ICR Review
Operations Evaluation Department

Report Number : ICRR11392

1. Project Data:		Date Posted :	10/22/2002	
PROJ ID :	P005157		Appraisal	Actual
Project Name :	Agricultural Modernization	Project Costs (US$M)	268.8	247.0
Country :	Egypt	Loan/Credit (US$M)	121.0	117.1
Sector(s):	Board: RDV - Agricultural extension and research (83%), Micro- and SME finance (10%), Banking (7%)	Cofinancing (US$M)	0	0
L/C Number :	C2585; L3719			
		Board Approval (FY)		94
Partners involved :	None	Closing Date	06/30/2001	12/31/2001
Prepared by :	Reviewed by :	Group Manager :	Group:	
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2. Project Objectives and Components

a. Objectives

"(i) increase agricultural productivity by promoting 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 PBDAC's [Principal Bank for Development and Agricultural Credit] organization 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 capabilities of relevant institutions to bring about effective coordination among the various agencies engaged in the provision of credit, technology transfer, and marketing services ". (Staff Appraisal Report, p. 24)

b. Components

(i) On-Farm Technology Improvement (US$115.0 million), comprising mechanized land-levelling, seed-bed preparation, on-farm irrigation, seeding, crop husbandry, application of agro-chemicals, and harvesting;
(ii) Agro-Based Enterprises (US$95.1 million) for establishing custom hire services for farming operations, warehousing, processing and marketing of produce;
(iii) Institutional Development (US$58.7 million), comprising (a) strengthening of PBDAC, including establishment of 20 village banks (US$41.4 million); and (b) use of Ministry of Agriculture agencies to carry out research and extend to farmers (US$17.3 million).

c. Comments on Project Cost, Financing and Dates

Actual cost of components was: (i) US$97.1, (ii) US$106.4 and (iii) US$43.5. For the banking subcomponent of Institutional Development (iiia), the cost of restructuring was borne by the government and USAID, outside the Bank-financed project. Excluding restructuring, the cost of the banking subcomponent was US$ 15.2 million (estimated) and US$11.3 million (actual).

3. Achievement of Relevant Objectives:

(i) *Achieved*, based on high adoption of new technology, increased yields and significant reduction in farm operating costs. (ii) *Achieved*, based on number of jobs created. (iii) *Not achieved*, based on limited success in restructuring the development bank, PBDAC. (iv) *Not achieved*, owing to non-participation of commercial banks. (v) *Achieved*, based mainly on improved performance of the Ministry of Agriculture's extension initiative . Objectives (i) and (ii) correspond to the line of credit (components (i) and (ii)) which accounted for 82 percent of project cost. By this cost-weighted criterion, and in view of the satisfactory rate of return achieved, overall, the project substantially achieved its objectives. The project did not achieve the objective of strengthening rural financial intermediation but OED argues that the primary objective of this project was technology transfer, which the ICR indicates was a relevant objective. Despite the less than satisfactory performance of Bank and Borrower, the project achieved its primary objective.

4. Significant Outcomes/Impacts:

A sample survey of about 450 farmers and seven case studies for agro-enterprises shows that the average increase in crop yields was 16 percent, slightly higher than the 15 percent projected at appraisal, reflecting use of improved cropping practices and better equipment. Operating cost savings varied from 12 percent (sorghum) to 16 percent (cotton). More than 23,000 small and medium-scale rural based businesses were launched or upgraded, creating 81,700 off-farm jobs in such areas as processing, farm machinery repair, sorting and grading of fruits and vegetables and greenhouse construction. The economic rate of return was 31 percent, compared to 38 percent at appraisal. The financial rate of return was 28 percent, compared to 27 percent at appraisal. The construction of 17 new village banks and the upgrading of 13 village banks and two branch banks exceeded the appraisal target .

5. Significant Shortcomings (including non-compliance with safeguard policies):

An opportunity was missed to strengthen rural financial intermediation (although this was not the project's primary objective). PBDAC's financial viability did not improve and Annex Table 3 of the ICR shows that, as a proportion of its interest income, government subsidy to the institution fluctuated from 50 to 78 percent between 1994 and 2001. This may have helped crowd-out commercial banks, who were "apprised of the Bank-financed project...but elected not to participate...because of limited number of branches in rural areas and availability of more subsidized credit from other sources".

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Moderately Satisfactory	The project's satisfactory rate of return and achievement of its major (cost-weighted) objectives suggests a satisfactory rating. Also, although it was not poverty-targeted, the project probably created many jobs for the poor. However, failure to improve rural financial intermediation suggests that, on balance, a moderately satisfactory rating is warranted.
Institutional Dev .:	Negligible	Modest	The Ministry of Agriculture's extension program was strengthened.
Sustainability :	Unlikely	Unlikely	Based on the continued subsidy dependence of PBDAC, which makes its survival contingent on government's will and funding capacity.
Bank Performance :	Unsatisfactory	Unsatisfactory	Poor quality at entry and uneven supervision
Borrower Perf .:	Unsatisfactory	Unsatisfactory	Weak covenant compliance
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(i) Projects aiming to increase farmer's access to credit should be based on an in -depth asessment of rural financial markets, made during project preparation.

(ii) Neither the difficulty of reforming subsidized development banks, nor the difficulty of inducing commercial banks to lend to farmers, should be underestimated.

(iii) Technology transfer and access to credit are mutually reinforcing : subsidized credit lines may create lots of jobs, and (to the extent that off-farm jobs are created) may benefit the landless poor; however, the sustainability of such initiatives will always be in doubt.

(iv) If management decides not to cancel a project that becomes problematic, it should increase supervision resources devoted to the project, not reduce them as it did in this case .

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is clearly written and systematic but the unsatisfactory rating given to project outcome does not square with the project's positive achievements on technology transfer and job creation . Although the use of a subsidized credit line runs counter to current Bank policy, this has to be balanced against the significant employment creation; although the project was not targeted it is likely that many of the off -farm jobs benefited the rural poor. Thus, even if the larger farm enterprises lapped up most of the credit subsidy (there is nothing in the ICR on how credit access varied by size of enterprise), the employment multiplier may be a substantial offset. The ICR fails to acknowledge that even in the absence of subsidized credit lines it is by no means certain that commercial banks would have wanted to lend more in rural areas. The Annex 5 ratings also seem not to square with evidence elsewhere : the project's physical achievements are rated as modest when the success of technology transfer suggest they were substantial, possibly high; institutional development is rated as modest, contradicting Section 2 (Principal Performance Ratings) where it is given as negligible.