EGYPT: PSI I

Ex-post evaluation

OECD sector	24030 – Financial intermediaries of the formal sector	
BMZ project ID	1993 66 113 / 1993 70 354 (complementary measure)	
Project-executing agency	Commercial International Bank (CIB) Misr International Bank (MIBank) Egyptian American Bank (EAB)	
Consultant	United Engineers, Kairo	
Year of ex-post evaluation	**2004**	
	Project appraisal (planned)	**Ex-post evaluation (actual)**
Start of implementation	07/1994	12/1994
Period of implementation	18 months	120 months
Investment costs	no information available	EUR 35.1 million
Counterpart contribution	no information available	EUR 2.9 million
Financing, of which Financial Cooperation (FC) funds	EUR 32.2 million	EUR 32.2 million
Other institutions/donors involved	none	none
Performance rating	3	
Significance / relevance	3	
Effectiveness	3	
Efficiency	2	

Brief Description, Overall Objective and Project Objectives with Indicators

The „programme to promote the Egyptian private industry and its industrial pollution control via commercial banks" (PSI I) aims at strengthening the Egyptian private industry and at reducing the pollution caused by industrial production. Three private commercial banks – Commercial International Bank (CIB), Misr International Bank (MIBank) and Egyptian American Bank (EAB) offered private-sector industrial enterprises medium and long-term financing to cover the foreign exchange costs of modernisation and expansion investments (loans) and to fund pollution control measures (loans plus non-repayable grants).

The overall objective of the programme is to contribute to the protection of the environment (and to labour protection), to make a contribution to economic growth and to improve the employment situation. The programme objectives were established according to this dichotomy:

Objective I: The programme's goal is to contribute to the promotion of profitable, private-sector industrial enterprises. The objective is considered achieved when three years after the completion of the financed investments at least 80% of the enterprises generate profits and at least 85% of the financed enterprises satisfy their debt service obligations in a timely manner. During the implementation of the programme, the number of newly created (or preserved) jobs was included as a further indicator for the achievement of objective I, but without establishing any targets.

Objective II: The objective of the programme is to contribute to the achievement of an acceptable level of industrial pollution in selected private-sector industrial enterprises. The objetive is considered achieved when three years after completion of the financed investments in at least 80% of the enterprises the desired effect of the environmental and labour protection measures has been achieved.

The target group of the programme consists of industrial enterprises (at least 51% privately owned) which have access to credit from private commercial banks. The commercial and tourism sectors were excluded from the programme. Of total programme funds, EUR 32.2 million were FC funds.

Under a complementary measure, the programme-executing commercial banks were supported by a consultant in terms of environmental issues concerning the identification, preparation and implementation of investment measures. For this purpose, altogether EUR 0.5 million were provided in the form of an FC grant.

Project Design / Principal Deviations from the original Project Planning and their main Causes

The project was carried out without any major deviations from the original concept. In total, 70 individual projects with a total volume of EUR 33.6 million[1] were financed under the Programme. Nearly 50% of the measures were pure environmental investments, whereas in 23% of the cases, exclusively modernisation and expansion investments were financed. Combined investments account for the remaining percentage.

At the time of the ex-post evaluation, 66 projects had been completed, while 4 projects were still being implemented. The total investment costs of the 66 completed individual projects amounted to EUR 35.1 million. 82% (EUR 28.9 million) were FC funds, the rest was financed mainly with the industrial enterprises' own funds. The target group of the private-sector industrial enterprises was reached.

Under a complementary measure, consulting services on environmental issues were provided without any cost to the banks and enterprises. In essence, however, the consulting services were limited to the preparation of so-called environmental audits, which served as a basis for the loan decisions of the programme banks, and to the final technical revision of the environmental facilities. It was not planned to institutionalise the programme within the Egyptian Environmental Affairs Agency or the programme banks. Accordingly, no technical competence was built up within these institutions under the complementary measure. At the time of the ex-post evaluation, the consultant had carried out 107 environmental audits and 67 environmental final follow-ups. There were no objections to the quality of the consulting services.

Key Results of the Impact Analysis and Performance Rating

During the programme appraisal, the expected key impacts of the PSI I – Programme consisted of environmental aspects and labour protection. Due to the provision of attractive financing offers (long maturities, grant elements), enterprises were given incentives for environmental investments and positive environmental effects were to be

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[1] The difference to the EUR 32.2 million originally provided results from the acummulated interests of the disposition funds of the three programme banks.

generated. In addition, the programme was to be exemplary for other enterprises. Moreover, as a result of the financing of modernisation and expansion investments, profitability was expected to increase at the enterprise level and a strengthening of the private sector industry and the creation of new jobs was expected at the macroeconomic level. Under the programme, a total of 70 individual projects were promoted, in their majority pure or combined environmental investments (77% of all investments). This shows that the programme was primarily environment-oriented. Through the projects, nearly 900 new jobs were created or secured. More than 90% of the promoted enterprises work profitably. Considering the marked environment-oriented focus of the programme, the micro and macroeconomic effects are to be seen in a positive light. At the time of the ex-post evaluation, the environmental facilities financed under the programme largely met the required environmental standards.

Due to the fact that the existing programme data gathered by the project-executing banks and the implementation consultant do not allow for a differentiation of the indicators according to the respective objective, the three indicators were evaluated for all investment programmes (regardless of whether they were measures related to objective I or II). An examination of 11 enterprises selected at random brought the following results: 3 years after conclusion of the financed investments, 91% of the evaluated enterprises operated profitably, 100% of the enterprises effected their debt service in due time and in 91% of the random samples, the desired environmental and labour protection effect was achieved. All the visited enterprises met the criteria of the target group. For the entire portfolio of the programme the three project-executing banks reported a repayment rate of nearly 95%. There are no data available for the entire portfolio regarding the profitability of the enterprises or the environmental indicator. An examination of 11 enterprises selected at random and carried out in 2003 came to a similarly positive result for the environmental indicator as the local ex-post evaluation.

In a summarised evaluation of the above mentioned aspects we rate the overall developmental effectiveness of the programme as follows:

<u>Effectiveness</u>

Compared to the defined target indicators, the programme objectives in real economy terms were achieved to a high degree (promotion of profitable private-sector industrial enterprises, reduction of industrial pollution to acceptable levels in selected private-sector industries). This success, however, was achieved only for a limited period of time. From a financial sector perspective, the situation is not quite as positive: No sustainable structural effects in the financial sector have been achieved. Among the programme-executing banks there are no indications of any stronger organisational or financial establishment of the new financing instrument, the environmental loan. Neither do the banks provide more own funds nor do they ensure further technical competence in environmental matters. The desired demonstrative effects among the enterprises and the banks have thus far been achieved only to a limited extent. Once the promotion with FC funds ends, the banks will probably stop financing environmental protection investments. Considering the rate of achievement of the pure real economy objectives, we classify the programme’s effectiveness as sufficient (**partial evaluation: rating 3**).

<u>Significance / Relevance</u>

The programme aimed at contributing to economic growth, to an improvement of the job situation as well as to the protection of the environment and to labour protection. Through the programme, nearly 900 new jobs were created or secured. 54 of the total of 70 investments which were financed aimed at protecting the environment. Even if its effects lasted only for a limited period of time, the programme contributed sufficiently to the achievement of the overall objectives. The relevance of the programme approach is still given, because industrial pollution and the limited offer of environmental loans have lost nothing of their importance. The significance of the environmental effects, however, is limited since it was not planned to establish a revolving use of the FC funds for environmental investments. The programme's overall broad-scale success remains limited. We classify the programme's significance/relevance as overall sufficient **(partial evaluation: rating 3)**.

Efficiency

We judge the production efficiency (administrative costs, interest margin, operative efficiency) of the three programme-executing banks and of the promoted enterprises (indicator: profitability) to be overall sufficient. We also rate the allocation efficiency of the programme as sufficient. On a real economy level, there has been an overall efficient use of loans by the enterprises. The same holds for the programme-executing banks, whose interest rates on sub-loans were close to market conditions and positive in real terms. The portfolio quality is acceptable and above country average, the provisions are overall sufficient (exception: MIBank). We rate the implementation of the programme, which proceeded only sluggishly (120 months vs. 18 months) as negative. Taking into account both efficiency criteria, we judge the programme's efficiency as overall satisfactory **(partial evaluation: rating 2)**.

In a summarised assessment of the above impacts and risks we rate the programme as having an overall sufficient developmental effectiveness **(overall evaluation: rating 3)**.

General Conclusions applicable to other Projects

From today's point of view, loan programmes for environmental loans should be designed strictly according to the policy paper "Financial System Development". The basic principle to be heeded is that the focus should be on the programme-executing agency as an institution and on the revolving use of the funds. The objectives and indicators should primarily be targeted to the executing agency and the overall performance, while the real economy objectives should only come in second place.

The effectiveness of a „financially attractive" credit line for environmental investments can be improved significantly if the pressure to undertake environmental investments is enhanced by a clear-cut legislation and effective industrial pollution controls. Otherwise, there is a risk, like in the present programme, that the provided loan offer will meet with a limited demand only.

If several financial institutions qualify for the parallel implementation of promotional loans, an APEX structure is recommendable, in general. Under this APEX structure, all qualified institutions will then basically have equal access to refunding and will have to compete for the funds.

If, as in the present case, several alternative objectives and overall programme objectives are to be pursued under a programme, the definition of the objectives should also make some indications about their relationship, i.e. whether they are substitutional, complementary or completely independent from one another. Furthermore, the programme-executing agency/ies is/are to be obliged to inform regularly on the development of the target indicators.

The use of interest differential funds to feed buffer funds in order to mitigate exchange rate risks makes generally sense. In the case at hand, however, the design of the buffer funds was so complicated that they hardly fulfilled their purpose. For this reason the practicability of the buffer funds is to be given special emphasis in follow-up projects/programmes. Frequently, the establishment of a central buffer fund with the APEX institution is more favourable in terms of efficiency than the use of a multitude of buffer funds with the programme-executing banks. If for reasons of developmental priority it seems recommendable that the state assumes part of the exchange rate risk, this function can also be implemented more easily by the establishment of a central buffer fund.

In order to further secure the sustainability of the advisory measures, in the future, more emphasis is to be placed on giving them a solid institutional foundation, e.g. through the introduction of cost-sharing arrangements between the FC programme, the banks and the enterprises. Once the FC financing ends, the objective must be to secure the financing of external technical competence by banks and industrial enterprises and to establish environmental competence in the financed banks.

Legend

Developmentally successful: Ratings 1 to 3	
Rating 1	Very high or high degree of developmental effectiveness
Rating 2	Satisfactory 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 classification during the ex-post evaluation into one of the performance categories described in more detail below 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)?
- Are the **funds/expenses** that were and are being employed/incurred to reach the objectives **appropriate** and how can the project’s microeconomic and macroeconomic impact be measured (aspect of **efficiency** of the project conception)?
- 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, organisational and/or technical support has come to an end.