual basis to assess management arrangements and performance, including financial and procurement aspects, and M&E. Supervision missions will also include specific expertise on nutrition and climate change. Based on the field team's findings, the country programme manager and in-country team will undertake an overall assessment of progress, visit the project area and determine the areas requiring implementation support.

IV. Project costs, financing, and benefits

A. Project costs

28. The overall budget of the project is estimated to be US\$81.59 million over a seven-year period. The cost of the project over its entire duration is shown in the tables below. The cost of component 1: Climate-resilient livelihoods, is expected to cost US\$42.54 million. Component 2: Integrated nutrition-sensitive investments, is expected to cost US\$31.52 million. The cost of project management will be US\$7.54 million. Of the total IFAD allocation, US\$57.09 million will be spent on programmes, of which: DRC will implement programmes valued at US\$36.84 million in rain-fed areas (64 per cent); an NGO will implement programmes valued at US\$7.90 million (14 per cent); and the central PMU will implement programmes worth US\$12.35 million (22 per cent) in newly reclaimed lands.

Table 1
Project costs by component and financier
 (Thousands of United States dollars)

<i>Component</i>	<i>IFAD loan</i>		<i>IFAD grant</i>		<i>Beneficiaries</i>		<i>Borrower/ counterpart</i>		<i>Total Amount</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	
1. Climate-resilient livelihoods									
1.1. Water for agriculture and watershed management	15 427	90.4	-	-	1 357	8.0	282	1.7	17 066
1.2. Enhancing connectivity	7 626	51.4	-	-	-	-	7 196	48.6	14 822
1.3. Livestock and rangeland development	2 615	84.2	-	-	217	7.0	272	8.8	3 104
1.4. Crop production	6 356	84.3	-	-	-	-	1 187	15.7	7 543
Subtotal	32 023	75.3			1 574	3.7	8 938	21.0	42 535
2. Integrated nutrition-sensitive investments									
2.1. Water for health	11 962	81.0	-	-	2 670	18.1	128	0.9	14 760
2.2. Nutrition enhancement and education	6 478	84.9	346	4.5	-	-	806	10.6	7 631
2.3. Social infrastructure	6 289	68.9	-	-	527	5.8	2 313	25.3	9 129
Subtotal	24 730	78.5	346	1.1	3 196	10.1	3 247	10.3	31 520
Project management	5 118	67.8	654	8.7	-	-	1 772	23.5	7 544
Total project costs	61 871	75.8	1 000	1.2	4 770	5.8	13 957	17.1	81 599

B. Project financing

29. IFAD will provide a loan of US\$61.87 million from the performance-based allocation system for Egypt for the current financing cycle from 2016 to 2018. In addition, IFAD will provide a grant of US\$1 million. The Government contribution will be approximately US\$13.96 million, of which US\$7.6 million will be in-kind contribution for civil works along with its staff and facilities used by the project, and US\$6.35 million to cover foregone taxes and custom duties. Beneficiaries will provide US\$4.77 million as an in-kind contribution of labour in selected project activities, including 20 per cent of the cost of cisterns, reservoirs, sanitation facilities and community rangeland development.

Table 2
Project costs by expenditure category and financier
 (Thousands of United States dollars)

<i>Expenditure category</i>	<i>IFAD loan</i>		<i>IFAD grant</i>		<i>Beneficiaries</i>		<i>Borrower/ counterpart</i>		<i>Total Amount</i>
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	
A. Investment Costs									
1. Consultancies	2 898	66.2	940	21.5	-	-	537	12.3	4 376
2. Goods and services	12 685	87.0	60	0.4	217	1.5	1 611	11.1	14 573
3. Training and workshops	4 261	90.8	-	-	-	-	430	9.2	4 691
4. Civil works	33 201	71.4	-	-	4 553	9.8	8 723	18.8	46 478
5. Investment capital	5 153	100	-	-	-	-	-	-	5 153
Subtotal	58 199	77.3	1 000	1.3	4 770	6.3	11 301	15.0	75 271
B. Recurrent costs									
1. Salaries and allowances	2 610	50.5	-	-	-	-	2 558	49.5	5 167
2. Operating costs	1 063	91.5	-	-	-	-	98	8.5	1 161
Subtotal	3 672	58.0	-	-	-	-	2 656	42.0	6 328
Total project costs	61 871	75.8	1 000	1.2	4 770	5.8	13 957	17.1	81 599

C. Summary benefit and economic analysis

30. The benefits expected from the project will be both quantitative and qualitative. It is expected that the project will benefit approximately 36,000 households or 216,000 individuals. The project outputs are expected to include: (i) a reduction in the water deficit within the project area by at least 20 per cent or 825,000 cubic meters; (ii) an increase in the area under agricultural production of 19,000 feddans from the development and rehabilitation of wadis through rain-water harvesting infrastructure and planting of fig and olive trees; (iii) provision of 250 km of rural roads; (iv) a comprehensive feasibility study and costed engineering designs for irrigation and drainage of the Siwa Oasis; (v) improvement in the vegetative and regeneration capacity of 90,000 feddans of rangelands; (vi) an increase in livestock productivity; (vii) supporting families in newly reclaimed lands to initiate cultivation and production activities adapted to desert environments over 42,000 feddans of new lands; (viii) the introduction of new technologies to improve water quality monitoring and management; (ix) improved interaction between research and extension officers regarding determination of varieties suitable for desert environments; (x) improved quality of household diets, especially among women and children; (xi) an increase in employment opportunities for rural women and youth; and (xii) an increase in sanitation facilities for 3,000 households, access to schools for 1,000 students annually and health facilities for 15,000 women annually.

D. Sustainability

31. The many interventions that will enhance the sustainability of the project investments include the: (i) use of tested techniques for water harvesting and collection; (ii) demand-driven and self-selection approach; (iii) communities' contributions of initial capital costs; (iv) low cost of operation and maintenance; and (v) careful selection of project activities based on need. Given the extreme shortage of rain in the Matrouh Governorate, cisterns and reservoirs are among the few means of ensuring water supply for domestic use and supplemental crop irrigation. There are virtually no maintenance costs involved after their construction. The project ensures the sustainability of the irrigation infrastructure through a two-pronged approach, which establishes: (i) pre-qualification criteria for the investments at the community or company level; and (ii) individual owners' responsibility for their individual plots (once an agreement at this level has been ensured). At the institutional level, the project is aligned with the priorities of the Matrouh Governorate, Ministry of Investment and International Cooperation, Ministry of Agriculture and Land Reclamation, and the 1.5 million Feddan Project.

E. Risk identification and mitigation

32. The main risk relates to a possible delay of project start-up due to the need for parliamentary approval and ratification. Mitigation measures include cultivating strong support and commitment to the project at the highest levels within the Matrouh Governorate to expedite approvals and facilitate timely implementation. A secondary risk relates to the capacity of DRC to effectively utilize allocated resources. As a mitigation measure, the resources allocated to DRC have been maintained at a level considered within its capacity to manage. DRC capacity will be strengthened and implementation support provided through an NGO along with support from government agencies on activities within their mandates.

V. Corporate considerations

A. Compliance with IFAD policies

33. The project is fully aligned with the IFAD Strategic Framework 2016-2025 and its principles of engagement. IFAD places a premium on innovation, learning and scaling up of successes, and in the process leverages partnerships in which comparative advantages are exploited for maximum impact. The nutrition-sensitive

interventions are aligned with Mainstreaming Nutrition-Sensitive Agriculture at IFAD: Action Plan 2016-2018 and commitments.

34. The project is also in line with IFAD's January 2013 poverty targeting and gender-sensitive design and implementation guidelines. Women and youth are given a central role in project design, including dedicated staff, specific targets and separate budget line items. The IFAD Climate Change Strategy recognizes that the speed and intensity of climate change are outpacing the ability of poor rural people and societies to cope. The project recognizes the fact that poor rural people are on the front lines of climate change impacts: the ecosystems and biodiversity on which they rely are increasingly being degraded. The focus on climate-resilient infrastructure and agricultural processes directly contributes to the strategic objectives of the Strategic Framework. The project design (involving partnership with the private sector in the irrigated areas in Al Alamein) is also in compliance with IFAD's Private-Sector Strategy, which emphasizes the development and strengthening of linkages between smallholder farmers and the private sector.

B. Alignment and harmonization

35. The project is firmly aligned with the Government's national priorities. Its approaches are in line with the objectives of its Sustainable Development Strategy: Egypt Vision 2030 (which focuses on achieving the SDGs through agricultural development, climate resilience and social infrastructure). Potential activities in El Moghra are aligned with the 1.5 Million Feddan Project. The assessment of groundwater and usage sustainability issues is harmonized with similar interventions being undertaken by other international financial institutions in Egypt, especially the African Development Bank (which is developing a project that may serve as potential cofinancing for IFAD's investment).

C. Innovations and scaling up

36. The project will deliver a number of innovations that could be scaled up in the Egyptian context, including: (i) the innovative use of tablet computers for disseminating nutrition and behaviour-change messages; (ii) climate-resilient and sustainable water usage models in new lands; and (iii) geographic information system enabled mapping and tracking of all project interventions in Matrouh Governorate. The detailed study of the Siwa Oasis drainage-irrigation network will provide a crucial model for scaling up across oases in Egypt.

D. Policy engagement

37. The project will make crucial contributions to policy engagement in Egypt. The findings of the Siwa Oasis study will be scaled up to provide a model for development of oases and drainage-irrigation networks in these closed ecosystems. The development of new integrated resource and farm-management systems in the irrigated areas in Al Alamein will also contribute to the models developed under the 1.5 Million Feddan Project.

VI. Legal instruments and authority

38. 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 in appendix I.
39. The Arab Republic of Egypt is empowered under its laws to receive financing from IFAD.
40. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

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

RESOLVED: that the Fund shall provide a loan on ordinary terms to the Arab Republic of Egypt in an amount equivalent to fifty-three million two hundred thousand euros (EUR 53,200,000), approximately US\$61.87 million, 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 eight hundred and sixty thousand euros (EUR 860,000), approximately US\$1 million, and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement

Promoting Resilience in Desert Environments (PRIDE) Project

(Negotiations concluded on 14 November 2017)

Loan Number: _____

Grant Number: _____

Project Title: Promoting Resilience in Desert Environments (PRIDE) Project ("PRIDE" or "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, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to 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 fifty three million two hundred thousand Euros (EUR 53 200 000).
 - B. The amount of the Grant is eight hundred sixty thousand Euros (EUR 860 000).
2. The Loan is granted on ordinary terms, and shall be subject to interest on the principal amount of the Loan outstanding at a rate equal to the IFAD Reference Interest Rate, payable semiannually in the Loan Service Payment Currency, and shall have a maturity period of fifteen (15), including a grace period of three (3) years starting from the date that the Fund has determined that all general conditions precedent to withdrawal have been fulfilled in accordance with Section 4.02(b) of the General Conditions.

3. The Loan Service Payment Currency shall be EUR.
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of principal and interest shall be payable on each 15th March and 15th September.
6. There shall be two Designated Accounts (one for the Loan and one for the Grant).
7. The Borrower/Recipient shall provide counterpart financing for the Project in an amount equivalent to thirteen million nine hundred fifty thousand United States dollars (USD 13 950 000).

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Land Reclamation (MALR).
2. The Project Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

Section D

The Financing will be administered and the Project supervised by the Fund.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Central Project Management Unit (CPMU) referred to in paragraph 9 of Schedule 1 to this Agreement shall have been duly established with required key staff.
 - (b) The draft PIM referred to in paragraph 13 of Schedule 1 to this Agreement shall have been submitted and approved by the Fund.
 - (c) A fully functional accounting software, subject to no objection by the Fund, shall have been installed at CPMU and Sustainable Development Centre for Matrouh Resources (SDCMR) of the Desert Research Center (DRC).
2. This Agreement is subject to ratification by the Borrower/Recipient.
3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Minister of Investment and International Cooperation
Ministry of Investment and International Cooperation
8 Adly Street, Cairo

For the Fund:

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

This Agreement, dated _____, has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

THE ARAB REPUBLIC OF EGYPT

Authorized Representative
(name and title)

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Project Area.** The Project will be implemented entirely in the Matrouh Governorate (the "Project Area") along the coastal rain-fed areas, in the Siwa Oasis and in the irrigated areas in Al Alamein.
2. **Target Group.** The target group in the Project Area is estimated to be around 450,000 people or 60,000 households. Beneficiaries by intervention have been mapped during the design, and PRIDE is expected to directly benefit about 36,000 HHs or 216,000 individuals.
3. **Goal.** The development goal of the Project will be to reduce poverty and enhance food and nutrition security in rural areas through remunerative, sustainable and resilient livelihoods.
4. **Objective.** The development objectives of the Project will be to build the resilience of poor rural households to the harsh climate conditions in the Project Area by improving their productive capacities, assist communities to enhance the productive potential of the newly reclaimed lands and assist women and children from poor households to improve their nutritional and socio-economic profile.
5. **Components.** The Project's development objectives will be achieved with two components.
 - 5.1. **Component 1: Climate Resilient Livelihoods.** This component will consist of four sub-components; (i) Water for Agriculture and Watershed Management; (ii) Enhancing Connectivity; (iii) Livestock and Rangeland Development and (iv) Crop Production.
 - 5.2 **Component 2: Integrated Nutrition-Sensitive Investments.** This component will consist of three sub-components: (i) Water for Health (ii) Empowerment of Women for Nutritional Change (iii) Social Infrastructure.
6. The components have both been designed to address the two key vulnerabilities in the region: vulnerability to climate change and under-nutrition. The allocation of resources will be divided between the rain-fed areas of Matrouh and irrigated areas in Al Alamein on the basis of needs and demands in the area. An initial allocation of resources between the two has been specifically earmarked and indicated in the budget based on the projected needs; this could be updated during the Project life as agreed between IFAD and the implementing agency based on needs and Project performance.
7. **Outcomes:** Two outcomes are expected from the Project: (i) Increased economic mobility and changes in economic status due to increased production, income, consumption and food diversity; and (ii) Improved access to social sector services.

II. Implementation Arrangements

8. **Approach.** The Project will be implemented over seven years to allow for the initiation and proper implementation and consolidation of activities, especially since activities will build on community-led participatory approaches. In the Matrouh coastal areas, the Project will build on the experiences of the previous World Bank-financed project and will be implemented through the Desert Research Centre (DRC). In the irrigated areas in Al Alamein, the Project's

activities will be implemented through a central Project Management Unit (PMU) based in Cairo. Activities will be implemented in coordination with other agencies involved in the Government's 1.5 Million Feddan initiative.

9. Organizational framework. The Project shall be implemented through a two-tiered institutional structure at the Central and Governorate level. At the central level, the Ministry of Investment and International Cooperation will represent the Borrower/Recipient and the Ministry of Agriculture and Land Reclamation (MALR) will be the Lead Project Agency. A central PMU will be established in Cairo situated in the MALR; the central PMU will also coordinate activities in irrigated areas in Al Alamein. At the Governorate of Matrouh level, the Desert Research Center will be the executing agency of the Project for the other rain-fed areas. The two-tier institutional arrangement aims to lessen the approval layers for faster decision-making and consequently more efficient Project implementation.
10. Monitoring and Evaluation. The Project Monitoring and Evaluation System and processes will be established and managed in accordance with established IFAD procedures by the Project team with support from IFAD. The Logical Framework provides indicators for implementation along with their corresponding means of verification.
11. Supervision. The Project will be directly supervised by IFAD. The Country Programme Manager and his in-country team will provide on-going implementation support to the Project. In addition, a core team from IFAD headquarters will undertake a mission on an annual basis to assess overall management arrangements and performance including financial and procurement aspects and monitoring and evaluation. Supervision missions will also include specific expertise on nutrition and climate change. Based on field team's findings, the supervision team will make an overall assessment of the progress, visit the Project Governorate and determine the areas requiring implementation support.
12. Mid-Term Review. A mid-term review will be carried out towards the end of third Project Year. The review will cover, among other things: (i) physical and financial progress as measured against AWPBs; (ii) performance and financial management of contracted implementing parties; (iii) appropriateness of project structure and design, in particular the allocation of activities between the coastal rain-fed areas and the new lands.
13. Project Implementation Manual (PIM). The PMU shall prepare a draft PIM covering all activities of the project, acceptable to the Fund and submit it for approval to the project steering committee (PSC). When so approved, a copy of the PIM shall be provided by the PMU to the Fund. The PIM may be amended when necessary with the approval of the Fund in order to introduce clarification in procedures, eliminating constraints for Project implementation.

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 the Grant and the allocation of the amounts of the Loan and the Grant to each Category and the percentages of expenditures for items to be financed in each Category. All amounts are net of taxes and other contributions, except in the category "Investment Capital".

Category	Loan Amount Allocated (expressed in EUR)	Grant Amount Allocated (expressed in EUR)
I. Works	25 700 000	-
II. Goods and Services	9 810 000	50 000
III. Consultancies, and Workshops and Training	5 540 000	724 000
IV. Investment Capital	3 990 000	-
V. Operating Costs	2 840 000	-
Unallocated	5 320 000	86 000
TOTAL	53 200 000	860 000

2. Start-up Costs. Withdrawals in respect of eligible expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall be permitted up to an overall amount of EUR 255 000. These funds are intended to provide for (i) the purchase and installation of an appropriate accounting software and MIS system, and the purchase of basic equipment such as computers, photocopiers and printers (EUR 180 000) under Category II; and (ii) technical assistance for the Sustainable Development Centre for Matrouh Resources (SDCMR) of the Desert Research Center (DRC) and preparation of the Project Implementation Manual (EUR 75 000) under Category III.

Logical framework

Results	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Hierarchy								
Goal: Reduce poverty and enhance food and nutrition security in rural areas through remunerative, sustainable and resilient livelihoods.	<ul style="list-style-type: none"> % of population below the international poverty line of the rural households in the Governorate.¹¹ 	49.8%	45%	35%	National/ regional statistical services (CAPMAS)	MTR and completion	PMU M&E unit	<ul style="list-style-type: none"> Political stability Macro-economic conditions remain stable or improve. No major political shocks in the region
	<ul style="list-style-type: none"> % of HHs reporting increased food security as measured by Food Insecurity Experience Scale (FIES) 	0%	30%	60%	Baseline, mid-term and Completion food survey	MTR and completion	PMU M&E unit	
Development Objective: Assist approximately 216,000 people (36,000 HHs) to build resilience to climate conditions, improve nutritional and socio-economic profiles and improve productive capacities.	<ul style="list-style-type: none"> % of HHs that have increased their asset ownership^{12*} 	0%	10%	30%	Mid-term and Completion survey (updated RIMS survey)	MTR and completion	M&E officer	
	<ul style="list-style-type: none"> No. of HH receiving services promoted or supported by the project. 	0	15,000	36,000	Baseline, mid-term and Completion survey	MTR and completion	M&E officer	
	<ul style="list-style-type: none"> % of HHs reporting adoption of environmentally sustainable and climate-resilient activities* 	0%ca	10%	30%	Baseline, mid-term and Completion survey (Component 11 of IFAD-MPAT)	MTR and completion	M&E officer	
	<ul style="list-style-type: none"> % of HHs reporting improved meal frequency 	0%	30%	60%	Baseline, mid-term and Completion survey (Food survey/dietary intake methodology as validated by FAO)	MTR and completion	M&E officer	
Component 1: Climate Resilient Livelihoods: Water Harvesting, Watershed Management, Enhancing connectivity, Livestock and Rangeland development, Crop Productivity. Outcomes: Increased economic mobility and changes in economic status due to increased production, income, consumption and food diversity;	<ul style="list-style-type: none"> Reduction in the water deficit in Matrouh Governorate. 	4 million m ³ is the deficit in domestic water needs in the project area	3.6 million m ³	3.2 million m ³	Project M&E Data Component reports DRC analyses	Annually	M&E officer Component officer	<ul style="list-style-type: none"> Climatic changes are in line with current predictions in terms of the level of rainfall and global warming.
	<ul style="list-style-type: none"> % of HHs reporting significant reduction in time and cost on water * 	0%	10%	30%	Baseline, mid-term and Completion survey (adapted from IFAD-WEAI methodology)	MTR and completion	M&E officer	
	<ul style="list-style-type: none"> % of HHs reporting an increase in crop/ livestock production* 	0%	10%	30%	Baseline, mid-term and Completion survey	MTR and completion	M&E officer Component officers	
	<ul style="list-style-type: none"> % of HHs adopting community rangeland and breed improvement practices 	0%	10%	30%	Mid-term and Completion survey	MTR and completion	M&E officer Component officers	

¹¹ CAPMAS Report 2016.

¹² An income survey was recommended in place of asset measurement during the IFAD QE review. However, assessment of incomes in rural areas are cumbersome, due to multiple income streams, social pressures and norms with regard to self-reporting incomes, difficulties in determining incomes due to self-consumption.

Results	Indicators				Means of Verification			Assumptions
	Name	Baseline	Mid-Term	End Target	Source	Frequency	Responsibility	
Hierarchy								
Outputs	<ul style="list-style-type: none"> Number of reservoirs (capacity of 300 m3) for irrigated agriculture constructed or rehabilitated by project 	0	190	500	M&E Data Component reports	Annually	M&E officer Component officer	<ul style="list-style-type: none"> DRC has built sufficient implementation capacity ECDC master plan for El Moghra developed by PY1 (to identify roads)
	<ul style="list-style-type: none"> Number of feddans of land brought under improved community rangeland practices (equivalent to RIMS indicator land brought under climate resilient management)* 	0	30,000	90,000				
	<ul style="list-style-type: none"> Number of feddans of valley beds rehabilitated or developed (wadi) by project* 	0	684 feddan (36km*19/km)	1900 feddan (100km*19/km)				
	<ul style="list-style-type: none"> Km of feeder roads constructed by project* 	0	250 km	250 km				
	<ul style="list-style-type: none"> Feddans of new land cultivated in Moghra. 	0	24,000 feddan	42,840 feddan	M&E Data from ECDC	Annually	ECDC & M&E Officer	
Component 2: Integrated Nutrition-Sensitive Investments: Domestic water supply, nutrition packages, social infrastructure Outcomes: Improved access to social sector services.	<ul style="list-style-type: none"> % of HHs reporting good dietary diversity (5 food groups out of 12). % of women reporting good dietary diversity ((5 food groups out of 10) % of children under five with good diet diversity score (4food groups out of 7). 	0%	10% increase	30% increase	Baseline, midterm and Completion survey (Minimum Dietary Diversity for Women / dietary diversity methodology validated by FAO)	MTR and completion	M&E officer	<ul style="list-style-type: none"> Coordination between line ministries (Agriculture, Education and Health) ensured. Coordination between MALR and ECDC ensured for El Moghra and new lands Community leaders are willing to included women and youth in project activities,
Outputs	<ul style="list-style-type: none"> Number of cisterns (capacity of 120 m3) for homesteads constructed/ rehabilitated by project 	0	2400	6000	M&E Data Component reports	Annually	M&E officer Component officer	
	<ul style="list-style-type: none"> Number of reservoirs (150 m3) for homesteads constructed/ rehabilitated by project 	0	200	500				
	<ul style="list-style-type: none"> Number of women provided with targeted support to improve their nutrition (nutrition packages) 	0	1600	4000				
	<ul style="list-style-type: none"> Number of schools constructed by project 	0	18	18				
	<ul style="list-style-type: none"> Number of health units/ mobile health clinics constructed/rehabilitated by project 	0	8	8				
	<ul style="list-style-type: none"> # of schools receiving nutrition message 	0	12	18				<ul style="list-style-type: none">