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Enabling poor rural people  
to overcome poverty

## **President's memorandum**

### **Proposed supplementary financing to the Arab Republic of Egypt for the**

### **On-farm Irrigation Development Project in the Oldlands**

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

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**For: Approval**

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed supplementary financing in the form of a loan and a grant to the Arab Republic of Egypt for the On-farm Irrigation Development Project in the Oldlands, as contained in paragraph 14.

## **President's memorandum**

### **Proposed supplementary financing to the Arab Republic of Egypt for the On-farm Irrigation Development Project in the Oldlands**

#### **I. Background**

1. This memorandum seeks approval for supplementary financing in the form of a loan of approximately US\$13.5 million and a grant of approximately US\$0.5 million for the On-farm Irrigation Development Project in the Oldlands (the "OFIDO project"), approved by the Executive Board in December 2009 (EB 2009/98/R.40/Rev.1). The IFAD loan and grant resources will be used to cofinance, together with the Government of Egypt and project beneficiaries, the cost of expanding the project area to the Governorates of Beni Suef and Menia.
2. The project is currently financed by (i) IFAD, with a loan of SDR 29.6 million and a grant of SDR 0.63 million; (ii) the Government, with a contribution of US\$15.3 million; and (iii) beneficiaries, with a contribution of US\$8.8 million. IFAD and the Government have agreed that the remaining resources under the 2010-2012 performance-based allocation system (PBAS) allocation cycle should be used to fund the project's supplementary requirements.

#### **II. Justification and rationale**

3. The Government's Sustainable Agricultural Development Strategy towards 2030 identified two strategic programmes: (i) modernization of smallholder irrigation systems; and (ii) linking of small farmers to markets. The Government has worked closely with IFAD under both the previous (2007-2009) and the current (2010-2012) PBAS cycles. Within this strategic partnership, IFAD has approved, in addition to the OFIDO project (December 2009), the Promotion of Rural Incomes through Market Enhancement Project (the "PRIME project") (December 2011). The two projects complement each other in addressing the constraints faced by the target group, consisting of smallholder farmers, landless labourers, women, unemployed young people, and owners and operators of small and medium-sized businesses.
4. The goal of the OFIDO project is to improve the livelihoods of rural poor people in five governorates – Assiut, Qena and Sohag in Upper Egypt, and Beheira and Kafr el Sheikh in Lower Egypt – through targeted interventions to enhance farm production potential and raise household incomes. Its objectives are to: (i) improve the irrigation network, with priority given to areas where the majority of landholdings average under 3 feddans (about 1.3 hectares total); (ii) increase agricultural productivity on smallholdings through an appropriate integrated research and extension system; (iii) support marketing for smallholders and landless labourers; and (iv) support job creation and income-generating small businesses and microenterprises for the target group through better access to rural financial services and capacity-building.

5. The goal of the PRIME project is to increase the incomes and food security of the target group in seven governorates – the five covered in the OFIDO project plus the Governorates of Beni Suef and Menia in Upper Egypt. Its expected outcomes include (i) an increase in farmgate prices for smallholder farmers through better organization, negotiation, information and access to markets; (ii) a reduction in production losses through access to finance for the use of new technology, access to post-harvest, transport and processing facilities, and integration in the agriculture value chain; and (iii) an increase in assets and employment through enhanced opportunities for on- and off-farm rural employment.
6. The Governorates of Beni Suef and Menia targeted in the proposed supplementary financing were dropped from the OFIDO project design (2009) due to the funding limitations faced at the end of the 2007-2009 PBAS cycle. Unlike small farmers in the five governorates that are common to the OFIDO and PRIME projects, those in Beni Suef and Menia will not be able to produce for the market because of their limited access to water in terms of both quality and quantity. Therefore, by inclusion of these two governorates in the OFIDO project area, the two projects will have the same coverage, complementing their interventions in the seven governorates.

### **III. Project costs**

7. The total costs of the supplementary financing, including physical and price contingencies, are estimated at US\$20.0 million. This will be financed by a supplementary IFAD loan of US\$13.5 million (SDR 8.77 million) and a supplementary IFAD grant of US\$0.5 million (SDR 0.33 million), representing 67.5 per cent and 2.5 per cent respectively of the total costs. The Government will contribute about US\$4.0 million (20.0 per cent of the total costs) and beneficiaries about US\$2.0 million (10.0 per cent of the total costs). No new expenditure categories will be created.
8. The supplementary IFAD loan, totalling SDR 8.77 million, will be allocated to existing expenditure categories as follows: (i) works in the amount of SDR 8.60 million; and (ii) means of transportation, equipment and materials in the amount of SDR 0.17 million.
9. The supplementary IFAD grant, totalling SDR 330,000, will be allocated to existing expenditure categories as follows: (i) means of transportation, equipment and materials in an amount of SDR 13,860; (ii) national technical assistance/consulting services in an amount of SDR 80,520; and (iii) training in an amount of SDR 235,620.
10. The supplementary IFAD loan will be extended to the Arab Republic of Egypt on ordinary terms. Changes in the amounts allocated to the original loan and grant expenditure categories will be reflected in annex II of the amended financing agreement.

### **IV. Proposed modifications to the financing agreement**

11. Upon approval by the Executive Board, the existing financing agreement will be amended to reflect (i) the supplementary IFAD financing, and (ii) the expansion of the project area to the Governorates of Beni Suef and Menia. This supplementary financing complements the financing plan initially agreed at design.
12. The Arab Republic of Egypt is empowered under its laws to receive financing from IFAD.
13. I am satisfied that the proposed supplementary financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **V. Recommendation**

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

RESOLVED: that the Fund shall provide a supplementary loan on ordinary terms to the Arab Republic of Egypt in an amount equivalent to eight million seven hundred and seventy thousand special drawing rights (SDR 8,770,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a supplementary grant to the Arab Republic of Egypt in an amount equivalent to three hundred and thirty thousand special drawing rights (SDR 330,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President