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Report No: 24505

IMPLEMENTATION COMPLETION REPORT
(CPL-37190; IDA-25850)

ON A

LOAN/CREDIT

IN THE AMOUNT OF US$121.0 MILLION

TO THE

ARAB REPUBLIC OF EGYPT

FOR A

AGRICULTURAL MODERNIZATION PROJECT

September 27, 2002

Rural Development, Water, Environment and Social Group
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 2002)

Currency Unit	=	Egyptian Pound (LE) and US$
LE 1.00	=	US$ 0.21
US$ 1.00	=	LE 4.63

FISCAL YEAR

July 1 June 30

ABBREVIATIONS AND ACRONYMS

AMP	Agricultural Modernization project
BDAC	Bank for Development and Agricultural Credit
CBE	Central Bank of Egypt
EIDU	Extension Information and Demonstration Unit
GOE	Government of the Arab Republic of Egypt
MALR	Ministry of Agriculture and Land Reclamation
PBDAC	Principal Bank for Development and Agricultural Credit
PMD	Project Management Department
RRES	Regional Research and Extension Station
SMS	Subject Matter Specialist
TTS	Technology Transfer Specialist
USAID	United States Agency for International Development
VEW	Village Extension Worker

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EGYPT, ARAB REPUBLIC OF
AGRICULTURAL MODERNIZATION

CONTENTS

Project ID: P005157	*Project Name:* AGRICULTURAL MODERNIZATION
Team Leader: Trayambkeshwar P. N. Sinha	*TL Unit:* MNSRE
ICR Type: Core ICR	*Report Date: September 25, 2002*

1. Project Data

Name: AGRICULTURAL MODERNIZATION

L/C/TF Number: CPL-37190; IDA-25850

Country/Department: ARAB REPUBLIC OF EGYPT

Region: Middle East and North Africa Region

Sector/subsector: Micro and SME Finance (80%), Agriculture Extension and Research (10%), Banking (10%)

KEY DATES

			Original	*Revised/Actual*
PCD: 06/18/1992		*Effective:*	01/07/1995	09/12/1995
Appraisal: 06/05/1993		*MTR:*	12/01/1997	12/16/1997
Approval: 03/24/1994		*Closing:*	06/30/2001	12/31/2001

Borrower/Implementing Agency: Arab Republic of Egypt, Principal Bank for Development and Agricultural Credit (PBDAC), Ministry of Agricultureand Land Reclamation (MALR)

Other Partners:

STAFF	Current	At Appraisal
Vice President:	Jean-Louis Sarbib	Caio Koch-Weser
Country Manager:	Mahmood A. Ayub	Ram K. Chopra
Sector Manager:	Petros Aklilu	Ngozi Okonjo-Iweala
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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: U

Sustainability: UN

Institutional Development Impact: N

Bank Performance: U

Borrower Performance: U

	QAG (if available)	ICR
Quality at Entry:		U
Project at Risk at Any Time:	Yes	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:
Egypt's agriculture sector is vitally important to the nation's overall economic performance. In the 1980s, the agriculture sector employed about 35% of the labor force and accounted for about 20% of GDP and merchandise exports. Rural areas comprised over half of total population and about three-quarters of the poor. The Government of Egypt (GOE) and the Bank recognized the need to increase rural incomes to address poverty, but the agriculture sector faced bottlenecks to growth. Agricultural sector reforms in the late-1980s and early 1990s liberalized prices, and the macroeconomic reforms addressed exchange rates, interest rates, import tariffs and import bans, subsidy removal, and revenue measures to reduce fiscal deficits.

In this context the Agricultural Modernization Project ("AMP") was designed to: (i) improve agricultural productivity by promoting appropriate technological packages at the farm level; (ii) increase rural income by creating off-farm job opportunities in storage, processing and marketing activities, trading in agricultural inputs, contractual and custom hire services, and agro-based enterprises; (iii) streamline the organization of Egypt's government-owned agricultural bank, the Principal Bank for Development and Agricultural Credit (PBDAC), and strengthen staff capabilities to enhance its performance as an effective rural financial institution; (iv) facilitate participation of commercial banks in supporting rural investments; and (v) improve effective coordination among the various agencies engaged in the provision of credit, technology transfer, and marketing services.

Project objectives directly aligned with an Agricultural Strategy for the 1990s prepared by GOE and the Bank and supported the institutional strengthening of two key agencies, the Ministry of Agriculture and Land Reclamation (MALR) and PBDAC as described below.

3.2 Revised Objective:
None.

3.3 Original Components:
The original components included:

A. Line of Credit Component (US$210 million). The line of credit component supported two categories of rural investment to be implemented by PBDAC and other participating banks: (i) On-farm technology improvement (US$115 million), which aimed to promote use of improved agricultural equipment, and pest management anticipating the expansion of custom-hire services to make the benefits of mechanization accessible to small-size holdings in the agricultural sector; and (ii) Investment in agro-based enterprises (US$95 million) for the financing of small- and medium-scale agro-based enterprises that provide services to farmers. The line of credit was to be implemented by PBDAC as an apex lending institution, with the Bank loan/credit on-lent to participating banks (commercial banks as well as PBDAC's governorate-level branches or BDACs) at rates that covered PBDAC's cost of funds, and on-lending to beneficiaries at market rate of interest. Bank funds were to be made available to investors through a "cash window" to provide foreign exchange for imports and a "credit window" offering term credit for eligible rural investments.

B. Institutional Development Component (US$59 million) included two distinct sets of activities, implemented by MALR and PBDAC: (i) A technology transfer sub-component implemented by MALR, designed to promote dissemination of technology, sound farm management practices, provision of market information, and greater coordination between credit, research, extension, processing and marketing. The sub-component emphasized field-level demonstrations organized through Regional Research and Extension Stations (RRESs) and Extension Information and Demonstration Units (EIDUs) of the MALR; and (ii) A rural banking sub-component implemented by PBDAC, designed to expand and improve rural banking services by PBDAC and other participating banks, help PBDAC divest non-banking activities, streamline its organization, and construct and establish 20 village banks, and train relevant staff in banking skills.

The institutional development activities were designed to develop capacity of MALR and PBDAC. They also directly related to the line of credit, as sustainable medium- and long-term investment depended on collaboration between MALR for the demonstration and promotion of improved technology and farm management practices and PBDAC for the identification and appraisal of agro-based enterprises. PBDAC's performance as a rural financial institution and its continued financial viability was emphasized by requiring that PBDAC prepare regular business plans and financial projections and comply with numerous covenants related to loan classification and provisioning, aging of arrears, reduction of administrative cost, and deposit mobilization.

3.4 Revised Components:
Not applicable.

3.5 Quality at Entry:
The project was prepared prior to the establishment of the Quality Assurance Group (QAG), therefore, did not undergo an assessment of quality at entry. The ICR rates quality at entry as unsatisfactory, based on the project's overly complex design, unrealistic assessment of the capacity of implementing agencies to deliver project results, and lack of readiness for implementation.

The main agricultural aspects of the AMP were outlined by an FAO World Bank Cooperative Programme (FAO/CP) mission in late 1991 that identified the need to modernize all aspects of farm production, including post-harvest handling and processing of agricultural products and to establish or strengthen agricultural support services and agribusinesses. As preparation advanced, the AMP was one of few vehicles for Bank-GOE collaboration on institutional reform and liberalization in the agriculture sector. Bank experts in privatization, enterprise reform, financial sector development, and safeguard policies proposed that the project incorporate additional objectives and design features to address these agendas. Detailed design ultimately incorporated a large amount of institutional strengthening for PBDAC and MALR, an apex lending arrangement to create opportunities for various financial institutions to participate in lending for modernization and agro-enterprise sub-projects, emphasis on environmental management and women in development, and increased analysis of subsidies and financial performance issues affecting PBDAC. The additional areas of emphasis were intended to enhance the project, but overloaded the project with too many objectives and detailed design features. Because additional areas of emphasis were added at various stages of project preparation, the degree of readiness for implementation varied across project activities adding to complexity and implementation risk: the apex lending arrangement and the execution of environmental management plans, for example, had less detailed preparation, inadequate assessment of demand for on-lending by commercial banks and less of ownership on the part of GOE. The actions to be carried out by implementing agencies and the sequencing of those actions were tightly designed; delays in implementation of one component could (and did) negatively affect the overall project.

The implementation risk was compounded when additional, detailed project features were attributed to PBDAC, an institution undergoing major organizational change. The Bank identified a number of critical issues for PBDAC's long-term sustainability and increased emphasis on those issues in project design: PBDAC staff complement and administrative costs; PBDAC divestiture of non-banking operations and financial performance; PBDAC capitalization; role of subsidies and subsidized credit; and creation of a level playing field for rural financial services. The issues identified were highly relevant to PBDAC's evolving role, but when added to other project components and activities, exceeded what could reasonably be achieved in a single project. The choice of lending instrument was also taken into account in the unsatisfactory quality at entry rating: the Bank financed the project through a Specific Investment Loan (SIL) instead of a Financial Intermediary Loan (FIL), but ultimately adopted a complex, hybrid approach that incorporated dimensions of a FIL. Preparation of the FIL aspects of AMP were insufficient: by negotiations the Bank and GOE had neither completed a thorough assessment of the financial sector nor engaged banks in formal discussion of the apex lending arrangement, and the resulting design of AMP was catered toward PBDAC on-lending to beneficiaries.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

The assessment of outcomes mentioned below is based on the information available through Borrower's draft ICR, as well as information made available to the ICR mission. The limited information available prevented a more rigorous assessment.

The objective of increasing agricultural productivity by promoting appropriate technological packages at the farm level is considered to have been achieved, based on assessments of beneficiary participation in technology transfer demonstrations that indicated high adoption rates for technological packages promoted under the project and yield increases of 9% to 37%, depending on the crop: these results exceeded the 15% yield increases estimated at appraisal (Annex 3). However, the extent of impact on individual regions of Egypt and segments of the agricultural sector were not assessed.

The objective of increasing rural income by creating off-farm job opportunities in storage, processing and marketing activities, trading in agricultural inputs, contractual and custom hire services, and agro-based enterprises is considered to have been achieved based on survey results at Mid-Term Review which estimate the creation of 81,700 off-farm jobs from investment in agro-enterprise and rural development projects. The extent of increase in rural incomes was not assessed beyond what is implied by the increase in yields and employment mentioned above which achieved or exceeded projections.

The objective of streamlining the organization of PBDAC, and strengthening staff capabilities to enhance its performance as an effective rural financial institution was addressed to a minor extent, through implementation of staff training programs, expansion of training facilities, and the construction and upgrading of village banks, but these accomplishments were overshadowed by several performance issues. PBDAC's evolution in the 1990s emphasized operational growth: lending and deposit operations expanded dramatically with some diversification of banking products, the branch network was extended, and banking services were offered to more "segments" of the rural economy. However, PBDAC's financial viability, and autonomy, and market orientation remained a concern: PBDAC continues to administer GOE's subsidized credit mainly for short-term agricultural crop credit, which now account for about one quarter of PBDAC's lending. In addition, PBDAC has not fully adopted modern banking and accounting practices. Periodic debt rescheduling, which amount to about 5 to 10 % of the loan portfolio, is also a cause for concern. The organizational changes such as staff reduction and the divestiture of non-banking (storage and distribution) activities were limited (see para 4.2).

The objective of facilitating participation of commercial banks in supporting rural investments was not achieved. Commercial banks were apprised of the Bank-financed project and the on lending arrangement after the project had been approved, but elected not to participate in the project because of limited number of branches in rural areas and availability of more subsidized credit from other sources. In hindsight, this component could have been better prepared or appraised with a more robust assessment of demand prior to project commencement.

The objective of improving capabilities of relevant institutions to bring about effective coordination among the various agencies engaged in the provision of credit, technology transfer, and marketing services was substantially achieved during project implementation.

4.2 Outputs by components:
Line of Credit Component. The apex lending arrangement was not implemented. PBDAC contacted four commercial banks (National Bank of Egypt, Misr Bank, Cairo Bank, and Bank of Alexandria) after effectiveness, but they did not express any interest in participating. The line of credit was implemented only by PBDAC through its branches and village banks. It supported LE 477 million in investments for agricultural modernization through 51,657 sub-loans and 122 letters of credit. In addition, a total of LE 194 million was on-lent for 28,962 on-farm technology improvement sub-loans. The majority of funding was provided for repair of farm machinery and the development and improvement of canals, drains, and irrigation systems; the average sub-loan size was LE 6,689. On-lending for agro-processing and rural development totaled LE 284 million, through 22,715 sub-loans. The most common uses of funds supported pick-up trucks for input trading. The on-lending arrangements designed during appraisal were ultimately not accepted by GOE causing a delay in project start up. Shortly after effectiveness, the agricultural sector was faced with sharp price increases in inputs combined with declining export prices for agricultural products. In an attempt to reduce the burden on farmers, the GOE instructed that IBRD and IDA funds be on-lent to beneficiaries at their average cost of 7.7%, a violation of the on-lending covenant. This was later remedied when the Bank protested. The AMP's emphasis on enhancements to PBDAC's loan appraisal process through better assessment of investment feasibility and increased attention to environment and women in development has had minimal impact.

Institutional Development Component

Technology transfer sub-component. The technology transfer sub-component achieved appraisal targets, enhanced the capacity of MALR, and fostered strong linkages among extensionists, researchers, and farmers. The AMP supported the construction of 33 Extension Information and Demonstration Units (EIDUs) and extension staff quarters in Assuit and Kafr El-Sheik governorates, the provision of training materials, and the establishment of a team of four Technology Transfer Specialists headed by an experienced general extensionist in each EIDU. At present, a total of 165 TTSs and 12 Subject Matter Specialists (SMSs) are engaged in activities under this pilot component. Farmers, extension staff, and women received training at the farm level during field and harvest days, seminars, and formal training programs. Three well-publicized environmental awareness seminars were conducted at the governorate level, with contents of these seminars disseminated through the EIDUs' meetings with farmers and other stakeholders. Based on the successful piloting of EIDUs under AMP, MALR used its own resources to construct an additional 127 EIDUs throughout Egypt.

Rural banking sub-component. The planned divestiture of PBDAC's non-banking activities was not fully implemented. The implementation of privatization led to severe price increases, input shortages, and marketing difficulties in some areas. To alleviate this problem, PBDAC resumed storage and distribution functions including distribution of seeds, fertilizers, and pesticides in those rural areas where shortages were developing and price increases were specially severe. With respect to down sizing, PBDAC achieved net reduction of 4,768 staff (by 2001) instead of the planned reduction of 10,000 staff (by 1997). A covenant requiring PBDAC to provide the Bank with annual plans for staff retirement, retraining, and redeployment (including budget) was partially met. The construction of 17 new village banks (total cost

LE 7.8 million) and the upgrading of 13 village banks and 2 branch banks (total cost LE 6.7 million) exceeded appraisal target. The expansion and upgrading of branches has been an important strategic goal of PBDAC, both to extend rural banking services to villages across Egypt and to attract cost effective deposit funding for PBDAC's operations. However, the project covenant requiring PBDAC to provide justification for proposing new village banks, arrangements for site acquisition and estimated costs and benefits from the opening of new branches was partially complied with. The training of PBDAC staff included 40,564 participants, greatly exceeding the 10,091 participants estimated at appraisal, but foreign training did not achieve appraisal targets. Total cost was LE 15.7 million for over 243,000 person-days of training in banking, financial analysis, information technology, accounting, rural women in development and environment. The inclusion of staff from other Egyptian banks in training (to improve skills in appraising rural investment) did not occur and was not promoted by PBDAC. The technical assistance component was partially implemented.

PBDAC's financial performance and its sustainability as a rural financial institution were not addressed as a separate component of AMP, but because of concerns about sustainability it became the most intensively supervised aspect of the project. The increasing complexity of PBDAC's operations and lack of emphasis on modern accounting and banking practices created a major challenge during supervision, and added to concerns about financial risks and long-term sustainability. The plan at appraisal, that PBDAC would dramatically reduce its focus on subsidized credit and government programs during the 1990s and offer products and services on a market oriented basis, was only partially achieved. Lending rates were positive in real terms during most years; nominal lending rates ranged between 11% and 19% and inflation ranged from 2.3% to 15.7% per year. GOE reimbursements for subsidized credit (about one quarter of loan portfolio) was a problem but it improved in the last year of the project. The payment arrangements for Government directed activities required up-front financing by PBDAC with GOE reimbursement years later, leading to a heavy financing burden and long standing GOE receivables on PBDAC's balance sheet. The World Bank and PBDAC expressed their concern about this arrangement. GOE agreed in year 2000 to clear past arrears and for future activities to pay in advance based on estimated costs. This improved the balance sheet of PBDAC and contributed to an improvement of financial situation between 1999 and 2001 as is reflected in Annex 8, Tables 1 and 2. The improvement was also helped by a successful PBDAC strategy for deposit mobilization, reducing reliance on more costly commercial bank borrowings, which declined sharply from balances of LE 764 million in 1994 to LE 36 million in 2001. Total deposits increased from LE 2,949 million in 1994 to LE 7,343 million in 2001, reflecting average growth of 14% per year in nominal terms and 8% per year in real terms.

PBDAC's performance in meeting a covenant requiring provision of an annual plan for deposit mobilization and reporting on progress in deposit mobilization was rated as being in partial and full compliance at various stages during implementation. PBDAC's equity base was strengthened through major infusions of cash from USAID as well as by GOE's repayment of prior years' receivables and retained earnings, enabling PBDAC and subsidiary BDACs to meet prudential capital requirements. Equity increased from LE 504 million in 1994 to LE 1,688 million in 2001, reflecting nominal growth of 19% per year (real growth of 13% per year).

With regard to audits of PBDAC's financial statements, project accounts (PA), SOEs, and Special Accounts (SA) issues emerged. Audits were performed by Egypt's Central Audit Authority (CAA). This had been accepted by the Bank at negotiations. Later, the Bank requested a change to private auditors for PA/SA/ SOE audit. This request was complied with by PBDAC only in the last year of the project. Inadequate loan classification and loan loss provisioning was also a problem. Shortfall in provisions amounted to LE 511 million in 1998, which was more than its equity at that time. PBDAC took measures to improve loan provisioning which improved from 12% in 1998 to 15% in 2001. By 2001, PBDAC's financial statements showed elimination of the shortfall in provisions. Similarly, the covenants related to ageing of arrears and maintaining the ratio of operating expenses to net interest income at 60% were in non-compliant status through most of the project implementation period and according to the last progress report from PBDAC, the covenant was finally met in 2001 as profitability improved. But as PBDAC’s accounting practices do not as yet meet international standards, uncertainity remains around all measures of PBDAC’s financial performance. Under a follow-up project, PBDAC has undertaken to improve accounting standards and internal controls.

4.3 Net Present Value/Economic rate of return:

The project channeled funds through the line of credit to finance more than 50,000 sub-loans to farmers and agro-enterprises, and supported them with technical advice through agricultural extension and research. A sample survey of about 450 farmers and seven case studies for agro-enterprises shows that the average yield increases in farmer's fields was about 16%, which is slightly higher than the 15% projected at appraisal (see para 4.4). ERR were based on the financial flows as mentioned in para 4.4, which were collected local experts as a part of Borrower's ICR draft preparation. An SCF of 0.88 was used. ERR at completion ranged between 18% to over 30%. The weighted average ERR at completion is estimated at about 30% based on the distribution of sub-loans. This is lower than appraisal average ERR estimate of 38%.

4.4 Financial rate of return:

The project financed agro-business and rural investment activities. Under the project, traders imported such item as combines, threshers, laser levelers, high power tractors, and post harvest processing equipment. More than 21,000 small and medium-scale rural-based businesses were created or upgraded, with an average loan size of less than LE 13, 000. This investment opened up substantial new rural employment. Survey results show that significant increases in production came as a result of improving technical advisory services provided by MALR and supported by PBDAC credit operations. At the appraisal it was estimated that with the improved cultural practices and usage of modernized equipment would increase crop yields by 15 percent and would reduce input usage by 10 percent. Independent farm survey and extension reports show that increase in crop yield and saving in operation cost were substantially higher than the appraisal estimates (Annex 3).

Investment in agro-business activities were accelerated at a faster pace than envisaged at project appraisal. As categorized by PBDAC, the project financed 3 types of investments in marketing, ago-processing, rural development. The rural development included on farm water irrigation improvement, modernized farm equipment such as laser land levelers, seed and fertilizer drills, rice and wheat combines etc. For financial analysis cash-flow data for seven models were evaluated in detail. The detailed cost and benefits of these models are presented in working papers, and the FRR range between 17% for aromatic oil plant to over 30% for maize seed production and for honey production units (see Annex 3).

4.5 Institutional development impact:

The overall institutional development impact of the project is rated as negligible with a positive impact on activities of the MALR, , but negligible impact on PBDAC's operation (see para 4.2).

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

Periodic downturns in the economy, which affected PBDAC's borrowers and their repayment of medium and long-term loans were outside implementing agency control and only partially under GOE control.

5.2 Factors generally subject to government control:

Several key factors in the outcome of project implementation were under the control of GOE. The project's 16-month delay in effectiveness related to GOE's process of review of loan and credit agreements, involving several central government agencies. Delays and non-compliance with on-lending covenants also resulted from GOE decision-making. The agricultural liberalization and privatization planned to transform PBDAC (and eliminate non-banking operations) was partially reversed by GOE, and GOE requested PBDAC's re-engagement in government-directed activities that impacted PBDAC's autonomy, market orientation, and financial viability. GOE's delayed reimbursement for credit and services delivered by PBDAC were also factors in PBDAC's eroding financial performance. The level of staff reduction assumed under the project (related to privatization of PBDAC's non-banking activities) was influenced by GOE's public commitment that no redundancy would result from public sector reform; this reality combined with limited employment possibilities thwarted PBDAC's efforts to achieve significant staff reduction. GOE's positive influence included facilitating PBDAC's access to long-term concessional funding and permitting PBDAC to retain sufficient funds to improve capitalization.

5.3 Factors generally subject to implementing agency control:

The majority of decisions concerning the delivery of specific components and activities in AMP were under the control of implementing agency management. PBDAC gave more attention to the implementation of the Line-of-credit component, where it was coming under pressure from clients, and less so to its own internal institutional development, internal accounting and reporting policies. This contributed to the more marginal results of the ID component of the project.

5.4 Costs and financing:

The project cost at completion is estimated at USD 247 million, which is about 10 percent below the appraisal estimate of USD 269 million . The Institutional Restructuring costs were estimated by PBDAC. These costs were financed by GOE / USAID and were not directly part of the Bank financed project. Excluding restructuring costs, project costs were $242.6 (at appraisal) and $227 million (at completion), which is 94% of appraisal. The line of credit at USD 203.5 million, is close to appraisal estimate of USD 206.6 million. Excluding restructuring costs, institutional development costs for banking sub-component were $15.2 (at appraisal) and $11.3 million (at completion), which is 74% of appraisal. This was due to reduced use of foreign training and consultancies as explained in section 4.

6. Sustainability

6.1 Rationale for sustainability rating:

Sustainability of project activities varies by component, but sustainability of the overall project is rated as unlikely. The sustainability of PBDAC's banking operation was rated as unlikely during several years of implementation. PBDAC has made slow progress in addressing financial management and sustainability issues as described under institutional development impact section (para 4). This raises concerns about the future viability of PBDAC. While a new project has been designed to mitigate these problems, its success is uncertain as early implementation has been problematic. Sustainability of the largest project component, a line of credit (LOC) for rural investment, is uncertain. Over 50,000 sub-loans were made and sample survey and field visits could cover only a small proportion of them. Concerns about future viability of PBDAC also create a concern about the continued access of these rural enterprises to further financing.

The investments made in the technology transfer component, a smaller portion of the total project, are likely to be sustained, based on the Bank's assessment of MALR's activities and MALR's demonstrated commitment to sustaining and mainstreaming the technology transfer activities.

6.2 Transition arrangement to regular operations:

The project activities actually implemented by PBDAC and MALR were closely aligned to their regular, ongoing operations therefore no special transition arrangements are needed. The MALR in particular had designed and implemented project activities as part of its regular work program, ensuring mainstreaming of good practices observed under the project. With respect to PBDAC, the funds it derives from operations are now sufficient to cover operating expenses, provisions, and a small surplus for retained earnings. In the last year of the project GOE agreed to take over the burden of any subsidies, and this policy should be continued in the operational phase. However, concerns about its accounting and internal control practices need to be addressed to mitigate financial risks in the future.

7. Bank and Borrower Performance

Bank

7.1 Lending:

Bank failed to recognize the complexity and risk that would result from "loading the project up" with multiple objectives and required actions, and overestimated the capacity of the key implementing agency, PBDAC, beset with organizational problems and undergoing major realignment. The Bank also made the unrealistic assumption that reform and liberalization would proceed smoothly, despite GOE's lack of experience in managing similar programs and the breadth of changes that could have direct and indirect impacts on the agriculture sector and AMP. Finally, the Bank underestimated the importance of sustaining dialogue with GOE and fostering Bank/borrower commitment during the economic transition and the start up of AMP: when key actors changed and communication was affected, understanding of and commitment to the complex project design began to erode.

7.2 Supervision:

The supervision performance is rated as Unsatisfactory. During the supervision phase, there were frequent changes of task management (five in seven years) with limited overlap between task managers. Bank supervision budgets proved insufficient to adequately review and mange the project, given its complexity, implementation delays, and performance difficulties. While some continuity was provided by short-term consultants, they do not have day-to-day responsibility for project management. After MTR, when most of the line-of-credit (LOC) had already been disbursed, the focus of supervision narrowed to institutional development aspects, which were problematic and still remained to be completed. For the years leading up to mid-term review, the project was supervised at regular intervals of about six months. After mid-term review (December 1997), supervision missions occurred only once a year, until the year 2000, when semi-annual missions resumed. The project was rated as Satisfactory until 1998, even though problems were apparent from the start of the project. The project was downgraded in 1999 and the period of lowest supervision intensity between 1998 and 2000 coincided with the lowest project ratings. This may have been because a preparation of a new project started in 1998 and diverted attention and resources as the task teams for both projects were the same (as were also the issues being addressed). The composition of Bank missions also diverged from the plan set out at appraisal; in actuality due to the supervision budget problems. The establishment of a new project targeted on PBDAC (approved in 1999) in a context where the institutional development component was lagging is controversial as it further overloaded limited capacity in PBDAC and created risks for both the new and the old project. It also eroded attention from the earlier project. It would have been advisable to formally restructure the ongoing project to focus on most important and achievable objectives at MTR when it was clear that many of the institutional development goals could not be achieved in the remaining time frame.

7.3 Overall Bank performance:

The overall performance is rated as Unsatisfactory because of quality-at-entry problems (para 7.1), as well as supervision problems (para 7.2).

Borrower

7.4 Preparation:

The Government of Egypt's performance during project preparation is considered satisfactory, based on a review of information in the project files. Government ministries and agricultural agencies were actively engaged in sectoral assessment and dialogue with the Bank, and the government provided good quality technical and organizational information to support project design. The government also facilitated many site visits, meetings with private sector, and reviews of PBDAC's organization and operations.

7.5 Government implementation performance:

GOE's implementation performance is considered unsatisfactory. GOE's management of the economic reform and liberalization program resulted in a difficult transition for the agriculture sector that did not provide the stability needed for transformation of PBDAC into an effective rural financial intermediary. Key policy decisions relating to divestment of PBDAC's non-banking operations were reversed and PBDAC re-engaged in a number of government-directed activities, without adequate financial and operational analysis and with inadequate consultations. GOE procedures for loan and credit approval also delayed effectiveness and led to non-compliance with on-lending requirements.

7.6 Implementing Agency:

The performance of MALR in implementing the technology transfer (institutional development) activities is rated as satisfactory. MALR evidenced strong ownership of activities it implemented, complied with Bank procedures, and maintained effective communication with Bank counterparts. The performance of PBDAC in implementing the line of credit and rural banking (institutional development) activities under the project is rated as unsatisfactory. PBDAC's management of AMP led to significant non-compliance with covenants sustained over many years and incomplete implementation of the agreed project design. While the AMP suffered from overly complex design, PBDAC could have suggested design changes with justification and asked for amendment of agreements with the Bank rather than default on the implementation responsibilities that it had undertaken. Bank funding tended to be viewed as a source of liquidity for PBDAC lending, rather than financial support for the important development of rural financial markets. PBDAC's financial performance during most of the implementation period was weak, resulting mainly from rapid growth, and operational decisions that eroded financial margins. In the last two years of project implementation, PBDAC's financial statements showed improvement, but the lack of compliance with international accounting and audit standards continued to create doubts about the integrity of PBDAC financial reporting. While financial statements were presented to the Bank on a regular basis, other aspects of project reporting and monitoring was inadequate as PBDAC did not monitor its covenant compliance or make concerted efforts to organize the surveys required for impact assessment in a timely manner.

7.7 Overall Borrower performance:

Overall Borrower performance is rated as unsatisfactory. While GOE managed the preparation process successfully, implementation results were mixed. The performance of MALR was satisfactory (albeit for the smallest project component), while the performance of PBDAC and Central Government agencies was unsatisfactory. Key considerations in the overall Borrower performance rating included compliance with covenants, degree of implementation of agreed components and activities, and ownership of project objectives. PBDAC's performance reflected a serious lack of commitment to AMP's project design, despite PBDAC management having been actively engaged in project development and negotiations and signing legal agreements as a direct borrower of IBRD.

8. Lessons Learned

Project Preparation and Appraisal

- AMP required many actions to be taken during the period between Board approval and project launch, indicating a lack of readiness for implementation. This resulted in a 16-month delay in effectiveness, several early stage activities were delayed or dropped, fundamentally altering project implementation. The framework and detailed procedures for project implementation should be developed and agreed during project processing to avoid long delays after Project approval.
- The project design proved overly complex for an institution in transition. PBDAC in particular was unable to fully implement the project while undergoing major realignment of its operations. Sequencing of reforms in a realistic time-frame through a series of smaller simpler projects is more appropriate when dealing with weaker institutions with limited implementation capacity.
- It is preferable to complete needed sector studies prior to project identification and preparation as this can help in better and more appropriate design of the project. The project's approach to apex lending and the participation of commercial banks in rural lending was unrealistic. An in-depth assessment of rural financial markets did not occur during project preparation. PBDAC also faced a conflict of interest between its developmental role (i.e., helping to create a level playing field in rural financial services) and the need to compete with other banks. To avoid similar conflict of interest, a broader rural financial market study should be implemented by central Ministries prior to project design.
- Baseline surveys should be completed early in the project preparation process (or as part of sector studies) as they not only are essential for a more robust evaluation at MTR and completion, but they can also be helpful in better design of the project. A base-line study was done by GOE only a few months prior to the mid-term review, by which time nearly all of the sub-loans had been made. An assessment of impact on beneficiaries was conducted only for the follow-up project and while the study is posted on the Internet Web by the Bank, the fact is not well known to the project staff.
- More thorough review and knowledge of implementation experience of other donors with projects in the sector can provide useful lessons learnt for projects to be financed by the World Bank.

Project Implementation and Supervision

- Ownership and shared objectives are essential to project success in Egypt. Excessive turnover of management and project team leaders, both in GOE (especially at the Chairman and Vice-Chairman levels in PBDAC) and at the Bank (Sector Manager and Task Manager levels) eroded understanding of and commitment to the project.
- Where a project implementation agency is conducting several revenue earning activities, it is useful to have financial statements based on profit centers to allow the agency to know better how to price its services and products. For PBDAC it would have been better to separate costs and revenues from the remaining input supply activities to allow it show to GOE the cost of carrying this function which is now being provided as a social service at the direction of GOE.
- Progress reports and financial statements should be shared by project implementation agencies prior to launch of supervision mission. This can improve dialogue between the implementing agency and the donor. In case of PBDAC, Bank consultants had to chase financial information during mission which took up every one's valuable time and did not improve dialogue.
- Bank's dialogue during missions should be both broadened and deepened for which more resource should be allocated. Partner agencies such as CBE and CAO can be useful in providing assistance for project implementation. Skill mix in supervision task team also need to be broadened to address fiduciary safeguard aspects.

- The reliance on a project management department in PBDAC to address a broad range of project implementation activities proved highly unrealistic; PBDAC is an organization of 27,000 staff: a multitude of processes and decisions factored into project implementation. More direct involvement of line departments in project implementation can lead to better capacity development and a broader sense of ownership for the project.
- After mid-term review, the PBDAC and the Bank started developing a new operation, the PSADP. Design activities for the new project detracted from implementation / supervision effort for AMP while project ratings deteriorated. A practical alternative would have been to cancel or restructure AMP or to delay the follow-on project.
- The project exhibited a high degree of partial compliance or noncompliance with covenants as implementation progressed. A number of the required project actions and covenants were "bundled" when tracked in the Bank's project monitoring systems, leading to summary ratings of "partial compliance" that obscured underlying problems, and delayed action. A number of covenants included in the project were unlikely to be met, based on incomplete implementation of the associated components/activities, and this should have triggered a redesign of the project. Examples include: the participation of commercial banks in the project. A fundamental redesign in the early years or at MTR could have led to a more satisfactory outcome.

Good Practice for replication

- Strong linkages between extension, research, and rural bank staff at the farm level are needed to afford farmers access to modernized technology and to assist farmers and investors in getting better return for their investment and pay back loans. As investor's income and farm productivity increases, the borrower would be in a position to pay back the loan. As such, the technology transfer model should be applied nationwide, especially in view of the already established 160 EIDUs which only require some additional guidance and adequate monitoring to reap the full benefit of this scheme piloted in the project.

9. Partner Comments

(a) Borrower/implementing agency:
The Borrower engaged experts from local universities and has produced a draft ICR based on information obtained from MALR, PBDAC, and from focus group interviews and limited sample surveys. The report in two volumes is available in project files. The Borrower has also reviewed this ICR summary and had no additional comments.

(b) Cofinanciers:
None.

(c) Other partners (NGOs/private sector):

10. Additional Information

Annex 1. Key Performance Indicators/Log Frame Matrix

Outcome / Impact Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
Yield improvements recorded from use of improved technology packages from farmers' demonstration plots and sample survey of farmers fields (impact)	Overall average 15%	Overall average 16%
Savings in operation costs	10%	14%
Increase in volume of rural savings mobilized: Target and Actual (impact)	14% p.a.	16% p.a.
Financial rate of return on investments for agro-based enterprises	38%	31%
Economic rate of return on investments for agro-based enterprises	29 to 48%	18 to 55%

Output Indicators:

Indicator/Matrix	Projected in last PSR[1]	Actual/Latest Estimate
No. of demonstrations conducted by extension staff and by machinery dealers.	2,875 demonstrations	2,116 demonstrations
No. of training programs held by PBDAC	2,815	2,016
No. of trained staff in village banks/BDACs/PBDAC.	59,568	40,564
Increase in volume of rural credit provided.	LE 467 million	LE 536 million
No. of Extension, Information and Demonstration Units (EIDUs) established (input)	33 EIDUs	33 EIDUs

[1] End of project

Annex 2. Project Costs and Financing

Project Cost by Component (in US$ million equivalent)

Project Cost By Component	Appraisal Estimate US$ million	Actual/Latest Estimate US$ million	Percentage of Appraisal
Farm Investments	115.00	97.10	84
Agro-based Enterprises	95.10	106.40	112
Institutional Development			
(1) Banking	41.40	31.30	76
(2) Agricultural Technology	17.30	12.20	71
Total Baseline Cost	268.80	247.00	
Total Project Costs	268.80	247.00	
Total Financing Required	268.80	247.00	

The Institutional Restructuring costs were estimated by PBDAC. These costs were financed by GOE/USAID and were not directly part of the Bank financed project. Excluding restructuring costs, institutional development costs for banking sub-component were $15.2 (at appraisal) and $11.3 million (at completion), which is 74% of appraisal.

Project Costs by Procurement Arrangements (Appraisal Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	5.30 (2.10)	0.00 (0.00)	0.00 (0.00)	5.30 (2.10)
2. Goods	5.10 (4.00)	1.20 (0.30)	210.10 (100.00)	0.00 (0.00)	216.40 (104.30)
3. Services	0.00 (0.00)	0.00 (0.00)	12.40 (12.40)	0.00 (0.00)	12.40 (12.40)
4. Demonstration	0.00 (0.00)	0.00 (0.00)	4.40 (2.20)	0.00 (0.00)	4.40 (2.20)
5. Institutional Restructuring	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	26.20 (0.00)	26.20 (0.00)
6. Operating Costs	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	4.10 (0.00)	4.10 (0.00)
Total	5.10 (4.00)	6.50 (2.40)	226.90 (114.60)	30.30 (0.00)	268.80 (121.00)

Project Costs by Procurement Arrangements (Actual/Latest Estimate) (US$ million equivalent)

Expenditure Category	Procurement Method[1] ICB	NCB	Other[2]	N.B.F.	Total Cost
1. Works	0.00 (0.00)	7.10 (2.80)	0.00 (0.00)	0.00 (0.00)	7.10 (2.80)

2. Goods	3.00 (3.00)	0.50 (0.30)	203.50 (101.70)	0.00 (0.00)	207.00 (105.00)
3. Services	0.00 (0.00)	0.00 (0.00)	8.80 (8.80)	0.00 (0.00)	8.80 (8.80)
4. Demonstration	0.00 (0.00)	0.00 (0.00)	1.50 (0.50)	0.00 (0.00)	1.50 (0.50)
5. Institutional Restructuring	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	20.00 (0.00)	20.00 (0.00)
6. Operating Costs	0.00 (0.00)	0.00 (0.00)	0.00 (0.00)	2.60 (0.00)	2.60 (0.00)
Total	3.00 (3.00)	7.60 (3.10)	213.80 (111.00)	22.60 (0.00)	247.00 (117.10)

The Institutional Restructuring costs were estimated by PBDAC. These costs were financed by GOE / USAID and were not directly part of the Bank financed project. Excluding restructuring costs, project costs were $242.6 (at appraisal) and $227 million (at completion), which is 94% of appraisal.

1/ Figures in parenthesis are the amounts to be financed by the Bank Loan. All costs include contingencies.

2/ Includes civil works and goods to be procured through national shopping, consulting services, services of contracted staff of the project management office, training, technical assistance services, and incremental operating costs related to (i) managing the project, and (ii) re-lending project funds to local government units.

Project Financing by Component (in US$ million equivalent)

Component	Appraisal Estimate			Actual/Latest Estimate			Percentage of Appraisal		
	Bank	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**	**Bank**	**Govt.**	**CoF.**
Farm Investments				43.70	29.20	24.20			
Agro-based Enterprises				47.90	31.90	26.60			
Institutional Development									
(1) Banking				8.60	20.00	2.70			
(2) Agricultural Technology				6.90		5.30			
TOTAL	121.00	89.00	58.80	117.10	83.10	46.80	96.8	93.4	79.6

Annex 3. Economic Costs and Benefits

Project Economic and Financial Costs/Benefits

1. The field survey and extension field record reveals that the project benefited farm households, small and medium-rural investors, and traders. In addition, the project has been creating new jobs in small rural based industries, upgrading of farm level technologies in marketing and agro-processing, improving irrigation system, and establishing a foundation for cooperation between extension, research, village bank, and farmers and investors.

2. Out of US$100 million that was allocated for on lending from the Bank Loan and IDA Credit, about 60% financed agro-business and rural investment activities, and the remaining 40 percent financed letters of credit for the import of farm and agro-processing equipment, and agricultural inputs. Under the project, traders imported such items as combines, threshers, laser levelers, high power tractors, and post harvest processing equipment. More than 23,000 small and medium-scale rural-based businesses were created or upgraded, with an average loan size of less than LE 13, 000. While collaboration in support services in the field between farmers, investors and PBDAC needs to be further strengthened, there has been regular contact and liaison between researchers, extensionists, and farmers.

3. Although a complete assessment of AMP employment generation was not conducted, PBDAC estimated during its mid-term review, when about 90 percent of the project's funds for on-lending was disbursed, that the project created 81,700 new jobs in agro-business activities. In addition, the average sub-loan size for on-farm technology was LE 6,632 and for agro-processing and rural development activities LE 12,486, and total number of 51,221 loans were granted under the project. The activities which were financed under AMP such as marketing and processing facilities, farm machinery repairing businesses, installation of plastic green houses, vegetable gardening, sorting and grading of fruits and vegetables were generally considered to be labor intensive. In fact, the Technical Follow-up Committee, which was pursuing the implementation of the project, made sure to direct the sub-loans toward selective investments in modernized and labor-intensive technologies.

4. Surveys result shows that significant increases in production came as a result of improving technical advisory services supported by PBDAC credit operations. At the appraisal time it was estimated that with the improved cultural practices and usage of modernized equipment would increase crop yields by 15 percent and would reduce input usage by about 10 percent. Independent farm survey and extension reports show that increase in crop yield and saving in operation cost was substantially higher than the appraisal estimates. A survey of 450 farmers in five governorates was done on a single season sample basis. Yield increases and saving in operation cost for several crops are:

	Increase in Yield	Savings in Operation Cost
Wheat	17	12
Rice	15.5	14
Sorghum	16	12
Cotton	16	16

Other reports estimated the crop yield increase to be substantially higher than what are indicated above.

5. Investment in agro-business activities were accelerated at a pace faster than envisaged at project appraisal. As categorized by PBDAC, the project financed three types of investments in marketing,

ago-processing, and rural development. The rural development included on-farm water irrigation improvement, modernized farm equipment such as laser leveler, seed and fertilizer drill, rice and wheat combine etc. For financial analysis of the PBDAC on lending activities, cash-flow data for seven case studies were provided in completion evaluation report prepared by local experts. The type of businesses evaluated at completion are not the same types as those analyzed for appraisal, however, these seven models are the prominent types of activities in the AMP's sub-lending financing portfolio. Under AMP, for instance, the number of sub-loans provided for purchase and overhauling of trucks and transportation used for input and output marketing, were more than 10,000 whereas only one loan was granted for financing a rice mill. Although rice and wheat mill was used as a prototype model in appraisal, it is not a significant enough part of the sub-loan portfolio to be included as a model for analysis now. On the contrary, the project financed 1,697 beehives loans, which was included in the seven models for analysis. The details of cost and benefits of these models are presented in a working paper, and their FRR and ERR are shown below:

Type of Business		FRR	ERR
1.	Tractor Service	27	28
2.	Maize Seed Operation	34	39
3.	Tractor with Trolley	22	23
4.	Aromatic oil Distillation Unit	17	18
5.	Bee Hive	55	55
6.	Small 1.5 ton truck for Marketing	21	29
7.	Minibus	21	26

6. These FRRs are within the range of appraisal estimates. In the calculation of ERR import duties and sale taxes were deducted from the prices of tradable goods and a SCF of 0.88 was applied towards the non-tradable goods and services.

7. Based on the results of the seven models and the amount of funds disbursed for different types of loans, a weighing system was developed to derive the overall FRR and ERR for the AMP's sub-loans. A weight of 20 percent, was assigned to the tractor model; 15 percent, to the tractor and trolley model; 5 percent, to the maize seed operation; 30 percent, to the small track, 10 percent, to the minibus; 15 percent, to the bee-hives; and 5 percent, to the aromatic oil distillation units. Based on these weighting percentages, the overall FRR and ERR are calculated to be 28 percent and 31 percent respectively. The overall ERR at appraisal was 38 percent. The ERR applies only to investments financed by the line-of-credit, and does not include costs/benefits of institutional strengthening as the benefits of the ID component while significant, they are difficult to quantify.

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating	
Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation				
02/03/92 (pre-appraisal)	*5*	ID, AI, RC, AGR, AE		
09/10/92 (pre-appraisal)	*4*	ID, RC, FS, AE		
Appraisal/Negotiation				
06/93	*9*	ID, FS, RC (2), AI, AG, EN, AE		
Supervision				
07/14/95	*2*	ID (1); AE (1)	S	S
11/22/95	*1*	ID (1)	S	S
07/09/96	*5*	ID(1); FS(1); AE. (1); BS (1); AG	U	U
12/12/96	*1*	BS (1)	S	S
04/10/97	*3*	AE (1); FS(1); WID (1)	S	S
06/12/97	*3*	ID(1); AE (2)	S	S
11/1/97	*5*	AE (2); BS (2), ID(1)	S	S
01/05/99	*3*	AE(2); B (1)	S	S
12/13/99	*3*	AE(2); B (1)	U	S
06/09/00	*2*	AE(1); B (1)	U	U
11/27/00	*2*	FS(1), AE(1)	U	U
06/15/01	*4*	FS, AG, BS, FMS	U	U
ICR				
Feb. 2002	*1*	AE		
May 2002	*1*	FS	U	U

Inst. Dev. (ID); Financial Sector Devt. (FS); Agric. Eco. (AE); Banking (BS); Agriculturist(AG); Env. (EN); Agro-Ind. (AI); Rural Credit (RC); Women-in-Dev. (WID). Feb. 2002 was a short mission (in conjunction with other work) by AE to review Borrower's initial draft ICR and to provide guidance for its completion. May mission, the main ICR mission, was by FS.

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US$ ('000)
Identification/Preparation		450,000
Appraisal/Negotiation		112,000
Supervision		705,000
ICR		26,000
Total		1,293.000

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	Rating				
☐ *Macro policies*	○ *H*	○ *SU*	○ *M*	○ *N*	○ *NA*
☐ *Sector Policies*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Physical*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Financial*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
☐ *Institutional Development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Environmental*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
Social					
☐ *Poverty Reduction*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Gender*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	○ *NA*
☐ *Private sector development*	○ *H*	○ *SU*	● *M*	○ *N*	○ *NA*
☐ *Public sector management*	○ *H*	○ *SU*	○ *M*	● *N*	○ *NA*
☐ *Other (Please specify)*	○ *H*	○ *SU*	○ *M*	○ *N*	○ *NA*

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance	*Rating*
☐ *Lending*	○ *HS* ○ *S* ● *U* ○ *HU*
☐ *Supervision*	○ *HS* ○ *S* ● *U* ○ *HU*
☐ *Overall*	○ *HS* ○ *S* ● *U* ○ *HU*

6.2 Borrower performance	*Rating*
☐ *Preparation*	○ *HS* ● *S* ○ *U* ○ *HU*
☐ *Government implementation performance*	○ *HS* ○ *S* ● *U* ○ *HU*
☐ *Implementation agency performance*	○ *HS* ○ *S* ● *U* ○ *HU*
☐ *Overall*	○ *HS* ○ *S* ● *U* ○ *HU*

Annex 7. List of Supporting Documents

The ICR is based on the appraisal and supervision documents in the project file and the following detailed evaluation reports that were prepared as inputs to the ICR.

1. Borrower's ICR in two volumes , first draft of February 2002, and additions in May 2002, MALR and PBDAC.

2. Detailed Completion Assessment, August 24, 2002, Rita Pasi.

3. Financial and Economic Analysis Working Paper, August 29, 2002, Mohammed Usman.

4. Agricultural Modernization Project, Sample Survey, 1997, MALR

Additional Annex 8. [Supporting Financial Information]

Table 1

EGYPT: Principal Bank for Development and Agricultural Credit (PBDAC) Balance Sheet, 1994-2001

Assets	6/30/94	6/30/95	6/30/96	6/30/97	6/30/98	6/30/99	6/30/00	6/30/01	G. Rate
Cash on hand & with PLO	19,822	24,256	27,589	35,264	37,169	46,276	58,447	69,362	20%
Discounted cheques				2,035	1,697	944	1,320	2,556	--
Due from banks	157,576	146,022	99,852	48,619	51,999	37,003	45,944	291,912	9%
Cash (1)	**177,398**	**170,278**	**127,441**	**85,918**	**90,865**	**84,223**	**105,711**	**363,830**	**11%**
Customers & Banks Advances									
Short term loans and advances									
Agricultural loans(short term)			1,467,127		1,485,396	1,921,676	2,285,013	2,535,128	--
Different purpose loans(short term)			1,682,398		2,701,285	3,069,513	3,263,692	3,562,518	--
Short term loans and advances	2,200,517	3,019,737		3,931,357					--
Debit current acct. loans					237,360	373,008	404,112	415,146	--
Subsidized advances				55,048	55,354	54,118	72,721	95,299	--
Interest on loans(accrued)			456,957	504,355	512,611	500,098	525,754	571,747	--
Loans for MALR production needs				238,011	137,663	57,568	81,558	73,791	--
Advances for cotton pest control				65,580	65,449	33,915	22,410	21,935	--
Islamic dealings advances			15,864	19,193	17,227	30,782	31,861	29,957	--
Customer deposits(debit bal.)					24	42	37	37	--
Short term loans	**2,200,517**	**3,019,737**	**3,622,346**	**4,813,544**	**5,212,369**	**6,040,720**	**6,687,158**	**7,305,558**	**19%**
Medium & long term loans /advances									
Med. & long term loans advances	2,367,839	2,467,881		2,969,494					--
Agricultural loans(m&long term)			350,080		410,288	440,734	487,332	541,744	--
Different purpose loans			2,342,340		3,148,223	3,583,241	3,731,694	4,037,929	--
Subsidized loans	14,853	268,178	237,669	216,120	276,770	257,036	338,185	492,911	65%
Non-interest bearing loans				1,361,191	1,104,879	673,915	345,142	142,180	--
Islamic dealings			124,282	195,474	228,343	249,356	234,348	224,079	--
Staff loans			22,024	22,229	23,093	27,404	79,460	92,440	--
Medium & long term loans	**2,382,692**	**2,736,059**	**3,076,395**	**4,764,508**	**5,191,596**	**5,231,686**	**5,216,161**	**5,531,283**	**13%**
Total customers advances	**4,583,209**	**5,755,796**	**6,698,741**	**9,578,052**	**10,403,965**	**11,272,406**	**11,903,319**	**12,836,841**	**16%**
Loans for banks (PBDAC)									--
Total banks' loans	0	0	0	0	0	0	0	0	--
Total customers & banks' loans	**4,583,209**	**5,755,796**	**6,698,741**	**9,578,052**	**10,403,965**	**11,272,406**	**11,903,319**	**12,836,841**	**16%**
Less : loan loss provisions	(312,581)	(385,872)	(431,567)	(412,609)	(542,817)	(693,293)	(840,473)	(1,378,262)	24%
Islamic interest not-accrued						(53,607)	(45,488)	(39,195)	--
Less : suspended interest				(363,229)	(384,790)	(314,513)	(320,038)	(229,984)	--
Provisions & suspended interest	**(312,581)**	**(385,872)**	**(431,567)**	**(775,838)**	**(927,607)**	**(1,061,413)**	**(1,205,999)**	**(1,647,441)**	**27%**
Net Loans After Provisions (2)	**4,270,628**	**5,369,924**	**6,267,174**	**8,802,214**	**9,476,358**	**10,210,993**	**10,697,320**	**11,189,400**	**15%**
Long Term Securities									--
Investment in companies and banks	11,355	12,437	14,586	15,249	14,192	14,285	14,352	15,198	4%
Treasury bonds	34,786	34,903	34,903	35,054	35,170	35,402	36,043	36,971	1%
Long Term Securities (3)	**46,141**	**47,340**	**49,489**	**50,303**	**49,362**	**49,687**	**50,395**	**52,169**	**2%**
Other Debit Balances & Assets									
Accrued revenues				2,419	2,581	3,249	4,642	4,287	--
Prepaid expenses				16	178	193	203	281	--
Advances to purchase fixed assets				22,245	20,148	17,055	12,015	15,156	--
Deferred charges				4,496	4,392	3,893	4,130	1,733	--
Refundable deposits				14	18	27	26	34	--
Fixed assets' titles assigned to bank				8,704	9,334	15,166	13,876	16,514	--
Provisions for assets assigned bank				(49)	(394)	(310)	(163)	(998)	--
Accounts under settlements& other	1,931,960	1,463,553	1,425,938	149,406	470,364	211,063	235,655	260,020	-25%
Inventory	373,048	211,315	352,045	380,777	178,345	82,433	60,838	64,605	-22%
Total Debit Bal & Other Assets (4)	**2,305,008**	**1,674,868**	**1,777,983**	**568,028**	**684,966**	**332,769**	**331,222**	**361,632**	**-23%**
Fixed assets	110,564	178,392	228,003	361,385	359,750	394,966	395,257	412,418	21%
Accumulated depreciation				(114,342)	(128,733)	(150,868)	(152,159)	(172,651)	--
Net Fixed Assets (5)	**110,564**	**178,392**	**228,003**	**247,043**	**231,017**	**244,098**	**243,098**	**239,767**	**12%**
Total Assets from 1 : 5	**6,909,739**	**7,440,802**	**8,450,090**	**9,753,506**	**10,532,568**	**10,921,770**	**11,427,746**	**12,206,798**	**8%**

Source: PBDAC Finance Sector.

Table 2

EGYPT: Principal Bank for Development and Agricultural Credit (PBDAC)
Income Statement, 1994-2001

Income Statement Items for Year Ended June 30	1994	1995	1996	1997	1998	1999	2000	2001	Compound Annual Growth Rate, 1994-2001
Loans Income & Bank Balance									
Interest Income									
Agricultural Loan Interest Income	195,286	220,125	229,929	257,346	324,176	277,306	257,963	481,996	**14%**
Other Loans Interest Income	504,381	533,892	534,543	640,984	706,655	918,754	1,059,669	1,442,378	**16%**
Income from Islamic Dealings				17,108		0	20,539	17,532	**--**
Due To Banks Interest Income									--
Interest Income from accounts at Banks				0	17,983	2,045	1,734	17,130	--
Income from treasury bonds	1,857	1,734	2,564	1,263	1,105	1,253	1,211	1,240	**-6%**
Total income	**701,524**	**755,751**	**767,036**	**916,701**	**1,049,919**	**1,199,358**	**1,341,116**	**1,960,276**	**16%**
Less									
Deposits & Borrowing Cost									
Interest Paid on deposits	(438,875)	(450,204)	(461,128)	(437,786)	(466,368)	(483,092)	(557,666)	(614,276)	**5%**
Interest Paid on commercial bank borrowing				(54,620)	(63,761)	(83,387)	(62,223)	(25,534)	**--**
Interest Paid on Foreign Loans							(1)	(1)	**--**
Long Term Loan costs									
Interest expenses on domestic Loans				(12,630)	(18,047)	(18,883)	(21,066)	(29,768)	--
Interest expenses on foreign Loans				(46,097)	(51,752)	(44,933)	(46,119)	(29,510)	**--**
Total	(438,875)	(450,204)	(461,128)	(551,133)	(599,928)	(630,295)	(687,075)	(699,089)	**7%**
Net Interest Income	**262,649**	**305,547**	**305,908**	**365,568**	**449,991**	**569,063**	**654,041**	**1,261,187**	**25%**
Commission & Banking fees	37,014	49,454	24,770	63,220	70,630	69,004	82,236	101,591	**16%**
Dividends income				1,173	4,602	2,373	3,459	3,589	**--**
Gains (Losses) from foreign exchange				143	9,766	23,569		22,528	**--**
Gains (Losses) from selling hold to maturity investment				630	0	112	27,272		**--**
Other revenues from operation	192,841	186,267	222,493	200,259	131,888	148,848	98,740	244,990	**3%**
Net Operating income	**492,504**	**541,268**	**553,171**	**630,993**	**666,877**	**812,969**	**865,748**	**1,633,885**	**19%**
Less									
Commission & Banking fees				-	-	(21)	(312)	(352)	--
Loans Provisions	(82,033)	(79,261)	(56,600)	(78,297)	(98,208)	(150,307)	(148,551)	(538,746)	**31%**
Oher Provisions				(9,916)	(13,952)	(40,084)	(30,801)	(88,559)	**--**
Hold To Maturity investment valuation differences				-	(181)	(15)	(622)	(672)	**--**
Salaries & Wages	(287,832)	(310,748)	(331,309)	(368,777)	(387,517)	(406,363)	(482,207)	(471,997)	**7%**
Processing Supplies (Goods & Services)	(16,935)	(27,764)	(33,460)	(75,813)	(55,485)	(59,458)	(48,497)	(44,378)	**15%**
Current expenses	(10,282)	(16,865)	(26,009)	(36,213)	(50,773)	(52,049)	(43,042)	(47,367)	**24%**
Donations				(28)	(25)	(20)	(5)	(18)	**--**
Other operating expenses	(16,330)	(26,933)	(15,242)	(10,104)	(243)	(65)	(44)	(1)	**-75 %**
Total	(413,411)	(461,571)	(462,620)	(579,148)	(606,384)	(708,382)	(754,081)	(1,192,090)	**16%**
Operating profit (Losses)	79,093	79,697	90,551	51,845	60,493	104,587	111,667	441,795	**28%**
Extraordinary Profit (Losses) Operating									
Extraordinary Profit (Losses) Operating from fixed assets & salvage value				336	(17)	47	67	3	--
Operating Profit (Losses) before Tax Deduction	79,093	79,697	90,551	52,181	60,476	104,634	111,734	441,798	**28%**
Less									
Taxes	(32,143)	(25,941)	(20,120)	(32,788)	(55,800)	(97,030)	(100,360)	(425,109)	**45%**
Net operating Profit (Losses)	46,950	53,756	70,431	19,393	4,676	7,604	11,374	16,689	**-14%**

Source: PBDAC Finance Sector. Note PBDAC adopted CBE loan classification and provisioning guidelines after 1998, and eliminated provisioning shortfall in 2001.

Table 3

PBDAC Subsidy Dependence Index, 1994-2001

		1994	1995	1996	1997	1998	1999	2000	2001
1.	Financial Cost of Mobilizing and Servicing Deposits \a	11.8%	10.9%	10.5%	9.8%	9.4%	9.2%	9.5%	9.5%
2.	Admin. Cost of Mobilizing and Servicing Deposits	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
3.	M: Market Reference Deposit Interest Rate	14.8%	13.9%	13.5%	12.8%	12.4%	12.2%	12.5%	12.5%
4.	K: Other Subsidies	0	0	0	0	0	74	84	89
5.	C: Average Cost of Concessional Borrowed Funds \b	0.0%	0%	2.2%	4.3%	3.9%	3.6%	3.4%	3.1%
6.	A: Average Concessional Borrowed Funds \c	620	979	1,329	1,485	1,709	1,824	1,877	1,923
7.	Subsidy on Concessional Borrowed Funds [(M-C) * A]	92	136	150	126	145	157	172	181
8.	GD: Dues from GOE \d	(922)	(1,034)	(1,125)	(934)	(656)	(550)	(375)	(250)
9.	NS: Total Negative Subsidy [M*GD]	(136)	(144)	(152)	(120)	(81)	(67)	(47)	(31)
10.	Accounting Cost of Capital	0%	0%	0%	0%	0%	0%	0%	0%
11.	E: Average Equity (adj. with shortfall in provisions) \e	1,046	1,210	1,215	1,100	994	1,000	1,172	1,336
12.	Subsidy on Equity (M*E)	155	168	164	141	123	122	147	167
13.	D: Average Annual Deposit Level \f	3,234	3,889	4,341	4,568	4,993	5,627	6,313	6,643
14.	R: Reserve Requirement \g	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
15.	Avg Annual Reserve Requirement Level (D*R)	485	583	651	685	749	844	947	997
16.	T: Interest Rate Received on Reserves	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
17.	Subsidy from Reserve Exemption [((A+E+D)/(1-R)) - (A+E+D)] *M	128	149	164	162	168	182	207	218
18.	Total Subsidy	238	310	327	309	355	467	562	624
19.	Profit/(Loss) \h	(171)	(177)	(326)	(377)	(320)	(394)	(289)	(144)
20.	Net Subsidy (Total Subsidy - Profit or Loss)	409	487	653	686	676	862	851	768
21.	US Dollar Equivalent Net Subsidy (millions)	121	144	193	202	199	253	231	171
22.	Interest Income on Loans \i	770	796	834	940	1,083	1,193	1,382	1,543
23.	**SDI (Net Subsidy/Interest Income)**	**53%**	**61%**	**78%**	**73%**	**62%**	**72%**	**62%**	**50%**
24.	LP: Average Loan Portfolio (Net)	4,820	5,819	7,535	9,139	9,844	10,454	10,943	11,189
25.	N: Current Avg On-Lending Rate (LP / interest income)	16.0%	13.7%	11.1%	10.3%	11.0%	11.4%	12.6%	13.8%
26.	Inflation Rate (CPI) \j	8.2%	15.7%	7.2%	4.6%	4.2%	3.1%	2.7%	2.3%
27.	Current Real Average Yield (Adjusted for Inflation)	7.8%	-2.0%	3.9%	5.7%	6.8%	8.3%	9.9%	11.5%
28.	Incr. in LP Yield Req. to Eliminate Need for Subsidy (SDI*N)	8.5%	8.4%	8.7%	7.5%	6.9%	8.2%	7.8%	6.9%
29.	Lowest Sustainable Interest Rate	24.5%	22.1%	19.7%	17.8%	17.9%	19.7%	20.4%	20.7%
30.	Lowest Sustainable Real Yield	16.3%	6.4%	12.5%	13.2%	13.7%	16.6%	17.7%	18.4%

\a Based on deposit rates for Egypt reported in *International Financial Statistics* (August 1997 and June 2002 editions).
\b Estimated by PBDAC as the weighted average cost of outstanding concessional local loans and medium to long-term loans. Includes cost of term deposit of LE 500 million from National Investment Bank at a concessional rate of 7.5%.
\c Comprises local loans, term deposits from the National Investment Bank and foreign loans at concessional rates.
\d Government dues represent the principal amount owed to PBDAC for performing non-banking activities on behalf of GOE. The amount has declined since GOE began paying PBDAC (in installments) for receivables held on PBDAC's books. Figures estimated using information in supervision reports.
\e Equity is adjusted with the shortfall in provisions estimated by Central Audit Agency; includes 30% of rescheduled loans.
\f Deposits were adjusted to exclude amounts from the National Investment Bank.

\g PBDAC does not open current accounts for individuals and is exempt from meeting Central Bank reserve requirements.
\h Profit has been adjusted with the shortfall in provisions and implied shortfall in provisions due to rescheduling.
\i Interest income may overstate interest, due to accrued interest on overdue loans not reversed to income after 91 days from date of maturity. Adjusted to exclude suspended interest.
\j Inflation rates are based on CPI data for Egypt reported in *International Financial Statistics* (August 1997 and June 2002).

Table 4

EGYPT:
Agricultural Modernization Project

Analysis of PBDAC Operating Expenses and Interest Income. 1992-2001

Year	Total Operating Expenses Less Provisions (LE 000)	Net Interest Income plus Commissions and Banking Fees (LE 000)	Total Operating Expenses Less Provisions as a % of Net Interest Income plus Commissions and Banking Fees
1992	350,048	246,858	142%
1993	375,607	351,607	107%
1994	331,378	299,663	111%
1995	382,310	355,001	108%
1996	406,020	330,678	123%
1997	500,851	428,788	117%
1998	508,176	520,621	98%
1999	558,075	638,067	87%
2000	605,530	736,277	82%
2001	653,344	1,362,778	48%
Compound Annual Growth Rate, 1992-2001	**7.2%**	**20.9%**	

Sources: Project files, SAR, mission documents, and interviews with PBDAC Planning Sector

Table 5

EGYPT: Agricultural Modernization Project

Summary of PBDAC Staffing and Operating Expenses, 1992-2001

Year	Total Staff	Total Salaries and Wages (LE 000)	Implied Average Annual Salary (LE)	Total Operating Expenses (LE 000)	Loan and Other Provisions (LE 000)	Total Operating Expenses Less Provisions (LE 000)	Salaries and Wages as a % of Total Operating Expenses	Salaries and Wages as a % of Total Operating Expenses Less Provisions
1992	32,000	248,672	7,771	441,869	91,821	350,048	56%	71%
1993	30,929	270,986	8,762	452,642	77,035	375,607	60%	72%
1994	29,024	287,832	9,917	413,411	82,033	331,378	70%	87%
1995	28,152	310,748	11,038	461,571	79,261	382,310	67%	81%
1996	28,115	331,309	11,784	462,620	56,600	406,020	72%	82%
1997	28,606	368,777	12,892	579,148	78,297	500,851	64%	74%
1998	28,338	387,517	13,675	606,384	98,208	508,176	64%	76%
1999	29,209	406,363	13,912	708,382	150,307	558,075	57%	73%
2000	27,895	482,207	17,287	754,081	148,551	605,530	64%	80%
2001	27,232	471,997	17,332	1,192,090	538,746	653,344	40%	72%
Compound Annual Growth Rate, 1992-2001	**-1.8%**	**7.4%**	**9.3%**	**11.7%**	**21.7%**	**7.2%**		

Source: Project files, SAR, mission documents, and interviews with PBDAC Planning Sector.

Table 6

EGYPT: Agricultural Modernization Project

Line of Credit Component
Sub-Loans for On-Farm Technology Development

Type of Investment	Number of Sub-Loans	Sub-Loan Value (LE)	World Bank Financing Share at 60% (LE)	Implied Average Sub-Loan Size (LE)
Purchasing farm machinery	4,494	71,718,000	43,030,800	15,959
Farm machinery repairing	13,568	39,242,000	23,545,200	2,892
Farm machinery	589	20,494,000	12,296,400	34,795
Pick-up overhauling	5,504	19,508,000	11,704,800	3,544
Modern irrigation system	716	12,834,000	7,700,400	17,925
Custom hire services	476	8,334,000	5,000,400	17,508
Meska development	1,241	4,472,000	2,683,200	3,604
New Lands irrigation system	43	2,623,000	1,573,800	61,000
Developing orchard irrigation system	557	2,474,000	1,484,400	4,442
Green house preparation	53	1,850,000	1,110,000	34,906
Mobile irrigation pump	37	1,457,000	874,200	39,378
Submarine pumps	23	1,175,000	705,000	51,087
Mobile vegetable and fruit outlets	13	804,000	482,400	61,846
Deep well drilling	106	741,000	444,600	6,991
Laser leveling	241	453,000	271,800	1,880
Electrical energy generator	13	438,000	262,800	33,692
Tile drainage network	18	191,000	114,600	10,611
Canal and drain digging	794	101,000	60,600	127
Underground water driller	2	54,000	32,400	27,000
Harvesting and bending	17	45,000	27,000	2,647
Small rice mills	1	32,000	19,200	32,000
Total	**28,506**	**189,040,000**	**113,424,000**	**6,632**

Source: Borrower's Completion Report, page 23.

Table 7

EGYPT: Agricultural Modernization Project
Line of Credit Component
Sub-Loans for Agro-Processing and Rural Development

Type of Investment	Number of Sub-Loans	Sub-Loan Value (LE)	World Bank Financing Share at 60% (LE)	Implied Average Sub-Loan Size (LE)
Pickup for input trade	2,234	106,181,000	63,708,600	47,530
Means of transportation	2,233	40,252,000	24,151,200	18,026
Rural women projects	5,832	21,059,000	12,635,400	3,611
Date dehydration	3,287	20,715,000	12,429,000	6,302
Input outlets	1,147	17,476,000	10,485,600	15,236
Cooling & grading equipment	747	11,321,000	6,792,600	15,155
Dairy production equipment	1,111	9,715,000	5,829,000	8,744
Cold stores	65	8,401,000	5,040,600	129,246
Agro-processing activities	639	7,845,000	4,707,000	12,277
Beehives	1,697	6,941,000	4,164,600	4,090
Pick-up for fish transportation	116	5,120,000	3,072,000	44,138
Fishing boat equipment	143	5,007,000	3,004,200	35,014
Developing poultry farms	794	3,251,000	1,950,600	4,094
Sorting and grading equipment	120	3,059,000	1,835,400	25,492
Farm machinery trading	547	2,009,000	1,205,400	3,673
Composite processing units	173	1,996,000	1,197,600	11,538
Refrigerated trucks	237	1,638,000	982,800	6,911
Village bakeries	286	1,613,000	967,800	5,640
Fishing boat equipment	78	1,396,000	837,600	17,897
Oil extraction units	51	1,182,000	709,200	23,176
Dripers manufacturing	296	1,162,000	697,200	3,926
New technique for mixing maize and wheat flour	27	1,074,000	644,400	39,778
Packaging manufacturing	16	701,000	420,600	43,813
Crop packing machines	25	580,000	348,000	23,200
Aquaculture	19	505,000	303,000	26,579
Tomato paste processing units	319	481,000	288,600	1,508
Bio-gas units	9	430,000	258,000	47,778
Veterinary pharmacies	20	384,000	230,400	19,200
Green house equipment	4	328,000	196,800	82,000
Household bakeries	261	200,000	120,000	766
Field waste mincing machines	64	158,000	94,800	2,469
Juice and concentrate units	15	144,000	86,400	9,600
Dehydration units	2	120,000	72,000	60,000
Meat processing	3	89,000	53,400	29,667
Seed conditioning lines	45	60,000	36,000	1,333
Fish hatcheries	1	42,000	25,200	42,000
Leather processing	3	21,000	12,600	7,000
Poultry hatcheries	4	15,000	9,000	3,750
Fishing nets and equipment	6	8,000	4,800	1,333
Other	39	949,000	569,400	24,333
Total	**22,715**	**283,628,000**	**170,176,800**	**12,486**

Source: Borrower's Completion Report, page 22.