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Negotiated financing agreement: "On-farm Irrigation Development Project in the Oldlands (OFIDO)"

(Negotiations concluded on 12 November 2009)

Loan Number: _____

Grant Number: _____

Project Title: On-farm Irrigation Development Project in the Oldlands (OFIDO)
(the "Project")

The Arab Republic of Egypt (the "Borrower")

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), the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009 and approved by IFAD's Executive Board at its ninety-sixth session, as may be amended from time to time (the "General Conditions") constitutes, and all provisions thereof, an integral part of 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 (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1.
 - A. The amount of the Loan is SDR 29 600 000.
 - B. The amount of the Grant is SDR 630 000.
2. The Loan is granted on intermediate terms.
3. The Loan Service Payment Currency shall be the currency of the United States of America.
4. The first day of the applicable Fiscal Year shall be 1 July.
5. The Borrower has designated its Ministry of Finance for the purpose of handling, on behalf of the Borrower, debt service payments with respect to the Loan and in accordance with this Agreement.
6. There shall be: (a) two Project Accounts, one for the Loan and one for the Grant, for Project operations for the benefit of the Lead Project Agency; and (b) a Project Account for the

Loan for Project operations for the benefit of the Social Fund for Development (SFD) (hereinafter referred to collectively as "Project Accounts"). The Project Accounts shall be opened in a bank proposed by the Borrower and acceptable to the Fund.

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

Section C

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

2. The following are designated as additional Project Parties

- (a) Agricultural Research Center (ARC);
- (b) Executive Authority for Land Improvement Project (EALIP)
- (c) Ministry of Water Resources and irrigation (MWRI); and
- (d) Social Fund for Development (SFD)

3. The Project Completion Date shall be the eighth anniversary of the date of entry into force of this Agreement.

Section D

The Loan and Grant will be administered and the Project supervised by the Fund.

Section E

1. (a) The following is designated as an additional general condition precedent to withdrawal: A Framework for Collaboration Agreement between the National Project Coordination Unit and the Project Parties shall have been finalized, in accordance with Schedule 1 paragraph 7 hereof.

(b) The following is designated as a specific condition precedent to disbursement under Category V (Revolving Fund) in what regards the financing of Component 3 (Rural Enterprise and Microfinance Development) of the Project: A Subsidiary Loan Agreement shall have been finalized between the Borrower and SFD in accordance with Schedule 1 paragraph 11.3 hereof.

2. (a) The following are the designated representatives of the Parties:

For the Borrower: The Minister of International Cooperation or any other person that the Minister may designate.

For the Fund: The President of IFAD.

(b) The following are the addresses to be used for any communication related to this Agreement:

For the Borrower:

Ministry of International Cooperation (MIC)
8 Adly Street
Cairo, Egypt

With copy to:

Ministry of Agriculture and Land Reclamation
1 Nadi El-Said Street,
Dokki, Giza
Egypt

Social Fund for Development
120 Mohie El-Din Abdou El Ezz St. Mohandessin,
Giza,
Egypt

For the Fund:

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

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

For the Borrower

For the Fund

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project shall benefit the poorer strata of rural population in selected priority areas of the five Egyptian Governorates of Assiut, Qena, Sohag, Kafr El Sheikh and Beheira (the "Project Area"). This shall include primarily smallholders holding average of three feddans, tenants, sharecroppers and the landless people giving priority to unemployed youth and poor rural women and women household heads.

2. *Goal.* The goal of the Project is to improve the livelihoods of the rural poor in the Project Area through targeted interventions to enhance farms production potential and raise households' income.

3. *Objectives.* The objectives of the Project are: (a) improvements in the irrigation network, where priority will be given to areas cultivated by an overwhelming majority of farmers owning average of three feddan; (b) improvements in agricultural productivity on small holdings through an appropriate integrated research and extension system; (c) support to marketing for small holders and the landless; and (d) support for job creation and income generating micro and small enterprises for the poor, landless, women and youth through better access to rural financial services and capacity building.

4. *Components.* The Project shall consist of the following Components: (a) On-farm irrigation and water management; (b) Agriculture competitiveness enhancement; (c) Rural enterprise and micro finance development; and (d) Project coordination and management.

- a. **Irrigation and Water Management.** The overall component objective is to increase agriculture production and farm incomes of the Target Population by improving on farm irrigation and water management. This is to be achieved through: (i) improved irrigation systems, including their design and supervision, at on-farm level for more rational use of irrigation water; (ii) enhanced water management practices for more equitable distribution of available water; and (iii) greater and more effective participation of users and stakeholders in water management for sustained irrigation and crop production.
- b. **Agriculture Competitiveness Enhancement.** This component shall provide demand driven training and agriculture technical assistance to farmers individually and through the Marketing Associations (MAs), the Water User Organizations (WUOs) and Farmers' Organizations (FOs). It will support a participatory research/extension approach and on-farm farming system research.
- c. **Rural Enterprise and Micro Finance Development.** The component shall provide necessary access to finance, capacity building and business advisory services for on and off farm micro and small enterprises to the rural households in Project Area villages.
- d. **Project Coordination and Management.** The component provides for coordination and management of Project activities at governorate and national levels, and establishes, operates and maintains a strong monitoring and evaluation system to measure progress and impacts of the Project.

II. Implementation Arrangements

A. General

5. *Lead Project Agency (LPA)*. The Ministry of Agriculture and Land Reclamation (MALR) shall be the Lead Project Agency and shall have overall responsibility for Project implementation.

6. *Project Steering Committee (PSC)*. The PSC shall be chaired by the Minister of the MALR or his/her representative, with members representing the Project Area governorates, the Ministry of Water Resources and Irrigation (MWRI), the Ministry of International Cooperation (MIC) and the Social Fund for Development (SFD). The PSC shall have the overall responsibility for: (a) ensuring that Project activities are in compliance with the Borrower's policies; (b) approving selection of the proposed irrigation command areas for Project intervention; (c) approving consolidated Project Annual Work Plan and Budgets (AWPBs); (d) ensuring that Project interventions are coordinated where appropriate with other development programmes and projects; and (e) generally overseeing the systematic implementation of the Project.

7. *National Project Coordination Unit (NPCU)*. The NPCU shall be headed by a National Project Coordinator (NPC) appointed by the LPA. It shall report to the Minister of the MALR and to the PSC, and its staff shall include at least: a Project Manager, a Financial Officer, a Procurement Officer, a Monitoring and Evaluation (M&E) Officer, and Accountant and other ancillary staff. The NPCU shall have the overall responsibility for: (a) coordination and liaison with implementing partners; (b) overall Project programming; (c) financial management; (d) contracting implementing partners to execute Project activities; (e) monitoring and evaluation; (f) progress reporting; and (g) liaison with the Borrower and with the Fund. The NPCU shall enter into a Framework for Collaboration Agreement with the Project Parties which shall be submitted to the Fund prior to its finalization for its no objection.

8. *Governorate Project Coordination Unit (GPCU)*. A small Project Coordination Unit at governorate level shall be established in each governorate. Each GPCU shall be located in the Governorate Directorate of Agriculture and shall report to the NPCU. It shall have overall responsibility for: (a) selection of Project intervention area; (b) contracting implementing partners at the governorate level to execute Project activities; (c) managing project funds at the governorate level; (d) monitoring and evaluation; and (e) reporting.

9. *Mid-Term Review*. The LPA, MIC and the Fund shall jointly carry out a review of Project implementation no later than the end of the Project's fourth year. The review shall cover, among other things: (a) the implementation approach, targeting, effectiveness and progressing of the on-farm irrigation improvement and demand driven research and extension services; (b) the performance of WUOs, MAs and FOs in sustainable management of water delivery and maintenance; (c) the process of formation, financial management and performance of micro finance intermediaries; and (d) the effectiveness of NPCU and GPCUs in respect of Project implementation and coordination, planning and budgeting procedures and the flow of funds management.

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

B. Component management

11. The Project shall finance a series of interventions under four main components:

11.1 Irrigation and Water Management Component.

The component shall include: (a) Rehabilitation and Development of On-farm Irrigation Systems (mesqas and marwas); and (b) Institutional Development and Capacity Building. The MWRI shall be responsible for the implementation of Mesqa improvements under contractual agreements with LPA through EALIP. The MALR shall be responsible for the implementation of Marwa and on-farm improvements in full collaboration with the Project Target Population. EALIP will be responsible, among other things, for the cost recovery of the Works.

11.2 Agriculture Competitiveness Enhancement

The Lead Project Agency through ARC and in collaboration with the Governorate Directorates of Agriculture in each Project Area Governorate shall be responsible for the implementation of the Agriculture Competitiveness Enhancement component, through specialised teams composed of extension staff (MALR) and irrigation advisors (MWRI).

11.3 Rural Enterprise and Micro Finance Development

The Social Fund for Development shall be responsible for the implementation/financing of the Rural Enterprises and Micro Finance Development component through its Small Enterprise Development Organization (SEDO) using banks as intermediaries and /or through direct lending from SFD (for small loans). The SFD's microfinance central sector finances micro loans through non governmental organizations and microfinance institutions (MFIs) and/or other channels in the various Governorates of the Project Area using their standard operational policies, practices and procedures as well as the Project regulations and guidelines. The Borrower shall enter into a Subsidiary Loan Agreement with the SFD for the implementation of this component, which shall be acceptable to the Fund.

11.4 Project Coordination and Management

Through this component Project activities included in the three components above shall be coordinated and managed at governorate and national levels by the NPCU and its five GPCUs.

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:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage of Eligible Expenditures to be financed
I. Works	19 740 000		100% net of taxes
II. Means of Transportation, Equipment and Materials	670 000		100% net of taxes
III. National TA/ Consulting Services		30 000	100% net of taxes and other contributors
IV. Training		600 000	28% of total expenditure
V. Revolving fund	6 230 000		100% of total expenditure
VI. Unallocated	2 960 000		
TOTAL	29 600 000	630 000	

- II.** The terms used in the Table above are defined as follows:
- a. "Works" means activities related to the Irrigation and Water Management Component of this Agreement.
 - b. "Revolving Fund" means sub loans for Small Enterprises and microfinance, implemented by SFD.
 - (c) "Means of Transportation" means vehicles, motorcycles, tractors, pick-ups and trucks.

Key reference documents

Country reference documents

Agricultural Development Strategy 2030

MALR – Executive Authority for Land Improvement Projects (EALIP)

SFD. Law 141/2004 on the Development of Small Enterprises & Its Executive Regulations

Multi Donor Assessment of SFD

IFAD reference documents

Project design document (PDD) and key files

Country Strategic Opportunities Programme

Administrative Procedures for Environmental Assessment

Project Completion Reports for the East Delta Newlands Agricultural Services Project (Loan 440-EG) and the Sohag Rural Development Project (SRDP) (Loan 484-EG) – April 2009

Country Programme Evaluation Report – July 2005

Upper Egypt Rural Development Project Design Report – April 2007

Egypt: Smallholder Contract Farming for High-Value and Organic Agricultural Exports - 2008

Other miscellaneous reference documents

GTZ. Agricultural Water Management Project – Strategic Paper No. 1 – January 2007 and The Training Curriculum, 2nd Edition - 2007

World Bank. Integrated Irrigation Improvement Management Project; Egypt Poverty Assessment Update – 16 September 2007; Upper Egypt-Challenges and priorities for Rural Development

UNDP, Egypt Human Development Report 2008

Logical framework

Objective Hierarchy	Key Performance Indicators	Monitoring Mechanisms and Information Sources	Assumptions
<p>Poverty reduction and improved livelihoods of small farmers, the landless, rural women and unemployed youth in the project area.</p>	<ul style="list-style-type: none"> 40 000 Households with improvement in asset ownership index by end of project; Reduction in the prevalence of malnutrition for children under five; 40,000 households with increased income and improved food security by end of project implementation; Reduction of gender gap rate in employment. 	<ul style="list-style-type: none"> National Household Living Standard Surveys; Baseline and socio-economic surveys (gender-disaggregated); RIMS annual reporting and impact surveys; Project Completion Report. 	<ul style="list-style-type: none"> Continued Government commitment to pro-poor macro-economic policies and institutional reforms; Social, economic climate remains conducive to market-based development.
<p>Purposes/Objective by Component Irrigation and water management:</p> <ul style="list-style-type: none"> Improvement of water use efficiency and more equitable water distribution; Increase agriculture production and farm incomes of the project target group. 	<ul style="list-style-type: none"> command areas operating at a water efficiency level of not less than 70% by end of project implementation; 50% of the 225 <i>mesqa</i> canal and 6 branch canal WUOs to be established are operational after 3 years and 100% at end of project; 25% of female members represented in WUOs; 30% farmers adopting modern irrigation on the 12,000 fd to be rehabilitated in Lower Egypt and 10% on 13,000 fd in Upper Egypt by end of project; % change in value of production per cubic meter of water; improved yields of main crops at the head and tail end of <i>mesqas</i>. 	<ul style="list-style-type: none"> WUO budgets and accounts; Project monitoring reports; RIMS annual reporting and impact surveys; Annual Impact Assessment; Annual progress and supervision reports. 	<ul style="list-style-type: none"> Annual O&M for off-farm infrastructure is effective; WUO operations fully transparent; Effective cooperation between MALR and MWRI; Proposed Water Law approved by e Peoples' Assembly and enforced.
<p>Agriculture competitiveness enhancement:</p> <p>As above, through promotion of demand-driven participatory farming system research and extension for crops, water and livestock.</p>	<ul style="list-style-type: none"> Joint extension irrigation advisory teams operating after 3 years; 30% of farmers engaged in HVCs and organic farming; At least 50% increase in crop and livestock production and returns per unit land and water by end of project implementation. 	<ul style="list-style-type: none"> RIMS annual reporting and impact surveys; Project monitoring reports 	<ul style="list-style-type: none"> Economic policy conducive to private exporting of HVC and organic products.
<p>Rural enterprise and micro finance development:</p> <p>Increased access to rural finance by target groups for micro-enterprises and MSEs.</p>	<ul style="list-style-type: none"> 45 intermediary institutions sustainable by end of project; Number and volume of loans provided by gender; 104 MAs successfully linked with traders and exporters by end of project implementation; 48 MSEs, 14,000 micro-entrepreneurs developed and 21,000 direct job created, by end of project implementation; and 50% of loans provided for on-farm modern irrigation investments. 	<p>As above, plus:</p> <ul style="list-style-type: none"> MSE and MSE business records and books/tax documents; Participating MFI(s) Reports; Reports of complementary project activities. 	<p>As above, plus:</p> <ul style="list-style-type: none"> Conducive microfinance policy and macro-economic framework maintained; and Competence and enthusiasm of participating MFIs.

