



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
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REPORT AND RECOMMENDATION OF THE PRESIDENT

TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO

THE ARAB REPUBLIC OF EGYPT

FOR

THE SOHAG RURAL DEVELOPMENT PROJECT



TABLE OF CONTENTS

CURRENCY EQUIVALENTS	iii
WEIGHTS AND MEASURES	iii
ABBREVIATIONS AND ACRONYMS	iii
MAP OF THE PROJECT AREA	iv
LOAN SUMMARY	v
PROJECT BRIEF	vi
PART I THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY	1
A. The Economy and Agricultural Sector	1
B. Lessons Learned from Previous IFAD Experience in Egypt	2
C. IFAD's Strategy for Collaboration with Egypt	2
PART II THE PROJECT	4
A. Project Area and Target Group	4
B. Objectives and Scope	5
C. Project Components	5
D. Costs and Financing	6
E. Procurement, Disbursement, Accounts and Audit	9
F. Organization and Management	9
G. Economic Justification	10
H. Risks	11
I. Environmental Impact	11
J. Innovative Features	12
PART III LEGAL INSTRUMENTS AND AUTHORITY	12
PART IV RECOMMENDATION	12
ANNEX	
Summary of Important Supplementary Assurances Included in the Negotiated Loan Agreement	13



APPENDIXES

I. COUNTRY DATA	1
II. PREVIOUS IFAD LOANS IN EGYPT	2
III. SUMMARY DESCRIPTION	3
IV. PROJECT LOGICAL FRAMEWORK	6
V. KEY MONITORING INDICATORS	9
VI. COST AND FINANCING	10
VII. ORGANIZATIONAL CHART	12



CURRENCY EQUIVALENTS

Currency Unit	=	Egyptian Pound (EGP)
USD 1.00	=	EGP 3.39
EGP 1.00	=	USD 0.29

WEIGHTS AND MEASURES

1 kilogram (kg)	=	2.204 pounds (lb)
1 000 kg	=	1 metric tonne (t)
1 kilometre (km)	=	0.62 miles (mi)
1 metre (m)	=	1.09 yards (yd)
1 square metre (m ²)	=	10.76 square feet (ft ²)
1 acre (ac)	=	0.405 ha
1 hectare (ha)	=	2.47 acres

ABBREVIATIONS AND ACRONYMS

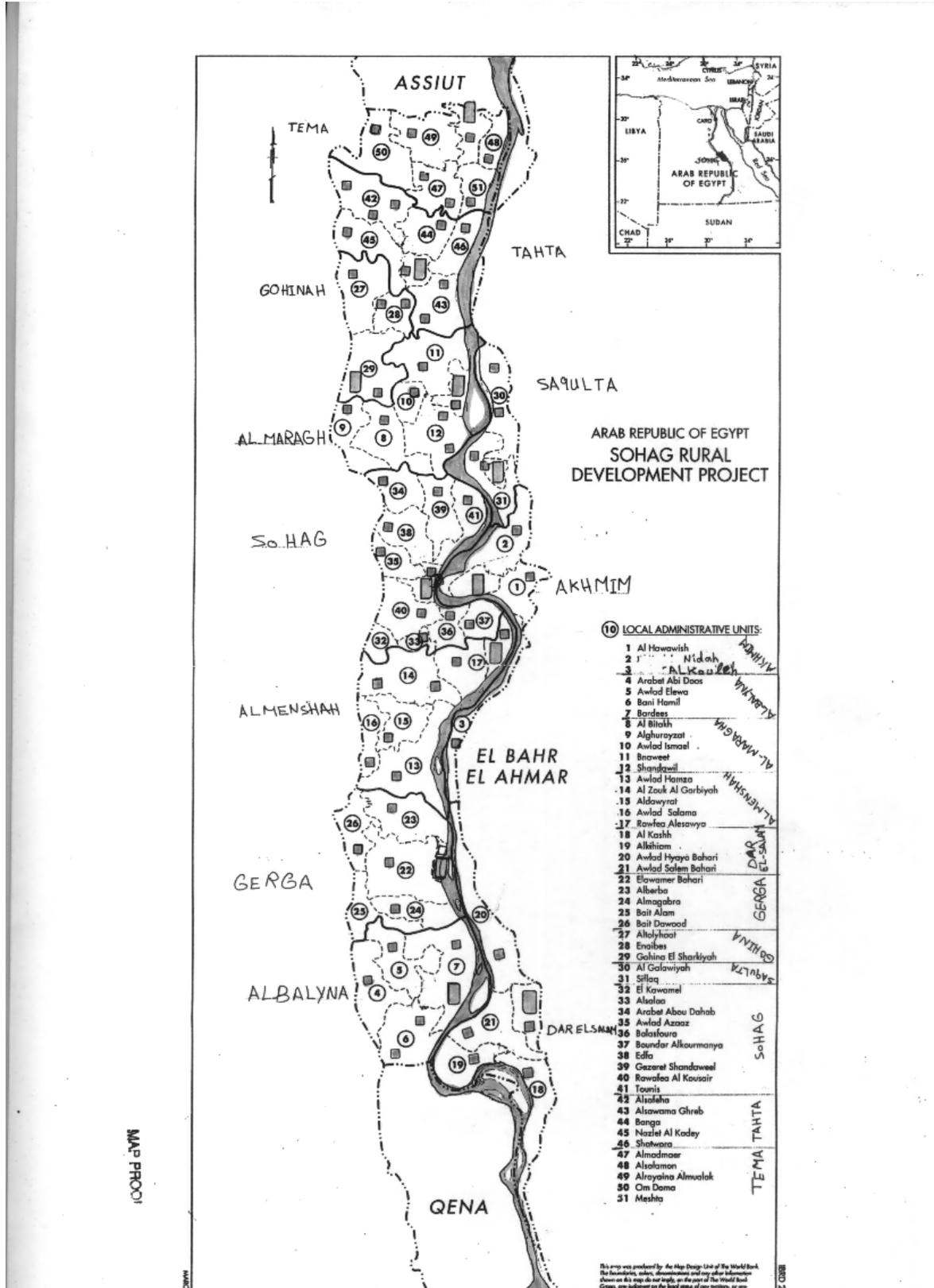
BDAC	Sohag Bank for Development and Agricultural Credit
CDA	Community Development Association
EMP	Environmental Management Plan
ERP	Economic Reform Programme
ERR	Economic Rate of Return
GOS	Governorate of Sohag
ICB	International Competitive Bidding
IDA	International Development Association
LAU	Local Administration Unit
LDF	Local Development Fund
MIS	Management Information System
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
O&M	Operation and Maintenance
ORDEV	Organization for the Development of Egyptian Villages
PBDAC	Principal Bank for Development and Agricultural Credit
SA	Special Account
SF	Social Fund
SHROUK	National Programme for Integrated Rural Development
SOE	Statements of Expenditures
TAS	Technical Assistance Secretariat
USAID	United States Agency for International Development

GOVERNMENT OF THE ARAB REPUBLIC OF EGYPT

Fiscal Year

1 July - 30 June

MAP OF THE PROJECT AREA



Source: World Bank Appraisal

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.



ARAB REPUBLIC OF EGYPT
THE SOHAG RURAL DEVELOPMENT PROJECT

LOAN SUMMARY

INITIATING INSTITUTION:	International Development Association (IDA)
BORROWER:	Arab Republic of Egypt
EXECUTING AGENCY:	Sohag Governorate, Principal Bank for Development and Agricultural Credit, Local Development Fund
TOTAL PROJECT COST:	USD 93.7 million
AMOUNT OF IFAD LOAN:	SDR 18.85 million (equivalent to approximately USD 25 million)
TERMS OF IFAD LOAN:	40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum
COFINANCIERS:	IDA Bilateral Donor (to be determined)
AMOUNT OF COFINANCING:	IDA: USD 25.0 million Bilateral Donor: USD 3.0 million
CONTRIBUTION OF BORROWER:	USD 23.6 million
CONTRIBUTION OF BENEFICIARIES:	USD 17.1 million
APPRAISING INSTITUTION:	IDA
COOPERATING INSTITUTION:	IDA



PROJECT BRIEF

Who are the beneficiaries?

The project will target all the rural inhabitants of Sohag, the poorest Governorate in Egypt, living in 51 Local Administration Units (LAUs) comprising almost 1 500 villages and hamlets. In a 1995 survey, 52% of the 460 000 households in Sohag were categorized as poor and 39% as ultra poor. Nearly 75% of the households of Sohag - 350 000 households - are expected to benefit directly or indirectly from the project.

Why are they poor?

The incidence of poverty remains high in Egypt. Poverty is caused by a very low per capita share of cultivated land - 0.13 *feddan* or 0.05 ha - and inadequate employment opportunities outside agriculture; and the situation is particularly acute in Upper Egypt, especially in Sohag Governorate. Sohag's population of 3.2 million is 77% rural, with 210 000 farming households having access to land and 150 000 landless households rearing animals and selling their labour. The cultivated land is limited to about 320 000 *feddans*, or 150 000 ha. Out-migration is high but, at 2.8%, population growth is also high. The soils are fertile but suffer from poor drainage and inefficient irrigation. The social and physical infrastructure is poor. Seventy percent of adults are illiterate, 30% of the villages have no potable water systems, 30% have no health facilities and 90% are without any kind of sanitation.

What will the project do for them?

The project is expected to improve physical and social infrastructure through investments identified by villagers who will also commit themselves to sharing in the costs and eventually assuming operation and maintenance (O&M) responsibility for completed works. In addition, the project will provide increased loan funds and institutional support to rural finance institutions with a view to improving the access of the poor to financial services, especially credit and savings. The project will improve the sustainability of its actions by promoting a greater degree of cost recovery and the levying of user charges.

How will beneficiaries participate in the project?

The project emphasizes participatory planning and financial management at the village level. It will use a methodology pioneered by the National Programme for Integrated Rural Development (SHROUK), the indigenous National Programme for the Rehabilitation and Development of the Egyptian Village launched in 1994 as a means of involving local communities in deciding on their needs and priorities. Key elements of the approach include collaboration at the local level between government representatives, elected members of local councils, members of local communities and non-governmental organizations (NGOs) to agree on priorities and the commitment of local communities to share in the costs of infrastructure, including O&M costs.

Project costs and financing plan

The total cost of the project is approximately USD 93.7 million. It will be financed by an IFAD loan of USD 25 million, an International Development Association (IDA) credit of USD 25.0 million, a grant from a bilateral donor of USD 3.0 million, and contributions of USD 23.6 million from the Government of Egypt and USD 17.1 million from the beneficiaries.



**REPORT AND RECOMMENDATION OF THE PRESIDENT OF IFAD
TO THE EXECUTIVE BOARD ON A PROPOSED LOAN TO
THE ARAB REPUBLIC OF EGYPT
FOR
THE SOHAG RURAL DEVELOPMENT PROJECT**

I submit the following Report and Recommendation on a proposed loan to the Arab Republic of Egypt for SDR 18.85 million (equivalent to approximately USD 25 million) on highly concessional terms to help finance the Sohag Rural Development Project. The loan will have a term of 40 years, including a grace period of ten years, with a service charge of three fourths of one per cent (0.75%) per annum. It will be administered by the International Development Association (IDA) as IFAD's cooperating institution.

PART I - THE ECONOMY, SECTORAL CONTEXT AND IFAD STRATEGY¹

A. The Economy and Agricultural Sector

1. The Arab Republic of Egypt, the most populous country in the Arab region and the second most populous in Africa, has a land area of about 1 million km², of which only 35 000 km² is inhabited. The inhabited and cultivated part is almost exclusively located along the River Nile and in the Delta area. The population in 1996 was about 60 million. Population density for the non-desert areas is about 1 700 per km², one of the highest densities in the world. Increasing population densities underlie the national dilemma of how to increase production from reduced cultivable areas. The Gross National Product (GNP) per capita was estimated at USD 1 090 in 1996, but income distribution is highly unequal and, in 1994, it was estimated that 25% of the population lived below the poverty line.

2. Manufacturing, petroleum and mining, agriculture and services, including tourism, are the major economic sectors. The period 1952-74 featured a State-planned economy marked by social welfare objectives, supported by input and output price subsidies and controlled production and marketing. Growth was high until the late 1960s. In 1974, the Open Door Policy introduced some degree of liberalization and encouraged private sector participation and foreign investment. A further period of rapid growth ensued until the mid-1980s, resulting in considerable social progress. However, by the mid-1980s, oil prices had declined, foreign borrowing had increased and expenditure constantly exceeded revenue, causing slower growth and an inability to repay debts. In response to these problems, an adjustment programme was initiated in 1986, and an economic reform programme (ERP) followed in 1990.

3. Under the adjustment programme, economic reform has been consistently implemented and significant targets have been met in terms of the removal of pricing and interest rate controls, free trade, and the unification of exchange rates. Indications are that the annual budget deficit is being brought under control and that it was less than 4% of the Gross Domestic Product (GDP) in 1996. Inflation fell from 21% in 1992 to 8.3% in 1996.

¹ See Appendix I for additional information.



4. Traditionally, the Egyptian economy has relied on the agricultural sector as a source of growth. In recent years, the sector's dominance has declined but it still contributes about 20% to GDP and 20% of the value of exports, and accounts for 38% of employment. More broadly, it provides the basis of the economy of rural Egypt, the home of 54% of the population.

5. Egypt's agricultural resource base is limited. The agricultural land, which is almost entirely irrigated, represents some 7.5 million *feddans* (3.2 million ha), or 3.5% of the total land area. The average farm size is 3 *feddans* (1.3 ha) and 50% of the farming population is landless. Since the early times, Egyptian authorities have supported both agricultural intensification and expansion of the irrigated area within the perceived soil and water constraints. Since 1952, over 2 million *feddans* of newlands and "old newlands" have been reclaimed from the desert, but the overall cropped area has not expanded much because much old valley land was lost to urban sprawl.

6. Following decades of heavy State intervention, the Government embarked on a programme of economic reforms, including liberalization of prices, input supply and marketing. These reforms have provided the framework for market-based growth in the sector, and the initial response has been favourable. Soils are fertile, almost all land is double-cropped and, with irrigation, yields for several crops are among the highest in the world. Egypt has a clear comparative advantage, especially in cotton, horticultural products and wheat; and, if the reforms remain in place, the sector is well-positioned for continued increases in productivity.

B. Lessons Learned from Previous IFAD Experience in Egypt

7. IFAD has financed six operations in Egypt, three of which have closed and were systematically evaluated. The lessons learned from these projects include: (a) projects must be kept as simple as possible because of the difficulty of coordinating complex projects that involve numerous institutional entities; (b) implementation and financial control of projects is better placed at the governorate level, with a steering committee at the central level to safeguard project interests at the centre; (c) design, advertising and tendering procedures are time-consuming and should be standardized as far as possible in operation manuals, especially for small repetitious investments that require minor variations; (d) participation is critical for ensuring project relevance, cementing ownership by beneficiaries and enhancing sustainability; and (e) the poor and women are bankable, provided credit is given for financially- and technically-proven activities and the access of the poor to the service is significantly improved.

C. IFAD's Strategy for Collaboration with Egypt

Egypt's Policy for Poverty Eradication

8. Egypt is a poor country with a per capita income of USD 1 090 per annum (1996). Poverty is caused by a limited agricultural land resource base and inadequate employment opportunities in the other economic sectors. Although the incidence of poverty fell from 40% in 1952 to 22-30% of all households in 1995, poverty in rural areas is more widespread than in the urban centres and is concentrated particularly in Upper Egypt.

9. An ERP was launched in the early 1990s to stabilize the economy and lay the foundations for more rapid and sustainable growth to expand employment opportunities and combat poverty. To minimize the impact of the economic reforms on poor and vulnerable groups in the short run, a Social Fund for Development (Social Fund) was established in 1991. The Social Fund has financed labour-



intensive infrastructure, community development and microenterprise development credits throughout Egypt. The Government of Egypt initiated the National Programme for Integrated Rural Development (SHROUK) in 1994 with the strategic objectives of "sustainable improvement in the quality of rural life while bridging the gap between rural and urban areas, and sustainable improvement of community participation in all steps of development activities". SHROUK is intended to decentralize the planning and implementation of rural development to local communities, using traditional village structures as the base. Pilot programmes have started throughout the country, including Sohag. Key features of the SHROUK approach include collaboration at the local level between ministerial representatives, elected local councils and members of SHROUK local government representatives, NGOs and local volunteers to agree on priorities and on the commitment of local communities to share in the costs of infrastructure development.

The Poverty Eradication Activities of other Major Donors

10. In 1996, United States Agency for International Development (USAID) began to provide direct programme support (USD 30 million) and technical assistance (USD 3 million) to SHROUK as part of a strategy to promote democratization. A USAID review of its support in 1997 indicated that SHROUK has a long way to go to adapt itself if it is to contribute to the growth of democracy in Egypt, but concluded that, despite its limitations, SHROUK offers advantages as a partner to democracy because it already exists, it has the support of the Government, and disposes of administrative resources. It has also accumulated experience in project design and implementation; captured the attention of rural audiences; probably sensitized the latter to the need for greater participation by women; accumulated a useful data base; and has experience in seeking to coordinate activities with other governmental instrumentalities. It is not perfect, but it might be made much better. New programme guidelines and procedures have been agreed and will be implemented to address the shortcomings of SHROUK.

11. IDA has been active in both structural adjustment and project lending. It is providing support to the Social Fund project intended to create a safety net for the poor adversely affected by the economic reform programme. The Arab Fund for Economic and Social Development is assisting with the irrigation power and health sectors. The European Union is providing assistance with food security, privatization and agricultural development and many bilateral donors are assisting with agricultural development, irrigation improvement and women-in-development activities.

IFAD's Strategy in Egypt

12. IFAD's development assistance to Egypt commenced in 1979. It was based on a strategy in support of government efforts in the agricultural sector, mainly to increase production and productivity and to decentralize agricultural support services. That strategy was articulated in the West Beheira Settlement Project (054-EG) which pioneered the drive to rehabilitate the irrigation and drainage of public lands cultivated by parastatal bodies, based on the Soviet socialist model, and distribute them to small farmers. The combination of better irrigation/drainage facilities and improved incentives to individual producers have impacted favourably on crop yields. The success of the project was behind the privatization of all public agricultural production entities in Egypt. The Minya Agricultural Development Project (114-EG) and Fayoum Agricultural Development Project (157-EG) decentralized support services away from Cairo and vested greater responsibility in the Governorate Administration for the design and implementation of development initiatives.

13. A re-examination and evaluation of IFAD's operations in Egypt in the early 1990s led to a slight shift of emphasis in IFAD's assistance strategy. More emphasis was placed on helping farmers settled on the newlands with post-settlement support services; on institution-building as articulated in



the Newlands Agricultural Services Project (306-EG); and on increasing productivity levels of smallholder crop and livestock systems in the oldlands as articulated in the Agricultural Production Intensification Project (355-EG). To date, IFAD's assistance to Egypt has amounted to six loans in support of six projects for a total of SDR 102.4 million, or some USD 153 million.

Project Rationale

14. Improvement in the socio-economic conditions of Sohag is of high priority to the Government. Because of high demographic pressure, extensive illiteracy and unemployment and a limited natural resource base, increases in rural incomes and employment cannot come from primary agricultural activities alone. Given the weak infrastructure and institutional support systems, any development strategy in Sohag must rely on broad-based, community-directed rural development programmes that sustainably improve social infrastructure and services and increase rural productivity and employment as the means of improving the socio-economic situation. Because of the limited scope for horizontal expansion, emphasis is placed on vertical integration, efficient resource use and the creation of on- and off-farm job opportunities and small-scale enterprises in agricultural production, agro-processing and household crafts. While there are several voluntary organizations engaged in small-scale development initiatives in Sohag, there is a clear need for coordinating their plans and programmes and this is a service that the project could provide.

PART II - THE PROJECT

A. Project Area and Target Group

15. The Governorate of Sohag is located in middle Upper Egypt. Sohag is heavily populated, with about 3.2 million people (1995 estimates), mostly rural (77%), living in 51 LAUs and 10 towns. The population density of about 1 900 inhabitants per km² is one of the highest in the world. Sohag has one of the highest out-migration rates in Egypt. The Governorate exhibits a high degree of social cohesion and solidarity as manifested by the high level of remittances from migrating family members that provide an important economic cushion to those who have remained; and an active local NGO community providing social services and finance but which unfortunately lacks coordination and synchronization.

16. According to the 1994 Human Development Report for Egypt, Sohag is the least developed governorate in Egypt. A 1995 survey estimated that about 52% of the population of Sohag is poor and 36% ultra-poor. Thirty per cent of all villages in Sohag are without potable water, 30% have no health facilities, 90% have no sanitation and, in 50% of the villages, there is a total lack of recreation facilities for youth. The incidence of rural illiteracy is high, at 70.6% for males and 86% for females. Road connections between hamlets and main villages are poor, and bridges across irrigation canals and drains are often lacking.

17. The economy of Sohag is predominantly agricultural, but the cultivable area is limited to only 320 000 *feddans* for about 210 000 households. Under irrigation, the desert-like climate is ideally suited to a wide range of crops throughout the year. The irrigation network is outdated, with limited control structures and poor maintenance. At the farm level, water-use efficiency is low due to poor land-levelling and the farmers' tendency to over-irrigate their plots. An estimated 170 000 *feddans* suffer from poor drainage.

18. Sixty-nine per cent of farming households are owner occupiers on 70% of the land, and 31% are tenants. Holdings are small, 59% are of less than one *feddans*, mostly only 0.5 *feddans*, and only 34% of



holdings are of between 1 and 3 *feddans*. It is calculated that under the yield conditions and prices prevailing in Sohag, a holding of 3 *feddans* is needed for a family of six to live off agriculture. This means that 93% of Sohag's farming households have a per capita agricultural income below the absolute poverty line. For survival, they rely on additional off-farm work in agriculture or elsewhere, and many are involved in seasonal migration. For these households, off-farm income can account for 22-38% of total income. For the landless, casual seasonal labour is the most important source of income. Forty-eight per cent of households own livestock which are kept in the house compound and fed with fodder by-products that are produced on the farmers' own land or purchased. Livestock are usually cared for by the women, who feed, clean and milk them, process the milk and market any surpluses.

19. As a general rule, men are responsible for activities outside the home - in agriculture and in wage employment - while women are mostly restricted to the home and look after livestock. Women have a marked degree of control over income from livestock, but most of it is spent on the family and rarely separated from the family budget. Male migration is giving women more power in the family, both on the domestic front and with respect to agriculture and other income-generating activities.

20. The entire rural population of Sohag will constitute the project target group. By improving the physical and social infrastructure, the project should improve the quality of life in Sohag. In addition, the very poor landless and small farmers and women will be especially targeted by the rural finance component, which will promote access to microcredit for income-generating activities such as food processing, dairying, silk production and weaving, and transport and delivery services. In addition, the project will benefit rural women by promoting their representation in the participatory village-level institutions.

B. Objectives and Scope

21. The primary project development objective is to support the sustainable development of Sohag's rural villages through the participatory approach initiated by SHROUK. The project aims to: (a) promote sustainable rural development in Sohag; (b) improve incomes and quality of life in the rural communities; and (c) promote equitable access to credit for the rural poor, unemployed youth and women. In addition, the project is expected to enhance the capacity of local communities and local government to programme, appraise, cofinance, implement and manage rural infrastructure subprojects.

C. Project Components

22. The project will have three components.

Local Institutions Strengthening

23. This component will support the local administration and line ministries at the governorate, district and local levels to operationalize participatory approaches to development.

24. The project will establish a technical assistance secretariat (TAS) at the governorate level to provide technical assistance focused on improving the technical quality and environmental sustainability of village infrastructure. The project will also assist rural development committees at the LAU and district level to improve their capacity in needs identification, awareness building, impact monitoring, health and family planning, and social intermediation. Line ministries in Sohag essential to the rural development programme will be supported to improve their capacity in project appraisal, procurement and supervision, and to promote work group cohesiveness and coordination.



Village Infrastructure Programme

25. The project will provide finance for demand-driven community-based economic village water supply systems; waste water and sanitation systems; small irrigation and drainage schemes; rural roads; social health centres; a classroom; literacy, youth and cultural centres; women's clubs; and infrastructure subprojects intended to improve access to basic economic and social services in the 51 LAU/villages of Sohag Governorate. The subprojects are to be identified, prepared and cofinanced by Sohag villages through the SHROUK participatory process, in interaction and with the support of the local administration and line ministries in Sohag. The establishment of an acceptable village O&M plan will be an important criteria for determining eligibility for financing infrastructure in a particular village in order to ensure the sustainable provision of services. The O&M plan will include an assessment of the financial capability and willingness of the community to participate in O&M costs.

Rural Finance Programme

26. This component will help to promote increased economic activities; open and improve access to credit for the ultra-poor; and assist in developing rural financial markets. The project will support two sub-components:

27. **On-farm Technology Improvement and Rural-Based Investment.** The project will provide long-term resources through a line of credit and institutional support to the Sohag branch of the Bank for Development and Agricultural Credit (BDAC). The aim will be to increase agricultural productivity and rural income through on-farm technology improvements and rural-based investments and to address the financial and managerial problems facing the Sohag BDAC. This component will operate under the terms of the Manual for Credit and Financial Policies Procedures for the BDACs and the Principal Bank for Development and Agricultural Credit (PBDAC), which covers financial arrangements, principal financing conditions, approval, target beneficiaries, project criteria, loan sizes and lending terms.

28. **Microcredit for Income Generation.** The project will support the Sohag BDAC and the Local Development Fund (LDF) in Sohag to develop market-oriented credit delivery for income-generating activities by the rural poor, with special emphasis on women, in a competitive and financially sustainable manner. The project will finance a special wholesale credit window for NGOs. The credit window will provide wholesale credit lines to eligible participating NGOs, including the Community Development Association (CDA), that provide adequate guarantees to the LDF's financial intermediary (BDAC), for retailing to small borrowers and communities at market rates that support the credit cost and risk. The project will also finance a pilot line of credit for innovative credit delivery to individual borrowers. The main feature of the microcredit line will be that the credit may be used for any productive income-generating occupation, such as farming, farm-related activities, small trade and handicrafts, at standard market rates of interest with no collateral or down payment required for small loans of less than LE 1 500. The project will also support the decentralization of the LDF in Sohag and the use of simplified procedures for loan application and accounting in order to minimize administrative costs and speed up decision-making in respect of loan approvals.

**D. Costs and Financing**

29. The total project costs are estimated at USD 93.7 million over a six-year implementation period. The project will be financed by: (a) an IFAD loan of USD 25 million; (b) an IDA credit of USD 25.0 million; (c) a grant of USD 3.0 million from a cofinancier yet to be identified; (d) a cash and/or in kind contribution of about USD 17.1 million from the families in beneficiary villages; and (e) a Government contribution of about USD 23.6 million.

TABLE 1: SUMMARY OF PROJECT COSTS^a
(USD million)

Components	Local	Foreign	Total	% of Foreign Exchange	% of Base Costs
A. Local Institutions Strengthening					
At the governorate level	1.4	0.3	1.8	19	2
At the district and LAU levels	1.8	1.4	3.1	44	4
For line ministries	0.4	0.1	0.1	14	1
Subtotal	3.7	1.8	5.5	33	7
B. Village Infrastructure Programme	33.8	13.7	47.5	29	63
C. Rural Finance					
On-farm technology improvement and rural-based investment	10.5	7.4	17.9	41	24
Microcredit for income generation	2.8	2.2	5.0	44	7
Subtotal	13.4	9.6	23.3	42	30
Total base costs	50.9	25.1	76.0	33	100
Physical contingencies	3.4	1.4	4.8	30	6
Price contingencies	10.3	2.6	12.9	20	17
Total project costs	64.6	29.1	93.7	31	123

^a Discrepancies in totals are due to rounding.

TABLE 2: FINANCING PLAN^a
(USD '000)

	Others		IFAD		IDA		BDAC		Beneficiaries		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
A. Local Institutions Strengthening																	
1. Support to Sohag governorate	1 630	75.5	187	8.7	187	8.7	0	-	0	-	154	7.1	2 158	2.3	367	1 735	56
2. Support of distric and LAU	30	0.8	1 161	32.3	1 161	32.3	0	-	0	-	1 243	34.6	3 596	3.8	1 461	1 695	440
3. Support to line ministries in Sohag	337	52.8	120	18.9	120	18.9	0	-	0	-	60	9.4	637	0.7	78	520	40
Subtotal Local Institutions Strengthening	1 997	31.2	1 469	23.0	1 469	23.0	0	-	0	-	1 456	22.8	6 391	6.8	1 905	3 950	536
B. Village Infrastructure Programme	0	-	13 728	22.6	13 728	22.6	0	-	11 111	18.3	22 093	36.4	60 659	64.7	16 524	37 494	6 641
C. Rural Finance																	
1. On-farm technology improvement and rural-based investment																	
Line of credit for agric. prod. and rural investment	0	-	6 962	35.0	6 962	35.0	0	-	5 967	30.0	0	-0.0	19 891	21.2	7 516	12 375	0
Institutional building BDAC	529	61.7	111	12.9	111	12.9	107	12.5	0	-	0	-	858	0.9	678	166	14
Subtotal	529	2.6	7 072	34.1	7 072	34.1	107	0.5	5 967	28.8	0	-0.0	20 749	22.1	8 195	12 541	14
2. Microcredit for income generation																	
Community based credit - LDF	0	-	856	50.0	856	50.0	0	-	0	-	0	-	1 712	1.8	643	1 059	0
Community based credit - Sohag BDAC	0	-	856	50.0	856	50.0	0	-	0	-	0	-0.0	1 015	1.1	381	634	0
Individual microcredit LDF	0	-	856	50.0	856	50.0	0	-	0	-	0	-	1 712	1.8	643	1 069	0
Individual microcredit - Sohag BDAC	0	-	508	50.0	508	50.0	0	-	0	-	0	-0.0	1 015	1.1	381	634	0
Individual building LDF	496	99.4	0	-	0	-	0	-	0	-	3	0.6	499	0.5	444	54	1
Subtotal	496	8.3	2 727	45.8	2 727	45.8	0	-	0	-	3	0.1	5 954	6.4	2 494	3 460	1
Subtotal Rural Finance	1 025	3.8	9 800	36.7	9 800	36.7	107	0.4	5 967	22.3	3	-	26 703	28.5	10 688	16 000	14
Total Disbursement	3 022	3.2	24 997	26.7	24 997	26.7	107	0.1	17 078	18.2	23 552	25.1	93 753	100.0	29 117	57 444	7 191

^a Discrepancies in totals are due to rounding.





E. Procurement, Disbursement, Accounts and Audit

30. **Procurement.** Procurement of goods and services financed by IFAD will be made in accordance with guidelines acceptable to IFAD. To the maximum extent possible, the procurement of goods will be through packages and lots of similar items. Each package will have an estimated cost of more than USD 200 000 equivalent, and will be procured using International Competitive Bidding (ICB) procedures. Eligible Egyptian manufacturers competing under ICB procedures may be eligible for domestic preference in accordance with IFAD Guidelines. National Competitive Bidding (NCB) will apply for procurement of goods at estimated individual contract values of between USD 20 000 and USD 200 000. Goods estimated to cost less than USD 20 000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures by obtaining at least three quotations from qualified local suppliers. Procurement of farm machinery, equipment and goods through the lines of credit will follow commercial practices. Civil works exceeding a value of USD 100 000 will be procured through NCB procedures and advertised nationally, but foreign contractors will not be excluded. Works estimated to cost less than USD 100 000 per contract may be procured under fixed lump sum contracts awarded on the basis of quotations from community-based contractors responding to announcements posted in public places.

31. **Disbursements and Accounts.** Disbursements from the IFAD loan will be made against statements of expenditures, except for contracts for (a) works and goods valued at more than USD 250 000 equivalent; (b) consulting services (firms) valued above USD 100 000 equivalent; and (c) consulting services (individuals) valued above USD 50 000 equivalent. To facilitate disbursements against eligible expenditures, the three project implementing agencies (the Governorate of Sohag (GOS), PBDAC and LDF) will each open a Special Account (SA) with an authorized allocation of USD 800 000 for GOS and PBDAC, and USD 200 000 for LDF in a bank acceptable to IFAD. The SAs will be replenished on a monthly basis or when at least one-third of the balance has been withdrawn, whichever occurs first. The GOS will also have a project account in local currency into which the Government counterpart funds will be paid. The closing date of the loan is 30 June 2005.

32. **Accounting and Audits.** Supported by a TAS, including a financial management specialist and a procurement officer, GOS will establish and maintain project accounts in accordance with internationally-accepted standards of accounting satisfactory to IFAD. The GOS will maintain detailed memoranda relating to village programmes and budgets, including subproject appraisals, approvals, disbursements, contributions from villages to investment costs, O&M arrangements, and follow-up action. The accounts will be computerized, and an accounting package will be selected and installed by a reputable accounting firm. Sohag BDAC's accounts will be maintained by BDAC accountants using a new management information system (MIS) currently under installation in all BDAC branches. The LDF will establish an MIS that will generate annual budgets, quarterly progress reports, summary loans statements, and annual financial statements that reflect the financial performance and position of the credit lines. The accounts of the Sohag project, Sohag BDAC and LDF will be audited each fiscal year by independent auditors acceptable to IFAD and selected prior to project effectiveness. An auditor's opinion and reports satisfactory to IFAD will be provided within six months of the close of the fiscal year.

F. Organization and Management

33. **Beneficiary Participation.** The project will employ a participatory methodology based on the SHROUK process. A Governorate Rural Development Committee, chaired by the Governor or Secretary-General of Sohag, and comprising representatives from line ministries at the governorate level, NGOs, and local council members, will act as a regional steering committee. This committee



ANNEX

will ensure complementarity of proposed village plans, and the availability of funds for the proposed subprojects. Various committees working in conjunction with the GOS at the local administrative unit and district unit level will be set up to allow for full participation, collection and dissemination of information, training and the review of proposals. The administrative structure of the project's operations which is spelled out in the Project Operation Manual, will respond to a demand-driven approach and decentralize responsibilities and functions. This will ensure that information on local budgets for subprojects is provided prior to introduction of the planning process so as to ensure that community decisions are made in accordance with clearly defined resource availability and requirements.

34. **Project Implementation.** The GOS will have overall responsibility for project implementation and coordination and direct executive responsibility for the village infrastructure and local institution-strengthening components. In conjunction with and under the auspices of the GOS and through sub-loan agreements: (a) the Ministry of Rural Development's LDF will implement part of the microcredit component targeted at rural poor, women and unemployed youth; and (b) the Sohag BDAC will implement the on-farm technology improvement and rural-based investment sub-component and part of the microcredit sub-component under the project's rural finance programme. The project will be coordinated by GOS, which will be assisted by a TAS with responsibility for all project implementation, including coordination of project activities, preparation of annual work plans, and procurement, with the exception of activities implemented by Sohag PBDAC and the LDF.

35. **Monitoring and Evaluation.** The TAS will be responsible for monitoring progress against performance indicators and for monitoring the efficiency and quality of the subproject evaluation system. Long-term impact evaluation will be conducted through annual beneficiary assessments with the assistance of NGOs or qualified consultants from local universities. The LDF and Sohag BDAC will have their own monitoring systems but will furnish the TAS with detailed annual reports for IDA and IFAD review, summarizing project operations and the use of project funds. The TAS, Sohag BDAC and LDF will prepare a detailed mid-term report to serve as the basis for a mid-term project review.

G. Economic Justification

36. **Benefits and Beneficiaries.** The project is expected to improve infrastructure and thereby the living conditions of rural people in Sohag. In addition, access to, and the volume of, available rural finance will increase to finance a greater volume of economic activities. Women will benefit from the project in many ways. Infrastructure development, especially of potable water supply systems and sanitation sewerage, will benefit women by lightening their workload through reducing the time they spend on water collection, and will improve family health through better water quality and sanitation. In addition, women will have their own gender-specific facilities, such as women's clubs, where they can interact socially and receive training in a variety of skills. The LDF will provide the bulk of its lending to women and the very poor without requiring collateral or upfront borrower contributions, using administratively simple procedures that reduce transaction costs and time. The aim is to improve the access of women and other asset-poor individuals to finance essential for small and microenterprise development of the kind that gives women a degree of financial independence and enhanced social status. In addition, under the SHROUK, women have increased their representation in SHROUK committees to about 9% which, while still low, is far above the norm in Egypt. Under the Sohag project, steps will be taken to increase women's representation even further.



37. **Economic Aspects.** Given the nature of its components, it is difficult to calculate an economic rate of return (ERR) for the entire project. The village infrastructure component will support small-scale economic and municipal infrastructures, as well as human development and service infrastructures ranging from youth centre to rural roads, for which it will be difficult to quantify benefits. Therefore, the selection of subprojects will be based on a cost-effectiveness analysis which will include (a) technical considerations; (b) available inputs, estimated labour content, and technical feasibility; (c) cost parameters, including maximum cost per beneficiary or cost per unit for each type of subproject, and minimum requirements for beneficiary contribution, either in cash or in kind; (d) environmental sustainability; (e) targeting location, priority, profile of beneficiaries, and income level; and (f) subproject sustainability, including community commitment and plans for financing the O&M costs. On the basis of current experience, the ERR for the type of investments to be financed under the rural finance programme will be between 20% and 40%.

H. Risks

38. The project faces a number of risks and has a moderate risk rating. The security situation in Upper Egypt may deteriorate and affect project activities and monitoring and supervision. The project is serving the felt priority needs of the area. It will be implemented through local communities and contractors and, from the technical standpoint, supported mostly by local people, consultants and the World Bank Country Mission. While currently very strong, the Government commitment to participatory development, as exemplified by SHROUK, may wain in the future, resulting in inadequate funding and poor coordination among line ministries and local administration. However, the initial success of SHROUK is likely to encourage the Government to sustain and increase its financial and political support. Furthermore, the scope of the village infrastructure component has been agreed by the Ministry of Planning, which has allocated the equivalent of USD 23 million of counterpart funding to the project. To guard against the risk that line ministries may not coordinate their activities with the village planning process, they are represented in the SHROUK committees at the national and local levels and will be receiving project support for clearly-defined purposes. As head of both the project and the local administration, the Governor can more effectively influence coordination. Women's active participation may be resisted in conservative Sohag, but present experience under SHROUK and the flexible and prudent approach that the project proposes - which is based on the experience of NGOs and the United Nations Children's Fund - will help minimize this risk. Cost recovery and decentralization of O&M may not receive political support. Obviously IDA and IFAD will need to maintain active policy dialogue with the Government to ensure its continued commitment both to the project and to the principle of devolution of administrative and financial responsibility.

I. Environmental Impact

39. The project has been placed in environmental screening category "B". An Environmental Management Plan (EMP) which provides support for a series of practical actions to address potential environmental issues has been prepared. These actions include: strengthening the environmental management unit subproject; undertaking an environmental review; heightening environmental awareness; and conducting an environmental training programme. The impact of the small-scale interventions supported by the project will be limited and predictable and may be addressed through the use of project-specific environmental guidelines. It is not anticipated that the project will result in involuntary resettlement or that it will have an adverse effect on archaeological/historical sites.



J. Innovative Features

40. **Participation and Sustainability.** The project will employ a participatory mechanism, based on the SHROUK process, to identify and prioritize rural infrastructure needs of villages and link that to developing a sustainable mechanism to ensure the recovery of O&M costs. In that way, the project is expected to have a positive fiscal impact. Sustainability will be assured through: (a) a high degree of participation in community project identification, preparation, appraisal, contracting and supervision; (b) ownership by the beneficiaries, as evidenced by requirements of minimum in-cash or in-kind contributions of about 15%; (c) appraisal criteria that require presentation of an O&M plan and commitment on the part of the beneficiaries to finance 100% of the incremental O&M costs after three years; and (d) beneficiary community training in social management and O&M of subprojects, where necessary.

41. **Collaboration with NGOs.** The project will collaborate with a large number of small, indigenous NGOs and with other large national/international NGOs to provide services, mobilize local resources and initiatives, and train beneficiary institutions. In particular, these NGOs will be used to retail to poor beneficiaries the credit on-lent to them wholesale by BDAC and the LDF.

PART III - LEGAL INSTRUMENTS AND AUTHORITY

42. A loan agreement between the Arab Republic of Egypt and IFAD constitutes the legal instrument for extending the proposed loan to the borrower. A summary of the important supplementary assurances included in the negotiated loan agreement is attached as an annex.

43. The Arab Republic of Egypt is empowered under its laws to borrow from IFAD.

44. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

PART IV - RECOMMENDATION

45. I recommend that the Executive Board approve the proposed loan in terms of the following resolution:

RESOLVED: that the Fund shall make a loan to the Arab Republic of Egypt in various currencies in an amount equivalent to eighteen million eight hundred and fifty thousand Special Drawing Rights (SDR 18 850 000) to mature on and prior to 1 August 2038 and to bear a service charge of three fourths of one per cent (0.75%) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board in this Report and Recommendation of the President.

Fawzi H. Al-Sultan
President



SUMMARY OF IMPORTANT SUPPLEMENTARY ASSURANCES INCLUDED IN THE NEGOTIATED LOAN AGREEMENT

(Loan Negotiations concluded on 1 September 1998)

1. (a) The Government of the Arab Republic of Egypt (the Government) will relend to PBDAC part of the proceeds of the loan allocated from time to time for carrying out Part B of the project (consultancy services, goods and sub-loans) under a subsidiary loan agreement approved by IFAD.

(b) The Government will relend to National Investment Bank (NIB), and cause NIB to further on-lend to LDF, part of the proceeds of the loan allocated from time to time for carrying out Part C of the project (sub-loans) under a subsidiary loan agreement approved by IFAD.

2. The Government's right to make withdrawals from the loan will be suspended should the following additional events occur:

- (a) the credit by-laws of LDF and PBDAC, or any provision thereof, shall have been suspended or terminated in whole or in part, or waived, or amended so as to affect materially and adversely, in the reasonable opinion of IFAD, the carrying out of the project or the operation of the facilities completed under the project;
- (b) the other cofinanciers agreements shall have failed to become effective by 31 December 1999, or such other date as IFAD may agree, provided, however, that the provisions of this paragraph shall not apply if the Government establishes to the satisfaction of IFAD that adequate funds for the project are available to the Government from other sources on terms and conditions consistent with the obligations of the Government under the loan agreement;
- (c) PBDAC shall have failed to perform any of its obligations under the PBDAC project agreement;
- (d) as a result of events occurring after the date of the loan agreement, an extraordinary situation shall have arisen that shall make it improbable that PBDAC will be able to perform its obligations under the PBDAC project agreement;
- (e) LDF shall have failed to perform any of its obligations under the LDF project agreement;
- (f) as a result of events occurring after the date of the loan agreement, an extraordinary situation shall have arisen that shall make it improbable that LDF will be able to perform its obligations under the LDF project agreement;
- (g) the PBDAC statutes or the LDF statutes shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial conditions of PBDAC or LDF or their ability to carry out the project or to perform any of their obligations under the respective project agreements; and



ANNEX

- (h) the Government or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PBDAC or LDF or for the suspension of their operations.
3. The following are the precedent additional conditions to the effectiveness of the loan agreement:
- (a) the LDF subsidiary loan agreement has been executed on behalf of NIB and LDF;
 - (b) the PBDAC subsidiary loan agreement has been executed on behalf of the Government and PBDAC;
 - (c) the NIB subsidiary loan agreement has been executed on behalf of the Government and NIB; and
 - (d) the IDA development credit and other cofinanciers' agreements have been executed and delivered and conditions precedent to their effectiveness or to the right of the Government to make withdrawal thereunder, except the effectiveness of the loan agreement, have been fulfilled.
4. The Government will maintain arrangements satisfactory to IFAD for the coordination and supervision of project implementation and for the carrying out of the project: (a) in accordance with the requirements and other details set forth or referred to in the Operations Manual; (b) under the overall direction of the Governor of Sohag; and (c) under the direct authority of the General Secretary of Sohag, who will be designated as project manager and be assisted in the management of project implementation by a Technical Secretariat maintained with resources and terms of reference satisfactory to IFAD.
5. The Government will:
- (a) employ consultants with qualifications and terms of reference satisfactory to IFAD, to assist in the carrying out of the project;
 - (b) under terms of reference agreed with IFAD, develop and adopt by 31 December 1998 policies and procedures satisfactory to IFAD for ensuring suitable financial management of the operation and maintenance of infrastructure work at the village level; and
 - (c) ensure that all works under the project are designed and carried out in conformity with the health and safety protection guidelines established pursuant to health and safety management plans and in accordance with guidelines agreed with IFAD.
6. The Government will also:
- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Government and IFAD, the implementation of the project and the achievement of its objectives;



- (b) under terms of reference satisfactory to IFAD, prepare and furnish to IFAD on or about:
 - (i) 31 December of each year, a report on the progress achieved in project implementation during the preceding year, including appropriate audits with respect to compliance with the requirements of the operations manual, and
 - (ii) 31 December 2001, a mid-term report on the progress achieved in the carrying out of the project during the period preceding the date of said report, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 6(a) above, and setting out the measures recommended to ensure the efficient implementation of the project and the achievement of its objectives during the period following such date; and

- (c) with IFAD, review the report referred to in paragraph 6 (b)(i) above by 31 January of each year, and the mid-term report referred to in paragraph 6 (b)(ii) above by 31 March 2002, or such later date as IFAD shall request, and thereafter take all measures required to ensure the efficient completion of the project and the achievement of its objectives, based on the conclusions and recommendations of the mid-term report and IFAD's views on the matter.



COUNTRY DATA

EGYPT

Land area (km² thousand) 1994 1/	995	GNP per capita (USD) 1995 2/	790
Population (million) 1995 1/	58	Average annual real rate of growth of GNP per capita, 1985-95 2/	1.1
Population density (population per km²) 1995 1/	58	Average annual rate of inflation, 1985-95 2/	15.7
Local currency	Egyptian Pound	Exchange rate: USD 1 =	EGP 3.9
Social Indicators		Economic Indicators	
Population (average annual rate of growth) 1980-95 1/	2.3	GDP (USD million) 1995 1/	47 349
Crude birth rate (per thousand people) 1995 1/	26	Average annual rate of growth of GDP 1/ 1980-90	5.0
Crude death rate (per thousand people) 1995 1/	8	1990-95	1.3
Infant mortality rate (per thousand live births) 1995 1/	56	Sectoral distribution of GDP, 1995 1/	
Life expectancy at birth (years) 1994 3/	64.3	% agriculture	20
Number of rural poor (million) 1/	n.a.	% industry	21
Poor as % of total rural population 1/	n.a.	% manufacturing	15
Total labour force (million) 1995 1/	21	% services	59
Female labour force as % of total, 1995 1/	29	Consumption, 1995 1/	
Education		Government consumption (as % of GDP)	13
Primary school enrolment (% of age group total) 1993 1/	97	Private consumption (as % of GDP)	81
Adult literacy rate (% of total population) 1994 3/	50.5	Gross domestic savings (as % of GDP)	6
Nutrition		Balance of Payments (USD million)	
Daily calorie supply per capita, 1992 3/	3 336	Merchandise exports, 1995 1/	3 435
Index of daily calorie supply per capita (industrial countries=100) 1992 3/	100	Merchandise imports, 1995 1/	11 739
Prevalence of child malnutrition (% of children under 5) 1989-95 1/	9	Balance of trade	-8 304
Health		Current account balances (USD million)	
People per physician, 1993 1/	1 316	before official transfers, 1995 1/	-6 016
People per nurse, 1993 1/	489	after official transfers, 1995 1/	- 956
Access to safe water (% of population) 1990-96 3/	79	Foreign direct investment, 1995 1/	598
Access to health service (% of population) 1990-95 3/	99	Net workers' remittances, 1995 1/	5 060
Access to sanitation (% of population) 1990-96 3/	32	Income terms of trade (1987=100) 1995 1/	94
Agriculture and Food		Government Finance	
Cereal imports (thousands of metric tonnes) 1994 1/	9 200	Overall budget surplus/deficit (as % of GDP) 1994 1/	2.0
Food imports as percentage of total merchandise imports 1993 1/	24	Total expenditure (% of GDP) 1994 1/	42.8
Fertilizer consumption (hundred grams of plant nutrient per arable ha) 1994/95 1/	2 433	Total external debt (USD million) 1995 1/	34 116
Food production index (1989-91=100) 1995 1/	121	Total external debt (as % of GNP) 1995 1/	55.6
Food aid in cereals (thousands of metric tonnes) 1994-95 1/	179	Total debt service (% of exports of goods and services) 1995 1/	14.6
Land Use		Nominal lending rate of banks, 1995 1/	16.5
Agricultural land as % of total land area, 1994 1/	4	Nominal deposit rate of banks, 1995 1/	10.9
Forest and woodland area (km ² thousand) 1990 1/	0		
Forest and woodland area as % of total land area, 1990 1/	0		
Irrigated land as % of arable land, 1994 1/	100.0		

n.a. not available.

Figures in italics indicate data that are for years or periods other than those specified.

1/ World Bank, *World Development Report*, 1997

2/ World Bank, *Atlas*, 1997

3/ UNDP, *Human Development Report*, 1997



PREVIOUS IFAD LOANS IN EGYPT

Project Name	Initiating Institution	Cooperating Institution	Lending Terms	Board Approval	Loan Effectiveness	Current Closing Date	Loan/Grant Acronym	Currency	Approved Loan/Grant Amount	Disbursmt. (as % of approved amount)
West Beheira Settlement	IFAD	UNOPS	HC	04 Dec 80	05 Aug 81	30 Jun 00	L - I - 54 - EG	SDR	21 800 000	100%
Minya Agricultural Development	IFAD	UNOPS	HC	09 Dec 82	28 Jul 83	30 Jun 98	L - I - 114 - EG	SDR	23 550 000	89.7%
Fayoum Agricultural Development	IFAD	World Bank: IBRD	I	14 Sep 84	06 Dec 85	31 Dec 93	L - I - 157 - EG	SDR	10 100 000	100%
Newlands Agricultural Services	IFAD	UNOPS	I	15 Apr 92	30 Dec 93	30 Jun 00	L - I - 306 - EG	SDR	18 300 000	45.9%
Agricultural Production Intensification	IFAD	UNOPS	HC	20 Apr 94	25 Jan 95	30 Jun 02	L - I - 355 - EG	SDR	14 450 000	36.6%
East Delta Newlands Agricultural Services	IFAD	World Bank: IDA	HC	05 Dec 96		31 Dec 04	L - I - 440 - EG	SDR	17 300 000	



SUMMARY DESCRIPTION

A. Local Institutions Strengthening Component

1. This component will support the local administration and line ministries at the governorate, district and local levels in assisting local communities in identifying, prioritizing, appraising and maintaining rural infrastructure. Activities to be supported will include:

At the Governorate level

2. The project will establish a TAS in the office of the Secretary-General of the Governorate. The TAS will focus on improving the efficiency of internal systems and procedures for project preparation and appraisal, financial management, environmental monitoring, and O&M. This will improve the technical quality and environmental sustainability of village infrastructure.

At the District and LAU Levels

3. The project will support rural development committees at the LAU and district level to improve its capacity for needs identification, awareness building, impact monitoring, health and family planning, and social intermediation. Yearly sessions at the village level will focus on how to use available socio-economic data (village profiles, background studies) for project selection, monitoring and coordination.

Other Line Ministries

4. Other line ministries in Sohag that participate in the rural development programme will be supported through training administered by the TAS. Training activities will be designed to improve work group cohesiveness and technical consistency among the staff and to enable them to share information and experience with other agencies.

B. Village Infrastructure Programme

5. This component will support village priority development plans identified, prepared and cofinanced by the Sohag villages through the SHROUK participatory process, in interaction and with the support of the local administration and line ministries in Sohag. Based on SHROUK's accrued experience in subproject implementation, the project will provide grants to support the rehabilitation of demand-driven community-based social and economic infrastructure subprojects.

6. The type of infrastructure financed by the project will include:

- (a) Economic and municipal infrastructure, such as: village water supply systems, waste water and sanitation systems, irrigation and drainage schemes; rural roads and communications; canal-covering in village streets; solid waste management; veterinary centres; a slaughterhouse; and environmental projects.
- (b) Human development infrastructure and service subprojects, such as: health centres, one-classroom schools, literacy centres, youth centres, women's clubs, and cultural centres.



APPENDIX III

7. Subprojects will be identified by the villages themselves as part of an ongoing village needs assessment and planning exercise that started with SHROUK's village profiles. Under the project, the village SHROUK committees will be expanded into village rural development committees. Representatives of the private sector and NGOs active in the village will join the executive council, the elected local council and natural leaders that are already members of the SHROUK committee.

8. Subprojects will be implemented through partnerships with the local government, beneficiary communities, and welfare and community organizations (and NGOs), with the beneficiaries making a contribution in cash or in kind of about 15%. Training will be provided to farmer associations, community groups and NGOs to strengthen their capacity for self-help and management. The establishment of an acceptable village O&M plan will be an important criterion for determining eligibility for the financing of infrastructure in any particular village.

C. Rural Finance Programme

9. This component will help to improve the standards of living of the rural poor in Sohag. This will be achieved by: (a) promoting increased economic activities; (b) opening up access to credit for the ultra-poor; and (c) assisting in the development of rural financial markets. The project will support two sub-components:

On-farm Technology Improvement and Rural-Based Investment

10. The project will provide long-term resources (line of credit) and institutional support to the Sohag branch of BDAC to increase agricultural productivity and rural incomes through on-farm technology improvement and rural-based investments.

- (a) **A line of credit for agricultural production and rural investments** will augment the resource position of BDAC and make long-term funds available at low cost. This will give BDAC the chance to address its critical financial issues more effectively and to build up community trust and participation.
- (b) **Institutional support to the Sohag branch of BDAC** will complement ongoing PBDAC efforts to address the financial and managerial problems facing Sohag BDAC.

11. A detailed operations manual provides the guidelines for this component. Financing terms and conditions are included in that manual, which includes the following areas: financial arrangements, principal financing conditions, approval, target beneficiaries, project criteria, loan sizes, and lending terms.

12. **Microcredit for Income Generation.** The project will support the Sohag BDAC and LDF to develop market-oriented credit delivery for income-generating activities by the rural poor, in a competitive and financially sustainable manner.

13. **Community-Based Credit.** The project will finance a special wholesale credit window for NGOs. The credit window will support eligible participating CDAs and NGOs currently involved in community-based microcredit with the rural poor and women's groups. The CDAs, NGOs or PVOs will be required to provide adequate guarantees to the financial intermediary (BDAC or LDF), and will be responsible for the community loans provided at market rates to support the credit cost and risk.



Individual Microcredit

14. The project will finance a pilot line of credit for innovative credit delivery. Building upon the successful experience of the Social Fund, the main features of the microcredit line will be that: (i) the credit may be used for any productive (income-generating) activity, such as farming, farm-related activities, small trade and handicrafts; (ii) one standard market rate of interest will be used, irrespective of the use to which loan is put by the beneficiary; (iii) no collateral will be required for loans of less than EGP 1 500; and (iv) simplified procedures will be used for loan application and accounting and the target for administrative expenses will be 3%.

15.. Other features will include: (i) fast decision-making (approval in seven days); (ii) existing clients with good repayment records will be assured of continued credit eligibility during the subsequent year/season; (iii) the rural finance programme will focus particularly on the needy farmers and rural dwellers, with a loan amount limited to EGP 5 000 per client; (iv) the maturity will not exceed 12 months; (v) the possibility of introducing a saving scheme will be explored; (vi) quick and frequent feedback of financial performance to credit officers through appropriate monitoring systems; and (vii) credit for women will be actively promoted.

16. **Institutional support to the LDF.** The project will support the decentralization of the LDF in Sohag.



PROJECT LOGICAL FRAMEWORK

Narrative Summary	Key Performance Indicators	Monitoring and Supervision	Critical Assumptions and Risks
GOAL			
1. Improve rural income and natural resource management			
Project Purpose (Development Objectives)			
1. Promote sustainable rural development in Sohag	1. O&M plans for infrastructure financed by the project in place, with 100% contribution of beneficiaries to O&M after three years	1. Villages and governorate budgets	The project should have a leverage effect on other development programmes in Sohag
2. Improve incomes and quality of life of rural communities	2. Percentage of households with access to basic infrastructure (quantitative objectives will be set off each village as part of the participatory planning process)	2. Surveys and participatory assessments	
3. Improve equitable access to credit for the rural poor, unemployed youth and women	3.1 Recovery rate of microcredit distributed to women, unemployed youth and rural poor 3.2 Credit recovery rate in small villages and hamlets	3. LDF and BDAC financial statements and quarterly progress reports - Beneficiary assessments	
Project Outputs			
A. Local Institutions Strengthening Component			
1. Rural development management capacity in Sohag strengthened and village participation process improved	1.1 Private sector and NGOs participate in SHROUK committees 1.2 No. of LAU and district rural development committees established 1.3 No. of infrastructure projects prepared and implemented under the SHROUK programme	Monitoring and evaluation	



Project Outputs	Key Performance Indicators	Monitoring and Supervision	Critical Assumptions.
2. Capability of line ministries to interact with village within a demand-driven framework improved, and resource management optimized	2. Percentage of line ministries budgets channelled through the local administration, using a participatory approach	National and local budgets	Good coordination exists between the local administration and line ministries responsible for implementing the main part of the programme
B. Village Infrastructure Component			
1. Water supply systems	1. Installed capacity (m3/year)	National and local budgets	Political support to cost- recovery of basic services
2. Sanitary systems	2. Designed discharge (m3/year)	Village investment plans	Financial decentralization of O&M
3. Canal and drain covering	3. Length covered	Monitoring and evaluation reports	
4. School buildings	4. No of classrooms		
5. Social and youth centres	5. No of centres		
C. Rural Finance Component			
1. The managerial and financial autonomy of LDFs and BDACs increased	1.1 Financial profitability of LDF and BDAC 1.2 Volume of credit and distribution among productive and social activities	1. LDFs' and BDAC's financial statements	Efficient marketing of agricultural and other products
2. Access to credit, especially for women and other less advantaged members of the community improved	2.1 Percentage of microloans to women and landless farmers	2.1 LDFs' and BDACs financial statements	
3. Access to existing sources of credit improved	3. Evolution and geographical distribution of credit by the BDACs	3. BDACs' financial statements	

Project Activities (Components)			
A. Local Institutions Strengthening			
1. Strengthening of the Governorate's capacity to coordinate rural development	<ul style="list-style-type: none"> • Sohag TAS established • Training and technical assistance conducted • Awareness campaigns on public relevance issues conducted 	Monitoring and evaluation reports, quarterly disbursement reports	There is a risk of limited social acceptance of women's participation in some villages
2. Strengthening district and villages' planning and management capability.	<ul style="list-style-type: none"> • Local Units Committees • Village committees formed • Training and workshops conducted • Communication/transport provided 		There is a risk that security issues in Upper Egypt may prevent adequate supervision of the project



APPENDIX IV

Project Activities (Components)	Key Performance Indicators	Monitoring & Supervision	Critical Assumptions
3. Support to other line ministries	<ul style="list-style-type: none"> • Systems development • Training and Studies 		
B. Village Infrastructure <ul style="list-style-type: none"> • Economic and municipal infrastructure • Human development and social infrastructure • O&M plans for village infrastructure 	Subprojects totalling USD 60.6 million financed, constructed and operated	Monitoring and evaluation reports, quarterly disbursement reports	There is a risk that investment programmes may exceed the financial capability of the villages and that O&M costs are underestimated.
C. Rural Finance <p>1. On-farm technology improvement and rural-based investment</p> <p>1.1 Line of credit for agricultural production and rural investments</p> <p>1.2 Institutional-building, BDAC</p> <ul style="list-style-type: none"> • 	<p>Loans provided to individuals and groups directly or through NGOs and CDAs</p> <ul style="list-style-type: none"> • Equipment, technical assistance and training provided 	<p>Monitoring and evaluation reports, quarterly disbursement reports</p> <p>BDAC financial statements</p>	PBDAC and LDF are allowed to function as independent financial intermediaries.
<p>2. Microcredit for income generation</p> <p>2.1 Community-based credit (LDF and BADC)</p> <p>2.2 Individual microcredit (LDF and BDAC)</p> <p>2.3 Institution-building, LDF</p>	<ul style="list-style-type: none"> • Line of credit to LDF and BDAC established and operating 	BDAC and LDF financial statements	

**KEY MONITORING INDICATORS**

Development Objectives Indicators	Unit	Baseline	Mid-term	End of Project
Rate of cost-recovery of O&M for new infrastructure	%	50	75	100
Percentage of infrastructure benefiting isolated hamlets	%	n/a	50	75
Recovery rate of credit, Sohag BDAC	%	90	95	98
Recovery rate of credit, LDF	%	95	97	98
Output Indicators				
Participating LAUs	Nb	30	51	51
Average beneficiary participation in investment cost	%	n/a	15	20
Women's access to credit				
- percentage of women among beneficiaries of LDF	%	10	25	50
- percentage of women among beneficiaries of BDAC (microcredit)	%	n/a	25	50

COST AND FINANCING

Table 1: Expenditure Accounts by Component - Base Costs (USD '000)

	Rural Finance											Physical Contingencies		
	On-farm Technology Improvement and Rural Based Investment						Micro-Credit for Income Generation					Total	%	Amount
	Local Institutions Strengthening Support to			Line of Credit For			Community Based Credit -			Individual Micro-Credit				
	Support to Sohag Governorate	Support to District and LAU	Line Ministries in Sohag	Village Infrastructure Programme	Agricultural Production and Rural Investments	Institutional Building BDAC	Community Based Credit - LDF	Community Based Credit - Sohag BDAC	Individual Micro- Credit LDF	Individual Micro-Credit - Sohag BDAC	LDF			
I. Investment Costs														
A. Vehicles and equipment	195	1 528	68	0	0	0	0	0	0	0	0	1 791	0.8	15
B. Village infrastructure and equipment	0	0	0	42 999	0	0	0	0	0	0	0	42 999	10.0	4 300
C. Technical assistance and training	1 485	808	439	0	0	0	0	0	0	0	0	2 733	4.8	130
D. Institutional building, LDF	0	0	0	0	0	0	0	0	0	0	427	427	10.0	43
E. Institutional building, PBDAC	0	0	0	0	0	689	0	0	0	0	0	689	8.1	56
F. Line of Credit	0	0	0	0	17 223	0	1 458	863	1 458	863	0	21 864	-	0
Total Investment Costs	1 681	2 336	507	42 999	17 223	689	1 458	863	1 458	863	427	70 503	6.4	4 543
II. Recurrent Costs														
A. O&M	72	811	21	4 520	0	57	0	0	0	0	0	5 480	5.0	274
B. Incentives and salaries	5	0	0	0	0	0	0	0	0	0	0	5	-	0
C. Office running costs	23	0	0	0	0	0	0	0	0	0	3	26	5.0	1
Total Recurrent Costs	100	811	21	4 520	0	57	0	0	0	0	3	5 511	5.0	275
	1 781	3 147	528	47 520	17 223	746	1 458	863	1 458	863	429	76 014	6.3	4 819
Physical contingencies	82	90	20	4 526	0	58	0	0	0	0	43	4 819	-	0
Price contingencies	294	359	90	8 614	2 668	54	255	153	255	153	27	12 920	6.0	777
	2 158	3 596	637	60 659	19 891	858	1 712	1 015	1 712	1 015	499	93 753	6.0	5 596
Taxes	56	440	40	6 641	0	14	0	0	0	0	1	7 191	7.9	568
Foreign exchange	367	1 461	78	16 524	7 516	678	643	381	643	381	444	29 117	5.4	1 578

Table 2: Expenditure Accounts by Financier (USD '000)

	Other		IFAD		IDA		PBDAC		Beneficiaries		Government		Total		For. Exch.	Local (Excl. Taxes)	Duties and Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
I. Investment Costs																	
A. Vehicle and equipment	-	-	799	42.5	799	42.5	-	-	-	-	282	150	1 880	2.0	1 500	98	282
B. Village infrastructure and equipment	-	-	13 728	25.0	13 728	25.0	-	-	8 237	15.0	19 219	35.0	54 911	58.6	15 467	33 953	5 491
C. Technical assistance and training	1 997	59.4	670	19.9	670	19.9	-	-	-	-	24	0.7	3 360	3.6	192	3 144	24
D. Institutional building LDF	496	100.0	-	-	-	-	-	-	-	-	-	-	496	0.5	444	52	-
E. Institutional building PBDAC	529	67.1	111	14.0	111	14.0	38	4.9	-	-	-	-	789	0.8	665	124	-
F. Line of credit	-	-	9 689	38.2	9 689	38.2	-	-	5 967	23.5	-	-	25 346	27.0	9 566	15 780	-
Subtotal	3 022	3.5	24 997	28.8	24 997	28.8	38	-	14 204	16.4	19 525	22.5	86 782	92.6	27 834	53 151	5 797
II. Recurrent Costs																	
A. O&M	-	-	-	-	-	-	69	1.0	2 874	41.5	3 990	57.5	6 933	7.4	1 277	4 269	1 387
B. Incentives and salaries	-	-	-	-	-	-	-	-	-	-	6	100.0	6	-	-	5	1
C. Office running costs	-	-	-	-	-	-	-	-	-	-	32	100.0	32	-	6	19	6
Subtotal	-	-	-	-	-	-	69	1.0	2 874	41.2	4 028	57.8	6 971	7.4	1 283	4 293	1 394
Total	3 022	3.2	24 997	26.7	24 997	26.7	107	0.1	17 078	18.2	23 552	25.1	93 753	100.0	29 117	57 444	7 191



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