

Action Fiche for the Arab Republic of Egypt

1. IDENTIFICATION

Title/Number	Support to Agricultural SMEs		
Total cost	EU contribution: EUR 22 million		
Aid method / Method of implementation	Project approach Delegation agreement with Agence Française de Développement (AFD). <i>Indirect centralised management.</i>		
DAC-code	31193 -31120	Sector	Agricultural financial services - agricultural development

2. RATIONALE

Following the January 25th uprising, that led to the stepping down of President Mubarak on February 11th, the EU has explicitly expressed its willingness to share its long experience and help the Egyptian people along the path to democracy and socio-economic development. Through the March Joint Communication 'A partnership for democracy and shared prosperity with the southern Mediterranean'¹, the EU has outlined its priorities for support in the above terms for the Southern Mediterranean region, highlighting, among others 'support to Small and Medium Enterprises (SMEs) and development for the poorer regions'. This message was further reinforced through the May Communication "A new response to a changing Neighbourhood"².

2.1. Sector context

The Egyptian economy has traditionally relied heavily on the agriculture sector as a source for growth. While this dominance has declined in recent years, the agriculture sector still accounts for about 14% GDP and 20% of total exports, and for about 30% of employment. It provides a primary source of income and employment for about 55% of the population, whereby its role is even more pronounced in Upper Egypt.

In this regard, the current Sustainable Agricultural Development Strategy towards 2030 aims at modernising agriculture in Egypt in order to achieve food security and improve the standard of living of the rural inhabitants, through the efficient use of development resources. The objectives of the strategy include, among others, the sustainable use of natural agricultural resources, increasing productivity of lands, eliminating bottlenecks for financing, raising the degree of food security and

¹ COM(2011)200 of 8 March 2011.

² COM(2011)303 of 25 May 2011.

increasing the competitiveness of agricultural products, which will include quality policy aspects and marketing standards, in local and international markets.

The subsequent Business Plan that implements the Strategy over the period 2011-2017 is focusing on increasing the productivity of lands, making a more efficient use of water resources, increasing access to finance, foster competitiveness, provide job opportunities and decrease rural poverty.

The importance the government is giving to the development of the agricultural sector has risen over the past months, especially after the new political context since January 2011 and in view of its capacity to deliver job opportunities as well as to guarantee food security. Therefore, the government has already expressed its desire to obtain financial and technical support for the development of SMEs from the agriculture and agro-industry sectors as the successful implementation of the Strategy relies heavily on the private sector.

2.2. Lessons learnt

The current project is building on an extensive experience of the EU in supporting the establishment and utilisation of different credit lines at the Ministry of Agriculture and Land Reclamation (MALR) over the last two decades. The biggest EU contribution in this regard was the Agricultural Sector Development Programme (ASDP) of EUR 100 million which supported the development of small and medium-scale enterprises in the agricultural sector through the establishment of a credit line that facilitated the access to finance for private entrepreneurs. Taking into account the success of ASDP, the EU decided to establish the Financial Investment and Sector Co-operation (FISC) Rural Component Project (EUR 16 million) to provide additional financial and technical assistance to SMEs in the fields of input supply, post-harvest activities and marketing.

Both the ASDP and FISC-Rural credit lines were merged into one single credit line – the Agriculture and Research Development Fund (ARDF) – in 2009 in order to rationalise the different credit schemes available at the MALR, simplify procedures, avoid duplication of management structures and reduce costs. The ARDF is still active to date in the loan business, including with the previous EU funds, which were put at the continued disposal of the ARDF.

The evaluation of FISC Rural (2009) pointed out a number of areas for improvement:

- increasing the utilisation ratio of the funds by providing further targeted technical assistance both to the participating banks, to ensure that they develop a proper rural strategy, and to the entrepreneurs, to ensure they are able to build good business plans.
- establishing a risk-sharing scheme, that would enable reaching small farmers on the one side, and larger projects on the other side, while providing some guarantees to the participating banks; cooperatives could be regarded as credit hub for small/medium farmers; such a scheme would be also beneficial to increase the share of women among loan applicants.
- establishing an active monitoring system that follows the banks action in the pre-application phase.

The results of the evaluation of FISC Rural will be taken in account in implementing this project.

2.3. Complementary actions

The main complementary actions to the proposed programme will be similar interventions currently being implemented or under discussion by other relevant donors.

As regards to access to credit a USD 70 million loan from the African Development Bank is being managed by the Social Fund for Development, aiming at providing financial support to farmers and technical assistance to improve value chains for horticultural products.

In addition, the International Fund for Agricultural Development (IFAD) is involved in a programme to promote rural income through market enhancement. The main component of this programme that aims at improving access to markets for small farmers would be a USD 70 million credit line to be disbursed through the Agriculture and Research Development Fund and the Social Fund for Development. However, the project as a whole and the exact fund allocation are still at the appraisal stage.

The Agence Française de Développement (AFD) is involved in the agricultural sector through a number of interventions in irrigations, access to credit and as a technical advisor in the field of agriculture for the French Embassy. Moreover, the AFD has carried out a number of studies and scoping missions for short and medium-term interventions, and has been instrumental in the formulation and design of this action. Considering the involvement in the sector by the AFD and the high level of communication and contact between the latter and the beneficiary country, the Egyptian government will benefit from the expertise, lesson learned and added value of delegating responsibility to the AFD, considering the inability of the Commission as a non-banking, non-lending institution to provide financing instruments for guarantee schemes and credit lines. Moreover, AFD is liaising with IFAD to seek synergies and is financing a pilot “marketing entity” for West Delta reclaimed lands that would provide extension/marketing services.

As regards quality enhancement and marketing capacities, the United States Agency for International Development (USAID) is now involved in specific value-chains (tomatoes) improvements, and in vocational training, while the Italian Cooperation manages a EUR 4 million intervention that will support rural women in Upper Egypt to increase their income via the development of their economic activities.

In addition, the EU is currently supporting the Ministry of Agriculture and Land Reclamation in the introduction by farmers and small scale agro-industries of agriculture best practices, including soil and water management, organic farming, post-harvest activities and reduction of environmental impact, among others. The EUR 10 million programme started its implementation in October 2010.

Finally, a twinning project for the Central Administration for Plant Quarantine is being prepared. It will reinforce the capacities of the Beneficiary in defining and controlling how Sanitary and Phytosanitary (SPS) standards for vegetables and fruits are applied by agriculture SMEs.

2.4. Donor coordination

Coordination with other EU and Member States activities/projects will be ensured for the duration of the programme through the EU Development Counsellors Group as well as in the general Donor Partner Group (DPG) / sub DPG group on SME development.

3. DESCRIPTION

3.1. Objectives

The overall objective of the programme is to support the efforts of the Government of Egypt to create job opportunities and income generation in rural areas and develop the agricultural sector by expanding existing credit schemes and establishing guarantee schemes. Additionally, the programme will provide technical assistance for stakeholders involved in the banking sector as well as to farmers, small food producers and agro-industries.

The specific objectives of the programme are: a) to reinforce and improve access to finance with lending/guarantee schemes for agricultural SMEs via the Agricultural Research and Development Fund (ARDF), b) to increase the absorption capacity of the lending/guarantee schemes, d) to higher the productive and allocative efficiency of selected agricultural sectors

3.2. Expected results and main activities

Implementation of the programme is expected to lead to three principal results based on related activities:

Result 1: Increased outreach and demand for loans submitted to the Agriculture and Research Development Fund (ARDF) and, to improved access to finance for farmers through the establishment of a guarantee scheme

Activities component 1:

- Providing financial contribution to the ARDF aimed at increasing available funds as well as institutional support through risk-sharing/guarantee schemes that would increase outreach to small farmers and, promoting in particular women farmers.

Result 2: Increased absorption capacity through targeted technical assistance activities for stakeholders.

Activities component 2:

- Providing technical assistance to key stakeholders in the lending and guarantee granting process aimed at increasing outreach, additionality and sustainability of credit/guarantee schemes. TA might include: (i) strengthening the technical capacity and knowledge of local banks on issues related to Agribusiness credit risk assessment, business plan, and cash flow analysis; (ii) strengthening the awareness in accessing credit lines and developing business plan and marketing; (iii) develop flexible credit lines;

Result 3: Improved productive and allocative efficiency as well as value chain improvements in selected agricultural sectors.

Activities component 3:

- Providing technical assistance to strengthen one or two value-chains in order to bring small farmers to the proper sanitary and phyto-sanitary levels and standards, develop their marketing capacities and build contractual partnerships with “agri-business” stakeholders (processors and exporters).

3.3. Risks and assumptions

The proposed programme addresses the needs identified in the Sustainable Agricultural Development Strategy and the demands expressed by the current interim government. Consequently, the main risk associated to this proposed action will be a complete shift of priorities by the new Government.

This being said, we consider this scenario rather unlikely as a sustainable economic growth will still depend on jobs creation, the provision of income generation opportunities and ensuring food security which, by all means require the support of the agricultural SMEs and the development of the agricultural sector, which, as mentioned before, provides a primary source of income and employment for about 55% of the population.

3.4. Crosscutting Issues

Environment management and protection will be a core element governing the implementation of the programme and will be taken into consideration 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.

The project will aim to integrate and strengthen the role of women in agricultural in order to improve their living conditions. This priority is reflected in the Sustainable Agricultural Development Strategy towards 2030 which foresees to achieve the latter by improving access to credit for rural women compatible with their economic conditions.

3.5. Stakeholders

The main stakeholder of the proposed intervention will be the Ministry of Agriculture and Land Reclamation, responsible for the management of the Agriculture and Research Development Fund (ARDF) which was created thanks to the previous EU intervention FISC Rural. In view that some of the ARDF staff still worked for the previous EC programme this bodes well for a swift start of the programme.

Key beneficiaries would be small and medium scale farmers, private entrepreneurs, agro-industries, agriculture cooperatives and women associations operating in agricultural/rural areas as well as its representatives such as cooperatives and rural SME organisations. Banks working with the ARDF are also important stakeholders both as intermediaries in channelling credit to SMEs as well as beneficiaries of technical assistance activities.

Moreover, professional organisations, which could help designing proper contractual scheme with small farmers, are also important stakeholders for the value-chain improvement component.

Lastly, other Steering Committee members are the Ministry of Water Quality and Irrigation (water is a key issue for agricultural SME's) as well as the Ministry of Industry and External Trade (responsible for SMEs working in the field of food processing).

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

A financing agreement will be signed with Arab Republic of Egypt. All the components of the project will be implemented through *indirect centralised management* with a delegation agreement with AFD in accordance with Article 54(2)(c) of the Financial Regulation, except the component regarding audits and evaluations that will be carried out by the Commission in a centralised management mode. The AFD was chosen as delegated body due to their expertise and longstanding working experience as regards projects in the rural areas. AFD was fully involved and contributed substantially to the development of this programme.

The Egyptian partner of the delegate body for the implementation of the project is the Egyptian Ministry of Agriculture and Land Reclamation, in particular the Agriculture and Research Development Fund (ARDF). This arrangement is due to the previous and current good cooperation experience among the Egyptian authorities, as well as AFD and the latter's experience in this area. Therefore, a Delegation Agreement will be signed with the AFD.

The change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country, international organisation or delegatee body under, respectively, decentralised, joint or indirect centralised management.

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the AFD in force at the time of the launch of the procedure in question, except for the centralised component.

AFD has successfully undergone the compliance assessment for the respect of the requirements of Article 56 of the financial regulation as well as an assessment of its capacity to undertake verification of EU procedures.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by ENPI Regulation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in 21(7) ENPI Regulation.

4.3. Indicative budget and calendar

The estimate project costs at this stage are of EUR 22 million from the general budget of the European Union. The total EU contribution to the programme is EUR 22 million, to be done through a Delegation Agreement with AFD of EUR 21.6 million and EU centralised management of EUR 400,000 (audit and evaluation budget line, as specified below).

Component	Indicative allocation (in EUR)	Implementation Modality
1. Credit line and guarantee scheme	14,100,000	Indirect centralised
2. Technical Assistance: Increase absorption capacity of credit lines and Guarantee Fund	3,100,000	Indirect centralised
3. Technical Assistance: Value Chain improvements in two selected agricultural sectors	4,100,000	Indirect centralised
Audit, evaluations	400,000	Centralised - Service contracts.
Visibility	300,000	Indirect centralised - Service contracts. Public Relations campaigns, publications etc.
TOTAL	22,000,000	

Procurement procedures will indicatively start to be launched within approximately 6 months following the signature of the Delegation Agreement and Financing Agreement. The implementation of the project will indicatively take a total of 60 months from the signature of the Financing Agreement and Delegation Agreement to the end of the project's activities, plus a 24 month closure phase.

4.4. Performance monitoring

Performance indicators will form part of the EU-AFD Delegation Agreement and the EU Egypt Financing Agreement. These indicators will include indicators with regards to environmental impact and the role of women as outlined under section 3.4. Finally, the project will also benefit from the system of external result-oriented monitoring missions.

4.5. Evaluation and audit

The indirect centralised part of the project will be subject to an annual external audit launched by the Commission.

A mid-term and 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 lessons 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 an important component of the project. A comprehensive communication strategy will be developed in coordination with all stakeholders.

EU visibility guidelines are to be respected by AFD. The EU Delegation in Cairo will assure the visibility component of the actions through field visits.

APPENDIX TO THE ACTION FICHE "SUPPORT TO AGRICULTURAL SMEs"

REGARDING THE VERIFICATION OF THE CONDITIONS FOR INDIRECT CENTRALISED 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 B-19 08 01: European Neighbourhood and Partnership financial cooperation.

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The importance the government is giving to the development of the agricultural sector has risen over the past months; especially after the new political context since January 2011 and in view of its capacity to deliver job opportunities as well as to guarantee food security.

The overall objective of the programme is to support the efforts of the Government of Egypt to create job opportunities and income generation in rural areas and develop the agricultural sector by expanding existing credit schemes and offering technical assistance to farmers, small food producers and agro-industries.

The Agence Française de Développement (AFD) is involved in the agricultural sector through a number of interventions in irrigations, access to credit and as a technical advisor in the field of agriculture for the French Embassy. Moreover, the AFD has carried out a number of studies and scoping missions for short and medium-term interventions, and has been instrumental in the formulation and design of this action. Considering the involvement in the sector by the AFD and the high level of communication and contact between the latter and the beneficiary country, the Egyptian government will benefit from the expertise, lesson learned and added value of delegating responsibility to the AFD, considering the inability of the Commission as a non-banking, non-lending institution to provide financing instruments for guarantee schemes and credit lines.

Furthermore, AFD is preparing a parallel financing to be blended with the EU grant, which will increase the impact and effectiveness of the action.

The programme 'Support to Agricultural Small and Medium Enterprises (SMEs)' in Egypt will delegate EUR 22 million to the AFD for implementation under Indirect Centralised Management modality according to the conditions of the standard EU Delegation Agreement in accordance with Article 54(2)(c) of the Financial Regulation.

The AFD was chosen for a Delegated Cooperation as the most practical and feasible option available to the EU Delegation for the implementation of the action. The delegated body was chosen due to their expertise and longstanding working experience as regards projects in the agricultural sector and rural areas in Egypt. AFD was fully involved and contributed substantially to the development of this programme from the onset and will add to the value of the programme overall.

Assessments made by AIDCO G2/GN D(2008) 10549 on the 20/5/2008 and, AIDCO G2/GN 338103 on the 6/11/2009, confirmed that the eligibility criteria for entrusting delegation of implementation under Indirect Centralised Management to a national public sector body of an EU member state, the so-called '6 Pillar Assessment Compliance' envisaged by Article 56.1 of the Financial Regulation, were fulfilled by the AFD.

Summary table

Article 56.1 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>Procedures and operations in place to a satisfactory standard.</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>Procedures and operations in place to a satisfactory standard.</i>
(c) An accounting system that enables the correct use of EU funds to be verified and the use of funds to be reflected in EU accounts.	<i>Procedures and operations in place to a satisfactory standard.</i>
(d) An independent external audit exercised by a national institution for independent external auditing	<i>Procedure and operations in place to a satisfactory standard.</i>
(e) Adequate annual ex post publication of beneficiaries of funds deriving from the EU budget.	<i>Procedure and operations in place to a satisfactory standard.</i>
Prevention of irregularities and fraud and recovery of funds if necessary	<i>Adequate clauses will be included in the Agreement with the delegatee</i>
The Commission will ensure supervision, evaluation and control of the implementation of the tasks entrusted	<i>Adequate clauses will be included in the Agreement with the delegatee</i>

Conclusion: In his note of 27/02/2009, M. Koos RICHELLE confirmed that the conditions provided for in Article 56 the FR are currently being met by the AFD. On this basis, the Director of DEVCO F proposes that the applicable implementation method to the Annual Action Programme 2011 (the action entitled "Support to Agricultural SMEs" for NIP 2011) for Egypt be **indirect centralised management** and submits it to the Commission for decision.

Date:

20 JUL. 2011

Signature:  Director DEVCO/F

Authorising officer by subdelegation for the EU BUDGET