

Annex 3
Action Fiche : Health Sector Policy Support Programme - II

1. IDENTIFICATION

Title/Number	Support to Rural Development ENPI/2009/020-493		
Total cost	EC Contribution: €10,000,000		
Aid method / Method of implementation	Project approach – Decentralised management		
DAC-code	43040	Sector	Agriculture/Rural Dev.

2. RATIONALE

2.1. Sector context

Unemployment and poverty remain a major concern for Egypt. Despite the decrease in unemployment from around 11% in 2003-5 to 8.4% in 2008, unemployment is unlikely to continue this downward trend against the background of the global crisis affecting Egypt's real economy. Poverty reduction targets will also be difficult to achieve, although the commitment of the authorities to pro-poor policies remains strong.

Based on the national poverty line, in 2007 one out of five Egyptians (19.6%) had consumption expenditures below the poverty line. This compares to 24.3% in 1990, an annual average rate of decline of 1% over the period. However, in order to meet the target of halving the proportion of the poor below the poverty line (12.1% by 2015) this rate of decline needs to accelerate. 43% of the population are living on less than \$2 per day.

More than 50% of Egypt's current population of 75 million live in the rural areas where poverty is concentrated and agriculture is the main economic activity. Moreover, agriculture is a key sector in the national economy of Egypt. It accounts for about 17% of Gross Domestic Product (GDP), about 20% of total exports and 30% of total labour force.

In the past, crop yields in the 'old lands' were among the highest in the world for several cereal and horticultural crops. However, productivity has declined in recent years owing to the over-use of fertilizers and pesticides. In addition, the physical limitations of arable land and scarce water supply mean that Egypt remains a country in food deficit.

Notwithstanding the problems associated with the recent upheaval in the world food markets and the impact of increasing globalisation over the next decades, Egyptian agriculture faces substantial problems. Given its resource endowments, the most significant problems are those relating to the available land and water. With a fast growing population, estimated to reach 95 million by the year 2025, fragmentation of farm holdings, a current problem for the adoption of modern agricultural methods, are likely to become worse in the future. Farm sizes will have shrunk even further and about 80% of the farmers will have holdings of less than 1.3 hectares.

The current small-scale agriculture in the old lands of Egypt is becoming marginal when compared to the modernised agriculture in the “new lands” e.g. in the fringes of the Western Delta. With low returns from small land holdings, land sales for real estate development has and will continue to become more profitable than farming. As a result, urban spread will continue even with existing legislation against construction and the lack of food self-sufficiency is likely to be worsened.

Associated with the availability of land is the question of water that casts an overwhelming shadow over Egyptian agriculture. In terms of resources, the fixed amount of water that Egypt receives from the Nile will be shared among a larger and more diversified population of users. The consequence of a variety of factors including the impact of climate change means that the current available quota of 875 litres per capita per year is likely to go down by nearly 30% to 630 litres per capita per year in 2025. Water for agricultural use is also expected to go down by about 20% from the current 5,000 m³/feddan/year to 4,000 m³/feddan/year.

2.2. Lessons learnt

Over the past decades agriculture rural development strategies in Egypt have largely been based on a resource determined, technology based, supply driven basis. A top-down, centralised approach was employed driven by decision making based upon making resources available to farmers. While the focus has shifted from making the resource available to making effective use of the resource, the issue of rural development has moved the debate from an input/technology focus to a people focus. It has brought in a number of other factors and players that significantly changed the nature and management of such programmes. Lessons can be drawn from rural development policies in the EU and from EC projects in Egypt and in other countries. Evidence suggests that to be successful programmes should be community-based, participatory, demand-driven, flexible and accountable, implemented in a decentralised way and conditional.

2.3. Complementary actions

The pilot programme to be supported by the SRD project is the result of a process initiated by the Egyptian Ministry of Agriculture and Land Reclamation (MoALR) in 2006 together with the Union of Horticultural Producers and Exporters (UPEHC) and the assistance and support of the Embassy of the Netherlands to assess the current development trends in the rural areas and more specifically in the old land of Egypt (Nile Valley, the Delta and Fayoum).

2.4. Donor coordination

Close coordination with the Embassy of the Netherlands has already been achieved during the identification and formulation phases of the programme taking into account that the proposed programme is building on the results of the support provided by the Embassy over the past two years to the Ministry of Agriculture and Land Reclamation aiming at developing a conditional incentive based rural development approach.

3. DESCRIPTION

3.1. Objectives

The overall objective of the pilot project is to contribute to poverty reduction and socio-economic development of the rural poor through increased land productivity, employment creation and income generation.

The specific objective of the project is to demonstrate and establish the modality of conditional incentive based development as an approach to poverty reduction and growth in the rural areas of Egypt. It aims to provide direct and tangible benefits to the population demonstrating more effective use of scarce Government resources. Thus contributing to the a change in approach for rural development that would be the basis for a Rural Development Policy/Strategy for the country.

3.2. Expected results and main activities

The project strategy is based on the principle of 'conditional incentives' to be provided to the participating population. Based on the partnership between beneficiaries and the Government, support would be provided to poor farmers and their families to improve the productivity of their land and increase their output and incomes on condition that they participate and comply with measures that support good agriculture practices related to the use of land and water (both in terms of quantity and quality), adopt appropriate land use measures, invest in appropriate recommended technologies, knowledge transfer and the preservation of biodiversity, including the mitigation of and adaptation to climate change. It would also assist in job creation through support for small scale agro-processing and/or marketing including investments in social assets.

The expected results include:

- Increased outputs and incomes from a combination of better cropping practices, increased water availability (for irrigation) and improved land development;
- Increased employment and income generating opportunities from off farm post harvest and marketing activities;
- Reduced environmental degradation at the farm level;
- Improved living conditions in the targeted areas through the improvement of existing social infrastructure;
- Upgraded capacities of NGOs and CBOs operating in targeted areas in better identifying needs of the local community and proposing how to respond to such needs. Local organisations will, as a consequence, be better placed in identifying and designing development activities, job creation and income generation opportunities and to act as focal points in the communities;
- Upgraded abilities of Ministry of Agriculture staff at the District and local/village level to initiate, appraise, propose projects, for funding support in close consultation with beneficiaries.

Activities

The beneficiary farmers will have available to them a menu of activities under three main headings:

- Natural Resource Management or improving the physical resource base through improvements in irrigation, drainage and land. This could include the adoption of better on-farm water management practices, repairs to the water conveyance structures at the village level, adoption of modern and efficient irrigation technologies and techniques, adoption of modern and sustainable management system for irrigation, improvement of drainage structures, reduction of pollution in the drains, residues and biomass management or preservation and rehabilitation of ecological functions through erosion and desertification control.
- Better Management of Agricultural Practices or improving agricultural husbandry through improvements in crop mix and cropping patterns, fertiliser usage/reduction and pesticide use/reduction. This could include undertaking soil management measures, minimise the impact of fragmentation, introduction of new crop varieties, introducing non chemical fertilisers, composting, adoption of traceability systems, adoption of community based natural resources management following international best practices or improving land degradation through Integrated Environmental Management.
- Supporting post harvest activities including small scale processing and transformation (value added) of agricultural products and/or organising better marketing of outputs or the establishment of specific social assets. This could include the development of small and medium enterprises in agricultural production and marketing, the participation of small farmers in the production non traditional and organic horticultural produce for export, upgrading production methods by applying international standards including HACCP and ISO 22000 to enable better penetration in international markets, introduction of food safety standards or promoting innovative research and extension systems that respond to the needs of small farmers and rural women

Strengthening the institutional capability of line agencies (both at local and national level) is also envisaged. This will include training as well as resources to improve effectiveness and efficiency, for example, through the provision of infrastructure and equipment if necessary.

Management Structure and Modalities

The project will be implemented through a three axis management structure. At the national level there will be a National Steering Committee with the participation of the Ministry of Agriculture and Land Reclamation, the Ministry of Irrigation, representatives of the three Governorates, private sector representatives (such as UPEHC) and the EC.

Furthermore, a Project Support Office (PSO) will be established at the MoALR with full time staff which would act as Secretary to the National Steering Committee. The PSO will be responsible for overall management of the project, coordinate Programme Estimates and establish priorities in coordination with agencies at the Governorate and field levels.

Finally, the third and critical management point would be at each Governorate level. A project office, District Implementation Office (DIO) would be established at the MoALR Technical Directorate at each one of the three concerned Governorates, at District level.

A Technical Assistance team composed of long and short term specialists will provide staff support to both the PSO and the three DIOs.

3.3. Risks and assumptions

In all group community-based and inclusive programmes there is always the risk of free-riders. However, this risk is expected to be small given the usual social cohesion among the rural population which use a common resource. The free-rider problem is easier to identify and mitigate in this situation. In addition, a considerable amount of social mobilisation and inclusion before the group formation stage is envisaged, in order to reinforce group responsibility and to mitigate this risk.

Also, with substantial subsidies and credit lines currently in existence in the three districts, there is the risk of inadequate demand. Preliminary surveys indicate that despite the existence of subsidies and/or credit resources, farmers face constraints in accessing them. In the case of credit, particularly credit for post harvest, agro-processing investments, the programme will facilitate access to those credit lines, specifically to the ones established over the past years with EC assistance and funds (see point 2.3 above).

The risks associated with sustainability and expansion of the pilot depends upon its success. The government of Egypt is committed with its contribution assessed at €3 million for the pilot phase. This contribution is not expected to require additional resources but a reallocation of the already extensive input based subsidies, for example, for fertilisers. In the long-term the Egyptian government foresees a reallocation of funds from traditional subsidies to conditional payments.

3.4. Crosscutting Issues

Perhaps no other agricultural rural development project addresses the issue of environment as directly as this project. Gender issues are also addressed both directly and indirectly through project interventions. Project interventions will contribute to good governance through the modality of its support to a decentralised system of project implementation.

A Strategic Environment Assessment will be carried out at the beginning of the implementation phase of the programme.

Environment management and protection will be a core element governing the implementation of the programme and a pre-condition for all actions to be funded by it. Reduction of the environmental impact of agricultural practices is as well an expected outcome of the programme.

Furthermore, the Egyptian Environmental Policy and the National Environmental Action Plan 2002-2017 will be taken into account during the implementation phase. Finally, the Ministry of Environment will take part in the decision making process through the participation in the National Steering Committee.

3.5. Stakeholders

Major stakeholders in this programme will include the MoALR, both at national and local levels, the concerned Governorates, the farming population, local NGOs, CBOs involved in the different stages of the planned interventions. The process of consultation with civil society also makes them indirectly a stakeholder in development activities in their areas. Other Egyptian Ministries involved in rural development, such as Irrigation, Local Development or Environment, would become stakeholders and participate in the programme's implementation and decision making process through the proposed National Steering Committee.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The method will be partly decentralised management through the signature of a financing agreement with the Arab Republic of Egypt. The Ministry of Agriculture and Land reclamation will be responsible for procurement and grant award procedures. The Commission controls ex ante the contracting procedures for procurement contracts > 50.000 EUR and ex post for procurement contracts • €50,000. The Commission controls ex ante the contracting procedures for all grant contracts.

Through the programme estimates, payments are decentralised for operating costs and contracts up to the ceilings indicated in the table below.

The Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

Works	Supplies	Services	Grants
< 300.000 EUR	< 150.000 EUR	< 200.000 EUR	• 100.000 EUR

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action will be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation.

Audit and evaluation contracts will be directly contracted by the EC Delegation.

2) Specific Rules of Grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. The maximum possible rate of co-financing for grants is 95%. This percentage is based on previous experiences with such instruments (i.e. South Sinai Regional Development Programme and Support to Social Development Programme) and reflects the financial capacity of the target grant beneficiaries (NGOs or CBOs that in most cases are locally based).

Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

3) Specific Rules on programme estimates

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.3. Budget and calendar

The total budget of the program is € 10,000,000 with the following indicative breakdown:

- €8,000,000 allocated for the three districts for grant support for specific projects in three broad categories. The three categories include projects in 1) Natural Resource Management; 2) Productivity; 3) Post Harvest Management.
- €1,500,000 allocated to Technical Assistance for implementation of the project as well as for the capacity building;
- €200,000 allocated for the programme's management structure operating costs, communication and equipment if necessary;
- €200,000 allocated for audit, external monitoring and evaluation visibility;
- €100,000 allocated for contingencies.

The implementation of the project will be 48 months.

4.4. Performance monitoring

The PSO will be responsible for monitoring project implementation and will be responsible for submitting regular reports to the EC Delegation on project status.

At the start of the project a number of indicators will be agreed between the PSO and EC. Specific indicators will be selected from a range of indicators which could, among include: number of groups formed; number of people (including women) participating in project by type of activities; number of people actually benefiting from physical improvements on land and water ; number of farmers changing behaviour through changes in production practices; number of beneficiaries initiating off-farm income generating activities; number of participants seeking access to credit; numbers of participants actually developing small businesses; number of farmers receiving training in new technologies; and number of NGO/CBO staff trained. Special attention will be given to innovative elements in the projects and the dissemination of good practices.

The project will also benefit from the system of the external EC ROM monitoring missions.

4.5. Evaluation and audit

An annual system and financial audits will be launched by the Commission shortly after the beginning of the implementation phase. In addition, the Commission may send specific missions at any time to assess the progress of the programme.

A final external evaluation for the whole programme will be contracted by the Commission with the aim to provide an independent and reliable assessment with conclusions, recommendations and lesson learned which should assist policymakers and managers in the implementation of the Programme and/or planning of future interventions.

4.6. Communication and visibility

Communication and visibility are considered a key component of the project. A comprehensive communication strategy will be developed in coordination with all the stakeholders. Activities to improve awareness are envisaged, including workshops, visibility materials and the media.

EU visibility guidelines are to be respected by the respective Beneficiaries. The EC Delegation in Cairo will check the visibility component of the actions through field visits and will increase visibility when it is appropriate.

APPENDIX TO THE ACTION FICHE Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III)

REGARDING THE VERIFICATION OF THE CONDITIONS FOR DECENTRALISED MANAGEMENT PROVIDED FOR IN ART. 56 OF THE EC REGULATION 1605/2002 (FINANCIAL REGULATION)

The Financial Regulation (FR) (Council Regulation No. 1605/2002) and its implementation rules (Commission Regulation No. 2342/2002) are applicable to the Budget Line 19.081010 (ENPI SOUTH)

In view of setting up the implementation modalities for the new financing agreement "Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III), and particularly regarding to the degree of decentralisation of payments in the framework of twinning an technical assistance activities, the Delegation in Egypt has carried out an ex-ante assessment on a certain number of criteria enumerated in article 56 of the Financial regulation to be respected by the Programme Administration Office (PAO), created within the Egyptian Ministry of International Cooperation. Decentralisation of payments is important to ensure successful continuation of the implementation of this type of programmes, to increase ownership of the beneficiary country and to use as much as possible the national structures (these last two criteria are in line with Paris declaration on aid effectiveness).

The assessment made confirmed that the criteria envisaged by Article 56.2 of the Financial regulation are fulfilled as stated in the table below.

Summary table

Article [56.1] [56.2] FR criterion	Comment
(a) Transparent procurement and grant-award procedures, which are non-discriminatory and exclude any conflict of interests and which are in accordance with the relevant FR provisions	<i>No ex-ante assessment was necessary for this criterion as the applicable procurement rules and grant awarding rules for this project are those of the EC (PRAG & Twinning Manual). Procurement procedure for contracts above EUR 50 000 will be subject to ex ante control by the services of the Commission.</i>
(b) An effective and efficient internal control system for the management of operations, which includes effective segregation of the duties of authorising officer and accounting officer or of the equivalent functions	<i>The control system was found to be materialised through a Manual of Procedures which was discussed and reviewed and was found effective and efficient.</i> <i>Management/governance structure in place, segregation of roles/duties in place for authorising and executing financial transactions, double signature on project account in place. Monitoring of the project done through Commission services and ROM instrument.</i>

<p>(c) An accounting system that enables the correct use of Community funds to be verified and the use of funds to be reflected in Community accounts.</p>	<p><i>The PAO (Programme Administrative Office) uses the accounting system "quickbooks pro" which allows the use of mixed currencies (EURO and Egyptian currency).</i></p> <p><i>This is a mixed accounting system based on cash accounting but allowing some accrual transactions and which allows checking the use of Community funds. The IT infrastructure and server plan are documented, access and back up procedures seem adequate.</i></p> <p><i>Some weaknesses were spotted on the timings and the content of the financial reporting in order to address these shortcomings, technical assistance is provided.</i></p>
<p>(d) An independent external audit exercised by a national institution for independent external auditing</p>	<p><i>In the frame of the twinning contracts and service contracts(TA) expenditure verification reports are included in the contract provisions, to be executed by an independent external auditor (at interim payments and/or at the final payment).For (EU) MS administrations, the auditor is designated in accordance with the regulation prevailing for the MSP.</i></p> <p><i>Audits of the funds managed by the PAO will be undertaken on an yearly basis by an external auditor.. Checks can also be carried out by OLAF and Court of Auditors.</i></p>
<p>(e) Adequate annual ex post publication of beneficiaries of funds deriving from the EC budget.</p>	<p><i>Adequate clauses are included in General Conditions (art11) of the Financing Agreement to be signed with the Egyptian authorities.</i></p>
<p>Prevention of irregularities and fraud and recovery of funds if necessary</p>	<p><i>Adequate clauses are included in General Conditions (art19) of the Financing Agreement to be signed with the Egyptian authorities</i></p>
<p>The Commission will ensure supervision, evaluation and control of the implementation of the tasks entrusted</p>	<p><i>Adequate clauses are included in General Conditions (art20) of the Financing Agreement to be signed with the Egyptian authorities</i></p>

Conclusion: M.Cornaro, Director Aidco/A confirmed that the conditions required by Article 56 the FR are currently being met.

On this basis, the Director proposes that the applicable implementation method to the Annual Action Programme 2009, "Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III)" for Egypt will be **decentralised management for the twinning activities and TA service contracts** and submits it to the Commission for decision.

Date: 23 AVR, 2009

Signature: Director AIDCO/A

Authorising officer subdelegated on BUDGET