



# External finance for rural development

## Country case study: Egypt

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### Key messages

- Agriculture is a major contributor to Egypt's economy and to the livelihoods of its predominantly rural population. Agricultural modernisation and the development of agricultural value chains are sectoral priorities, alongside irrigation and rural infrastructure, as part of a national focus on industrialisation and infrastructure.
- Demand for external development assistance for rural development and agriculture is expected to rise. However, given Egypt's debt situation, there is strong demand for concessional funds, including soft loans and larger grant components, where available. Commercial loans are largely off the table.
- Flexible project implementation and financial instruments are highly prized, as is the alignment of development programmes with national priorities. The government values technical assistance and local capacity-building for rural development and agriculture, and these are increasingly prioritised.
- The Covid-19 pandemic had a major impact on the rural sector, and it is now seen as a higher priority to ensure Egypt's food security.

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## Introduction

### Background

Rural development worldwide relies heavily on private funding. Yet the public sector has a key role to play in providing both investment and policy support to tackle persistent market failures. These include the under-provision of public goods (such as infrastructure, and research and development), negative externalities (such as the need to adapt to and mitigate the effects of climate change), informational asymmetries (e.g. the development of rural financial services) and the lack of protection for vulnerable people through, for example, social protection.

Far more finance is needed to achieve food security and promote sustainable agriculture in line with Sustainable Development Goal (SDG) 2. The United Nations (n.d.) estimates that an additional \$267 billion per year is needed to achieve every SDG 2 target: almost twice as much as total official development assistance (ODA) each year from all donors combined. Official development finance (ODF)<sup>1</sup> to agriculture and rural development rose slightly from \$10.2 billion in 2015 to \$10.9 billion in 2018. This is only a fraction of the total ODF disbursements of \$254 billion in 2018. Public expenditure on agriculture development also remains low: since 2001, governments have spent, on average, less than 2% of their central budgets on agriculture (FAO, 2019).

### Objectives, definitions and methodology of this country case study

This country case study summarises key findings from a country analysis of financing for rural development in Egypt. It is one of 20 analyses that is synthesised for comparison in Prizzon et al. (2020).

The case study has two main objectives:

- to map demand from the Government of Egypt over the next five to 10 years for external development assistance to support public investment in inclusive and sustainable rural development
- to analyse the financial and non-financial terms and conditions of such demand, its main preferences and the type of instruments that the government wishes to access or scale-up to support public investment in rural development.

### Definitions

**What we mean by public investment in inclusive and sustainable rural development** (see Prizzon et al., 2020, for more details): Our research has focused on six areas that contribute to such investment: access to agricultural technologies (research and development) and production services; agricultural value chain development (e.g. crops, livestock, fisheries); climate-resilient agricultural practices; rural basic infrastructure (e.g. water and irrigation systems, local roads, local energy generation and storage facilities); rural financial services; and rural investment environment (e.g. policy, legal and regulatory frameworks).

**What we mean by external assistance for inclusive and sustainable rural development:** We look beyond ODA to include government-to-government funds from bilateral and multilateral donors that do not meet concessionality criteria<sup>2</sup> (usually defined as other official flows, or OOFs). We call this official development finance (ODF). As a proxy for financing rural development, we examine data on external assistance to the agriculture sector and rural development (cross-cutting) based on an Organisation for Economic Co-operation and Development (OECD) definition. This is not a perfect measure,

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1 The sum of ODA and OOFs: the latter flow from bilateral and multilateral donors that do not meet the concessionality criterion for ODA eligibility.

2 The definition of concessionality is based on the share of the grant element. With the 2014 OECD reform, the grant element varies according to the income per capita of the ODA eligible country to be counted as ODA: at least 45% for low-income countries (LICs), 15% for lower-middle-income countries (LMICs) and 10% for upper-middle-income countries (UMICs). The International Monetary Fund (IMF) discount rate (5%) is also adjusted by income per capita group: 1% for UMICs, 2% for LMICs and 4% for LICs, including least-developed countries (LDCs).

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but given the lack of a sectoral definition or attribution to rural development as such, it is the closest we can get to a consistent, cross-country mapping of external assistance from development partners. As a second-best option, we rely largely on quantitative and qualitative data on agricultural development. While the agriculture sector is a major component of rural development, data on agriculture alone cannot capture important non-farm activities.

### Research questions

This country case study reflects our four main research areas:

- the government's priorities for public investment in inclusive and sustainable rural development
- financing for public investment in inclusive and sustainable rural development
- borrowing (external development assistance) for this public investment
- the government's preferences in relation to external development assistance for public investment, including its demand for specific types of instruments.

As this project took place during the early stages of the Covid-19 pandemic, we also reflect the short- and medium-term implications of the crisis for government priorities and preferences for public investment, as well as the amount and type of external assistance demanded.

### Methodology

We used a qualitative case study approach, with the analysis of individual countries informed by a political economy framework, as developed by Greenhill et al. (2013) for aid negotiations (see Prizzon et al., 2020).

Our approach comprised a critical review of relevant policy literature<sup>3</sup> and data analysis,<sup>4</sup> which also helped us to identify country

stakeholders. This was followed by interviews with key informants, informed by an electronic questionnaire submitted before each interview. For Egypt, we held 10 interviews between April and July 2020, and received 15 questionnaires (see Annex 1 for a list of those interviewees who agreed to their names being shared).

### Egypt: country context

Egypt has been classified as a lower-middle-income country (LMIC) since 1995. It has been classed as eligible for resources from the International Bank for Reconstruction and Development (IBRD) since 2000 and from the African Development Bank (AfDB), which means it can borrow from these institutions at non-concessional terms only. Egypt is not considered an aid-dependent country, and aid accounts for a falling share of gross national income (GNI). In 2017, this share dipped below zero, when repayments exceeded new aid flows (World Bank, 2020b).

Nearly a decade after the Egyptian revolution of 2011, the country's national development priorities are driven by the need to maintain economic and social stability. Social stability and economic development are paramount, given the legacy of this national political crisis. High unemployment has contributed to unrest in the past, and is particularly acute for the country's immense youth population. In total, 24% of Egypt's population is aged between 18 and 29, and the youth unemployment rate in 2019 was double the overall employment rate, which stands at 13.4% (World Bank, 2020b). National development priorities, therefore, emphasise job creation as a key outcome for the country's industrialisation strategy.

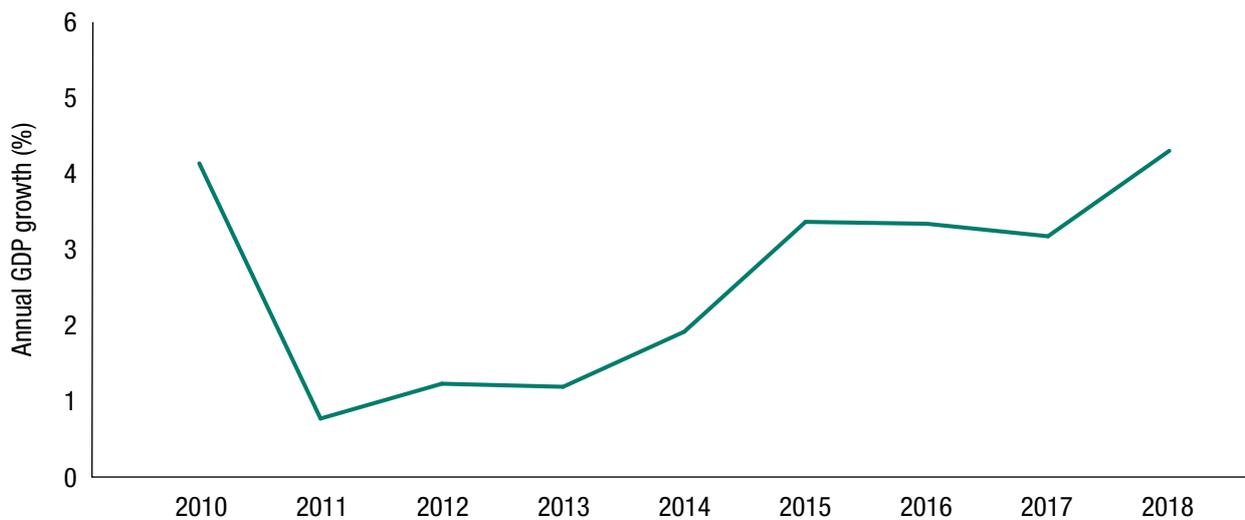
Egypt has a high rural population and agriculture remains a significant contributor to the economy. More than half of the country's population – 55.3 million people – live in rural areas (UNDESA, 2018). Regional inequalities are marked, with rural poverty rates three times

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3 IMF Article IV, Country Strategic Opportunities Programme (COSOP) documents from the International Fund for Agricultural Development (IFAD), the government's Vision 2030 paper, and the Medium-Term Debt Strategy documents.

4 Spanning IMF, World Bank and other sources.

**Figure 1 Annual GDP growth in Egypt, 2010–2019**



Note: Annual percentage growth rates of GDP at market prices based on constant prices.

Source: IMF (2020)

higher than the rates in urban areas.<sup>5</sup> Poverty rates as of 2018 in the Upper Egypt region stood at 56%, compared with 20% in the more densely populated Nile Delta. Agriculture contributed to 11% of GDP in 2018 and employed around 29% of the country’s entire labour force (IFAD, 2018). Agricultural employment is also heavily gendered, accounting for 36.7% of female employment, compared with 21.8% for males (World Bank, 2020b).

In terms of its economic context and access to external finance, Egypt saw a continuous upward trend in economic growth in the 10 years between 2011 and 2019, with growth of more than 5% in 2018 and 2019 (Figure 1). At the same time, however, public debt soared, peaking at a rate of more than 100% of GDP in 2017 (Ministry of Finance, n.d.).

In 2016, Egypt embarked on an International Monetary Fund (IMF) programme, instituting a series of reforms and fiscal consolidation. This has seen the restructure and removal of fuel subsidies, as well as the floating of the Egyptian pound, leading to rising inflation. The programme was completed in 2019 and, until the Covid-19 crisis,

the economy was recovering, with rising exports and consumption (IMF, 2019).

Despite the economic recovery, the management of debt levels remained a key concern. Two new committees were established in 2019: first, a debt committee under the Ministry of Planning and Economic Development, which now oversees and approves all new external loan applications; second, a guarantees committee hosted by the Ministry of Finance: an internal approval mechanism that assesses the ability of the relevant ministry to repay prospective loans.<sup>6</sup>

## Government priorities for rural development

Egypt’s ‘Vision 2030’ outlines a national development strategy focused on industrialisation and economic modernisation. This has prioritised infrastructure investment and urban areas, as well as the digitalisation of government services and the economy. However, while national priorities have focused more on urban than rural development, agricultural development was seen as a key priority by our interviewees.

5 Measured by the official national poverty line, which stands at an average 482 EGP (\$54) per month as of 2018 (IFAD, 2018).

6 Interview with key stakeholder, 7 July 2020.

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There is a strong emphasis on agricultural modernisation in Egypt's Vision 2030, including the development of agro-industries, building agro-processing zones and integrating rural markets into value chains (Government of Egypt, n.d.). Within the agriculture sector itself, a Sustainable Agricultural Development Strategy (SADS) was launched in 2009, which emphasised 'economic and social development based on a dynamic agriculture sector' with special attention to 'underprivileged social groups and reducing rural poverty' (Arab Republic of Egypt, 2009). While this strategy has not been updated since it was first launched, FAO and the Ministry of Agriculture and Land Reclamation are working on a revision.

Rural infrastructure, agricultural technologies, and agricultural value chains were seen as the three main priorities for the rural development sector by our respondents. Rural infrastructure, and water and irrigation projects in particular, have received significant finance from development partners, since access to water is a paramount and perennial concern for Egyptian agriculture. Resources have supported, for example, the expansion of drip irrigation and other water efficiency technologies. However, regulatory reform of water management, such as water tariff pricing to incentivise efficiency, remains a politically sensitive area.

The challenges facing smallholder farmers include a lack of rural finance – often the result of land fragmentation. Most smallholder farmers have small plots of land, while land in the reclaimed 'new' lands is owned by the state. Most farmers lack the collateral that would enable them to access credit, and this challenge is compounded by low literacy rates.

Agricultural technology is another priority as the country tries to achieve greater productivity. This is part of the push for agricultural modernisation in the national development strategy, which also aims for the expansion of digital technologies in the sector.<sup>7</sup>

Smallholder farmers are seen as priority beneficiaries for rural development, including health and other programmes for social welfare. But government stakeholders also emphasise the goal – and challenge – of shifting large swathes of traditional small farmers towards modern farming methods, aiming to integrate them into national supply chains for commercial and export production.

Facilitating market access for smallholder farmers so that they can sell at greater volumes and improve the quality of their produce is an integral component in national efforts to harness the country's agricultural potential. Women are also a target demographic for rural development programmes. In terms of geography, the high levels of poverty in the Upper Egypt region have made it a top priority for rural development programmes, including the Sustainable Transformation for Agricultural Resilience (STAR) programme in Upper Egypt.

The Covid-19 pandemic has had a major impact on the rural sector, and made it a higher priority for the government. While the economic impact on the sector has not been as severe as it has been for the major industries, such as tourism and real estate, upon which Egypt depends, global lockdowns may well disrupt global value chains in food.<sup>8</sup>

For Egypt, this will require a shift in agricultural production towards domestic consumption, rather than export markets. Food security will also be an issue, as disrupted global trade may also affect imports of key foods, such as wheat, which currently come from Europe.<sup>9</sup> Greater price volatility for agricultural feedstocks will also have an impact on domestic food security.

Small farmers and rural communities are likely to feel the impact of a wider domestic economic downturn caused by the Covid-19 pandemic, as well as its health effects, which will undermine their productive capacity. Finally, the economic impacts of the pandemic have implications for rural–urban migration, with more people moving

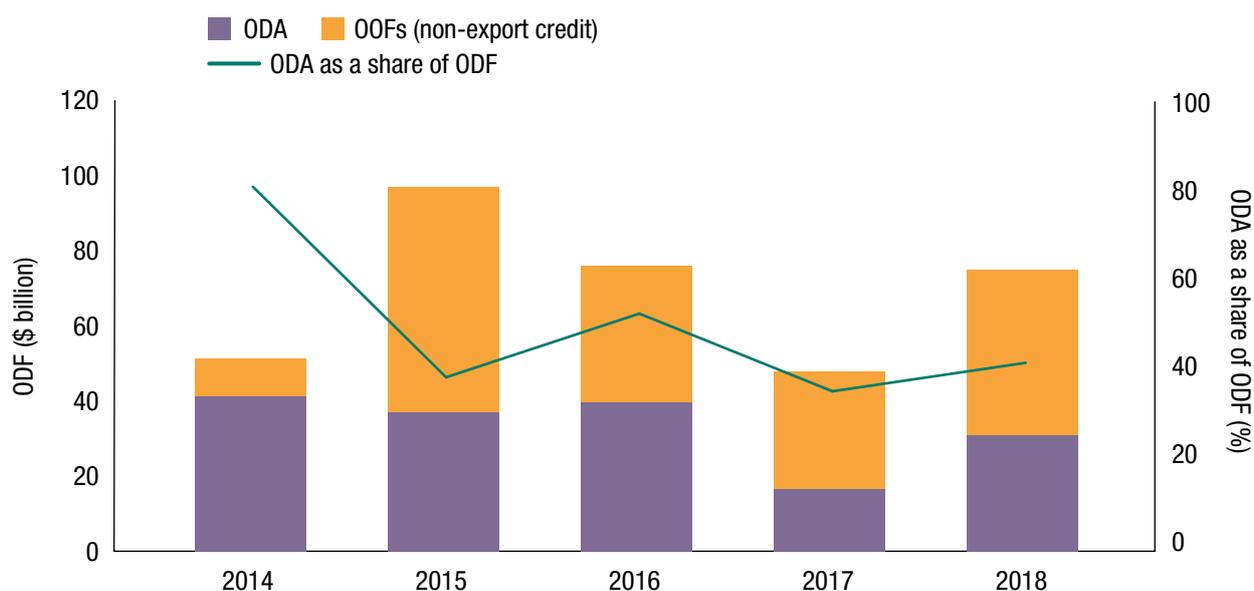
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7 Interview with key stakeholder, 9 April 2020.

8 Interview with key stakeholder, 9 April 2020.

9 Interview with key stakeholder, 31 March 2020.

**Figure 2 Composition of official development finance 2014–2018**



Note: 2017 constant prices. ODA, official development assistance; ODF, official development finance; OOF, other official flow. Source: OECD (2020)

back to rural areas, and fewer people likely to move into Egypt’s cities, highlighting the pressing need for greater rural development.

## Financing rural development

### Public finance

Public investment in agriculture is expected to increase over the next five to 10 years to finance agricultural transformation and new agricultural technologies, according to most of our interviewees. Overall, government expenditure has been falling as a share of GDP since 2014 (IMF, n.d.).

The data on government expenditure by sector are patchy, but show significant proportions of spending in social protection (29%) education (12%) and defence (6%) (IMF, n.d.). In 2017, public spending for agriculture constituted around 2% of total expenditure, which stood at \$1,711.93 billion (IFPRI, 2020). This is far below the Maputo Declaration commitment of 10%, although it has risen slightly since 2013. Much of this budget is consumed by bureaucracy. According to one respondent, 98% of the

agriculture budget goes towards staff salaries, including the salaries of those working at seed research centres, which has left little fiscal space for expenditure in other areas of research and development.<sup>10</sup>

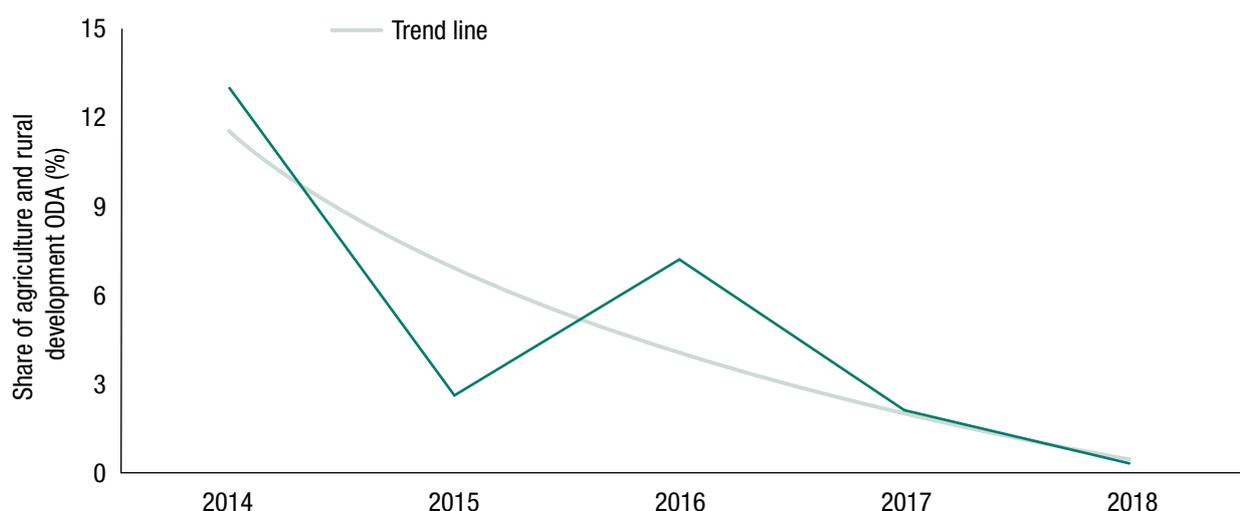
### External development assistance

ODF flows across all sectors show a decline trend in the proportion of ODA within total flows since 2014 (Figure 2). Meanwhile, the use of non-concessional finance, or OOFs has increased substantially, even exceeding the volumes of received ODA. Much of this sovereign borrowing is bilateral, from Arab lenders such as Kuwait and the United Arab Emirates, as well as from European countries (e.g. France, Germany) and EU institutions. Much of this borrowing has also been driven by Egypt’s prioritisation of industrial development, with the country using external borrowing to finance major investments in infrastructure.<sup>11</sup> Egypt is not an aid dependent state: prior to 2015, grants accounted for only around 2% of government revenue (World Bank, 2020b).

<sup>10</sup> Interview with key stakeholder, 9 April 2020.

<sup>11</sup> Interview with key stakeholder, 31 March 2020.

**Figure 3** Agriculture and rural development as a share of total official development finance



Note: ODA, official development assistance.  
Source: OECD (2020)

Covid-19 is likely to increase demand for external assistance, particularly for budget support, given the needs of the health sector, as well as the narrowing of fiscal space for government public finance caused by the economic impact of the pandemic.

Demand for external development assistance for rural development and agriculture is expected to increase. Much of this additional demand will be for loans, as our interviewees noted a continuing finance gap in agriculture and rural development that grant financing is unable to fill. This makes it necessary to borrow from domestic or international sources.<sup>12</sup>

The share of the agriculture and rural sector in Egypt's overall external development assistance flows has been declining unevenly between 2014 and 2018. In 2018, the share of official development flows to the agriculture and rural sector was only around 5%, compared with around 12% in 2014, suggesting greater prioritisation of external assistance in other sectors. This decline has been most dramatic in the share of ODA to agriculture and rural development, reflecting a substitution of OOFs for ODA in the agriculture and rural sector (Figure 3). This shift mirrors overall trends in

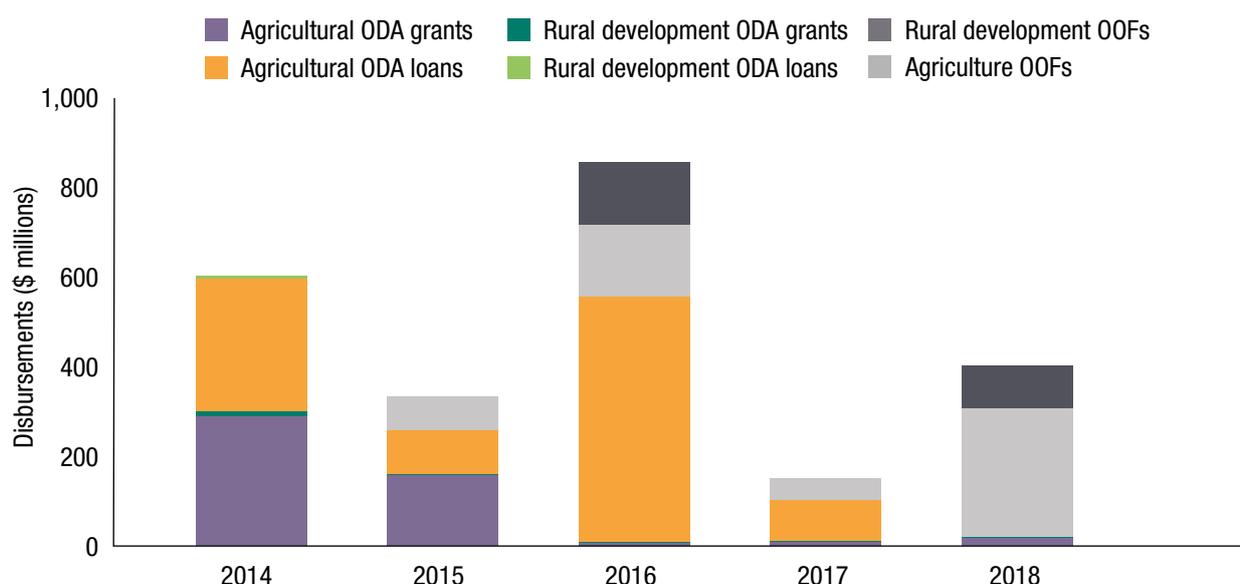
Egypt's demand for external assistance (Figure 2), which has seen a rise in non-concessional borrowing since 2014.

Non-concessional loans to the agriculture and rural sector are rising. In both agriculture and rural sectors, there has been a progressive shift away from grants towards ODA loans, then OOF loans (Figure 4). In the agriculture sector in particular, ODA loans had displaced grants by 2016–2017, while ODA grants shrank to near zero (Figure 4). A rise in total ODF flows around 2015 reflected Egypt's new status as a recipient of finance from the European Bank for Reconstruction and Development (EBRD), which led to new flows, as well as more borrowing from the World Bank (Figure 5). It also reflects, in part, flows from the IMF programme, with the Egyptian government working to restructure parts of the economy and bring down the level of public debt. This pressure on borrowing has continued, even though the IMF programme ended in 2019.

Decentralisation has emerged as an important factor in the way donors work in Egypt. While sub-national actors cannot receive external development assistance (loans to Egypt are approved by the Ministry of Finance and the Debt Committee and channelled through the

<sup>12</sup> Interview with key stakeholder, 28 April 2020.

**Figure 4 Official development assistance and other official flows to the sector**



Note: ODA, official development assistance; OOF, other official flow.  
Source: OECD (2020)

Ministry of International Cooperation), project implementation has become increasingly decentralised.

There has been a growing trend of official donors working directly on project implementation and capacity-building at the local governorate level, while overall decision-making remains centralised. This trend is seen as positive by donors.<sup>13</sup> However, several donors and respondents also noted that the restrictions imposed by the Covid-19 pandemic have disrupted many projects in the rural sector, with many put on hold, and are likely to mean a reallocation of resources towards the health sector in the short to medium term.

## Borrowing for rural development

Borrowing has become a sensitive issue, as public debt levels rose dramatically after 2014, fuelled, in part, by more commercial borrowing after the 2011 economic crisis. Egypt's debt-to-GDP ratio reached around 100% in 2017 (IMF, 2018), and external debt constituted around 40% of GNI in 2018 (Figure 5). The IMF programme introduced

in 2016 required the government to undertake several sector reforms, including removing oil subsidies in the energy sector, to reduce the debt to manageable levels. As noted, this programme concluded in 2019, with debt-to-GDP ratios projected to decline further (IMF, 2019).

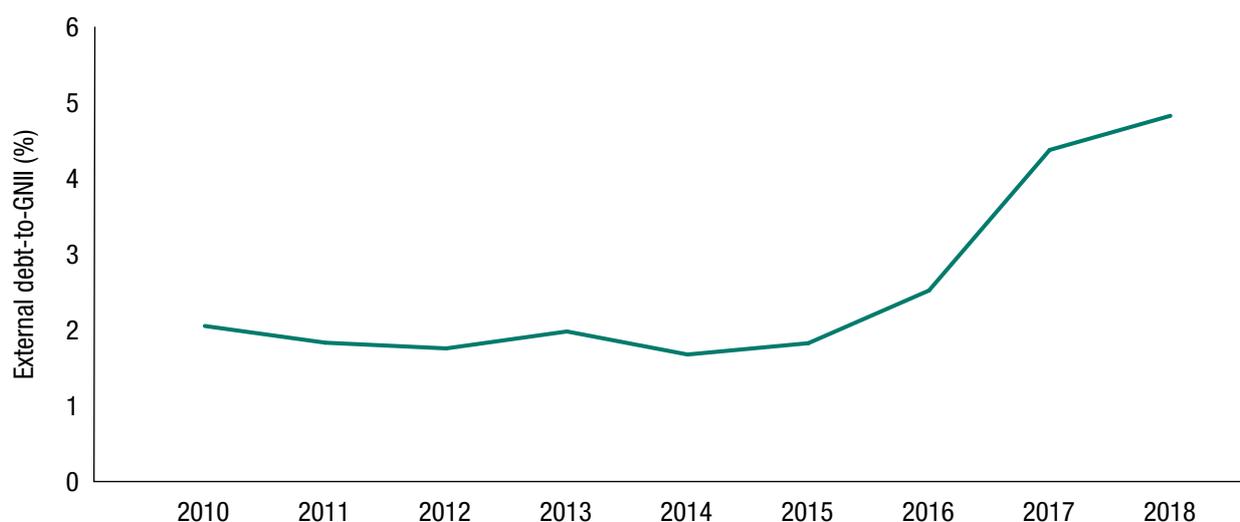
The Medium-Term Debt Strategy (MTDS) for 2018–2019 outlined commitments to reduce the overall debt ratio to 80% by 2021–2022, as well as to fiscal consolidation and the setting of expenditure ceilings to reduce overall public expenditure (Ministry of Finance, n.d.). It is not yet clear how these targets, or progress towards them, will be affected by the Covid-19 pandemic.

Egypt's Debt Committee has had a major impact on external borrowing. Established in 2019, the committee now approves all external loan applications, applying criteria for approval that include financial terms and diversity of financing sources, project feasibility and compatibility with the Egypt Vision 2030 goals, and the inclusion of knowledge transfer or local components (such as local manufacturing).<sup>14</sup> The need for foreign currency is another priority for

13 Interview with key stakeholder, 16 April 2020.

14 Interview with key stakeholder, 16 April 2020.

**Figure 5 Egypt's external debt-to-GNI ratio 2010–2018**



Note: GNI, gross national income.

Source: World Bank (2020a)

external finance, given the higher cost of external borrowing as a result of the devaluation of the Egyptian pound.

The committee's prior approval is obligatory for any loan application to proceed. International respondents noted that this additional step has slowed down the loan process, and has had a deterrent effect on finance for new projects. The committee has created a fast-track approval process for urgent projects in the wake of the Covid-19 pandemic, but this process is still limited to single-project loans.<sup>15</sup>

Preferences around borrowing are constrained to concessional loans, with a preference for grants where available. Most respondents agreed that inclusive and sustainable rural development requires external finance, but were pessimistic about Egypt's ability and willingness to borrow. As Egypt is a LMIC and not, therefore, able to access funds from the International Development Association (IDA), it also has limited access to grants.

Our interviewees agreed that the government is open to borrowing for the rural and agricultural sector at ordinary terms (if grant funding and domestic funding are not available). But the preference is for this borrowing to be 'softened',

with more favourable terms such as lower interest rates and a larger grant component. The larger the grant component and longer the maturity, the better.

Criteria for borrowing are based on 'impact and inflows'. For external borrowing to be approved, key factors in that decision include whether a project generates economic impacts, and whether it can generate recurring revenue flows that lead back to the government. Rural development projects that are seen to have a multiplier effect on growth, such as those that bring in new agricultural technologies, and that promote the goals of Egypt Vision 2030, are more likely to be approved for loan finance by the Debt Committee. Likewise, projects in the rural finance sub-sector were also noted to generate revenue flows back to the government. In the case of projects that do not generate revenues, the preference is to use grants, where they are available, or to finance them from domestic sources if foreign currency is not an issue.

Interest rates, grace periods and maturity of loans are seen as very important. The pressure to reduce public debt, coupled with the evaluation criteria set by the Debt Committee, means

<sup>15</sup> Interview with key stakeholder, 7 July 2020.

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that ‘every basis point matters’ for taking new loans, according to one of our interviewees.<sup>16</sup> Government stakeholders noted that interest rates ranged between 2% and 2.5% for approved projects in US dollar loans, with a minimum requirement of three to five years for grace periods. Longer maturities and longer grace periods are highly preferred, as this allows for greater flexibility in repayment for the government. Where interest rates are seen as less negotiable, one respondent noted that there is a push to reduce service charges.<sup>17</sup>

## Preferences and instruments for rural development

Flexibility, ownership and alignment to national priorities are of great importance for Egypt when it comes to working with external partners. Flexibility is cited almost universally by our interviewees as a very strong preference for external development assistance. Budget support or funds of development assistance that are fungible and that are not tied to policy conditions are highly preferred, as the flexibility allows the government to adapt to new or shifting priorities rather than constraining financing to one particular project or region.

Government stakeholders also emphasised the importance of country ownership to ensure the long-term sustainability of projects under local management through the building of local capacity. In the wake of the Covid-19 pandemic, they also stressed the crucial importance of self-sufficiency in the agricultural sector. Finally, in line with Egypt Vision 2030, alignment to national priorities is a key factor in selecting projects for finance and, given the additional process of the Debt Committee, a criterion for the approval of borrowing.

Longer maturities and technical expertise are key value-added aspects of external development assistance for the rural development and

agriculture sectors. Our respondents note that external finance often allows for longer maturities of the loans available, compared to borrowing in the domestic market. For example, the World Bank, the IBRD and KfW can offer maturities of up to 30 years with a 10-year grace period, while domestic borrowing only offers up to seven years.<sup>18</sup>

External development assistance is also prized for technical assistance, with our respondents emphasising the importance of the technical expertise that external partners can bring, not only in the form of new agricultural technologies, but also in capacity-building and knowledge transfer. One international interviewee acknowledged that, while ‘money is an issue’ and that ‘they won’t say no to a grant’, the issue in the long-term was not financial, but ‘more about knowledge and know-how’.<sup>19</sup>

Respondents expressed a strong desire for more technical assistance programmes and more knowledge transfer. Demands for new agricultural technologies include a desire for support to the digitalisation of the agriculture sector, a key component in the Vision 2030 strategy. Government preferences around ownership are tied to a desire to be self-sufficient, rather than relying on external assistance, and the building of local capacity and technical expertise is crucial for the achievement of this aim. However, development assistance remains necessary in the near-term to fill gaps in domestic funding.

The country presence of donors is highly valued for its contribution to capacity-building. As well as facilitating communication and building trust with external partners, the permanent presence of technical and programme staff on-site was seen as crucial for capacity-building and training for local actors. Some government respondents also noted an added value of external assistance through its disciplining effect on local institutions, which

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16 Interview with key stakeholder, 28 April 2020.

17 Interview with key stakeholder, 21 May 2020.

18 Interview with key stakeholder, 28 April 2020.

19 Ibid.

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must adapt to work with international conditions and regulations imposed by partners.

The government, in partnership with the International Fund for Agricultural Development (IFAD) and the World Bank, has created new parallel structures within the agriculture and energy ministries. This has allowed the diffusion of new standards and that are high-functioning, to tackle the challenges of low capacity in local ministries. One respondent noted that having external partners who bring in diversified knowledge and expertise makes it easier to push for the reforms that are needed and to improve local governance.<sup>20</sup>

Demand for the diversification of financial instruments and resources. There is also a strong emphasis from the Egyptian government on the need for greater diversification of finance, for complementarity between donors, and for ‘teaming-up’ on projects to maximise funds and expertise from multiple sources.

Our survey and interview responses noted high preferences for specific instruments, including multi-phase programme lending, project preparation facilities and results-based lending. This indicates a strong prioritisation for long-term programmes and lending structures, project durability, and assistance in upstream project planning and feasibility studies. Government respondents also expressed a demand for more non-lending services, including forms of technical assistance.

More broadly, government interviewees expressed a desire for greater variety in the financial instruments available, to shift the relationship with external partners towards more balanced, risk-sharing approaches. There is a strong emphasis on public–private partnerships and blended finance instruments, given the financing gap from public finance, which would bring private rural investment in to complement public investment.<sup>21</sup> Crowding in private-sector participation would reduce the country’s dependence on debt instruments.

## Conclusions

Our analysis of the experience and perspective of Egypt on financing public investment for inclusive and sustainable rural development, and particularly its demand for external assistance, is summarised as follows.

- Agriculture and rural development are important sectors for Egypt, and are prioritised within broader goals for economic growth. The Egypt Vision 2030 national strategy emphasises agricultural modernisation as part of a wider strategy of industrialisation and urban development, including the development of agro-industrial clusters and agri-processing industries. Within the rural and agriculture sector, there is a strong focus on increasing productivity and the efficiency of smallholder farmers by scaling up the use of agricultural technologies (such as fertiliser use and efficient irrigation methods). In this sense, the development of agriculture is pushed as a revenue-generating sector, rather than as a public good. While Covid-19 is unlikely to cause major disruptions to the sector, its likely impact on food security and social welfare heightens the existing prioritisation of agricultural self-sufficiency.
- Public investment in agriculture and rural development is likely to rise. However, external development assistance will be necessary to fund this rise, as public resources remain insufficient. At the same time, growing public debt over the past decade, much of it fuelled by commercial loans, has prompted more stringent constraints on external borrowing, and pressure to bring debt-to-GDP levels down, with a target of 80% by 2021/2. A new body, the Debt Committee, now oversees approval for every external loan, in order to rationalise and prioritise borrowing proposals. The need to reduce debt has tightened the approval process for external borrowing, creating additional barriers to accessing

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20 Interview with key stakeholder, 21 May 2020.

21 Interview with key stakeholder, 9 April 2020.

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external development assistance for the agriculture and rural sectors, as well as for borrowing in other sectors.

- Demand for borrowing is likely to continue, but will be limited, very largely, to concessional loans and grants. Commercial loans are now off the table. External borrowing will be prioritised for programmes that need to borrow in a foreign currency, that can generate economic returns, that align with the goals of the Vision 2030 strategy (such as agricultural modernisation and new agricultural technologies) or that can provide recurring revenues, such as rural financial services. Longer maturities and grace periods are strongly preferred for the flexibility they provide on repayment. There is also a strong

preference for loans that can be softened with larger grant components.

- Technical assistance and local capacity-building are strongly emphasised by government respondents as desirable in working with external partners, particularly in the development and implementation of new agricultural technologies, the digitalisation of agriculture and the expansion of agro-businesses. While this does not negate the need for financial support in the near-term, it could support Egypt's longer-term goals of building local capacity and self-sufficiency in the sector, and foster country ownership of projects through greater knowledge transfer. External partners will be key to this process.

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## Annex 1 List of interviewees

Name	Institution
Walid Abdel-Rehim	KfW
Sobhi Al Nagar	Ministry of Agriculture and Land Reclamation
Clemens Breisinger	International Food Policy Research Institute (IFPRI)
Mohamed El-Ghazaly	International Fund for Agricultural Development (IFAD)
Khaled Rashed	Ministry of International Cooperation (MoIC)
Dina Saleh	IFAD
Holger Wiefel	European Bank for Reconstruction and Development (EBRD)

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