

Egypt: PBDAC/BDAC Canal Zone and Sinai (BCS), Ismailia

Ex-post evaluation

Date of report	July 3, 2002	
Project	Development Bank PBDAC/BDAC	
OECD sector	24030 – Financial intermediaries of the formal sector	
BMZ project number	Fixed Assets Investment 1995 65 516, Complementary Measure 1995 70 466, Training Measure 1995 158	
Project-executing agency	Principal Bank for Development and Agricultural Credit (PBDAC)	
Consultant	a) AHT International, Essen b) Arabsoft, Alexandria	
	Project appraisal	Ex-post evaluation
Start of implementation	1995	Q 4 2001
Investment costs	EUR 11.2 million-1995 65 516 EUR 1.5 million-1995 70 466 EUR 0.3 million – 1995 158	EUR 11.2 million-1995 65 516 EUR 1.5 million-1995 70 466 EUR 0.3 million – 1995 158
Other institutions/donors involved	None	None
Performance rating	4	
• Significance / relevance	3	
• Effectiveness	4	
• Efficiency	4	

Brief Description, Overall Objective and Project Purposes with Indicators

The project comprised the provision of a Financial Cooperation (FC) credit line via the Central Bank of Egypt (CBE) to the Bank for Development and Agricultural Credit and well as short, medium and long-term investment loans to small farmers, traders, rural service enterprises and small agro-industries. BCS is one of the 17 governorate banks of the agricultural bank Principal Bank for Development and Agricultural Credit (PBDAC). The project purposes were (a) to increase and further diversify the production of small and medium-sized agricultural and commercial enterprises by offering credit at attractive conditions, (b) to strengthen the BSC as a promotional bank for rural areas (with measures in the field of personnel support) and (c) to provide targeted support for female borrowers. The indicators for the achievement of the project purposes were (a) the increase in the yield per unit and the production of representative crops as well as the number of enterprises promoted in the off-farming area (without quantification). As regards project purpose (b) the indicators were the quality of the loan portfolio of BCS

(measured by the ratio of investment loans to seasonal loans of approx. two thirds to one third) and the operating result measured by an overdue loan rate of 20% or less. Indicators were not defined for project purpose (c). Due to the complementary measure, however, the project had a women-specific component. The overall objective was to increase the incomes of borrowers in rural areas.

The personnel support comprised a complementary measure to build up a sustainable structure to provide advice to borrowers in cooperation with the Ministry of Agriculture and Land Reclamation (MALR), to improve credit appraisal as well as to initiate a small loan programme for women in rural areas. Additionally, a training and further training measure was to introduce computerized working methods in some of BCS' branch offices and village banks. As regards personnel support, the indicators for the complementary measure (EUR 1.5 million) corresponded to those for the project purpose. The indicator for the training and further training measure (EUR 0.3 million) was the use of computers for credit management and accounting by the personnel of the district and village banks of BCS.

Major Deviations from the original Project Planning and their main Causes

<none ...>

Key Results of the Impact Analysis and Performance Rating

The FC funds were paid out in 1997/98 and the revolving funds were again used for granting loans. Overall, during this period BCS extended 23,400 loans with an average loan volume of EUR 2,500. Owing to the insufficient MIS system at BCS it is not possible to quantify how many borrowers were supported through project funds. Since PBDAC was also unable to provide information on the effects of the loans granted, a target group analysis was carried out before the local ex-post evaluation. On the basis of the results of the impact analysis and of the local ex-post evaluation, the achievement of the goals can be assessed overall as follows:

a) Level of the final borrowers

On the final-borrower level (target group) the project contributed to improving access to the formal financial sector and generated predominantly positive income and employment effects.

Regarding the promotion of women the project did not meet its purpose. The explicit promotion of women could not be firmly integrated as a business goal; the MIS system of BCS does not distinguish between female and male borrowers. However, when it comes to granting loans women are not at a disadvantage, either. In 2001 their share of the total portfolio was reported to be 14%. Thus, their share did not increase after the project appraisal (category **GO**).

b) Level of the banks

With respect to the institutional strengthening of PBDAC/BDAC in the past years only limited success was achieved despite substantial personnel support under FC, but especially also offered by other donors.

In the past PBDAC proved itself to be relatively resistant to advice, whereas the inconsistent tying of extensive financial support to corresponding requirements did not accelerate the sluggish reform process. It was not until the World Bank began insisting on strict adherence to its requirements and withholding considerable sums that initial successes were achieved last year. However, the main problem is actually that the government continues to regard PBDAC as a state welfare system rather than a commercial financial institution. To date all of the reform efforts by PBDAC and its regional banks were undermined by massive state interventions in its business policy. Consequently, it is questionable whether sustainable institutional reforms of the agricultural banks are possible if this mindset is not changed accordingly. This requires additional convincing on the government level. In comparison with other governorate banks BCS, which is supported via FC funds, has much poorer financial results. Since the project appraisal its portfolio at risk has remained unchanged at a high 33% (1994: 34%). The stated operating result is hardly informative owing to the opaque accounting that does not yet meet international standards and also owing to the insufficient risk provisions in the past. Still today there is no reliable data available for BCS concerning the development of the interest margin and the administrative costs. Yet, its high default rates and need to set up bad debt provisions suggest unsatisfactory operating results.

As regards the environmental effects, the risk of improper use of plant protection agents to intensify the cultivation methods in the project area requires special mention. This risk was counteracted during the project implementation and is still being counteracted now through consulting services offered to farmers in the TC project "Integrated Plant Protection." From today's point of view the project's classification into category **UR 0** can be upheld.

Participation/ good governance was neither a main nor a secondary goal of the programme (**PP/GG 0**).

After weighing all of the described effects we arrive at the following assessment of the project's developmental effectiveness:

On the non-monetary level the project purposes were achieved, but only with concessions since the goals on the institutional level were not met. In light of the continuing structural weaknesses of PBDAC and BCS it cannot be said that rural areas have access to a sustainable supply of

credit. Therefore, overall we classify the project's **effectiveness** as slightly insufficient (**rating 4**).

Even if PBDAC put pressure on the World Bank these past months in certain areas such as accounting or risk provisioning, the institution still has significant deficiencies. Even the extensive personnel and technical support could not change this to any considerable extent. The influence of the State remains very high and prevents a business policy oriented towards economic efficiency from being applied. After taking these aspects into account, we classify the project's **efficiency** overall as slightly insufficient (**rating 4**).

For the most part the non-monetary overall objective was achieved. Thus, the project definitely has some significant developmental effects on the target group. The expansion of the credit portfolio was a relevant contribution to solving the key problems of the target group that were identified during the project appraisal. As regards the problem of insufficient information for the target group, however, the call for intensification and improvement of the consulting services as stated in the project appraisal was not satisfied sustainably. From a financial perspective, or on the bank level, the project's impacts are not significant enough. The unsatisfactory credit and interest policy of PBDAC – the interest rate for seasonal loans, which account for some 25% of the entire credit portfolio, is below the bank's funding rate - prevents private commercial banks that may be interested from getting involved in the area of rural finance. However, in view of the achievement of the overall objective we judge the project's **significance** and **relevance** to still be sufficient overall (**rating 3**).

In a combined assessment of all future impacts and risks we deem the project's developmental effectiveness to be **slightly insufficient** (**rating 4**).

General Conclusions applicable to all Projects

The following conclusion can be applied to the project as a whole:

During the course of the project PBDAC proved to be an institution that is relatively resistant to advice, not least because of the extensive influence of the State. In such a situation the financial support should be used consistently as leverage to encourage the implementation of structural reforms in concert with other important donors (World Bank, USAID). Minimum requirements for a sustainable and efficient business policy such as observance of international accounting standards should be demanded prior to disbursement of the funds, also to clarify the actual willingness of the partners to carry out reforms. At any rate, FC funds may not be on-lent to the final borrowers at subsidized interest rates. In the case of the FC support for the Small Enterprise Development Organisation (SEDO) for which Egypt has applied, KfW drew the necessary consequences: the project appraisal depended on fulfilment of minimum requirements related mainly to interest rates in line with market rates and to institutional autonomy. Since the minimum requirements were not met, KfW put forward the suggestion to the BMZ to reprogramme the FC funds promised on the government level that were to be provided on the occasion of the intergovernmental negotiations in 2002.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory degree of developmental effectiveness
Rating 3	Overall sufficient degree of developmental effectiveness
Developmental failures: Ratings 4 to 6	
Rating 4	Overall slightly insufficient degree of developmental effectiveness
Rating 5	Clearly insufficient degree of developmental effectiveness
Rating 6	The project is a total failure

Criteria for the Evaluation of Project Success

The evaluation of a project's "developmental effectiveness" and its assignment during the final evaluation to one of the various levels of success described below in more detail concentrate on the following fundamental questions:

- Are the **project objectives** reached to a sufficient degree (aspect of project **effectiveness**)?
- Does the project generate sufficient **significant developmental effects** (project **relevance** and **significance** measured by the achievement of the overall development-policy objective defined beforehand and its effects in political, institutional, socio-economic and socio-cultural as well as ecological terms)?

- Were and are the objectives reached with a reasonable amount of funds/resources and how can the project's microeconomic and macroeconomic impact be measured (aspect of efficiency of the project concept)?
- To the extent that undesired **(side) effects** occur, are these tolerable?

We do not treat **sustainability**, a key aspect to consider for project evaluation, as a separate category of evaluation but instead as a cross-cutting element of all four fundamental questions on project success. A project is sustainable if the project-executing agency and/or the target group are able to continue to use the project facilities that have been built for a period of time that is, overall, adequate in economic terms or to carry on with the project activities on their own and generate positive results after the financial, organizational and/or technical support has come to an end.